



James Meade Memorial Lecture

Globalisation and Welfare

Professor Paul Krugman

Princeton University

Professor John Van Reenen

LSE, Chair

Globalization and welfare

Paul Krugman

Three chastenings on globalization:

1. Trade and growth: is liberalization really the key to development?
2. Trade and distribution in advanced countries: can we really brush off the concerns?
3. Trade and distribution in the third world: does liberalizing also raise inequality in the south?

Meade: free trade is optimal because it gets the marginal conditions right

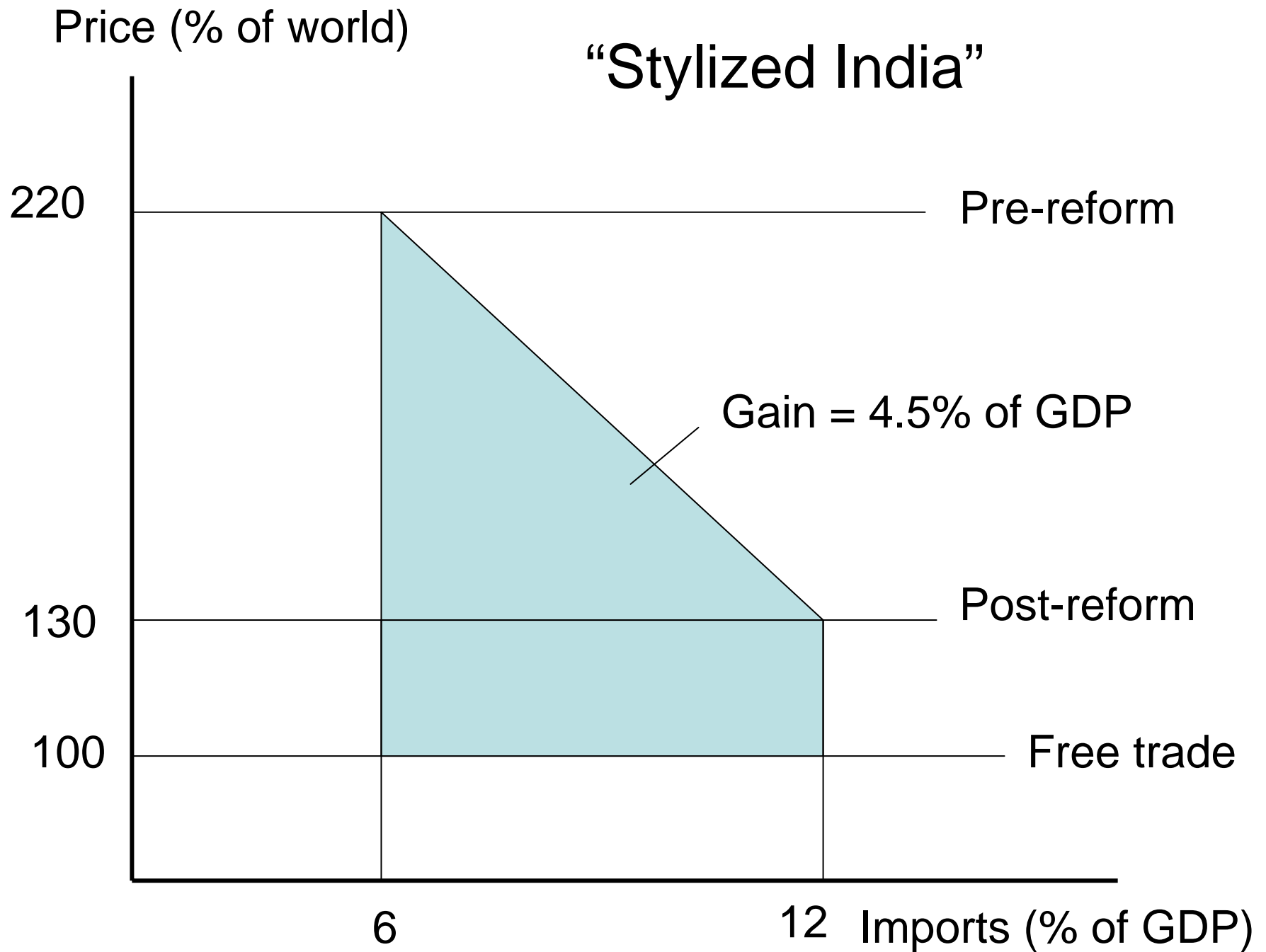
Protectionism does harm because it causes deviation from marginal conditions

But how important are these costs in practice?

Not as big as many people think ...

Consider a semi-realistic case – “stylized India”

“Stylized India”



But what we actually see in India:

Pre-reform: “Hindu rate of growth”, circa 3.6%

Post-reform: 5-6% per year, for more than 20 years

So, is trade liberalization much more important than Meade-marginal analysis suggests?

