America R.I.P.: Death of the Middle Class, Offshoring of American Jobs

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Global Research, October 17, 2012

Region: USA
Theme: Global Economy, Poverty & Social Inequality

During the second half of the 20th century the United States was an opportunity society. The ladders of upward mobility were plentiful, and the middle class expanded. Incomes rose, and ordinary people were able to achieve old-age security.

In the 21st century the opportunity society has disappeared. Middle class jobs are scarce. Indeed, jobs of any kind are scarce. To stay even with population growth from 2002 through 2011, the economy needed about 14 million new jobs. However, at the end of 2011 there were only 1 million more jobs than in 2002. http://www.bls.gov/webapps/legacy/cesbtab1.htm

Only 426,000 of these jobs are in the private sector. The bulk of the net new jobs consist of waitresses and bartenders and health care and social assistance. According to the Bureau of Labor Statistics, over the 9 years, employment for waitresses and bartenders increased by 1,188,000. Employment in health care and social assistance increased 3,087,000. These two categories accounted for 1,000% of the net private sector job growth.

As for manufacturing jobs, they not only did not grow with the population but declined absolutely. During these nine years, 3.5 million middle class manufacturing jobs were lost.

Over the entire nine years, only 48,000 new jobs were created for architects and engineers.

In the 21st century the US economy has been able to create only a few new jobs and these are in lowly paid domestic services that cannot be offshored, such as waitresses and bartenders.

The lack of jobs, especially high value-added, high productivity jobs, is the reason real median household income has declined and the distribution of income has worsened. Without rising real household income, there cannot be a consumer economy.

In the early years of the 21st century, the Federal Reserve substituted a rise in consumer debt to drive the economy in place of the missing rise in consumer incomes. Low interest rates drove up housing prices, and people refinanced their mortgages and spent the equity. The Federal Reserve kept the economy alive by loading up consumers with debt that housing prices and consumer incomes would soon be unable to support.

When debt and real estate prices reached unsustainable levels, the bubble popped, and the ongoing financial crisis was upon us.

The cause of all of the problems is the offshoring of Americans' jobs. When jobs are moved offshore, consumers' careers and incomes, and the GDP and payroll and income tax base associated with those jobs, go with them. When the goods and services produced for American markets by offshored labor are brought into the US to be sold, the trade deficit rises, and downward pressure is put on the dollar, pushing up domestic inflation. (On October 12, statistician John Williams (shadowstats.com) reported that "third-quarter wholesale inflation jumped to an annualized 6.2%.")

Jobs offshoring is driven by Wall Street, "shareholder advocates," the threat of takeovers, and by large retailers, such as Walmart. By cutting labor costs, profits go up.

It is that simple. However, as a result of sending American jobs to cheap labor countries, US consumer incomes go down. The end result is to destroy the domestic consumer market. What would have been US consumer income growth becomes instead profit growth for US corporations.

Keynesian economists use in their textbooks the example of how the aggregate effect of individual saving could be the opposite of the effect intended by the individuals. Whereas each saver seeks to improve his position by building wealth, in the aggregate saving could exceed investment, resulting in a decline in aggregate demand and a fall in income for all.

Offshoring has the same logic. Each corporation can expect to gain more profits from moving US jobs offshore, but the aggregate effect is a fall in American consumer incomes and a reduction in the American consumer market.

I have told this story many times. But policymakers, the media, and economists seem unable to connect the dots.

Jobs offshoring has substantial implications for Social Security and Medicare. The US has the least adequate social safety net of any developed country. The two major components of the US social safety net are Social Security and Medicare for the elderly. Social Security and Medicare are financed by a payroll tax. The combined tax is 15.3% of payrolls. For the past quarter of a century the Social Security portion of the payroll tax has built up a surplus of over $2 trillion. Recently, the Medicare portion began running in the red.

Right-wing Republicans, free market ideologues, and the left-wing have all indoctrinated themselves with incorrect beliefs about Social Security and Medicare. The right-wing claims that a safety net financed with 15.3% of payrolls is a “Ponzi scheme” and an “unfunded liability.” If that is the case, then so are veterans benefits, military pensions, and federal pensions, all of which are financed by the income tax, the basis for the payroll tax.

