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Finding Lessons Of Outsourcing In 4 Historical Tales

Technology, Trade, Migration Often Shook Job Market; Politics Can Slow Effects

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What could be a more modern dilemma? High-speed data links allow employers to ship white-collar jobs from rich countries to India, China and other nations where workers earn far less.

Yet losing skilled jobs to low-wage foreign competition is as old as the Industrial Revolution. In the 1830s, the British textile industry became so efficient that Indian cloth makers couldn't compete. The work was outsourced to England, with disastrous consequences for Indian workers. "The misery hardly finds parallel in the history of commerce," India's governor general, William Bentinck, wrote to his superiors in London in 1834.

As Americans grapple with the fallout of shipping hundreds of thousands of jobs overseas, history echoes with many similar episodes -- and lessons. Trade and technology can boost living standards for many people, by creating lower-priced goods. But those same forces can destroy skilled jobs that workers thought never would be threatened.

Competition from foreign labor hurt huge classes of American workers in the 19th century but eventually helped ease wage disparities between nations. And during these upheavals, history shows that politics can arrest what seems like unstoppable technological progress.

Here are four lessons from history that help illuminate today's debate:

Even high-skilled, good-paying jobs are vulnerable.

In the early 1800s, skilled weavers in Britain who worked on hand looms considered themselves a protected class. For a while, the government banned the use of textile machinery that could do weaving more efficiently and even barred emigration by mechanics as a way to keep technology bottled up in Britain.

A rioting mob of Luddites, the 19th-century British workers opposed to the mechanization of factory jobs, depicted in an 1813 illustration by Hablot Knight Browne

Disgusted by factories, with their 14-hour days and six-day weeks, artisans prized their independence. They sometimes worked four-day weeks. When offered higher prices for their cloth, they often chose to work less rather than produce more, writes Harvard University historian David Landes.

But eventually, factories prevailed. Steam-powered weaving machines were five times as efficient as hand-powered ones.

In 1811 and 1812, bands of skilled weavers -- who took the name "Luddites," after a mythical protestor Ned Ludd -- raided factories and smashed hundreds of weaving machines. The Luddites, who saw themselves as heirs to Robin Hood, captivated the poet Lord Byron, who wrote, "Down with all kings but King Ludd." It took 14,000 British soldiers to quell the rebellion, says Kirkpatrick Sale, a historian of the Luddite movement.

The Luddites, often seen as a symbol of futility, were the first of a series of resistors to technology. The Homestead strike of 1892 -- in which seven Pennsylvania steel workers and three Pinkerton detectives were killed -- was sparked by Andrew Carnegie's efforts to automate steel production. In the 1960s, U.S. union protests over

"de-skilling" -- replacing machinists with automated tools -- ended peacefully with unions accepting no-layoff pledges in exchange for new technology.

Today, computer technology is moving such skilled jobs as software design and architectural engineering overseas. "There is no job that is America's God-given right anymore," Carly Fiorina, Hewlett-Packard Co.'s chief executive, said at a recent press conference in Washington. "We have to compete, over time, for jobs as a nation."

Trade liberalization often works with technology to undermine powerful interests.

After the Luddite rebellion was crushed, British industrialists lobbied to repeal agricultural tariffs, known as the Corn Laws, to open the country to imported wheat. (In Britain, "corn" was a synonym for grain.)

Those tariffs benefited farmers and the landed gentry in England, by propping up property values. But they hurt manufacturers who had to pay more for land and workers who had to pay more for bread.

In an echo of warnings made today about the dislocations caused by trade, economist Thomas Malthus wrote in 1815 that if the Corn Laws were repealed "the transfer of wealth and population [away from agriculture] will be slow, painful and unfavorable to happiness."

Trying to show a common bond with nascent unions, industrialists dubbed the tariffs a "bread tax." Laborers were suspicious, especially since bosses in the 1830s opposed proposals to limit workdays to 10 hours.

The landed gentry lost in the end. The Irish potato famine of 1845 persuaded British lawmakers to repeal the agricultural tariffs, allowing grain to be imported. Bread prices fell, and the British economy, especially manufacturers and financiers, prospered during an era of free trade.

Labor advocates accused factory owners of using lower import prices as justification for wage cuts, foreshadowing decades of similar fights. Marxist theoretician Friedrich Engels wrote in 1881: "There were plenty (of industrialists) ... who did not even try to disguise their opinion that cheap bread was wanted simply to bring down the money rate of wages."

Gregory Clark, an economic historian at the University of California at Davis said British factory wages were flat for the first decade after the Corn Law repeal. But workers' living standards improved, he says, because their food bills declined.

Today, the same forces are at work. Lower tariffs make it easy for China to export clothing and electronics to the U.S., battering workers in those industries. But overall, many Americans benefit because the imported goods drive down prices.

Domestic workers are always vulnerable to competition from foreigners willing to work for less.

Today, technology lets employers tap low-cost labor by shipping jobs overseas. In the past, the low-cost labor came to America in waves of immigration.

The effect on wages is similar: Millions of domestic workers compete with foreigners for jobs, and pay disparities start to narrow.

