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OFFSHORING: GOOD OR BAD?

An Economic Argument

Computer Technology Role

Offshoring of knowledge creation jobs on large scale was made possible because of ...

Computer Technology Role

Offshoring of knowledge creation jobs on large scale was made possible because of ... computers.

Computer Technology Role

Offshoring of knowledge creation jobs on large scale was made possible because of ... computers **and the Internet.**

Computer Technology Role

Offshoring of knowledge creation jobs on large scale was made possible because of ... computers **and the Internet**.

The technology of storing and sending quickly and cheaply gargantuan amounts of information made offshoring of knowledge creation jobs economically feasible.

Computer Technology Role

We, CS pros, should take a closer look ...

Quotes

In 2006:

Quotes

In 2006:

high national debt (\$9 trillion),

Quotes

In 2006:

high national debt (\$9 trillion),

high non-bank corporate debt (\$9 trillion),

Quotes

In 2006:

high national debt (\$9 trillion),

high non-bank corporate debt (\$9 trillion),

high mortgage debt (\$9 trillion),

Quotes

In 2006:

high national debt (\$9 trillion),

high non-bank corporate debt (\$9 trillion),

high mortgage debt (\$9 trillion),

high financial institution debt (\$12 trillion),

Quotes

In 2006:

Quotes

In 2006:

high unfunded Medicare liability (\$30 trillion),

Quotes

In 2006:

high unfunded Medicare liability (\$30 trillion),

high unfunded Social Security liability (\$12 trillion),

Quotes

In 2006:

Quotes

In 2006:

high external debt (amount owed to foreign lenders) and a serious deterioration in the United States net international investment position (NIIP) **(-24% of GDP)**

Quotes

In 2006:

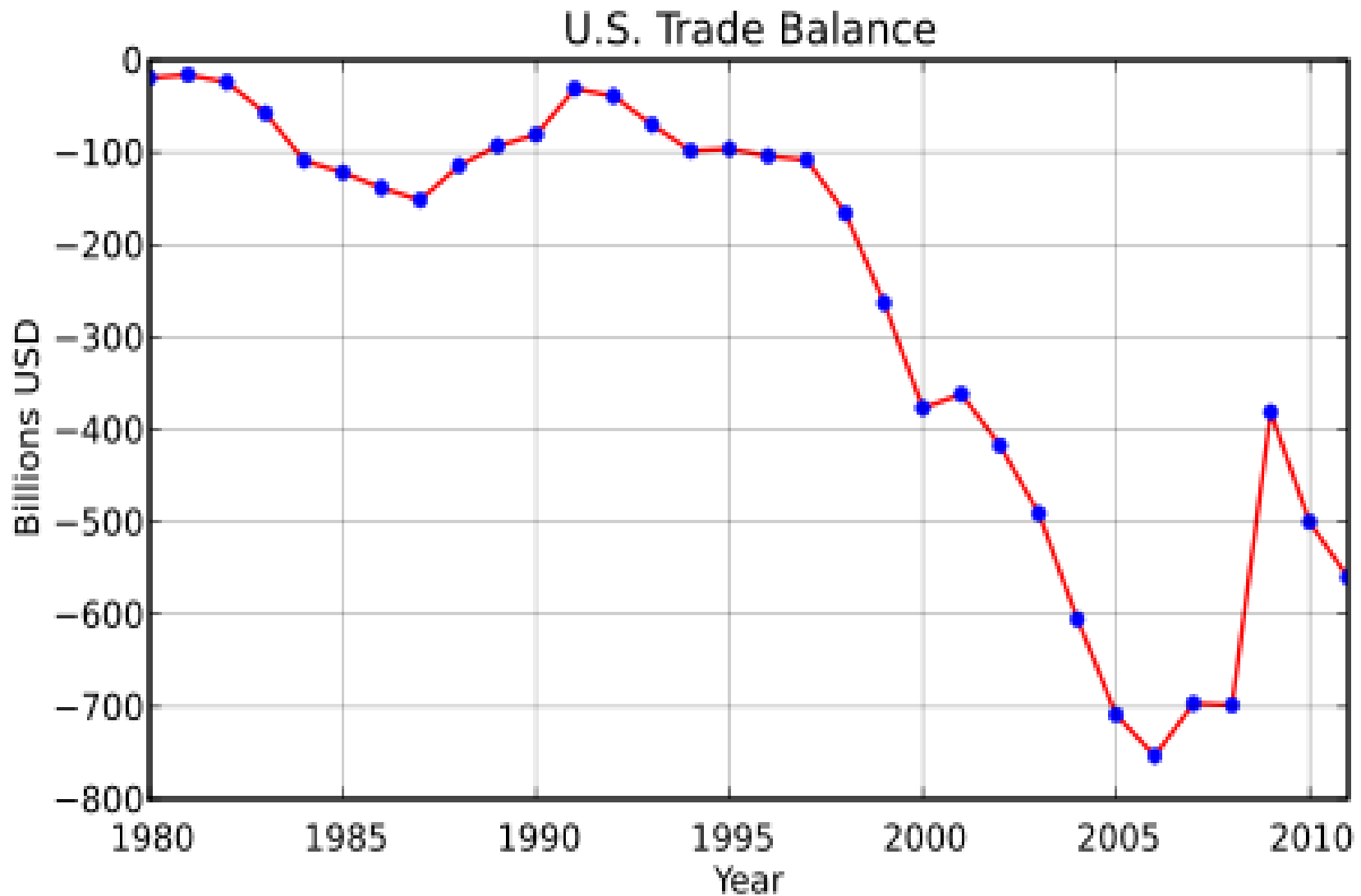
high external debt (amount owed to foreign lenders) and a serious deterioration in the United States net international investment position (NIIP) **(-24% of GDP, or \$14.3 trillion in 2009)**

Quotes

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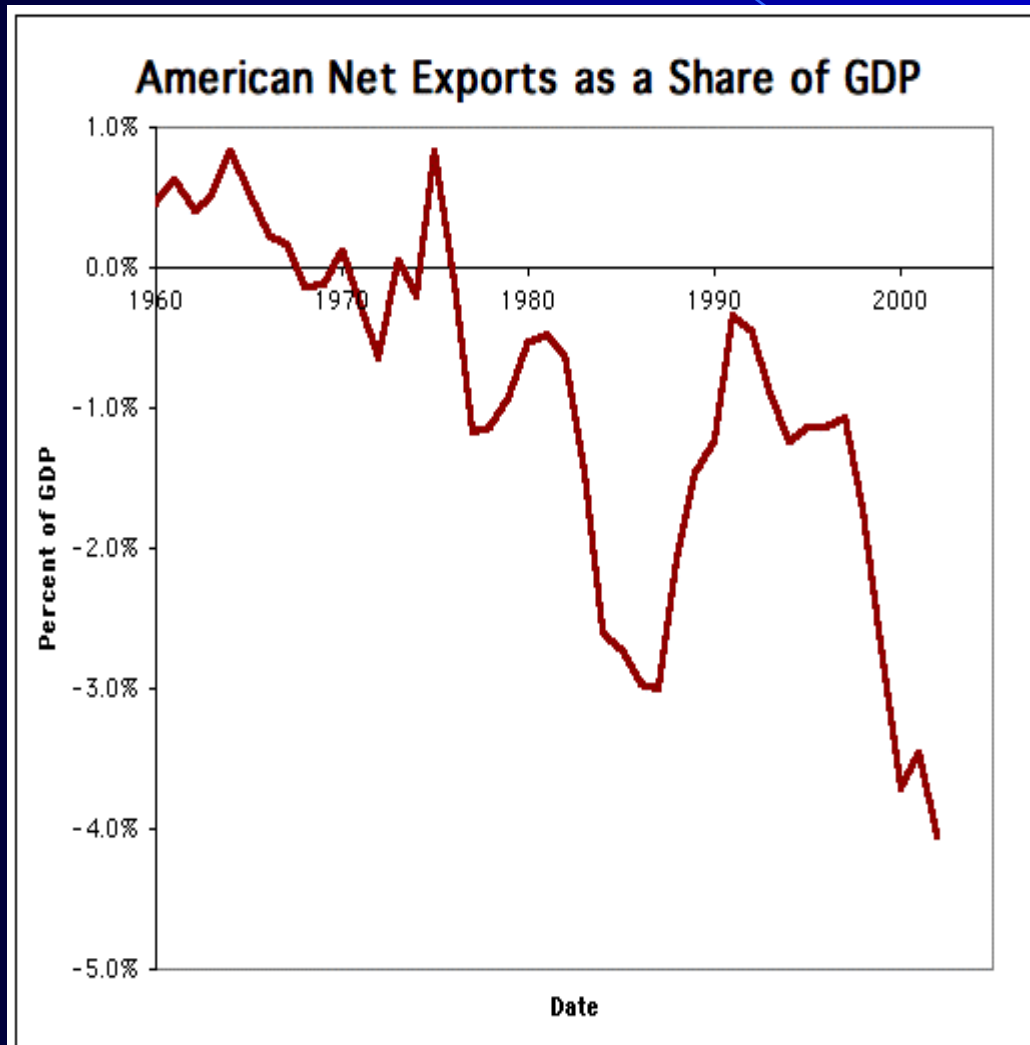
high external debt (amount owed to foreign lenders) and a serious deterioration in the United States net international investment position (NIIP) **(-24% of GDP, or \$14.3 trillion in 2009)**

high trade deficits.



Data Source: US Census Bureau Foreign Trade Division

The facts of life



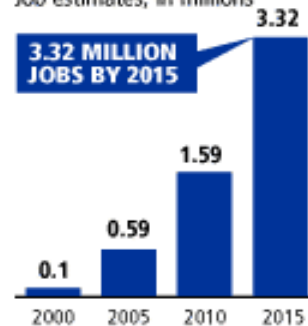
Figures and Feelings

OUTSOURCING: FIGURES AND FEELINGS

At least 40 percent of Fortune 1,000 companies are dabbling or fully engaged in sending U.S. jobs overseas. Cheaper labor in countries such as India is making doing business abroad attractive to companies' bottom lines. But what about the American workers left unemployed? More than 40 percent of U.S. executives surveyed said that outsourcing wouldn't be good for business. And with the majority of Americans doubting the concept benefits them, the issue is already being addressed by public officials up for election this year.

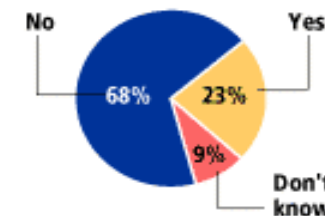
U.S. outsourcing trends

Job estimates, in millions



Is it good for Americans?

