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JOB PROSPECTS

Pain From Free Trade Spurs Second Thoughts

Mr. Blinder's Shift Spotlights Warnings Of Deeper Downside

By DAVID WESSEL and BOB DAVIS
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For decades, Alan S. Blinder -- Princeton University economist, former Federal Reserve Board vice chairman and perennial adviser to Democratic presidential candidates -- argued, along with most economists, that free trade enriches the U.S. and its trading partners, despite the harm it does to some workers. "Like 99% of economists since the days of Adam Smith, I am a free trader down to my toes," he wrote back in 2001.

Politicians heeded this advice and, with occasional dissents, steadily dismantled barriers to trade. Yet today Mr. Blinder has changed his message -- helping lead a growing band of economists and policy makers who say the downsides of trade in today's economy are deeper than they once realized.

Mr. Blinder, whose trenchant writing style and phrase-making add to his influence, remains an implacable opponent of tariffs and trade barriers. But now he is saying loudly that a new industrial revolution -- communication technology that allows services to be delivered electronically from afar -- will put as many as 40 million American jobs at risk of being shipped out of the country in the next decade or two. That's more than double the total of workers employed in manufacturing today. The job insecurity those workers face today is "only the tip of a very big iceberg," Mr. Blinder says.

The critique comes as public skepticism about allowing an unfettered flow of goods, services, people and money across borders is intensifying, including some Republicans as well as many Democrats. (See related article.) The rethinking is helping free-trade foes, underscoring the urgency of helping those battered by globalization and clouding the outcome of a hot debate: Should government encourage forces of globalization or try to restrain them?

Some trade critics are bothered by the disappointing performance of Latin America since it slashed tariffs in the 1980s and 1990s while more protectionist China and Southeast Asia sped ahead. Others are struck by the widening gap between economic winners and losers around the globe. The rethinking on trade issues is the most significant since the early 1990s when many in the U.S. worried that Japan would overtake the U.S., a fear that has since abated.

THE GLOBALIZATION CONUNDRUM

Huge changes in the global economy are challenging long-held beliefs about free trade. See related data on jobs at risk, offshoring's impact and more.
QUESTION OF THE DAY

• What's the net effect of free trade on U.S. employment?

Some critics are going public with reservations they've long harbored quietly. Nobel laureate Paul Samuelson, whose textbook taught generations, damns "economists' over-simple complacencies about globalization" and says rich-country workers aren't always winners from trade. He made that point in a 2004 essay that stunned colleagues. Lawrence Summers, a cheerleader for trade expansion as Clinton Treasury secretary, says people who argue globalization is inevitable and retraining is enough to help displaced workers offer "pretty thin gruel" to the anxious global middle class.

Others are finding the debate moving closer to positions they've had for years. Ralph Gomory, International Business Machines Corp.'s former chief scientist who now heads the Alfred P. Sloan Foundation, says that changing technology and the rise of China and India could make the U.S. an also-ran if it loses many of its important industries. Harvard economist Dani Rodrik says global trade negotiations should focus on erecting new barriers against globalization, not lowering them, to help poor nations build domestic industries and give rich nations more time to retrain workers.

Mr. Blinder's job-loss estimates in particular are electrifying Democratic candidates searching for ways to address angst about trade. "Alan, because of his stature, provided a degree of legitimacy to what many of us had come to feel anecdotally -- that the anxiety over outsourcing and offshoring was a far larger phenomenon than traditional economic analysis was showing," says Gene Sperling, an adviser to President Clinton and, now, to Hillary Clinton. Her rival, Barack Obama, spent an hour with Mr. Blinder earlier in this year.

'WE NEED TO THINK LONG AND HARD'

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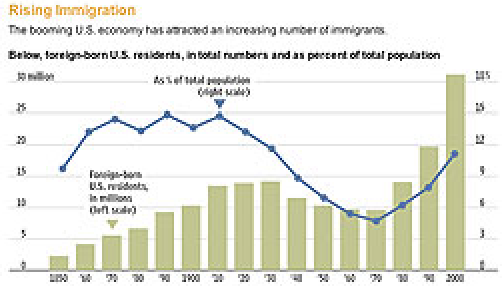

Alan S. Blinder still considers himself a free trader but now warns loudly that the downsides of trade are deeper and longer-lived than most free traders say. **Read excerpts of his writings** and speeches over the past 20 years.

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GOMORY AND RODRIK: SKEPTICS

For years, Ralph Gomory and Dani Rodrik were on the outs with the economic establishment because they argued that free traders greatly underestimated the costs of trade liberalization. Now their views are attracting greater interest. **Take a look** at their iconoclastic views on trade.