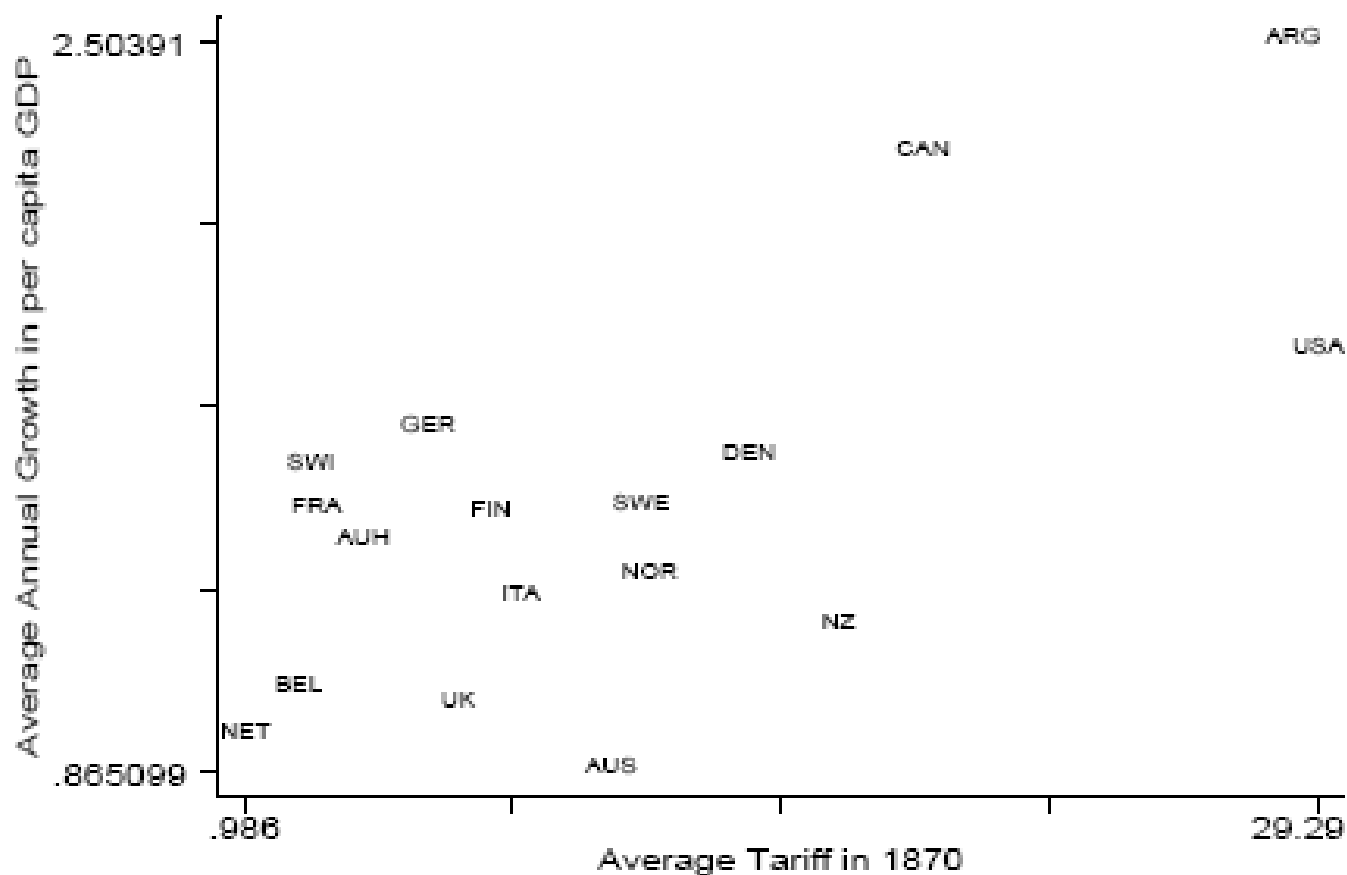
“Washington consensus” said yes – but this was based on a questionable reading of history, not a well-grounded model

