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Where have all the multinational jobs gone?

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Sunday, May 30, 2010 By Niall Stangan in New York

News

When Pfizer announced earlier this month that up to 785 people could lose their jobs due to the closure of three Irish plants, it was only the latest in a series of hammerblows that the state has endured at the hands of multinationals.

News Features

The Market

Among the other big names to have pared back their Irish workforces in the past couple of years, the most famous was Dell, which announced plans to shut its Limerick plant in January 2009, with the loss of 1,900 jobs. Intel cut 300 people from its Leixlip workforce last summer; and, six months ago, Glaxo SmithKline said 250 jobs would go due to the closure of a Sligo plant.

Technology

Media & Marketing

Comment & Analysis

All through the Celtic tiger years, the multinationals were hailed as Ireland's saviours, boosting the nation to unprecedented prosperity in return for low corporate tax rates, an educated workforce and an advantageous geographical location.

Computers In Business

Profile

But, as the recent job losses display all too graphically, Ireland has increasingly come to experience the rough edge of globalisation and free trade. The IDA noted in its end-of-year statement last December that net employment in the companies it supports had fallen by more than 13,000 - approximately 10 per cent - by comparison with the previous year.

Property

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Agenda

In March, IDA chief executive Barry O'Leary implied that there would be more job losses to come. Addressing a joint Oireachtas Committee on Enterprise, Trade and Employment, O'Leary noted that "high-cost locations, if some of them are in Ireland, will be under definite pressure."

Inside Story

Books

Some companies will be fine, but we are aware of some that are under pressure".

Food & Drink

Travel & Well-being

The Pfizer announcement is evidence of that. And it may not be the end of the story. Almost simultaneously, rumours began to circulate that Boston Scientific, which manufactures medical devices, would shed 85 jobs in Galway.

The Guide

Off Message

The company had already warned of 175 full and part-time redundancies earlier in the year.

Post Mortem

Letters

The IDA has expended considerable efforts to try to lighten the darkening national mood. It has made the most of every deal that has brought jobs to the state, trumpeting announcements by household names such as car rental company Hertz (100 new jobs in Dublin last February), online payments firm PayPal (also a 100-job expansion in Dublin, announced last January), and the opening of a new Facebook headquarters, also in the capital, last October.

Budget 2010 Magazine

People In Business

In the same December report in which it acknowledged the 13,000 fall-off in jobs, it also noted that companies it supported were directly responsible for the employment of around 136,000 Irish people and for €9.1 billion in direct expenditure.

Business Of Law



Done Deal

Still, all the recent news can be summed up simply: the gains look paltry by comparison with the losses.

Commercial Reports**Budget Forum**

Layoffs on the scale of those announced by Pfizer and Dell are only part of a picture in which thousands of people will be adversely affected.

Events / Conferences

At the time of the Dell closure, some estimates suggested that up to 17,000 jobs in the Limerick area were endangered.

Company Reports**Tools**

RTE reported that for every job lost at Dell, another four in the region would be endangered. Limerick Labour Party TD Jan O'Sullivan told the Times of London that the decision "would have a devastating effect on the local economy".

Crossword**Search the archives**

The Pfizer closure had her Cork-based party colleague Ciaran Lynch TD insisting that "when we start haemorrhaging jobs like this, we really do have to sit up and take notice".

Newsletter**Mobile****RSS** 

The statistics and even the noble-sounding words of politicians can tend to obscure the real experience of unemployment. Last year, one Dell employee who had lost his job, Eamon Ryan, appeared on Prime Time.

Text-Only

"There are so many couples employed in Dell and particularly young people with young families and substantial mortgages, that one wonders how on earth they are going to survive," he told Miriam O'Callaghan.



"It's very difficult - I honestly can't see what the future holds for those people. People were talking today about having to vacate their houses in the next 12 months or so."

There is a broader question, of course: have the layoffs of the past year done anything to change Irish attitudes to multinationals, and to the debates about free trade and outsourcing to which they are central?

Perhaps inevitably, it is a question that evades an easy answer. There is, for instance, virtually no opinion-polling on the issue. It is also complicated by the fact that not all the recent job losses can be blamed on outsourcing per se. Nor is it clear that any specific economic policy could have prevented them.