The left-wing claims that the rich do not pay high enough payroll taxes, because the income subject to Social Security payroll tax is capped at about $110,000. But the benefits are also capped. Social Security is not supposed to be an income redistribution scheme from rich to poor, and it is not supposed to be a pension system for the rich. The pension paid is supposed to correlate with the pre-retirement income level of the retiree. Those who had higher wages or salaries and consequently paid more in payroll taxes receive a larger Social Security check than those who had lower wages and salaries and paid less payroll taxes, although there is favoritism toward the lower income earners who receive proportionally more in respect to their payroll taxes than higher income earners.

There is no cap on income subject to the Medicare portion of the payroll tax. Moreover, Medicare charges a Medicare Part B premium that is deducted from the Social Security monthly check. In addition, there is a further Part B premium based on retirement age income. For example, someone working beyond retirement age and making $250,000 per year pays about $3,800 in Medicare Part B premium in addition to the Medicare portion of the payroll tax of about $7,500. The annual premium he pays for his “free” Medicare for which he has paid all his working life with a payroll tax is about $11,300.

Moreover, Medicare by itself is insufficient coverage. To actually have medical coverage, those covered by Medicare have to purchase a supplementary private policy to cover the large gaps in Medicare. Depending on the range of coverage, a supplementary policy costs approximately $100 to $300 per month.

As the person making $250,000 per year is likely to go for the most coverage, he will be paying about $14,900 (excluding deductions and co-payments) per year for his “free” Medicare. This is despite having paid the Medicare payroll tax each year of his working life. A person who made $250,000 in taxable income per year for 30 years would have paid $217,500 into Medicare at the current Medicare payroll tax rate.

The right-wing's notion that Social Security and Medicare are handouts, part of the welfare state's bread and circuses, and the left-wing's idea that the rich get a free ride are equally untrue.

(Note: $250,000 is the politicians' dividing line between the rich and everyone else. For a person making $50,000 a year, an income five times larger can seem rich. However, a $250,000 annual income leaves a family or person far distant from the lifestyle of the rich. Upper middle class incomes are generally associated with high-tax, high-cost urban areas in states with high income taxes. After federal income and payroll taxes, state income and sales taxes, and property taxes, what appears to many as a large income disappears. In New York City, the federal income tax will take about 25% of the $250,000, New York state will take about 9%, and New York City will take about 3.65%. The combined city and state sales tax is 8.875%. The property tax is high. The conclusion is that in New York City a $250,000 income is reduced to $125,000 or thereabouts. Those who claim "the rich don't pay taxes" are not talking about $250,000 incomes.)

Social Security and Medicare have served the country well. They protect the individual from his own mistakes, from crooked and incompetent money managers, and from financial crises, and they protect society from the moral dilemma of confronting large numbers of fellow citizens who through fault or no fault of their own cannot provide for their livelihood and medical care. After the financial scandals and crisis of the past five years, it is a stretch to believe that any but the astute can manage their personal wealth, whether small or large, in today's situation of unregulated financial markets, zero interest rates, currency uncertainty, and highly complex investment instruments with computers programmed with mathematical models dominating equity trades.

The argument that conceptually a person could do better by investing his payroll taxes in the stock market is a poor basis for old age security policy. The person can do better as long as he or she doesn't fall into the hands of a Bernie Madoff or a Goldman Sachs, doesn't receive zero interest on his bonds because the Federal Reserve has to bail out the "too big to fail banks," doesn't experience a decline in currency value due to monetization of enormous federal deficits, and doesn't experience a bear market as he approaches retirement.

The right-wing ideologues who try to scare old age security out of existence go on and on about rising medical costs, about an aging population living longer, declining birthrates and a worsening ratio of workers to retirees, about people learning to rely on handouts rather than their own means, and about Washington's rising unfunded liabilities.

Scare projections are designed to scare, and most are untenable. For example, longevity was a product of rising incomes, good diet, and antibiotics. Today only the upper crust have rising incomes. Antibiotics are wearing out from abuse and rising immunity of bacteria. Diet is compromised in ways still poorly understood as a result of GMOs, pesticides, herbicides, pumping chicken, pork, and beef full of antibiotics and hormones and feeding the animals GMO grains and also possibly infected animal byproducts, and pumping our water full of fluoride. A variety of destructive activities and behaviors are causing ecological damage. Longevity might have been a short-term benefit of irreproducible conditions considering the mounting ecological damage and the rise of superbugs, stress, and tainted food and water production.

