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The New Face of Class Warfare

By [Paul Craig Roberts](#)

For decades Democrats seemed to have a monopoly on class war with demagoguery of "**the rich.**" Today it is the rich who are instigating class war with attacks on middle class jobs. The ladders of upward mobility are being dismantled. America, the land of opportunity, is giving way to polarization between rich and poor.

The assault on jobs predates the Bush regime. However, the loss of middle class jobs has become particularly intense in the 21st century, and, like other pressing problems, has been ignored by President Bush, who is focused on instigating war in the Middle East and a police state at home. The lives and careers that are being lost to the carnage of a gratuitous war in Iraq are paralleled by the economic destruction of careers, families and communities in the U.S. Since the days of President Franklin D. Roosevelt in the 1930s, the U.S. government has sought to protect employment of its citizens. Bush has turned his back on this responsibility. He has given his support to the offshoring of American jobs that is eroding the living standards of Americans. Whether this is an impeachable offense, it is another example of his betrayal of the public trust.

"Free trade" and **"globalization"** are the guises behind which class war is being conducted against the middle class by both political parties. Patrick J. Buchanan, a three-time contender for the presidential nomination, put it well when he wrote (March 10, 2006, [World Net Daily column](#):) that NAFTA and the various so-called trade agreements were never trade deals. The agreements were enabling acts that enabled U.S. corporations to dump their American workers, avoid Social Security taxes, health care and pensions, and move their factories offshore to locations where labor is cheap.

The offshore outsourcing of American jobs has nothing to do with free trade based on comparative advantage. Offshoring is labor arbitrage. First world capital and technology are not seeking comparative advantage at home in order to compete abroad. They are seeking absolute advantage abroad in cheap labor.

Two recent developments made possible the supremacy of absolute over comparative advantage: the high speed Internet and the collapse

of world socialism, which opened China's and India's vast under-utilized labor resources to first world capital.

In times past first world workers had nothing to fear from cheap labor abroad. Americans worked with superior capital, technology and business organization. This made Americans far more productive than Indians and Chinese, and, as it was not possible for U.S. firms to substitute cheaper foreign labor for U.S. labor, American jobs and living standards were not threatened by low wages abroad or by the products that these low wages produced.

The advent of offshoring has made it possible for U.S. firms using first world capital and technology to produce goods and services for the U.S. market with foreign labor. The result is to separate Americans' incomes from the production of the goods and services that they consume. This new development, often called "**globalization**," allows cheap foreign labor to work with the same capital, technology and business know-how as U.S. workers. The foreign workers are now as productive as Americans, with the difference being that the large excess supply of labor that overhangs labor markets in China and India keeps wages low. Labor that is equally productive but paid a fraction of the wage is a magnet for Western capital and technology.

Although a new development, offshoring is destroying entire industries, occupations and communities in the United States. The devastation of U.S. manufacturing employment was waved away with promises that a "**new economy**" based on high tech knowledge jobs would take its place. Education and retraining were touted as the answer.

In testimony before the [U.S.-China Commission](#) (September 25, 2003:[[PDF](#)]), I explained that offshoring is the replacement of U.S. labor with foreign labor in U.S. production functions over a wide range of tradeable goods and services. As the production of most tradeable goods and services can be moved offshore, there are no replacement occupations for which to train except in domestic "**hands on**" services such as barbers, manicurists, and hospital orderlies. No country benefits from trading its professional jobs, such as engineering, for domestic service jobs.

At a Brookings Institution conference in Washington, D.C., in January 2004, I [predicted](#) that if the pace of jobs outsourcing and occupational destruction continued, the U.S. would be a third world country in 20 years. Despite my regular updates on the poor performance of U.S.

job growth in the 21st century, economists have insisted that offshoring is a manifestation of free trade and can only have positive benefits overall for Americans.

Reality has contradicted the glib economists. The new high tech knowledge jobs are being outsourced abroad even faster than the old manufacturing jobs. Establishment economists are beginning to see the light. Writing in *Foreign Affairs* (March/April 2006) Princeton economist and former Federal Reserve vice-chairman Alan Blinder [concludes](#) that economists who insist that offshore outsourcing is merely a routine extension of international trade are overlooking a major transformation with significant consequences. Blinder estimates that 42-56 million American service sector jobs are [susceptible](#) to offshore outsourcing. Whether all these jobs leave, U.S. salaries will be forced down by the willingness of foreigners to do the work for less.

