

Paul Krugman

POP INTERNATIONALISM



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Paul Krugman

The MIT Press
Cambridge, Massachusetts
London, England

Eighth printing, 1998

First MIT Press paperback edition, 1997

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This book was set in Palatino by Asco Trade Typesetting Ltd., Hong Kong and was printed and bound in the United States of America.

Library of Congress Cataloging-in-Publication Data

Krugman, Paul R.

Pop internationalism / Paul Krugman.

p. cm.

Includes index.

ISBN 0-262-11210-8 (HB), 0-262-61133-3 (PB)

1. International economic relations. 2. International trade.

I. Title.

HF1359.K784 1996

337—dc20

95-35632

CIP

Introduction

I had a moment of revelation on a December's day in Little Rock, as I was listening to John Sculley.

It wasn't quite the kind of revelation that the speaker had in mind. Sculley, at the time the CEO of Apple Computer, was known for his wide-ranging speeches about the digital future; these speeches had not only given him a reputation as a technological visionary but also had made him the odds-on favorite business leader of President-elect Clinton. And so when the Administration-in-waiting held an economic summit in Little Rock, the opening remarks by MIT's Robert Solow were followed by a presentation by Sculley about the new realities of the global economy. Sculley described a world in which nations, like corporations, are engaged in fierce competition for global markets. And this vision met with obvious approval from the audience, including Bill Clinton.

But not from me. I thought I knew something about international trade, and it seemed to me that Sculley had no idea what he was talking about. (Although I didn't know it at the time, Steven Levy's book about the Macintosh computer, *Insanely Great*, suggests that many computer people felt the same about his technological visions.) The really disturbing thing, however, was that Sculley was not alone in his misunderstandings.

While some of the presentations at that conference were made by sensible, well-informed economists, a high fraction—and the ones that obviously played best both with the audience and with the new Administration—were not. That is, what was being preached in Little Rock was a kind of imitation international economics that sounded impressive and sophisticated but bore no resemblance to the real thing.

Something really strange was going on. It was as if a high-profile conference had been convened that was billed as a gathering of the world's leading experts on human psychology—and up there on the podium, giving the lead address, was John Bradshaw, telling me how to get in touch with my inner child.

But as I thought about it, I realized that the prevalence of ersatz economics in Little Rock was no accident. After all, imagine that you are an intelligent American without a background in economics who tries to keep abreast of current events—who watches the *McNeil-Lehrer Newshour*, who reads *The Atlantic* and *The New York Review of Books*—and that you have decided to bone up on international economic issues. What would you read? In chapter 5 I offer a sample reading list of seven recent books, beginning with Lester Thurow's enormously influential *Head to Head*. The books on the list share two features. They all offer a view of the world, more or less like Sculley's, of international trade as an arena of, as Thurow puts it, "win-lose" competition among nations. And they all contain little or nothing of what economists think they know about international trade. (For example, Thurow's book does not contain a single entry for "comparative advantage" in its index.)

In other words, all of the things that have been painfully learned through a couple of centuries of hard thinking about and careful study of the international economy—that tradition

that reaches back to David Hume's essay, "On the balance of trade"—have been swept out of public discourse. Their place has been taken by a glib rhetoric that appeals to those who want to sound sophisticated without engaging in hard thinking; and this rhetoric has come to dominate popular discussion so completely that someone who wanted to learn about world trade without reading a textbook would probably never realize that there is anything better.

Whose fault is the replacement of serious discussion of world trade by what I have come to think of as "pop internationalism"? To some extent, of course, it is the result of basic human instincts: intellectual laziness, even among those who would be seen as wise and deep, will always be a powerful force. To some extent it also reflects the decline in the influence of economists in general: the high prestige of the profession a generation ago had much to do with the presumed effectiveness of Keynesian macroeconomic policies, and has suffered greatly as macroeconomics has dissolved into squabbling factions. And one should not ignore the role of editors, who often prefer what pop internationalists have to say to the disturbingly difficult ideas of people who know how to read national accounts or understand that the trade balance is also the difference between savings and investment. Indeed, some important editors, like James Fallows at *The Atlantic* or Robert Kuttner at *The American Prospect* are pop internationalists themselves; they deliberately use their magazines as platforms for what amounts to an anti-intellectual crusade.

