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Economist Wants Business and Social Aims to Be in Sync

By LOUIS UCHITELLE

Dani Rodrik, a trade economist at the John F. Kennedy School of Government at Harvard, received his introduction to the idiosyncrasies of globalization while growing up in Turkey.

His father made ballpoint pens, protected by high tariffs from less expensive imports. The company was successful enough that his father could afford to send Dani to Harvard in 1975, the first in the family to study abroad. The younger Mr. Rodrik, a tall, thin, soft-spoken man, still credits Turkey's effort to support less-efficient domestic manufacturers for his good start in life.

"I am the creation of import substitution," he says, playfully aware of the incongruity of having benefited from an approach that flourished in the developing world a generation ago and is now widely disdained.

The experience helped Mr. Rodrik, who is 49, develop a flexible approach to trade. He has built a reputation among mainstream economists and policy makers for favoring eclectic solutions that mix government and the private sector in pragmatic ways.

"You scratch the surface of most industries that are successfully developing export capacity anywhere in the world," he said in an interview, "and you will invariably find a combination of market forces and government forces at play."

His specialty is the developing world and he tries, in his travels as an adviser, to help countries improve the mix. Now he is arguing for an improvement in the United States, his adopted home.

As a practical matter, he says, Washington must counteract the damage from America's trade policies more than it has in the past. It is a message that is resonating not just with populists in both parties, who have long been skeptical of the benefits of globalization, but increasingly with mainstream policy thinkers, many of them associated with former President Bill Clinton.

The focus, Mr. Rodrik and others argue, should not be simply on cutting tariffs and eliminating other barriers, but on offsetting the negative effect on wages and jobs from the spread of globalization and outsourcing.

"The consensus until recently was that trade was not a major cause of the earnings inequality in this country," said David H. Autor, an economist at the Massachusetts Institute of Technology. "That consensus is now being revisited."

He added that "not everybody agrees with Dani, but at this point there is agreement that outsourcing abroad, in particular, is potentially a source of real downward pressure on employment and wages."

Like most economists, Mr. Rodrik believes that unrestricted trade enriches the participating nations, helping more people than it hurts. But in his view, this is not the moment to lower trade barriers another

notch.

The movement across borders of goods, services, capital and production, he said, is “open enough as it is.” He would concentrate instead on building public awareness that social insurance and free trade are “two sides of the same coin,” a concept entrenched in Europe but not in the United States.

“The people who talk incessantly about trade and its importance,” Mr. Rodrik said, “do so without recognizing the importance of the social insurance agenda as part and parcel of that process.”

Unlike Mr. Rodrik, most mainstream economists favor pushing ahead with the currently stalled Doha round of negotiations, aimed at further reductions in trade barriers.

Still, many Democratic policy thinkers are beginning to embrace the Rodrik argument that trade and social programs must be intertwined. And they talk more about that lately than restarting the global trade talks.

“The best thing we can do for free trade is focus on strengthening domestic policies that strengthen social insurance,” said Jason Furman, director of the Hamilton Project, a research group founded by Robert E. Rubin, who served as Mr. Clinton’s Treasury secretary.

The goal of the Hamilton Project is to put together economic policies aimed at influencing the Democratic Party’s platform. When it comes to trade, Mr. Rubin and his followers want to push ahead with further trade openings, disagreeing with Mr. Rodrik on this point. But to soften the backlash they, too, propose a safety net that goes beyond the education and retraining that was Mr. Clinton’s principal response in the 1990s to the damage from trade.

“My argument is that we need to have a new social contract,” said Jacob Hacker, a political scientist at Yale who is working on a plan for health insurance modeled on Medicare and a program to provide subsidized 401(k) accounts. “This new social contract won’t be as extensive as those in Europe,” he added, “but it will move a lot of the responsibility for providing economic security off the backs of employers.”

Mr. Furman, for his part, singled out two priorities: a law that would maintain health insurance for laid-off workers and another that would provide wage insurance for American workers, paid out when a worker loses a job and finds another but at lower pay. The wage insurance would make up some of the lost pay during the first two years in the new job.

