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Ralph Gomory

Gomory and Rodrik, Free-Trade Skeptics

By BOB DAVIS and DAVID WESSEL

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For many years, Ralph Gomory and Dani Rodrik were on the outs with much of the economic establishment because they argued that free traders greatly underestimated the costs of trade liberalization. Now, with jobs headed overseas and wages stuck for many Americans, their views are attracting greater interest. In many ways, the debate over free trade is moving in their direction. Here's a look at their iconoclastic views on trade. ([See related article.](#)¹)

Back to the Future: Ralph Gomory

Ralph Gomory started worrying about trade when his tours of Japanese labs as a top scientist for **International Business Machines Corp.** in the 1970s showed the U.S. was losing its competitive edge. It's taken 30 years, but his views are now getting a wide hearing.

In the late 1980s, the mop-headed Mr. Gomory was part of a chorus warning that the U.S. government should nurture high-tech industries. Although that alarm faded when the U.S. economy boomed in the late 1990s and Japan and Europe fell behind, Mr. Gomory, now 77 years old, persevered. After retiring from IBM in 1989, he became president of the Alfred P. Sloan Foundation, created by the former chief executive of General Motors, and from there he has poured \$100 million into work aimed at improving U.S. industry's competitiveness.

Trained as a mathematician at Princeton, Mr. Gomory has done research challenging the relevance of David Ricardo's 1817 theory of "comparative advantage" -- each country benefits by specializing in goods for which it has a particular edge and trading with each other -- in an era in which the global scale of industries is huge and technology rapidly crosses borders.

Mr. Gomory recruited economist William Baumol, who retired from Princeton in 1992 after 43 years and now teaches at New York University, to collaborate with

him, figuring that Mr. Baumol's reputation would assure the work would be taken seriously.

The pair produced computer models showing that an increase in trade between nations could lead to harm, and in 2000 they published a book, "Global Trade and Conflicting National Interests."

If one nation were to gobble up enough of the powerful industries of the other, the losses would be so widespread for the losing country that its national income would decline, they found. Producers in the losing nation would lay off workers, and consumers there wouldn't have as much income to pay for imports. Trade no longer would be a win-win proposition. "It's a fairly dismal message to carry around," Mr. Gomory says.

It has even drearier corollaries. Large corporations, freed by technology, no longer can be counted on to locate plants and research facilities at home. "What's new is that globalization makes it possible for companies that we think of as American to take their technology and capital and put it in almost any work force in any country," he says.

With U.S. companies outsourcing jobs to India and China, that message is catching on. Over the past two years, Messrs. Gomory and Baumol have become regulars at Washington, D.C., seminars. Mr. Gomory has been sought out by Democratic party policy wonks. "Ralph is provocative as hell," says Leo Hindery, a technology executive who invited Mr. Gomory to join a business group that advises Senate Democrats. "He's an Elmer Gantry kind of guy."

Mr. Gomory would reduce the corporate tax rate for companies that produce "high value-added" jobs in the U.S. -- the kinds of jobs that pay high salaries for high productivity work. The idea has been praised by Democratic Sen. Byron Dorgan of North Dakota, a free-trade skeptic.

But many trade specialists remain unconvinced. Messrs. Gomroy and Baumol "make a theoretical case for an industrial policy to move the U.S. to a more beneficial choices of industries," says Columbia University trade economist Jagdish Bhagwati, "but they haven't been able to calculate what those superior industries are."

Mr. Gomory says he is striving to realign corporate interests with national ones. As a director of **Lexmark International Inc.**, a Lexington, Ky., computer maker with plants in the U.S., Mexico and Asia, he says he voted to ship jobs overseas to cut costs. "The corporate interest isn't necessarily the country's interest," he says. "It's not incumbent on directors to consider the impact on the home country. I think that should be changed."

Harvard Rebel: Dani Rodrik



Dani Rodrik

From his perch at Harvard's Kennedy School of Government, Dani Rodrik has spent more than a decade making opposition to free trade respectable. His influential studies argue that free trade doesn't boost growth in poor nations and can undermine social safety nets in rich ones.

The 49-year-old, Turkish-born, American-educated economist's primary target is what he calls the "ideology" of free trade. That's the notion that the economic gains from trade are so vast that they benefit every nation, even if some sectors suffer. Sometimes countries are better off protecting growing industries and subsidizing their exports, he argues, as China, Japan and other Asian nations have done.

That position means picking fights with prominent scholars. Among them is Columbia University's Jeffrey Sachs, who designed economic reform programs in Latin America and Eastern Europe and who is now focusing on Africa. A 1995 study of 122 countries by Mr. Sachs and colleague Andrew Warner found that those that opened to trade grew much faster than those that shut borders. "I can see it with my own eyes, says Mr. Sachs, "there's a diffusion of knowledge and technology through global trade."

In 2000, Mr. Rodrik accused Mr. Sachs and similarly disposed economists of greatly overstating the benefits of free trade. Although much of the Sachs vs. Rodrik battle focuses on technical issues -- the criteria to classify a nation as "open," for instance -- the Rodrik critique has resonated in Latin America and Africa, where nations haven't grown much despite painful reforms backed by the West.

Mr. Rodrik's ["Has Globalization Gone Too Far?"](#)² -- published by the free-trade Peterson Institute for International Economics -- warned that economic integration could lead to "domestic social disintegration" in rich countries unless governments do a better job at protecting middle-class workers. The book led to a 1998 dinner invitation with President Clinton. Hillary Rodham Clinton's economic advisers have sought him out, too, though he has yet to participate.

Now Mr. Rodrik is focusing on offering advice to El Salvador, South Africa and other developing nations, and consulting with the World Bank on how to change its development strategies. A handful of countries, places like Cuba and Burma, are so isolated that they would grow rapidly by cutting trade barriers, he says. But other developing nations have already cut tariffs and need to look to different ways to spur growth. He recommends reviving industrial policies, such as those subsidizing domestic industries and protecting new exporting companies, which many nations have discarded because the programs were rife with corruption.

U.S. Trade Representative Robert Zoellick says he's been reading Mr. Rodrik's

work for a dozen years and agrees with him that the social safety net needs strengthening. But halting trade liberalization will backfire, he says, by bucking up protected monopolies in developing countries that oppose needed changes.

Any scholar's work can be misused, acknowledges Mr. Rodrik. "Just as there are protectionists that will use any argument to close off economies," he says, "there are entrenched businesses that will latch on to any intellectually responsible argument for free trade" to increase exports, even if poor countries suffer.

Write to Bob Davis at bob.davis@wsj.com³ and David Wessel at david.wessel@wsj.com⁴

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