

Does Third World Growth Hurt First World Prosperity?

- [Paul Krugman](#)

Only a short while ago, our most influential business writers were warning that the biggest threat to U.S. prosperity was competition from other developed countries. One need only look at the subtitle of Lester Thurow's 1992 best-seller, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*. But in the last year or so, our supposed economic adversaries have begun to appear a lot less invincible: both the Japanese and the German economies are stuck in intractable recessions, their exports hammered by overvalued currencies and their vaunted labor-market institutions fraying under the impact of economic adversity. In comparison, the U.S. economy, while hardly a picture of glowing prosperity, looks healthy.

But even as many economic writers and corporate executives lose interest in the much-hyped U.S.-Japanese battle, they see a new battle on the horizon—between the advanced economies and the emerging economies of the Third World. There is a striking contrast between the disappointing performance of the advanced nations over the past 20 years and the successes of an increasing number of developing countries. Rapid economic growth, which first began in a few small Asian nations in the 1960s, has now spread across a wide arc of East Asia—not only to relatively well-off Southeast Asian nations like Malaysia and Thailand but also to two poor countries with huge populations: Indonesia and China. There are signs of similarly rapid growth in Chile and perhaps in northern Mexico; centers of rapid development, like the Bangalore software complex, are appearing even in India.

One might have expected everyone to welcome this change in the global landscape, to see the rapid improvement in the living standards of hundreds of millions of people, many of whom had previously been desperately poor, as progress—and as an unprecedented business opportunity. Rather than taking satisfaction in global economic development, however, more and more influential people in the West are regarding economic growth in the Third World as a threat.

These new fears are exemplified in a letter circulated early this year by Klaus Schwab, president of the World Economic Forum, which hosts the famous Davos conferences. Schwab asked a large number of people to provide input for a document he had been asked to prepare for UN secretary general Boutros Boutros-Ghali, entitled “Redefining the Basic Assumptions of Mankind.” To indicate what he had in mind, Schwab offered a sample redefinition. Traditionally, he wrote, the world was divided into rich countries with high productivity and high wages and poor countries with low productivity and low wages. But now, he noted, some countries combine high productivity with low wages. The growing presence of those countries in world markets is leading, Schwab argued, to a “massive redeployment of productive assets,” which is making it impossible for advanced nations to maintain their standards of living. In other words, competition from the emerging economies of the Third World has become a threat, perhaps *the* threat, to the economies of the First World.

Schwab's views are not unique. No less imposing a figure than Jacques Delors, president of the European Commission, seems to share them. The European Commission's eagerly awaited white paper on European economic difficulties, "Growth, Competitiveness, and Employment," released in December 1993, lists four reasons for the long upward trend in European unemployment rates. According to the report, the most important factor is the rise of nations that are "competing with us—even in our own markets—at cost levels that we simply cannot match": Eurospeak for low-wage competition from the Third World.

Such views are less widespread in the United States. In spite of the Clinton administration's tendency to define economic problems in competitive terms, it has saved its fire for advanced nations like Japan; the 1994 *Economic Report of the President* argues that imports from the Third World have not been a major pressure on the U.S. labor market, at least not so far. Still, such economic writers as *Business Week*'s Robert Kuttner and think tanks like the Economic Policy Institute maintain a steady drumbeat of warnings about the threat that low-wage imports pose to U.S. living standards. The magazine *CEO/International Strategies*, in its December 1993/January 1994 issue, which was devoted to the theme "Redefining the Global Economy," published not one but three pieces on the threat of low-wage competition from developing countries. Some informal polling of noneconomists I know suggests that a majority of them, including many who consider themselves well informed about economic affairs, consider it an established fact that competition from the Third World is a major source of current U.S. economic problems.

The truth, however, is that fears about the economic impact of Third World competition are almost entirely unjustified. Economic growth in low-wage nations is in principle as likely to raise as to lower per capita income in high-wage countries; the actual effects have been negligible. In theory, there are some reasons for concern about the possible impact of Third World competition on the *distribution* (as opposed to the *level*) of income in the West, but there are few signs that such concern is justified in practice, at least so far.

How can so many sophisticated people be so wrong? (And how can I be so sure that they are wrong?) To make sense of the alleged threat from the Third World, it is necessary to begin with a brief discussion of the world economy.

