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 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.

Jobs Data Show U.S. is Outsourcing Its Future

by Paul Craig Roberts

Conservative pundits are incautiously hailing the 277,000 private sector jobs created by the economy in March as the long awaited "jobs turnaround." Alas, the BLS payroll survey indicates a continuation of the jobs malaise.

A look at the composition of the 277,000 jobs reveals that job growth occurred in sectors that do not generate export earnings or face import competition. Construction accounted for 71,000 of the new jobs; retail 47,000; health care and social assistance 39,000; restaurants and bars 27,000; professional and technical services 27,000; administrative and waste services 17,000, repair, maintenance and laundry services 12,000; wholesale 11,000; warehousing and storage 7,000; logging and mining 7,000; financial activities 6,000; air transportation 3,000.

In goods production other than domestic construction, the economy remains dead in the water: manufacturing jobs, zero; semiconductors and electronic components, zero; communications equipment, zero; computer and peripheral equipment, zero; textile mills, zero; paper, zero; chemicals, zero; primary metals, -1,000; transportation equipment, -1,000; electrical equipment and appliances, -2,000.

This is not a profile of a high-tech knowledge-based economy. It is not even the profile of a low-tech developing economy.

It is the profile of an economy in serious trouble. Where are the jobs for skilled workers or jobs for university graduates in engineering or jobs in R&D for scientists? Where are the jobs in export and import-competitive sectors to close the massive U.S. trade deficit?

On April 2, the day the March jobs report was released, research

---

Paul Craig Roberts is a syndicated columnist. ©2004 by Creators Syndicate. Reprinted by permission.

economist Charles W. McMillion reported in *Manufacturing & Technology News* that "the superiority the United States has held in technology trade has suddenly vanished."

For the first time on record, during the last half of 2003 the U.S. ran a trade deficit in advanced technology products and services! As recently as 1997 the U.S. had a $60 billion trade surplus in technology goods and services.

"The U.S. technology deficit with China is almost five times larger than the U.S. technology deficit with Japan. These facts do not reconcile with the reassurances from pundits that the U.S. has nothing to fear from China, allegedly a low-tech producer of textiles and shoes."

The new millennium brought an acceleration in the outsourcing of technology jobs. Dr. McMillion reports that the U.S. has had a deficit in advanced technology products with China since 1995 and an overall deficit in technology goods and services trade with China since 1999. The U.S. technology deficit with China is almost five times larger than the U.S. technology deficit with Japan.

These facts do not reconcile with the reassurances from pundits that the U.S. has nothing to fear from China, allegedly a low-tech producer of textiles and shoes.

Recently, the American public has been deceived by a spate of "studies" sponsored by offshore platforms and by interest groups that benefit from outsourcing. These propaganda exercises purport to show that Americans benefit from outsourcing.

Where is the benefit for Americans when the U.S. economy cannot create jobs in export and import-competitive industries in order to close the massive trade deficit?

Where is the benefit for Americans when dollar devaluation drives up energy prices?

Where is the benefit for Americans of losing the lead in advanced technology products?

Where is the benefit for Americans of declining U.S. enrollments in electrical engineering and computer science?

Where is the benefit for Americans of having their human capital destroyed when they are replaced by cheap foreign labor?

Economists who are not up-to-date trade specialists are far behind the latest knowledge when they proclaim that all these developments must be good for America, because they are the results of free trade. In the latest work in trade theory, Ralph E. Gomory and William J. Baumol build on earlier research and demonstrate that a country's gains in productive capability can worsen the positions of its trading partners.

Their work has definite implications for trade policy. Not only can a country with a successful trade policy capture industries from a free trade country, but also a country that transfers its high-tech occupations and production abroad in order to lower the cost of producing for its domestic markets is reducing its own capability while increasing that of a competitor.

The notion that the U.S. can base production offshore and still come out ahead flies in the face of everything we know about economic development.

Some pundits have the mistaken impression that foreign direct investment in the U.S. renders offshoring concerns pointless. With so much foreign capital pouring into the U.S., how could the U.S. economy be any but the best?

The answer is that 95 percent of foreign direct investment during 1999-2002 (the last four years for which data are currently available) was used to acquire existing U.S. assets and their future income streams.

We are paying for our dependence on imported goods by turning over the ownership of our economy to foreigners. ■

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 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.

"Defenders of offshoring keep repeating bad arguments."

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.

***Ian Fletcher** is Vice-President for Government Relations of the American Engineering Association. He may be reached at* ianfletcher@aea.org.