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A Farewell to Jobs

Let's take a trip back at the late 1980s. The foremost problem on some economists' minds is the merciless competition that American firms face from Asian manufacturers. "Japan, Inc." and its neighbors, for example, have started turning out computer memory chips at ever lower prices. The result is sharply declining profits for U.S. chipmakers, and—according to chipmakers and their political supporters—a dire threat to U.S. jobs. The issue of looming job losses in this and other industries dominates the political scene. Chip-industry leaders try to persuade members of Congress that the United States will lose its technological edge—unless, of course, the federal government will step in to protect U.S. chipmakers. Experts are even prophesying that without government protection and help, U.S. microelectronics will be "reduced to permanent, decisive inferiority within 10 years."

Now, flash forward to the mid-2000s, when the most frequently recurring issue in domestic-policy debates has been much the same. To be sure, the details—which country is "stealing" jobs from which industry—have changed, but not by much. Indeed, by the early stages of the presidential election of 2004, so-called foreign **outsourcing** of **white-collar jobs** had become as un-American as desecrating our flag. A well-known TV business analyst on CNN, Lou Dobbs, even began a listing of all of the "unpatriotic" American-based companies that were "sending this country's jobs overseas." The House of Representatives tried to pass measures to prevent any type of outsourcing for the Department of State as well as for the Department of Defense. Representative Don Manzullo (R.-Ill.) said, "You just can't continue to outsource overseas time after time after time, dilute the strategic military base, and then expect

this Congress to sit back and see the jobs lost and do nothing." (This was from a member of the same House of Representatives that, 20 years before, tried to outlaw competition from foreign automakers because the U.S. auto industry supposedly faced "imminent collapse.")

According to Craig Barrett, CEO of Intel (the world's largest chipmaker), American workers today face the prospect of "300 million well-educated people in India, China, and Russia who can do effectively any job that can be done in the United States." In a similar vein, Forrester Research has predicted that 3.3 million service jobs will "move offshore" by 2015. Five hundred thousand of those jobs supposedly will be in computer software and services. Democratic presidential nominee John Kerry had a name for the leaders of companies that "export" such jobs: "Benedict Arnold CEOs." And when the chair of the Council of Economic Advisors publicly stated that foreign outsourcing of services jobs wasn't such a bad idea, Kerry, as well as numerous other politicians, lambasted the Bush administration, arguing that foreign outsourcing of U.S. service jobs was the biggest plague ever to hit the U. S. economy.

To understand this hot-button issue of outsourcing service employment to workers located abroad, you have to go back to our chapter-opening scenario. What actually happened after the "Asian invasion" of computer chips and other high-tech items in the late 1980s? The result was not the demise of Silicon Valley. Rather, American high-tech companies responded to the challenge by finding those things at which they were best and leaving the rest to their foreign competitors. They became innovative. They led the way in personal computing and the development of the Internet. They became the engine of job creation throughout the 1990s. Indeed, we can look back through American business history and find numerous other periods in which foreign competition has threatened a particular sector of the economy. In spite of that competition—and regardless of the outcome for the sector involved—the American economy has always continued to prosper.

What we have witnessed is a continual testing of a concept that is central to all of economics: **comparative advantage.** The nineteenth-century economist David Ricardo got it right 200 years ago, and no one has disproved him since—although U. S. corporate

executives facing stiff foreign competition try to all the time. In a nutshell, the principle of comparative advantage says that if an individual, firm, or nation is singularly well-suited at doing one thing (i.e., has low costs of doing it), then that entity must, *by definition,* be poorly suited at doing other things (i.e., face high costs of doing them.) Comparative advantage implies that there is a niche for everyone, and that those niches can best be filled (and our wealth increased the most) if we permit unfettered freedom of trade, both domestically and internationally.

To better understand comparative advantage, consider the current situation: Just as is the case for their counterparts in the United States, engineers and technicians in India have the capacity to provide both computer programming and to create innovative new technologies. Indian programmers and high-tech engineers earn one-fifth of what their counterparts earn in the United States. Consequently, India is able to do both jobs at a lower dollar cost than in the United States: India has an **absolute advantage** in both. In other words, it can produce a unit of programming for fewer dollars than in the United States, and it can also produce a unit of technology innovation for fewer dollars. Does that mean that the United States will lose not only programming jobs but technology-innovation jobs, too? Does that mean that our standard of living will fall if the United States and India engage in international trade?

Economist David Ricardo would have answered no to both questions—as do your authors today. While India may have an absolute advantage in both activities, that fact is *irrelevant* in determining what India or the United States will produce. India has a comparative advantage in doing programming in part because such activity requires little **capital.** The flip side is that the United States has a comparative advantage in technology innovation partly because it is relatively easy to obtain capital in this country to undertake such long-run projects. The result is that Indian programmers will do more and more of what U.S. programmers have been doing in the past. In contrast, American firms will shift to more and more innovation. The United States will specialize in technology innovation; India will specialize in programming. The business people in each country will specialize in those activities in which they have a comparative advantage. As in the past, the U.S. economy will continue to concentrate on what are called the "most best" activities.

