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Shaking Up Trade Theory

For decades economists have insisted that the U.S. wins from globalization. Now they're not so sure

Ever since Americans began fretting about globalization nearly three decades ago, economists have patiently explained why, on balance, it's a boon to the U.S. Yes, some Americans lose their jobs, either to imports or because factories move to cheap-labor countries such as China or India. But the bulk of this work is labor-intensive and lower skilled and can be done more efficiently by countries that have an abundance of less-educated workers. In return, those countries buy more of our higher-value goods made by skilled workers -- for which the U.S. has a comparative advantage. The lost jobs and lower wages in the U.S., economists say, are more than offset when countries specialize like this, leading to more robust exports and lower prices on imported goods.

Now this long-held consensus is beginning to crack. True, China is emerging as a global powerhouse, realigning many economic relationships. But in the long run a more disruptive trend may be the fast-rising tide of white-collar jobs shifting to cheap-labor countries. The fact that programming, engineering, and other high-skilled jobs are jumping to places such as China and India seems to conflict head-on with the 200-year-old doctrine of comparative advantage. With these countries now graduating more college students than the U.S. every year, economists are increasingly uncertain about just where the U.S. has an advantage anymore -- or whether the standard framework for understanding globalization still applies in the face of so-called white-collar offshoring. "Now we've got trade patterns that challenge the common view of trade theory, which might not be so true anymore," says Gary C. Hufbauer, a senior fellow at the Institute for International Economics (IIE), a Washington (D.C.) think tank. A leading advocate of free-trade pacts, he still thinks white-collar job shifts are good for the U.S.

The great debate percolating among the country's top trade economists gained new prominence with a recent article by Nobel laureate Paul A. Samuelson in the Journal of Economic Perspectives (JEP). In the piece, the 89-year-old professor emeritus at Massachusetts Institute of Technology, who largely invented much of modern-day economics, questions whether rising skills in China and India necessarily will benefit the U.S.

The reaction was swift. Experts such as Columbia University trade economist Jagdish N. Bhagwati, who countered Samuelson in the next JEP issue, resist the notion that the new offshoring could lower U.S. wages or slow growth of gross domestic product. After all, these economists have spent their professional lives ridiculing such conclusions as so much protectionist nonsense. Nevertheless, they aren't yet able to reconcile what's happening on the ground with the ideas they have so passionately defended. "This is a whole unexplored question that is very controversial, and nobody has a clue about what the