Software engineers and information technology workers have been especially hard hit. Jobs offshoring, which began with call centers and back-office operations, is rapidly moving up the value chain. *Business Week's* Michael Mandel ([September 15, 2005](#):) compared starting salaries in 2005 with those in 2001. He found a 12.7% decline in computer science pay, a 12% decline in computer engineering pay, and a 10.2% decline in electrical engineering pay. Marketing salaries experienced a 6.5% decline and business administration salaries fell 5.7%. Despite Sarbanes-Oxley, a make-work law for accountants, even accounting majors were offered 2.3% less.

Using the same sources as the *Business Week* article (salary data from the National Association of Colleges and Employers and BLS data for inflation adjustment), Professor Norm Matloff at the University of California, Davis, made the same comparison for master degree graduates. He found that between 2001 and 2005 starting pay for master degrees in computer science, computer engineering and electrical engineering fell 6.6%, 13.7%, and 9.4% respectively.

On February 22, 2006, CNNMoney.com staff writer Shaheen Pasha [reported](#) that America's large financial institutions are moving **"large portions of their investment banking operations abroad."** Offshoring is now killing American jobs in research and analytic operations, foreign exchange trades and highly complicated credit derivatives contracts. Deal-making responsibility itself may eventually move abroad. Deloitte Touche says that the financial services industry will move 20 percent of its total costs base offshore by the end of 2010. As the costs are lower in India, the move will represent more

than 20 percent of the business. A job on Wall St is a declining option for bright young persons with high stress tolerance as America's last remaining advantage is outsourced.

According to Norm Augustine, former CEO of Lockheed Martin, even McDonald jobs are on the way offshore. Augustine reports that McDonald is experimenting with replacing error-prone order takers with a system that transmits orders via satellite to a central location and from there to the person preparing the order. The technology lets the orders be taken in India or China at costs below the U.S. minimum wage and without the liabilities of U.S. employees.

American economists, some from incompetence and some from being bought and paid for, described globalization as a **"win-win"** development. It was supposed to work like this: The U.S. would lose market share in tradable manufactured goods and make up the job and economic loss with highly-educated knowledge workers. The win for America would be lower-priced manufactured goods and a white collar work force. The win for China would be manufacturing jobs that would bring economic development to that country.

It did not work out this way, as Morgan Stanley's Stephen Roach, formerly a cheerleader for globalization, [recently admitted](#). It has become apparent that job creation and real wages in the developed economies are seriously lagging their historical norms as offshore outsourcing displaces the **"new economy" jobs in "software programming, engineering, design, and the medical profession, as well as a broad array of professionals in the legal, accounting, actuarial, consulting, and financial services industries"**. The real state of the U.S. job market is [revealed](#) by a *Chicago Sun-Times* report on January 26, 2006, that 25,000 people applied for 325 jobs at a new Chicago Wal-Mart.

According to the Bureau of Labor Statistics (BLS) [payroll jobs data](#), over the past half-decade (January 2001—January 2006, the data series available at time of writing) the US economy created 1,050,000 net new private sector jobs and 1,009,000 net new government jobs for a total five-year figure of 2,059,000. That is seven million jobs short of keeping up with population growth, definitely a serious job shortfall.

The BLS payroll jobs data contradict the hype from business organizations, such as the U.S. Chamber of Commerce, that offshore outsourcing is good for America. Large corporations, which have

individually dismissed thousands of their U.S. employees and replaced them with foreigners, claim that jobs outsourcing allows them to save money that can be used to hire more Americans. The corporations and the business organizations are very successful in placing this disinformation in the media. The lie is repeated everywhere and has become a mantra among no-think economists and politicians. However, no sign of these jobs can be found in the payroll jobs data. But there is abundant evidence of the lost American jobs.

During the past five years (January 01—January 06), the information sector of the U.S. economy lost 644,000 jobs or 17.4% of its work force. Computer systems design and related lost 105,000 jobs or 8.5% of its work force. Clearly, jobs offshoring is not creating jobs in computers and information technology. Indeed, jobs offshoring is not even creating jobs in related fields.

U.S. manufacturing lost 2.9 million jobs, almost 17% of the manufacturing work force. The wipeout is across the board. Not a single manufacturing payroll classification created a single new job.