The principle here is no different from what we regularly observe in world-class athletes. Typically, they have the physical and mental skills that would enable them to beat virtually anyone else in any of several sporting activities. They have an absolute advantage in athletics. Yet they invariably end up specializing in *one* sport, the one in which they have a comparative advantage. They do this because they are so good in that sport *relative* to other sports that their earnings would be lower if they "wasted" their time in those other sports. Exactly the same thing is happening with the Indian engineers and technicians, just as it happens in all other endeavors.

Let's return to the general issue of outsourcing services to foreign workers. Computer programming is just one area in which such outsourcing is occurring. This outsourcing also extends, somewhat amazingly, to U.S. income tax return preparation. The fact is that accounting firms small and large use workers in India to prepare returns for U.S. clients. By now at least a quarter of a million returns each year are being prepared by Indians in Bangalore and Bombay. Moreover, U.S. hospitals are sending (via the Internet, of course) computer-image X-rays to India for physicians and medical technicians there to prepare before the images are resent to the United States for a final diagnosis.

Sending overseas white-collar jobs that are labor-intensive—answering simple complaints, taking orders over the phone, explaining basic computer setup, and reading simple medical-test results—is no different from what we did when we bought lower-priced computer chips from Japan and other Asian countries in the 1980s. Nor is it fundamentally any different than what we did when we started importing more labor-intensive textiles in the 1980s and 1990s. Because of foreign competition, specific industries throughout time have been forced to be more innovative and cost-conscious, but overall the number of jobs in the United States has consistently grown, decade after decade. Indeed, at least for the high-tech industrial sector, what happened after the "Asian invasion" of the 1980s was a **productivity** boom.

Let's go back to the arguments for and against foreign outsourcing of services. Even those who agree that international trade and globalization have raised living standards, not only in the United States but elsewhere, seem troubled by the current phenomenon of outsourcing services. According to *Business Week*

editor Kathleen Madigan, "This is no longer about a few low-wage or manufacturing jobs. Now, one out of three jobs is at risk. These jobs could be shipped overseas in the name of cost cutting." She argues further that proponents of unfettered international trade "underestimate the risk of being overtaken as skill and education levels rise elsewhere." Her policy suggestion is to focus on maintaining a better-educated workforce.

The fact is that there is little evidence that, overall, well-paying jobs are being "sent overseas." The average unemployment rate for college-educated workers in the post-recession year 2003 was only 3 percent. The average for 1992, the last post-recession year, was higher—3.2 percent. During 2003–2004, employment growth among college-educated workers was six times greater than for less-educated workers.

Certainly jobs disappear in this economy and everywhere else—normally because of technological change. (Actually, jobs "disappear" in the U.S. economy at a rate of 1 million per *week* as workers quit or are fired; but in a typical year, slightly *more* than a million jobs per week are "created" as workers accept new employment.) It is also true that manufacturing employment has not recovered since the last recession at the beginning of the 2000s. But the decline in manufacturing jobs is not unique to the United States. Indeed, despite talk of "losing" manufacturing jobs to China and elsewhere, the number of manufacturing jobs in foreign countries such as China is shrinking *faster* than it is in the United States!

Wealth-enhancing **technological change** is relieving human beings of the necessity of performing mind-numbing, repetitive, dangerous factory jobs. It is making us more productive, and we are collectively better off as a result, even though some individuals may be worse off. But the only way to protect *everyone* from the effects of technological change is to prevent all technological change. Not only would this impoverish us if we tried it, we would fail in our attempts, because other nations around the world would gleefully step into the technology-leading shoes we had vacated.

Indeed, the reason that U.S. companies can outsource service jobs to India, China, and elsewhere is *because* of technological change—dramatic improvements in telecommunications and computing. One thing you can be absolutely certain of is this: The

political brouhaha over "exporting" jobs will die out and may even be dead by the time you read this, but technological change will never stop. We don't know what the next great innovation cycle will be, nor which sectors will be affected. When they are affected, though, some politicians will jump on the bandwagon and declare that a new threat to the American economy has emerged. You'll then hear much pontification about how foreigners are destroying the U. S. economy. But remember this: for the last 250 years it has been technological change that has enabled us to get richer; indeed, in the United States every generation over this span has been roughly 50 percent richer than the one that preceded it. It is true that, along the way, some people in the whale blubber-rendering industry and the buggy-whip industry have had to move on to other employments. But as long as humans can think, technology will change. Our only option is to decide whether we want to get rich by embracing these changes or get poor by rejecting them.

DISCUSSION QUESTIONS

1. What is the difference between buying automobiles, clothes, and DVD players from abroad and buying low-cost labor services, such as call-center services, from abroad?
2. Given the possibility of continued outsourcing of programming services abroad, what do you think will happen to the demand for degrees in computer sciences in the United States over time?
3. In what way can immigration be thought of as "insourcing" jobs, that is, bringing the people into America to do the jobs here? Suppose we had decided a century ago (as many politicians advocated at the time) to stop this "insourcing" threat to Americans by eliminating all immigration into America. Would our nation be better or worse off? Would you be an American?