A Critique of Oren Cass and American Compass's International Economic Agenda

Sierra Grissom

Grove City College

Dr. Jeffrey Herbener

February 1, 2024

1. Introduction

International free trade, at least in principle, has been widely accepted by most economists as the most beneficial form of trade for both the countries involved and society as a whole (Krist 2013, 67). Adam Smith's *The Wealth of Nations* is known by even non-economists as the quintessential book asserting the truth about international trade. Despite the general acceptance of Smith's message and the centuries that have passed, arguments against free trade have nonetheless continued to arise. Cycles of supposedly new arguments and old refutations of those arguments continue to ensue. While economists still tend to favor a free economy, some of the negative arguments are worth addressing, especially given their popularity among the public.

One line of reasoning developed in recent literature argues that the international free trade argument does not fully account for the development of the world economy in terms of globalization. Oren Cass, executive director of the think tank American Compass, puts forth this claim, stating that capitalism is essentially destroyed by globalism because it separates capital and labor ("New Direction" and "Rebuilding American Capitalism 2023). Given this assessment, Cass advocates for what he calls a "bounded market", which he explains as "the model within which capitalism works and… the model that economists teach." (Cass 2022). He defines the bounded market as a market separated from other markets by an established boundary, physical or not, determining how they engage in exchange and their economic policy. In a bounded market, the bound economy is free to engage in exchange to the benefit of their market but exchange outside of the boundary would be controlled to ensure internal prosperity through a balance of imports and exports. Given international free trade is unequivocally related to globalization, his argument for a bounded market runs counter to international free trade.

The unique element of this anti-free trade argument is that it operates per many popularized fears among Americans without a solid economic theoretical background while simultaneously claiming to be consistent with theories of the original free trade advocates Adam Smith and David Ricardo. The advocates of this theory use examples of economic issues in our modern culture related to capital and the labor market to support their normative assertions. At face value, Cass's claims regarding current economic issues are appealing to an audience looking for a reason to explain why families feel the need for two incomes to support themselves financially or why tariffs are supported by both political parties (American Compass 2023, 73 and Irwin 2020, 1-5). The true economic issue with this refutation of the international free trade argument, however, lies at the heart of their economic theory, and not in the symptoms of the current economy. The appealing nature of the arguments does not justify the strength of their claims. Further exposition of this economic framework falls flat in the face of pre-established economic truths well-understood and asserted throughout the past few hundred years. Although they argue economists like Smith and Ricardo support their claims, their reinterpretations of past economists do not address their entire arguments, even considering the changes globalization causes.

Before addressing this "bounded market", an evaluation must be done to assess whether it is worth considering as a viable economic policy stance given the philosophical argument. This paper analyzes the strength of Cass and others' essential claim: globalization destroys capitalism. Despite the more recent arguments targeting international free trade, globalization does not ruin capitalism by separating capital from labor. The American Compass's message misrepresents Smith and Ricardo, fails to properly address the current global market, and draws unfounded conclusions about globalization's impact on capitalism.

To better understand why this is true, this discussion will begin with a more thorough parsing of American Compass's economic theory, followed by an analysis of Smith and Ricardo, input by more modern economists, and, finally, ending with an explanation as to how globalization and capitalism interact within our current system.

2. Globalization's Impact on Capital and Labor

In 2023, American Compass published a book titled *Rebuilding American Capitalism: A Handbook For Conservative Policymaker*, a continuation of his arguments in his article, "Searching for Capitalism in the Wreckage of Globalization." (American Compass 2022) The book is a one-hundred-page compilation of memos by Cass and other writers summarizing how conservatives should address modern economic issues related to globalization, industry, financialization, family, education, and labor. Within the forward, among a list of claims, Cass asserts, "Globalization must be replaced with a bounded market that restores the mutual dependence of American capital and labor and invites the trade and immigration that benefit American workers." (2023, 5) According to this quotation, the end of conservative policymakers is to benefit the American labor force. The means by which this end is brought about is through repairing the severed relationship between capital and labor. Cass's suggested method for repair is by replacing globalization with a bounded market. To understand this idea, the means of capital and labor must be addressed.

