

advantage. It further implicitly assumed that national production was associated with the use of mostly domestic resources, meaning that export expansion was associated with a commensurate increase in domestic value-added, jobs and profits. The old trade policy sought to remove national barriers to trade in goods on a progressive, i.e., politically sustainable, basis and to make the rules of the game fair, transparent, and non-discriminatory. Those were the means; the objective was to let markets work in order to take advantage of specialization and thus contribute to growth in national and global welfare. It worked: among OECD economies, trade grew at a rate that far outstripped growth in production to the point that an increasing share of national welfare was being derived from international exchange. Interestingly, as international trade and investment flourished, more and more could not be explained solely on the basis of comparative advantage and national endowments. Economists responded with a range of more sophisticated explanations, including insights derived from analysis of the domestic economy<sup>4</sup>.

Of course, Krugman was reluctant to admit that the global economy was beginning to operate more and more like the large, continental US economy of the early post-war years. In the 1990s, he popularized sophisticated economic arguments to demonstrate the extent to which production in the United States was still largely focused on goods and services consumed at home<sup>5</sup>. In terms of a traditional reading of trade statistics, he was right, but in pointing out that some of the economic problems being experienced in the United States at that time were

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<sup>4</sup> See, for example, Patricia Dillon, James Lehman, and Thomas D. Willett. "Assessing the Usefulness of International Trade Theory for Policy Analysis," in John S. Odell and Thomas D. Willett, eds., *International Trade Policies: Gains from Exchange between Economics and Political Science* (Ann Arbor: University of Michigan Press, 1990), pp. 21-54 for discussion of some of the newer trade theories.

<sup>5</sup> See, for example, "Competitiveness: A Dangerous Delusion," *Foreign Affairs*, vol. 73, no. 2 (1994); 'Does Third-World Growth Hurt First World Prosperity?' *Harvard Business Review*, July-August 1994; and with Robert Lawrence, 'Trade, Jobs and Wages,' *Scientific American*, April 1994.