The projection of an aging population might also be wrong. Clearly, the post-World War II baby boomers are aging, but do the projections take into account the legislated 1965 immigration increases plus the illegal influx from Mexico and points south of young people with high birth rates? How can it be that a country with allegedly 30 million illegal immigrants, whose children born in the US are citizens, has a declining birth rate?

How do we know that the illegal population will not continue to increase?

There are so many Spanish speaking people in the US today that if a person calls any of his utility companies, whether telephone, Internet, water, electricity, TV, or any of his credit card companies, or his bank, he has to select English or Spanish. Obviously, as anti-immigration sites make clear, the US population is changing in its national origin, and there appears to be no sign of an aging Hispanic population. How many old Spanish speaking people do you see in the US compared to the young?

When confronted with this apparent fact, the response is: "why will the Hispanics pay for the aging white population?" The answer is: because they are in the same payroll tax system and the taxes will be withheld from their wages and salaries just as they are from everyone else's.

It is possible that if Hispanics in the US have suffered years of hostility, accusations, and hatred from "the ice people," once Hispanics are sufficiently numerous to control the legislature, assuming one still exists, or to take over the executive branch, the only seat of power, they may in retribution cut off the aging whites. But if so, the whites will have brought it on themselves.

Whatever the scare projections that are mustered to undermine the public provision of old age security, the real financial danger is never mentioned. The only significant financial danger to Social Security and Medicare is the offshoring of American jobs and GDP. A country without a job base is without a payroll tax base. If the only jobs that the 21st century "world's only superpower" economy can create are for waitresses, bartenders, and health care and social assistance (hospital orderlies and practical nurses), payroll tax revenues will be less than if the US still had 20 million workers and rising in well-paid manufacturing jobs instead of 11 million.

Regardless of Medicare's financing, the death knell for the elderly was the legality of abortion. If the yet to be born are an insufferable burden, imagine the cost of the elderly. As far as the state is concerned, once you stop producing income and payroll tax revenues for the state, it is time for you to die. Washington would rather enact euthanasia than to pay back the $2+ trillion in the Social Security trust fund that Washington spent, leaving only non-marketable IOUs in the account.

Readers might think that Americans would never stand for death by injection for the elderly once the qualified age is reached. But why would they not? They have accepted millions of aborted babies, and Americans, including the elderly, have stood for Washington's murder, maiming and displacement of millions of Muslim men, women, and children in 7 countries over the past 11 years and are yet to show any signs of remorse for their complicity in mass murder. Next month tens of millions of Americans will vote for Mitt Romney who believes Obama isn't killing Muslims fast enough.

The new "Obamneycare" health legislation does have "death panels." They are not called that, and they do not make formal decisions to terminate lives. But it comes to almost the same thing. Various panels, committees, or bureaucratic departments are empowered to make decisions about "effective care." It has long been known that most health care costs are associated with the last year of life. Cost and age will be elements in determining standards of care. The greater the weight assigned to cost, the more care will be withheld. In effect, the "effective care" panel is a "death panel."

Prior to the advent of the new "health care" system, Medicare and or hospitals are already shifting costs to Medicare patients. To avoid penalties and fraud allegations for "medically unnecessary hospitalizations," rather than formally admit Medicare patients as inpatients, hospital administrators classify them as outpatients "under observation."

According to a Brown University analysis of Medicare records in 2007, 2008, and 2009, the ratio of Medicare observation patients to those admitted as inpatients rose by 34 percent.

Being classified an outpatient under observation eliminates medicare coverages, especially for post-operative or post-accident rehabilitation care, leaving Medicare patients with bills in the tens of thousands of dollars (AARP Bulletin, October 2012).

Other costs are being shifted to doctors and to hospitals. Medicare pays fixed prices for each covered procedure or test, and these prices can be as low as half of the billed prices. During a period when costs incurred by providers of health care have been rising, Medicare has been cutting the amounts it pays providers.

As the payroll tax is commingled with general tax revenues, Social Security and Medicare payroll tax collections can be diverted to other purposes and, thus, are always subject to competing budgetary demands, such as the previous 11 years of gratuitous wars and the bailouts of "banks too big to fail," or to deficit reduction demands as the government consistently overspends all revenue sources.

A national health service is the only way to control health costs and provide the population with health care coverage. A national health system takes the many levels of profits out of the system and also reams of compliance and liability costs. A national health system can coexist with a private system for those who can afford it or whose employers are sufficiently profitable to provide it.

