

The Next Age of Globalization

BY CLAYTON BROGA

By now “offshoring” has become almost a household term in the United States. Jobs that used to be performed on these shores increasingly are shifting overseas — to China, India, and numerous spots in Latin America. It is a simple matter of cost savings: Companies take advantage of cheaper labor by substituting foreign workers for U.S. workers.

The loss of U.S. manufacturing and service jobs due to offshoring is highly visible, leading many to call for trade restrictions. But despite the political uproar, the economic theory behind offshoring remains sound. Ultimately, both foreign nations and the United States ought to benefit from trade, whether in goods or labor. Low-cost nations gain jobs while U.S. consumers gain lower prices. The United States can then build on its comparative advantage in high-value products and services, perhaps boosting productivity and growing the overall economy.

Of course, such a transition can be painful, and it is by no means immediate. In “Offshoring: The Next Industrial Revolution?” Princeton University economist and former Federal Reserve Governor Alan Blinder takes a fresh look at offshoring and forecasts its future effects on the U.S. labor market. His main contribution is to argue that highly educated workers are not necessarily the answer to survival in the 21st century. Rather, the United States needs an education system that produces a work force geared to “personal service” jobs.

In the first Industrial Revolution, the U.S. work force shifted from agriculture to manufacturing. The second Industrial Revolution was characterized by U.S. jobs shifting from manufacturing toward services, though manufacturing remains an important part of the American economy. During these periods, only items “that could be put in a box” were considered tradable. Today, however, many things that were considered nontradable are becoming tradable as a result of improving technology and transportation. Blinder believes this marks the early stages of a third Industrial Revolution.

While this observation is not particularly unique, Blinder provides some novel ideas about how the United States ought to respond. The traditional remedy for coping with offshoring has been “more education and a general ‘upskilling’ of the work force.” The United States’ comparative advantage is increasingly in services, generally requiring highly skilled workers. But Blinder argues that the jobs threatened by offshoring today cannot be divided conventionally between jobs that require high levels of education and jobs that do

not. As a result, upskilling the work force will not necessarily slow the movement of jobs overseas. Instead, the key determinant of a job’s offshoring vulnerability is whether it is impersonal or personal, not low- or high-end. Typists, security analysts, manufacturing workers, accountants, and computer programmers are open to offshoring; taxi-drivers, airline pilots, construction workers, teachers, and nurses are likely not.

The economic effect of offshoring is impossible to ignore. Blinder predicts 28 million to 42 million current U.S. service sector jobs *could* logically be threatened by foreign competition. At the same time, he warns against attempts to halt offshoring. Efforts to protect American industries will not only fail, they will also be costly to the world economy. He says that “the world gained enormously from the first two industrial revolutions, and it is likely to do so from the third — so long as it makes the necessary economic and social adjustments.”

Blinder believes rich countries must “reorganize the nature of work to exploit their big advantage in nontradable services.” This will mean reconsidering the way

the U.S. work force is trained. On balance, he argues that a greater focus on education is probably welcome, especially if a more educated labor work force is also more flexible and can cope more readily with occupational change. But since the distinction between personal services and impersonal services does not necessarily correspond to skill level, “providing more education cannot be the whole answer.”

But there’s a catch: Blinder is also a believer in “Baumol’s disease,” which implies that achieving productivity improvements in many personal services is difficult to impossible. That’s bad news for a nation pegging its future to personal services. It means prices of personal services will rise relative to other prices. “When you add to that the likelihood that the demand for many of the increasingly costly personal services is destined to shrink relative to the demand for ever-cheaper impersonal services and manufactured goods, rich countries are likely to have some major readjustments to make,” Blinder says.

But the United States need not despair, he says. The more fluid domestic labor market is likely to adjust faster to the demands of the third Industrial Revolution than European markets. And personal service jobs bring less alienation and greater job satisfaction than impersonal ones. That said, big changes are afoot, Blinder concludes: “Offshoring will likely prove to be much more than just business as usual.” **RF**

“Offshoring: The Next Industrial Revolution?” By Alan S. Blinder.
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