

Paul Krugman, however, makes a case that competitiveness is almost always a bad guide to international economic policy, more often a cover for subsidy or protection of some industry. This is also the experience and judgment of this reviewer; for years, my standard lecture to business groups has been on "Competitiveness vs. Productivity."

This book includes 13 articles written by Krugman for various audiences, all but one of which were previously published. The one exception is a generally favorable review Krugman had prepared on *Who's Bashing Whom?*² by Laura Tyson. The editor of the *New York Review of Books* rejected the review on the basis that "you're criticizing some very prestigious people." (So much for open political debate on the left.)

As with any collection of articles, this set is somewhat redundant, but there are four primary themes: (1) competitiveness is a mindless and dangerous obsession; (2) the decline in manufacturing employment and the real wages of production workers is primarily a consequence of domestic conditions, not increased international trade; (3) NAFTA will have minimal economic effects; and (4) the high growth rates of the "Asian tigers" is primarily due to a rapid increase in inputs and cannot be sustained.

In treating the competitiveness theme, Krugman directs special criticism at his MIT colleague Lester Thurow, whose book, *Head to Head: The Coming Battle Among Japan, Europe, and America*, conveys the false perception that international trade is a zero-sum game. Authors of several other books with a similar geostrategic theme include Jeffrey Garten, Ira Magaziner, and Robert Reich, each of whom was appointed to a senior position in the Clinton administration. Krugman takes these and other authors to task for both confused theory and careless arithmetic.

With regard to the second theme, one should note that the decline in manufacturing employment is a result of relatively *high* productivity growth in manufacturing, both in the United States and other countries. The decline in agricultural employment, of course, has been a consequence of the same condition.

The slow growth in average real wages, in contrast, is primarily due to a *slow* growth of average productivity (plus the increase in nonwage compensation). There remains a serious debate among economists about whether increased international trade has contributed to the decline in real wages (or the increased unemployment) of low-skilled workers in the high-wage countries, because increased trade is expected to lead to an equalization of factor prices. The case for a trade explanation, interestingly, is usually made by labor economists and the opposing case by trade economists. This debate is not yet settled, but the best evidence against the trade explanation is that the relative employment of low-skilled labor appears to have declined in both the sectors most affected by trade and those least affected. It is less clear what has caused the increased variance of wages, and Krugman and other trade economists may be too quick to attribute this condition to changes in technology.

Regarding NAFTA, one can argue that it is probably worthwhile, but both the advocates and critics of NAFTA overstated their case. Krugman makes an effective case that NAFTA will have no effect on the number of jobs, will have only a small positive effect on average real income and a small negative effect on the real wages of low-skilled U.S. workers, will not hurt and may help the environment and, for the United States, is primarily a foreign policy issue. With wisdom beyond his years, Krugman is both a general skeptic of regional trade agreements and a supporter of NAFTA.

"The Myth of Asia's Miracle" may be the most interesting and important article in this volume. Krugman summarizes the evidence that most growth of output in the Asian tigers has been due to a rapid increase in labor force participation, increased education, and a high saving rate, rather than to a high rate of productivity growth. This was also characteristic of the Soviet Union during its period of rapid growth. "If there is a secret to Asian growth," Krugman concludes, "it is simply deferred gratification, the willingness to sacrifice current satisfaction for future gain."

For too long, there seemed to be a negative relation between an economist's writing ability and the quality of his analysis. Galbraith, Heilbroner, and Thurow, for example, are more widely read than most Nobel laureates. Krugman is one of the few exceptions to this pattern, a creative writer and a brilliant analyst. He is not always right (see my review of his *Peddling Prosperity* in the *Cato Journal*, Vol. 14, No. 2), and he can be as arrogant when he is wrong as when he is right. The only hesitant note in this book is a concern that other people may have taken Krugman's own exposition of strategic trade theory too seriously. For the issues addressed in this book, however, Krugman is right where all too many others, including some economists, are wrong.

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