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June 03, 2005

US Labor Force: One Foot in the Third World

By [Paul Craig Roberts](#)

In May the Bush economy eked out a paltry 73,000 private sector jobs: 20,000 jobs in [construction](#) (primarily for [Mexican immigrants](#)), 21,000 jobs in wholesale and retail trade, and 32,500 jobs in health care and social assistance. Local government added 5,000 for a grand total of 78,000.

Not a single one of these jobs produces an exportable good or service. With Americans increasingly divorced from the production of the [goods and services that they consume](#), Americans have no way to pay for their consumption except by handing over to foreigners more of their accumulated stock of wealth. The country continues to eat its seed corn.

Only 10 million Americans are classified as "**production workers**" in the Bureau of Labor Statistics nonfarm payroll tables. Think about that.

The US with a population approaching 300 million has only 10 million production workers. That means Americans are consuming the [products of other countries labor](#).

In the 21st century the US economy has been unable to create jobs in export and import-competitive industries. US job growth is confined to nontradable domestic services.

This movement of the American labor force toward third world occupations in domestic services has dire implications both for US living standards and for America's status as a superpower.

Economists and policymakers are in denial while the US economy implodes in front of their noses. The [US-China Commission](#) is making a great effort to bring [reality](#) to policymakers by holding a series of hearings to explore the depths of American decline.

The commissioners got an earful at the May 19 hearings in New York at the Council on Foreign Relations. [Ralph Gomory](#) explained that America's naïve belief that offshore outsourcing and globalism are working for America is based on a 200 year old trade theory, the premises of which do not reflect the modern world.

[Clyde Prestowitz](#), author of the just published [Three Billion New Capitalists: The Great Shift of Wealth and Power to the East](#), explained that America's prosperity is an illusion. Americans feel prosperous because they are consuming \$700 billion annually more than they are producing. Foreigners, principally Asians, are financing US over-consumption, because we are paying them by handing over our markets, our jobs, and our wealth.

My former *Business Week* colleague, Bill Wolman, explained the consequences for US workers of suddenly facing direct labor market competition from hundreds of millions of Chinese and Indian workers.

Toward the end of the 20th century three developments came together that are rapidly moving high productivity, high value-added jobs that pay well away from the US to Asia: the collapse of world socialism which vastly increased the supply of labor available to US capital; the rise of the high speed Internet; the extraordinary international mobility of US capital and technology.

First world capital is rapidly deserting first world labor in favor of third world labor, which is much cheaper because of its abundance and low cost of living. Formerly, America's high real incomes were protected from cheap foreign labor, because US labor worked with more capital and better technology, which made it more productive. Today, however, US capital and technology move to cheap labor, or cheap labor moves via the Internet to US employment.

The reason economic development in China and some Indian cities is so rapid is because it is fueled by the offshore location of first world corporations.

Prestowitz is correct that the form that globalism has taken is shifting income and wealth from the first world to the third world. The rise of Asia is coming at the expense of the American worker.

Global competition could have developed differently. US capital and technology could have remained at home, protecting US incomes with high productivity. Asia would have had to raise itself up without the inside track of first world offshore producers.

Asia's economic development would have been slow and laborious and would have been characterized by a gradual rise of Asian incomes toward US incomes, not by a jarring loss of American jobs and incomes to Asians.

Instead, US corporations, driven by the short-sighted and ultimately destructive focus on quarterly profits,

chose to drive earnings and managerial bonuses by substituting cheap Asian labor for American labor.

American businesses' short-run profit maximization plays directly into the hands of thoughtful Asian governments with long-run strategies. As Prestowitz [informed the commissioners](#), China now has more semiconductor plants than the US. Short-run goals are reducing US corporations to brand names with sales forces marketing foreign made goods and services.

By substituting foreign for American workers, US corporations are destroying their American markets. As American jobs in the higher paying manufacturing and professional services are given to Asians, and as American schoolteachers and nurses lose their occupations to foreigners imported under work visa programs, American purchasing power dries up, especially once all the home equity is spent, credit cards are maxed out and the dollar loses value to the Asian currencies.

The dollar is receiving a short-term respite as a result of the rejection of the European Union by France and Holland. The fate of the Euro, which rose so rapidly in value against the dollar in recent years, is uncertain, thus possibly cutting off one avenue of escape from the over-produced US dollar.

However, nothing is in the works to halt America's decline and to put the economy on a path of true prosperity. In January 2004, I told a [televised conference of the Brookings Institution](#) in Washington, DC, that the US would be a third world economy in 20 years. I was projecting the economic outcome of the US labor force being denied first world employment and forced into the low productivity occupations of domestic services.

Considering the vast excess supplies of labor in India and China, Asian wages are unlikely to rapidly approach existing US levels. Therefore, the substitution of Asian for US labor in tradable goods and services is likely to continue.

As US students seek employments immune from outsourcing, engineering enrollments are declining.

The exit of so much manufacturing is destroying the supply chains that make manufacturing possible.

The Asians will not give us back our economy once we have lost it. They will not play the **"free trade"** game and let their labor force be displaced by cheap American labor.

Offshore outsourcing is dismantling the ladders of America's fabled upward mobility. The US labor force already has one foot in the third world. By 2024 the US will be a has-been country.

Paul Craig Roberts, a former Reagan Administration official, is the author of [The Supply-Side Revolution](#) and, with Lawrence M. Stratton, of [The Tyranny of Good Intentions : How Prosecutors and Bureaucrats Are Trampling the Constitution in the Name of Justice](#). Click [here](#) for Peter Brimelow's Forbes Magazine interview with Roberts about the recent epidemic of prosecutorial misconduct.

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