

Bush Report Offers Positive Outlook on Jobs

By Jonathan Weisman

Washington Post Staff Writer

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Wading into an election-year debate, President Bush's top economist yesterday said the outsourcing of U.S. service jobs to workers overseas is good for the nation's economy.

Shipping jobs to low-cost countries is the "latest manifestation of the gains from trade that economists have talked about" for centuries, said N. Gregory Mankiw, chairman of the White House Council of Economic Advisers. Just as U.S. consumers have enjoyed lower prices from foreign manufacturers, so too should they benefit from services being offered by overseas companies that have lower labor costs, he said.

Mankiw's comments come as the president struggles to shore up support in manufacturing states that have lost millions of jobs and Democratic rivals make economic nationalism a centerpiece of their attacks on the administration.

U.S. job growth is sluggish, though many sectors of the economy appear to be recovering smartly. Mankiw released the White House's annual Economic Report of the President yesterday, predicting 2.6 million new payroll jobs by the end of the year. But such projections have proved problematic. Last year's report projected 1.7 million new jobs would be added in 2003. The 2002 report was even more optimistic, predicting 3 million new jobs in 2003.

Instead, the nation lost 53,000 payroll jobs last year, the Labor Department says.

"I know there will be jobs in the future," Mankiw told reporters at a news conference, "because I know this is a vibrant economy, a dynamic economy."

Those comments echoed a speech by Federal Reserve Chairman Alan Greenspan last month. Greenspan counseled that workers hurt by outsourcing "can be confident that new jobs will displace old ones as they always have."

Mankiw's defense of the "offshoring" of jobs has been seconded by other economists and business leaders. A recent study by the management consulting firm McKinsey & Co. also concluded that business investment in service sector jobs abroad will ultimately help the U.S. economy. But Mankiw's conclusions may prove discordant during an election year, when many workers remain concerned about their prospects.

"It's a kind of flip thing to say when people are losing their jobs," said Franklin J. Vargo, vice president of international economic affairs at the National Association of Manufacturers, a group that has strongly supported the president.

In recent years, companies have shipped software engineering jobs, data entry and customer service operations abroad, especially to India. Even hospitals have joined the trend, hiring radiologists on the other side of the world to read X-ray images shipped to them over the Internet.

Mankiw said the trend is a new and positive chapter in world trade liberalization. Calling a computer technician in India is economically no different from buying a car from Japan, he said. Only the delivery system has changed. Market forces are finding which countries can deliver labor most efficiently, Mankiw said. And deciding that certain jobs must remain in the United States would be the equivalent of the state economic planning that ultimately brought down the Soviet Union.

Indeed, outsourcing health care jobs to lower-wage countries could help control the upward spiral of health care costs, he suggested.

"We don't have a comparative advantage in producing clothing, textiles, and that's one of the reasons we've tended to lose textile jobs," Mankiw said. "Maybe we've learned that we don't have a comparative advantage in radiologists."

The Economic Report of the President made the same point: "When a good or service is produced more cheaply abroad, it makes more sense to import it than make or provide it domestically."

The report also analyzed another hot-button political issue, Chinese exports to the United States, and concluded that they are not "a primary factor in the displacement of American manufacturing workers." The U.S. trade deficit with China reached \$124 billion last year, nearly twice as large as the U.S.-Japanese imbalance, the next biggest bilateral trade deficit. But the report said the largest manufacturing job losses in the United States have come in industries without strong Chinese competition.

Such conclusions may only exacerbate Bush's problems in manufacturing states, numerous manufacturing executives said yesterday. Vargo declared the analysis of the China trade to be simply wrong.

"These guys just don't get it, period," said Paul Kennedy, a self-described Republican and president of Kennedy Die Castings Inc. in Worcester, Mass.

On Friday, Laurie S. Moncrieff, chief executive of Schmalz Tool & Die Inc. in Burton, Mich., met with Sen. John F. Kerry (Mass.), the front-running Democratic candidate for president. Yesterday, the lifelong Republican declared, "I'm starting to get on the bandwagon of, 'Whoever can beat Bush, I'm voting for him,' and I'm not the only one."

Gary Henderson, purchasing manager of Aircraft Precision Products Inc. in Ithaca, Mich., who has worked for Republican lawmakers on Capitol Hill and in Lansing, said, "Let's put it this way. The Bush/Cheney yard sign that was in front of my house may just stay behind the Oldsmobile this fall."

Such executives have different specific complaints. Kennedy said Bush's push to slash taxes on investment dividends showed a propensity to look out for large corporations and shareholders, not for small business and job creation. Jack Metzemaekers, chief executive of Scott Electronics Inc. in Salem, N.H., said he was "very upset" that Bush's budget for 2005 would slash funding for the Manufacturing Extension Partnership, a national consulting program, from \$235 million to \$39 million. Moncrieff focused on China.