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REGULAR COLUMN:

# ECONOMIC PROSPECTS

## *Global Outsourcing and the U.S. Working Class*

THE LIVING STANDARDS OF WORKING PEOPLE IN THE UNITED STATES HAVE BEEN BATTERED for thirty years by the combined forces of globalization and neoliberalism. But this situation is likely to only deteriorate further over the foreseeable future

unless progressive forces can bring off a dramatic transformation in the country's economic trajectory.

An article in the March/April issue of *Foreign Affairs* magazine—the longtime premier organ of the country's foreign policy elite—was the unlikely venue for a sobering survey of the problems at hand. The article, “Fear of Outsourcing,” was by Professor Alan Blinder of Princeton's economics department. Blinder's establishment credentials are impeccable. He is

a former member of President Clinton's Council of Economic Advisors, and a former vice-chair of the Federal Reserve Board under Alan Greenspan.

Blinder's main point is simple but far-reaching—that a fundamental transformation is now occurring in international trade. He observes that “traditionally, any item that can be put in a box and shipped (roughly, manufactured goods) was considered tradable, while anything that cannot be put in a box (like ser-

vices) or was too heavy for shipping (like houses) was thought of as non-tradable. But that is now vestigial thinking.”

Blinder argues that, increasingly, things don't need to be boxed to be tradable. They simply need to be deliverable through the Internet. And the proportion of services that can be delivered electronically is growing inexorably.

Why should the rise in internationally traded services be a threat to U.S. working class living standards? This becomes clear when we consider the history of neoliberal globalization to date. Globalization has meant that national economies—including in particular those of rich and poor countries—are becoming increasingly integrated. Dramatic declines in transportation and communications costs are crucial to this process. But neoliberalism is the main force establishing the terms under which global integration is proceeding.

Neoliberalism combines tax cuts for the rich; monetary policies focused on controlling inflation rather than promoting employment; lowering barriers to international trade; opening up new investment outlets for multinational corporations and financial speculators; and an erosion of public policies and institutions designed to protect working people and the poor from the vicissitudes of the free market.

It is therefore no surprise that the living standards of U.S. workers have been declining under neoliberal globalization, even though, of course, not all U.S. companies have been moving their operations offshore. Production of goods and services in the United States remains a \$13 trillion enterprise, employing 150 million people. But U.S. workers nevertheless face an increasingly *credible threat* that they can be supplanted by workers in poor countries will-

ing to accept much lower wages. This by itself erodes their bargaining power.

Just how serious this problem has been is reflected in the pattern of average wages since 1973. As of 2005, the average nonsupervisory worker in the United States earned \$16.35 an hour (in 2005 dollars). This figure is 8 percent below the 1973 peak figure of \$17.66 per hour. But this is only half the story. The other half is that average labor productivity in the United States rose by 85 percent over this thirty-three-year period of declining wages. That is, the total basket of goods and services that average U.S. workers produced in 2005 is 85 percent larger than what they could manage in 1973. The workers' reward for producing 85 percent more goods and services in 2005 than 1973 is an 8 percent pay cut.

These trends have proceeded even though, as Blinder points out, the number of U.S. jobs that have been outsourced thus far is surprisingly low, probably no more than a half-million jobs per year. This is about one-third of one percent of the 150 million total U.S. jobs.

However, the number of U.S. jobs that are outsourced is likely to expand rapidly, as more services deliverable over the Internet are produced in poor countries. How many jobs could plausibly be transferred to poor countries under this logic? Blinder emphasizes that neither he nor anybody else can possibly give a good answer. But he is willing to offer some surmises.

To begin with, he reasons that all the remaining 14.3 million manufacturing jobs could possibly be outsourced, since virtually all manufactured goods can now be boxed up in poor countries and delivered cheaply and quickly to the United States.

Then we come to services. Here, Blinder draws a distinction between what he calls per-

sonally-delivered and impersonally-delivered services. Personal services—including taxi drivers, janitors, nurses, high-school teachers, child care workers, psychiatrists, waiters, and lobbyists—all require face-to-face contact, high levels of personal trust, or other location-specific attributes. These jobs cannot be outsourced.