Thinking About the World Economy

The idea that Third World competition threatens living standards in advanced countries seems straightforward. Suppose that somebody has learned to do something that used to be my exclusive specialty. Maybe he or she isn't quite as good at it as I am but is willing to work for a fraction of my wage. Isn't it obvious that I am either going to have to accept a lower standard of living or be out of a job? That, in essence, is the view of those who fear that Western wage rates must fall as the Third World develops.

But this story is completely misleading. When world productivity rises (as it does when Third World countries converge on First World productivity), *average* world living standards must rise: after all, the extra output must go somewhere. This by itself presumes that higher Third World productivity will be reflected in higher Third World wages, not lower First World incomes. Another way to look at it is to notice that in a national economy, producers and consumers are the same people; foreign competitors who cut prices may lower the wage I receive, but they also raise the purchasing power of whatever I earn. There is no reason to expect the adverse effect to predominate.

The world economy is a system—a complex web of feedback relationships—not a simple chain of one-way effects. In this global economic system, wages, prices, trade, and investment flows are outcomes, not givens. Intuitively plausible scenarios based on day-to-day business experience can be deeply misleading about what happens to this system when underlying parameters change, whether the parameters are government policies like tariffs and taxes or more mysterious factors like the productivity of Chinese labor.

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As anyone knows who has studied a complex system, be it global weather, Los Angeles traffic patterns, or the flow of materials through a manufacturing process, it is necessary to build a model to understand how the system works. The usual procedure is to start with a very simplified model and then make it increasingly realistic; in the process, one comes to a more sophisticated understanding of the actual system.

In this article, I will follow that procedure to think about the impact of emerging economies on wages and jobs in the advanced world. I will start with an oversimplified and unrealistic picture of the world economy and then gradually add realistic complications. At each stage, I will also bring in some data. By the end, I hope to have made clear that the seemingly sophisticated view that the Third World is causing First World problems is questionable on conceptual grounds and wholly implausible in terms of the data.

Model 1: A One-Good, One-Input World

Imagine a world without the complexities of the global economy. In this world, one all-purpose good is produced—let's call it chips—using one input, labor. All countries produce chips, but labor is more productive in some countries than in others. In imagining such a world, we ignore two crucial facts about the actual global economy: it produces hundreds of thousands of distinct goods and services, and it does so using many inputs, including physical capital and the “human capital” that results from education.

What would determine wages and standards of living in such a simplified world? In the absence of capital or differentiation between skilled and unskilled labor, workers would receive what they produce. That is, the annual real wage in terms of chips in each country would equal the number of chips each worker produced in a year—his or her productivity. And since chips are the only good consumed as well as the only good produced, the consumer price index would contain nothing but chips. Each country's real wage rate in terms of its CPI would also equal the productivity of labor in each country.

What about relative wages? The possibility of arbitrage, of shipping goods to wherever they command the highest price, would keep chip prices the same in all countries. Thus the wage rate of workers who produce 10,000 chips annually would be ten times that of workers who produce 1,000, even if those workers are in different countries. The ratio of any two nations' wage rates, then, would equal the ratio of their workers' productivity.

What would happen if countries that previously had low productivity and thus low wages were to experience a large increase in their productivity? These emerging economies would see their wage rates in terms of chips rise—end of story. There would be no impact, positive or negative, on real wage rates in other, initially higher-wage countries. In each country, the

real wage rate equals domestic productivity in terms of chips; that remains true, regardless of what happens elsewhere.

What's wrong with this model? It's ridiculously oversimplified, but in what ways might the simplification mislead us? One immediate problem with the model is that it leaves no room for international trade: if everyone is producing chips, there is no reason to import or export them. (This issue does not seem to bother such competitiveness theorists as Lester Thurow. The central proposition of Thurow's *Head to Head* is that because the advanced nations produce the same things, the benign niche competition of the past has given way to win-lose head-to-head competition. But if the advanced nations are producing the same things, why do they sell so much to one another?)

While the fact that countries do trade with one another means that our simplified model cannot be literally true, this model does raise the question of how extensive the trade actually is between advanced nations and the Third World. It turns out to be surprisingly small despite the emphasis on Third World trade in such documents as the Delors white paper. In 1990, advanced industrial nations spent only 1.2% of their combined GDPs on imports of manufactured goods from newly industrializing economies. A model in which advanced countries have no reason to trade with low-wage countries is obviously not completely accurate, but it is more than 98% right all the same.

