

Jagdish Bhagwati: Martin Wolf's column, and the two columns by Larry Summers that he cites, make several fine observations but require some amplification and qualification.

The most important question posed by Martin Wolf is: How does one deal with domestic anxiety over globalization in the US, the anxiety being prompted by the fear that trade with poor countries (and immigration, often illegal, of the unskilled from the poor countries; and investment abroad) is driving down wages? The answer is manifold.

First, if globalization is not the cause of such "wage compression", then the economist must assiduously say so in public. Summers in his first article conceded as much for trade. But there has been prevarication from some others such as Paul Krugman (whose recent Brookings foray into the question was less than compelling and, in addition, failed to connect with the vast theoretical and empirical literature that has grown up in the last two decades on the question of the link between real wages and trade). Besides, economists such as Robert Lawrence have argued persuasively against the alleged link in recent empirical studies. My own empirical work earlier argued that, if one wants to decompose the net effect on workers' real wages from both labour-saving technical change and from exogenous changes in trade (i.e. exogenous shift in the offer curve facing the US), there is good reason to believe that trade changes had in fact moderated, not accentuated, the decline in wages from technical change. [See the discussion of my and other work, in the 1990s and recently, on the problem in my 2004 book, *In Defense of Globalization*.] The same comforting, indeed "paradoxical"-to-many, conclusion has been reached on the effect of illegal immigration in some recent studies.

Second, some economists, who have no political axe to grind, say: the belief that globalization (in the sense above) harms workers is so deeply held that there is no way that analysis can dispel it. That is too pessimistic. Many believed that globalization lacked a human face, in that it handicapped social objectives. I dispelled that belief systematically in my 2004 book. Today, partly due to the argumentation of the kind I have in my book, that erroneous belief is not held as widely and deeply as before. If we did not believe in the power of our analysis, why do public policy? We should then retreat into proving theorems that please us by their elegance but have no demonstrable bearing on improving human welfare.

Third, the fact is that political leadership has been lacking in this regard. President Clinton fought for the Uruguay Round and, sadly, for NAFTA (a discriminatory trade treaty as all FTAs are). But he let us all down when, instead of confronting the AFL-CIO and their economic advisers on the subject, he coasted along with them. He could have called on the many Democratic economists (including, at that time, Paul Krugman) who could have demonstrated to these skeptics that their anxiety on this front were not supported by analysis. But he did not. This is equally true of Senator Hillary Clinton who is the only Presidential candidate without a serious economist as her economic adviser: no wonder he quotes people like Paul Samuelson, whom her trade advisers hardly understand, to say that trade is no longer beneficial the way it used to be.

Fourth, the endless repetition of the polls which show a continued reduction in support for free trade in the public does not allow for the fact there is a perverse relationship between the media and the politicians on this issue. Politicians in the US rely on focus groups and they in turn are typically composed of people who watch Lou Dobbs on CNN, an anti-trade and anti-immigration bigot. So the politicians feel they must pander to such views and make anti-trade noises which, in turn, feed the anxieties over trade. Leadership requires that the politicians use their platform to disabuse their constituents of these fallacious notions. But, alas, on the Democratic side, few do it.

Finally, the anxiety over wages and jobs is real. It must be attended to in a holistic way. We need to understand where it comes from and then deal with it through appropriate institutional and policy changes. I discuss this in a new book I am writing on the subject (to be published in early Spring 2009). The basic source of the anxiety is the fragility of jobs that comes from two sources: rich-rich country competition that reflects what I have called “kaleidoscopic” comparative advantage, with thin margins of comparative advantage that lead to volatility of specialization; and the rapid and deep labour-saving technical change. These factors then feed the anxiety over jobs and they also tend to depress wages. A response to the “new epoch” that these two factors constitute requires a holistic revision of our institutional and policy framework. The patchwork set of measures that are often discussed will not do. The task before us is much like the task that the Soviets faced when they were transiting from a communist economy to an altogether different, capitalist system without the institutional mechanisms that had evolved over nearly a century on our side.