The cuts at Pfizer came in the wake of that company's acquisition of Wyeth, itself a major employer in Ireland. They are a personal disaster for those directly affected, but it is difficult to blame a company for laying off people whose jobs would otherwise be duplicated in a newly-merged corporation.

Pfizer spokeswoman Tara Delaney says the job losses were "not about moving to lower-cost locations. We had a problem with excess capacity in our network, and needed to align manufacturing capability and capacity with product demand".

She also notes: "Some of the products from the Irish sites impacted will transfer to other sites within Ireland. A few will transfer to other locations. And some products are transferring in. For example, five products are transferring into Newbridge in its new role as a Centre of Excellence for Specialised Technology."

Similarly, Sarah Sexton, an Intel spokeswoman, asserts that the job cuts made by the company last year were "necessitated by a reduction in demand for a particular type of legacy products produced in our older 200mm facility on the Ireland campus". She adds that this was not an outsourcing issue, "as the jobs were not diverted to a different location".

The situation pertaining to Dell is rather different. For a start, the closure of the Limerick plant seems to have been handled in away that created significant bitterness. In an interview with the Limerick Leader in the immediate wake of the cuts, the city's then-mayor John Gilligan accused the company of having been mendacious about its plans.

"The fate of the Dell plant in Limerick was sealed three years ago, when they first made the approach to Łódź in Poland, and then proceeded to build a plant twice the size of what they had in Limerick," Gilligan said. "When that was first mooted, they chanted the same mantra all the time: 'We do not respond to media speculation'.

"Had they been honest three years ago, the people in Dell would have been able to retrain for different jobs. Now, you have a problem that people are being given the bad news at the start of the biggest recession we've ever seen. People have taken out mortgages because Dell have said anything about closing down is only media speculation . . . It is immoral how the workers in Limerick have been treated, especially when you consider what Dell got in return."

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Dell executives, naturally, dispute that characterisation. Angie Kinane of Dublin public relations firm Q4, which handles media enquiries regarding Dell, drew attention to the fact that Dell "continues to employ 2,300 people in Ireland, including 1,000 in Limerick. She also added that the manufacturing jobs lost in Limerick were indeed transferred to the Polish city of Łódź but, "since that time, [Dell] has announced its intention to sell its Łódź plant to global manufacturing operator Foxconn".

Foxconn is headquartered in Taiwan. It produces many of Apple's fashionable products, including the iPhone and iPad, as well as hardware for other blue-chip names like Intel, Motorola and Hewlett-Packard.

But it is also deeply controversial. In China, it runs massive manufacturing plants in a style that critics allege has more in common with the military than with the western world's conception of modern-day employers.

Within the past fortnight, according to the New York Times, the eighth worker this year committed suicide at one of its Chinese facilities.

Another suicide last year came after the worker in question was apparently questioned over a missing prototype for the next Apple iPhone.

The dead man, 25-year-old Sun Danyong, "had complained to friends that the security personnel had beaten and humiliated him", the newspaper noted.

The company, for its part, has said that it has set up a helpline and taken other measures to protect its workers' welfare. It has also been noted that the sheer size of Foxconn's Chinese facilities - two sites in Shenzhen province employ an astonishing 420,000 people - make unhappy events such as suicides a statistical near-certainty.

In any event, though, it seems unthinkable that western employees would submit to the kind of conditions that are commonplace at Foxconn's Chinese sites, including living on-site, working intense 12-hour production line shifts and a seemingly Big Brother-esque ethic.

"Ours is a factory most unlike a factory," a company spokesperson told the Financial Times last week. "It is a plant and a town at the same time, but the basic unit here is the dorm, not the family."

If the quest for ever-lower labour costs increasingly drives manufacturers to embrace such an approach, what can countries such as Ireland do to survive and prosper?

To be fair, Ireland has never sought to present itself as a notably low-wage economy.

It continues to emphasise not just its favourable tax regime - its corporation tax rate of 12.5 per cent compares to 35 per cent in the US - but the technical expertise of the workforce.

In a wider sense, the debates now playing out in Ireland - about the pros and cons of globalisation, and the accompanying free movement of money, goods and, above all, of labour - has been roiling other countries, including the United States, for a long time.

