

IV. GLOBALIZATION AND THE KNOWLEDGE ECONOMY

Textbook international trade theory teaches that it does not matter what the U.S. (or any country) specializes in—trade brings benefits to all participants. If, for example, the U.S. finds that it no longer has a comparative advantage in knowledge-intensive industries that it once had, then, workers within that industry and those with similar skill characteristics, will face wage and employment losses, but consumers throughout the economy should benefit from lower prices in these sectors. As a recent *Business Week* article describing the outsourcing trends in knowledge-intensive service jobs puts it: “Globalization should also keep services prices in check, just as it did with clothes, appliances, and home tools when manufacturing went offshore.”

However, the benefits of these price declines will accrue only to those who are large consumers of the industries where outsourcing is taking place. If much of the new wave of service trade is concentrated in business services (which seems to be case, judging from the preliminary evidence), then corporations and their share-holders will reap the largest benefits. This is a very small group. There has been much talk recently in the business press and by political commentators about the new “share-holder class,” that is, a huge increase in the number of Americans who own stock, and who, by implication, see their economic prospects rise and fall with those of corporations. The talk notwithstanding, it remains as true as ever that significant gains enjoyed from high stock prices accrue to a very small group of Americans.

When the employment impact of trade was felt predominantly by blue-collar workers, economists who supported trade liberalization generally recommended education and training as a policy to help buffer workers from the negative impacts of trade. Given recent trends in the manufacturing sector and the anecdotal evidence in service trade, it seems that this may no longer hold. Policy makers should be thinking long and hard about more ambitious options to shield workers from the increased insecurity wrought by globalization.

Such considerations may well lie behind the current unease about knowledge-intensive service trade felt by many economists associated with strong support of globalization. Robert Z. Lawrence, a Harvard professor who has written extensively on the virtues of international trade agreements and who was chairman of the Council of Economic Advisors during the Clinton administration, has said, “If foreign countries specialize in high-skilled areas where we have an advantage, we could be worse off; I still have faith that globalization will make us better off, but it’s no more than faith.”