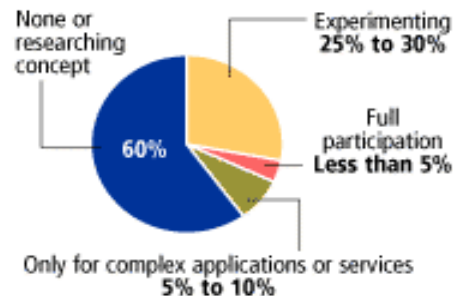
1,019 adults surveyed Feb. 4



NOTE: Margin of error was plus/minus 3 percentage points.

Company participation

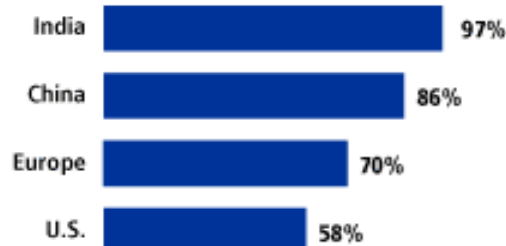
Percent of Fortune 1,000 companies



Is outsourcing good for business?

7,300 senior executives surveyed globally

Executives who say "Yes"



Sources: Forrester Research, McKinsey & Co., Pollingreport.com

JEN MYSTKOWSKI/SEATTLE POST-INTELLIGENCER

SO, IS IT
GOOD OR BAD?

SO, IS IT GOOD OR BAD?

- Generally, good for:

SO, IS IT GOOD OR BAD?

- Generally, good for:
 - businesses that offshore

SO, IS IT GOOD OR BAD?

- Generally, good for:
 - businesses that offshore
 - foreign customers

SO, IS IT GOOD OR BAD?

- Generally, good for:
 - businesses that offshore
 - foreign customers
 - foreign workers

SO, IS IT GOOD OR BAD?

- Generally, good for:
 - businesses that offshore
 - foreign customers
 - foreign workers
 - foreign governments

SO, IS IT GOOD OR BAD?

- Generally, good for:
 - businesses that offshore
 - foreign customers
 - foreign workers
 - foreign governments
 - domestic customers (to some extent)

SO, IS IT GOOD OR BAD?

- Generally, bad for:

SO, IS IT GOOD OR BAD?

- Generally, bad for:
 - businesses that do not offshore

SO, IS IT GOOD OR BAD?

- Generally, bad for:
 - businesses that do not offshore
 - domestic workers

SO, IS IT GOOD OR BAD?

- Generally, bad for:
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SO, IS IT GOOD OR BAD?

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 - domestic government
 - domestic customers (to some extent)

Ricardian Model

Ricardian Model

Example

Ricardian Model

Example

- Country A

Ricardian Model

Example

- Country A
 - 1 worker makes 1 computer a day

Ricardian Model

Example

- Country A
 - 1 worker makes 1 computer a day
 - 1 worker makes 1 pair of shoes a day

Ricardian Model

Example

- Country A
 - 1 worker makes 1 computer a day
 - 1 worker makes 1 pair of shoes a day
- Country B

Ricardian Model

Example

- Country A
 - 1 worker makes 1 computer a day
 - 1 worker makes 1 pair of shoes a day
- Country B
 - 10 workers make 1 computer a day

Ricardian Model

Example

- Country A
 - 1 worker makes 1 computer a day
 - 1 worker makes 1 pair of shoes a day
- Country B
 - 10 workers make 1 computer a day
 - 1 worker makes 1 pair of shoes a day

Ricardian Model

Ricardian Model

- Country A

Ricardian Model

- Country A
 - 100K workers make computers

Ricardian Model

- Country A
 - 100K workers make computers
 - 100K workers make shoes

Ricardian Model

- Country A
 - 100K workers make computers
 - 100K workers make shoes
- Country B

Ricardian Model

- Country A
 - 100K workers make computers
 - 100K workers make shoes
- Country B
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Ricardian Model

- Country A
 - 100K workers make computers
 - 100K workers make shoes
- Country B
 - 100K workers make computers
 - 100K worker make shoes

Ricardian Model

Ricardian Model

- Country A total production

Ricardian Model

- Country A total production
 - 100K computers a day

Ricardian Model

- Country A total production
 - 100K computers a day
 - 100K pairs of shoes a day

Ricardian Model

- Country A total production
 - 100K computers a day
 - 100K pairs of shoes a day
- Country B

Ricardian Model

- Country A total production
 - 100K computers a day
 - 100K pairs of shoes a day
- Country B
 - 10K computers a day

Ricardian Model

- Country A total production
 - 100K computers a day
 - 100K pairs of shoes a day
- Country B
 - 10K computers a day
 - 100K pairs of shoes a day

Ricardian Model

Ricardian Model

- Total production in both countries

Ricardian Model

- Total production in both countries
 - 110K computers a day

Ricardian Model

- Total production in both countries
 - 110K computers a day
 - 200K pairs of shoes a day

Ricardian Model

Ricardian Model

Free Trade Model

Ricardian Model

Free Trade Model

- Country A

Ricardian Model

Free Trade Model

- Country A
 - 200K workers makes computers

Ricardian Model

Free Trade Model

- Country A
 - 200K workers makes computers
 - 0 workers make shoes

Ricardian Model

Free Trade Model

- Country A
 - 200K workers makes computers
 - 0 workers make shoes
- Country B

Ricardian Model

Free Trade Model

- Country A
 - 200K workers makes computers
 - 0 workers make shoes
- Country B
 - 0 workers make computers

Ricardian Model

Free Trade Model

- Country A
 - 200K workers makes computers
 - 0 workers make shoes
- Country B
 - 0 workers make computers
 - 200K workers make shoes

Ricardian Model

Free Trade Model

Ricardian Model

Free Trade Model

- Total production in both countries

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- Total production in both countries
 - 200K computers a day

Ricardian Model

Free Trade Model

- Total production in both countries
 - 200K computers a day
 - 200K pairs of shoes a day

Ricardian Model

Free Trade Model

- Total production in both countries
 - 200K computers a day
 - 200K pairs of shoes a day
- **Net benefit for two countries:**
 - **90K computers a day**

Ricardian Model

Ricardian Model

When does Ricardian model work:

Ricardian Model

When does Ricardian model work:

- Three assertions:

Ricardian Model

When does Ricardian model work:

- Three assertions:
 - free trade (exchange of goods) **AND**

Ricardian Model

When does Ricardian model work:

- Three assertions:
 - free trade (exchange of goods) AND
 - no labor movement AND

Ricardian Model

When does Ricardian model work:

- Three assertions:
 - free trade (exchange of goods) AND
 - no labor movement AND
 - no jobs movement

Ricardian Model

When does Ricardian model work:

- Three assertions:
 - free trade (exchange of goods) AND
 - no labor movement AND
 - no jobs movement (in particular, no foreign investment and no transfer of intellectual property)

Ricardian Model

Ricardian Model

When Ricardian model doesn't:

Ricardian Model

When Ricardian model doesn't:

- Any of the following:

Ricardian Model

When Ricardian model doesn't:

- Any of the following:
 - no free trade OR

Ricardian Model

When Ricardian model doesn't:

- Any of the following:
 - no free trade OR
 - labor movement OR

Ricardian Model

When Ricardian model doesn't:

- Any of the following:
 - no free trade OR
 - labor movement OR
 - jobs movement

Ricardian Model

Ricardian Model

Typical (flawed) neo-Ricardian model

Ricardian Model

Typical (flawed) neo-Ricardian model

- A combination of the following:

Ricardian Model

Typical (flawed) neo-Ricardian model

- A combination of the following:
 - global currency **AND**

Ricardian Model

Typical (flawed) neo-Ricardian model

- A combination of the following:
 - global currency AND
 - labor movement OR jobs movement

Ricardian Model

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Ricardian argument that the above model is
“good”

Ricardian Model

Typical (flawed) neo-Ricardian model

- A combination of the following:
 - global currency AND
 - labor movement OR jobs movement

Ricardian argument that the above model is
“good”

is a fallacy.

Ricardian Model

Ricardian Model

Also, Ricardian model ignores these effects:

Ricardian Model

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- The receiving country may reverse-engineer the knowledge-based products and begin competing with the sending country; this gives an **unfair trade advantage** to the receiving country.

-

Ricardian Model

Also, Ricardian model ignores these effects:

- The receiving country may reverse-engineer the knowledge-based products and begin competing with the sending country; this gives an unfair trade advantage to the receiving country.
- The imported goods may be used to **boost military strength of the receiving country**.

Ricardian Model

So, Ricardian model is **flawed** as it asserts that the trading partners **never assume adversarial positions**.

Importation of labor

Importation of labor

United States Technological Superiority and the
Losses From Migration

Importation of labor

United States Technological Superiority and the
Losses From Migration

By Donald R. Davis, David E. Weinstein

February 2005

Backgrounders and Reports

<http://cis.org/Immigration-USEconomy>

Importation of labor

Importation of labor

[...] one can think of part of the income that U.S. natives enjoy as being based on their

Importation of labor

[...] one can think of part of the income that U.S. natives enjoy as being based on their

monopoly of access to the superior technology.

Importation of labor

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[Importation of labor] erodes this monopoly, leading to gains for [imported labor] and

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[...] one can think of part of the income that U.S. natives enjoy as being based on their

monopoly of access to the superior technology.

[Importation of labor] erodes this monopoly, leading to gains for [imported labor] and

losses for U.S. natives.

Re: Intellectual Property

That “superior technology” was possible because of the protection of intellectual property in th U.S. That protection sustained innovation and progress.

Re: Intellectual Property

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Its creators had to **work really hard** in order to invent it and implement it.

Re: Intellectual Property

Its creators had to **work really hard** in order to invent it and implement it.

Now, they are supposed to share it with the rest of the world for free of for almost for free.

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Its creators had to **work really hard** in order to invent it and implement it.

Now, they are supposed to share it with the rest of the world for free of for almost for free.

And the **Internet** is supposed to be the main vehicle of spreading the “intellectual wealth” around.

Re: Intellectual Property

And the Internet is supposed to be the main vehicle of spreading the “intellectual wealth” around.

Those who cannot tap to it are being characterized as victims of “digital divide”.

Re: Intellectual Property

A poker game example

Re: Intellectual Property

A poker game example

Imagine yourself a poker player.

Re: Intellectual Property

A poker game example

Imagine yourself a poker player.

The knowledge of your poker hand has a very real monetary value to you.

Re: Intellectual Property

A poker game example

The knowledge of your poker hand has a very real monetary value to you.