As Jarad Diamond reveals in his book, *Collapse*, societies fail, if not because of their moral bankruptcy, then because their rulers are only capable of short-term thinking. The future is beyond their interest. The US offshored its economy, because it worked short-term for corporate executives (rewarded with multi-million dollar performance bonuses), Wall Street (rewarded with profits), shareholders (rewarded with capital gains), and politicians (rewarded with corporate and Wall Street campaign contributions).

Incompetent free market economists confused jobs offshoring with free trade. They said the country would and was benefiting by giving its manufacturing, industrial, and tradable professional service jobs to China and India, that the US was ridding itself of "dirty fingernail jobs" and would soon be flush with highly paid high-tech jobs and highly paid financial service jobs.

None of these promises or predictions were true. Nowhere in the government's jobs statistics are there any of these promised replacement jobs. The economists who provided cover for the destruction of the US economy were rewarded by the corporations with speaking fees, grants for their university departments, and newspaper columns paid for by corporate advertisers. Those few who told the truth were expelled from the corporate media that Bill and Hilary Clinton allowed to be monopolized (for campaign contributions, of course).

The future of old age security in the United States has been lost, because the job base has been given away to foreigners in order to maximize incomes in the short-run for the few decision-makers.

The misrepresentation of jobs offshoring as free trade has destroyed the prospects of cities, counties, and states along with those of unions and millions of Americans who once had a secure future. It has destroyed the prospects of class after class of university graduates burdened with student loans who expected to step into the jobs that have been offshored or filled by H-1B visa holders from abroad.

The American work force has been forsaken by the corporations and by Washington, and this means that Social Security and Medicare have also been forsaken.

As I predicted in the early years of this new century, "the United States will be a third world country in 20 years." We might get there even sooner as Washington exhausts what little is left of American wealth in gratuitous wars in service to Israel and the US Military/Security Complex, in unaffordable military buildups in futile hopes of establishing hegemony over China and Russia, and in negative interest rates from the Federal Reserve's effort to drive up the book value of debt instruments on the balance sheets of financial institutions.

In 1817 Percy Bysshe Shelly forecast America's future:
"I met a traveler from an antique land
Who said: "Two vast and trunkless legs of stone
Stand in the desert. Near them, on the sand,
Half sunk, a shattered visage lies, whose frown,
And wrinkled lip and sneer of cold command,
Tell that its sculptor well those passions read,
Which yet survive, stampt on these lifeless things,
The hand that mockt them and the heart that fed:
On the pedestal these words appear:
'My name is Ozymandias, king of kings:
Look on my works, ye Mighty, and despair!'
Nothing beside remains. Round the decay
Of that colossal wreck, boundless and bare
The lone and level sands stretch far away."

Writing in the October 15 online CounterPunch, John V. Walsh, relying on charts prepared by economics professor Mark J. Perry at the University of Michigan and blogger John Hunter, concludes that it is a myth that US manufacturing is in decline.

Walsh says that the loss of US manufacturing jobs is due to automation, not to offshoring. Think about this for a moment. Perry's graph on which Walsh relies shows the sharp drop in US manufacturing employment to be a 21st century experience. However, automation has been around for a long time. The notion that its effect on employment only showed up in the new 21st century needs an explanation that is not provided. The steep drop in US manufacturing employment that began in 2000 does correspond with the date at which jobs offshoring began to bite hard.

Why does automation not also affect Chinese manufacturing, especially as most of the Chinese manufacturing technology came from the US as US corporations offshored their production for the US market? If Chinese manufacturing is not up to date with automation, like the US is assumed to be, how do the Chinese, even with cheap labor, undersell US automated factories? How did Chinese manufacturing employment increase in a mere four years by an amount equal to the total manufacturing employment in the US?

The US Bureau of Economic Analysis shows only 11.2 million full time US manufacturing jobs in 2010. The US Bureau of Labor Statistics shows 11.7 million US manufacturing jobs in 2011, down from 15.3 million in 2002.

In contrast, China, an industrial and manufacturing backwater for most of my life, had 112 million manufacturing jobs in 2006. In a mere four years (2002-2006), the increase in China's manufacturing employment was as large as today's total employment in US manufacturing. As of 2006, China's manufacturing employment was about 10 times the current US manufacturing employment. The Chinese population is about 4 times larger than the US population, but China's manufacturing population is proportionately greater–10 times larger. Indeed, Chinese manufacturing employees almost equal the total number of employees in all occupations in the US (Manufacturing and Technology News, December 15, 2009).

