

Outsourcing Our Future

Earlier this year, Hewlett-Packard CEO Carly Fiorina defended her company's decision to send American jobs to Asia by declaring, "There is no job that is America's God-given right anymore." She probably did not mean to include CEO's of Fortune 500 corporations in this statement—Hyderabad does not offer all the amenities she is used to, after all—but her blunt declaration that patriotism has no place in the board room perfectly captures the logic behind outsourcing.

Fiorina's sentiments were echoed by Greg Mankiw, the chairman of President Bush's Council of Economic Advisors, who observed that "outsourcing is just a new way of doing international trade" that would help the U.S. economy "in the long run." President Bush's response to outsourcing has been to denounce the "economic isolationists" who would rather see high-paying computer jobs stay in the United States.

The majority of Americans, however, do not share the One Worldism of the Fortune 500 and the Bush administration. A recent Gallup Poll revealed that 61 percent of Americans are concerned that they or a friend or relative might lose a job to outsourcing. The same poll showed that 85 percent of Americans feel that a candidate's stand on outsourcing will be important in how they vote, with 58 percent saying that it will be "very important." It is safe to say that not many of these voters are as enthusiastic about their jobs disappearing as Carly Fiorina is.

In one sense, the popular outrage over outsourcing is a bit puzzling. As Mankiw noted, outsourcing is perfectly consistent with the free-trade ideology that has been embraced by the elites of both parties. Those elites, however, have been telling us that, even though the loss of manufacturing jobs was somehow "inevitable," we would prosper because high-paying computer and technical jobs would be ours. The rise of outsourcing has exposed this fatuousness, as corporations rush to replace their American technical employees with foreigners. The unemployment rate for electrical engineers stands at 6.2 percent, higher than the national average. News stories have described how students

previously interested in engineering are now pursuing jobs that they expect will continue to be performed here, such as those in law and the ever-growing government bureaucracy. And the trickle of outsourcing threatens to become a flood. Forrester Research projects that 500,000 computer-programming and information-technology jobs will migrate to India alone by 2015, joining a projected total of 3.3 million private-sector service jobs moving abroad over the same period. Predictions from the University of California-Berkeley run somewhat higher: 14 million American jobs could be outsourced in the next decade.

Despite the platitudes mouthed by the Bush administration, the answer is not more education. After all, many of the jobs being sent overseas require great intelligence and an advanced education. It is not a lack of education that is causing American engineers to be replaced by Indian engineers making one fifth of what they do. Those jobs will continue to move overseas, at least until American engineers' salaries have dropped to the point where it is no longer attractive to replace them with Indians. In fact, the Bureau of Labor Statistics recently released a list of the 19 fastest-growing occupations in America, and only two—registered nurses and postsecondary education—require any advanced education at all. The blunt truth is that we can expect any job that is open to foreign competition will be performed by declining numbers of Americans at wages facing continued downward pressure.

As shown by both the February and the March job figures, the growth areas in our free-trade economy are government and areas subsidized by government, such as education and health services (which together accounted for 36,000 of the 46,000 jobs added in February), and areas insulated from foreign competition, such as retail trade, leisure and hospitality, and construction (which, together with government-related employment, accounted for over 70 percent of the job growth in March). Although the more robust March job figures are good news, this remains the slowest recovery in terms of job creation since the 1930's. Reporter

John Allen, writing in the March 7, 2004, *Washington Post*, cites Georgetown economist Harry Holzer, who notes that there has not been a similar decline in payroll jobs since the 1930's, and Johns Hopkins economist Arnold Packer, who observes that employees' share of the value added to the U.S. economy has fallen to its lowest point since such records were first kept in 1947. Four million Americans have run through unemployment benefits without finding a job, and inflation-adjusted hourly wages have barely risen over the last year—even though the economy was growing during that entire time.

More and more Americans are coming to believe that there may be something fundamentally wrong with our economy. And even some economists and businessmen are starting to rethink their adherence to free-trade ideology. CNN's Lou Dobbs has made opposition to outsourcing something of a personal crusade. Economist Jeff Madrick, writing in the March 18, 2004, *New York Times*, cites several economists who now believe that their profession has seriously underestimated the costs of job dislocation caused by free trade. And supply-side economist Paul Craig Roberts, a staunch opponent of big government and one of the architects of Ronald Reagan's 1981 tax cut, has written column after column exposing the fallacies of free-trade ideology.

The antidote to outsourcing is a return to economic patriotism by businessmen, consumers, and government. Despite what free-trade ideologues maintain, this is not synonymous with big government. Our current "recovery" has seen continued job growth in government, while private-sector jobs have disappeared, and it is hard to see government diminishing when disappearing jobs and declining wages create more government dependents, including two-income families relying on government to help with child-care and with the "advanced education" that is being touted as the remedy to job displacement. By contrast, before America embraced free trade, government was small, taxes were low, and families largely cared for themselves. Maybe that was not a coincidence.

THE U.S. ECONOMY has shown strong signs of a turn-around. The President's tax cuts have helped Americans turn an important corner. Many parts of our economy have regained their strength and have surged ahead with new vitality.

However, too many Americans need jobs. Many of these jobs have gone overseas, the result of outsourcing and offshoring trends seeking cheap labor.

