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Made Everywhere

In June I suggested that since exports and imports are defined with reference to economically irrelevant political boundaries, the very concepts are invidious: "There is only what I make and what everyone else makes." Here's another way to illustrate the point, compliments of economist Sudha Shenoy of the University of Newcastle, Australia. Shenoy shows that in a global economy, specifying where goods are made can be tricky.

Take China, for example, which keeps today's neomercantilists up at night. Why? Because it has a big trade surplus with "the United States." The Chinese do sell us a lot of clothing and other products. But what do we mean when we say something is "Made in China"? Perhaps not what we think we are saying.

Shenoy emphasizes that Chinese workers do the final assembly of many products, but final assembly is but the tip of the iceberg of production. When you look at the full manufacturing process, you find a system of worldwide cooperation. Most of the materials and machines the Chinese use in assembly were made somewhere else: sewing machines in Japan, Korea, and the United States; dyes in Germany; button-making machinery in the United States, Taiwan, and Hong Kong; zippers in Japan; spinning and weaving machinery in the United Kingdom; raw cotton in Uzbekistan, Egypt, and the United States (subsidized by the government); cotton gins in the United States; and steel in Japan and Korea.

Once assembled, the goods have to be moved to the docks for transport to the United States. The trucks that do the moving are made in Japan. The ships and containers are made in Korea, Japan, America, and Britain. The shipping services are Greek and Norwegian.

"When you read a label which says 'made in China,' it is not made in China," Shenoy says. "It is made by the world economy, by the globe as a whole. . . . *It is impossible to make anything in one country.* And that is why, as Mises pointed out, the market economy does not respect political frontiers. Its field is the world."

Shenoy's point is reinforced by economist Tyler Cowen of George Mason University. The neomercantilists blame China's trade surplus on its policy of keeping the yuan undervalued against the dollar. But Cowen

argues that if that policy were to stop, it might not make much difference. Since China has to import parts in order to manufacture its exports (it runs a trade deficit with East Asia), the stronger yuan would enable the Chinese to buy imported components and materials at lower cost. Thus the price of Chinese goods in the United States might not change much, and Americans would still eagerly buy them up. Incidentally, the yuan floats against the euro, but Chinese exports to Europe equal those to the United States.

Cowen also destroys the notion that China is “draining the United States of money”: “Most of the growth in Chinese exports to the United States has come from switching manufacturing and assembly from other, more expensive, Asian countries. In 1985, China, Japan, Hong Kong, Taiwan and South Korea accounted for 52.3 percent of America’s trade deficit. By 2005, this percentage had fallen to 40.9 percent, in part because of cost savings from buying Chinese. From 1986 to 1988, Taiwan and South Korea accounted for 60 percent of American footwear imports; China was only 2 percent. By 2001, market positions had reversed; China produced about 60 percent of the total and Taiwan and South Korea about 2 percent.”

In other words, Americans are substituting Chinese goods not for American-made goods but for higher-priced Asian goods.

There is no question that thanks to the expansion of world trade we have more stuff, a larger variety, and lower prices. This does not mean all is well in the developing nations. There’s little *laissez faire* out there, sorry to say. But the remedy is not to harm consumers by closing our market.

Shenoy disarmingly answers the neomercantilists’ big question: “You say, how are we going to compete with all these other countries? The answer is, of course, you compete by producing goods that were not produced before.”

And because the expanded division of labor, global trade, and competition lower prices, there’s capital left over for the production of goods we couldn’t afford yesterday.

★ ★ ★

It’s common to hear people grouse about the high salaries that athletes make. Even sports fans do this. But as Gene Callahan points out, it’s they who pay those salaries.

Ethanol—the potion that promises to solve all our problems. Too good to be true? Gardner Goldsmith has the facts on this empty promise.

Freedom works—even in the workplace. C. L. Dickinson continues his case for rethinking the employment relationship in this second of a two-part reprint.

This year marks the bicentennial of Britain’s withdrawal from the slave trade. The focus naturally is on the great anti-slavery activist William Wilberforce. But, as T. Norman Van Cott notes, important American contributions are suspiciously overlooked.

The family has undergone dramatic transformations over the centuries. And the driving force for this unforeseen change has been economic growth and individual freedom. Steven Horwitz explains.

The Astronaut Farmer, just out on DVD, is a libertarian movie about perseverance in pursuit of a dream. Ray Keating has a review.

There’s a new, strange-sounding political idea being floated: libertarian paternalism. Worthwhile proposal or contradiction in terms? Dwight Lee has a little test.

Our columnists’ labors at their word processors have yielded these results: Richard Ebeling relives the great French inflation. Lawrence Reed describes England’s old Liberty and Property Defence League. Thomas Szasz says defining psychiatry is easy. Robert Higgs shows why the Great Depression endured. Charles Baird takes on the Employee Free Choice Act. And Howard Baetjer, mulling over the claim that inflation can have non-monetary causes, protests, “It Just Ain’t So!”

This issue’s book reviewers sink their teeth into volumes about socialism after Hayek, occupational licensing, Roosevelt’s economics, and John Dewey’s education philosophy.

—Sheldon Richman
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