Mr. Blinder's answer is not protectionism, a word he utters with the contempt that Cold Warriors reserved for communism. Rather, Mr. Blinder still believes the principle British economist David Ricardo introduced 200 years ago: Nations prosper by focusing on things they do best -- their "comparative advantage" -- and trading with other nations with different strengths. He accepts the economic logic that U.S. trade with large low-wage countries like India and China will make all of them richer -- eventually. He acknowledges that trade can create jobs in the U.S. and bolster productivity growth.

But he says the harm done when some lose jobs and others get them will be far more painful and disruptive than trade advocates acknowledge. He wants government to do far more for displaced workers than the few months of retraining it offers today. He thinks the U.S. education system must be revamped so it prepares workers for jobs that can't easily go overseas, and is contemplating changes to the tax code that would reward companies that produce jobs that stay in the U.S.

His critique puts Mr. Blinder in a minority among economists, most of whom emphasize the enormous gains from trade. "He's dead wrong," says Columbia University economist Jagdish Bhagwati, who will debate Mr. Blinder at Harvard in May over his assertions about the magnitude of job losses from trade. Mr. Bhagwati says that in highly skilled fields such as medicine, law and accounting, "If we do a real balance sheet, I have no doubt we're creating far more jobs than we're losing."

Mr. Blinder says that misses his point. The original Industrial Revolution, the move from farm to factory, unquestionably boosted living standards, but triggered an enormous change in "how and where people lived, how they educated their children, the organization of businesses, the form and practices of governments." He says today's trickle of jobs overseas, where they are tethered to the U.S. by fiber-optic cables, is the beginning of a change of similar dimensions, and American society needs similarly far-reaching changes to cope. "I'm trying to convince a bunch of economists who are deeply skeptical and hard to convince," he says.

Mr. Blinder, 61 years old, a Princeton college graduate with a Ph.D. from Massachusetts Institute of Technology, has been on the Princeton faculty since 1971. He is known for his work on macroeconomics and a liberal bent captured by the title of a 1987 book, "Hard Heads, Soft Hearts: Tough-Minded Economics for a Just Society." When he talked about trade in the past, Mr. Blinder emphasized its great benefits. His undergraduate economics textbook, first published in 1979, says "the facts are not consistent" with the popular notion that "cheap foreign labor steals jobs from Americans and puts pressure on U.S. businesses to lower wages."

When Mr. Blinder went to Washington in 1993 to join President Clinton's Council of Economic Advisers, he became even more convinced of the benefits of free trade. He saw steel, aluminum and farming lobbyists fight for export subsidies or protection from imports, and then passing the costs to consumers. "I came out a much more radical free trader than I went in," he says.

As a Clinton aide, he helped sell the North American Free Trade Agreement with Mexico and Canada, although he says he disagreed with the administration pitch that it would create jobs in U.S. Economic theory teaches that trade changes the types of jobs in an economy, not the overall number. But he bowed to Mr. Clinton's political savvy. "If he had left the salesmanship to me, Nafta would have failed," he says.

Mr. Blinder left the White House after 18 months for the Fed in 1994, and immediately was mentioned as a possible successor to Alan Greenspan. He left in 1996 and returned to Princeton, where he still teaches introductory economics. Six years ago, he cashed in on his prominence by joining former Clinton banking regulator Eugene Ludwig in a firm that advises troubled banks and another that deciphers the Fed and other central bankers for a hefty price.

Most Vulnerable

Selected occupations ranked by Princeton economist Alan Blinder as "highly offshorable":

Occupation	Number of U.S. workers
Computer programmers	389,090
Data entry keyers	296,700
Actuaries	15,770
Film and video editors	15,200
Mathematicians	2,930
Medical transcriptionists	90,380
Interpreters and translators	21,930
Economists	12,470
Graphic designers	178,530
Bookkeeping, accounting and auditing clerks	1,815,340
Microbiologists	15,250
Financial analysts	180,910

At Princeton, he began to reassess some of his views on trade. Visiting the yearly business gabfest in Davos, Switzerland, in January 2004, he heard executives talk excitedly about moving jobs overseas that not long ago seemed anchored in the U.S.

Alan S. Blinder in Philadelphia

He was silent when his former Princeton student, N. Gregory Mankiw, then chairman of President Bush's Council of Economic Advisers, unleashed a political firestorm by reciting standard theory but appearing indifferent to pain caused to those whose jobs go overseas. "Does it matter from an economic standpoint whether items produced abroad come on planes and ships or over fiber optic cables?" Mr. Mankiw said at a February 2004 briefing. "Well, no, the economics is basically the same....More things are tradable than...in the past, and that's a good thing."

