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Offshoring Interests and Economic Dogmas Are Destroying the US Dollar

By [Paul Craig Roberts](#)

On December 8, Chinese and French news services reported that Iran had stopped billing its oil exports in dollars.

Americans might never hear this news as the independence of the US media was destroyed in the 1990s when Rupert Murdoch persuaded the Clinton administration and the quislings in Congress to allow the US media to be monopolized by a few mega-corporations.

Iran's oil minister, Gholam Hossein Nozari, declared: "**The dollar is an unreliable currency in regards to its devaluation and the loss oil exporters have endured from this trend.**" [[Iran completely stops selling oil in U.S. dollars](#), *Xinhuanet.com*, December 8, 2007]

Iran has proposed to OPEC that the US dollar no longer be used by any oil exporting countries. As the oil emirates and the Saudis have already decided to reduce their holdings of US dollars, the US might actually find itself having to pay for its energy imports in euros or yen.

Venezuela's Chavez, survivor of a US-led coup against him and a likely target of a US assassination attempt, might follow the Iranian lead. Also, Russia's Putin, who is [fed up](#) with the US government's efforts to [encircle Russia militarily](#), will be tempted to add Russia's oil exports to the symbolic assault on the dollar.

The assault is symbolic, because the dollar is not the reserve currency due to oil exports being billed in dollars. It's the other way around. Oil exports are billed in dollars, because the dollar is the reserve currency.

What is important to the dollar's value and its role as reserve currency is whether foreigners continue to consider dollar-denominated assets sufficiently attractive to absorb the constant flow of red ink from US trade and budget deficits. If Iran and other countries do not want dollars, they can exchange them for other currencies regardless of the currency in which oil is billed.

Indeed, the evidence is that foreigners are not finding dollar-denominated assets sufficiently attractive. The dollar has declined dramatically during the Bush regime regardless of the fact that oil is billed in dollars. Iran is dropping dollars in response to the

dollar's loss of value. This is a market response to a depreciating currency, not a punitive action by Iran to sink the dollar.

Oil bills are only a small part of the problem. Oil minister Nozari's statement about the loss suffered by oil exporters applies to all exporters of all products.

A quarter century ago US oil imports accounted for the US trade deficit. The concerns expressed over the years about "**energy dependence**" accustomed Americans to [think of trade problems](#) only in terms of oil. The desire to gain "**energy independence**" has led to such foolish policies as subsidies for [ethanol](#), the [main effect](#) of which is to [drive up food prices](#) and further ravage the poor.

Today oil imports comprise a small part of the US trade deficit. During the decades when Americans were fixated on "**the energy deficit**," the US became three to four times more dependent on foreign made manufactures. America's trade deficit in manufactured goods, including advanced technology products, dwarfs the US energy deficit.

For example, the US trade deficit with China is more than twice the size of the US trade deficit with OPEC. The US deficit with Japan is about the size of the US deficit with OPEC. With an overall US trade deficit of more than \$800 billion, the deficit with OPEC only comprises one-eighth.

If abandonment of the dollar by oil exporters is not the cause of the dollar's woes, what is?

There are two reasons for the dollar's demise. One is the practice of American corporations offshoring their production for US consumers. When US corporations move to foreign countries their production of goods and services for American consumers, they convert US Gross Domestic Product (GDP) into imports. US production declines, US jobs and skill pools are destroyed, and the trade deficit increases. Foreign GDP, employment, and exports rise.

US corporations that offshore their production for US markets account for a larger share of the US trade deficit than does the OPEC energy deficit. Half or more of the US trade deficit with China consists of the offshored production of US firms. In 2006, the US trade deficit with China was \$233 billion, half of which is \$116.5 billion or \$10 billion more than the US deficit with OPEC.

The other reason for the dollar's demise is the ignorance and nonchalance of "**libertarian free market free trade economists**" about offshoring and the trade deficit.

There is a great deal to be said in behalf of free markets and free trade. However, for many economists free trade has become an ideology, and they have [ceased to think](#).

Such economists have become insouciant shells for the offshoring interests that fund their research and institutes. Their interests are tied together with those of the offshoring corporations.

Free trade economists have made three massive errors:

1. **they confuse labor arbitrage across international borders with free trade when nothing in fact is being traded,**
2. **they have forgot the two necessary conditions in order for the classic theory of free trade, which rests on the principle of comparative advantage, to be valid, and**
3. **they are ignorant of the latest work in trade theory, which shows that free trade theory was never correct even when the conditions on which it is based were prevalent.**

When a US firm moves its output abroad, the firm is arbitraging labor (and taxes, regulation, etc.) across international borders in pursuit of absolute advantage, not in pursuit of comparative advantage at home. When the US firm brings its offshored goods and services to the US to be marketed, those goods and services count as imports.

David Ricardo based comparative advantage on two necessary conditions: One is that a country's capital seek comparative advantage at home and not seek absolute advantage abroad. The other is that countries have different relative cost ratios of producing tradable goods. Under the Ricardian conditions, offshoring is prohibited.

Today capital is as internationally mobile as traded goods, and knowledge-based production functions have the same relative cost ratios regardless of the country of location. The famous Ricardian conditions for free trade are not present in today's world.

In the most important development in [trade theory](#) in 200 years, the distinguished mathematician [Ralph Gomory](#) and the distinguished economist and former president of the American Economics Association, [William Baumol](#), have shown that the case for free trade was invalid even when the Ricardian conditions were present in the world. Their book, [Global Trade and Conflicting National Interests](#), first presented as lectures at the London School of Economics, was published in 2000 by MIT Press.

While free trade economists hold on to their doctrine-turned-ideology, the US dollar and the American economy are dying.

One of the great lies of the offshoring interests is that US manufacturing is in trouble because of poor US education and a shortage of US scientists and engineers. Pundits such as Thomas Friedman have [helped to spread this ignorance](#) until it has become a dogma. Recently, [General Electric CEO Jeffrey Immelt](#) lent his weight to this falsehood. (See

["The US No Longer Drives Global Economic Growth,"](#) *Manufacturing & Technology News*, Nov. 30, 2007.)

The fact of the matter is that the offshoring of US engineering and R&D jobs and the importation of foreign engineers and scientists on work visas have combined with educational subsidies to produce a surplus of American scientists and engineers, many of whom are unable to find jobs when they graduate from university or become casualties of offshoring and H-1b visas.

Corporate interests continue to lobby Congress for more foreign workers, claiming a non-existent shortage of trained Americans, even as the Commission on Professionals in Science and Technology concludes that real salary growth for American scientists and engineers has been [flat or declining](#) for the past 10 years. The "**long trend of strong US demand for scientific and technical specialists**" has come to an end with no signs of revival. (See "**Job and Income Growth for Scientists and Engineers Comes to an End**," *Manufacturing & Technology News*, November 30, 2007.)

What economist has ever heard of a labor shortage resulting in flat or declining pay?

There is no more of a shortage of US scientists and engineers than there were weapons of mass destruction in Iraq. The US media has no investigative capability and serves up the lies that serve short-term corporate and political interests.

If it were not for the Internet that provides Americans with access to foreign news sources, Americans would live in a world of perfect disinformation.

Offshoring interests and economic dogmas have combined to create a false picture of America's economic position. While the ladders of upward mobility are being dismantled, Americans are being told that they have never had it better.

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