If you have a strong hand, you may bet high and - perhaps, win.

Re: Intellectual Property

A poker game example

If you have a strong hand, you may bet high and - perhaps, win.

If, however, you have a weak hand you may consider folding, thus avoiding almost certain financial loss.

Re: Intellectual Property

A poker game example

You could not make a rational choice between the two actions if you did not know what your poker hand contained.

Re: Intellectual Property

A poker game example

You could not make a rational choice between the two actions if you did not know what your poker hand contained.

Your income from the game is the result of your monopoly on the knowledge of your poker hand.

Re: Intellectual Property

A poker game example

You could not make a rational choice between the two actions if you did not know what your poker hand contained.

Your income from the game is the result of your monopoly on the knowledge of your poker hand.

Re: Intellectual Property

A poker game example

One of players wants to see your hand, for his obvious benefit.

Re: Intellectual Property

A poker game example

One of players wants to see your hand, for his obvious benefit.

He can call, which requires him to risk money that may end up in your pocket.

Re: Intellectual Property

A poker game example

He can call, which requires him to risk money that may end up in your pocket.

It is as if he offered you a patent for your poker hand.

Re: Intellectual Property

A poker game example

It is as if he offered you a patent for your poker hand.

You may consider whether the value that you a patent he offers you this way is enough to show your hand.

Re: Intellectual Property

A poker game example

You may consider whether the value that you a patent he offers you this way is enough to show your hand.

If it is not, then you can raise and keep playing, instead.

Re: Intellectual Property

A poker game example

But what if one of the players demanded that
you just show your poker hand
for free?

Re: Intellectual Property

A poker game example

But what if one of the players demanded that you just show your poker hand for free?

He may argue that by showing your hand to others you do not lose any use of the cards that you have in your hand.

Re: Intellectual Property

A poker game example

He may argue that by showing your hand to others you do not lose any use of the cards that you have in your hand.

If you accept such an argument, I would love to play poker with you.

Re: Intellectual Property

A poker game example

He may argue that by showing your hand to others you do not lose any use of the cards that you have in your hand.

If you accept such an argument, you trade the monopoly on knowledge of your poker hand for nothing.

Re: Intellectual Property

A poker game example

He may argue that by showing your hand to others you do not lose any use of the cards that you have in your hand.

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Re: Intellectual Property

A poker game example

He may argue that by showing your hand to others you do not lose any use of the cards that you have in your hand.

If you accept such an argument, you trade the knowledge monopoly for nothing.

And you are likely to lose money, too.

Re: Intellectual Property

And the Internet is supposed to be the main vehicle of spreading the “intellectual wealth” around.

Those who cannot tap to it are being characterized as victims of “digital divide”.

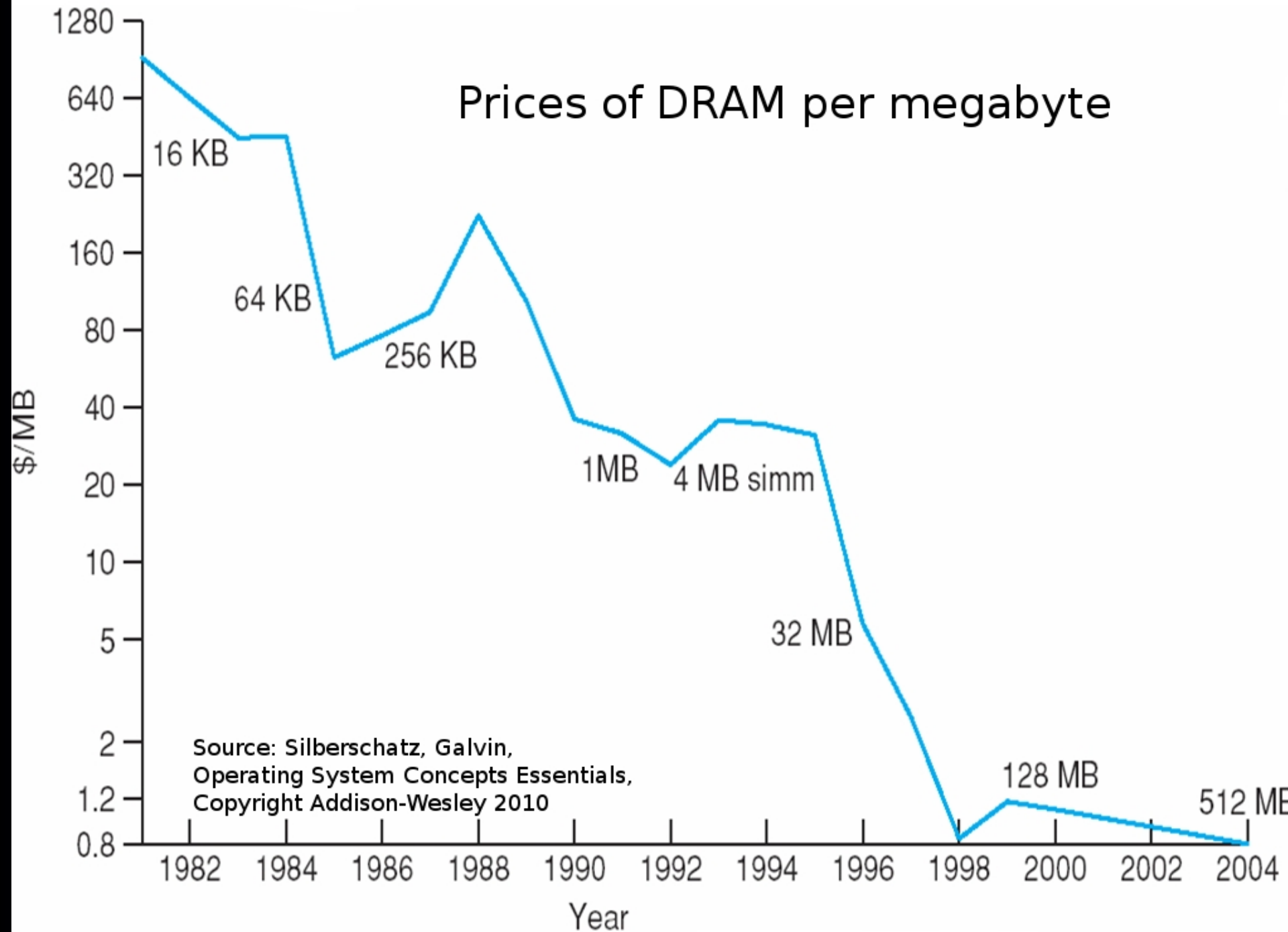
Re: Intellectual Property

And the Internet is supposed to be the main vehicle of spreading the “intellectual wealth” around.

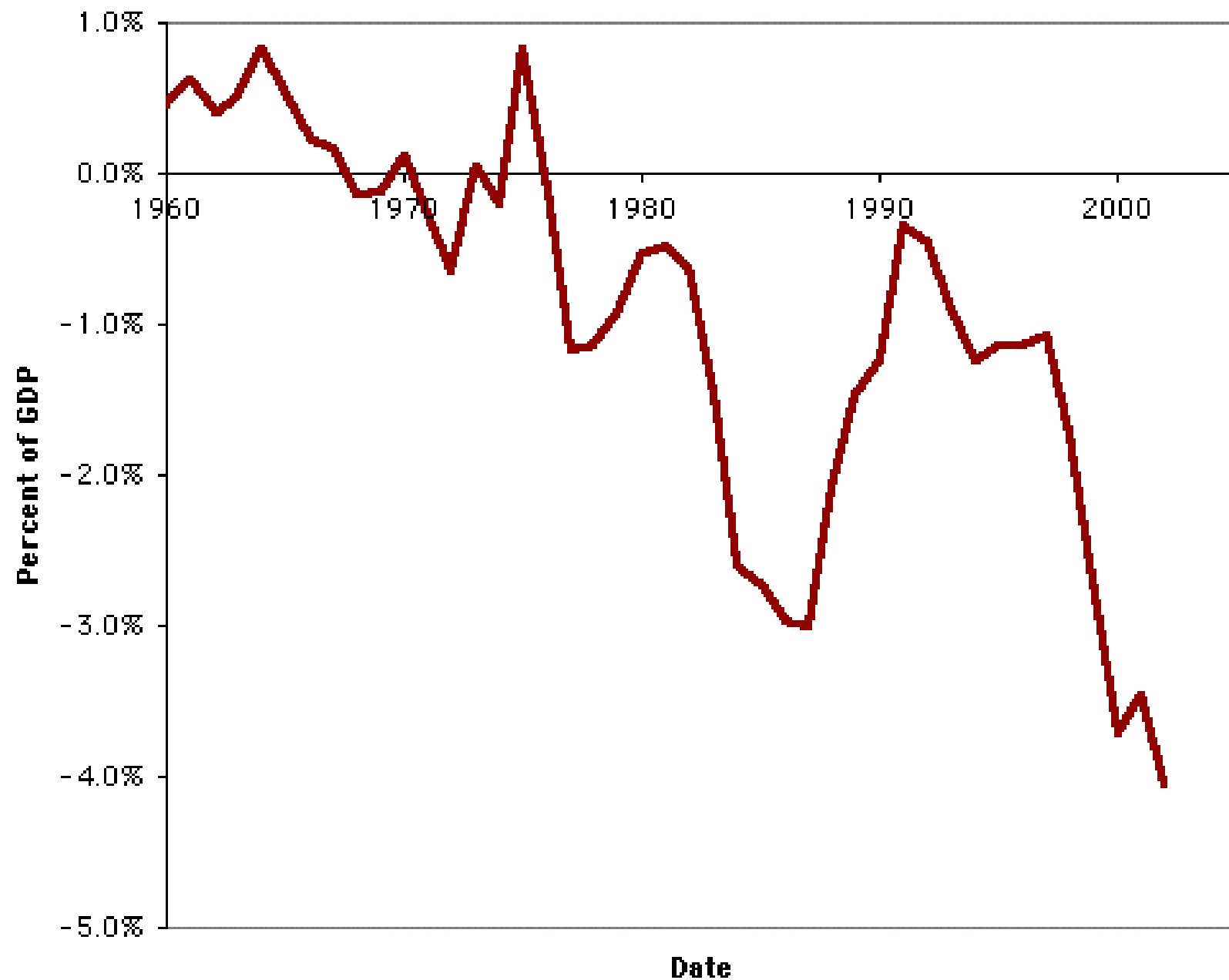
Those who cannot tap to it are being characterized as victims of “digital divide”.

The results?

