Globalization and Outsourcing
In a Flat, but Unbalanced World

by

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Thomas Friedman has provided us with "flatness" in his best selling book, The World Is Flat: A Brief History of the Twenty-first Century, as a new way to debate globalization. Agree with Friedman or not, he deserves applause for elevating the globalization discussion to a new level. Even his strongest critics acknowledge his contributions.

Perhaps the world is going flat, but this does not necessarily mean that it is balanced. Thus, coming to terms with living in a flat world must include an understanding of what "flat" really means, and the contexts in which the concept is used.

On the one hand, Friedman and his many followers believe that the playing field has been leveled or "flattened." On the other hand, opponents like Stephen Roach, Chief Economist and Director of Global Economic Analysis at Morgan Stanely, have a different view of how flat the world's playing field really is: "With all due respect to Tom Friedman, there’s nothing flat about this unbalanced global economy... Globalization at this point in time is far more about disparities between nations than the assimilation of a flat world" (Roach, 11/29/05). Can these divergent views about our world economy be reconciled? And what will it mean for us?

FLAT WORLD ISSUES

I) Growing the Pie

Ironically, there are Friedman critics who believe that his flat world approach is essentially correct. Often their primary complaint is that some of his basic assumptions are too optimistic.

For instance, the playing field may indeed be leveling; i.e., developing countries now have the Internet, with the same access to technology and data that developed countries have. But much of Friedman’s argument is based on the idea of "making the economic pie bigger," or developing new economic areas and jobs in the U.S. to replace those that are lost. "...The fact that although jobs are often lost in bulk to outsourcing or offshoring - by big individual companies, and this loss tends to make headlines, new jobs are also created ...... It often takes a leap of faith to believe that it is happening. But it is happening. If it were not America’s unemployment rate would be much higher than 5 percent." (Friedman, 2005, page 227-8). Some of Mr. Friedman's critics believe he relies too much on the assumption growing the global economic "pie."
Moreover, taking "a leap of faith" may be an understatement! "Last July, the Federal Reserve Bank of Boston published a study that concluded that much unemployment is masked by a large decline in the labor-force participation rate. A main reason for this discouragement is that job-seekers cannot find jobs comparable to those they have lost. The study concludes that if the unemployment rate is adjusted for the decline in labor-force participation, the U.S. unemployment rate could be as high as 8.7 percent, a far cry from the 5 percent measured rate that is hyped as evidence that all is well with the U.S. economy." (Roberts, 12/01/05). Ask the outsourced engineer with a masters degree who now has to hold two jobs in order to make ends meet about all the new jobs being created. Ask him if they are comparable to the professional one he lost.

Friedman suggests that, if we play our cards right, we can outpace job losses by creating new industries in order to stay one step ahead of our competitors who will eventually get them in the next cycle. To do this, he argues extensively that we must enhance education quality and access. This looks good on paper, but will there really be enough jobs for all those persons who eventually become more educated and highly skilled? Will Friedman’s economic pie grow fast enough to accommodate them, plus the millions of others outside the U.S. who also want the next generation of jobs? Even Tom Friedman acknowledges that there are millions more entering the workforce who can come up to speed very quickly: "And be advises, these new players are stepping onto the playing field legacy-free, meaning that many of them were so far behind they can leap right into the new technologies without having to worry about all the sunken costs of old systems. It means they can move very fast to adopt new, state-of-the-art technologies, which is why there are already more cell phones in use in China today than there are people in the United States." (Friedman, 2005, page 183).

In addition to a global surplus of workers, automation often replaces many of the jobs that remain. Thus, with increasing numbers of highly educated workers all over the world demanding jobs, and the supply of jobs potentially being impacted because of technology and automation, it is hard to imagine an equilibrium level that is not significantly disruptive. It would be wonderful if Friedman’s "growing the economic pie" approach does outperform the work and jobs that are lost. His premise is hard to accept, however, given that some of our most advanced work in medicine, accounting, engineering, architecture, etc., is being done by highly educated workers in less developed areas of the world. Dr. Roberts calls this "virtual immigration" and recognizes the dangerous drift that can occur: "Americans don’t see virtual immigrants as they are working offshore in their home countries and communicating with their U.S. employers via the Internet. Americans do not experience virtual immigration until their jobs are outsourced." (Roberts, 12/01/05).

