from the employment of resources in any given area. In like manner, there should be a complete free market in exchange rates so that the exchange rates can adjust between countries and properly relate changes in productivity and wage rates.

No nation will be willing to truly face the ultimate in international division of labor unless it feels secure from war and the necessity of maintaining an adequate national defense. Modern warfare is heavily based upon technology and the products thereof. The implications for national defense are clear.

Finally, businessmen are themselves inclined to try to thwart the verdict of the marketplace. One way is to form cartels. In so doing, producers either collude in setting prices or on dividing the market by territory. Cartel practices are outlawed in the United States but have been a regular part of export practices of the European and Japanese business communities. A cartel may set export prices at, above, or below domestic prices, depending on the immediate objective. If the export is primarily to move surplus, then the export price may be set low. Under other conditions and especially to underdeveloped countries, the export price is often held above domestic prices.

Basically, cartels are formed to reduce or eliminate competition. In foreign trade, cartel pricing may be used to drive competition out of business, or to prevent potential competitors from getting started. After the competition has been destroyed or blocked, then prices are raised to higher and lucrative levels.

Individual firms may also treat the foreign market different than the home market. It is not uncommon for a producer who has some unused plant capacity to reason that, on an incremental basis, the cost of producing additional units, up to capacity, would be very low. Further, that he could sell the extra production at lower prices in foreign countries without disturbing his home price, and thus add some incremental profit. This is, in fact, a very common practice. It distorts the price mechanism, causing it to give a false signal. The undesirability of this type of short-range, shortsighted practice is indicated by the derogatory term, "dumping."

Thus, business practices may also thwart the international marketplace in its allocative function of maximizing efficiency. Within a country, government regulations may be used to prevent collusion and reinforce competition. No government, however, can control what the nationals of a foreign sovereign nation do. The most it can do is to offset at the border the consequences of restrictive practice by foreign producers.

When a theory is applied under conditions different than those which its premises assume, the results are likely to be quite different than promised. When we look at the real world of commerce, we see that there are many ways in which governments structure and interfere in the international marketplace, ways that thwart the ideal division of labor.

To be realists, we must do one of two things: either we must succeed in eliminating all interferences in the international marketplace and accept a large degree of laissez-faire in economic affairs; or we must recognize that we are not dealing with an ideal situation. It may be that the structure of tariffs that has been widely used for many de-