Introduction to international economics

Delbert A. Snider

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SEVENTH EDITION

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Preface

The most extensive revisions embodied in the present edition of this book relate to the section (Part Three) on international monetary relations. Previous separate chapters on the means of making international payments and their relationship to the balance of payments have been combined into a single chapter. The theory of balance-of-payments adjustment has been simplified in certain respects and expanded in other respects, with a fuller discussion of monetary aspects. In addition, a series of entirely new chapters on alternative monetary systems, the Bretton Woods system, the theory of and experience with floating exchange rates, reform of the Bretton Woods system, and the special status and role of the U.S. dollar have replaced chapters in the previous edition. These revisions have been designed to give the student a good foundation for understanding the current, and probably continuing, issues emerging from the operations of a managed float exchange rate system.

An entirely new chapter on current issues in commercial policy is devoted to a critical discussion of various manifestations of protectionism and their implications for the future. In the chapters preceding this discussion, extensive efforts have been made to update the historical and theoretical material on trade policy.

Finally, the chapters on the pure theory of trade and factor movements have been left largely intact, except for minor changes and a more extended treatment of multinational corporations.

As with respect to the six earlier editions of this book, I am indebted to so many persons for their helpful comments that listing their names is impractical. Three different anonymous readers of the sixth edition were especially helpful in their suggestions, all of which were taken seriously, though not in all instances followed.

Grateful acknowledgement is made to the National Bureau of Economic Research and Dr. G. C. Hufbauer for permission to reproduce data contained in Table 4, p. 157 of G. C. Hufbauer, "The Impact of National Characteristics and Technology on the Commodity Composition of Trade in Manufactured Goods," in Raymond Vernon, editor, *The Technology Factor in International Trade,* National Bureau of Economic Research, 1970.

To Ms. Kathy Fox and Ms. Mimi Farr I owe thanks for expeditious typing of manuscript, and to my wife thanks and gratitude for skillful cutting and pasting and—above all—moral support.

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INTRODUCTION

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The significance and scope of international economics

The daily lives of most of us are largely confined to activities in our home communities. We are aware of the local economy, for this is the immediate provider of the goods and services we consume and the source of our employment opportunities. Most of us are also conscious, however, that the local economy is only a small part of a much larger national economy. Aside from personal services, by far the greatest portion of the goods and services we purchase are not the product of the local economy: the meat on the table may come from Texas via packing plants in Chicago, the clothing in the wardrobe from manufacturers in New York, the fruit in the bowl from Florida and California, the car in the garage from Detroit, and so on. At the same time, our jobs yield products which more than likely will be consumed outside the local economy.

The complex of interrelationships among the thousands of local communities, bound together through a vast volume of exchange of goods and services and the movements of people and capital, constitutes the national economy. Awareness of the national economy is sharpened by the presence of a federal government whose influence is felt, through its taxes, spending and regulations, in every nook and corner of the country.

We live and work in a local economy and a national economy; but we also live and work in an international or "world" economy. Just as national economies are composed of local and regional parts, so the world economy is composed of national economies. The world economy is "looser" than the usual national economy, in the sense that the national members of the world economy are not as closely interrelated and interdependent as the local and regional parts of the typical national economy. However, for many national economies external economic relations are of paramount importance. And for nearly all countries, participation in the world economy could not be withdrawn without extremely serious adverse consequences which would be felt at every level in every community.

THE VOLUME AND PATTERN OF INTERNATIONAL ECONOMIC RELATIONS

International economic relations consist of a "real" side and a monetary side. The real side embraces the exchange of goods and services among countries and the movement of factors of production from one country to another, while the monetary side provides the financial framework and means for conducting real transactions. Ultimately, it is the real transactions that are significant for the welfare of countries, though a smoothly functioning and efficient monetary mechanism is essential for realizing the potential benefits of real transactions.

Table 1.1 shows the trend in the volume of world merchandise trade, expressed in current prices and, more significantly, in terms of a quantum index that removes the influence of inflation. For lack of adequate information, the data exclude the trade of communist bloc countries. According to one estimate, the trade of the latter amounted in 1975 to about $85 billion, increasing the total for that year listed in the table by more than 10 percent.[1]

TABLE 1.1
Trends in world merchandise exports*

Year	*Value (billions of dollars)*	*Quantum Index*
1938	21	21
1948	54	22
1973	519	131
1975	788	132

*Excludes trade of communist bloc countries.
Source: United Nations, *Statistical Yearbook*, 1976, pp. 55, 464.

[1] *International Economic Report of the President*, Washington, D.C., 1977, p. 148.

In addition to merchandise trade, there are annually tens of billions of dollars of international service transactions—shipping and passenger transportation, insurance, tourism, interest and dividend payments, and so on.

Although available data do not permit an accurate estimate, it would appear that total world exports of goods and services together constitute between 15 and 20 percent of the world's gross national product.[2]

Of course, not all countries participate equally in international economic relations. World trade is dominated by the trade of developed market economies, as shown in Table 1.2. Moreover, of developed market economies, a mere handful account for the lion's share of world trade. The United States, Canada, Japan, and the nine members of the European Common Market conduct approximately two thirds of the world's trade.

TABLE 1.2
Distribution of world exports by type of economy (percentage shares of total world exports, annual average for years 1971–76)

Developed market economies	67
Developing market economies	23
Centrally planned economies	10

Source: World Bank, *Annual Report*, 1977, Table 2, p. 106.

A more subtle but interesting point is that whereas the trade of developed market economies is mainly with each other, as is also the trade of centrally planned economies, that of developing market economies is principally with developed market economies (see Table 1.3).

TABLE 1.3
Pattern of trade among economies by types, annual averages 1971–76 (percentage of total exports)*

	Exports to		
Exports from	*Developed market economies*	*Developing market economies*	*Centrally planned economies*
Developed market economies	73.2	21.0	5.2
Developing market economies	73.1	21.6	4.3
Centrally planned economies	28.4	15.4	55.4

*Totals do not sum to 100 percent because of rounding.
Source: World Bank, *Annual Report, 1977*, Table 2, p. 106.

[2] This very rough estimate is based on trade and income data presented in Tables 2 and 18 of the *International Economic Report of the President*, 1977, adjusted for service transactions.