Prices of DRAM per megabyte



American Net Exports as a Share of GDP



Re: Intellectual Property

But somehow, when it comes to physical wealth of others, like oil and other commodities, the idea of “spreading wealth around” does not apply anymore.

Re: Intellectual Property

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The U.S. is like a player who showed his poker hand but other players are not rushing to pay or reciprocate.

Re: Intellectual Property

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The U.S. is like a player who showed his poker hand but other players are not rushing to pay or reciprocate.

Re: Intellectual Property

The U.S. is like a player who showed his poker hand but other players are not rushing to pay or reciprocate.

Once one realizes that, it somehow looks less surprising that the U.S. foreign trade deficit is huge and growing.

Re: Intellectual Property

The U.S. is like a player who showed his poker hand but other players are not rushing to reciprocate.

Once one realizes that, it somehow looks less surprising that **the U.S. foreign trade deficit is huge and growing.**

Re: Intellectual Property

So, the creators of intellectual property and technology that is based on it have to deliver more and more of fruits of their work for a barrel of oil or an ounce of gold.

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This increase of workload is one of the (indirect) consequences of offshoring of knowledge-creating jobs

Re: Intellectual Property

So, the creators of intellectual property and technology that is based on it have to deliver more and more of fruits of their work for a barrel of oil or an ounce of gold.

This increase of workload is one of the (indirect) consequences of offshoring of knowledge-creating jobs and siphoning out the monopoly on knowledge and intellectual property that comes with it.

Importation of labor

Importation of labor

In the [neo-Ricardian] framework, [importation of labor] gives rise to

Importation of labor

In the [neo-Ricardian] framework, [importation of labor] gives rise to small gains for U.S. natives.

Importation of labor

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In the more realistic Ricardian framework, [importation of labor] gives rise to

Importation of labor

In the [neo-Ricardian] framework, [importation of labor] gives rise to **small gains for U.S. natives.**

In the more realistic Ricardian framework, [importation of labor] gives rise to **large losses for U.S. natives.**

Importation of labor

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We have calculated the cost of this to U.S. natives in 2002 as

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Donald R. Davis, David E. Weinstein: "United States Technological Superiority and the Losses From Migration"

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Advantages:

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- Lower prices of (some) domestic goods

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- Increased tax revenue

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Importation of labor

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Disadvantages:

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Disadvantages:

- Higher prices of resources

Importation of labor

Disadvantages:

- Higher prices of resources
- Lower prices of exports

Importation of labor

Disadvantages:

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- Lower prices of exports
- Increased public expenditures

Importation of labor

Disadvantages:

- Higher prices of resources
- Lower prices of exports
- Increased public expenditures
- Increased population growth

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Exportation of jobs (offshoring)

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Advantages (relative to import of labor):

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Exportation of jobs (offshoring)

Advantages (relative to import of labor):

- Lower prices of (some) domestic goods
- **NO Increased tax revenue**

Exportation of jobs (offshoring)

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- **NO Increased tax revenue**
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- Lower prices of (some) domestic goods
- NO Increased tax revenue
- Increased profitability of (some) businesses
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- **NO Increased public expenditures**

Exportation of jobs (offshoring)

Disadvantages (relative to import of labor):

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- Lower prices of exports
- NO Increased public expenditures
- NO Increased population growth

Exportation of jobs (offshoring)

Disadvantages (relative to import of labor):

- Higher prices of resources
- Lower prices of exports
- NO Increased public expenditures
- NO Increased population growth
- Lower volume of export

Exportation of jobs (offshoring)

Disadvantages (relative to import of labor):

- Higher prices of resources
- Lower prices of exports
- NO Increased public expenditures
- NO Increased population growth
- Lower volume of export
- Higher demand on public assistance

Exportation of jobs (offshoring)

Disadvantages (relative to import of labor):

- Higher prices of resources
- Lower prices of exports
- NO Increased public expenditures
- NO Increased population growth
- Lower volume of export
- Higher demand on public assistance

Exportation of jobs (offshoring)

Exportation of jobs (offshoring)

Economic net effect:

Exportation of jobs (offshoring)

Economic net effect:

Generally, worse than in importation of labor
model

Exportation of jobs (offshoring)

Also:

Cheapens American exports

Exportation of jobs (offshoring)

Also:

Cheapens American exports

- Strengthens foreign competitors

Exportation of jobs (offshoring)

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- Strengthens foreign competitors
- Increases foreign military threat

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- Empowers political models incompatible with ours

Exportation of jobs (offshoring)

Also:

Cheapens American exports

- Strengthens foreign competitors
- Increases foreign military threat
- Drives prices of commodities up
- Empowers political models incompatible with ours
- Tilts world's demographic balance

Exportation of jobs (offshoring)

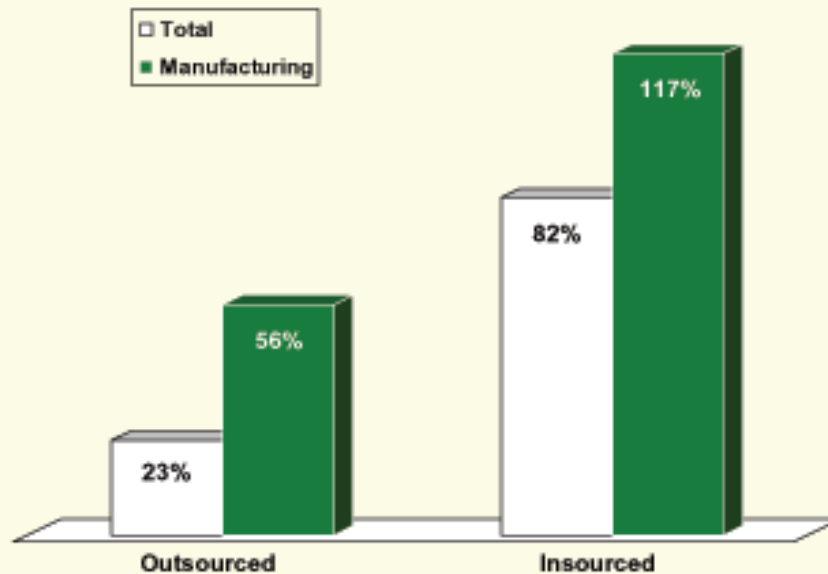
Also:

Cheapens American exports

- Strengthens foreign competitors
- Increases foreign military threat
- Drives prices of commodities up
- Empowers political models incompatible with ours
- Tilts world's demographic balance
- Amplifies negative effects of economic crises

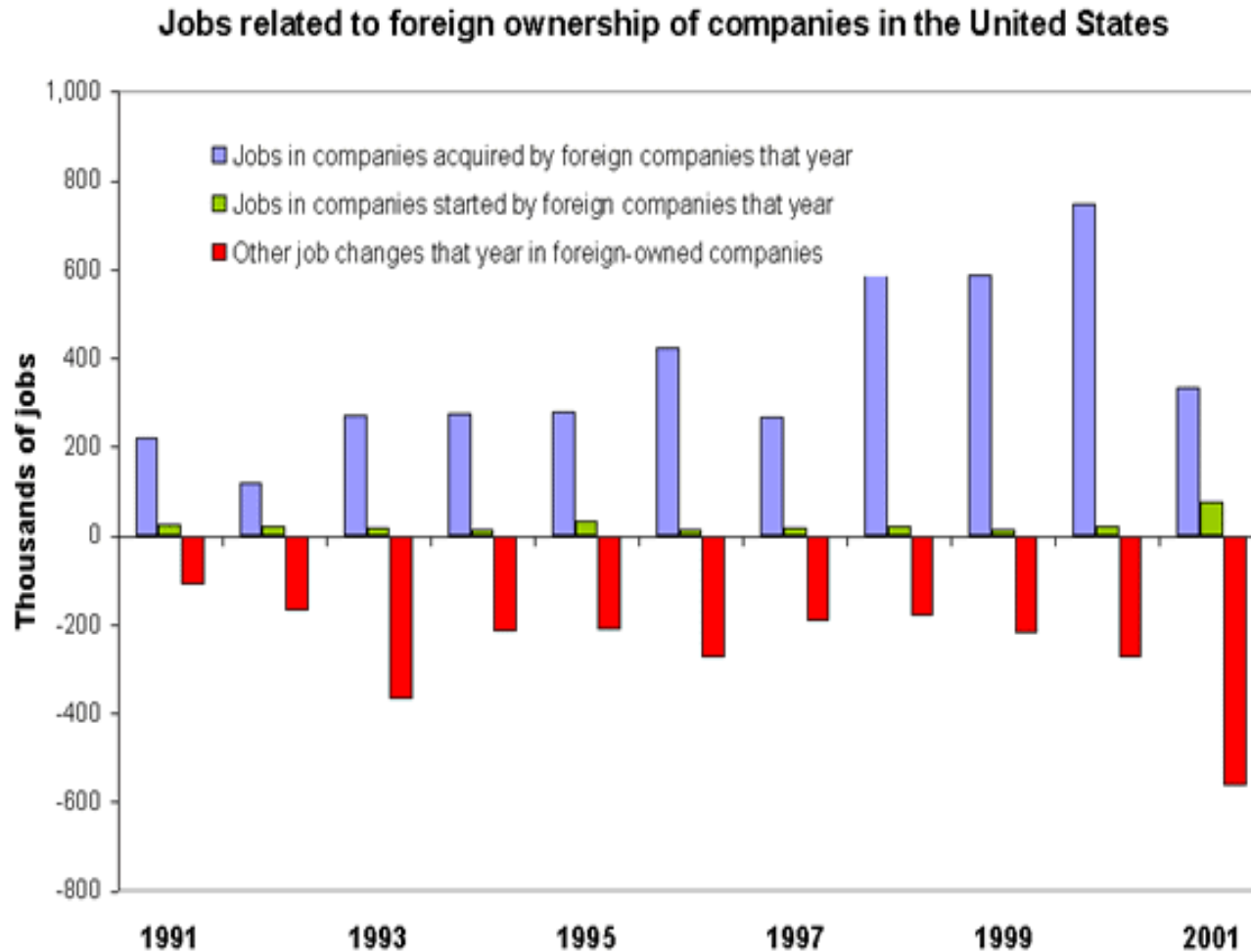
A line of defense

**Growth of Insourced and Outsourced Jobs
(Over the Past 15 Years)**



Source: Organization for International Investment.

A line of defense?



Source: EPI analysis of U.S. Department of Commerce data.

