**Capital Mobility and Comparative Advantage**

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Economics Colloquium 12/9/14

**Introduction**

Austrian Economics teaches that the general solution to all economic issues is very simple, eliminate economic restrictions and always support as free of a market as possible. Often, issues arise that seem as though they are not so simple as stepping back and letting the invisible hand take over. One particular issue that tends to be this way is protectionism. If a country operates under free trade, they run the risk of capital mobility, when capital goods and labor become increasingly free to move and diminish the wealth and average wages of a country, possibly leading to a snowball effect where all capital and labor are flushed out. How should a country act when capital mobility increases and they stand to lose to a nation that has multiple advantages over them? I will argue that even in these circumstances, it is advantageous for a nation to eliminate all barriers to trade and engage in anti-protectionist measures. In this paper, I will use Ludwig von Mises’ definition of capital goods, which is “produced factors of production; they are ‘intermediary stations on the way leading from the very beginning of production to its final goal, the turning out of consumer's goods.’” (Mises, *Human Action* p. 493) By capital mobility, this paper will be referring to the ease by which capital goods can move from one country to another.

David Ricardo’s theory of comparative advantage is simple. It states that even in the case of one country being better than another in all aspects of business, both countries stand to gain by engaging in trade with another. This theory is undisputed in the world of economics, and explains the reason why countries always gain from engaging in foreign trade. (Mises, *Liberalism*, p. 133-134)

Paul Craig Roberts, a Reagan administration economist wrote about certain conditions being placed on comparative advantages, particularly in the free world. He argued that there are certain times in which comparative advantage is not advantageous to both countries, but benefits one over the other. These circumstances are when capital is mobile. By nature, traded goods are mobile, designed to be available to any paying customer. When labor and capital are able to move as fluidly as traded goods, nations risk losing them to other nations. Thus, it is Roberts’ view that there should be protectionist measures taken to eliminate the risk of losing capital goods, especially in the modern global market, which is more mobile for capital goods than ever before. American jobs run the risk of being taken by cheaper, equally efficient workers. (Schumer, Charles, and Paul Craig Roberts "Second Thoughts on Free Trade.", 2004)

George Reisman, a professor of economics at Pepperdine University, countered Roberts’ article by highlighting Ricardo’s separation of “value” and “riches.” Additionally, Reisman discusses the fact that jobs that are outsourced are lost because of an unwillingness of the American worker to work at a cheaper rate, preferring to instead take a different job that he would prefer to his initial job at a lower price. (Reisman, George. "A Reply to Schumer and Roberts” 2004)

Roberts’ response to Reisman was an in depth analysis of capital mobility. He examined Ricardo’s writings and showed that the language in the text seemed to support comparative advantage being limited by capital and labor mobility. Roberts talks about how the internet has changed the mobility of the market to the point that labor is every bit as mobile as traded goods now. There is no guaranteed mutual gain when international parties trade. He also dismisses the Austrian idea that society always gains from any free trade and that this fact is more important than jobs lost by individuals. (Roberts, Paul Craig. "Clarifications on the Case for Free Trade.", 2004)

Roy J. Ruffin is a professor of economics at the University of Houston, who was cited by Roberts. Ruffin wrote an article claiming that the reason for David Ricardo being credited with the theory of comparative advantage was that he suggested capital immobility as a critical assumption for his theory. (Ruffin, Roy J. "David Ricardo’s Discovery of Comparative Advantage.", 2002)

Mateusz Machaj, founder of the Polish Ludwig von Mises Institute, discussed the fact that Roberts mischaracterizes the international market as something different than any other market. The general theory of exchange is the same as the international theory of exchange, and to say that mobility differences between nations rely upon protectionism is not true. There are countries that have always had very mobile capital in regards to others and some countries in which capital and labor are inherently immobile within themselves. (Machaj, Mateusz. "Is There a Distinct Theory of International Trade?" 2004)

Robert P. Murphy, a scholar of the Mises Institute, also responded to Roberts’ articles. He said that all protectionist measures are taxes, regardless of their name. At the heart of Roberts’ article, he claims that Americans will maintain higher levels of wealth when these protectionist tax measures are taken. Murphy rejects the claim that the invention of the internet had the broad reaching effects (actually changing economic theory) that Roberts claims it did. Murphy refutes the example provided Roberts and includes one of his own as well. (Murphy, Robert P. "Free Trade and Factor Mobility.", 2004)