Before engaging with the content of the argument against globalization's impact on capitalism, two terms should be defined. First, globalization refers to the "advance of human cooperation across national boundaries." (Bourdeaux 2008, 1). This definition is not solely economic, but it encompasses the many facets of international trade. The American Compass does not provide a definition. Neither do their authors provide a definition for capital, but they seem to use the term “capital” to refer to monetary investment or expenditures or what Mises would describe as, “the fundamental concept of economic calculation, the foremost mental tool of the conduct of affairs in the market economy,” (“Capital” 2007). This analysis will rely on Mises’s definition in the best attempt to remain consistent with American Compass’s claims regarding capital. Both definitions help clarify the following arguments.

Cass’s primary concern with capital is the flow of capital across borders to other nations and how individuals advance other countries through the purchasing of foreign goods and labor or foreign investments. He recognizes that individuals operate according to their opportunistic advantage, economizing in every decision. Capital usage is up to the owner of that capital and is allocated accordingly. Cass claims, however, that the unbounded profit-seeking behavior of individuals does not benefit the overall economy, as the general free trade argument asserts. As capital owners evaluate the market, often they prioritize cheaper products, labor, or foreign investments, not operating for the sake of their nation and instead propping up other nations’ economies. Cass and other American Compass authors, including Elbridge Colby, express concern that the growing economic strength of foreign nations involves diminishing economic power domestically (2023). Capital is essential to many aspects of the economy, and therefore, a reallocation of capital to purposes outside of the domestic economy appears to undermine those internal functions, such as increasing wages and fueling innovation.

In *The Wealth of Nations*, Smith explicitly addresses both the individual’s inclination towards capital expenditure for his benefit and the impact of domestic investment (1904). Cass uses these passages from Smith to justify his claims and assert that Smith has been misread. Cass favors one quote in particular. Cass writes:

> [Smith] observed that, "every individual endeavors to employ his capital as near home as possibly as he can, and consequently *as much as he can in the support of domestic industry*,"….Smith continues, "Upon equal, or only nearly equal profits, therefore, every individual naturally inclines to employ his capital in the manner in which it is likely to afford *the greatest support to domestic industry*, and to give revenue and *employment to the greatest number of people of his own country*." (2022, emphasis in original)

Cass focuses on economic benefits as being a product of the prioritization of domestic capital expenditure when reading Smith, adding emphasis by italicizing lines in support of his claims. From his perspective, Smith articulates the capitalist system's success is not guaranteed. (2023, 27) Cass, in his article, explains that David Ricardo also supports this claim through his discussion on comparative advantage and the clear advantage of domestic production for the sake of nearness in comparison to foreign production.[1] Cass explains that in these discussions Smith and Ricardo both recognize the need for domestic prioritization and, given the advancements in globalization, neither Smith nor Ricardo could predict the extent to which restrictions would be needed to protect the domestic economy. He says while the current interpretations of Smith's "invisible hand" and Ricardo's "comparative advantage" may have applied to their economies at that time, these lessons do not apply to the current global market due to the increase in capital mobility and the ability to have an indefinite imbalance in goods. (2022) The capital making up the foundation of capitalism leaked into other nations, undermining the economic structure of the domestic economy.

---

[1] Smith's claims about man's desire to "employ his capital as near to home as he can" (1904, 419) is better understood within the context of his moral sentiment philosophy as stated in his book *The Theory of Moral Sentiments*. (Smith 2002)

The more modern concern and more specific example of American capital supporting a foreign country is China and what Cass describes as the “China Shock.” The threat of Chinese economic power played a major role in “converting” Cass from being a supporter of international free trade to an advocate of the “bounded market”. The issue Cass calls attention to is the increase of Chinese imports into America, and hence, the process whereby American capital is traded for Chinese goods. Here lies one of his connections to the American labor market. He implies the China Shock is the direct cause of the loss of millions of American jobs and a decrease in domestic output. (2022)