We need to give our manufacturers and their suppliers incentives to put Americans back to work and to keep their jobs in the United States. I have been working for some time with more than two dozen of my Republican colleagues to make sure that the replacement for the Foreign Sales Corporation-Extraterritorial Income (FSC-ETI) tax program does not inadvertently raise taxes on manufacturing in America at exactly the wrong time. In fact, our goal is to reward companies for keeping manufacturing in the United States by giving them a lower tax rate on their domestic production. The more you produce in the United States, the lower your taxes.

American manufacturers are already at a substantial disadvantage in world markets. The United States is quickly becoming a less attractive and more costly location for operating a business. Our manufacturers know the numbers all too well. We are a relatively high-tax jurisdiction with costly regulatory burdens that reduce incentives for expansion and choke research and development. America must do something to change this situation if we are to have any hope of protecting our nation's manufacturing base.

Before we can enact substantial reforms that small-business leaders tell us will help them compete in world markets, we must first be resolved (like good doctors) to "do no harm." An FSC-ETI replacement bill that raises the costs of domestic manufacturing is unacceptable, and I am pleased that Ways and Means Committee Chairman Bill Thomas (R-CA) has moved to help secure some new savings for U.S. manufacturers in his bill. However, the current bill still leans heavily to the side of international tax relief. As a result, it would actually encourage manufacturers to send more jobs overseas, where they can get a lower tax rate for international production.

I have made several suggestions. As we

come to the end of a long period of negotiation on how best to bring the United States into compliance with the WTO's decision that we must repeal FSC-ETI, I still believe that the following principles should guide us: First, since 90 percent of FSC-ETI benefits under current law go to domestic manufacturers, domestic manufacturers should appropriately benefit under the bill — not multinational corporations operating overseas.

Second, any repeal should be aimed at helping all manufacturers, not just large corporations. The Thomas bill should be expanded to cover other forms of businesses besides C corporations, as is the case in the bill passed by the Senate Finance Committee.

Third, the Thomas bill includes a provision that increases taxes on foreign-owned companies doing business in the United States. During a period of crisis in the manufacturing sector, we should not increase taxes on these corporations that hire millions of U.S. workers. I assure you, they will create their jobs elsewhere. The Thomas earnings-stripping proposal should be modified to apply only to those companies that engage in tax avoidance.

Fourth, we should ensure that the current FSC-ETI companies and their small-business suppliers do not close their doors or move overseas when this benefit goes away. We should try to make the transition as painless as possible.

On March 1, the European Union began enforcing five-percent tariffs on certain products that U.S. manufacturers export to Europe as a penalty for Congress's failure to repeal FSC-ETI, which the World Trade Organization determined to be an unfair trade subsidy. We should work quickly to pass a clean FSC-ETI replacement bill that helps those currently receiving the benefits—American manufacturers producing in the United States.

Our competitors have enough advantages over U.S. manufacturers. It is time we gave our companies incentives to keep jobs here in the United States. The FSC-ETI replacement bill gives us the opportunity to help U.S. manufacturers keep jobs on our shores. American workers will be the big winners.

—Rep. Donald A. Manzullo
Chairman of the House Committee
on Small Business

ISRAEL'S ASSASSINATION on March 22 of Sheik Ahmad Yassin, founder of the Hamas militant group in the Gaza Strip, has prompted Arab calls for revenge against Israeli and American targets. His funeral in Gaza City, attended by more than 100,000 people, reflected a new tide of militancy throughout the region. New Hamas leader Abdelaziz Rantissi ruled out any cease-fire with Israel until she ends her occupation of the Palestinian territories. The leader of the Lebanese group Hezbollah, Sheikh Hassan Nasrallah, said that his fighters would "take the harshest revenge." Several other groups, including Islamic Jihad, have threatened to target Israeli Prime Minister Ariel Sharon, who is reported to have approved the killing.

The killing of Yassin is likely to cement even further the alliance between Palestinian nationalism and Islamic fundamentalism that he devoted his life to fostering. Until a generation ago, political Islam was an almost unknown phenomenon among Palestinians. The Arab Nationalist Movement, founded in 1950 by Georges Habache; the Fatah, started by Yasser Arafat eight years later; and the Palestine Liberation Organization, which came into being in 1964, were all secular nationalist organizations with strongly Marxist overtones. Their slogans were largely devoid of a religious component, and they were treated with some mistrust by Muslim traditionalists.

The great realignment came with the collapse of the Soviet Union. In the absence of the failed secular god, many young Palestinians turned to Allah. Sheikh Ahmad Yassin successfully offered them a blend of political Islam and the nationalist slogans of the secularists. In line with Islamic teaching, he declared that, when the infidels usurp a Muslim land, *jihad* becomes *fard-u-'ayn* (compulsory) for every single Muslim. To confront the Jews was, in Yassin's view, not only a matter of national pride and patriotic duty but a religious obligation. He succeeded in shifting the struggle against Israel from a "war of national liberation" to an act of worship for which Allah rewards those who sacrifice themselves.

Such religious contextualization of the Arab-Israeli dispute has made its resolution more difficult. For all its complexities, it was somewhat easier to look for