

# Living and Working Together: The Importance of Trade

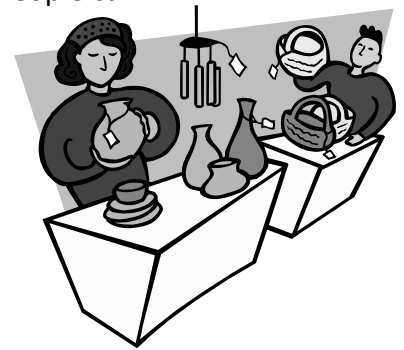
Do you know anything about pioneer life in the United States? Life on the frontier certainly was not easy. Often it was a struggle merely to survive. One thing is for sure, the pioneers couldn't buy things at the local department store or supermarket! Instead, families had to produce most of what they needed themselves. In economics, we would say the pioneers were very **self-sufficient**. A typical farm family grew almost all its own food and made its own clothing. The family also produced furniture, butter, candles, and a wide variety of other items. Pioneer children even attended school at home.



## Specialization and Trade

Did you ever wonder why all this changed? As you may suspect, it had a lot to do with economics. The pioneers soon discovered that they could improve their standards of living if they **specialized** in certain kinds of work. Instead of farming, some pioneers became blacksmiths, furniture makers, teachers, clothing makers, and candle makers. Then they would trade to obtain food and other goods and services.

Specializing lets people concentrate on work that they enjoy and that they do well. People can become very skilled at producing specific kinds of goods or services. For example, the pioneer farmer no longer had to worry about producing a wide variety of products. Instead, he could focus his efforts on producing one kind of product, such as wheat. This enabled him to farm more land, and to farm it more **efficiently**, meaning he wasted less time, energy, and resources. He could trade any excess (*extra*) wheat for iron tools, clothing, furniture, candles, and other items. The individuals who made these items were happy to trade with the farmer, since they grew no wheat! Everyone was better off.



## Interdependence



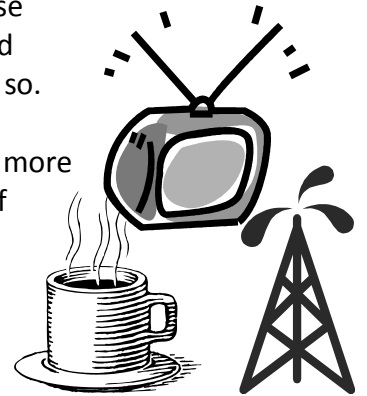
Because of increased specialization and trade, goods and services became much more available. Towns and villages came into existence, and standards of living rose rapidly. The increased specialization and trade also produced another very important change in pioneer life -- people grew much more **dependent** on each other. Farmers depended on the merchants and the merchants depended on the farmers. This growing **interdependence** produced much more income, but made people very dependent on the goods and services that only others could provide.

It is very important for you to understand that the principles of specialization and interdependence also apply to trade between countries. Like individuals, countries specialize in the production of certain goods and services. What a country specializes in is greatly influenced by its **geography** and **climate**. For example, Japan has little land and few natural resources, and therefore specializes in manufacturing goods such as electronic equipment and automobiles. Argentina, with abundant and rich land and a favorable climate, produces many agricultural products. Saudi Arabia specializes in producing oil since it has an abundance of this valuable

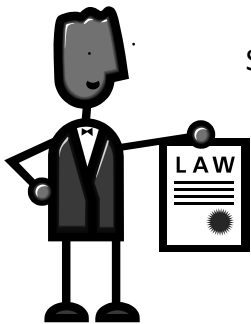
natural resource. To get other goods and services that they want, countries trade with each other. The end result is that more goods and services are available to the people living in these countries.

Specialization and trade also make countries very dependent on each other. The United States depends on Japan for DVDs and televisions, on Brazil for coffee, and on the Middle East for oil. These countries in turn depend on us for various products. The more our world has grown and developed, the more interdependent it has become. In the future, it will be even more so.

It is an unavoidable fact of economics -- the more specialization and trade there is, the more people must depend on each other. One advantage of this is a much higher standard of living. Another advantage is that people who are dependent on each other are more likely to cooperate with each other. Instead of using force when disputes arise, trading partners are more likely to solve their disputes peaceably.



## Trade Barriers



Sometimes people complain about trade. They say that too much trade causes workers to lose jobs. Therefore countries sometimes try to limit trade by creating **trade barriers**. The most common types of trade barriers are **tariffs** and **quotas**. A tariff is a tax on imports. Imports are goods purchased from their countries. Exports are goods we sell to other countries. A quota is a specific limit placed on the number of imports that may enter a country.

Other times countries will limit trade through **embargos**. This is when a country refuses to trade certain goods or services with another country. Embargos are usually used as a political tool. A country will refuse to trade with another in order to pressure its government to change. For example, the U.S. has refused to buy oil from Iran unless Iran gives up trying to make nuclear weapons.



Should countries create trade barriers that limit trade? People often disagree on this question. It is true that some workers in certain industries may be hurt by trade. For example, some American clothing workers have had to change jobs during the past 20 years because many clothes now are imported from other countries. However, this trade allows Americans to buy quality clothing imports at good prices. This results in a higher standard of living for the United States and for our trading partners. For this reason, most economists agree that it is good to let countries trade as much as possible.

### KEY POINTS TO REMEMBER!

1. When individuals and countries specialize, more goods and services are produced.
2. When individuals and countries specialize, they must trade to obtain the different kinds of goods and services they want.
3. Specialization and trade always cause individuals and countries to be more dependent on each other.
4. Countries sometimes try to limit trade to protect the jobs of some workers. However, most economists believe that it is best to let countries trade as much as possible.