Cass stresses capital and labor’s mutual dependence and places the responsibility for the trade deficit, debt accumulation, and loss of jobs on the lack of capital investment in the American labor market because of reallocation in favor of foreign markets. (2023, 28) Michael Pettis, an author for American Compass, explains that the trade deficit became an issue for America in the 1970s and blames these trade deficits for financial issues on the familial level. (2023, 43) Cass points out that the labor market would benefit from a reallocation of American capital towards investment in domestic labor (2023, 28). An example Cass uses is the hypothetical investor from Ohio. The American investor finds an opportunity to invest in Shenzhen, providing capital for the foreign economy, thereby financially supporting foreign labor through employment and increased wages. Even if the foreign benefactors used some of that additional capital to import American goods, the United States lot demand to China. Back in America, the Ohio investor may receive an increase in income due to the profitable investment in China, but whether he spends locally or invests more internationally, the damage has been done to the American economy. (2022)

Domestic capital investment also plays a role in innovation and the related labor market. In the classic case of technological advancement, in terms of production knowledge and growth in efficiency, a decrease in the need for labor is often a natural effect of innovation. Cass claims, however, that two things distinguish domestic innovation from foreign innovation. The former takes place over time and allows the labor market to adjust accordingly. Likewise, domestic innovation encourages the growth of the local economy, potentially leading to unemployment, but ultimately fostering a healthier system with higher wages and more opportunities. (2022)

The American Compass points to many aspects of the labor market as evidence of the negative impact of globalization on the workforce. As alluded to above, they focus on income inequality, the slowing of wage growth, more two-income households, and expressed family preferences as evidence of the negative impact of the trade deficit and immigration (which they view as the importation of foreign labor). They rely heavily on graphs (many from survey data), statistics, and anecdotal interviews to emphasize their points and appeal to policymakers to justify their economic claims. (2023)

The American Compass's argument, while opposed to free trade, claims to support the free market. The former assumedly refers strictly to exchange between international entities, while the latter refers to free exchange within the defined market. American Compass does not set definitional distinctions but does distinguish between the two, advocating for free markets over free trade. (2022 and 2023, 27) Cass sees the free market as an aspect of capitalism, yet free trade as a hindrance to it. (2022) The hope of the bounded market is to foster a healthier capital and labor relationship within the context of a secure and internally free market, untainted by the negative impacts of free trade. This plays into the arguments against economic globalization because it inherently involves more international trade and, given the discrepancy in trade regulations, trade deficits work in the favor of some nations over others. They think a free market, bounded in the bounded market, would be most advantageous for the nation because their capital would circulate and the job market would react according to the inner workings of that specific market, regulated by the same policies. Yet, they think, free trade policies provide the opportunity to be exploited by more restrictive markets. (2023)

The center of the American Compass argument is the belief that capitalism is fueled by the codependency of capital and labor and globalism severs the bond between capital and labor, weakening the capitalist economy. From their perspective, foreign capital investments and expenditures prevent labor from being adequately supported in the domestic economy, propping up other competing markets and decreasing domestic employment options and wages. Oren Cass and Caleb Orr point to Adam Smith as support for their arguments, and Cass pulls further from Ricardo. (2023 and 2022) The American Compass's appeal in *Rebuilding American Capitalism* ends with the quote from *The Wealth of Nations* that Cass highlighted regarding the consumer's preference for domestic industry (2023, 106). Since they conclude their charge to the U.S. policymakers with Smith, Smith is a perfect place to begin.

3. Smith and Ricardo

Adam Smith and David Ricardo are the two quintessential economists Oren Cass points to as commonly misunderstood theorists, and it seems appropriate to start with a brief analysis of their works, giving context to the excerpts Cass pulls from.

Adam Smith's *The Wealth of Nations* was published in 1776 (2022), and admittedly, globalization has expanded since then, and the United States's economic policy was just forming. Smith's overall claims, however, still pertain to the current global economy and the American market. In the chapter that Cass focuses on, Smith addresses both capital and labor, but Cass focuses primarily on his evaluation of capital movement related to the domestic market. Cass misses the context of Smith's economic theory, including his perspective on individual choice and conveniently leaves out sections of Smith even in the major quote Cass uses to support his interpretation of Smith.

