

# The Vicious Downward Cycle of the American Economy

By [Dr. Paul Craig Roberts](#)

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*The outsourcing of jobs and the importation of foreigners on work visas are emptying the pipeline of qualified Americans and destroying US technical occupations.*

Libertarians and free trade economists don't realize it, but they are pulling Marx out of his grave.

Free traders are resurrecting class war, not because they are Marxists but because they confuse free trade with global labor arbitrage. Free traders turn cold shoulders to US job losses from offshore outsourcing, because they mistake the losses for the beneficial workings of comparative advantage. Committed to a 200 year old theory that they no longer understand, free traders are cheering on the destruction of middle class jobs and the dismantling of the ladders of upward mobility that make large income disparities politically acceptable.

The destruction of the stabilizing middle class is occurring simultaneously with an extraordinary increase in income inequalities. Not so long ago CEOs were paid 20 times more than the average employee; now some are paid hundreds of times more. The "gilded age" is returning while the value of a college degree is declining.

According to the Bureau of Labor Statistics' 10-year jobs forecast, the majority of US jobs that will be created in the coming decade will be in domestic services that do not require a college education. This is a strange job outlook for a high tech economy allegedly benefiting from free trade. Domestic services are nontradable. The US economy has not created a net new job in tradable goods and services in the 21st century.

Free trade economists have forgotten that not all trade reflects the beneficial workings of comparative advantage. For comparative advantage to function, a country's capital must stay at home and be allocated to activities in which the country has comparative advantage. The other necessary condition is that countries have different internal cost ratios of producing different goods.

When the principle of comparative advantage was discovered, capital was mainly kept at home under the watchful eye of the owners and protected by the country's laws. Tradable commodities were primarily products influenced by climate and geography, guaranteeing that the cost of a yard of wool in terms of a bottle of wine would vary among countries.

Today capital is more mobile than tradable goods. Modern production functions are based on acquired knowledge and produce identical results regardless of location. When a US corporation closes a factory in Ohio and relocates its production for US markets to China,

the loss of US jobs is not the result of a Chinese firm gaining a comparative advantage over the Ohio one. It is the result of US capital seeking absolute advantage in lower cost Chinese labor.

Free trade economists have completely forgotten that the flow of resources to where they have absolute advantage does not result in mutual benefit. The country that receives the resources gains and the other country loses.

When capital and technology flow from the US to China and India, the productivity of labor in China and India rises. In the US it falls.

Outsourcing is eliminating entire American occupations in engineering and information technology. As there are fewer jobs for graduates, engineering enrollments in the US are declining. Libertarians and free traders are so emotionally enamored of the market that they have forgotten that markets can as easily work against a country as for it. In the US, markets are working to reduce the supply of American engineers as US corporations lay off their American employees and replace them with cheaper Chinese and Indians.

Product development, or research and development, follows manufacturing. As US manufacturing moves offshore, so does R&D.

Innovation follows R&D, with the consequence that US science is also in relative decline. In brief, the US is developing the labor force characteristics of a third world country in which jobs are available only in lower productivity, lower paid "hands on" domestic services.

For engineering and IT jobs that remain in the US, fewer are filled by Americans. US firms have learned that they can pay foreigners on H-1B and L-1 work visas lower salaries, force their American employees to train their foreign replacements, and then discharge their American workers. Consequently, there is double-digit unemployment among American software engineers, IT professionals and computer programmers.

As Lou Dobbs exposed recently on CNN, the US Department of Labor is currently reserving some 52,000 high tech job openings in US firms for H-1B visa holders. "Bodyshops" use the visas to bring in foreigners who take Americans' jobs by undercutting their pay.

American firms advertise openings for H-1B visa holders only. No Americans need apply. Gene Koprowski in TechNewsWorld (August 20) reports that "in excess of 600,000 new visas have been granted during the last five years. Thirty-nine percent of H-1B visas were for workers in computer-related occupations."

In other words, 600,000 Americans lost the occupations in which they have invested their human capital. You can be assured that these 600,000 did not move up to better jobs.

As bad as it is for the individuals, it is even more costly for the country. The outsourcing of jobs and the importation of foreigners on work visas are emptying the pipeline of qualified Americans and destroying US technical occupations. It is paradoxical to hear the very executives who replaced their US employees with foreigners now complain about the declining interest of Americans in science and engineering. Last July Bill Gates expressed his worries about the precipitous decline in the number of students entering computer science. Why is Bill surprised when he helped to lead the offshore outsourcing movement?

