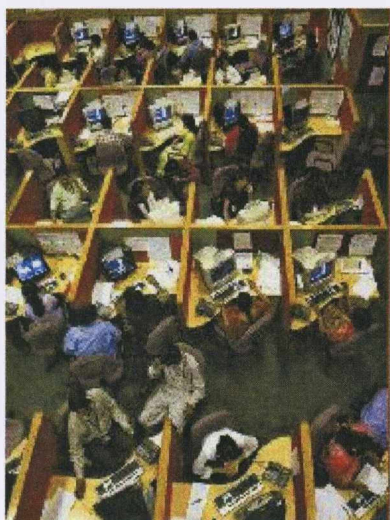


Raising the tide and lifting all boats: toward a pro-growth progressive consensus on globalization

Gene Sperling



The raging debate over outsourcing presents a challenge to both those who think we can close up our economies and those who believe all will be fine if government simply sits on the side-lines. It is the most recent illustration of how badly we need a new consensus on globalization and open markets.

On the one hand, outsourcing of services highlights the extent to which traditional opposition to globalization is unresponsive to the economic challenges we face. It is hard to see, for example, how the US repealing NAFTA, pulling out of the WTO – or even demanding a single international minimum wage – would affect whether Dell puts more call centres in India. And while outsourcing is no doubt a real and painful problem, a look at US labour market dynamics over the past couple of years confirms that our major ailment has been a lack of new *job creation* – more than excessive job destruction due to outsourcing or global competition. During 2002 and 2003, there were actually 200,000 fewer jobs destroyed per quarter than we saw in the late 1990s. We need to ensure that well-intentioned efforts to protect current jobs do not limit the dynamism and innovation that turn new ideas into new industries and drives the job creation our economy desperately needs.

Yet on the other hand, the increased numbers of white collar workers now perceiving themselves at risk of outsourcing and global competition should serve as another wake-up call to laissez-faire free traders who take an aloof, hands-off attitude to the downsides and negative implications of a dynamic global economy. Too many free-traders sit in comfortable offices in comfortable chairs extolling the benefits of global competition and technological change, and too often forget that we have a real cost-sharing crisis when we allow those dislocated by such change to pay dearly for the benefits of the dynamism that we all enjoy.

For those of us who believe we should not turn our backs on the benefits open markets can bring to innovation and competition, global poverty reduction and lower prices for hardworking families, we need to understand the anxiety over outsourcing as a symptom of the need for a broader pro-growth progressive consensus on globalization, which combines a commitment to open markets with far stronger government efforts to help share the costs and benefits of global competition and ensure that the American workforce is poised to compete and win in the global economy.

In the short-term, this means neither over-reacting to outsourcing with protectionist or anti-market policies that could restrict our ability to adapt to new technologies and industries of the future, nor ignoring the real anxieties and pain felt by many workers by failing to take constructive efforts to encourage job creation at home and prevent lax rules or misguided incentives that actually encourage the outsourcing of jobs. In the longer term it means far bolder and broader adjustment and competitiveness policies and key investments to give US workers the tools to reap the benefits of fierce global competition and technological change.

Outsourcing, Uncertainty and Humility

While there is no shortage of intense debate between the 'worry' and 'don't worry, be happy' crowd on outsourcing, the issue is deserving of more humility. The truth is that the full-impact of the outsourcing phenomenon, at least over the next several years, is uncertain, and not well-understood.

Those in the 'don't worry' crowd have important statistics on their side, but ones that may not tell the full story. They are certainly right to counter the widespread perception that the biggest problem in our very weak job market has been a rapid loss of jobs to outsourcing and overseas competition. As noted above, it is the dramatic decline in job creation, not job loss, that most distinguishes the recent period of job losses from the job gains of the late 1990s. Furthermore, estimates of the actual job loss due to outsourcing – which range from about 100,000 – 300,000 a year over the past three years – represent only about 0.1-0.2% of America's 150 million-strong workforce and only a small fraction of the total jobs lost in the constant process of upheaval that characterises our dynamic economy. Indeed, economists Martin Baily of the Institute for International Economics and Diana Farrell of the McKinsey Global Institute point out that about two million people change jobs every *month* in the American economy.

Yet, while the magnitude of the problem may appear small in some lights, those in the 'worry' crowd point to other statistics that focus on what they see as an expanding trend. In a recent survey of major US CEOs, the Business Council found that more than half had engaged in some outsourcing over the past year, and that more expected to do so in the coming year. The McKinsey Global Institute estimates that the volume of outsourcing will increase by 30 to 40 per cent a year for the next five years. A recent Goldman Sachs analysis concluded that six million jobs could be lost to outsourcing over the coming decade and a recent study by UC Berkeley economists found that an additional eight million jobs would be put at risk of outsourcing over the coming decade as well.