Another problem with the model is that without capital, there can be no international investment. We'll come back to that point when we put capital into the model. It's worth noting, however, that in the U.S. economy, more than 70% of national income accrues to labor and less than 30% to capital; this proportion has been very stable for the past two decades. Labor is clearly not the only input in the production of goods, but the assertion that the average real wage rate moves almost one for one with output per worker, that what is good for the United States is good for U.S. workers and vice versa, seems approximately correct.

One last assertion that may bother some readers is that wages automatically rise with productivity. Is this realistic? Yes. Economic history offers no example of a country that experienced long-term productivity growth without a roughly equal rise in real wages. In the 1950s, when European productivity was typically less than half of U.S. productivity, so were European wages; today average compensation measured in dollars is about the same. As Japan climbed the productivity ladder over the past 30 years, its wages also rose, from 10% to 110% of the U.S. level. South Korea's wages have also risen dramatically over time. Indeed, many Korean economists worry that wages may have risen too much. Korean labor now seems too expensive to compete in low-technology goods with newcomers like China and Indonesia and too expensive to compensate for low productivity and product quality in such industries as autos.

The idea that somehow the old rules no longer apply, that new entrants on the world economic stage will always pay low wages even as their productivity rises to advanced-country levels, has no basis in actual experience. (Some economic writers try to refute this proposition by pointing to particular industries in which relative wages don't match relative productivity. For example, shirtmakers in Bangladesh, who are almost half as productive as shirtmakers in the United States, receive far less than half the U.S. wage rate. But as we'll see when we turn to a multigood model, that is exactly what standard economic theory predicts.)

Our one-good, one-input model may seem silly, but it forces us to notice two crucial points. First, an increase in Third World labor productivity means an increase in world output, and an increase in world output must show up as an increase in *somebody's* income. And it does: it shows up in higher wages for Third World workers. Second, whatever we may eventually conclude about the impact of higher Third World productivity on First World economies, it won't necessarily be adverse. The simplest model suggests that there is no impact at all.

Model 2: Many Goods, One Input

In the real world, of course, countries specialize in the production of a limited range of goods; international trade is both the cause and the result of that specialization. In particular, the trade in manufactured goods between the First and Third worlds is largely an exchange of sophisticated high-technology products like aircraft and microprocessors for labor-intensive goods like clothing. In a world in which countries produce different goods, productivity gains in one part of the world may either help or hurt the rest of the world.

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This is by no means a new subject. Between the end of World War II and the Korean War, many nations experienced a series of balance-of-payments difficulties, which led to the perception of a global “dollar shortage.” At the time, many Europeans believed that their real problem was the overwhelming competitiveness of the highly productive U.S. economy. But was the U.S. economy really damaging the rest of the world? More generally, does productivity growth in one country raise or lower real incomes in other countries? An extensive body of theoretical and empirical work concluded that the impact of productivity growth abroad on domestic welfare can be either positive or negative, depending on the *bias* of that productivity growth—that is, depending on the sectors in which such growth occurs.¹

Sir W. Arthur Lewis, who won the 1979 Nobel Prize in economics for his work on economic development, has offered a clever illustration of how the effect of productivity growth in developing countries on the real wages in advanced nations can work either way. In Lewis's model, the world is divided into two regions, call them North and South. This global economy produces not one but three types of goods: high-tech, medium-tech, and low-tech. As in our first model, however, labor is still the only input into production. Northern labor is more productive than Southern labor in all three types of goods, but that productivity advantage is huge in high-tech, moderate in medium-tech, and small in low-tech.

What will be the pattern of wages and production in such a world? A likely outcome is that high-tech goods will be produced only in the North, low-tech goods only in the South, and both regions will produce at least some medium-tech goods. (If world demand for high-tech products is very high, the North may produce only those goods; if demand for low-tech products is high, the South may also specialize. But there will be a wide range of cases in which both regions produce medium-tech goods.)

Competition will ensure that the ratio of the wage rate in the North to that in the South will equal the ratio of Northern to Southern productivity in the sector in which workers in the two regions face each other head-to-head: medium-tech. In this case, Northern workers will not be competitive in low-tech goods in spite of their higher productivity because their wage rates are too high. Conversely, low Southern wage rates are not enough to compensate for low productivity in high-tech.