The declines in some manufacturing sectors have more in common with a country undergoing saturation bombing during war than with a super-economy that is **"the envy of the world."** In five years, communications equipment lost 42% of its workforce. Semiconductors and electronic components lost 37% of its workforce. The workforce in computers and electronic products declined 30%. Electrical equipment and appliances lost 25% of its employees. The workforce in motor vehicles and parts declined 12%. Furniture and related products lost 17% of its jobs. Apparel manufacturers lost almost half of the work force. Employment in textile mills declined 43%. Paper and paper products lost one-fifth of its jobs. The work force in plastics and rubber products declined by 15%.

For the five year period, U.S. job growth was limited to four areas: education and health services, state and local government, leisure and hospitality, and financial services. There was no U.S. job growth outside these four areas of domestic nontradable services.

Oracle, for example, which has been handing out thousands of pink slips, has recently announced two thousand more jobs [being moved to India](#) . How is Oracle's move of U.S. jobs to India creating American jobs in nontradable services such as waitresses and bartenders, hospital orderlies, state and local government and credit agencies?

Engineering jobs in general are in decline, because the manufacturing sectors that employ engineers are in decline. During the last five years, the U.S. work force lost 1.2 million jobs in the manufacture of machinery, computers, electronics, semiconductors, communication equipment, electrical equipment, motor vehicles and transportation equipment. The BLS payroll job numbers show a total of 69,000 jobs created in all fields of architecture and engineering, including clerical personnel, over the past five years. That comes to a mere 14,000 jobs per year (including clerical workers). What is the annual graduating class in engineering and architecture? How is there a shortage of engineers when more graduate than can be employed?

Of course, many new graduates take jobs opened by retirements. We would have to know the retirement rates to get a solid handle on the fate of new graduates. But it cannot be very pleasant, with declining employment in the manufacturing sectors that employ engineers and a minimum of 65,000 H-1B work visas annually for foreigners plus an indeterminate number of L-1 work visas.

It is not only the Bush regime that bases its policies on lies. Not content with moving Americans' jobs abroad, corporations want to fill the jobs remaining in America with foreigners on work visas. Business organizations allege shortages of engineers, scientists and even nurses. Business organizations have successfully used public relations firms and bought-and-paid-for "**economic studies**" to convince policymakers that American business cannot function without H-1B visas that permit the importation of indentured employees from abroad who are paid less than the going US salaries. The so-called shortage is, in fact, a replacement of American employees with foreign employees, with the soon-to-be-discharged American employee first required to train his replacement.

It is amazing to see free-market economists rush to the defense of H-1B visas. The visas are nothing but a subsidy to U.S. companies at the expense of US citizens.

Keep in mind this H-1B subsidy to U.S. corporations for employing foreign workers in place of Americans as we examine the Labor Department's job projections over the 2004-2014 decade.

All of the occupations with the largest projected employment growth (in terms of the number of jobs) over the next decade are in nontradable domestic services. The [top ten sources](#) of the most jobs in "**superpower**" America are: retail salespersons, registered nurses,

postsecondary teachers, customer service representatives, janitors and cleaners, waiters and waitresses, food preparation (includes fast food), home health aides, nursing aides, orderlies and attendants, general and operations managers. Note that none of this projected employment growth will contribute one nickel toward producing goods and services that could be exported to help close the massive U.S. trade deficit. Note, also, that few of these job classifications require a college education.

Among the fastest growing occupations (in terms of rate of growth), seven of the ten are in health care and social assistance. The three remaining fields are: network systems and data analysis with 126,000 jobs projected or 12,600 per year; computer software engineering applications with 222,000 jobs projected or 22,200 per year, and computer software engineering systems software with 146,000 jobs projected or [14,600 per year](#).

Assuming these projections are realized, how many of the computer engineering and network systems jobs will go to Americans? Not many, considering the 65,000 H-1B visas each year (bills have been introduced in Congress to raise the number) and the loss during the past five years of 761,000 jobs in the information sector and computer systems design and related.

Judging from its ten-year jobs projections, the U.S. Department of Labor does not expect to see any significant high-tech job growth in the U.S. The knowledge jobs are being outsourced even more rapidly than the manufacturing jobs. The so-called "**new economy**" was just another hoax perpetrated on the American people.

If outsourcing jobs offshore is good for U.S. employment, why won't the U.S. Department of Commerce release the 200-page, \$335,000 study of the impact of the offshoring of U.S. high-tech jobs? Republican political appointees reduced the 200-page report to 12 pages of public relations hype and refuse to allow the Technology Administration experts who wrote the report to testify before Congress. Democrats on the House Science Committee are unable to pry the study out of the hands of Commerce Secretary Carlos Gutierrez. On March 29, 2006, Republicans on the House Science Committee voted down a resolution (H.Res. 717) designed to force the Commerce Department to release the study to Congress. Obviously, the facts don't fit the Bush regime's globalization hype.

