Off-shoring in the Context of Globalization

by Herman E. Daly

Off-shoring is the latest step in the misguided rush toward global economic integration and away from internationalist federation embodied in the United Nations and the Bretton Woods institutions.

Globalization, considered by many to be the inevitable wave of the future, is frequently confused with internationalization, but is in fact something totally different.

Internationalization refers to the increasing importance of international trade, international relations, treaties, protocols, alliances, etc. International, of course, means between or among nations. The basic unit of community and policy remains the nation, even as relations among nations become increasingly necessary and important.

Globalization refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobility, but also by easy or uncontrolled migration. It is the effective erasure of national boundaries for economic purposes.

The word "integration" derives from "integer," meaning one, complete, or whole. Integration is the act of combining into one whole. Since there can be only one whole, only one unity with reference to which parts are integrated, it follows that global economic integration logically implies national economic disintegration. By disintegration I do not mean that the productive plant of each country is annihilated, but rather that its parts are torn out of their national context (dis-integrated), in order to be "re-integrated" into the new whole, the globalized economy. As the saying goes, to make an omelet you have to break some eggs. The disintegration of the national egg is necessary to integrate the global omelet. It is dishonest to celebrate the latter without acknowledging the former.

No one is arguing for isolationism. Of course the world is highly interdependent, but interdependence is to integration as friendship is to marriage. It is hard enough for nations to be friends, and is utterly foolish to attempt multilateral marriage. A necessary condition for friendship is a healthy respect for differences, for boundaries. All of this points to internationalization, not globalization.

Off-shoring is part of the disintegration of the national economy that is implicit in globalization. We no longer have U.S. capital and U.S. labor cooperating to produce U.S. goods to compete in a world market against, say, Chinese goods produced by Chinese labor and Chinese capital. Instead we have formerly U.S. but now transnational capital moving to China to produce a product with cheap Chinese labor for sale in the U.S.. This is great for a few capitalists, but all capitalists cannot continue to depend on U.S. purchasing power to sell their products without contributing to U.S. purchasing power by employing U.S. labor. Say's law says that in the process of production factors are paid an amount equal to the value of the product – the incomes generated by production are sufficient to buy the product. There is a circular flow from expenditure to income to expenditure, etc. – depicted in the first chapter of every economics principles textbook. But if factors in China receive the income generated by production of goods sold in the U.S., then the circular flow is broken, and U.S. incomes will eventually not be sufficient to purchase the new imports plus remaining domestic production. The Chinese income generated by off-shoring will mostly be spent in China, not on U.S. exports, and not

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on the goods that the off-shoring capitalist is producing in China specifically for the U.S. market. The U.S. ends up with less employment and a larger trade deficit. China ends up with more employment and a trade surplus. That surplus can be used to purchase assets in the U.S., whose future earnings will go to China, not the U.S. It may well be that the gains to China are greater than the losses to the U.S., but that is certainly not the mutual benefit promised by traditional free trade based on comparative advantage.

If capital is internationally mobile competition will force it to seek absolute advantage, and one country will lose jobs and income, while another gains. Although there would be an increase in world production, we would no longer necessarily be achieving a better outcome for each nation. Specialization and trade according to comparative advantage, as envisioned by free trade, is a clever second-best strategy for the capitalist who, for whatever reason, cannot invest abroad. If he could invest abroad he would simply follow the rule of absolute advantage and never even think about comparative advantage. This is the reality in today's globalized economy, where from the point of view of the capitalist, China and the U.S. are just different regions of the same integrated global economy, not national communities serving their own distinct public interests.

China seems quite capable of looking out for its own national interests. The U.S., on trade issues at least, seems rather muddled about whether it is even a nation.