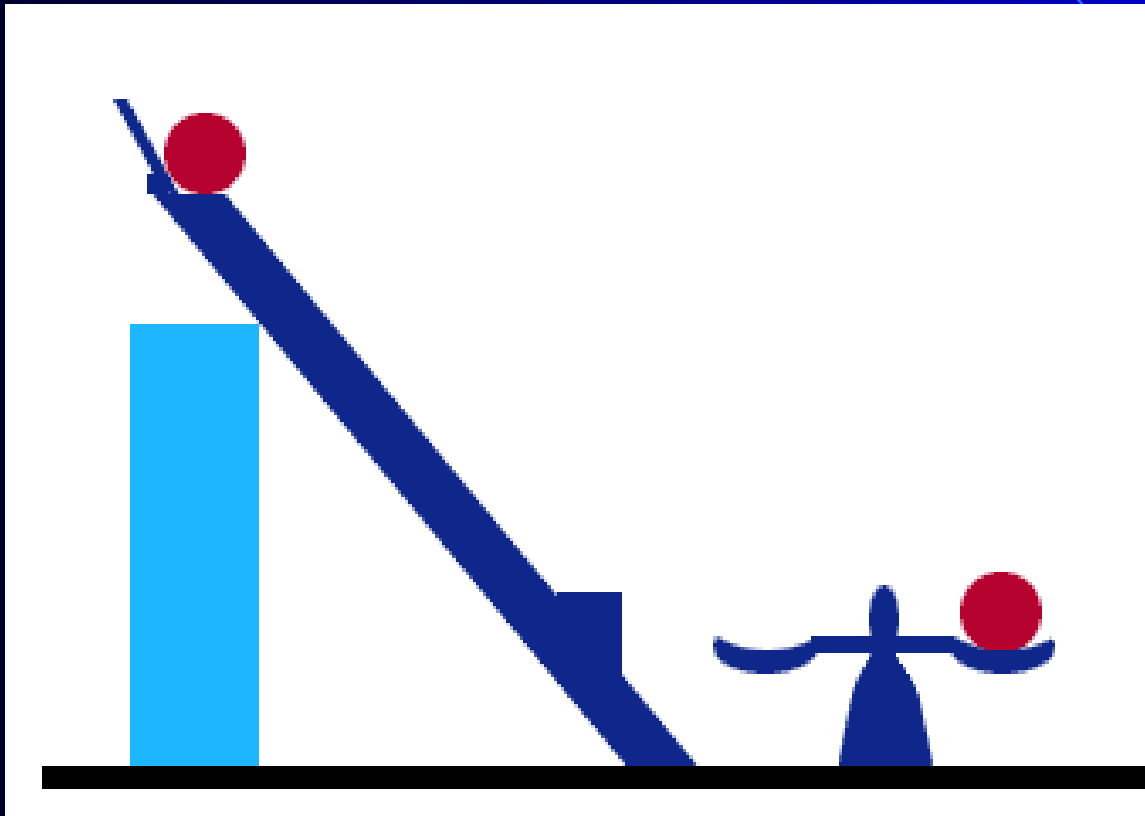
Burden of proof?

Burden of proof?

How about a perpetual motion machine?