Ludwig von Mises, in his book *Liberalism*, wrote about the reasons for Ricardo’s inclusion of capital mobility in his writings, which offers counters to Ruffin’s points. Mises says that in Ricardo’s day, it was assumed that capital and labor immobility was the only difference between domestic and international markets. People worried that expanding markets internationally would harm nations that had no absolute advantages. Ricardo explained how, because of comparative advantage, countries with immobile capital could still do well on an international market. Mises also wrote about when Germany tried to impose protectionist measures in the 1800’s and the results of that. (Mises, Ludwig Von, and Bettina Bien. Greaves. "Liberal Foreign Policy, Part 7." 2005)

The concept of comparative advantage directly applies to the subject of capital mobility. If we assume that every country will possess at least one comparable advantage over another country, then it is irrelevant whether capital goods are able to move. This assumption has been held by economists for decades. The key issue at stake is whether we should rely upon comparative advantage now that the global economy is more integrated and it is easier for capital goods to move between countries. This paper will argue that it is preferable to have a free, unhampered global economy. In order for a free global economy to be beneficial to each country, it is critical that every nation must have at least one comparative advantage over other nations.

**Initial Arguments**

Paul Craig Roberts wrote an op-ed in *The New York Times* entitled “Second Thoughts on Free Trade”, co-authored with Democratic Senator Charles Schumer in 2004. Two economists, Joe Salerno and George Reisman, responded to the piece, prompting another in depth analysis of capital mobility from Roberts. The two articles written by Paul Craig Roberts caused much discourse, and opened up debate on the subject of whether a free market is optimal when there is capital mobility. The issues dealt with by Roberts were David Ricardo’s theory of comparative advantage and the negative effects of mobile capital and labor when a nation engages in free trade.

In the op-ed *New York Times* article, Paul Craig Roberts writes about a line of reasoning that began with John Maynard Keynes 80 years ago. Keynes began doubting the sacred economic doctrine of free trade, rooted in David Ricardo’s theory of comparative advantage from the 1800’s. The question Keynes struggled with was whether free trade is unquestionable a good thing, in light of changes to the global economy. In the years since Keynes, even more has changed in the new world economy that affects the way in which global markets interact. Roberts gives an example of software engineers being displaced by foreign labor. He says that a New York securities firm could replace its American engineers, who make $150,000 per year, with engineers in India who work for only $20,000 per year. These workers being displaced would then weaken the American economy. This shift in labor is now entirely possible, yet it would not have been in Ricardo’s day. Roberts claims that there have been three major developments that have been caused by this new world economy. First, political stability, very newly common among smaller nations, lets capital flow more easily between countries. Secondly, there are now stronger education systems in the developing world, increasing the capacity of workers in foreign countries to be eligible to compete for skilled jobs. Lastly, inexpensive high-bandwidth communication makes it possible for sizable workforces to be employed anywhere. (Schumer, Charles, and Paul Craig Roberts. "Second Thoughts on Free Trade." 2004)

Roberts goes on to discuss that American labor risks direct competition at every level globally. If a position doesn’t involve face to face communication, a lower paid, equally skilled option is likely available overseas. Additionally, often the jobs that are being lost are going to multinational firms rooted in America, who have taken advantage of comparative advantage and moved to low wage countries. Ricardo’s theory states that every country has a comparable advantage, if not an absolute advantage in at least one field. Roberts’ argument is that if capital goods and labor are able to shift countries, which they are able to far more-so now than ever before, then the all advantages risk being lost. Roberts claims that in in Ricardo’s day and age, it was completely unheard of for capital technology and ideas to be moved around with a mere push of a button. (Schumer, Roberts, 2004) This free trade of the modern world has brought jobs to other, cheaper nations. Larger nations such as the US become worse off as a result of these shifts to low wage countries.

Roberts does not suggest a concrete solution, but refutes a few ideas. He says that the idea of retraining the unemployed would likely not work because almost all knowledge jobs can be done overseas. Tax increases would be insufficient as well in alleviating the problem. The solution must come from studies done about the “new reality,” as he says, and that it is critical that separation be made between free flow of goods and free flow of factors of production.

In response to Roberts’ article, there were a number of papers written about the subject of comparative advantage when capital goods are mobile. One article in particular was written by George Reisman. Reisman, in his article “A Reply to Schumer and Roberts*”,* pointed out what the central question being answered by Roberts is: are the changes to the world economy things to be feared because they will cause a decline in Americans’ standards of living, and should the US government justify intervention as a result?

