



Shipping Jobs Overseas: A Misunderstood Problem

Theodore Moran argues that multinationals with overseas investments are also a major source of high-paying, export-related jobs in the United States.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest on Peterson Perspectives today is Theodore Moran, senior fellow at the Institute and professor of international business and finance at the Georgetown University School of Foreign Service. Today, we're going to talk about an issue highlighted by the Obama administration, of jobs being lost in the United States and recreated or reestablished overseas, a subject that Ted has studied for a long time.

Thanks for joining us today, Ted.

Theodore Moran: Thank you very much.

Steve Weisman: The Obama administration has announced revisions in tax policy that would supposedly discourage multinationals from moving jobs from the United States overseas. You've studied this. Is this phenomenon a real one?

Theodore Moran: We decided to take a close look at the empirical background. The way we set up the question was: Let's look at American companies that do invest abroad and compare them with similar American companies that don't invest, or don't invest as much abroad, and let's see which kinds of companies export more. In other words, we could test the proposition that outward investment substitutes for home-country production by relocating jobs abroad.

Steve Weisman: When you say "we studied this," explain...

Theodore Moran: I'm drawing on work that has been done here at the Peterson Institute as well as work elsewhere. So it's not a royal "we" but I'm not pretending that this is entirely my own research.

Steve Weisman: What did you conclude?

Theodore Moran: The curious finding is that as American multinationals invest more abroad, they also export more from their home base, the United States. In other

words, you have high-tech companies that are investing abroad, but they're also exporting more in comparison with similar companies that don't undertake outward investment. What we tried to test is whether the outward investment export phenomenon is a zero-sum process. That's to say, you either export or you produce abroad. Or is it a complementary process in which you produce more abroad, but you also export more from the home country? And this study discovered that it's overwhelmingly a complementary, not a zero-sum process.

Steve Weisman: That's an important finding. I wonder if you could give me a kind of generic example of a company that would be exporting more, and making more in the United States, even as it establishes manufacturing capacity overseas.

Theodore Moran: Sure. If you look at the most successful truck in the world, the Ford F-150, it was redesigned a year and a half ago to maintain its position as the number-one truck in the world, assembled here in the United States. However, the steel comes from Mexico, the high performance engine comes, as it turns out, from Canada, and then it's assembled in the United States. You could say some steel jobs were being exported to Mexico, although that's just sourcing of steel. You could say the Ford subsidiary in Canada is substituting for engines produced in the United States. But when you put it all together, you find that this is the base for the competitiveness in the expansion of Ford activities in the United States. Your listeners may say, "oh well, Ford and the F-150." I have to tell you, if your listeners know trucks, the F-150 is going to continue to be the most competitive truck in the world.

Steve Weisman: Tell me about the Obama administration's tax proposals and why you think they might be counterproductive.

Theodore Moran: They're saying, "Let's make it more difficult for firms to move abroad. Let's make them, to a certain extent, pay double taxes or not be able to offset their taxes until they bring dividends back into the United States." The details could get very elaborate and tricky, but basically it's to make it less enticing to invest abroad. The counterintuitive thing is that if you look at our results you see that if the Obama administration or any administration puts impediments in the way of outward investment, it means you will have fewer export jobs in the United States. And since export jobs pay 10 to 12 percent more than regular jobs, you actually have fewer good jobs in the United States. Let me just say that again: If you allow the process to continue, including outward investment, you actually reinforce the good, high-wage, high-benefit worker base in the United States.

Steve Weisman: I think you've also concluded that companies, multinationals, that don't do this diversification of their sources of their material and locate some of the inputs overseas, those companies can't compete as well in the global markets.

Theodore Moran: That is a fair summary. The interesting fact is that even in what we call declining industries—let's take textiles: There are actually many parts of the textile industry, including industrial fabrics, including other kinds of composites, in which the United States is still very competitive; not in final garments so much, except very high-end fashion garments, and not so much in kind of generic garments like shirts and underwear. The firms in the textile industry in the United States that have remained competitive are ones that simultaneously have been investing abroad. Now take another extreme, not a declining industry but an industry that's at the high end of the American product cycle: disc drives: Seagate, for example. That has high-tech production in Sunnyvale, California, in Minneapolis, in Texas, in Massachusetts, all around the United States. It supports these high-end software engineering, management design jobs on the basis of thousands of much lower-paying production jobs in countries like Thailand, Malaysia, and China.

Steve Weisman: You teach at the School of Foreign Service at Georgetown. But you're teaching at a time when globalization is under criticism. People think that these trends do not generally favor the American worker or American wages. Are you finding this skepticism or even hostility among your students?

Theodore Moran: I agree with you, of course. Right now we're in the biggest financial crisis since the Great Depression. I don't think it's another Great Depression, but I think it's clearly a very painful financial crisis. As we come out of it, in the next year, two years, we will once again see the benefits of globalization outweighing the cost. And as studies we have done here at the Peterson Institute show, it's not a close call. The benefits outweigh the costs—what would you think, Steve, two to one, five to one, ten to one? The actual answer is twenty to one. The benefits outweigh the costs twenty to one, and that's especially in the context of an expanding economy.

Now that doesn't mean there are no losers. There's always the one, even if the benefits are twenty to one; there are losers from this. So it is important for the Obama administration, for the United States, for state governments to address the needs of people who are not gaining from this process. That will help build up support for the benefits that all the rest of us enjoy.

Steve Weisman: Ted Moran, thank you very much for walking us through this issue. It's very important, a little complicated, as you say, a little counterintuitive for some, but thanks for clarifying it.

Theodore Moran: Thank you, Steve.