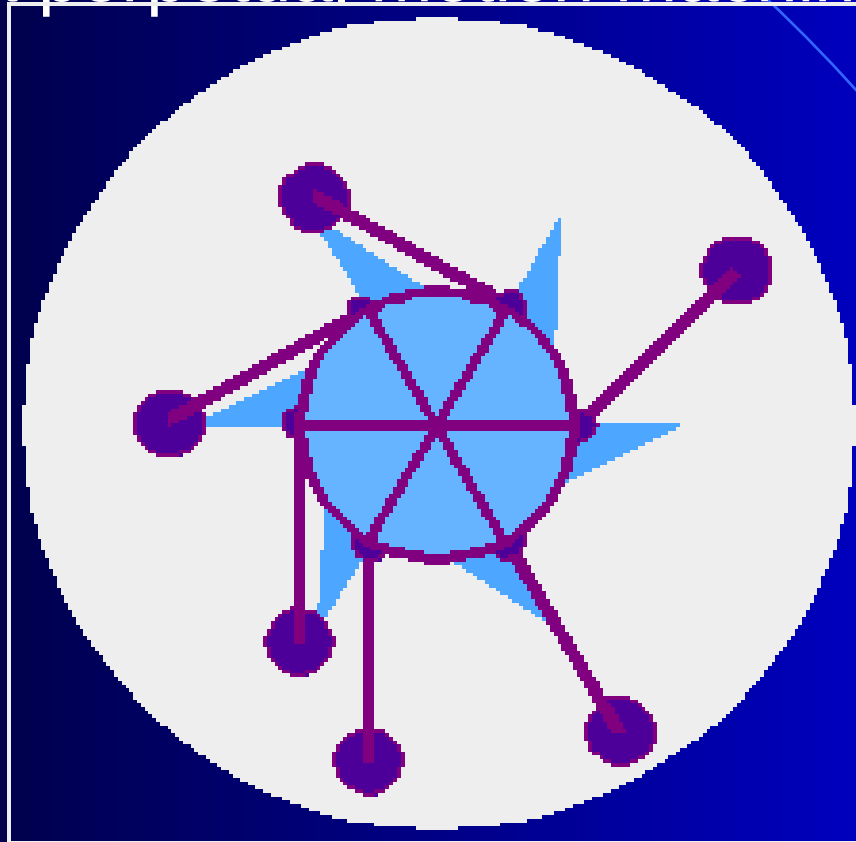
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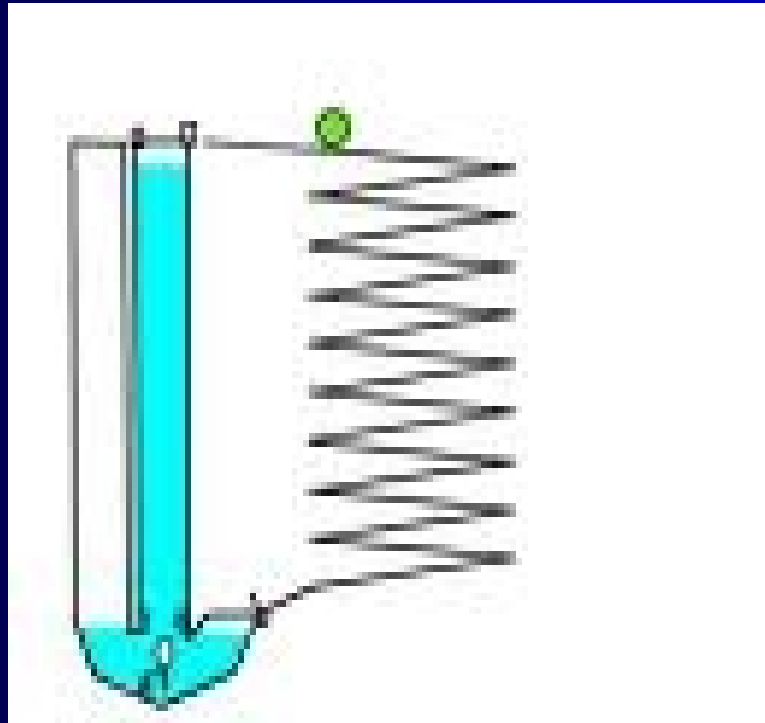
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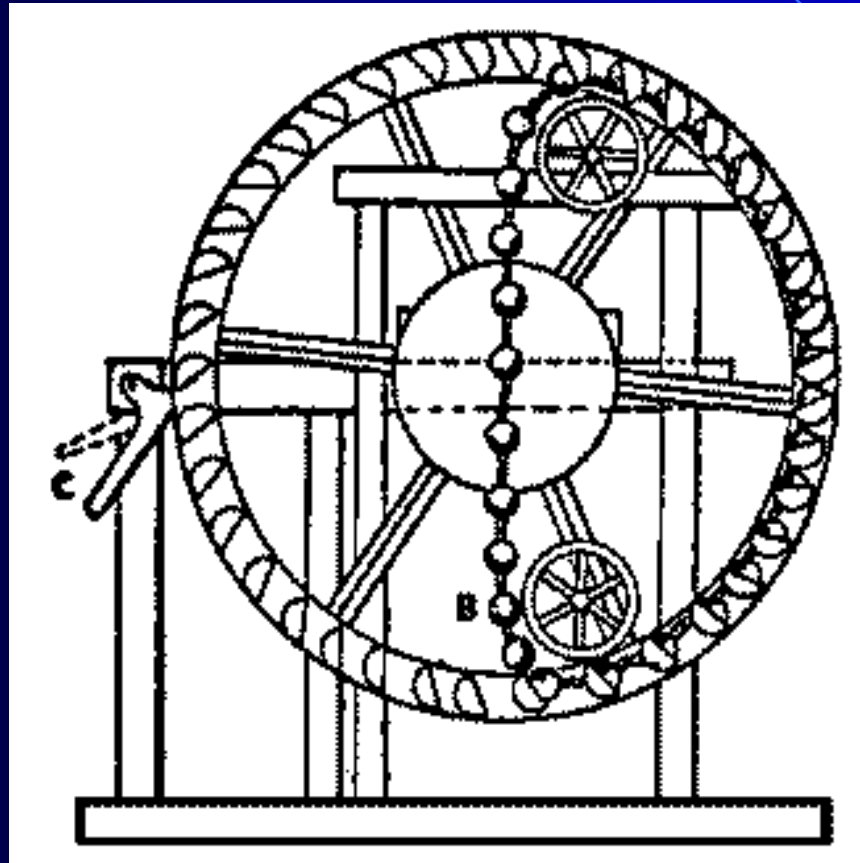
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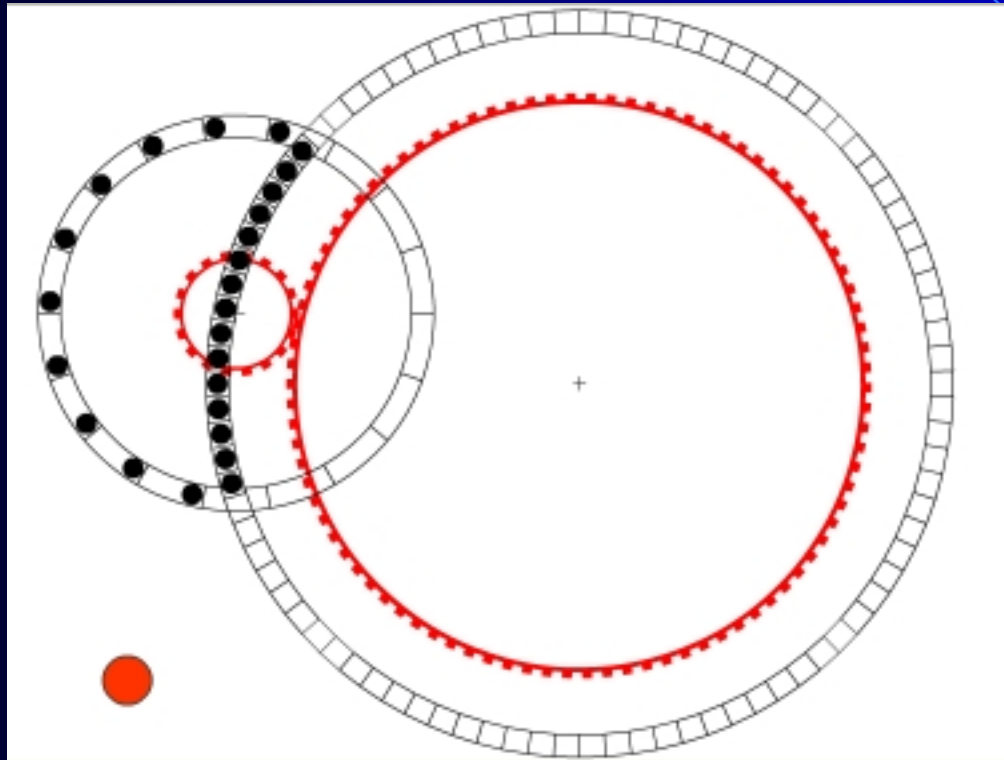
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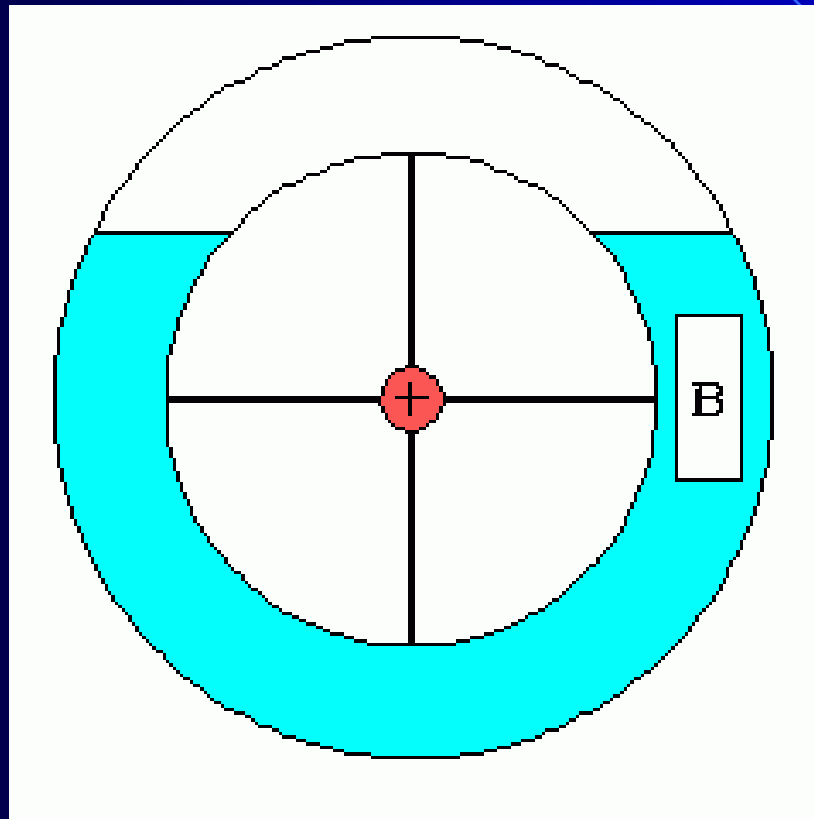
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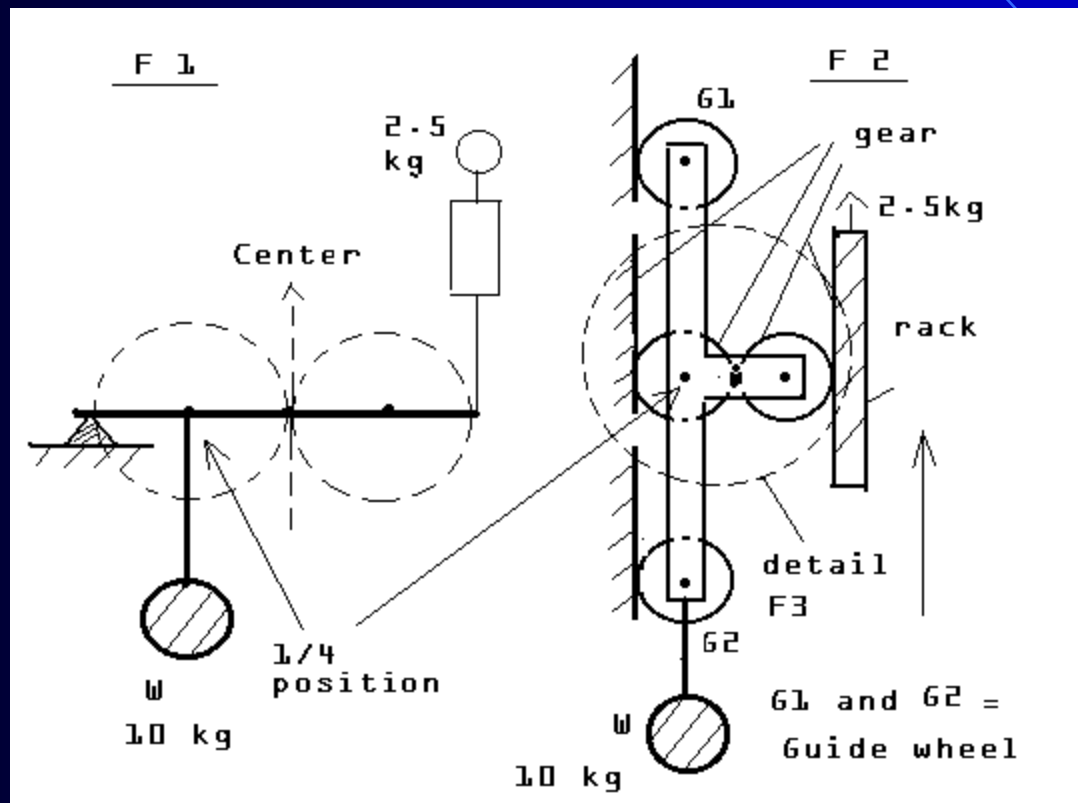
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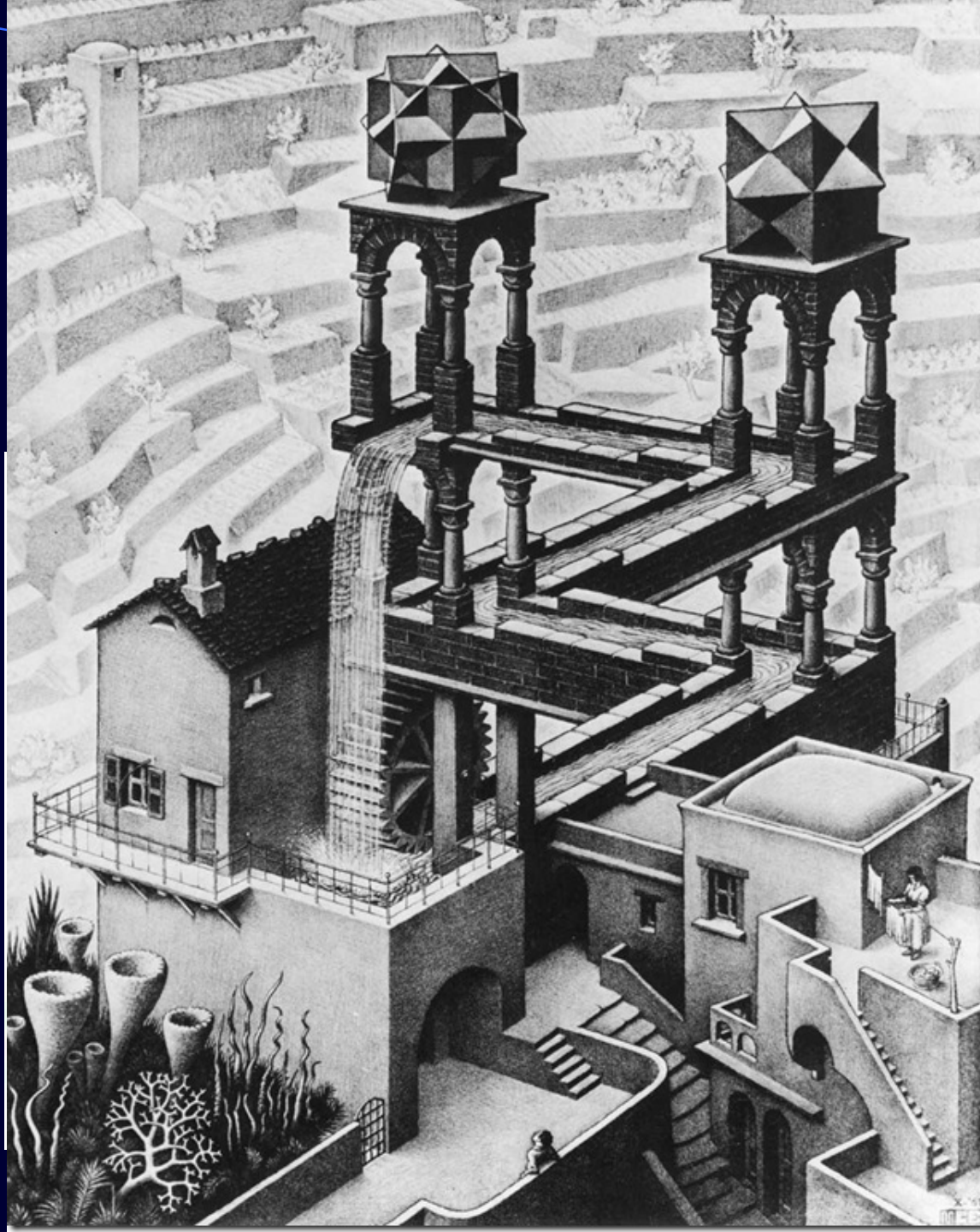
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Burden of proof?

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Burden of proof?

How about a perpetual motion machine?

<http://img521.imageshack.us/img521/3396/got1ih9.gif>

Burden of proof?

How about a perpetual motion machine?

<http://www.lhup.edu/~dsimanek/museum/newacqui.htm>

Flawed arguments and fallacious reasoning
contradict laws of physic.

Burden of proof?

