LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

> "It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. . . . What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom."
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> – Adam Smith
> *The Wealth of Nations* (1776)

Adam Smith (1723–1790), is generally regarded as the founder of modern economics. Smith's major book was *The Wealth of Nations* published in 1776. The central thesis of the work is that capital is best employed for the production and distribution of wealth under conditions of free trade and limited governmental interference. Smith concluded that the wider the trading area, the greater the opportunity for specialization—what he called the division of labor—and the greater the efficiency or, as we now say, the productivity of labor.

In today's world, a by-product of free trade is the outsourcing of U.S. jobs to other countries. The outsourcing of jobs is receiving unprecedented negative attention from politicians and the press during this political season. What the critics of outsourcing fail to point out is that the U.S. insources jobs, too. In fact, Peter Drucker—an author and a lecturer at the management school that bears his name at Claremont Graduate University—stated in an interview which appeared in the January 12, 2004, *Fortune* magazine that, "Nobody seems to realize that we import twice or three times as many jobs as we export. I'm talking about jobs created by foreign companies coming into the U.S. The obvious are the foreign automobile companies. Siemens alone has 60,000 employees in the U.S. We are exporting low-skill, low-paying jobs but are importing high-skill, high-paying jobs."

Writing in the March 24, 2004, issue of *The Wall Street Journal*, Walter B. Wriston, former chairman & CEO of Citicorp/Citibank stated, ". . . the greatest beneficiary of outsourcing is the U.S. itself. We are importing many more jobs than we export. Indeed, foreign companies of all kinds from all over the world are attracted to our stable political environment, our relatively low corporate tax rate, and the huge growth in productivity by American workers." Mr. Wriston goes on to state that, "These foreign companies operating in the U.S. are creating more jobs for Americans than homegrown U.S. Companies." Moreover, those jobs are generally of high quality. An indication of the quality of these jobs created by foreign companies is illustrated by the fact that pharmaceutical company Novartis is moving its entire world-wide research and development operation from Switzerland to Massachusetts.

The data to support Mr. Wriston's comments come from the Organization for International Investment which keeps track of the number of jobs that are outsourced by other countries to the U.S. According to that organization's website, U.S. subsidiaries of foreign companies employ 6.4 million Americans. Moreover, these subsidiaries support an annual payroll of $350 billion and pay, on average, 16.5% higher wages than the average of all U.S. companies. Additionally, 34% of the jobs at the U.S. subsidiaries of foreign companies are in manufacturing which is more than double the proportion of manufacturing jobs at all U.S. companies.

Yes, we live in a global village. And the politicians and news anchors would have us believe we are losing out to China and India. Nothing could be further from the truth. The U.S. can and does compete effectively in a competitive world. The economy as a whole is a beneficiary of free trade. The jobs we import are better than those we export. It is what Adam Smith called the division of labor.

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