Where Cass emphasizes Smith's claims regarding the domestic economy, he does not pay attention to the criteria set by Smith. First half of the passage Cass quotes from clarifies that the natural predisposition of man to invest in the domestic economy is dependent on the notion "that he can thereby obtain the ordinary, or not a great deal less than the ordinary profits of stock." Smith immediately follows with, "Thus, upon equal or nearly equal profits, every wholesale merchant naturally prefers the home-trade to the foreign trade of consumption…." (Smith 1904, 419) With this clarifier, Smith is maintaining the notion that capital expenditure is ultimately up to the economic actor and their perceptions of the value of market opportunities. The inclination towards domestic goods only stands if the domestic good is not of less value to the consumer. Cass places more weight on favoritism towards domestic goods than the fact that this is only in the context of deciding between goods of similar value to the consumer.

Daniel Klein, a modern economist, makes this critique of Oren Cass by reviewing Cass's primary quote from Smith. (2022) Concerning the export of capital, Klein highlights Smith's acknowledgment and expectation of foreign investments, explaining that Cass not only assumes Smith does not take foreign investment into account but also assumes Smith's economic policy conclusions relied on this pretense. Klein makes it clear that this is not the case with Smith. Smith theorizes that domestic investment will be more popular among capitalists because it is more naturally advantageous in the case of minimal profit loss. (Klein 2022) With this criterion in mind, further investigation into Smith's arguments on free trade will help better clarify his theory on capital and labor.

Smith starts his chapter on preventative import regulations with an acknowledgment that the restrictions can be helpful to the domestic economy by employing more people and resources but follows with a statement suggesting this is not necessarily beneficial to the society or industry overall. He says, "The general industry of the society never can exceed what the capital of the society can employ." (1904, 416) In other words, the domestic economy is limited by its capital. He also implies that the limitation of capital limits the labor market. Hence, Smith recognizes the intertwined nature of capital and labor when looking at the health of an economy, but, as further investigation verifies, this does not lead to a condemnation of extension into the foreign market. Smith emphasizes that man is moved by the opportunity for personal benefit and not that this must be guided by restrictions balancing imports and exports but that naturally tends to work to the society's benefit. Cass emphasizes Smith's focus on the domestic economy, but Smith explains that a person finds a more familiar market in proximity as naturally preferable to foreign commodities if the goods are of similar value. (Klein 2022)

Smith discourages import restrictions as a limitation of the domestic population and industry by the extent of the internal resources. He lists a few exceptions to this, but the burden of proof lies on the regulation to determine whether it meets one of the criteria of Smith's exceptions. The exceptions relate to national security, higher taxed domestic goods, retaliation against foreign restraints, and gradually adjusting to free trade (1904, 427-431).

Cass also believes that our current globalized economy is not accounted for in Ricardo's economic theory. (2022) Although the foreign market described by Ricardo is simpler than the current system, this claim is simply not true. Ricardo sees a complex relationship between capital and labor, claiming that profit cannot be made from purchasing cheaper foreign products unless it causes the domestic wage rate to decrease. (Ricardo 2001, 88-89) He explains that the introduction of cheaper foreign goods is like the introduction of new technology. It is the decrease in the cost of labor that increases the profits relative to the revenue generated. As overall wages decrease, the profit from the selling of the same product increases, allowing it to be spent on other commodities and services. Ricardo rationalizes that purchasing cheaper foreign goods frees up capital and labor to be used in more exchanges (2001, 86).

Ricardo advocates for the extension of the market through further division of labor and encourages countries to produce according to their “natural or artificial advantages.” (2001, 88) Like Smith, he argues that the extent of domestic capital and revenue determines the demand a country can sustain through domestic and foreign production. (2001, 87) Further division of labor would broaden the scope of the market and support domestic demand. He clearly outlines the benefits of foreign trade, describing it as a mechanism to decrease prices while increasing the quantity of goods, the selection of goods available, saving, and, more importantly in the context of this discussion, capital accumulation. (2001, 89) He explains that purchasing cheaper foreign goods frees up capital and labor to be used in more exchanges (2001, 86).

