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The jobs question

By Paul Craig Roberts
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In the current economic recovery, low-pay, low-skill jobs account for twice the normal job growth, reports Stephen Roach, chief economist for Morgan Stanley (New York Times, July 22).

Mr. Roach attributes the low quality of new U.S. jobs to globalization: "Under unrelenting pressure to cut costs, American companies are now replacing high-wage workers here with like quality, low-wage workers abroad. With new information technologies allowing products and now knowledge-based services to flow more easily cross borders, global labor arbitrage is likely to be an enduring feature of the economy. What are we going to do about it?," he asks.

So long as most economists and elected officials remain in total denial, we are unlikely to do anything about it.

Desirous of demonstrating globalization is creating more U.S. jobs than it is destroying, normally sound economists are making fundamental analytical and empirical errors. For example, Matthew J. Slaughter, a professor at Dartmouth, recently concluded that over 1991-2001, "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."

This would be good news, if true. Unfortunately, in measuring the growth of U.S. multinational employment Mr. Slaughter did not take into account the two biggest forces driving multinational employment during that period. Multinational employment grew because multinationals acquired many existing smaller firms and many firms became multinational by establishing foreign operations for the first time.

In brief, Mr. Slaughter overlooked the real reasons more people work for multinationals and mistakenly concluded the employment growth was due to stimulus to U.S. employment caused by outsourcing.

Matthew Spiegelman, a Conference Board economist, is similarly afflicted with a case of the denials as he stumbles through the data. Mr. Spiegelman wants to show there is not much remunerative difference between service and manufacturing jobs. To this end, he compares hourly wages and concludes manufacturing pay is only slightly higher.

As Charles McMillion of MBG Information Services pointed out to me, Mr. Spiegelman thus overlooks substantial differences in compensation that stem from manufacturing employees working more weekly hours and from a much larger share of their employers providing pension and health-care benefits.

Economists don't seem to understand globalization, and that's a puzzle. On low foreign wages, Dartmouth's Mr. Slaughter writes: "Low wages do not necessarily mean low production costs abroad. This is because low wages are mainly a signal of low worker productivity. In much of the world, workers are less productive than their American counterparts because they enjoy less access to the training, tools, ideas, and broad market institutions that are the foundations of high productivity."

Once this was true. That was when U.S. employees, working with U.S. capital, technology and business know-how, produced products to compete in import and export markets against products made by foreign workers working with less capital and inferior technology. Those days are gone in international trade.

Today when a U.S. multinational moves a factory from Ohio to China, the Chinese labor works with the same capital and technology that once employed Americans in Ohio. The Chinese workers are not less productive, but their wage is far lower.

Dartmouth's Mr. Slaughter is wrong to attribute low Chinese wages to low productivity. The wages are low because of the enormous excess labor supply in the Chinese market.

Morgan Stanley's Stephen Roach is correct to differentiate between free trade and "global labor arbitrage." U.S. employers substitute cheaper foreign labor for U.S. labor in the goods and services they supply to markets at home and abroad.

As a result, the U.S. labor force is being redirected to nontradable services. Charles McMillion's monthly reports (MBG Information Services) based on the Bureau of Labor Statistics payroll data show job growth in the current recovery is concentrated in domestic services that cannot be outsourced.

A country whose work force is concentrated in nontradable domestic services is a Third World country. Will economists stay in denial until the U.S. reaches this destination?

Paul Craig Roberts is a columnist for The Washington Times and is nationally syndicated.