

Book Reviews

Editor's Note: Guidelines for Selecting Books to Review

Occasionally, we receive questions regarding the selection of books reviewed in the *Journal of Economic Literature*. A statement of our guidelines for book selection might therefore be useful.

The general purpose of our book reviews is to help keep members of the American Economic Association informed of significant English-language publications in economics research. We also review significant books in related social sciences that might be of special interest to economists. On occasion, we review books that are written for the public at large if these books speak to issues that are of interest to economists. Finally, we review some reports or publications that have significant policy impact. Annotations are published for all books received. However, we receive many more books than we are able to review so choices must be made in selecting books for review.

We try to identify for review scholarly, well-researched books that embody serious and original research on a particular topic. We do not review textbooks. Other things being equal, we avoid volumes of collected papers such as *festschriften* and conference volumes. Often such volumes pose difficult problems for the reviewer who may find herself having to describe and evaluate many different contributions. Among such volumes, we prefer those on a single, well-defined theme that a typical reviewer may develop in his review.

We avoid volumes that collect previously published papers unless there is some material value added from bringing the papers together. Also, we refrain from reviewing second or revised editions unless the revisions of the original edition are really substantial.

Our policy is not to accept offers to review (and unsolicited reviews of) particular books. Coauthorship of reviews is not forbidden but it is unusual and we ask our invited reviewers to discuss with us first any changes in the authorship or assigned length of a review.

F International Economics

Offshoring of American Jobs: What Response from U.S. Economic Policy? By Jagdish Bhagwati and Alan S. Blinder. Edited and with an introduction by Benjamin M. Friedman. Alvin Hansen Symposium on Public Policy at Harvard University. Cambridge and London: MIT Press, 2009. Pp. xiv, 141. \$18.95. ISBN 978-0-262-01332-1. *JEL* 2009-1240

Offshoring refers to the practice, by either companies or government entities, of relocating goods or services previously produced domestically to unaffiliated firms or affiliated entities abroad. Offshoring of manufacturing goods and

components has been common practice for a few decades now, but recent advances in information and communication technologies (ICT), coupled with a notable increase in the supply of educated workers in certain less developed economies, has led to a remarkable increase in the incidence of service offshoring. The often-cited examples of the relocation of software programming and telephone call center services to India illustrate this trend but so does the increased demand of financial services offered by U.S. firms to foreign firms eager to offshore to the *United States*.

Is service offshoring just another manifestation of the gradual process of U.S. economic integration with the rest of the world or does it raise new

threats and challenges for American economic policy? This is the key question that Jagdish Bhagwati, Alan S. Blinder, and four other leading economists debate in this interesting, short book. The essays and discussions in the book were first presented at the fourth Alvin Hansen Symposium on Public Policy, held at Harvard University in May of 2007. I was fortunate enough to attend the symposium, and reading the transcript version of the event renewed the mixed feelings I originally experienced sitting in the crowded classroom in Emerson Hall. On the one hand, one can only feel admiration for the eloquence with which the main panelists and their discussants describe their views. On the other hand, it is difficult not to feel a bit frustrated at the (largely) unscientific nature of the debate. This is not to say that the book is not worth reading—it is. Readers may not find in the book convincing answers to the key question being debated but they will be exposed to the interesting and (sometimes) provocative opinions of a few leading economists.

In reading the two main essays in the book, one quickly realizes that the two principal panelists, Bhagwati and Blinder, share very similar views on some of the key issues related to the debates over offshoring. Importantly, they are both firm believers in free trade and readily admit that offshoring offers the prospect for huge aggregate welfare gains for all countries in the world. As accomplished economic theorists, they both admit, however, that theory does not rule out the existence of certain scenarios in which offshoring may lead to more nuanced welfare effects both for particular individuals as well as for countries in the aggregate. Their main point of disagreement is in the quantitative impact that offshoring is having and (perhaps more importantly) will have on the U.S. economy in the next few years. In short, Bhagwati views the hype with which the popular press and some economists have described the offshoring phenomenon as largely exaggerated—the effect of offshoring on U.S. workers lacks “empirical salience.” Blinder, on the other hand, thinks that offshoring is a “big deal”—it amounts to a “Third Industrial Revolution” that will lead to a “massive and disruptive” transformation of the U.S. labor market. Unfortunately, neither Bhagwati nor Blinder offer much empirical evidence to substantiate their claims.