Although Smith and Ricardo developed their theories in a period with much less globalization of the market, their perspectives on capital and labor still apply. Cass and the American Compass’s arguments cannot use Smith and Ricardo to justify their stance on the state of capitalism. Alternatively, Smith and Ricardo could easily be used to trump the concept of the “bounded market.” To further understand why globalization does not destroy capitalism as it relates to the bond between capital and labor, more modern authors can provide more insight into the issue.

4. How Globalism and Capitalism Interact

Globalization has decreased transaction costs and massively expanded the extent of an individual's "familiar market." Now a buyer can be better acquainted with a foreign retail website than a clothing store down the road. If Smith and Ricardo are right about the extent of an industry being limited by the extent of the market's capital, then expanding the market to include foreign capital would seem to be beneficial to both the capital structure and the labor market. As the global economy develops, there is evidence of these benefits, but there are also many disadvantages of a dynamic economy.

To better understand how the economy handles changes in the labor market in the context of globalization, Donald Boudreaux does a thought experiment in which the world is made up solely of two countries: the United States and Japan. In his little world, he develops a miniature economy into which the labor market will eventually take shape. Boudreaux explains that if Americans want to trade with the Japanese, they will offer money, American dollars, for their goods. If, however, Japan is not keen on trade with the United States and does not want American goods, they will have no use for the American dollar. Therefore, they will refuse to make the exchange no matter the dollar amount the Americans offer. Japan will only trade with the Americans if they decide they need American dollars to purchase American goods. If, however, Japan decides they would like American goods, they will have a use for the American money. An exchange will ensure, and this will impact the American economy. (2008, 53-59)

The exportation and importation of products will lead to changes in the domestic economy. The United States economy will not have to produce as much of the product they import from Japan but will have to increase production of the goods they are exporting to Japan to keep up with demand. If the U.S. loses more workers than they gain through trade, their new industry will be less dependent on labor and more dependent on capital goods. This means some Americans will lose their jobs because there will be fewer jobs available in that sector. Boudreaux acknowledges that workers are also not homogenous in natural talents or developed skills. As workers leave one industry, that does not mean there will be a proportional need in the alternative industry or that the worker will qualify for that work. This is where the American Compass argument comes from. They see these unemployed workers as the victims of the disproportional international trade. (2008, 53-59)

What Boudreaux and several other economists point out is that this is simply a consequence of consumer demand and is not unique to international trade (2008, 56-7). The unemployed now have four options: (1) remain unemployed, (2) join in producing the goods being exported to Japan, (3) join another industry with open job opportunities, or (4) start a new market. While the latter task sounds much more challenging than the former three, new entrepreneurial ventures require labor too, and the freeing up of labor in one area of the market allows it to be reallocated toward new markets. New markets cannot exist without available labor. After all, if they are actively trading with Japan, they have many more potential buyers available with their tastes and preferences fueling their demand.

How does this work with a multi-national system though? If another country joins the picture and they want American products, they will need American dollars. Boudreaux uses Brazil in his example. If Brazil wants American products but does not have products that Americans are willing to purchase, they are not stuck like the U.S. is in the first scenario. They can work through Japan. Even if Japan goes back to being unwilling to purchase American goods, Japan will still have a reason to allow exports to America because they can then use the American dollars they earned to purchase Brazilian goods. Brazil can then turn around and use the American dollars they earn from Japan to buy the American goods they want. In this three-way market, the domestic industries within each country must adjust to the new status quo. Just like the dual-country economy, the labor forces will have to adjust accordingly. (2008, 53-59)

What Boudreaux does not explicitly mention is that this is a helpful picture to understand how trade with China works for the United States. If China does not import as many U.S. products as they export, creating a trade deficit, they are still willing to accept American dollars for their goods because they can use them elsewhere. If they do not use all this money to purchase American goods, they can use the money in trading with other nations who do intend to purchase American goods. This includes monetary exchanges into other forms of currency are also valuable because the exchange of monies would not take place if either currency did not have value to one of the parties involved. (2008, 108) Even if the deficit is created through government intervention such as tariffs or export/import regulations instead of consumer demand, the very fact that the United States can purchase goods means there is demand for the American dollar.