Income per capita as % of US

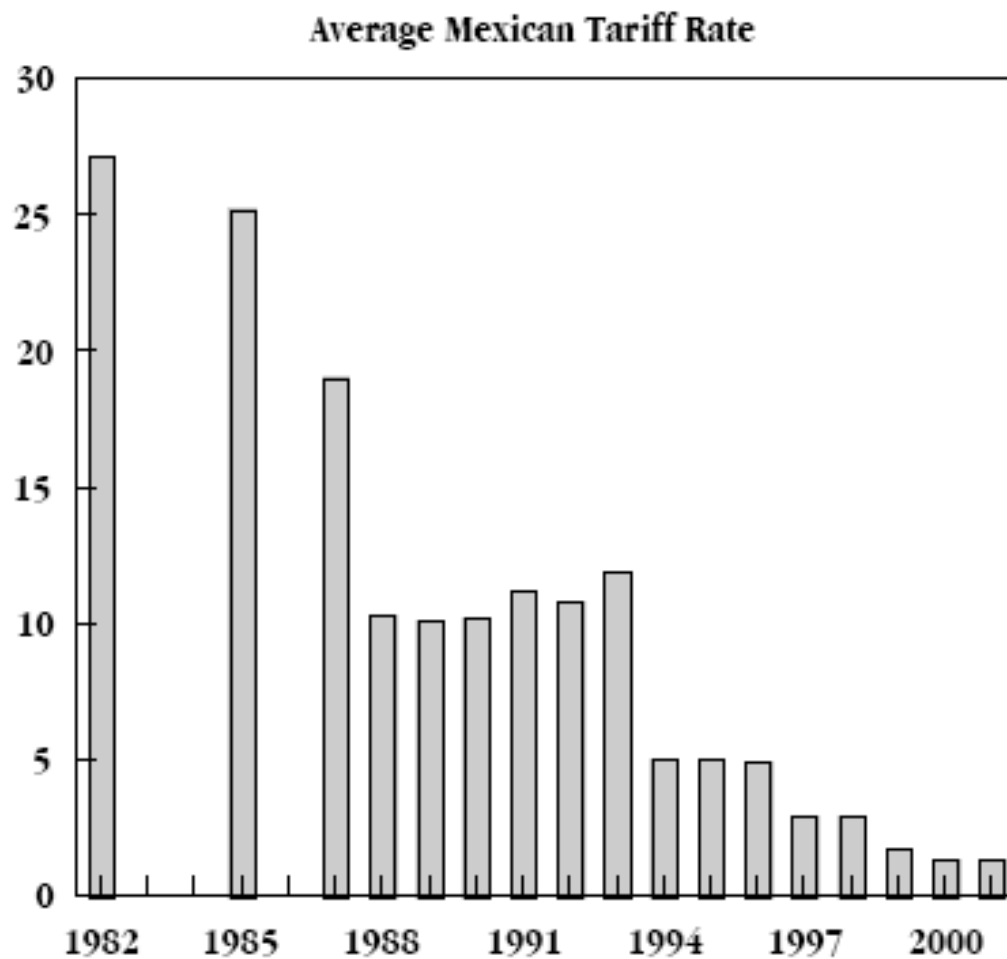
	Latin America	East Asia	East Asia - China
1950	26.3	5.7	9.7
2001	20.8	15.1	21.5

But import-substituting industrialization also had evidence ...

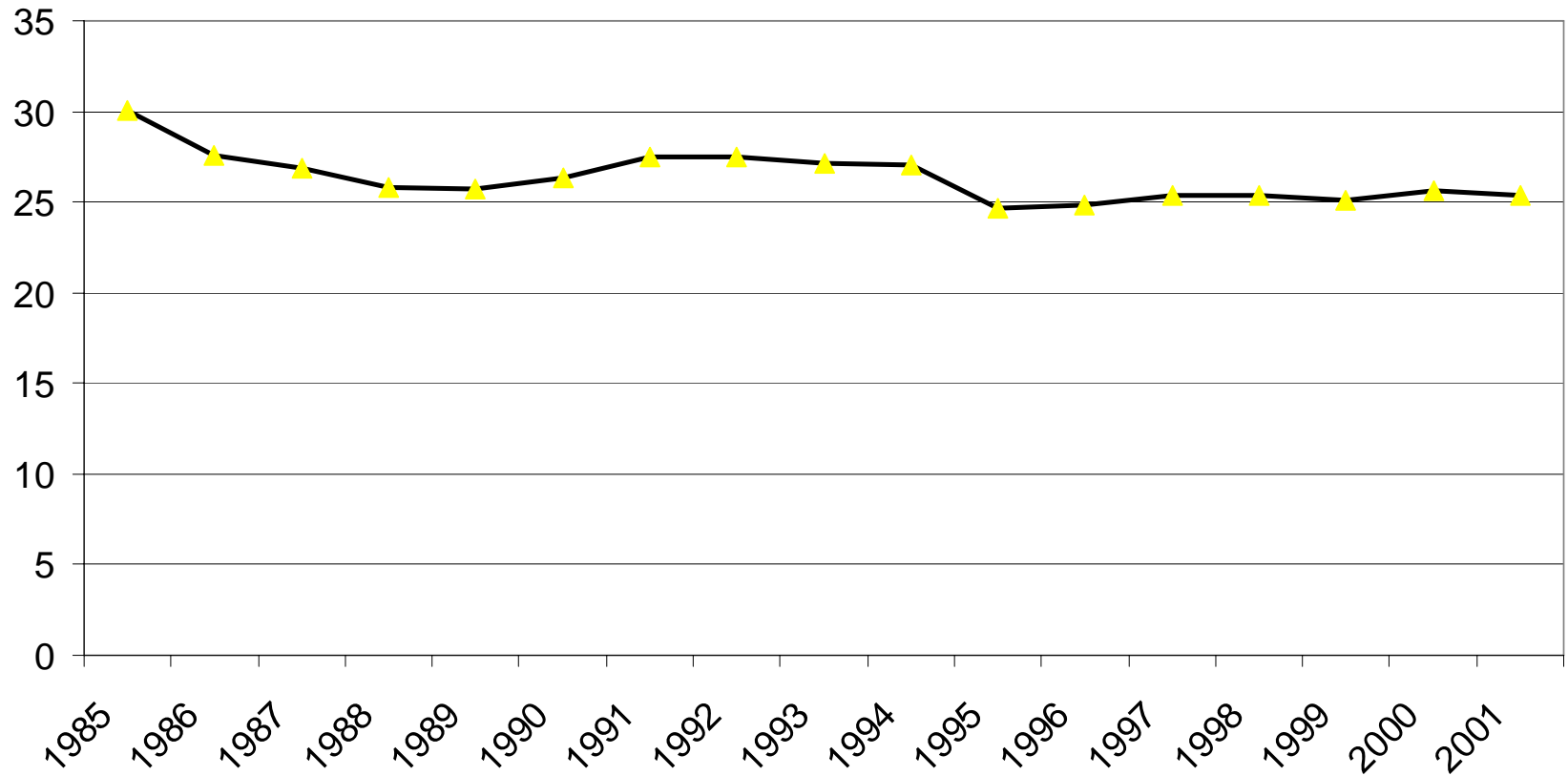
Figure 1: Tariffs and Growth, 1870-1913: Core Countries