Obviously, it is a vicious cycle. As Americans are discouraged from the occupations, the

corporations lobby for more work visas, which discourages more Americans.

Seeking to protect their careers from being outsourced, Americans are turning to domestic services, such as nursing and teaching. However, H-1B visas threaten these occupations, too. Hospitals struggling with costs and school systems struggling with budgets are importing lower cost foreigners to teach American kids and care for American patients.

In Nevada the Clark County School District has imported teachers from the Philippines. Arizona has imported teachers from New Delhi, India. The New York Department of Education has brought teachers in from Jamaica. Cleveland, Ohio, has imported teachers from India. It goes on and on.

Joe Guzzardi has a good article posted on vdare.com about the use of foreign teachers in US schools. This practice raises many questions: Does the money saved on teachers' salaries go to administrators as bonuses for cost-cutting? How can foreigners from outside our culture enculturate American students? What happens to enrollments in US education and nursing curriculums as imported foreigners fill available positions? What happens to the laid off US engineers and technical people who are displaced again, this time from teaching math and science in our schools?

The pressure on school budgets comes from the lost middle class jobs. As manufacturing and now white collar work move out of US communities, tax revenues become more scarce. Administrators seek foreign employees who will work for less.

Eventually, all Americans will be working for less except the fat cats at the top, who will earn large bonuses by substituting foreigners for Americans.

What occupations will be left to native citizens? This question comes to me from many frustrated parents who are trying to give their children some career counseling. It is possible for Americans still to earn good incomes from being dentists and lawyers (if they are in the top 20% of their class). Next one thinks of skilled trades such as electrician, plumber and auto mechanic. However, Mexican immigrants are crowding Americans out of the construction trades and may soon dominate other trades as well.

Opportunity for native born Americans is collapsing. The loss of opportunity is showing up in declining median household income and rising poverty rate. On September 1, Edwin Rubenstein reported (vdare.com) that according to the Census Bureau's August 30 report, "median household income declined for an unprecedented fifth straight year in 2004." The main reason for declining household income, says the Economic Policy Institute, is "ongoing weakness in the job market."

Higher paying jobs are being lost to outsourcing and to work visas. Lower paying jobs are being lost to Mexicans. With real income falling for five years (despite an economic recovery), the US poverty rate has climbed from 11.3% in 2000 to 12.7% in 2004, adding 5.4 million more persons to the poverty roll.

Yet, nothink free trade economists and libertarians-like LBJ who promised us light at the end of the tunnel in Vietnam and Bush who promises light at the end of the tunnel in Iraq--still promise that outsourcing and H-1B visas mean increased wealth for Americans.

Economic science no longer exists in America. Its place has been taken by emotional commitments to dogmas. Americans and their hopes are daily paying the price for this great

failure of economic thinking.

The August payroll jobs report from the Bureau of Labor Statistics repeats the consistent pattern of 21st century America—no net job creation in high productivity sectors. The only jobs created are in nontradable lower paid domestic services.

Of the 154,000 private nonfarm jobs created in August, 25,000 are in construction and are filled primarily by legal and illegal Mexican immigrants; 20,000 are in wholesale and retail trade; 16,000 in administrative and waste services; 43,000 in education and health services; 34,000 in leisure and hospitality (primarily waitresses and bartenders). Manufacturing lost another 14,000 jobs.

Brand name companies that once were symbols of US manufacturing are today assemblers of foreign made parts. An industry of assemblers has no need for engineers or scientists. The dismantling of the US economy cannot be corrected by education and job retraining. The US is on its way to becoming a third world country.

It is detrimental to the future of freedom that at this time, when our civil liberties are under attack by the Bush administration and diminishing economic opportunity is breathing new life into class war, libertarians and market economists are demonstrating more commitment to ideology than to the welfare of fellow citizens. By associating freedom and market solutions with policies that are eroding Americans' prospects, freedom's defenders are unwittingly stabbing freedom in the back.

*Paul Craig Roberts has held a number of academic appointments and has contributed to numerous scholarly publications. He served as Assistant Secretary of the Treasury in the Reagan administration. His graduate economics education was at the University of Virginia, the University of California at Berkeley, and Oxford University. He is coauthor of The Tyranny of Good Intentions. He can be reached at: paulcraigroberts@yahoo.com*

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#### **About the author:**

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at <http://paulcraigroberts.org>

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