The US has not itself found perfect answers to any of these issues, but it might at least provide a template to help us ask the right questions.

Bob Baugh is one of the American union movement's leading experts on globalisation. As executive director of the Industrial Union Council of the AFL-CIO, the US equivalent of the Irish Congress of Trade Unions (ICTU), he has witnessed the effects of outsourcing first-hand in recent decades. He does not mince words when asked what the US experience has been like.

"It's been brutal," he says.

Baugh can cite plenty of grim statistics. In a recent article published by the Woodrow Wilson International Centre for Scholars, he noted that a massive 57,000 American manufacturing establishments closed between 1998 and last year. By the end of last year, the number of Americans employed in manufacturing was 11.63 million, the lowest figure since 1941. A third of American manufacturing jobs have been lost since 1998.

Much of America's once-proud heartland has been decimated. The decline - which began before the biggest moves towards globalisation took place, a factor that has led to heated debate about its actual causes - has even spawned an expression, the Rust

Belt, denoting a huge swathe of the middle America that has fallen from prosperity into hard times.

States such as Ohio, once a massive steel producer, have been left struggling with high unemployment and its concomitant social problems. Large parts of Detroit, one of the boom cities of mid-20th century America and home to the so-called Big Three carmakers - General Motors, Chrysler and Ford - are now urban wasteland. As of last week, the unemployment rate in Michigan was the highest of any state in the US, at 14 per cent.

In Ohio, it was 10.9 per cent, the tenth-highest figure. The gravity of those statistics would appear to bear out another of Baugh's arguments - that, although much media coverage of outsourcing tends to focus on the loss of production-line jobs, the migration of those opportunities represents only the thin end of the wedge.

"It's not just the skilled production line workers [who lose their jobs]. It's engineers, scientists, designers - all the people who are part of the production process, part of the innovation chain. The consequence of that is that the next big idea is not going to be made here, it is going to be made somewhere else."

Other experts, however, are not so convinced as Baugh that outsourcing is the sole, or even the main, problem.

Peter Cappelli is a professor of management at the University of Pennsylvania. He contends that the actual number of job losses directly attributable to outsourcing "was a pretty small proportion". But, he adds, "the political effects were big because these were what people thought of as safe and secure jobs".

Cappelli also points out a persistent problem with debates about globalisation and outsourcing: it can sometimes be frustratingly difficult to agree on what, precisely, the terms mean.

"It could be that a company decides to pack up a factory and move to China because it's cheaper," he says. "But it could also be that a company decides to build a new facility in China, rather than the US, because so many of their customers are now in China."

To illustrate his argument, Cappelli cites the example of the textile industry. That industry has become virtually synonymous with China in recent years. Now, he says, the companies that make tools used in textile manufacture are themselves setting up plants in China rather than the US.

Have the new jobs in this instance been "taken" from Americans by Chinese competitors - or are they simply the automatic consequence of China's rise to economic prominence?

For Americans, long used to the idea that their nation was the economic engine of the world, many of the changes in recent years have been both heartbreaking and disconcerting.

Take the small city of Wilmington, Ohio.

It had thrived because its airport had become a key hub for an express-delivery service.

In late 2008, the local economy was devastated at a stroke when the company in question announced it was essentially pulling the plug, with the loss of 7,000 jobs. The mayor of Wilmington, David Raizk, told the New York Times that 20 per cent of all businesses in the local areas was likely to vanish in its wake.

The desperate story does not quite fit into the traditional narrative of outsourcing, however. The Wilmington airport had first prospered as the home of an American company, Airborne Express. The company grew solidly, but remained a distant third place to FedEx and UPS in terms of the overall American express-delivery market.

Its acquisition by DHL in 2003 was first seen as a potential boon to the Wilmington area. The German company received inducements from various local and state authorities to develop the airport.

But it ultimately came to the conclusion that it was on a fundamentally flawed path.

Can Wilmington be said to be the victim of outsourcing? Or is its sorry state really the result of bigger trends, related to free trade agreements and the moves towards a global marketplace?

Free trade, and outsourcing itself, continue to have plenty of defenders. True believers such as Radley Balko of the Cato Institute, a Washington DC-based libertarian think-tank, have argued that, during the past decade, the main determinant in where jobs went was the degree to which 'business friendly' laws applied.