But a substantial share of the blame for the rise of pop internationalism surely falls on international economists themselves, who have not tried very hard to communicate with a broader public. After all, what would you tell that intelligent American, who wants to know something about the world economy, to read? There are several pretty good textbooks out

there, but they are not much fun. A few first-rate international economists, like Columbia's Jagdish Bhagwati, do write op-eds, publish articles in *The New Republic*, and appear on public TV. But the op-ed or short-article formats—let alone the three-minute TV spot—are poorly suited to presenting well-rounded ideas about the international economy, where everything affects everything else in at least two ways. And in any case, it seemed to me, after my epiphany at Little Rock, that most economists who try to write for an intellectual public presume too much; they imagine that their readers must understand, for example, that it is an accounting impossibility for Third World nations simultaneously to attract large inflows of capital and run massive trade surpluses, and thus fail to connect with an audience that is easily persuaded by authoritative-sounding men that they will do just that. (I am told on reliable hearsay that one celebrated pop internationalist remarked about his career, "Luckily, economists can't write.")

And so I came away from Little Rock with a new awareness that even the simplest, most basic truths about international trade had been driven out of public discussion. I talked about that new awareness a few weeks later, at the American Economic Association meetings; that talk appears as chapter 8. But this was the wrong audience: indeed, one journalist even mentioned the favorable reception the talk received as evidence of the stupidity and narrow-mindedness of economists. I made another attempt to express my concerns when I was asked to review Laura D'Andrea Tyson's *Who's Bashing Whom* for *The New York Review of Books*; in that review, which praised her book, I warned against the danger of confusing sophisticated revisions of international trade theory with a know-nothing rejection of any kind of systematic analysis. But the editor refused to publish the piece, telling me that "you're criticizing some very prestigious people." (The unpublished review is reproduced, unaltered, as chapter 7.)

What I eventually realized was that an effective answer to pop internationalism would require a new kind of writing. I would have to write essays for non-economists that were clear, effective, and even entertaining—otherwise, nobody would read them. The essays could not contain even a hint of technical economic jargon, because the target reader was someone who might think he knew a lot about economics but had never been exposed to the real thing. They would have to be entirely self-contained: I would have to develop their arguments from the ground up, without presuming either any prior knowledge or any appeals to the authority of my profession. And, finally, the essays would have to be *right*—no intellectual cheap shots, because after all, letting the world see what real economic analysis was like was the whole point of the exercise.

Where could I publish such essays, assuming I could write them? A good set of opportunities arose in the second half of 1993. The managing editor at *Foreign Affairs* asked me to write a piece on the then-hot debate over the North American Free Trade Agreement (reproduced as chapter 10); I countered with a proposal for a two-fer, with the NAFTA article to be followed by a piece on competitiveness. At about the same time, *Scientific American* asked me to do a piece on international trade; a little later, the *Harvard Business Review* also solicited an article. And from there, one thing led to another: it turned out that there really was an audience for serious international economics written for a broader public.

This book collects some of the articles I wrote over the two years after my revelation at Little Rock, together with a few pieces written earlier that help put those writings in context.

The first group of essays represents my assault on pop internationalism. They also represent some experimentation with styles. Chapter 1 was written to shock and provoke. It succeeded in that aim and was met with a firestorm of reaction. In

particular, several leading pop internationalists responded angrily to my attack, along the way offering an almost too-good-to-be-true demonstration of the very faults—carelessness with numbers, inability to keep basic accounting straight—of which I had accused them. My response to the critics is reproduced as chapter 2. The next two essays were written in more sober styles: Robert Lawrence and I gave *Scientific American* a low-key, just-the-facts discussion of US trade, while in *Harvard Business Review* I did my best to do Economics 101 for the business reader. Finally, in chapter 5—given as a talk at the American Economic Association two years after the Little Rock summit—I tried to explain why good things have happened to bad ideas (and people).

There is, of course, a certain irony in the way that I found myself playing the role of defender of civilized economics against the intellectual barbarians. My own reputation as an economic researcher had been based largely on my role in the development of the so-called “new trade theory,” which challenged some significant aspects of the theoretical paradigm that prevailed in the late 1970s. If you want a parallel to my position, it is quite a lot like that of the evolutionist Stephen Jay Gould, whose professional reputation was based on his theory of “punctuated equilibrium,” the assertion that evolution proceeds in occasional spurts rather than at a constant rate. By the standards of his field, this made Gould a radical; but once he began writing for a broader public, he found that he was obliged to take on the role of defending the basic truth of evolution against the assaults of creationists.