The real anxiety from outsourcing, however, certainly goes beyond the different estimates of the numbers. The high-profile reports of outsourcing of service jobs seems to challenge what many perceive as an implicit compact or in contract terms, 'reliance' interest: get a college education and you will be a winner in the new global economy. Even if many of the outsourced jobs are low-skilled call centre positions, reports of software programmers, accountants, radiologists and even Wall Street analysts being outsourced creates in millions of workers the fear that a college education and a professional job are no longer enough. Indeed, one of the most frequent responses from those who have lost their jobs in recent years has been: "I did everything I was told to do. I went to school, got a college degree, worked hard – this wasn't supposed to happen to me." Put another way, there is an increasing fear that global competition is precipitating a hollowing out of middle class jobs in the American economy. The extremely-skilled and extremely well-educated will still flourish and low-end, proximity-specific service jobs – like serving food, cutting hair and lawn work – will always be around, but the middle jobs upon which so many Americans rely will be increasingly shipped to India or China.

Those in the 'don't worry' camp rightly point out that such fears of 'hollowing out' have characterised numerous periods in American history, ever since Northerners worried following the Civil War that their middle class jobs would all shift to the low wage South, and in each circumstance, America has always responded by creating new jobs and new industries that might have seemed unimaginable years before. Over the long-run, there again may be reason for optimism. After all, demographic trends suggest an increasingly smaller US workforce in the years to come, and over time there will be hundreds of millions of more middle class consumers in India and China demanding new technologies and services that could be provided by US workers.

Yet, even if past history and long-term trends suggest that sooner or later high-wage job prospects will brighten, sooner or later is of little comfort when 'later' can mean real economic distress and a

devastating loss in standards of living for average Americans. Some have begun to worry that in the US today, new and expanding industries may actually be those producing lower-paying jobs. The Economic Policy Institute recently found that jobs in US industries which are currently expanding as a share of the workforce pay \$9,000 less than jobs in contracting industries. And the truth is that no one really knows how long or painful the transition period from outsourcing may be. China and India are not South Korea and Japan in size and scope. These two nations make up nearly 40 per cent of the world's population, and a seemingly limitless reserve of cheap labour. Does anyone know for sure how long it will take before we see significant wage increases in those countries? Will we face more downward pressure on wages in the US than we currently anticipate? What if the new industries of the future are slower to materialise than the industries and jobs leaving the US?

We ought to have the humility to acknowledge that we do not know the answers yet, and be open to the need to find medium-term policies that deal constructively with outsourcing, without falling to protectionist policies that limit the openness, competitiveness, flexibility and innovation that have been the hallmark of the US economy.

In this light, there is nothing wrong with policy responses that make clear to the American public that all reasonable efforts are being made to fight for jobs at home. For example, we should be willing to provide new incentives to jumpstart job growth and consider whether high health care costs or provisions in the US tax code are giving companies incentives to outsource jobs abroad, and ensure our workers that we will be vigilant in enforcing trade agreements and ensuring that low-cost competition is not being generated by abusive labour or environmental practices. Measures to provide 90-days' notice before companies outsource or efforts to ensure that workers in vulnerable industries are getting a fair chance to collectively bargain will not limit companies who feel that outsourcing is vital to their economic viability, but could do more to ensure that the dislocation caused by outsourcing is not hastened by inadequate consideration of non-outsourcing options or, as one person who worked on several boards told me they feared, the sense that everyone else was doing it.

A New Pro-Growth Progressive Consensus on Globalization

Whether or not outsourcing per se remains a hot political and economic issue, the real imperative for pro-growth progressives is to find a broader response to the global competition and rapid technological advances – what I have called the 'dynamism economy' – that drive growth and productivity, as well as constant upheaval, in our economy. For those of us who believe in structuring economic policies to both raise the tide and lift all boats, this means finding policies that embrace the global economy and the power of technological change, while ensuring the benefits of change are shared and the that the costs are not callously dumped on workers who were simply in the wrong job at the wrong time.

Six steps would be a good start:

Take Job Creation Seriously: The historic job losses we have experienced – 2.2 million private sector jobs since President Bush took office; and 589,000 even since the end of the recession – should make it clear just how important it is to focus on job creation as soon as we enter a period of economic weakness. In the US, the Bush Administration failed time after time to take this task seriously. What we needed as soon as we entered the recession in 2001 were bold but temporary stimulus measures designed to jumpstart job growth – new jobs tax credits, temporary tax cuts to families who would spend the money, support to states to prevent them from adding fuel to the downturn with tax and tuition increases and education cuts – yet within a framework of long-term fiscal discipline to help maintain confidence in our economy. Somehow, President Bush got it completely upside-down. In 2001, 2002, and again in 2003, he used economic weakness as a pretext to pass supply-side tax cuts that exploded the deficit in the long-term while providing the least possible stimulus in the short-term. In the worst period of job growth since the Great Depression, the Administration has chosen to put job creation absolutely last. Indeed, the voracity of the backlash against outsourcing may be in part a reaction to the sense that we have consistently lacked an overall policy response to help jumpstart job creation here at home.