Reisman wrote about Ricardo’s distinction between “value” and “riches,” and how it is entirely possible for both to move in opposite directions of each other. Value is money income and riches are the goods and services that money can obtain. If the engineer from Roberts’ analogy gets outbid for wages by a foreign company, it is his choice to not accept the lower paying job. If an engineer is unwilling to accept the new market wage, he proves he is more willing to take a change of line of work, and make more money (or at the very least be better off within his own preferences) than he would be working as an engineer for the lower rate. The overall amount of skilled laborers goes up in this scenario, and this situation benefits the market as a whole, because rates for engineers diminishes. Decline in money income of workers will always be less than the reductions in cost achieved by competitors. Americans’ real wages will increase as a result of international labor competition. This situation is an example of Ricardo’s theory of comparative advantages and the value vs. riches distinction at work. (Reisman, 2004)

Certain isolated cases of engineers in America will be receiving more harm than benefit when their labor is displaced, but the rest of society will have the benefits of cheaper products and no change in nominal income. When the third world starts to improve their standards of living and become more educated, not just their own but all markets will be better off, as every branch of technology, science, invention and innovation are pursued by educated individuals across the globe. The benefits of a globally integrated market far outweigh the downsides of American wages falling.

**Secondary Arguments**

Following the response by Reisman, Paul Craig Roberts addressees the issue of free trade and capital mobility in more depth in an article entitled “Clarifications on the Case for Free Trade”, in which he writes about the conditions necessary for free trade to be beneficial. Roberts gives a particular example of comparative advantage at the beginning of his analysis. Say Portugal has an advantages over England in the wine and cloth industries. It would be more beneficial for Portugal to dedicate all its capital and labor into producing only one of the two industries, the industry that generates the highest return. If the higher yield industry is wine, Portugal stands to gain from abstaining from the cloth industry, while England could claim a comparative advantage in the cloth market as a result. Such was the example provided by David Ricardo, but Roberts claims in his article that comparative advantage like this example can only exist under two conditions. Firstly, the capital and labor market must be mobile enough to smoothly transition into the wine market. Cloth workers in Portugal must be able to transition into working in the wine industry. Secondly, factors of production, capital and labor, must not be internationally mobile. By mobile, Roberts means the workers and capital goods must not be able to move between countries, either because of natural restrictions or government restriction of free trade. The cloth workers in England would be incentivized to move to Portugal to work there because of their natural advantages in the industry over England. The only way that England would avoid economic catastrophe would be to for them to impose protectionist measures and restrict free trade in this situation. (Roberts, Paul Craig. "Clarifications on the Case for Free Trade." 2004)

Additionally, because technology, ideals and capital can move at literally the speed of light over the internet, factors of production can move even more quickly than consumer goods. Labor then becomes internationally mobile, and knowledge workers can be hired from anywhere in the world at any time. Because of the new world that we live in, free trade is no longer mutually beneficial. If we were actually in a market with completely free trade, Roberts states that factors would shift to Asian markets where the productivity of capital is highest. While global gain may exceed first world losses, it would be incorrect to say that free trade benefits all countries involved in today’s markets. Global capitalism runs the risk of destroying national sovereignties, leading to a global government. Incidentally, Roberts mentions that this situation is what Marx described as capitalism’s role in the overthrow of feudalism and the rise of the nation state. Factor immobility must be restored for free trade to be globally beneficial.

There are two crucial parts of international mobility that are new, according to Roberts. Firstly, capital mobility was, until recently, limited to the first world, and labor cost differentials tend to be small in those nations. Secondly, because of the fact that labor costs do not differ greatly between first world economies, capital flow caused by offshore production did not displace capital markets in their own countries. For example, when the Japanese and Germans invest in automobile plants in United States markets, it is to produce products for sale in US markets, not to displace car production in Japan and Germany by selling the cars they produced in the US in their home markets. However, with the inclusion of developing nations in the global market, offshore production would likely displace production in the United States because of cheaper costs. (Roberts, Paul Craig. "Clarifications on the Case for Free Trade.” 2004)

Responding directly to Riesman’s claim that society gains from any free trade, even if individual workers lose their jobs, Roberts says that one cannot make such a claim. If we make this generalized argument, we must continue to assume trade based on comparative advantage. If the full range of domestic labor involved in tradable goods and services can be replaced by cheaper foreign labor, loss of incomes will outweigh the lower prices, and these lower prices will lead to currency devaluation.