The BLS payroll data that we have been examining tracks employment by industry classification. This is not the same thing as occupational classification. For example, companies in almost every industry and area of business employ people in computer-related occupations. A recent study from the Association for Computing Machinery claims: **"Despite all the publicity in the United States about jobs being lost to India and China, the size of the IT employment market in the United States today is higher than it was at the height of the dot.com boom. Information technology appears as though it will be a growth area at least for the coming decade."**

We can check this claim by turning to the [BLS Occupational Employment Statistics](#) . We will look at "[computer and mathematical employment](#)" and "[architecture and engineering employment](#)" .

Computer and mathematical employment includes such fields as **"software engineers applications," "software engineers systems software," "computer programmers," "network systems and data communications,"** and **"mathematicians."** Has this occupation been a source of job growth?

In November of 2000 this occupation employed [2,932,810 people](#) . In November of 2004 (the latest data available), this occupation employed 2,932,790, or 20 people fewer. Employment in this field has been stagnant for four years.

During these four years, there have been employment shifts within the various fields of this occupation. For example, employment of computer programmers declined by 134,630, while employment of software engineers applications rose by 65,080, and employment of software engineers systems software rose by 59,600. (These shifts probably merely reflect change in job title from programmer to software engineer.)

These figures do not tell us whether any gain in software engineering jobs went to Americans. According to Professor Norm Matloff, in 2002 there were 463,000 computer-related H-1B visa holders in the US. Similarly, the 134,630 lost computer programming jobs (if not merely a job title change) may have been outsourced offshore to foreign affiliates.

Architecture and engineering employment includes all the architecture and engineering fields except software engineering. The total employment of architects and engineers in the U.S. declined by

120,700 between November 1999 and November 2004. Employment declined by 189,940 between November 2000 and November 2004, and by 103,390 between November 2001 and November 2004.

There are variations among fields. Between November 2000 and November 2004, for example, U.S. employment of electrical engineers fell by 15,280. Employment of computer hardware engineers rose by 15,990 (possibly these are job title reclassifications). Overall, however, over 100,000 engineering jobs were lost. We do not know how many of the lost jobs were outsourced offshore to foreign affiliates or how many American engineers were dismissed and replaced by foreign holders of H-1B or L-1 visas.

Clearly, engineering and computer-related employment in the U.S. has not been growing, whether measured by industry or by occupation. Moreover, with a half million or more foreigners in the U.S. on work visas, the overall employment numbers do not represent employment of Americans.

American employees have been abandoned by American corporations and by their representatives in Congress. America remains a land of opportunity--but for foreigners--not for the native born. A country whose work force is concentrated in domestic nontradable services has no need for scientists and engineers and no need for universities. Even the projected jobs in nursing and school teachers can be filled by foreigners on H-1B visas.

In the U.S. the myth has been firmly established that the jobs that the U.S. is outsourcing offshore are being replaced with better jobs. There is no sign of these jobs in the payroll jobs data or in the occupational employment statistics. When a country loses entry level jobs, it has no one to promote to senior level jobs. When manufacturing leaves, so does engineering, design, research and development, and innovation itself.

On February 16, 2006, the *New York Times* [reported on a new study](#) presented to the National Academies that concludes that outsourcing is climbing the skills ladder. A survey of 200 multinational corporations representing 15 industries in the U.S. and Europe found that 38 percent planned to change substantially the worldwide distribution of their research and development work, sending it to India and China. According to the *New York Times*, **"More companies in the survey said they planned to decrease research and development**

employment in the United States and Europe than planned to increase employment."

The study and the discussion it provoked came to untenable remedies. Many believe that a primary reason for the shift of R&D to India and China is the erosion of scientific prowess in the U.S. due to lack of math and science proficiency of American students and their reluctance to pursue careers in science and engineering. This belief begs the question why students would chase after careers that are being outsourced abroad.

The main author of the study, Georgia Tech professor Marie Thursby, believes that American science and engineering depend on having **"an environment that fosters the development of a high-quality work force and productive collaboration between corporations and universities."** The Dean of Engineering at the University of California, Berkeley, thinks the answer is to recruit the top people in China and India and bring them to Berkeley. No one seems to understand that research, development, design, and innovation take place in countries where things are made. The loss of manufacturing means ultimately the loss of engineering and science. The newest plants embody the latest technology. If these plants are abroad, that is where the cutting edge resides.