Obviously, something is wrong with Walsh's article or the graphs on which he relied.

America's manufacturing prowess cannot be found in the statistical data. The US is primarily an exporter of Agricultural commodities. The US imports almost twice the amount of manufactured goods as it exports. Indeed, according to the US Census Bureau Statistical Abstract of the US http://www.census.gov/compendia/statab/2012/tables/12s1308.pdf US imports of manufactured goods are 5.5 times larger than US imports of crude oil and 4 times larger than all imports of mineral fuel. Yet, we hear about energy dependency, not manufacturing dependency.

As of 2010 the “superpower” US economy still had a trade surplus in airplanes and airplane parts and a small $6 billion surplus in scientific instruments, but that is about all.

In ADP equipment and office machinery, the US exported $22.2 billion in 2010 (latest information at time of writing), down from $44.6 billion in 2000. US imports in 2010 of ADP equipment and office machinery were $113.5 billion, or 5.1 times exports.

The US cannot even make its own clothes and shoes. In 2010 footwear imports are 28.7 times exports. Clothing imports are 24.6 times exports.

Electrical machinery exports were $77 billion; imports were $120 billion.

Exports of power generating machinery were $33 billion; imports were $42 billion.

Exports of television, VCRs were $21.5 billion; imports were $137 billion.

US exports of vehicles was $88 billion; imports were $179 billion.

US news reports of thousands upon thousands of discharged US workers never cite their replacement by automation. The news story is always that the plant is being closed and the jobs moved abroad. Any review of America’s former manufacturing centers verifies this. Boarded up plants and cities and towns in decline are the remains of America’s formerly world dominant manufacturing economy.

The loss of the US post-war trade surplus in manufacturing has left the US with a huge trade deficit. The charts on which Walsh relied left him unaware of the fact that China has a large trade surplus with the US, and the US has a large trade deficit not only with China but with the world.

The fact that the US has to import not only manufactured goods, but also high-technology products from China, an inconceivable outcome during the second half of the 20th century, is powerful testimony to the decline of the US as a manufacturing powerhouse.

It took some doing to obscure the facts and to present the US as a rival to China in manufacturing prowess. How did it happen?

The fault might lie in the way statistical information is collected and presented. Apple, for example, is a US corporation. It reports its worldwide earnings to the IRS. Its manufacturing is counted as US manufacturing as it is a US corporation. However, Apple doesn’t produce a single computer in the US. They are produced in China. The employment that Apple reports is in China. The Chinese are employed by an American company, but they are not Americans. The Chinese incomes that Apple provides do not support the American consumer market or provide the tax base for cities and states. The Chinese incomes do not provide ladders of upward mobility or careers for Americans.

The wages Apple pays are in China. The consumer incomes and GDP that Apple generates are in China. When Apple’s computers come back to America to be sold they come in as imports. But Apple’s manufacturing and employment are reported as the output and employment of an American company.

When statistics and the methods by which they are compiled were put into effect, countries did not offshore their production for their domestic markets. Foreign investments were made for selling abroad, not for selling in the home market. With the advent of offshoring, counting the employment and output of US firms that are producing abroad for their domestic market as an indication of the strength of US manufacturing is very misleading. Apple, for example, has done more to boost China’s GDP than to boost America’s GDP. This is true of every US corporation that offshores its production for US consumers.

In recent years the percentage of the work forces of large US corporations that is foreign sourced has risen rapidly. Some of the overseas hiring reflects traditional foreign investment in which a company builds abroad in order to sell abroad, but much of the hiring reflects offshored production for US markets.

The US has been able to survive the large trade deficits produced by jobs offshoring,because the US dollar is the world reserve currency. Being the world reserve currency, the US does not have to earn foreign currencies with exports in order to pay for its imports. However, as these trade deficits persist and the buildup of foreign holdings of dollar paper assets rises, there is a diminishing willingness of foreigners to trade real goods and services for financial assets denominated in a fiat currency whose value is diminishing with the ever-growing supply.

Thus, the basic notion of globalism–that a country's corporations can produce goods and services in any country for home markets–is false.

Walsh is correct that China is not to blame for the decline in US manufacturing. Offshoring is to blame, and, thus, the blame lies with US corporations, policymakers, and the economists and financial media who shill for "globalism." The decision was made to sacrifice the US economy to the short-term profits of the few. A country so poorly led can do nothing but decline.

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