In any case, the essays in part II represent some efforts on my part to explain how one can throw out the intellectual bathwater while saving the baby. These essays are somewhat harder going than those in part I, partly because they were written before I had realized just what getting my ideas across

would require; I include them anyway, if only to show where I was coming from. Chapter 6 is a piece I wrote for *Science* at a time when I still thought that pop internationalists might be interested in serious ideas; chapter 7, my ill-fated review of Laura D'Andrea Tyson, written in the false belief that the editor of *The New York Review of Books* had some respect for my intellectual tradition; chapter 8, the talk I gave at the American Economic Association soon after the Little Rock summit.

Even as I launched my campaign against pop internationalism, there was a discernible shift in the target of that doctrine's concerns. In 1992 pop internationalists were obsessed with the perceived struggle among the great industrial powers. Over the next few years, however, debate tended instead to be focused on the effects of growth in low-wage economies. Chapter 9 is a speech I gave in Mexico City in March 1993; I like to think that it shows that I was ahead of the curve both on the politics of trade and, alas, in fearing that the euphoria, then prevalent about the prospects for the "emerging market" economies, was greatly excessive. Chapter 10 was the original *Foreign Affairs* piece, an attempt to offer a sober and realistic explanation of what NAFTA would and would not do. And chapter 11 was an attempt to widen the debate, to get people to reconsider some of their easy assumptions about Asian growth.

Finally, since the thrust of much of what I have written about international trade has been to debunk the idea that our economic fate is bound up in some kind of competitive struggle, it has also been necessary to say something about what I think really is going on. The answer, in brief, is that technological change, not global competition, is the really important story. The essays in part IV of this book represent two perspectives, once again intended to force people to think harder than they might want to.

In the end, John Sculley did me a favor. He led me to seek out and explore a new way of communicating economic ideas, to boldly go where few economists had gone before. I don't know how many people I have convinced over the last few years, but I have at least put the world on notice that pop internationalism is not all that there is. And I like to think that along the way I have provided some evidence that economists *can* write, after all.

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I

A Zero-Sum World?

The Hypothesis Is Wrong

In June 1993, Jacques Delors made a special presentation to the leaders of the nations of the European Community, meeting in Copenhagen, on the growing problem of European unemployment. Economists who study the European situation were curious to see what Delors, president of the EC Commission, would say. Most of them share more or less the same diagnosis of the European problem: the taxes and regulations imposed by Europe's elaborate welfare states have made employers reluctant to create new jobs, while the relatively generous level of unemployment benefits has made workers unwilling to accept the kinds of low-wage jobs that help keep unemployment comparatively low in the United States. The monetary difficulties associated with preserving the European Monetary System in the face of the costs of German reunification have reinforced this structural problem.

It is a persuasive diagnosis, but a politically explosive one, and everyone wanted to see how Delors would handle it.

Would he dare tell European leaders that their efforts to pursue economic justice have produced unemployment as an unintended by-product? Would he admit that the EMS could be sustained only at the cost of a recession and face the implications of that admission for European monetary union?

Guess what? Delors didn't confront the problems of either the welfare state or the EMS. He explained that the root cause of European unemployment was a lack of competitiveness with the United States and Japan and that the solution was a program of investment in infrastructure and high technology.

It was a disappointing evasion, but not a surprising one. After all, the rhetoric of competitiveness—the view that, in the words of President Clinton, each nation is “like a big corporation competing in the global marketplace”—has become pervasive among opinion leaders throughout the world. People who believe themselves to be sophisticated about the subject take it for granted that the economic problem facing any modern nation is essentially one of competing on world markets—that the United States and Japan are competitors in the same sense that Coca-Cola competes with Pepsi—and are unaware that anyone might seriously question that proposition. Every few months a new best-seller warns the American public of the dire consequences of losing the “race” for the 21st century.¹ A whole industry of councils on competitiveness, “geo-economists” and managed trade theorists has sprung up in Washington. Many of these people, having diagnosed America's economic problems in much the same terms as Delors did Europe's, are now in the highest reaches of the Clinton administration formulating economic and trade policy for the United States. So Delors was using a language that was not only convenient but comfortable for him and a wide audience on both sides of the Atlantic.

Unfortunately, his diagnosis was deeply misleading as a guide to what ails Europe, and similar diagnoses in the United