ECONOMIC ANALYSIS

U.S. Multinationals Cut U.S. Jobs While Expanding Abroad

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It is only natural that U.S. companies have increased hiring overseas during the last decade. After all, the world economy has become increasingly integrated. There are huge overseas markets to be exploited. There are pools of low-cost labor to be tapped. So the steady upward trend shown in Figure 1 should come as no surprise. Between 1999 and 2008, employment by majority-owned foreign affiliates of U.S. parent corporations grew from 7.8 million jobs to 10.1 million. That's an increase of about 2.4 million jobs, or 30 percent.

The data are from the Bureau of Economic Analysis of the U.S. Commerce Department (http://www.bea.gov/international/di1usdop.htm). The figure for 2008, just published in August, shows an increase of 112,000 over 2007. Of the total 2.4 million increase in foreign jobs between 1999 and 2008, the countries where the most job growth occurred were China (522,000), India (251,000), Brazil (137,000), and Mexico (121,000).

Figure 2 is far more revealing because we should have no expectation one way or the other about the quantitative effect of globalization on *domestic* employment by U.S. multinationals. On the one hand, we might expect it to grow as the demand for U.S. products increases. On the other hand, it might shrink if production is shifted offshore. Most likely, both forces are at work at the same time. But which of these two effects is stronger?

Figure 2 shows that the number of U.S. employees of U.S. multinationals declined from 23 million to 21.1 million between 1999 and 2008. That's a decrease of about 1.9 million, or 8 percent. In 2008 the decline was 446,000.