A numerical example may be helpful here. Suppose that Northern labor is ten times as productive as Southern labor in high-tech, five times as productive in medium-tech, but only twice as productive in low-tech. If both countries produce medium-tech goods, the Northern wage must be five times higher than the Southern. Given this wage ratio, labor costs in the South for low-tech goods will be only two-fifths of labor costs in the North for this sector, even though Northern labor is more productive. In high-tech goods, by contrast, labor costs will be twice as high in the South.

Notice that in this example, Southern low-tech workers receive only one-fifth the Northern wage, even though they are half as productive as Northern workers in the same industry. Many people, including those who call themselves experts on international trade, believe that kind of gap shows that conventional economic models don't apply. In fact, it's exactly what conventional analysis predicts: if low-wage countries didn't have lower unit labor costs than high-wage countries in their export industries, they couldn't export.

Now suppose that there is an increase in Southern productivity. What effect will it have? It depends on which sector experiences the productivity gain. If the productivity increase occurs in low-tech output, a sector that does not compete with Northern labor, there is no reason to expect the ratio of Northern to Southern wages to change. Southern labor will produce low-tech goods more cheaply, and the fall in the price of those goods will raise real wages in the North. But if Southern productivity rises in the competitive medium-tech sector, relative Southern wages will rise. Since productivity has not risen in low-tech production, low-tech prices will rise and reduce real wages in the North.

What happens if Southern productivity rises at equal rates in low- and medium-tech? The relative wage rate will rise but will be offset by the productivity increase. The prices of low-tech goods in terms of Northern labor will not change, and thus the real wages of Northern workers will not change either. In other words, an across-the-board productivity increase in the South in this multigood model has the same effect on Northern living standards as productivity growth had in the one-good model: none at all.

It seems, then, that the effect of Third World growth on the First World, which was negligible in our simplest model, becomes unpredictable once we make the model more realistic. There are, however, two points worth noting.

First, the way in which growth in the Third World can hurt the First World is very different from the way it is described in the Schwab letter or the Delors White Paper. Third World growth does not hurt the First World because wages in the Third World stay low but because they rise and therefore push up the prices of exports to advanced countries. That is, the United States may be threatened when South Korea gets better at producing automobiles, not because the United States loses the automobile market but because higher South Korean wages mean that U.S. consumers pay more for the pajamas and toys that they were already buying from South Korea.

Second, this potential adverse effect should show up in a readily measured economic statistic: the *terms of trade*, or the ratio of export to import prices. For example, if U.S. companies are forced to sell goods more cheaply on world markets because of foreign competition or are forced to pay more for imports because of competition for raw materials or a devalued dollar, real income in the United States will fall. Because exports and imports are about 10% of GNP, each 10% decline in the U.S. terms of trade reduces U.S. real income by about 1%. The

potential damage to advanced economies from Third World growth rests on the possibility of a decline in advanced-country terms of trade. But that hasn't happened. Between 1982 and 1992, the terms of trade of the developed market economies actually improved by 12%, largely as a result of falling real oil prices.

In sum, a multigood model offers more possibilities than the simple one-good model with which we began, but it leads to the same conclusion: productivity growth in the Third World leads to higher wages in the Third World.

Model 3: Capital and International Investment

Let's move a step closer to reality and add another input to our model. What changes if we now imagine a world in which production requires both capital and labor? From a global point of view, there is one big difference between labor and capital: the degree of international mobility. Although large-scale international migration was a major force in the world economy before 1920, since then all advanced countries have erected high legal barriers to economically motivated immigration. There is a limited flow of very highly skilled people from South to North—the notorious “brain drain”—and a somewhat larger flow of illegal migration. But most labor does not move internationally.

Despite the limited “brain drain” from South to North, most labor does not move internationally.

In contrast, international investment is a highly visible and growing influence on the world economy. During the late 1970s, many banks in advanced countries lent large sums of money to Third World countries. This flow dried up in the 1980s, the decade of the debt crisis, but considerable capital flows resumed with the emerging-markets boom that began after 1990.

Many of the fears about Third World growth seem to focus on capital flows rather than trade. Schwab's fear that there will be a “massive redeployment of productive assets” presumably refers to investment in the Third World. The famous estimate by the Economic Policy Institute that NAFTA would cost 500,000 U.S. jobs was based on a completely hypothetical scenario about diversion of U.S. investment. Even Labor Secretary Robert Reich, at the March 1994 job summit in Detroit, attributed the employment problems of Western economies to the mobility of capital. In effect, he seemed to be asserting that First World capital now creates only Third World jobs. Are those fears justified?

