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The **New York Times****March 11, 2004** Thursday
Late Edition - Final**SECTION:** Section C; Column 1; Business/Financial Desk; Pg. 2; Economic Scene**LENGTH:** 997 words**HEADLINE:** With free trade, what goes abroad usually finds its way back, to everyone's benefit.**BYLINE:** By Hal R. **Varian**.Hal R. **Varian** is a professor of business, economics and information management at the University of California at Berkeley.**BODY:**

THE Jan. 31 issue of The Economist described the consequences of high-tech jobs moving overseas.

According to the story, "with the trans-Atlantic shift in R&D goes many high-value jobs, as well as a greater share of the industry's profits." This trend has led to an "increasing concern" in the industry, with some executives speaking out against the outsourcing trend.

Old news, you might say. The press is filled with articles about high-tech jobs being outsourced to India.

The twist here is that the article is about biotech research jobs being outsourced to the United States from Europe. But the language is eerily familiar: replace "biotech" with "infotech" and switch the roles of Europe and America and this story could pass for yet another Silicon Valley requiem.

Articles like this should remind us that trade is a two-way street.

The money paid to foreign producers, whether businesses or workers, typically comes back home to buy domestic goods and services, thereby generating domestic employment. That is true whether it is European companies paying American biotech researchers, or American companies paying Indian programmers.

Think about it. If Oracle sends \$10,000 abroad to pay an Indian programmer, then that money either finds its way back to the United States or it doesn't. If it comes back, it can be used to buy American goods and services, employing American workers. If it doesn't come back then it's even better from the viewpoint of the country: we've sent them paper, while they've sent us valuable goods and services.

Yes, these days it's more likely bits than paper, and maybe they are sending us more services than goods. And perhaps the way the money comes back is via a purchase of Treasury bonds or other financial securities.

But the same principle applies. If the income from the Treasury bonds is used to buy something produced in the United States, it creates jobs. If the money is never spent in the United States, we've gotten something for nothing.

The political problem with trade is simply this: when the dollars flow offshore, it is easy to identify those who are hurt. But when the dollars flow back, it is much more difficult to discern the beneficiaries.

Look at farmers, for example. Stimulated by the decline in the dollar, American agricultural exports are forecast to grow to \$59 billion this year, \$2.8 billion more than last year, despite the dip reported yesterday. Farm income is up, too, and would be even higher if not for the drop in beef exports because of mad cow fears.

Despite this surge in nonbeef agricultural exports, you do not see farmers demonstrating in favor of free trade. American biotech workers are doing pretty well, too, as the opening example illustrates. But how many of those farmers or technicians attribute their good fortune to foreign trade?

Those who gain from trade either do not know it, or keep quiet about it, for obvious reasons. It's not prudent to brag about your good fortune while others are losing their jobs.

But isn't there something special about trade in services? Well, no. Services have always been traded internationally. In fact, they now account for about 30 percent of the value of all American exports. Last year, the United States had a \$550 billion trade deficit for goods, but a \$60 billion surplus on the service side.

Today, modern communications technology offers a whole new set of opportunities for trade in services.

Imagine a world where American workers could subcontract production to foreign workers on their own. Paul could send an e-mail message with his programming assignments to Avinash every morning and receive the completed work back in the afternoon. In exchange, Paul would buy a money order for one-tenth of his salary each month and send it to Avinash.

Paul could take on another job, earning more money, or he could just take it easy. Sound like a good deal for Paul? Of course it is: he would jump at the chance to subcontract on those terms.

Even though Paul would hire Avinash to do his job if he could capture the wage difference himself, Paul would still be understandably upset if his employer laid him off and outsourced his job to Avinash.

This thought experiment illustrates that the debates about trade are not about whether we should accept those good deals offered to us by cheap foreign labor -- of course we should. The debate is all about who will capture the benefits from those deals and who will bear the costs.

Ideally, those who benefit the most from trade would compensate those who lose. In practice, virtually everyone benefits to some degree from cheaper goods and services, so compensation for those who lose from trade should come from general revenues.

The United States has, with some exceptions, been a champion of free trade. It would be a huge step backward to move toward protectionist policies.

In the next decade, this country will need more foreign workers, whether they live here or abroad. In a few years we will see a large fraction of the work force disappear as the baby boomers start to retire. Yet, those retirees expect to consume just about as much during retirement as they do now.

Who will produce all those goods and services?

In the near future the United States will have to find ways to produce more with less domestic labor. That means increased productivity growth, to get more output from the workers we do have, and expanded international trade, using all that cheap foreign labor.

As the population ages, expanding health care costs will trump domestic employment concerns. An inexpensive X-ray analysis from a Bangalore radiologist will be viewed as every American's right -- paid for by Medicare, of course.

It is inevitable (but no less depressing) that outsourcing will become a major topic of the election year oratory. Let us hope that the short-run antitrade posturing doesn't get in the way of the long-run interests of the country.

URL: <http://www.nytimes.com>

GRAPHIC: Graph: "Good for Trade" American agricultural exports, stimulated by the declining dollar, are expected to grow this year. United States agricultural trade Graph compares dollar amounts of imports and exports since 1990. (2004 FORECAST) (Sources by Agriculture Department Commerce Department Census Bureau)

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[◀previous](#) Document 11 of 26. [next▶](#)

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