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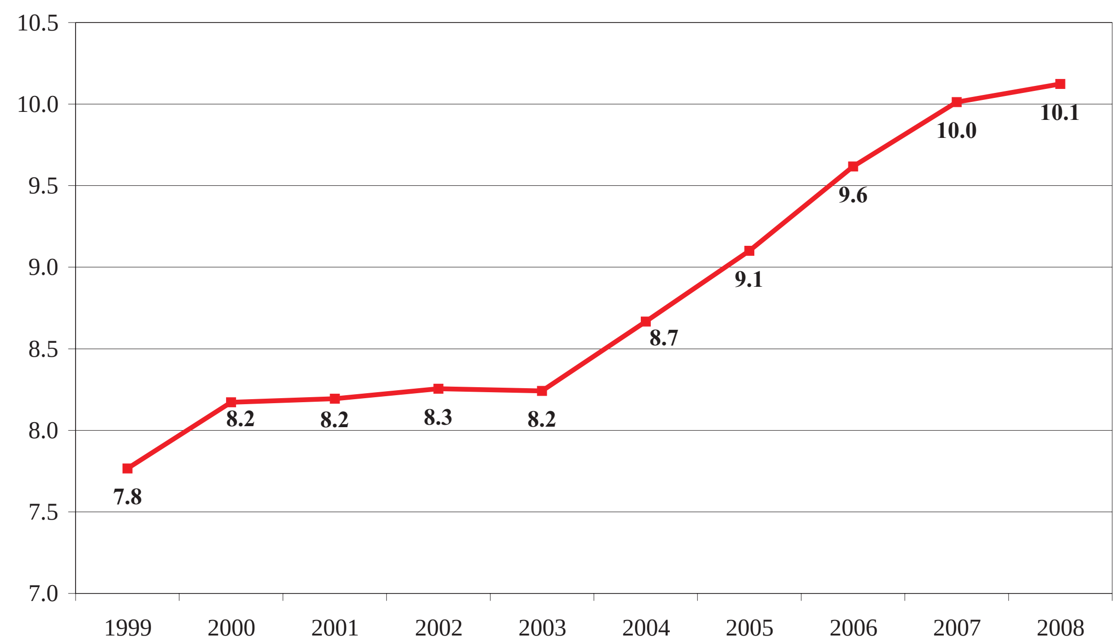
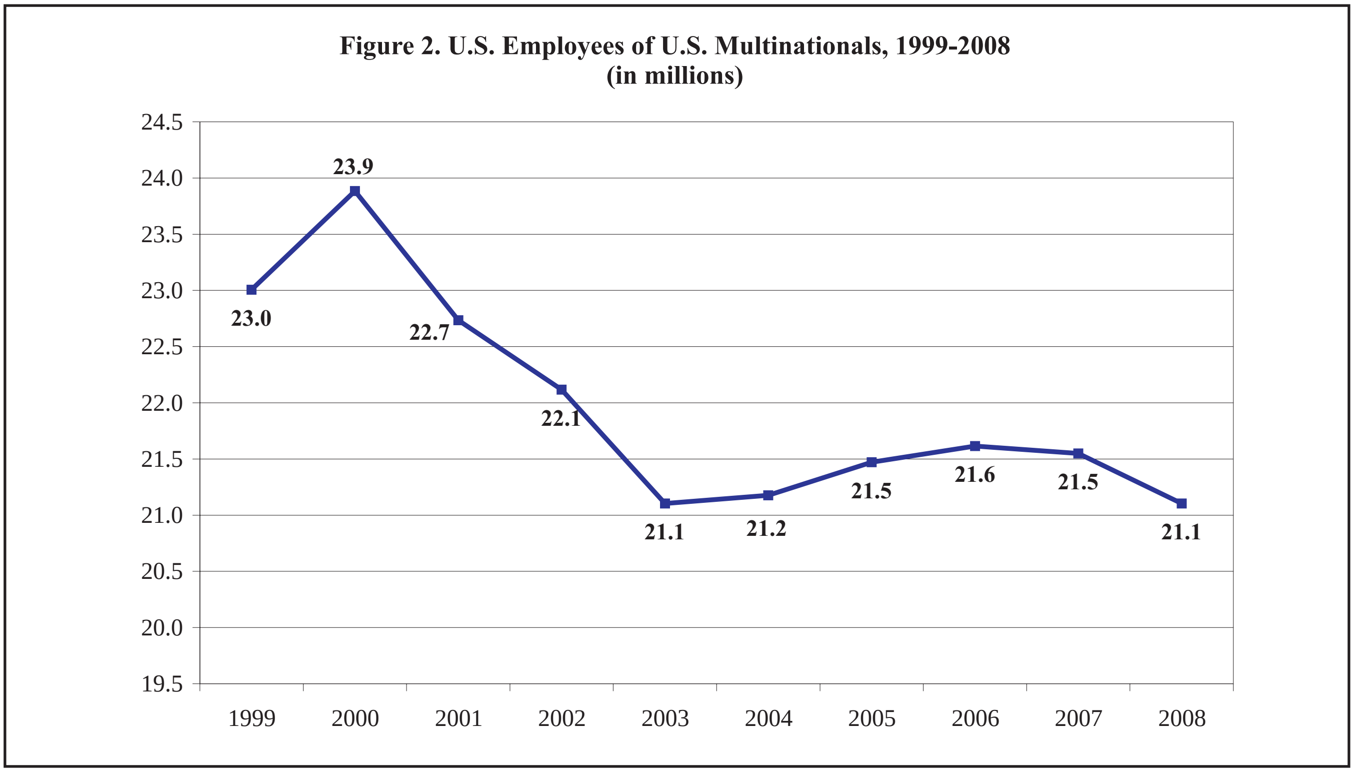
When in Washington, U.S. multinational corporations like to portray themselves as job creators. They explain that their expanded presence abroad is primarily because of the growth of distribution and marketing affiliates. This phenomenon increases demand for U.S. research and development

Figure 1. Foreign Employees of U.S. Multinationals, 1999-2008 (in millions)





and for U.S. management of worldwide operations. Moreover, jobs in research and management are high-paying.

But multinationals are leaving out part of the story. They do not want to tell their Washington sponsors that they are shrinking their manufacturing employment in the United States. Figure 2 reminds us of this unpleasant fact and more. It tells us that the gains in research and management are not making up for the lost manufacturing jobs. U.S. multinationals are not net job creators.

Now, there is no reason to get too worked up over this. True, there are some juicy tax benefits available for moving production offshore, but the great migration was inevitable because of the extremely low cost of labor in other countries. Tax benefits are icing on the cake. Multinationals are just doing what is best for their bottom line, for their shareholders, and for their executives' stock options. They should not have to apologize for it.

The real problem is one of public relations. Economists will tell you that all employers — whether growing or shrinking — are potential job creators on the margin. But nobody listens to them. Politicians think more in terms of rewarding good players rather than providing all players incentives to be good. Favorable tax policies are more likely to be directed to those employers with a proven track record. Multinationals will resist admitting to their dwindling domestic employment not because it is bad business practice, but because it is bad politics. ■