The denial of jobs reality has become an art form for economists, libertarians, the Bush regime, and journalists. Except for Lou Dobbs, no accurate reporting is available in the **"mainstream media."**

Economists have failed to examine the incompatibility of offshoring with free trade. Economists are so accustomed to shouting down protectionists that they dismiss any complaint about globalization's impact on domestic jobs as the ignorant voice of a protectionist seeking to preserve the buggy whip industry. Matthew J. Slaughter, a Dartmouth economics professor rewarded for his service to offshoring with appointment to President Bush's Council of Economic Advisers, suffered no harm to his reputation when he wrote: **"For every one job that U.S. multinationals created abroad in their foreign affiliates, they created nearly two U.S. jobs in their parent operations."** In other words, Slaughter claims that offshoring is creating more American jobs than foreign ones.

How did Slaughter arrive at this conclusion? Not by consulting the BLS payroll jobs data or the BLS Occupational Employment Statistics. Instead, Slaughter measured the growth of U.S. multinational

employment and failed to take into account the two reasons for the increase in multinational employment: (1) Multinationals acquired many existing smaller firms, thus raising multinational employment but not overall employment, and (2) many U.S. firms established foreign operations for the first time and thereby became multinationals, thus adding their existing employment to Slaughter's number for multinational employment.

ABC News' John Stossel, a libertarian hero, recently [made a similar error](#). In debunking Lou Dobbs' concern with U.S. jobs lost to offshore outsourcing, Stossel invoked the California-based company, [Collabnet](#). He [quotes the CEO's claim](#) that outsourcing saves his company money and lets him hire more Americans. Turning to Collabnet's web page, it is very interesting to see the employment opportunities that the company posts for the United States and for India.

In India, Collabnet has openings (at time of writing) for eight engineers, a sales engineer, a technical writer and a telemarketing representative. In the U.S. Collabnet has openings for one engineer, a receptionist/office assistant, and positions in marketing, sales, services and operations. Collabnet is a perfect example of what Lou Dobbs and I report: the engineering and design jobs move abroad, and Americans are employed to sell and market the foreign-made products.

Other forms of deception are widely practiced. For example, Matthew Spiegleman, a Conference Board economist, claims that manufacturing jobs are only slightly higher paid than domestic service jobs, so there is no meaningful loss in income to Americans from offshoring. He reaches this conclusion by comparing only hourly pay and leaving out the longer manufacturing work week and the associated benefits, such as health care and pensions.

Occasionally, however, real information escapes the spin machine. In February 2006 the National Association of Manufacturers, one of offshoring's greatest boosters, released a report, "[U.S. Manufacturing Innovation at Risk](#)," by economists Joel Popkin and Kathryn Kobe . **The economists find that U.S. industry's investment in research and development is not languishing after all. It just appears to be languishing, because it is rapidly being shifted overseas:** "Funds provided for foreign-performed R&D have grown by almost 73 percent between 1999 and 2003, with a 36 percent increase in the number of firms funding foreign R&D."

US industry is still investing in R&D after all; it is just not hiring Americans to do the research and development. U.S. manufacturers still make things, only less and less in America with American labor. U.S. manufacturers still hire engineers, only they are foreign ones, not American ones.

In other words, everything is fine for U.S. manufacturers. It is just their former American work force that is in the doldrums. As these Americans happen to be customers for U.S. manufacturers, U.S. brand names will gradually lose their U.S. market. U.S. household median income has fallen for the past five years. Consumer demand has been kept alive by consumers' spending their savings and home equity and going deeper into debt. It is not possible for debt to forever rise faster than income.

The United States is the first country in history to destroy the prospects and living standards of its labor force. It is amazing to watch freedom-loving libertarians and free-market economists serve as apologists for the dismantling of the ladders of upward mobility that made the America of old an opportunity society.

America has begun a polarization into rich and poor. The resulting political instability and social strife will be terrible.

Dr. Roberts is author or coauthor of eight books and has contributed to numerous scholarly publications. He has had careers in academia, journalism, business, and government, serving in the congressional staff and as Assistant Secretary of the Treasury in the Reagan administration. He was educated at Georgia Tech, the University of Virginia, the University of California, Berkeley, and Oxford University, where he was a member of Merton College.

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