Roy J. Ruffin, cited by Roberts, wrote about the fact that Ricardo himself discussed factor immobility, saying that factor immobility was critical to the theory of comparative advantage. Ruffin’s article, “David Ricardo’s Discovery of Comparative Advantage”, says that Ricardo would not have been credited with the idea of comparative advantage in not for his mention of immobility. Ruffin points out that 485 of the 973 words written by Ricardo explaining the law of comparative advantage emphasized the importance of factor immobility. Ricardo does say that

“it would undoubtedly be advantageous to the capitalists of England, and to the consumers of

both countries, that under such circumstances, the wine and the cloth should both be made in

Portugal, and therefore that the capital and labour of England employed in making cloth, should be

removed to Portugal for that purpose.”(Ricardo, I, p. 136)

It was this realization that Ruffin claims made Ricardo’s theory of comparative advantage superior to Robert Torrens’ theory. (Roberts, Paul Craig. "Clarifications on the Case for Free Trade." 2004)

**Rebuttals**

The arguments made by Roberts raises several concerns. Firstly, the distinction between the international markets as opposed to the local market is merely assumed to exist. In reality, there is no difference in an international market, it is merely an extension of the normal market. Mateusz Machaj pointed out this error in Roberts’ argument (Machaj, 2004). Roberts claims the free trade could only occur between countries with immobile factors of production or similarly priced capital goods and labor. Otherwise, factors of production would shift to the country in which they could produce more cheaply. Machaj cites Rothbard’s *Man Economy and State*, in which it says that there is no difference between international and general trade theory. There has always been varying degrees of factor mobility, and the fact that in the modern market there is a greater degree of it only shifts the market to make it more efficient (Rothbard, Murray N. *Man, Economy, and State,* 1962). The concept of mobility cannot be treated as a country to country issue. There is high mobility between Switzerland and the European Union, yet there is low mobility between Eastern and Western Germany, as citizens in those communities are highly hesitant to emigrate from East to West or vice-versa (Machaj, 2004). International trade is not centered on factor mobility. Other factors, such as separate currencies and independent control of monetary policy are greater distinguishing factors in determining the differences between international and domestic trade. In reality, there are differences between international trade and domestic trade, but there is not a separate theory that explains each. The difference between international and local trade is similar to the balance of payments an individual has to make as opposed to the balance of payments the US government has to make.

A second concern is that without explicitly stating it, Roberts is arguing that taxes will improve prosperity. Robert P. Murphy, in his paper “Free Trade and Factor Mobility”*,* demonstrates these issues in his own critique of Roberts’ arguments. Murphy writes that Roberts is correct in saying that Ricardo’s theory discusses holding the factors of production fixed with only final goods being shipped over borders, but incorrect in concluding that free trade works only under these solutions. Free trade is far more general of a topic than the narrow definition that was provided by Ricardo. Per capita consumption for a group of people will decrease if a tariff restricts their ability to make transactions with people outside that group. Regardless of factors of production, this fact will remain true. Additionally, any attempt to restrict free trade is no different than taxation. Taxes and tariffs amount to the same result, and opposition to free trade is pro-tax. Roberts’ article essentially says that if you raise taxes on certain goods it will result in Americans becoming richer. Roberts claims in his papers that increases in political stability, stronger education systems and the invention of the internet have all worked to create a market in which free trade is no longer a positive market feature. Trade barriers are proven to reduce consumption when capital is immobile, but Roberts’ claim is that with the invention of the internet, everything has changed. (Murphy, 2004)

Roberts gave the example of American engineers being misplaced by far cheaper, equally skilled foreign engineers as a reason to impose trade restrictions. Murphy spins the application a different way though, and writes that if an Indian firm hires the foreign engineers instead of the American firm, American consumers would likely take their business to the Indian firm that is able to provide products at a far cheaper rate, as they pay their engineers less than the American firm does. The American firm would go out of business if they try to compete with the Indian firm. The only difference between the two situations is the nationality of the firm that is putting the engineers out of business. How can restricting businesses’ ability to hire foreign laborers possibly be positive for Americans in general?