Mr. Blinder says he agreed with Mr. Mankiw's point that the economics of trade are the same however imports are delivered. But he'd begun to wonder if the technology that allowed English-speaking workers in India to do the jobs of American workers at lower wages was "a good thing" for many Americans. At a Princeton dinner, a Wall Street executive told Mr. Blinder how pleased her company was with the securities analysts it had hired in India. From New York Times' columnist Thomas Friedman's 2005 book, "The World is Flat," he found anecdotes about competition to U.S. workers "in walks of life I didn't know about."

Mr. Blinder began to muse about this in public. At a Council on Foreign Relations forum in January 2005 he called "offshoring," or the exporting of U.S. jobs, "the big issue for the next generation of Americans." Eight months later on Capitol Hill, he warned that "tens of millions of *additional* American workers will start to experience an element of job insecurity that has heretofore been reserved for manufacturing workers."

At the urging of former Clinton Treasury Secretary Robert Rubin, Mr. Blinder wrote an essay, "Offshoring: The Next Industrial Revolution?" published last year in Foreign Affairs. "The old assumption that if you cannot put it in a box, you cannot trade it is hopelessly obsolete," he wrote. "The cheap and easy flow of information around the globe...will require vast and unsettling adjustments in the way Americans and residents of other developed countries work, live and educate their children." (Read that full article.)

THE OTHER SIDE

Criticisms of Blinder's trade theories include:
• N.Gregory Mankiw, former chairman of the Bush Council of Economic Advisers, and Phillip L. Swagel, currently assistant Treasury secretary for economic policy, "The Politics and Economics of Offshore Outsourcing," 2005
• McKinsey Global Institute, "U.S. Offshoring: Rethinking the Response," 2005
• Jagdish Baghwati et. al, "The Muddles Over Outsourcing," 2004

In that paper, he made a "guesstimate" that between 42 million and 56 million jobs were "potentially offshorable." Since then he has been refining those estimates, by painstakingly ranking 817 occupations, as described by the Bureau of Labor Statistics, to identify how likely each is to go overseas. From that, he derives his latest estimate that between 30 million and 40 million jobs are vulnerable.

He says the most important divide is not, as commonly argued, between jobs that require a lot of education and those that don't. It's not simply that skilled jobs stay in the US and lesser-skilled jobs go to India or China. The important distinction is between services that must be done in the U.S. and those that can -- or will someday -- be delivered electronically with little degradation in quality. The more personal work of divorce lawyers isn't likely to go overseas, for instance, while some of the work of tax lawyers could be. Civil engineers, who have to be on site, could be in great demand in the U.S.; computer engineers might not be.

Mr. Blinder's warnings, and his numbers, are now firmly planted in the political debate over trade, and sometimes invoked by those whose views are distinctly more protectionist than Mr. Blinder. Richard Trumka, for instance, secretary-treasurer of the AFL-CIO, cited them in an indictment of "free market fundamentalism" and a call for "more balanced trade policies that protect the rights of workers."

Diana Farrell, head of the McKinsey Global Institute, a pro-globalization think-tank arm of the consulting firm that has done its own analysis of vulnerable jobs, calls Mr. Blinder "an alarmist" and frets about the impact he is having on politicians, particularly the Democrats who see resistance to free trade as a political winner. She insists many jobs that could go overseas won't actually go.

Ms. Farrell says Mr. Blinder's work doesn't take into account the realities of business which make exporting of some jobs impractical or which create offsetting gains elsewhere in the U.S. economy. He counters he is looking further into the future than McKinsey -- 10 or 20 years instead of five -- and expects more technological change than the consultants do "even without the Buck Rogers stuff."

Mr. Blinder says there's an urgent need to retool America's education system so it trains young people for jobs likely to remain in the U.S. Just telling them to go to college to compete in the global economy is insufficient. A college diploma, he warns, "may lose its exalted 'silver bullet' status." It isn't how many years one spends in school that will matter, he says, it's choosing to learn the skills for jobs that cannot easily be delivered electronically from afar.

Similarly, he says any changes to the tax code should encourage employers to create jobs that are harder to perform overseas. While Mr. Gomory, the former IBM chief scientist, suggests tax breaks for companies that create "high value-added jobs," Mr. Blinder says the focus should be on jobs with person-to-person contact, regardless of pay and skill levels -- from child day-care providers to physicians.

Mostly he wants to shock politicians, policy makers and other economists into realizing how big a change is coming and what new sectors it will reach. "This is something factory workers have understood for a generation," he says. "It's now coming down on the heads of highly educated, politically vocal people, and they're not going to take it."

Corrections & Amplifications

ALAN BLINDER'S ESSAY entitled "Offshoring: The Next Industrial Revolution?" was published last year in Foreign Affairs. An earlier version of this article incorrectly said it had been published in Foreign Policy. The above article has been corrected.