Bhagwati’s chapter essentially constitutes a (yet another) lucid defense of free trade. In the same manner that Solow famously complained that everything reminded Milton Friedman of the money supply, it may appear that any debate related to international economics seems to remind Bhagwati of the need to extol the virtues of free trade and condemn any hint of protectionism, even when his debate opponent (Blinder in this case) forcefully proclaims that he also “yield[s] to no one in [his] defense of free trade” (p. 25). Bhagwati reminds us that past instances of increased foreign competition (such as the rise of Japan in the 1980s) also generated episodes of media frenzy proclaiming the apocalypse and advocating the need for protectionist measures, only to be proven wrong by subsequent developments. By analogy, Bhagwati argues that, in the case of service offshoring, “this particular case against free trade remains unproven and will not rise above the level of innuendos until some dramatic empirical study demonstrates otherwise” (p. 15).

Blinder’s chapter makes it clear that his intent is not to provide ammunition for the antiglobalization movement. Yet, he also attempts to convince the reader that offshoring is a big deal. By his calculations (the details of which the reader will need to look for elsewhere), between 30 and 40 million U.S. jobs are offshorable and are, thus, subject to the threat of foreign competition. Blinder of course admits that there is no presumption that all these jobs will be lost, neither in gross nor in net terms, but he argues that gross job losses will be substantial and will entail “a massive transition as millions of workers are rudely reallocated by the market mechanism.” How should U.S. economic policy respond to this threat? Blinder’s prescriptions are far less formidable than his depiction of the threat of offshoring. He advocates the need to (1) channel more resources to trade adjustment assistance programs, (2) reform education in a way that encourages specialization in nonoffshorable (or personal service) occupations, and (3) ensure that the U.S. remains “a hotbed of business creativity and innovation” (p. 50).

Bhagwati’s and Blinder’s essays constitute the backbone of the book. These are followed by four insightful discussions from leading economists.

Doug Irwin and Robert Lawrence clearly side with Bhagwati in the debate, while the views of Richard Freeman and Lori Kletzer are much closer to Blinder's. Freeman agrees that service offshoring is "a big deal" and in fact views the whole globalization process as a threat to U.S. workers. He departs from Blinder in arguing for much deeper reform, including strengthening institutions that represent labor (e.g., unions) so as to counterbalance his perceived negative effects of trade integration on U.S. wages. In her remarks, Kletzer offers an overview of an alternative measure of the number of "offshorable" jobs in the United States (which she has constructed in joint work with Brad Jensen) and then concludes with a laundry list of policy recommendations without offering much justification for them. Irwin and Lawrence provide two thoughtful and very well-written critiques of Blinder's essay. They both disagree with Blinder's assertion that offshoring will be highly disruptive—they envision that the consequences of offshoring will be felt over a long period of time and, in the process, the United States is also likely to export a significant amount of services. Irwin also argues that one should not expect wages in China and India to remain at their current levels as the phenomenon of offshoring becomes more and more widespread, hence alleviating part of the threat to U.S. workers. Lawrence disagrees with Blinder's recommendations regarding education reform—in his view, Americans should embrace the challenge rather than giving up on offshorable occupations.

Overall, the book offers a high ratio of speculation to hard empirical evidence. Blinder offers some statistical evidence in his chapter suggesting a negative effect of offshoring on wages but, as Lawrence quickly points out, Blinder's regressions are misspecified in obvious ways. The truth of the matter, however, is that, at the time the authors wrote their essays and discussions, there had been very few attempts to test the effects of service offshoring on U.S. workers (Mary Amiti and Shang-Jin Wei 2005 being a notable exception). In the last few months, however, a couple of interesting empirical studies have shed some light on the issue. First, the work of Rosario Crinò (2010) suggests that, at least for white-collar workers, there is evidence that offshoring

has a relatively more positive effect on highly educated workers than on less educated workers. He also finds that, at a given skill level, stronger tradability characteristics raise the risk that an occupation be offshored, in line with Blinder's view. Nevertheless, the effect does not appear to be quantitatively large. The same conclusion is reached by Runjuan Liu and Daniel Treffer (2008) who, using March-to-March matched CPS data, find precisely estimated small negative effects of offshore outsourcing on earnings, while also finding positive effects of inshoring (i.e., offshoring by other countries in the United States). The net effect, they argue, is actually positive.

Of course, these pieces of evidence do not demonstrate that Blinder is wrong and Bhagwati is right. Perhaps the effects of offshoring will only be felt in a few years, Blinder might argue. Nevertheless, the more gradual the effects of offshoring prove to be, the less likely will it be that its consequences are highly disruptive for the U.S. economy, especially given how flexible the U.S. labor market appears to be (as proved by its remarkable rate of churning even in normal times). In sum, and referring back to the title of the book, one is left with the feeling that the case for a dramatic response from U.S. economic policy to the threat of offshoring seems pretty weak at present.

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G Financial Economics

Oil, Dollars, Debt, and Crises: The Global Curse of Black Gold. By Mahmoud A. El-Gamal and Amy Myers Jaffe. Cambridge and New York: Cambridge University Press, 2010. Pp.