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## As jobs go global, govts can't afford to sit still

By JOSEPH E. STIGLITZ

THE latest buzzword in the globalisation debate is outsourcing. Suddenly Americans - long champions of globalisation - seem concerned about its adverse effects on their economy. Its ardent defenders are, of course, untroubled by the loss of jobs. They stress that outsourcing cuts costs - just as technological change improves productivity, thus increasing profits. And what is good for profits must be good for the American economy.

The laws of economics, they assert, ensure that in the long run there will be a job for everyone who wants one, as long as government does not interfere in market processes by setting minimum wages or ensuring job security, or as long as unions don't drive up wages excessively. In competitive markets, the law of demand and supply ensures that eventually, in the long run, the demand for labour will equal supply - there will be no unemployment. But as economist John Keynes put it so poignantly: In the long run, we are all dead.

Those who summarily dismiss the loss of jobs miss a key point: The United States economy has not been performing well. In addition to the trade and budget deficits, there is a jobs deficit. Over the past three-and-a-half years, the economy should have created some four to six million jobs to provide employment for new entrants into the labour force. In fact, more than two million jobs have been destroyed - the first time since Herbert Hoover's presidency at the beginning of the Great Depression that there has been a net job loss in the US economy over the term of an entire presidential administration.

At the very least, this shows that markets by themselves do not quickly work to ensure there is a job for everyone who wishes to work. There is an important role for government in ensuring full employment - a role that the Bush administration has badly mismanaged. Were unemployment lower, the worries about outsourcing would be reduced.

But there is, I think, an even deeper reason for concerns about outsourcing of, say, high-tech jobs to India: It destroys the myth - which has been a central tenet of the globalisation debate in the US and other advanced industrial countries - that workers should not be afraid of globalisation.

Yes, apologists of outsourcing say, low-skilled jobs will be lost in areas like textiles to low-wage labour in China and elsewhere. But this is supposedly a good thing, not a bad thing, because the US should be specialising in its areas of comparative advantage, involving skilled labour and advanced technology. What is required is 'upskilling': improving the quality of education, especially in science and technology.

But this argument no longer seems convincing. The US is producing fewer engineers than China and India, and, even if engineers from those developing countries are at some disadvantage, either because of training or location, that disadvantage is more than offset by wage differentials. Engineers and computer specialists in the US and other developed countries will either have to accept a wage cut and/or they will be forced into unemployment and/or to seek other employment - surely at lower wages.

If America's highly-trained personnel are unable to withstand the onslaught of outsourcing, what about those who are even less trained? Yes, the US may be able to maintain a competitive advantage at the very top, the breakthrough research, the invention of the next laser. But a majority of even highly-trained engineers and scientists are involved in what is called 'ordinary science', the important, day-to-day improvements in technology that are the basis of long-term increases in productivity - and it is not clear the US has a long-term competitive advantage here.

Two lessons emerge from the outsourcing debate. First, as the US grapples with the challenges of adjusting to globalisation, it should be more sensitive to the plight of developing countries, which have far fewer resources to cope. After all, if the US, with its relatively low level of unemployment and social safety net, finds it must take action to protect its workers and firms against competition from abroad - whether in software or steel - such action by developing countries is all the more justified.

Second, the time for the US to worry is now. Many of globalisation's advocates continue to claim that the number of jobs outsourced is relatively small. There is controversy, of course, about the eventual size, with some claiming that as many as one job in two might eventually be outsourced, others contending that the potential is much more limited. Haircuts, like a host of other activities requiring detailed local knowledge, cannot be outsourced.

But even if the eventual numbers are limited, there can be dramatic effects on workers and income distribution. Growth will be enhanced, but workers may be worse off - and not just those who lose their jobs. This has already happened in some developed countries: In the 10 years that have passed since the signing of the North American Free Trade Agreement, average real wages in the US have actually declined.

Putting one's head in the sand and pretending everyone will benefit from globalisation is foolish. The problem with globalisation today is precisely that a few may benefit and a majority may be worse off, unless government takes an active role in managing and shaping it. This is the most important lesson of the debate over outsourcing.

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