The short answer is yes in principle but no in practice. As a matter of standard textbook theory, international flows of capital from North to South could lower Northern wages. The actual flows that have taken place since 1990, however, are far too small to have the devastating impacts that many people envision.

To understand how international investment flows could pose problems for advanced-country labor, we must first realize that the productivity of labor depends in part on how much capital it has to work with. As an empirical matter, the share of labor in domestic output is very stable. But if labor has less capital at its disposal, productivity and thus real wage rates will fall.

Suppose, then, that Third World nations become more attractive than First World nations for First World investors. This might be because a change in political conditions makes such

investments seem safer or because technology transfer raises the potential productivity of Third World workers (once they are equipped with adequate capital). Does this hurt First World workers? Of course. Capital exported to the Third World is capital not invested at home, so such North-South investment means that Northern productivity and wages will fall. Northern investors presumably earn a higher return on these investments than they could have earned at home, but that may offer little comfort to workers.

Before we jump to the conclusion that the development of the Third World has come at First World expense, however, we must ask not merely whether economic damage arises in principle but how large it is in practice.

How much capital has been exported from advanced countries to developing countries? During the 1980s, there was essentially no net North-South investment—indeed, interest payments and debt repayments were consistently larger than the new investment. All the action, then, has taken place since 1990. In 1993, the peak year of emerging-markets investment so far, capital flows from all advanced nations to all newly industrializing countries totaled about \$100 billion.

That may sound very high, but compared with the First World economy, it isn't. Last year, the combined GNPs of North America, Western Europe, and Japan totaled more than \$18 trillion. Their combined investment was more than \$3.5 trillion; their combined capital stocks were about \$60 trillion. The record capital flows of 1993 diverted only about 3% of First World investment away from domestic use and reduced the growth in the capital stock by less than 0.2%. The entire emerging-market investment boom since 1990 has reduced the advanced world's capital stock by only about .5% from what it would otherwise have been.

How much pressure has this placed on wages in advanced countries? A reduction of the capital stock by 1% reduces productivity by less than 1%, since capital is only one input; standard estimates put the number at about 0.3%. A back-of-the-envelope calculation therefore suggests that capital flows to the Third World since 1990 (and bear in mind that there was essentially no capital flow during the 1980s) have reduced real wages in the advanced world by about 0.15%—hardly the devastation that Schwab, Delors, or the Economic Policy Institute presume.

There is another way to make the same point. Anything that draws capital away from business investment in the advanced countries tends to reduce First World wages. But investment in the Third World has become considerable only in the last few years. Meanwhile, there has been a massive diversion of savings into a purely domestic sink: the budget deficits run up by the United States and other countries. Since 1980, the United States alone has run up more than \$3 trillion in federal debt, more than ten times the amount invested in emerging economies by all advanced countries combined. The export of capital to the Third World attracts a lot of attention because it is exotic, but the amounts are minor compared with domestic budget deficits.

At this point, some readers may object that one cannot compare the two numbers. Savings absorbed by the federal budget deficit simply disappear; savings invested abroad create factories that make products that then compete with ours. It seems plausible that overseas investment is more damaging than budget deficits. But that intuition is wrong: investing in Third World countries raises their productivity, and we've seen in the first two models that higher Third World productivity per se is unlikely to lower First World living standards.

The conventional wisdom among many policy-makers and pundits is that we live in a world of incredibly mobile capital and that such mobility changes everything. But capital isn't all that mobile, and the capital movements we have seen so far change very little, at least for advanced countries.

Model 4: The Distribution of Income

We seem to have concluded that growth in the Third World has almost no adverse effects on the First World. But there is still one more issue to address: the effects of Third World growth on the distribution of income between skilled and unskilled labor within the advanced world.

For our final model, let's add one more complication. Suppose that there are two kinds of labor, skilled and unskilled. And suppose that the ratio of unskilled to skilled workers is much higher in the South than in the North. In such a situation, one would expect the ratio of skilled to unskilled wages to be lower in the North than in the South. As a result, one would expect the North to export skill-intensive goods and services—that is, employ a high ratio of skilled to unskilled labor in their production, while the South exports goods whose production is intensive in unskilled labor.