To be fair, Friedman also recognizes the above problem, and is appropriately critical of the leadership of both parties for not addressing the issues, especially in two chapters: "The Quiet Crisis", and "This Is Not A Test." Nevertheless, his emphasis on educating our workers fast enough to expand the economy at a pace even faster than the unprecedented disruptions that are occuring, seems to be a stretch. This approach may have worked in the past when the U.S. was moving from a manufacturing economy to an information-based economy; but when you are moving up from an information based economy to another level within the information based economy, and everyone else is trying to do the same thing, is it realistic to expect that you will maintain the same global position? In this way, perhaps the world is even flatter than the Friedman advocates believe. The definition of "flatness," and the context in which it is used, can have different meanings.

II) Short-term vs. Long-Term

Friedman does not view outsourcing as a bad thing: "Outsourcing isn’t just for Benedict Arnolds. It’s also for idealists." (Friedman, 2005, page 363). Fair enough --outsourcing may in fact be appropriate sometimes. Too many companies however, are throwing their good, long-term employees, their long-term knowledge assets, on the trash heap, just to take advantage of immediate short-term gains.

Thus, much of the debate may still come down to responsible companies not being tempted by marginal short-term benefits, so that long-term stability and opportunities can be realized. "Firms that embrace this philosophy --workers being vital assets --may have an important advantage. It is their concepts, strategies, ideas, and
information exchange that set their companies apart from their competitors. It is the workers and their knowledge that differentiates one firm from another, giving it an identity, value, and an advantage in the market place. How can this worth, these knowledge assets, be transferred overseas without significant adverse impact on the firm and our economy? After all, in a knowledge-based economy, knowledge IS the value" (Raynor, 10/6/03).

On one hand, at the macro level, Friedman indicates via his Dell Theory of Conflict Prevention that countries won’t want to risk their global supply chains: "..... getting dropped from such a chain because you start a war is like having your oil wells go dry or having someone pour cement down them." (Friedman, 2005, page 421-2).

On the other hand, at the micro level, many companies seem to be doing just that. For the sake of harvesting short-term gains, they appear to be "cashing-out" or pouring cement down their own oil wells. What will happen to their long-term viability after they have stripped away their knowledge assets? Throughout his book, Friedman emphasizes the importance of collaboration. But what happens to a firm in the long-run when it doesn’t even cooperate with its own employees? Why doesn’t the Dell Theory of Conflict Prevention apply domestically, or internally within the firm? Perhaps for some that are cashing out now, there is no reason to care about the long-term, or conflict prevention. For these individuals, concern about long-term relations with employees and conflict prevention, is secondary to maximizing their own short-term returns and year-end bonuses.

To what extent are long-term goals still in conflict with the painful short-term adjustments middle-class individuals must make? Mr. Roach certainly believes workers in developed countries are very dissatisfied with reduced wages, lost opportunities, and jobs: "Globalization may well be win-win in the long run, but in the here and now, it is profoundly asymmetrical...... And make no mistake - workers in the developed world are far from pleased over this outcome and the global context in which it has arisen." (Roach, 11/29/05).

Perhaps the title of Mr. Roach’s most recent article, "Squaring the Circle of a Flat World," says it all. Many of these workers know that the quality of their future replacement jobs will not be comparable to the ones they lost. "The Bureau of Labor Statistics estimates that few of the jobs created in the United States over the next decade will require a university education." (Roberts, 12/01/05).

III) Globalization and Global Security: Another Tradeoff?

Engaging lesser developed countries in the global economy has significant potential for enhancing international security. The rationale: counties doing business with each other are part of an international web of commerce, and will not want to risk economic consequences to engage in non-economic disputes. Again, Friedman believes this is possible via the "Dell Theory of Conflict Prevention" which says "No two countries that are part of a major global supply chain, like Dell’s, will ever fight a war against each other as long as they are both part of the same global supply chain." (Friedman, 2005 - page 421). Question: Are we using globalization to purchase global security, with potentially lower living standards in the U.S. and other developed countries as the price?