In a further example of the issues in question, Murphy suggests an example of an American capitalist who owns a tractor. (Murphy, 2004) The capitalist hires a man to grow coffee with his tractor. Upon discovering that Brazilian farmers are able to make coffee at a far cheaper rate than is possible in the US, the capitalist fires his coffee grower and hires another person to farm tomatoes with his tractor. Now, suppose the American coffee grower goes to Congress requesting a tariff that would save his job. Economists would say that because Brazil has the comparative advantage in coffee growing, it is in the interest of the United States to grow tomatoes and they recommend that Congress denies the coffee grower’s request. Now suppose the capitalist decides that he wants to ship his tractor to Brazil to be used to grow coffee instead of using it in a different American industry. The displaced coffee grower would have a legitimate case under Roberts’ argument. Factors of production are now mobile and the US is worse off because there is less capital in the country, which occurred because of capital mobility. Economists would lobby for a tariff to make American coffee production profitable. They would say that not only the wages of US coffee growers, but average US wages as well would increase as a result of a tariff. Can the argument be made that US workers would be better off without that capital good within their economy? Yes, because while all other things held equal, there would be less produced in the United States without that tractor, we’re focusing on the wrong issue. Overall standards of living would increase because cheaper coffee would be available because of the tractor being shipped to Brazil. Brazil’s demand for goods from the United States would increase as a result of the new tractor. This point is a direct application of Say’s Law, which states “As each of us can only purchase the productions of others with his own productions – as the value we can buy is equal to the value we can produce, the more men can produce, the more they will purchase.”(Say, 1834) The mobility of capital goods does not change the fact that taxes are always harmful to an economy.

Ludwig von Mises addressed the issue of capital mobility in his book *Liberalism the Classic Tradition*, in chapter 3, part 7. Mises lays out a specific example of when Germany sought to restrict labor mobility in the 1800’s. Germany did not have colonies like the British, so if their citizens desired to immigrate to new, more fertile lands, Germany was unable to reap economic benefits. German immigrants would eventually give up their citizenship and nationality. In order to prevent this loss of citizens, Germany shifted towards protectionism, imposing high tariffs to foster high wages and keep its citizens from moving. Domestic agriculture prices were kept artificially high because of the tariff, causing government sustained cartels to be formed. As can be imagined, prices skyrocketed and the cost of living increased. Nominal wages increased, but real wages decreased. Unhampered trade would not give rise to immigration, as countries often fear, but would lead to a situation in which people around the world are engaged in activities that best suit their relative countries. Restricting anyone from immigrating elsewhere would not be of net gain to the country, it would merely restrict the productivity of its citizens and force a labor market to exist that would not exist in an unhampered market. (Mises, Ludwig Von, and Bettina Bien. Greaves. "Liberal Foreign Policy, Part 7." 2005)

Mises also addressed the issue brought up in Ruffin’s article. He writes that it was assumed that the only difference between domestic and international markets from an economic point of view was factor of production immobility. Immobility was a natural occurrence, and mercantilists worried that countries benefitting from immobile capital goods and labor would be harmed in a free international market. Ricardo’s doctrine of comparable advantage answered the question of whether absolute advantages caused by immobility would result in economic catastrophe for those nations without absolute advantages. In laying out a theory that has never been contested (Mises, 2005), Ricardo and the classical economists demonstrated the theory of comparative advantage, which showed that a nation without absolute advantages could still be the optimal supplier of certain goods in a free market. Thus, the issue was not whether there could be no free trade with factor mobility, because it was taken for granted that free trade and capital mobility was a positive thing. Rather, the issue was that if citizens chose not be mobile, even if it *were* economically advantageous for them to do so, they would *still* be able to have comparative advantages in their home economies. (Mises, 2005)

Mises admits that the evil that is being combatted by protectionism truly is an evil, but maintains that that it is impossible to eliminate that evil through the means of protectionism. The alternative method offered by Mises is to let emigrants from other countries be free to migrate. Restriction of this merely sets up an improper division of labor. All that protective tariffs accomplish is to keep workers from producing where natural conditions dictate they should. Protectionism will always result in a reduction of productivity.

It must be made clear that there is a clear distinction between nominal and real wages. Increased capital mobility will likely lead to certain jobs being misplaced and certain people will have diminished salaries, but the end result will be higher real value to the wages, because prices will fall as a result of factors of production becoming cheaper. Roberts’ arguments fail because he doesn’t carry his line of reasoning far enough. Increasing the breadth of the global market will result in shifts of capital and labor, but those shifts will ultimately increase average welfare. The possibility of one nation temporarily being set back with increased capital mobility does exist, but the net gains will be higher than the net losses. This distinction is an example of dynamic vs. static analysis. Static analysis is testing and evaluating something based upon only the immediate impact. Dynamic analysis focusses on how the changes will affect future outcomes as well. Roberts uses static analysis to show the negative impacts of increased factor mobility, but fails to examine the entire spectrum of the analysis. As an example I will examine what increased mobility would look like on a free market.