Cass and Boudreaux use one term repeatedly that needs to be further defined. A "trade deficit" comes with many negative connotations within news stories, commonplace economic conversations, and even textbooks. A standard college textbook on international trade defines a trade deficit as, "a situation where the total exports of a country are worth less than its total imports." (David 2021, 15) This definition sounds rather bleak and depressing, especially for Americans who have a large trade deficit, beating both the United Kingdom and India, of $924 billion. Boudreaux explains, however, that there are three subcategories of trade deficits, one related to the merchandise trade account, one related to the goods and services account, and another related to the current account. (2008, 99-100). The merchandise trade accounts factors in all exports and imports of tangible goods. This does not include services though, which is why there is the goods and services account to keep track of both in international exchanges. The last account, the current account, is the most comprehensive because it represents all imports and exports related to goods, services, and monetary flows.

Samuel Hammond, an author of one of the memos in *Rebuilding American Capitalism*, refers to the current account trade deficits. He says, "A current account deficit means that the United States is a net borrower, absorbing more in foreign savings than we invest abroad. Those savings are largely held in the form of U.S. government debt…." (2023, 49). Hammond sees the American trade deficit as a major imbalance of capital that will inevitably rebalance. He recommends adopting industrial policies like China, enacting capital controls, and regulating the entrance of foreign capital (2023, 49-50). He acknowledges the predominate view that the current account balances out in the long run but argues the present situation is threatening and weakens American productivity.

Boudreaux gladly adopts the more predominant economic view that the capital account balances out the current account (2008, 101-103). He also explains that the current account includes equity, debt, real estate, and cash (2008, 101). He recognizes that it is unwise for the U.S. government to collect large amounts of debt, but he suggests that the United States benefits from this foreign capital investment just as though Americans had saved that money themselves (2008. 106-115). Boudreaux lists the primary objections related to his claim and argues that the United States is better off with this broader capital market to gain from. He brings up the fact that the United States had a trade surplus nearly every year of the 1930s, the decade of the Great Depression, verifying that a trade surplus does not inherently mean a country is thriving economically.

This explanation of the trade deficit and international capital structures implies that the American Compass may have missed the mark. Admittedly, there is an exorbitant amount of national debt, and the United States should address the associated financial and government issues. Enforcing more policies against foreign entities is not the answer though. Foreign investment gives Americans the liberty to pursue more entrepreneurial ventures and get the benefits of saving without doing the saving themselves.

Boudreaux rightfully implies that the globalized economy lends itself to producing more capital-intensive, rather than labor-intensive markets, providing the opportunity for that labor to be reallocated towards other business ventures. (2008, 55) As challenging as this may be for the marginal workers with fewer skills (2023, 40), jobs are inevitably replaced by several changes in the economic structure, including those related to technology changes as aforementioned. With these changes come overall improved standards of living for everyone, including the marginal workers. Patrick T. Brown of American Compass is correct in saying families would like to live without needing two incomes to support themselves. (2023, 73) The goal for workers is generally not to work; the goal is income to support the needs and wants of the individual. (2008, 62) Taking this into account, the expansion of the market for the sake of improved standards of living does not seem as evil as temporary unemployment makes it appear. When looking at the domestic economy, it is not unfair to categorize this as a productive reallocation of labor according to consumer sovereignty (2008, 56).

Wages are another aspect to consider. American Compass says that “in the past 50 years, wages went nowhere—up only 1% in total, not annually, after adjusting for inflation.” (2023, 9) This rather shocking statistic to support their claims about globalization’s harm to domestic wages is misleading. Greenwald and Klein explain that job creation has grown significantly with globalization, even considering the foreign competition. (Greenwald and Klein 2009, 60) As some jobs left the market, others were created, and overall income increased. (Statista "U.S. Median" 2023) Why is it then that wages appear to have not grown much at all? They explain that wages are "the average hourly earnings of private, nonsupervisory workers." (2009, 75). Many of the jobs that left the domestic market were lower-skill, wage-compensated roles, while many of the new jobs are more managerial or technical and pay workers via salaries, not wages. (2009, 56-62) In other words, the United States over the past several decades has been trading inferior jobs for superior jobs on average, and the wage rate will not adequately account for the improvements made in the labor market because wages are becoming less and less relevant. Not only this, but wages also fail to account for increased workers' benefits (2009, 76). Therefore, wages, while important to some extent, do not provide sufficient evidence of globalization harming capitalization by dividing capital from labor.

