

The Right Way to Go?

Twenty defenses of off-shoring and why they are wrong

by Ian Fletcher

Defenders of offshoring keep repeating bad arguments: keep this article handy and you can catalogue them by number. Sometimes, they don't even give rational arguments, just slick puffery about the wonderfulness of capitalism, technology, and trade, often combined with insinuations about offshoring's opponents. They are masters of question-ducking, subject-changing, and deliberately mis-framing the opposing position. But their arguments usually boil down to one of the following:

#1: 'Offshoring is inevitable.'

If it is inevitable, why do its proponents feel the need to defend it? Because it is no more inevitable than Medicare. If the government banned or taxed it, it would end or decline. If the government stopped covertly subsidizing it through the tax code, it wouldn't grow as fast.

#2: 'We have free trade in goods, so we should have it in services.'

Free trade in goods is itself a

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debatable position, not a home truth. Cutting-edge economics, like the work of William Baumol, has been chipping away at the free-trade consensus for years. And the purpose of public policy isn't logical consistency but the public good. We should evaluate whether free trade in the services that are being offshored is good for us, not just do it because we do something similar with trade in goods.

#3: 'Offshoring is a minor phenomenon.'

Not for long; it's just getting started. Yes, it has only cost America five percent of our tech jobs today, but offshoring is estimated *by its proponents* to be growing at around 25 percent or so a year. A UC-Berkeley study estimates it will take 14 million or more jobs by 2015 (*The New Wave of Outsourcing*, Fisher Center for Real Estate and Urban Economics).

#4: 'Offshoring only costs us undesirable low-end jobs.'

This is an elitist argument for the millions of Americans who would rather work at a call center or in the bottom rungs of the computer industry than go unemployed or work at Wal-Mart. And it just isn't true: jobs paying \$80-100,000 per year are now getting offshored, the very cream of the job market for ordinary Americans.

#5: 'America will always keep the best jobs.'

This is just arrogance on our part. Is the rest of the world stupid enough to stay at the bottom of the economic food chain forever? Yeah, and Japan will only ever make plastic knick-knacks. The kind of ultra-high-end technology jobs where America really is better than anyone else do exist, but they are a relatively small part of our labor force. We can't all be Ph.D.s from MIT.

#6: 'Better education will protect American workers against offshoring.'

Although better education is always good for people's economic chances, it just isn't enough anymore when even college-educated Americans are competing against college-educated foreigners who earn one-tenth to one-quarter what they do. And for the half of all Americans who won't go to college, it's even worse.

#7: 'Higher productivity will protect American workers against wage differentials.'

This was true in 1950, when the vast infrastructure required to make General Motors work could not be replicated in the Third World at a feasible cost. But nowadays, thanks to the Internet and other innovations, a computer company in India or Russia can use the exact

same hardware and software as an American company, train its workers from the same manuals, and get the same productivity. The only difference is in wages; any productivity advantage Americans enjoy is eroding fast.

#8: 'Wages in other nations will catch up to ours, so they won't be a threat.'

This will take, even on optimistic assumptions, at least a generation, given that wages in competing nations are rising a few percentage points a year and the gap between them and ourselves is so large. Do we want to sacrifice American workers for forty years?

#9: 'Offshoring will help bring down the cost of goods and lower inflation.'

But inflation is low already and the Fed is worrying about deflation. There are few jobs that some foreigner somewhere won't do cheaper than an American, so it is true that in the short run, considering only the item in question, having that item produced by a foreigner is usually cheaper. But in the long run, this results in un-employing or driving down the wages of Americans, meaning that the cost of goods relative to American salaries doesn't go down.

#10: 'American companies need offshoring to stay competitive.'

Not if we don't allow competitors using cheap labor to produce for the American market they don't. If America stakes its competitiveness on cheap labor, this can have only one result. The race to the bottom is not a race we want to win.

#11: 'People who oppose

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offshoring are losers/ Luddites/ Naderites/ Buchananites.'

False: look around you at an anti-offshoring meeting and you'll see ordinary Americans who are concerned about their futures. And irrelevant: Even if some political extremists oppose offshoring, that doesn't make it bad public policy, as policies must be judged on their merits, not their lunatic fringe. And name-calling isn't debate.

#12: 'The free market will eventually solve this problem.'

Sure, but there's no guarantee it will solve it in our favor: free markets promote efficiency, but they don't guarantee the standard of living of any one nation. The global market doesn't intrinsically care about America any more than about Timbuktu. Yes, American wages can eventually decline to the point where we reach equilibrium with foreign nations, but this would happen at the price of a steep decline in our standard of living.

#13: 'A decline in the dollar will eventually solve this problem.'

At what cost? If the dollar falls by half or more, this will radically increase the cost of imports, reducing our standard of living and sending a massive inflationary shock like the oil shock through our economy. And can the dollar really fall far enough to make \$17/hr American workers competitive with \$1/hr workers abroad?

#14: 'The money that goes abroad in offshoring gets recycled back to the U.S.'

This is just a way of saying it's okay to buy services from foreigners because they will turn around and buy from us. Trouble is, that's empirically false, as there's a half-trillion-dollar deficit between U.S. exports and U.S. imports right now. Foreigners don't have to recycle their dollars into buying job-creating exports from us; they can sell us debt or buy up American assets instead. We are selling off the country to pay foreigners to do our work for us.

#15: 'Fighting offshoring is class warfare.'

America has to defend its character as a fundamentally middle-class society or we will lose it – nothing Marxist about it. And economic interests on the other side of this question don't seem to show any squeamishness about defending their interests.

#16: 'Fighting offshoring is anti-capitalist.'

The health of American capitalism as a whole is not identical with the desires of its

multinational corporations. America is historically the most capitalist country in the world because American workers have felt confident of their economic futures. Take this away and they won't vote that way anymore. And has anyone noticed that some offshoring proponents actually support an expansion of the welfare state to buy off its victims?

#17: 'Fighting offshoring is un-American.'

Re-read your American history. We have had various forms of protectionism for most of our history, going back to Alexander Hamilton and only really ending during the Cold War, when we opened our markets to the world to buy them off communism.

#18: 'Fighting offshoring is anti-technology.'

On the contrary: fighting offshoring helps conserve America's technological base. How can we be a major technology power without technology workers? Or if our technology infrastructure is moved overseas? How can we get kids to major in technology disciplines in college if they see all the jobs going abroad?

#19: 'There are no military or security implications.'

Offshoring puts critical parts of our technology infrastructure into the hands of hostile nations such as China. Even offshoring to nations currently friendly to America is no guarantee of their future foreign policy. Offshoring builds up the technological know-how of hostile states while it depletes our own technology base. Hard distinctions between militarily significant and insignificant technologies are

impossible to maintain.

#20: 'There are no labor or environmental implications.'

Nations to which work is being outsourced use lower environmental and labor standards as part of their cost-competitive strategy. Worse, this tends to punish American companies that try to do the right thing.

What must be done?

In the short run, we should have an emergency ban on offshoring. Next, America must rethink its entire trade policy and place regulation of offshoring within a coherent overall approach. What can you do? Join the American Engineering Association or a similar group reflecting your own interests today. We're lobbying on this issue.

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