Balko used contrasting job statistics for different US states to suggest that, "for all the talk of off shoring, the cost of packing up a domestic plant and moving it overseas is significant . . . American workers are still far more productive than, for example, Indian workers, even when you factor in the lower wages. It's only when the onus of complying with federal, state and local tax laws and regulations becomes overly burdensome that it makes economic sense for a corporation to shop jurisdictions for a better deal."

Cynthia Kroll is a senior regional economist at the University of California at Berkeley. Kroll is herself ambivalent about some of the changes in global economic patterns.

She professes concern about the degree to which the US has lost its manufacturing capacity, which she considers troubling "even from a security viewpoint". But she is uncertain what can or should be done to improve matters. Protectionism, she suggests, is full of dangers.

"It is a very controversial issue. We do a lot of services-exporting overseas. If you start putting barriers up because you don't want companies to export service jobs, you might end up with barriers to those countries."

This, she suggests, would merely inhibit trade generally and leave no one especially well-off.

The combination of concern over globalisation's effects and uncertainty as to what to do to counteract them is shared by Peter Cappelli. He says emphatically that "you would have to be crazy not to be concerned about some of the effects, but where the politics divides is what you do about it".

The two poles in that debate, he argues, are those represented by "the extreme social Darwinists, who basically say: 'Tough, pick yourselves up and get on with it', and those who insist on the need for reinvestment and retraining of laid-off workers".

The latter may sound more sympathetic and progressive, but Cappelli argues that there is one rather large difficulty.

"We have not been able to figure out which jobs are the ones that are going to require more workers," he says.

"The problem here is that, even if you think [outsourcing] is a terrible problem, it is not obvious what to do." Union activists like Baugh accept that there are no ideal solutions.

When it comes to projects financed by the massive economic stimulus package passed last year, he is a supporter of requiring the federal government to buy only American-made products. But while he said he would "certainly encourage" individual citizens to buy American, he added: "I realise that can be difficult. I'm a consumer. I realise that the electronics industry, for example, took a walk a long time ago."

Still, Baugh believes, unlike Cappelli, that it should be perfectly possible to identify certain industries as ripe for investment and standing a good chance of creating American jobs.

He believes that so-called 'green' jobs, at the forefront of environmentally-friendly technology, could be such an area. The alternative - just letting jobs seep away endlessly - is for him unthinkable. The social consequences of the unemployment that he has already seen over his career is "devastating" he says.

"You have to remember that the manufacturing sector in this country was one of the primary providers [of health insurance]. So when manufacturing goes, people lose their health care. Then the cities lost their tax base as well, and they were not able to provide services.

"Then there are the emotional and psychological effects on families. There are increased suicide rates, increased rates of illness because of the stress, and increased divorce rates."

There are few statistics yet available as to whether Ireland is suffering any of these same effects of widespread job losses. And, as Baugh and Kroll both separately point

out, European nations - including Ireland - have traditionally sought to ameliorate the effects of joblessness by means of a much stronger social safety net than has generally existed in the US.

Kroll points to another contrast, however - one less beneficial to Ireland. Whereas the US still has considerable indigenous industry, she suggests, Ireland's boom has been more purely a product of foreign direct investment.

Ireland clearly has some 'native' firms that are big players, but even the biggest has nothing approaching the heft of Dell which, at its peak, was said to account for around 5 per cent of the state's entire GDP.

"I think one of the real differences between the US and Ireland is that we still have a lot of the new product development done here," she says. "And that keeps welling up and enabling new product areas to take root as the old ones leave. I'm not sure that happens to the same extent in somewhere like Ireland."

Whatever about the massive contrasts between them, however, Ireland and the US have one thing in common. As part of the developed world, they are having to get used to competition from low-wage emerging nations.

A growing consensus seems to be that free trade and globalisation is not such a win-win proposition as its adherents once claimed. The question remains whether the benefits are worth the costs.

"300 million Chinese have been pulled out of poverty," Peter Cappelli says. "But this process creates winners and losers. In this case, the winners are in China and the losers are in the US. So, is that a good thing for the planet?"

In an abstract sense, it may be. But such abstractions are a cold comfort to those, whether in Cleveland or Cork, who are jobless and struggling as a result.

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