A more accurate, albeit still flawed, statistic would account for both full-time wages and salaries. The Bureau of Labor Statistics found that between 1979 and 2021 the median weekly earnings of both types of workers increased from $843 to $998 when adjusted for inflation. That is an 18% increase over course of forty-two years. The median earnings drop below $843 or increase above $998 a couple of times, but the general trend is a relatively consistent increase in American earnings over the past several decades. (Statista "U.S. Full-Time" 2023)

What about the labor market's relationship with capital, especially considering China? What about "the giant sucking sound", as Ross Perot calls the loss of American jobs to foreign labor markets? (2009, 69) This is not the first threat of a highly competitive foreign market. The United States went through something similar with Japan not too long ago. (2009, 59) China has notably grown economically (2009, 38). They, however, do not threaten the United States in the ways that the American Compass poses, and a bounded market is not the answer. To understand what they truly threaten, there needs to be a better understanding of globalization's impact on the bond between capital and labor within the current system.

The nature of the market has changed with globalization, and that will impact how capital and labor interact in their mutual dependence. For example, advances in technology have drastically improved communication and transportation across borders. (Krist 2013, 82) When a shipment of goods is leaving one country and headed to another, they can communicate with the receivers immediately through modern technology. As the shipment leaves the port, it is leaving on a vessel much better equipped to carry goods faster and safer than goods transported in 1776. Likewise, they can choose to use an aircraft if they like. (David 2021, 450) These advancements further extend the degree to which the production of a good can be divided. Countries can separate different parts of production into different areas more easily, making the "country of origin" more and more difficult to determine. (2013, 83) This will also increase the number of imports and exports since each part is counts as it is shipped back and forth until the finished product is completed. (2013, 82) For this reason alone, the relationship between capital and labor will look slightly different, but that does not mean the principles that have historically applied to their relationship no longer do.

These advancements in globalization also do not negate Smith's argument about individual preferences being more inclined to domestic industries. Capital is less likely to be invested in areas that are unfamiliar to the investor. This is another inhibitor of trade outside of government regulations. (2013, 84) Consumer confidence is important for the investment to take place. Theoretically, opening the capital market to foreign investors attracts more investors, increasing demand for assets and bringing in more entrepreneurial judgment (2008, 108-9).

Capital is enhanced and furthers the labor market, not breaking the bond but enforcing it with stronger ties to nations across the globe. This is yet another example of the misinterpretation of the globalized economy.

The final critique of the American Compass's argument is their free market, free trade distinction. (2023, 27 and 2022) While it may sound reasonable for there to be a distinction drawn between a market operating on its own, without the burden of other nations' economic policies, and a market open to the positive and negative impacts of other markets working for their own best interest, there is no true distinction between a free market and free trade. Trade is what takes place in a market. To prevent international trade from integrating with a domestic market, that market is no longer free. The citizens are not free to choose from the other economic opportunities or decide for themselves what is most beneficial to suit their needs. A "bounded free market" is paradoxical. (2022). Such a system would be more likely to reflect etatism as Mises describes it than capitalism as Cass describes it. (Mises 1969, 66).

5. Conclusion

A fair counterargument can be made regarding the assumptions of Smith, Ricardo, and more recent free trade theories (2013, 70). While the American Compass mentions trade restrictions, they could have a stronger argument if they focused more on the impact of optimum tariffs (2013, 72) and less on their demand for a "Global Tariff" (2022, 31). Their emphasis on the individual, families, and surveys provides little support for their economic theoretical claims. If they want to use Smith and Ricardo, they will need to read both more closely and evaluate the current capital and labor markets from a more comprehensive perspective.

