America's Has-Been Economy

By PAUL CRAIG ROBERTS

A country cannot be a superpower without a high tech economy, and America's high tech economy is eroding as I write.

The erosion began when US corporations outsourced manufacturing. Today many US companies are little more than a brand name selling goods made in Asia.

Corporate outsourcers and their apologists presented the loss of manufacturing capability as a positive development. Manufacturing, they said, was the "old economy," whose loss to Asia ensured Americans lower consumer prices and greater shareholder returns. The American future was in the "new economy" of high tech knowledge jobs.

This assertion became an article of faith. Few considered how a country could maintain a technological lead when it did not manufacture.

So far in the 21st century there is scant sign of the American "new economy." The promised knowledge-based jobs have not appeared. To the contrary, the Bureau of Labor Statistics reports a net loss of 221,000 jobs in six major engineering job classifications.

Today many computer, electrical and electronics engineers, who were well paid at the end of the 20th century, are unemployed and cannot find work. A country that doesn't manufacture doesn't need as many engineers, and much of the work that remains is being outsourced or filled with cheaper foreigners brought into the country on H-lb and L-1 work visas.

Confronted with inconvenient facts, outsourcing's apologists moved to the next level of fantasy. Many technical and engineering jobs, they said, have become "commodity jobs," routine work that can be performed cheaper offshore. America will stay in the lead, they promised, because it will keep the research and development work and be responsible for design and innovation.

Alas, now it is design and innovation that are being outsourced. *Business Week* reports ("Outsourcing Innovation," March 21) that the pledge of First World corporations to keep research and development in-house "is now passé."

Corporations such as Dell, Motorola, and Philips, which are regarded as manufacturers based in proprietary design and core intellectual property originating in R&D departments, now put their brand names on complete products that are designed, engineered, and manufactured in Asia by "original-design manufacturers" (ODM).

Business Week reports that practically overnight large percentages of cell phones, notebook PCs, digital cameras, MP3 players, and personal digital assistants are produced by original-design manufacturers. Business Week quotes an executive of a Taiwanese ODM: "Customers used to participate in design two or three years back. But starting last year, many just take our product."

Another offshore ODM executive says: "What has changed is that more customers need us to design the whole product. It's now difficult to get good ideas from our customers. We have to innovate ourselves." Another says: "We know this kind of product category a lot better than our customers do. We have the capability to integrate all the latest technologies." The customers are America's premier high tech names.

The design and engineering teams of Asian ODMs are expanding rapidly, while those of major US corporations are shrinking. Business Week reports that R&D budgets at such technology companies as Hewlett Packard, Cisco, Motorola, Lucent Technologies, Ericsson, and Nokia are being scaled back.

Outsourcing is rapidly converting US corporations into a brand name with a sales force selling foreign designed, engineered, and manufactured goods. Whether or not they realize it, US corporations have written off the US consumer market. People who do not participate in the innovation, design, engineering and manufacture of the products that they consume lack the incomes to support the sales infrastructure of the job diverse "old economy."

"Free market" economists and US politicians are blind to the rapid transformation of America into a third world economy, but college bound American students and heads of engineering schools are acutely aware of declining career opportunities and enrollments. While "free trade" economists and corporate publicists prattle on about America's glorious future, heads of prestigious engineering schools ponder the future of engineering education in America.

Once US firms complete their loss of proprietary architecture, how much intrinsic value resides in a brand name? What is to keep the all-powerful ODMs from undercutting the American brand names?

The outsourcing of manufacturing, design and innovation has dire consequences for US higher education. The advantages of a college degree are erased when the only source of employment is domestic nontradable services.

According to the Los Angeles Times (March 11), the percentage of college graduates among the long-term chronically unemployed has risen sharply in the 21st century. The US Department of Labor reported in March that 373,000 discouraged college graduates dropped out of the labor force in February--a far higher number than the number of new jobs created.

The disappearing US economy can also be seen in the exploding trade deficit. As more employment is shifted offshore, goods and services formerly produced domestically become imports. Nothink economists and Bush administration officials claim that America's increasing dependence on imported goods and services is evidence of the strength of the US economy and its role as engine of global growth.

This claim ignores that the US is paying for its outsourced goods and services by transferring its wealth and future income streams to foreigners. Foreigners have acquired $3.6 trillion of US assets since 1990 as a result of US trade deficits.

Foreigners have a surfeit of dollar assets. For the past three years their increasing unwillingness to acquire more dollars has resulted in a marked decline in the dollar's value in relation to gold and tradable currencies.

Recently the Japanese, Chinese, and Koreans have expressed their concerns. According to Bloomberg (March 10), Japan's unrealized losses on its dollar reserve holdings have reached $109.6 billion.

The Asia Times reported (March 12) that Asian central banks have been reducing their dollar holdings in favor of regional currencies for the past three years. A study by the Bank of International Settlements concluded that the ratio of dollar reserves held in Asia declined from 81% in the third quarter of 2001 to 67% in September 2004. India reduced its dollar holdings from 68% of total reserves to 43%. China reduced its dollar holdings from 83% to 68%.

The US dollar will not be able to maintain its role as world reserve currency when it is being abandoned by that area of the world that is rapidly becoming the manufacturing, engineering and innovation powerhouse.

Misled by propagandistic "free trade" claims, Americans will be at a loss to understand the increasing career frustrations of the college educated. Falling pay and rising prices of foreign made goods will squeeze US living standards as the declining dollar heralds America's descent into a has-been economy.

Meanwhile the Grand Old Party has passed a bankruptcy "reform" that is certain to turn unemployed Americans living on debt and beset with unpayable medical bills into the indentured servants of credit card companies. The steely-faced Bush administration is making certain that Americans will experience to the full their counry's fall.

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