Free Trade's Great, but Offshoring Rattles Me

By Alan S. Blinder
Sunday, May 6, 2007; B04

I'm a free trader down to my toes. Always have been. Yet lately, I'm being treated as a heretic by many of my fellow economists. Why? Because I have stuck my neck out and predicted that the offshoring of service jobs from rich countries such as the United States to poor countries such as India may pose major problems for tens of millions of American workers over the coming decades. In fact, I think offshoring may be the biggest political issue in economics for a generation.

When I say this, many of my fellow free-traders react with a mixture of disbelief, pity and hostility. Blinder, have you lost your mind? (Answer: I think not.) Have you forgotten about the basic economic gains from international trade? (Answer: *No*.) Are you advocating some form of protectionism? (Answer: No *!*) Aren't you giving aid and comfort to the enemies of free trade? (Answer: No, I'm trying to save free trade from itself.)

The reason for my alleged apostasy is that the nature of international trade is changing before our eyes. We used to think, roughly, that an item was tradable only if it could be put in a box and shipped. That's no longer true. Nowadays, a growing list of services can be zapped across international borders electronically. It's electrons that move, not boxes. We're all familiar with call centers, but electronic service delivery has already extended to computer programming, a variety of engineering services, accounting, security analysis and a lot else. And much more is on the way.

Why do I say much more? Because two powerful, historical forces are driving these changes, and both are virtually certain to grow stronger over time.

The first is technology, especially information and communications technology, which has been improving at an astonishing pace in recent decades. As the technology advances, the quality of now-familiar modes of communication (such as telephones, videoconferencing and the Internet) will improve, and entirely new forms of communication may be invented. One clear implication of the upward march of technology is that a widening array of services will become deliverable electronically from afar. And it's not just low-skill services such as key punching, transcription and telemarketing. It's also high-skill services such as radiology, architecture and engineering -- maybe even college teaching.

The second driver is the entry of about 1.5 billion "new" workers into the world economy. These folks aren't new to the world, of course. But they live in places such as China, India and the former Soviet bloc -- countries that used to stand outside the world economy. For those who say, "Sure, but most of them are low-skilled workers," I have two answers. First, even a small percentage of 1.5 billion people is a lot of folks. And second, India and China will certainly educate hundreds of millions more in the coming decades. So there will be a lot of willing and able people available to do the jobs that technology will move offshore.

Looking at these two historic forces from the perspective of the world as a whole, one can only get a warm feeling. Improvements in technology will raise living standards, just as they have since the dawn of the Industrial Revolution. And the availability of millions of new electronically deliverable service jobs in, say, India and China will help alleviate poverty on a mass scale. Offshoring will also reduce costs and boost productivity in the United States. So repeat after me: Globalization is good for the world. Which is where economists usually stop.

And where my alleged apostasy starts.

For these same forces don't look so benign from the viewpoint of an American computer programmer or accountant. They've done what they were told to do: They went to college and prepared for well-paid careers with bountiful employment opportunities. But now their bosses are eyeing legions of well-qualified, English-speaking programmers and accountants in India, for example, who will happily work for a fraction of what Americans earn. Such prospective competition puts a damper on wage increases. And if the jobs do move offshore, displaced American workers may lose not only their jobs but also their pensions and health insurance. These people can be forgiven if they have doubts about the virtues of globalization.

We economists assure folks that things will be all right in the end. Both Americans and Indians will be better off. I think that's right. The basic principles of free trade that Adam Smith and David Ricardo taught us two centuries ago remain valid today: Just like people, nations benefit by specializing in the tasks they do best and trading with other nations for the rest. There's nothing new here theoretically.

But I would argue that there's something new about the coming transition to service offshoring. Those two powerful forces mentioned earlier -- technological advancement and the rise of China and India -- suggest that this particular transition will be large, lengthy and painful.

It's going to be lengthy because the technology for moving information across the world will continue to improve for decades, if not forever. So, for those who earn their living performing tasks that are (or will become) deliverable electronically, this is no fleeting problem.

It's also going to be large. How large? In some recent research, I estimated that 30 million to 40 million U.S. jobs are potentially offshorable. These include scientists, mathematicians and editors on the high end and telephone operators, clerks and typists on the low end. Obviously, not all of these jobs are going to India, China or elsewhere. But many will.

It's going to be painful because our country offers such a poor social safety net to cushion the blow for displaced workers. Our unemployment insurance program is stingy by first-world standards. American workers who lose their jobs often lose their health insurance and pension rights as well. And even though many displaced workers will have to change occupations -- a difficult task for anyone -- only a fortunate few will be offered opportunities for retraining. All this needs to change.

What else is to be done? Trade protection won't work. You can't block electrons from crossing national borders. Because U.S. labor cannot compete on price, we must reemphasize the things that have kept us on top of the economic food chain for so long: technology, innovation, entrepreneurship, adaptability and the like. That means more science and engineering, more spending on R&D, keeping our capital markets big and vibrant, and not letting ourselves get locked into "sunset" industries.

In addition, we need to rethink our education system so that it turns out more people who are trained for the jobs that will remain in the United States and fewer for the jobs that will migrate overseas. We cannot, of course, foresee exactly which jobs will go and which will stay. But one good bet is that many electronic service jobs will move offshore, whereas personal service jobs will not. Here are a few examples. Tax accounting is easily offshorable; onsite auditing is not. Computer programming is offshorable; computer repair is not. Architects could be endangered, but builders aren't. Were it not for stiff regulations, radiology would be offshorable; but pediatrics and geriatrics aren't. Lawyers who write contracts can do so at a distance and deliver them electronically; litigators who argue cases in court cannot.

But even if we do everything I've suggested -- which we won't -- American workers will still face a troublesome transition as tens of millions of old jobs are replaced by new ones. There will also be great political strains on the open trading system as millions of white-collar workers who thought their jobs were immune to foreign competition suddenly find that the game has changed -- and not to their liking.

That is why I am going public with my concerns now. If we economists stubbornly insist on chanting "Free trade is good for you" to people who know that it is not, we will quickly become irrelevant to the public debate. Compared with that, a little apostasy should be welcome.

Alan S. Blinder is a professor of economics at Princeton University, vice chairman of Promontory Interfinancial Network and vice chairman of the G7 Group.