Invest in Competitiveness: Perhaps the outsourcing debate will help more Americans internalise the long-stated pro-growth progressive argument that bold investments in education, research and/or

technology infrastructure are not about big government spending but about laying the foundation for our workforce to adapt to technological change and prosper in the face of global competition. And it highlights the need for an ambitious new universal broadband and technology infrastructure policy, as well as other policies to help even our poor and remote areas attract and compete for higher-value higher-technology jobs. After giving rise to the internet revolution, the US has now fallen to eleventh in the world in broadband penetration. Lower wages in India and China may be a fact of life, but why should we ever be out-paced because there is better broadband in Bangalore than Buffalo?

Education – Seriously: Indeed, one positive effect of the heightened anxiety about global competition for jobs could be that it forces more politicians to move beyond decades of platitudes and finally take seriously the economic imperative of ensuring all Americans receive at least four years of higher education. Outsourcing provides a new sense of urgency for educational investments from universal preschool to dramatically expanded efforts to help all kids, especially those from disadvantaged backgrounds, aspire to, and afford, a college education. While some American workers may feel, that a college education is not a fool-proof protection against dislocation due to the global economy, the real lesson here is the importance of aspiring to even greater degrees of higher education combined with an understanding that a good career may mean continual lifelong learning to increase one's adaptability to new economic trends. Progressive policymakers must go far further in expanding opportunities for lifelong learning for incumbent and dislocated workers. It also underscores the need to encourage more and more people – especially young women and minorities – into science and engineering professions, and to increase public funding of basic research that helps lay the foundation for future productivity-enhancing inventions.

A 'Preemption Strategy: When communities and workers are spiraling down due to global competition, their only option is to fight for protectionism or accept devastation. We need a preemptive strategy that gives workers other options. While the practice of government picking winners through industrial policy has been rightly discredited, we can often predict when an industry or set of workers is threatened by global competition. Why not employ 'reverse industrial policy' ideas such as creating 'globalization adjustment zones' and investment incentives for communities and retraining options for workers before, not after, jobs are lost? We could even consider buy-out strategies for small-business owners, workers and small farmers in exceptional cases where a few stakeholders block clear and broad-based interests of the US economy or global poverty reduction.



Real Dislocation Insurance, Not Token Retraining: When inevitable dislocations do occur, the United States needs a far more straightforward, universal, and generous adjustment strategy that provides real security for at-risk families. Of course, even talking about this issue is never easy: adjustment policies are the prenuptial agreements of public policy. Anyone with a job wants to hear about how to keep it or get a better one, not what a politician has to offer when everything goes wrong and they find themselves with a pink slip. Workers often affectionately refer to such adjustment strategies as 'burial insurance'.

Yet while government policy will never make dislocation pleasant, the goal, as with any good insurance policy, must be to make it far less traumatic. We need a system that allows someone to pick up a phone, call a single number and get clear instructions on all the dislocation and reemployment services available to them. We need to go even further in merging our unemployment insurance with our retraining and reemployment services to create a seamless system available at a single location, where we also provide temporary health care, mortgage assistance and wage insurance for older workers willing to work but unable to find jobs at comparable wages. We should make access universal, not dependent on whether a job was lost to trade, technological changes or global competition. And we must shed the antiquated notion of tying adjustment assistance to economic downturns, as dislocation and permanent job shifts in our economy are just as real in good times as in bad.

Break the Deadlock on Trade and Global Poverty Reduction: The debate on trade and global poverty in the US is dangerously impoverished. Too many conservatives simply assume that free trade will raise the tide and fail to ask what open-market strategies are most likely to lift all boats or show a willingness to examine in what circumstances the benefits of open markets are being spread to average workers. Too many globalization sceptics look at places where sweatshops, poverty, and open trade coexist and argue that somehow free trade is the primary cause of those conditions. While we must support labour and environmental standards at least as strong as those in the US-Jordan

Free Trade Agreement, we need to broaden our visions beyond the details of such enforcement provisions to a bolder, more creative and at times, more cooperative globalization agenda. One that works in partnership with poorer nations to achieve universal basic education, fights abusive child labour and sweatshops, strengthens civil society watchdogs and independent monitors, and helps develop and fund transition assistance and safety nets to workers and small farmers hurt by market opening, while insisting on codes of corporate conduct that support core labour rights.

Gene Sperling is the Director of Economic Programs at the Center for American Progress and a Senior Fellow for Economic Studies at the Council on Foreign Relations.

 [Printer Friendly Page](#)  [Email this Article](#)

[About Us](#) | [Activities](#) | [Progressive Policies](#) | [Publications](#) | [Progressive Governance Network](#) | [Press](#) | [Progressive Profile](#)
[Home](#) | [Search](#) | [Privacy](#) | [Contact](#) | [Login](#)

All Right Reserved. Policy Network Ltd. © Copyright 2003