.. and openness hasn't delivered in some important cases



Mexican GDP as % of US



Meade: trade can make large groups worse off

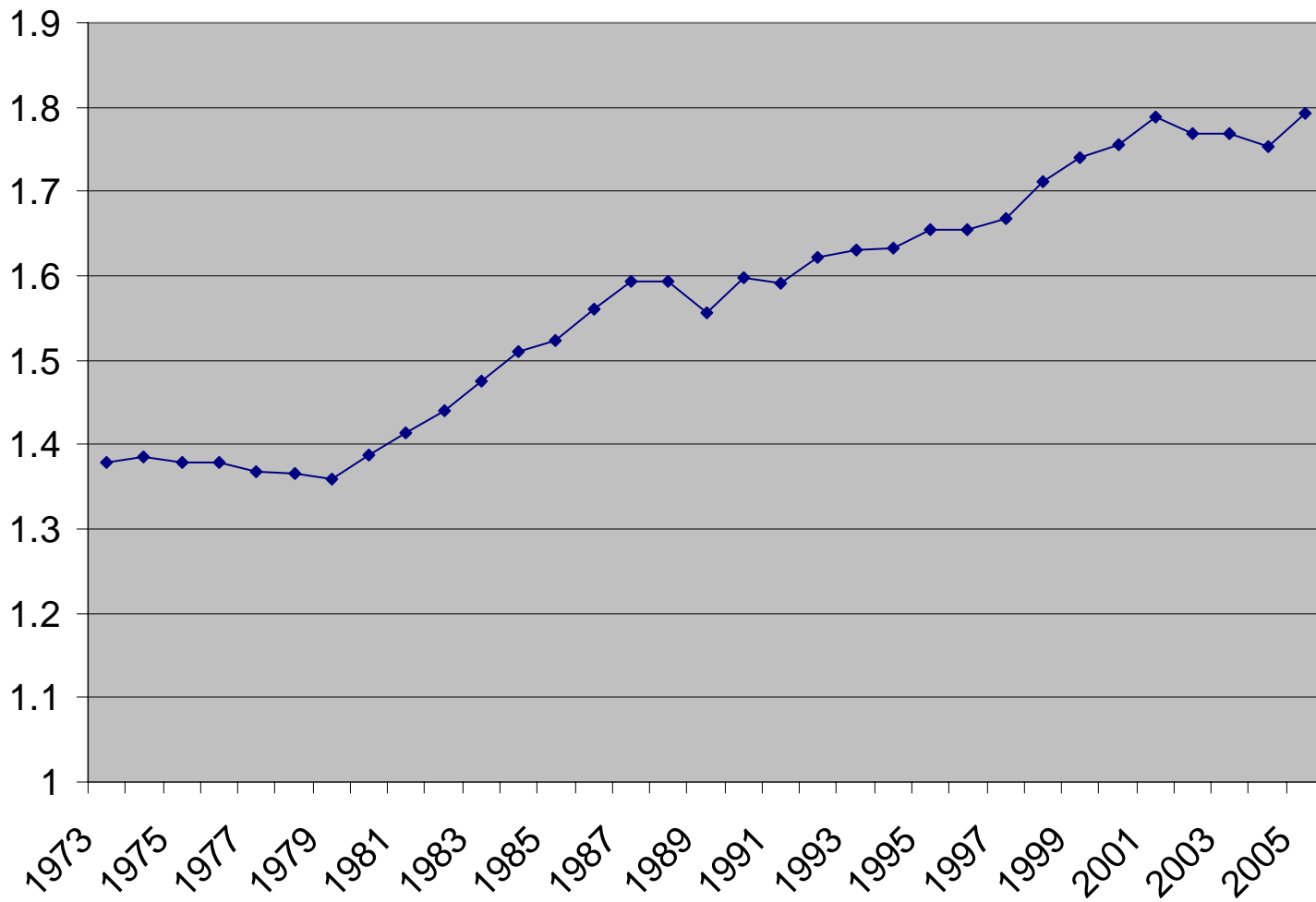
p. 303: changes in marginal products after 10% rise in price of blankets