What is the effect of this trade on wages in the North? When two countries exchange skill-intensive goods for labor-intensive goods, they indirectly trade skilled for unskilled labor; the goods that the North ships to the South “embody” more skilled labor than the goods the North receives in return. It is as if some of the North's skilled workers migrated to the South. Similarly, the North's imports of labor-intensive products are like an indirect form of low-skill immigration. Trade with the South in effect makes Northern skilled labor scarcer, raising the wage it can command, while it makes unskilled labor effectively more abundant, reducing its wage.

Increased trade with the Third World, then, while it may have little effect on the overall level of First World wages, should in principle lead to greater *inequality* in those wages, with a higher premium for skill. Equally, there should be a tendency toward “factor price equalization,” with wages of low-skilled workers in the North declining toward Southern levels.

What makes this conclusion worrisome is that income inequality has been rapidly increasing in the United States and to a lesser extent in other advanced nations. Even if Third World exports have not hurt the average level of wages in the First World, might they not be responsible for the steep declines since the 1970s in real wages of unskilled workers in the United States and the rising unemployment rates of European workers?

At this point, the preponderance of the evidence seems to be that factor price equalization has *not* been a major element in the growing wage inequality in the United States, although the evidence is more indirect and less secure than the evidence we brought to our earlier models.² In essence, trade with the Third World is just not that large. Since trade with low-wage countries is only a little more than 1% of GDP, the net flows of labor embodied in that trade are fairly small compared with the overall size of the labor force.

More careful research may lead to larger estimates of the effect of North-South trade on the distribution of wages, or future growth in that trade may have larger effects than we have seen

so far. At this point, however, the available evidence does not support the view that trade with the Third World is an important part of the wage inequality story.

Moreover, even to the extent that North-South trade may explain some of the growing inequality of earnings, it has nothing to do with the disappointing performance of *average* wages. Before 1973, average compensation in the United States rose at an annual rate of more than 2%; since then it has risen at a rate of only 0.3%. This decline is at the heart of our economic malaise, and Third World exports have nothing to do with it.

The Real Threat

The view that competition from the Third World is a major problem for advanced countries is questionable in theory and flatly rejected by the data. Why does this matter? Isn't this merely academic quibbling? One answer is that those who talk about the dangers of competition with the Third World certainly think that it matters; the European Commission presumably did not add its comments about low-wage competition to its white paper simply to fill space. If policymakers and intellectuals think it is important to emphasize the adverse effects of low-wage competition, then it is at least equally important for economists and business leaders to tell them they are wrong.

Ideas matter. According to recent newspaper reports, the United States and France have agreed to place demands for international standards on wages and working conditions on the agenda at the next GATT negotiations. U.S. officials will doubtless claim they have the interests of Third World workers at heart. Developing countries are already warning, however, that such standards are simply an effort to deny them access to world markets by preventing them from making use of the only competitive advantage they have: abundant labor. The developing countries are right. This is protectionism in the guise of humanitarian concern.

Most worrisome of all is the prospect that disguised protectionism will eventually give way to cruder, more open trade barriers. For example, Robert Kuttner has long argued that all world trade should be run along the lines of the Multi-Fiber Agreement, which fixes market shares for textile and apparel. In effect, he wants the cartelization of all world markets. Proposals like that are still outside the range of serious policy discussion, but when respectable voices lend credence to the wholly implausible idea that the Third World is responsible for the First World's problems, they prepare the way for that kind of heavy-handed interference in world trade.

We are not talking about narrow economic issues. If the West throws up barriers to imports out of a misguided belief that they will protect Western living standards, the effect could be to destroy the most promising aspect of today's world economy: the beginning of widespread economic development, of hopes for a decent living standard for hundreds of millions, even billions, of human beings. Economic growth in the Third World is an opportunity, not a threat; it is our fear of Third World success, not that success itself, that is the real danger to the world economy.

Notes

1. The essential readings are J. R. Hicks on the long-run dollar problem in "An Inaugural Lecture," *Oxford Economic Papers* (New Series), June 1953; and H.G. Johnson, "Economic

Expansion and International Trade,” *Manchester School of Economic and Social Studies*, May 1955.

2. See Lawrence F. Katz, “Understanding Recent Changes in the Wage Structure,” *NBER Reporter*, Winter 1992–93; and Robert Lawrence and Matthew Slaughter, “International Trade and American Wages in the 1980s: Giant Sucking Sound or Small Hiccup?” *Brookings Papers on Economic Activity* 2, 1993.

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