How about a perpetual motion machine?

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Flawed arguments and fallacious reasoning
contradict laws of physic.

No one at his right mind is expects us to
disprove the details of these “inventions”.

The proof of the
pudding ...

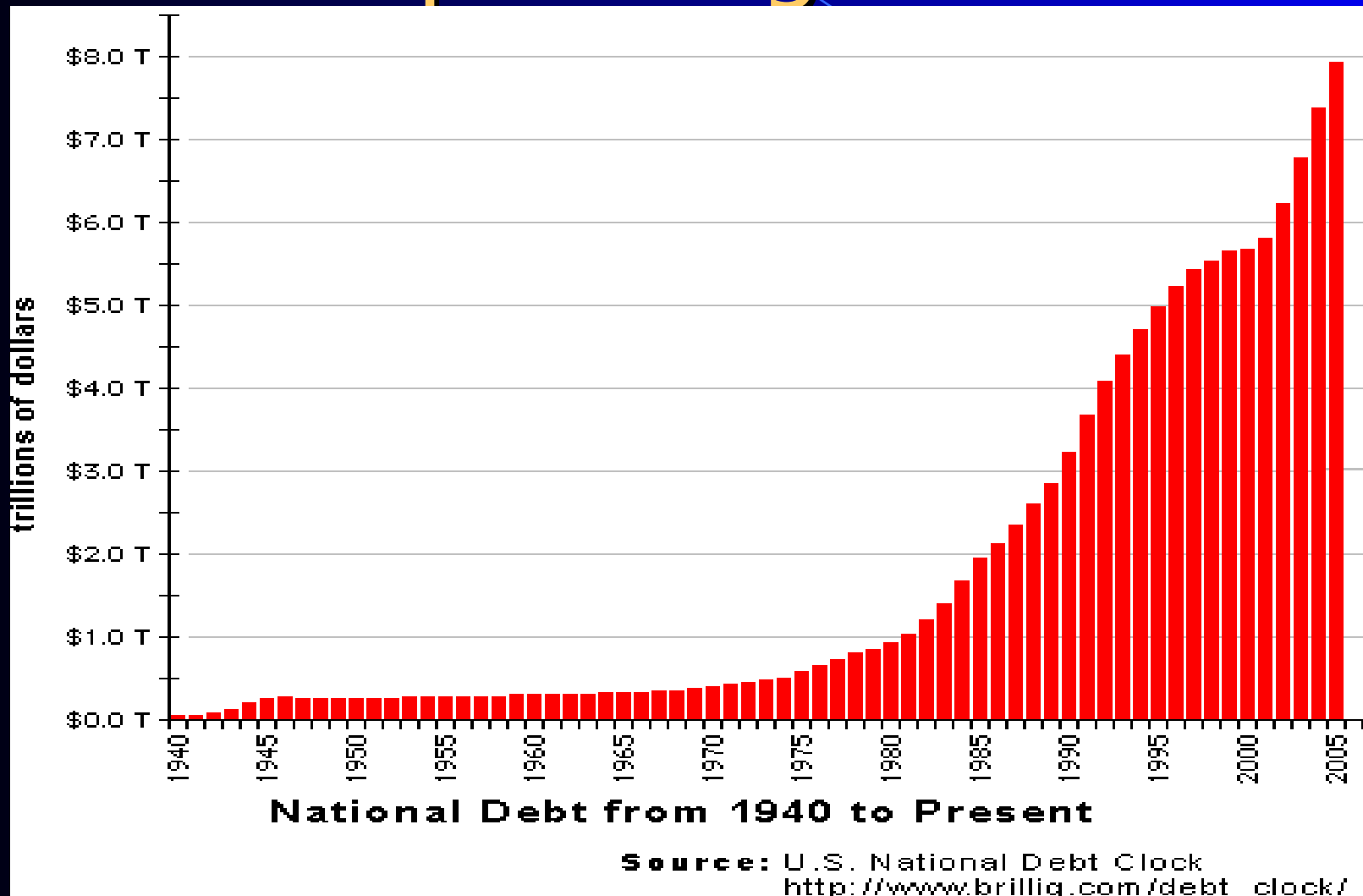
The proof of the
pudding ...

is in the eating!

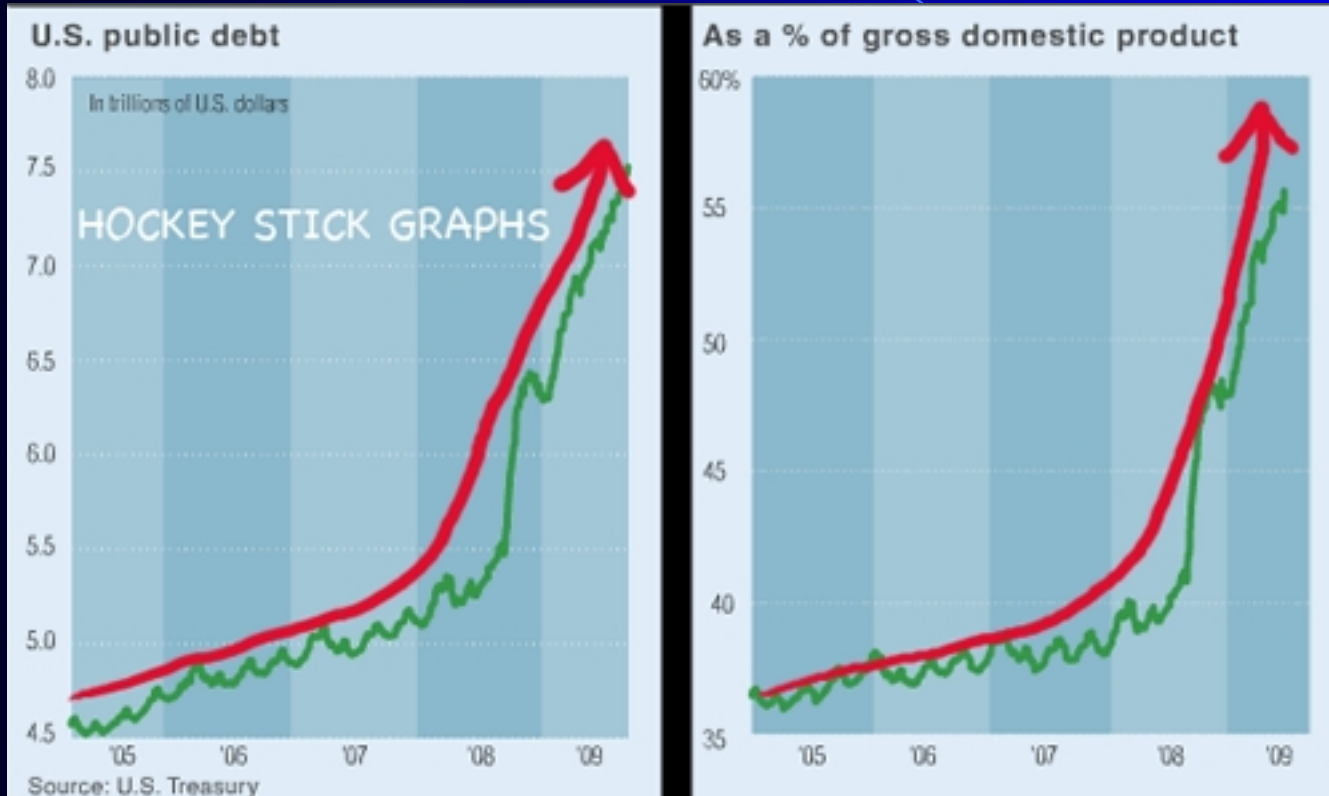
The proof of the
pudding ...

Real hockey stick

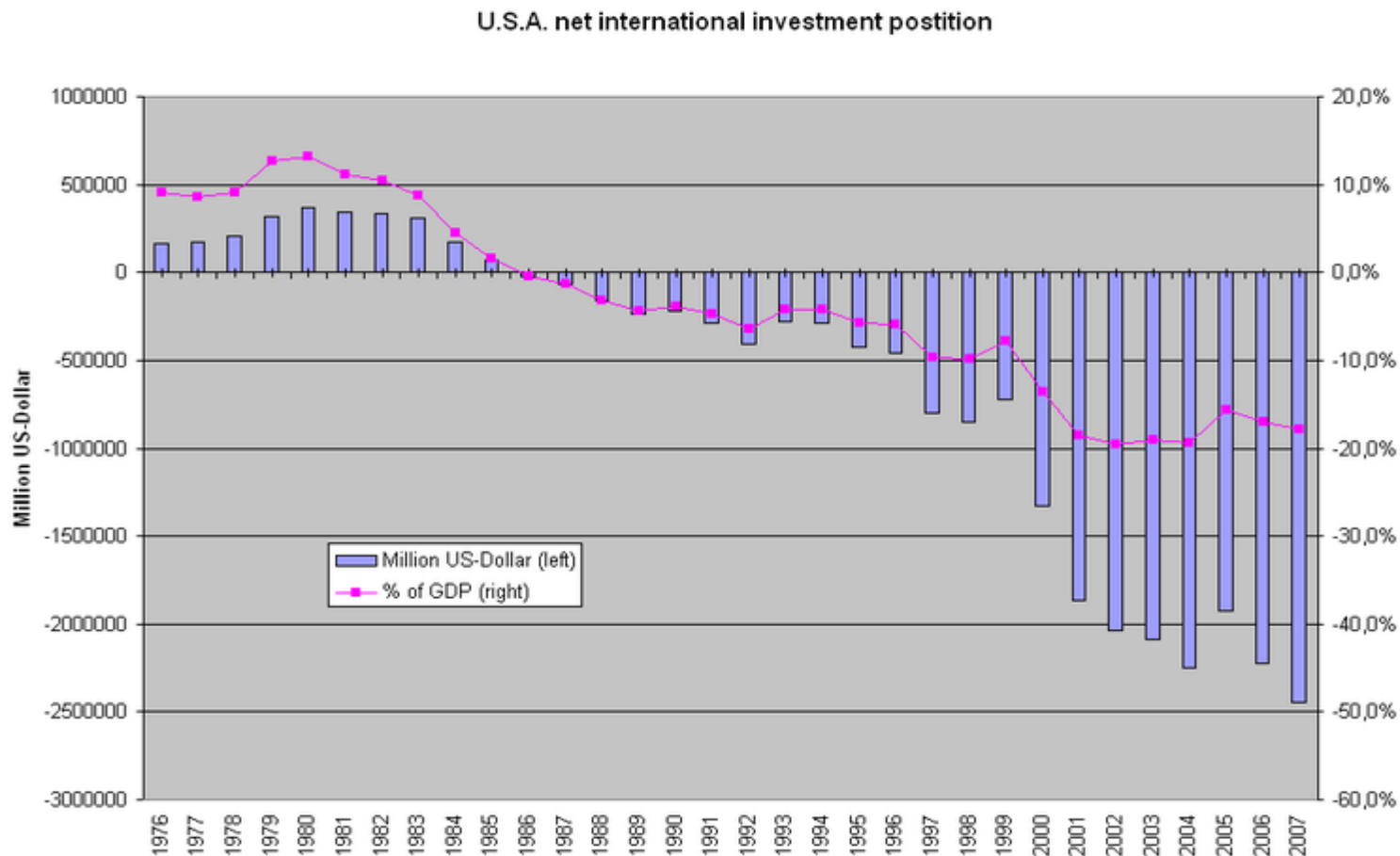
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The proof of the pudding ...