The scale of competition was more intense in the late 19th century. Between 1870 and 1910, 60 million Europeans, mostly young males with few job skills, emigrated to the U.S., Canada, Australia and Argentina. This boosted the labor force in the U.S. by 24%, and in Argentina by a staggering 86%. It reduced the ranks of the European labor force, by 45% in Ireland and 39% in Italy, according to Harvard economist Jeffrey Williamson and University of Essex economist Timothy Hatton.

The massive increase of workers sent industrial wages tumbling in the U.S. In New York, Chicago, Los Angeles and other cities, wages declined between 1% and 1.5% for every 1% increase in immigration during the 1890s and early 1900s, says Harvard economist Claudia Goldin. Wages dropped even more steeply in fields dominated by immigrants, such as sewing-machine operators.

U.S. labor unions turned against immigration in the 1890s. The American Federation of Labor supported literacy requirements for immigrants in 1897. The measure failed to pass Congress by only two votes. (Immigrants would have been required to read part of the U.S. Constitution in their native language.) In New York City, an independent Labor Party urged a tax of $100 per new entrant. On the West Coast, AFL organizers led anti-Asian immigrant movements.

With fewer workers competing for jobs, the historically low wages in Europe rose. Europe's vast wage disparities with other countries began to diminish. In 1870, wages were 136% higher in the U.S. and other New World countries than in Europe, according to Professors Williamson and Hatton. By 1913, the gap had closed by half. By the time the U.S. firmly barred the door to immigration in 1921, the flood of new arrivals was easing anyway because European wages had risen so much.

Wages in India and China, even if rising, are still far from U.S. levels. For instance, Intel Corp., the Silicon Valley semiconductor giant, estimates that its labor rates in India are one-third U.S. levels. This cost advantage will likely last for decades. The history of immigrations suggests that if outsourcing spreads, the wages of U.S. workers who compete with Indians and Chinese will suffer.

Salaries of U.S. computer programmers, whose work has been outsourced abroad for more than a decade, were flat between 2000 and 2002, after inflation, according to Jacob Kirkegaard, a researcher at the Institute for International Economics, a Washington think tank. The number of U.S. programming jobs declined about 14%, he says. However, he adds that it's hard to distinguish between the effect of outsourcing and the burst of the high-tech bubble of the late 1990s.

But the size of a workers' paycheck isn't the only measure of economic well-being. The prices he or she pays is another. Just as the import of goods reduces the prices Americans pay for computers and cars, so will the import of services, many contend. If U.S. hospitals send more X-rays to India for radiologists there to read, or pharmaceutical companies use more Indians to conduct clinical trials, American workers and employers could benefit if health-care costs decline.

Politics can slow down the transforming effects of new technology.

The transportation revolution of the late 19th century was every bit as life-changing as the advent of the Internet and high-speed data communications today. Railroads carried goods across the U.S., Canada and Australia to ports, where they were loaded on fast steam ships for transit across the ocean. The cost of shipping wheat between New York and Liverpool fell by half between 1830 and 1880, and by half again from 1880 to 1914, according to New York University historian Niall Ferguson.

Technology created new markets and new industries. Refrigerated rail cars created a national meat-packing industry in the U.S. and made Chicago a magnet for slaughterhouses. Department stores and mail-order catalogs grew in the late 1880s, dependent on railroads for deliveries.

The pace of life quickened. "The train is leaving the station" became part of the vernacular. A writer for Scribner's in 1888 said life had changed more in the past 75 years than at any time since Julius Caesar "and the change has chiefly been made by railways."

The forces of technology and trade seemed unstoppable. But they weren't. Politics trumped technology in ways that are instructive for today.

The new economy of that day destroyed jobs, industries and whole towns. Local meatpacking plants closed, as did ice houses and small general stores. Steamboat towns such as Burlington, Iowa, and St. Louis faded, and farmers regretted their dependence on railroad barons, says historian Richard John of the University of Illinois at Chicago. "There is a screw loose," complained a farm journal editor in the 1890s. "The railroads have never been so prosperous, and yet agriculture languishes."

Trade opened new markets for American grains. But it battered cotton farmers, whose goods were undercut by Egyptian and Indian cotton. Exports of cotton yarn and cloth from Japan took markets from U.S. exporters. The Southern Manufacturers Club, in Charlotte, N.C., debated the "Oriental question" -- cheap imports from China and Japan -- in 1901.

Industries and workers hurt by imports assembled coalitions that persuaded politicians to erect high tariffs. In the U.S., the Republican Party became the home of protectionism. In 1892, William McKinley -- then governor of Ohio and later president -- attacked free trade for destroying "the domestic product representing our higher and better-paid labor." Skilled workers were attracted to the cause, and the U.S. remained a high-tariff country for much of the early 20th century.

In Germany the political reaction was more radical. Prussian Junkers, the land-owning elite who dominated the military, made common cause with industrialists to push trade barriers higher -- and keep them there. In what became known as the "marriage of rye and iron," Junkers pressed for high agricultural tariffs to keep out American wheat, while industrialists lobbied for industrials tariffs to block British steel imports. The result: German militarism and economic isolationism mounted.

Today, political reaction against outsourcing abroad is in the early stages. State legislatures are discussing barring companies that shift work abroad from receiving government contracts. Congress is discussing regulation and tax policy to hinder the practice. History shows that in a battle between politics and technology-driven change, betting on technology isn't a sure thing.

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