The American Compass, including Oren Cass, misinterprets Smith and Ricardo, fails to properly assess the current global market, and draws unfounded conclusions. At the heart of their argument is a failure to see how globalization works within a capitalist system. Despite their analysis and attack on international free trade, globalization does not ruin capitalism by separating capital from labor. The expansion of capital investments widens the market and provides new avenues for technological advancement and increased societal welfare by raising the standard of living. Likewise, while jobs may be lost as a consequence of economic advancement, new jobs are arising, and they tend to be better than the ones before.

Arguments against international free trade will continue to come up and pose challenges for economists who believe in the superiority and achievability of a free system. Smith and Ricardo's theories are far from perfect (Krist 71), but they are not completely incompatible with a theoretical understanding of how capital and labor can engage in a globalized market. Much more can be learned from both Smith and Ricardo, especially if policymakers are tempted to encourage a "bounded market" without realizing the full theoretical implications and potential literal consequences of such a proposal. Their assumptions and the limitations of a theoretical framework do not make them unbeneficial to the current consumers, investors, and government officials.

If the American Compass and Oren Cass are concerned about the health of the domestic economy in the wake of increased globalization, there is a large body of literature spanning the past couple of centuries on that topic. An explanation or two from a couple hundred years ago can still be valuable because many of the same issues present in the times of Smith and Ricardo are present today. The issues may manifest themselves differently, but overlooking these explanations would be an error. After all, it would be a pity to repeat concerns proven inconsequential hundreds of years prior, and Smith did write a great book for those concerned about imports outweighing exports (Krist 2013, 68).

References

American Compass. "Rebuilding American Capitalism: A Handbook for Conservative Policymakers." American Compass, Inc., 2023.

Boudreaux, Donald J. *Globalization*. Westport, CT, Greenwood Press, 2008.

Cass, Oren. "Searching for Capitalism in the Wreckage of Globalization." *American Compass*, 9 Mar. 2022, americancompass.org/searching-for-capitalism-in-the-wreckage-of-globalization/.

David, Pierre A. *International Logistics: The Management of International Trade Operations.* Berea, OH, Cicero Books LLC, May 2021.

Greenwald, Bruce C., and Judd Kahn. *Globalization: The Irrational Fear That Someone in China Will Take Your Job*. Hoboken, NJ, John Wiley & Sons, Inc., 2009.

Irwin, Douglas A. *Free Trade under Fire*. 5th ed., Princeton, NJ, Princeton University Press, 2020.

Klein, Daniel B. "Correcting Oren Cass on Adam Smith." *Www.aier.org*, American Institute for Economic Research, 17 Apr. 2022, www.aier.org/article/correcting-oren-cass-on-adam-smith/. Accessed 17 Nov. 2023.

Krist, William. *Globalization and America's Trade Agreements*. Washington, D.C., Woodrow Wilson Center Press, 2013.

Mises, Ludwig Von. "Capital Goods and Capital." *Mises Institute*, 12 Feb. 2007, mises.org/library/capital-goods-and-capital. Accessed 6 Dec. 2023.

---. *Omnipotent Government : The Rise of the Total State and Total War*. New Rochelle, N.Y., Arlington House, 1969.

"New Direction." *American Compass*, americancompass.org/new-direction/. Accessed 31 Jan. 2024.

Ricardo, David. *On the Principles of Political Economy and Taxation*. 1821. 3rd ed., Kitchener, Ontario, Batoche Books, 2001, socialsciences.mcmaster.ca/econ/ugcm/3ll3/ricardo/Principles.pdf.

Smith, Adam. *The Wealth of Nations*. Edited by Edwin Cannan, London, Methuen & Co., 1904.

---. *The Theory of Moral Sentiments.* Edited by Knud Haakonssen, Cambridge University Press, 2002, catdir.loc.gov/catdir/samples/cam031/2001037390.pdf. Accessed 31 Jan. 2024.

Statista Research Department. "U.S. Full-Time Workers Inflation Adjusted Weekly Earnings 1979-2021." *Statista*, Bureau of Labor Statistics, 3 Nov. 2023, www.statista.com/statistics/185247/median-weekly-earnings-of-full-time-wage-and-salary-workers/.

---. "U.S. Median Household Income 1990-2022." *Statista*, US Census Bureau, Sept. 2023, www.statista.com/statistics/200838/median-household-income-in-the-united-states/ .