	In terms of apples	In terms of blankets
Labor	+15	+5
Land	-3	-13

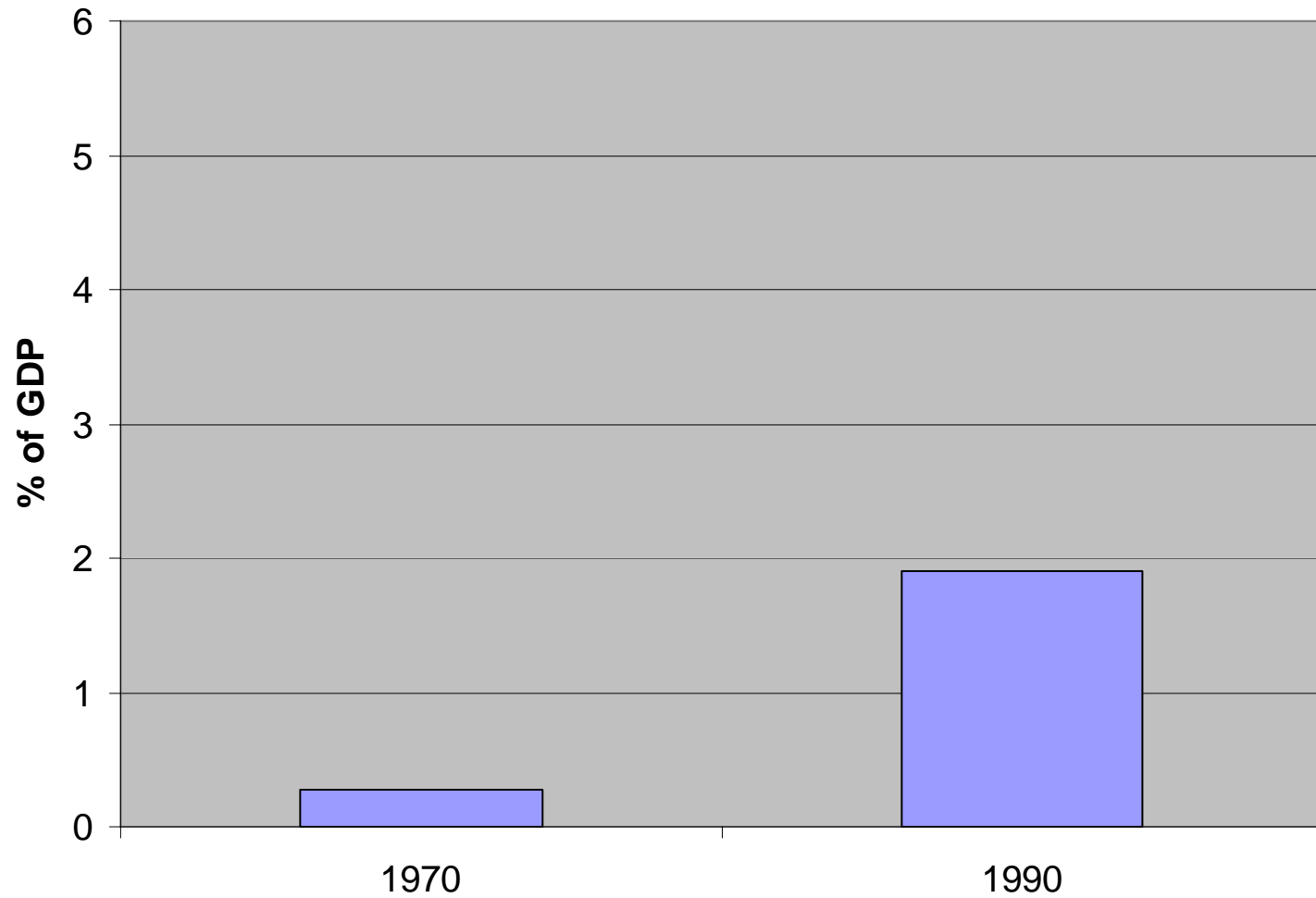
Annual earnings of men 35-44, \$2005

	1973	2005
Median	45,785	40,964