In a free market, people would necessarily be incentivized to move to wherever their skills are most highly profitable to them. If a farmer learns of opportunities to make more money in another community, he will be incentivized to leave and begin farming in that new location. Alternatively, a farmer can lose his farm because of an increase in cheaper foreign agriculture of equal quality, and be forced to move to a new location if he desires to continue in his occupation. In either situation, the farmer may not choose to leave his home, even though it makes the most financial sense for him to do so. He could value staying where he is, and not moving his family. In that case, he would need to choose a new industry to work in, such as working in a supermarket, and as he would be less skilled in another profession, his overall output would decline and he would provide less value to the market as a whole. In this situation, the immobility of labor on the free market would be negative for the market. Because of the law of comparative advantages though, the farmer could still be able to be utilized in another occupation, and this would result in a far smaller negative impact. Immobility on a free market would still exist, because of personal preferences. Certain professions would have greater labor mobility, for example, it would be far easier for a computer programmer to be able to move than for a farmer, because of varying degrees of difficulty in transporting capital goods. Certain geographic locations would have greater labor mobility. It would be easier for a college student to move from New York to Chicago, than it would be for an old man to move from a small city in Germany that he and he family have lived in for generations to a new country.

In a perfectly free market, changes to mobility could occur, similarly to how the modern world has changed, as highlighted by Roberts. When a technological change occurs, such as the invention of and widespread use of the internet, increased factor of production mobility would cause shifts in the workplace. Skilled jobs that don’t rely on face to face interaction that were in high demand would become lower paid, and higher foreign competition would be able to be found easily. An example of this would be newspaper printers. People used to rely upon newspapers to understand what was happening in the world, so physical newspaper were highly important. With the widespread use of internet sources, news and other information has become far easier to come by, so people don’t rely as much on the relaying of information of newspapers nearly as much as they once did. On a free market, initially, many newspaper printers would be displaced and put out of work by internet writers and bloggers, but this negative for those people would be overshadowed by the tremendous gain by society overall. The ability to share news at light speed is far more preferable than keeping jobs for individuals who are displaced by the improved technology.

The internet allows businesses to rely far less on the proximity of employees. A professor has the ability to teach classes online, allowing him more flexibility to be more productive now that he is not limited by location. If he desires to take a second job, he is able to be mobile, not needing to live in close proximity to the school he teaches at. Added capital mobility as a result of changes in technology can greatly enhance workers’ productivity and increase overall market utility.

A potential problem, and one that was addressed by Roberts, is larger markets finding themselves at an economic disadvantage when capital and labor markets become increasingly more mobile. In the same way that a specific engineer finds himself at a net loss when his job is outsourced and he is forced to take a lower paying job, countries run the risk of initially running an economic loss when capital goods and labor shift to other developing countries. However, while they lose in the short term, the global economy improves, and in the long run, the highest amount of productivity will occur when people are free to move and labor is free to be mobile. Often there is a panic, such as what Germany experienced, where countries fear that all of its citizens will abandon the country as a result of mobile labor markets. This fear is almost always unfounded, and if a country has zero comparative advantages that are not mobile, forcing citizens to stay becomes an act of cruelty. However, that is rarely the case. In most cases, if not all, there will be a majority of citizens who desire to stay in their home country and not pursue a potentially economic gain by immigrating to another country anyways.

**Conclusion**

In conclusion, Roberts argues that free trade should not be unquestionably accepted in the modern world because of added political stability in developing nations, stronger education systems globally and the emergence of the internet. Roberts claims that David Ricardo’s theory of comparative advantage relies upon factors of production being immobile, and as a result, it can no longer be used to assume that there will always be a net gain from international trade.

Numerous authors refuted these claims though, and it was demonstrated that even under a new global market that has changed significantly since Ricardo’s time, it is still true that a country should not engage in protectionism if it wants to best serve its own interests. The degree to which information can travel has increased, but this feature of the market alone does not change the fact that economic theory dictates that any taxation hurts a market, as it restricts the flow of the market. The claims made by Roberts, that average wages will decrease when the quantity of capital goods in a nation decreases, assumes incorrectly that all other features of a market will remain constant. We know, however, that it is in the interest of a nation to not restrict capital goods from leaving, but instead to adapt to changing economies by engaging in different occupations. In the example provided by Robert Murphy, it was shown that even if capitalists in the United States ship their capital goods overseas, the overall economy improves because there are now cheaper, foreign consumer products available. Even if average wages

decrease, real wages will increase whenever a change happens that affects capital mobility. Ricardo’s theory of comparative advantage does not change in light of the differences in today’s economy.

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