But impersonal services, including a wide range of professional, information, and technical services, can, and increasingly will be, sent off shore. We already know about telephone operators sitting in Bangalore, India, answering our requests for telephone numbers, hotel reservations, and concert tickets. But Blinder suggests that the services provided by back-office accountants, lawyers, engineers, and laboratory technicians, as well as their support staff, could also be effectively supplied by employees in poor countries that work for, say, one-fifth the wages of their U.S. counterparts.

Blinder suggests that somewhere in the range of 28 to 42 million impersonal service jobs are susceptible to outsourcing. Adding these to the 14 million manufacturing jobs that are vulnerable, Blinder concludes that something like 42 to 56 million jobs that are in today's U.S. labor market are capable of being performed by workers in poor countries. This is something like one-third of all jobs in the United States today.

Is Blinder right? I think he is broadly accurate in estimating the number of jobs that are vulnerable to outsourcing. In any case, the crucial point for wage bargaining is that the employers of these 50 million workers will gain increased leverage over their workers, because their power to make credible threats to outsource will grow.

What is to be done about these gathering pressures? Blinder himself is deeply troubled

by the scenario he describes. However, beyond a general call to rethink all public policies, starting with education, he does not offer positive proposals for how to address the problem.

He is clear on a negative point: that trade protection is not a viable solution. I broadly agree with him, even while recognizing that a few crucial policy changes, including a weaker dollar and national health insurance, would go far to improve the global competitiveness of U.S. firms (a subject for future columns). Fundamentally, trade protection cannot reasonably offset the fact that workers in poor countries are increasingly capable of producing services as well as goods that consumers in the United States will want to buy.

We also need to recognize a central fact regarding U.S. trade policies: that poor countries need access to the markets in rich countries like the United States more than U.S. firms need protection from third world producers. Workers in poor counties, in particular, can benefit substantially from the jobs that are created when their employers succeed in selling things in the United States. These benefits are not inevitable. Being locked in a sweatshop for sixteen hours a day hardly constitutes decent employment. But the potential is there.

Either way, this still doesn't address what happens to U.S. workers. In fact, there is really only one possible choice, which is for employment creation to become a fundamental centerpiece of public policy in the United States. Otherwise, if neoliberalism prevails, the only remaining questions would be how far down we go, and how fast we get there.

An employment-targeted alternative to neoliberalism would start with promoting more high-quality personal service jobs. This means, among other things, substantially more money

for health care, education, child and elderly care. It also means supporting union organizing and allied political efforts to convert what are now poorly-paid personal service jobs—such as those in hotels, restaurants, and airports—into decent and remunerative ones. This is what current organizing struggles like Justice for Janitors and the living wage movement are mostly about.

But we also need to recognize the historic opportunities provided by a pivotal convergence between two long-term imperatives facing the U.S. economy. In addition to undertaking efforts to aggressively expand decent work opportunities over the next generation, we need to work equally aggressively to end our dependence on fossil fuels as an energy supply source. Ending fossil fuel dependency will of course be a massive project, equivalent to previous epoch-making transformations in the United States, such as rebuilding the economy around the railroad or the automobile. Depending on how it is organized, the transformation to a renewable-energy based economy can become a formidable force for job creation, in industrial research and design, manufacturing, construction, and transportation, though not enough research has yet been done to establish whether the possibilities are comparable in scale to the roughly

50 million jobs that are threatened by outsourcing.

Some obvious examples for major job-creation projects in the area of energy conservation include creating viable light-rail systems in all U.S. urban areas, improving home insulation systems through retrofitting, and transforming our existing housing stock from single-home to community-based heating-and-cooling systems. In addition, even Bush and like-minded Republicans now support the idea of subsidizing the domestic production of renewable energy sources. What's needed now is to establish which of a wide range of renewable energy possibilities—such as biomass fuels, wind energy, or direct solar sources—will also be most effective at promoting long-term job growth in the United States. The renewable energy projects most favored with public subsidies should be the ones that also are capable of promoting substantial job growth.

Moving to an employment-targeted and renewable energy economy can become feasible only through large-scale government initiatives. This may sound far-fetched given the domination of public policy thinking by neoliberalism. Yet, the choices are clear: either we break with that agenda, or working-class living standards will deteriorate even more sharply in the coming generation. ■