Mean	49,705	54,525

College-high school wage ratio



Imports of manufactures from NIEs



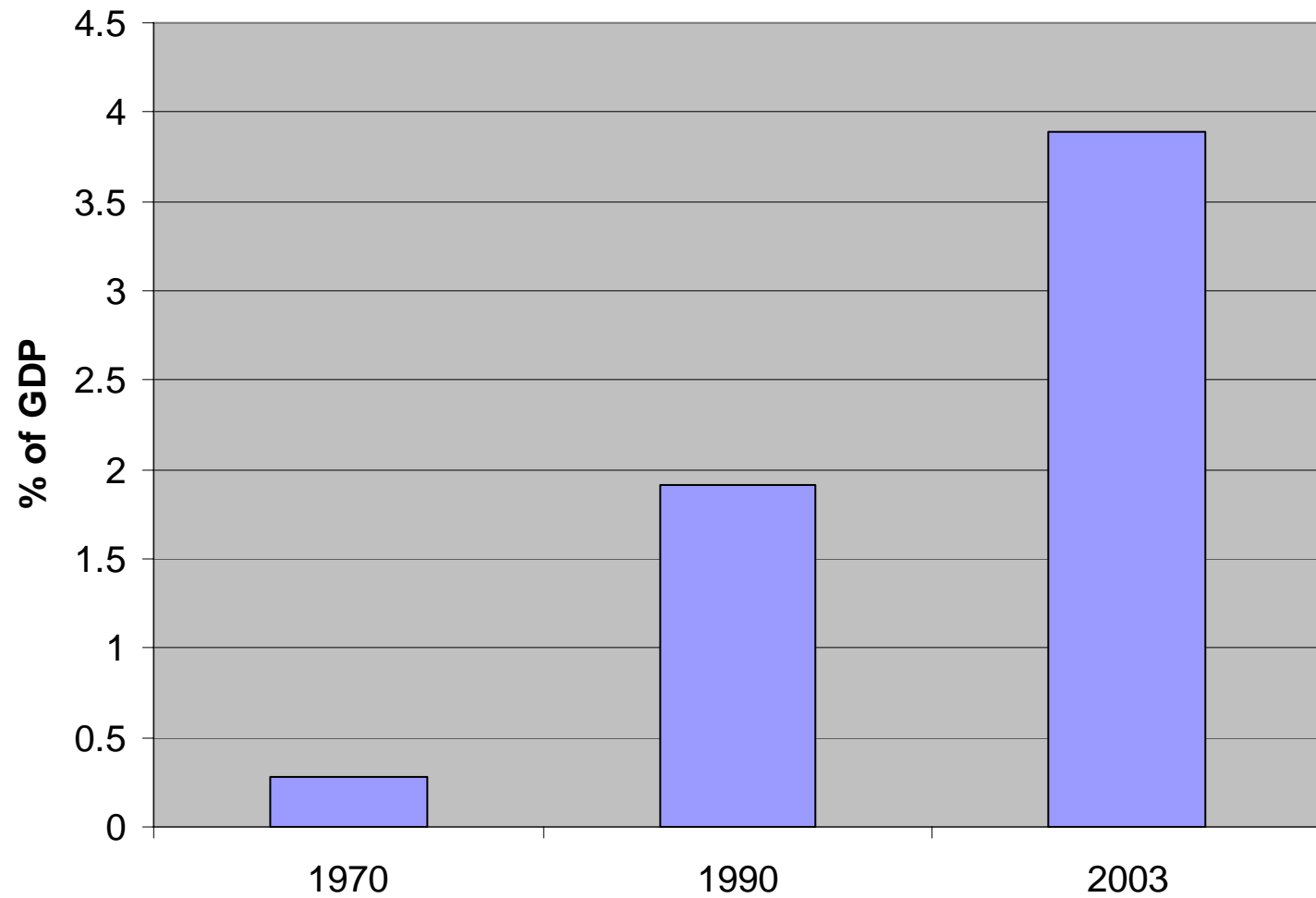
Estimates of the effect of trade on skill premium:

Borjas, Katz, Freeman (1988): small

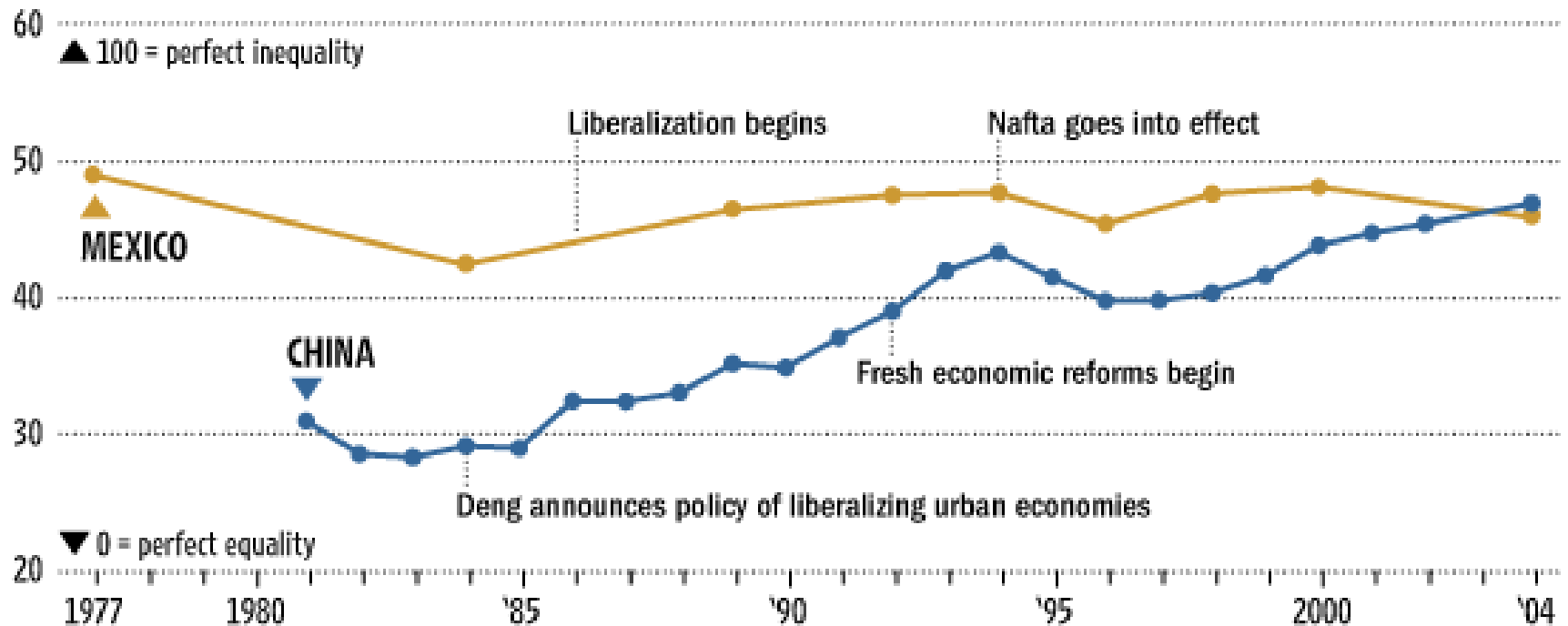
Krugman (1990): 3%

Cline (1993): 6%

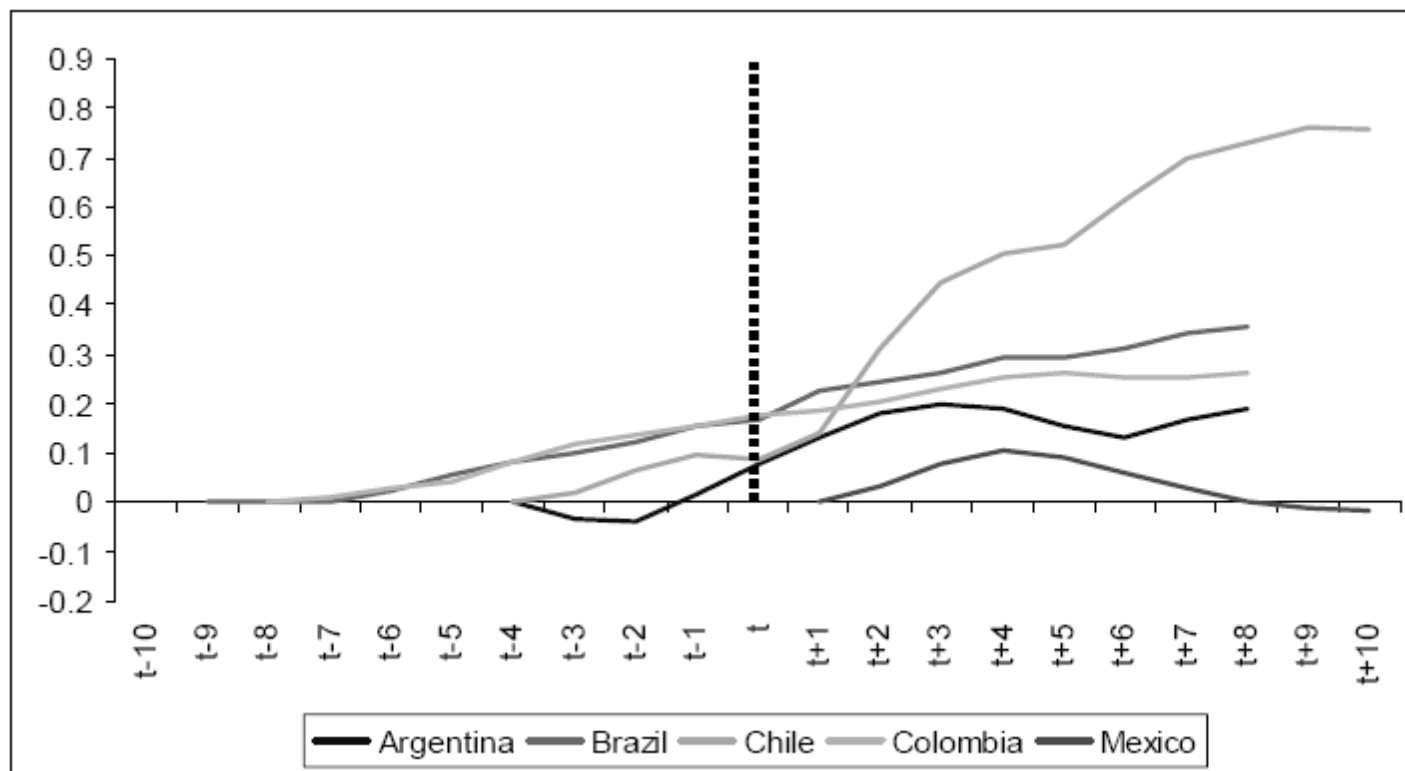
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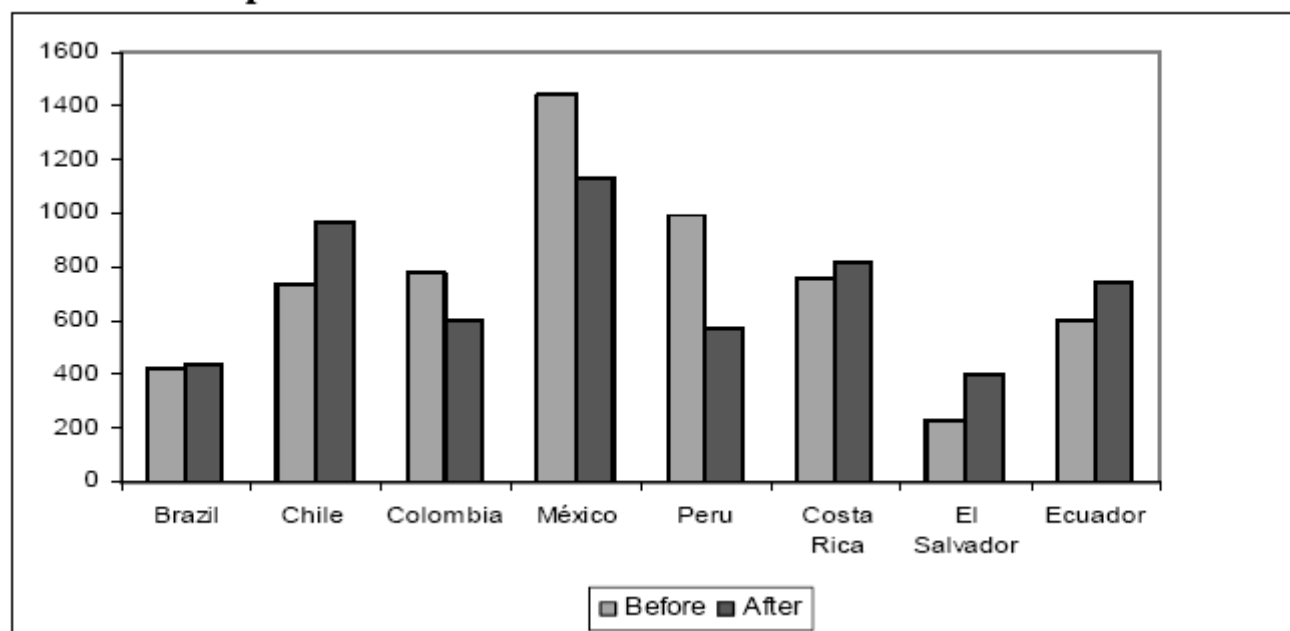
What the Wall Street Journal (!) noticed



Skill premium before and after liberalization



Income of the poor before and after trade reform



What can we do?

First, don't oversell trade liberalization

Second, don't wave off concerns

Third, offer compensation

Things that won't work:

- Labor standards
- Adjustment assistance

Things that might work:

- Tax/social insurance deals
- EITC



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