

WHAT IS BEHIND THE OUTSOURCING OF AMERICA AND WHAT CAN WE DO ABOUT IT?

By Michael Retzer for ASQ, October 13, 2004

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Free trade- is it good or bad?

It is good if the most important thing to you is low prices for the things you purchase.

It is bad if you have a mortgage, heavy credit card debt, a good job, a lousy job, no job, no savings, or no pension.

It is bad if you have children or grandchildren that will need meaningful employment. It is bad if you believe in liberty, freedom, sovereignty of the U.S., our standard of living, or the U.S. remaining a world power.

It is good if you are the head of (or one of the high-ranking lieutenants of) a multinational company and are planning to retire in a few short years or you are a shareholder of one or more multinational companies and are planning to divest yourself of those shares shortly.

It is bad for everyone else.

Free trade is the process of opening the U.S. market to goods produced overseas at very low costs. The price is American jobs. Free trade only gives lip service to creating markets abroad for our goods. Even after an agreement is signed, significant trade barriers and tariffs exist. We have a trade deficit with almost every country we trade with.

Free trade myths and propaganda:

Myth: GDP is growing 3 to 4% annually so outsourcing doesn't affect U.S. growth.

Truth: The GDP measure contains a factor to eliminate inflation. If inflation were not taken out, growth would be overstated by the amount of inflation. Bill Gross is the manager of the largest bond fund in the world at PIMCO. Mr. Gross contends that the inflation factor is severely understated resulting in GDP being overstated. As products improve, the Bureau of Labor Statistics (BLS) factors an inflation amount into the price for the improvements.

For instance, if this year's computer model comes with more memory than last year, but the computer is sold for the same price as the old model, the BLS adds a deflationary factor which understates the inflation factor as a whole. In fact, when a brand new product is introduced, it typically is introduced at a high price. As competition enters, prices fall as costs of production fall. We typically don't buy at the high price, we wait until the price comes down and the quality or reliability goes up. Yet the BLS statistics act as if we buy at the higher price. Thus, inflation is understated and GDP is OVERSTATED. If our growth wasn't overstated, economists might come to the conclusion that the rest of us know- that outsourcing is bad for our economy.

In addition to the inflation factor, imports are supposed to be deducted from GDP. GDP starts with sales and backs out imports to arrive at the figure that represents our production or national product. Not all imports are deducted so GDP is overstated. For example, our Commerce Department reported in 2002 that American companies paid \$209 million to non-affiliated companies in India. However, the leading Indian companies exporting their services to America reported their American sales were \$2.4 billion- a factor 11 times higher than our official statistics.

If all imports and inflation were correctly reported, our GDP may not report any growth at all! What would the economists say about outsourcing then?

Myth: We are creating new jobs- outsourcing has destroyed less than 3,000 jobs according to a Commerce Dept. survey.

Reality: This survey is totally false. One month after the Singapore Free Trade Agreement was signed, Carrier Corp. announced it was closing its Syracuse plant which employed 3,100 people and relocating it to Singapore. Almost every major manufacturer has relocated jobs to China or other foreign countries and yet Commerce Dept. could only count 3000?

The Economic Policy Institute estimates that every \$1 billion in annual imports destroys between 11,000 and 20,000 American jobs. At a \$575 billion trade deficit, somewhere between 6 and 11 Million jobs have been destroyed. This has been recently confirmed by The Liscio Report in Barron's which stated that if we were in a normal economic recovery, the nation would have 9.3 million more jobs. The conclusion is we are not in a recovery, only the statistics are manipulated to show we are.

Myth: Free trade is good for our economy- a statement made by the Administration's Chief Economist Gregory Mankiw.

Truth: We are running a deficit approaching \$600 billion a year. At mid-year 2004 this current account deficit was 5.7% of GDP. This is greater than our supposed GDP growth this year which is estimated to be between 3 and 4%.

GDP grew about \$550 billion last year. However, debt at all levels of government plus corporate and individual debt grew about \$2.75 trillion. In other words, we created \$6 of new debt for every dollar of supposed economic growth last year. This year is no different.

If free trade is so good for us, why do personal and corporate bankruptcies continue to set new records? Why have a record number of people run out of unemployment benefits?

How can Americans expect to compete with foreign workers when we are paid 20 to 100 times more? Can we afford to cut our pay even in half given our mortgages, property taxes, credit card debts and cost of living? How about getting paid 1/20th of our current wages to become competitive? Heck no, but our politicians seem to think free trade is good for us!

Free trade will only continue to fire, downsize, and reduce our jobs and wages in America. But our tax burden won't come down- in fact it will go up as more people will need assistance as free trade takes away their jobs. Our debts still have to be paid, and with every manufacturing facility that closes, we further lose the knowledge and ability to make things – in other words to recover economically.