“People are more likely to support free trade,” Mr. Furman said, “if it does not have the intense personal downside that it so often has today.”

For all the similarities between Mr. Rodrik’s thinking and that of the middle-of-the-road economists associated with the Hamilton Project, there are some important differences, too. Among them is Mr. Rodrik’s matter-of-fact insistence that in the rest of the world, trade goes forward because government plays a decisive role in promoting it.

Mr. Autor counters that Mr. Rodrik puts too much trust in policy makers. “Government does not have special information that allows it to pick winners and losers,” Mr. Autor insisted. “So unless there is a specific market failure that requires public intervention, we economists do not presume that government does a better job than the icy fingers of the invisible hand.”

N. Gregory Mankiw, a Harvard economist and a former chairman of President Bush’s Council of Economic

Advisers, puts the mainstream case in the language of David Ricardo, the 19th-century British economist whose initial description of the doctrine known as “comparative advantage” still holds sway today.

“We in the United States,” Mr. Mankiw said, “have a comparative advantage in higher education, financial services, aircraft manufacturing and a variety of forms of intellectual property such as movies and software. Putting our resources into these rather than into areas where we don’t have a comparative advantage, such as textiles, allows us to increase the total income of Americans more than if trade were restricted.”

Mr. Rodrik sympathizes with this view, but he nevertheless says that in the developing world, almost no one practices hands-off economics. Government, he argues, often plays a role in creating a comparative advantage where one did not exist before. He made this point at the annual meeting of the American Economic Association in Chicago this month.

While several hundred people filled a large hotel conference room to hear a panel of economists discuss abstract trade issues, Mr. Rodrik, holding forth in a smaller meeting room two floors below, explained China’s success in concrete terms. Most of the 30 people in his audience were Asian economists studying in the United States or working here.

The Chinese government operated on several levels as that nation grew into an export powerhouse, Mr. Rodrik said. It nurtured the manufacture of electronic products and auto parts. It forced foreign investors into joint ventures with domestic producers. Beijing lowered trade barriers, he said, “only after it developed a relatively sophisticated manufacturing capacity.”

Absent an activist policy to protect China’s nascent industries, it would not have emerged as an export power, Mr. Rodrik said. “The traditional forces of comparative advantage,” he said, “would have pushed China to specialize only in the labor-intensive products ‘appropriate’ to low-income economies.”

Mr. Rodrik, who maintains his Turkish citizenship and is married to a Turkish woman who also teaches at Harvard, is descended from a family of Sephardic Jews who migrated to Turkey from Spain five centuries ago. During his senior year at a private high school in Istanbul, he applied to Harvard, mostly for the adventure of it, and was accepted.

“Like most Turks of my generation I thought I would end up doing engineering,” he said. But at Harvard, “a new world opened for me and I started to understand that the problems of underdevelopment were not technical problems in the sense of a lack of engineers or a lack of doctors. It was a problem of social organization.”

As an undergraduate, he majored in political science but, prodded in part by his father, he eventually entered the Ph.D. program in economics at Princeton. He taught for four years at Columbia before shifting to the Kennedy School in 1996, where he became expert at helping developing countries organize export industries.

“Costa Rica is not a natural place to manufacture semiconductors,” Mr. Rodrik said, citing just one example, but the government “got Intel to come in and do just that.”

Over the last year, his travels have taken him to South Africa, Portugal, China, the Philippines. In Portugal, the people he advises are trying to decide whether to invest heavily in vast retirement complexes for elderly Germans, French and British, or whether to make a “huge leap” into high-tech industries.

Mr. Rodrik encouraged the Portuguese to go down both paths. “You take into account that there is a lot of uncertainty about what will eventually be successful,” he said, “so you try to spawn experimentation in different kinds of economic activities.”

That, too, fits with his own experience in Istanbul, where the family business initially faltered as the spread of free trade reached Turkey. But an older brother, now running the business, shifted to selling imported pens. The transition away from tariff-protected manufacturing was not easy, he says, but his brother, too, was finally successful.

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