Using globalization as a way to reduce international tensions and enhance world security has been discussed extensively before. Dr. Thomas Barnett may be the most articulate on this topic, with his book The Pentagons’s New Map (PNM). Barnett’s ".....central thesis is that today’s world is divided into two categories: the "Functioning Core" of nations connected to the global economy and prospering as never before, and the "Non-Integrating Gap" of nations disconnected from the matrix of wealth and progress and therefore spinning towards chaos." (Ignatius, 2004). According to Dr. Barnett, we can enhance our own security by bridging the gap between developed countries and the economically disconnected: "In this century, it is disconnectedness that defines danger... Just as important, however, is the result that by expanding the connectivity of globalization, we increase peace and prosperity planet-wide" (Barnett, 2004, page 8). Thus, while maintaining
living standards in the U.S. is highly debatable in the new world economy, one bright spot may be enhanced global security

IV) Glocalization vs. Internal Globalization

Friedman uses the term glocalization: "The more you have a culture that naturally glocalizes - that is, the more your own culture easily absorbs foreign ideas and best practices and melds those with its own traditions - the greater advantage you will have in a flat world." (Friedman, 2005, page 325). Related to this, Friedman also discusses another aspect of culture that is more intangible: "...To what degree are the elites in the country concerned with the masses and ready to invest at home, or are they indifferent to their own poor and more interested in investing abroad" (Friedman, 2005, page 325). If this is the case, the U.S. may really be in trouble, because how many of our corporate elites really are concerned about the masses? Or, instead, are they more concerned about quarterly dividends and making their year-end bonuses? Are they really investing in America, or are they outsourcing America? Are public policy makers and the leadership in the U.S. really doing anything about these massive changes, or are they asleep at the wheel?

Again, Friedman deserves credit for recognizing the above concerns, and correctly suggests there is little evidence that these problems are being addressed. But this may also be his problem area. Even though he reserves a portion of his book to discuss these huge challenges, he seems to be "rose-colored" by over-reliance on the growing-the-economic-pie argument to compensate. Again, educating our workers and generating new jobs even faster than the old ones that are lost, when going from one tier to another within the information based economy, seems unlikely in a flat world. Ironically, it is not difficult to come to this conclusion using Friedman’s flat world concepts. After all, everyone else will be doing the same thing with the same access to the same information and technology. Thus, many thoughtful individuals do not question whether the economic pie can be expanded--they think it can--they just question whether it can be expanded fast enough. New U.S. strategies and policy changes need to be urgently implemented to meet these internal demands.

Can external globalization concepts be applied domestically? Dr. Barnett’s PNM book provides an excellent way to conceptually fit "internal globalization". Just as there is danger with nations that are disconnected from the global economic system, there is also danger with individuals disconnected from the domestic economy. To what extent does reducing internal friction between our own have-nots and have-nots, enhance our domestic prosperity and peace?

A year ago, this was discussed in an article about Barnett’s PNM book: "... One potential problem area is conflict between the U.S. economy on the micro level, and the global economy on the macro level. For example, a U.S. worker who has a job outsourced is now in the "Gap" and not part of the "Core" within the U.S. economy. Even if the global common good has been enhanced, and a U.S. worker is living in a more secure world, he still has lost his job and needs to be assisted." (Raynor, 01/26/05). From the PNM, Barnett says: "Real freedom exists within defined rule sets that reduce life’s uncertainties to the point where individuals can efficiently run their own lives, avoiding the tyrannies of extreme poverty..." (Barnett, 2004, page 124). "For the U.S. worker who has been outsourced, however, life’s uncertainties have exploded, and there are no clearly defined domestic rules or expectations. Thus, an implementation balancing act exists between the micro and macro levels." (Raynor, 01/26/05). Perhaps it is noble for the U.S. to encourage globalization and a flat world, but not at the expense of making our own internal world, our domestic economy, so unbalanced.

ADDITIONAL THOUGHTS

The world may be flat as Friedman suggests, perhaps even flatter than he suggests. But like a flat board balancing on a log, it can easily and quickly become unbalanced. Workers in developed countries are like a ball resting on top of that plank. The ball will not move--living standards will not significantly change--if the flat board remains balanced. As soon as it becomes unbalanced and begins to tilt in one direction, however, the ball will start rolling in that direction. It may even go back and forth, if the position of the plank changes in relation
to the log on which it is balancing. The whole time, however, the plank itself remains flat. Perhaps Friedman is right and the world is flat, but do we really know what that means?

References


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