Already we have lost many skills. We are totally dependent on the Swiss for the covering that makes our Stealth aircraft invisible to radar. We import electronics for our “smart” bombs. We even have to import bullets for our military!

Look at home. We have lost entire industries to outsourcing- consumer electronics, small appliances, toys and others. Manufactured components and subassemblies such as car engines and drive trains are imported for our “American” brands. Even fresh fruit and vegetables and increasingly grown overseas. What will be left? Not technology- R & D in all industries is moving overseas. China and India graduate many more (some say 10 times more) engineers than the U.S. In fact, most U.S. Engineering School graduates are foreigners who don’t stay here!

Remember wealth is created from agriculture, mining, and manufacturing. The car you drive was produced from the earth. Service industries and government don’t create wealth, they redistribute and consume wealth. As our foreign outsourcing and importing continues to overtake all forms of manufacturing, mining and agriculture, how many short years are left before we are a third world nation unable to dig ourselves out of a deep hole?

According to the Daily Reckoning website on Aug. 18, 2004, when Ronald Reagan was elected, foreign owned US assets were less than 15% of GDP. Now they’re over 78% and growing rapidly.

If we are the engine that drives the world economy, how long can the world economy survive and grow if we slow down or go down?

What is behind the outsourcing of America?

Why is outsourcing promoted and highly touted if it is so bad for the United States? Because the tail is wagging the dog. The dog in this case is the United States and its citizens. The tail represents the multinational companies that are generating outrageous profits from outsourcing.

In today’s world the interests of multinational companies are clearly different from the interests of America. In fact, a majority of multinational companies were founded in America and are still referred to as American multinationals. Well, “American Multinationals” is an oxymoron. The short-term actions of the multinationals is devastating America.

Notice I said short-term interest. The CEO’s and their lieutenants are in their golden earning years and they are taking the golden opportunity of global outsourcing to reap large rewards in the form of bonuses, stock options and outlandish compensation packages. The extravagant profits generated selling low cost items from abroad at to Americans at American prices are fueling these compensation packages.

Short-term they gain and then they leave. Long-term they are destroying their best market. As they move production overseas for consumption at home, they reduce good paying employment, reduce the American tax base, and reduce the skill set in America while transferring technology, know-how, and wealth overseas. Those that advocate balanced trade are actually looking out for the long-term interests of the very corporations that are fighting against balanced trade.

How do they get away with it? With money. They buy:

- 1) The politicians-with contributions to both Presidential campaigns totaling over \$400 million and the “527” PACs totaling uncounted millions more. Plus the 30,000 lobbyists that are constantly calling on them.
- 2) Economic think tanks and endowed university chairs to spew unproven economic theories and propaganda about how free trade is good for us.
- 3) The media- who advertises in the print, televised and radio media? The media certainly is in no position to bite the hand that feeds them.
- 4) Trade associations- especially the National Association of Manufacturers and the U.S. Chamber of Commerce. They are controlled by their biggest contributors.

Politicians we have talked to were largely unaware of the difference between big business/multinationals and the small and medium size businesses that employ 80% of non-government workers. Many have voted for Free Trade because they thought it was good for all business and thus most workers based on the propaganda machine information. Many are still unaware of the problems while others are beholden to the \$ they receive for their campaigns.

It will take a grassroots voter movement to offset the well-funded multinational political machine. But it can be done. Just this week, the Senate passed the FSC/ETI bill commonly referred to as the Jobs Bill. The version of the bill that passed more closely represents a U.S. jobs plan than all the other versions that were defeated. The reason it took so long to pass were grass roots and small business actions that convinced our Senators and many Representatives of the importance of American companies and workers. They voted accordingly.

So we can prevail. In fact it must be done. You are not powerless. Tell your federal officials that you are voting for controls and actions to balance trade and eliminate our trade deficit.

Save American Manufacturing Now (SAMNow) is such a grassroots movement. We have been successful in converting many of our politicians and we have been instrumental in getting the problems of free trade publicized. The attached SAMNow ideas will help us balance trade, eliminate our deficit and restore our nation’s sovereignty.

Get involved by calling, e-mailing, and visiting your elected officials. Use this document or its content and the attached SAMNow solution to help us get results. Register at www.samnow.org to help us collect a database of concerned citizens that we use to convince our officials. Look up your officials’ voting record on the website and read other articles referenced to become conversant in the free trade problems. Together we can make a difference.

As Mark Twain said: “In the beginning of a change, the Patriot is a scarce man- brave, hated and scorned. When his cause succeeds however, the timid join him, for then it costs nothing to be a Patriot.”

I encourage you to become a Patriot now.