The proof of the pudding ...

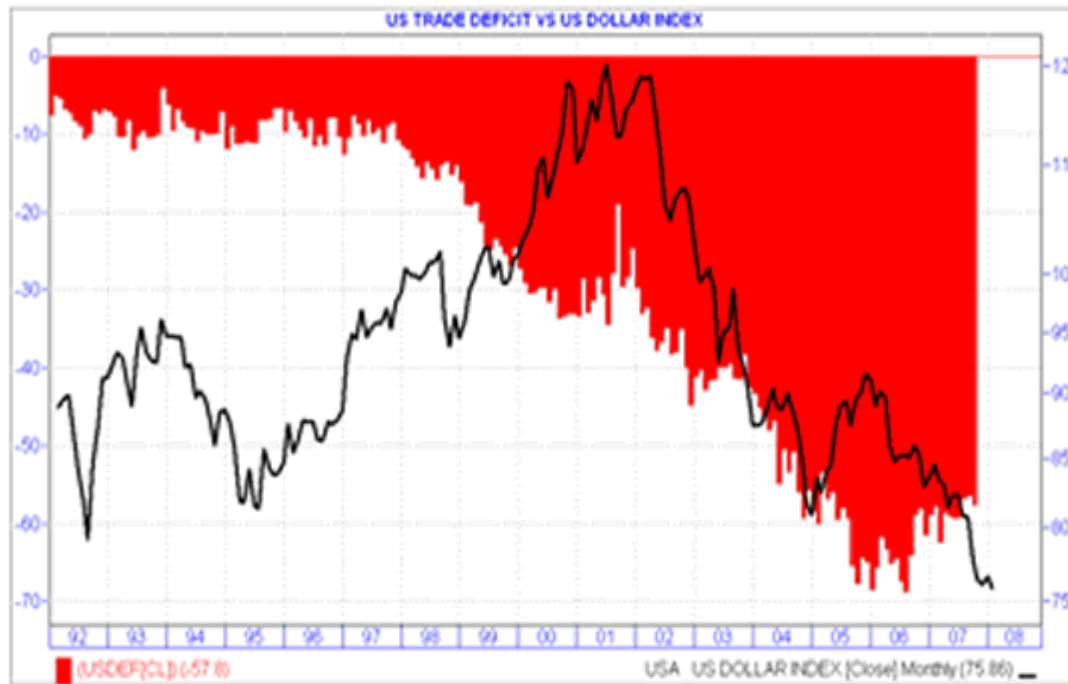


The proof of the pudding ...



The proof of the pudding ...

US TRADE DEFICIT VS US DOLLAR INDEX



Source: Plexus Asset Management (based on data from I-Net Bridge)

The proof of the
pudding ...

The proof of the pudding ...

Wealth-producing primary sector jobs in the U.S.

The proof of the pudding ...

Wealth-producing primary sector jobs in the U.S. such as those in manufacturing and knowledge creation

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The proof of the pudding ...

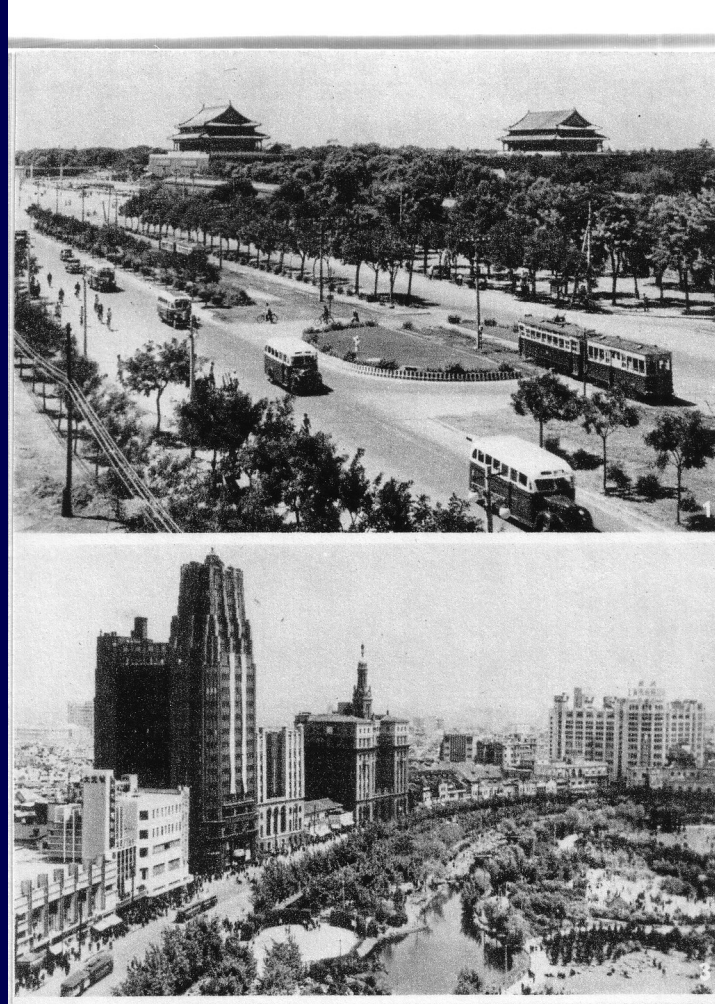
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Source: http://en.wikipedia.org/wiki/Balance_of_trade

Where is the money?

Where is the money?

Where is the money?



Where is the money?



Where is the money?



Where is the money?



Where is the money?



Where is the money?



Where is the money?



Where is the money?

Where is the money?

- 1 Carlos Slim Helu & family Mexico
\$53.5B

Where is the money?

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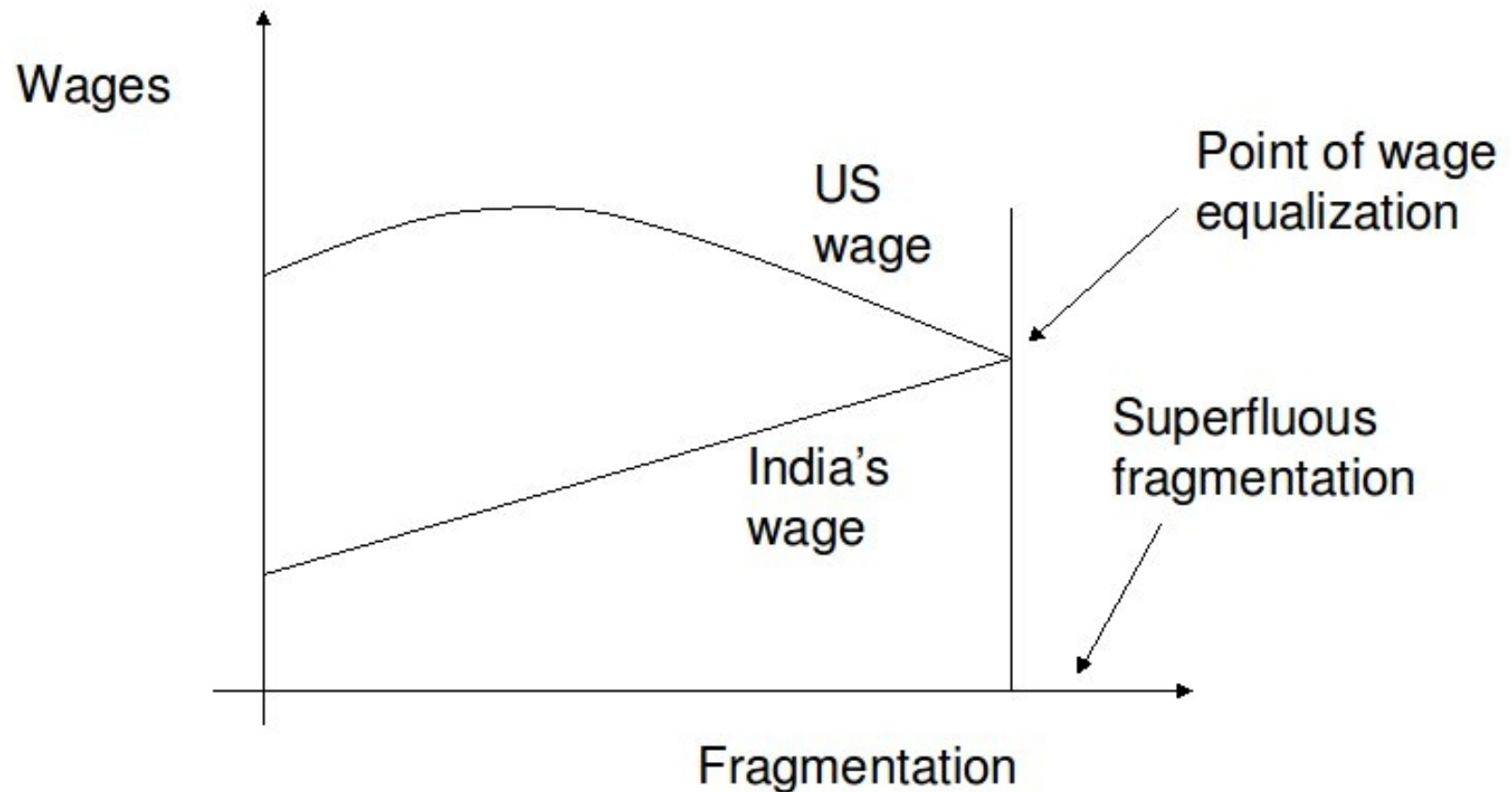
Where is the money?

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- 3 Warren Buffett United States \$47.0B
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- 5 Lakshmi Mittal **India** \$28.7B

Overall effects: a simple model



Economy is not
everything ..

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Never mind:

Economy is not everything ..

Never mind:

- siphoning out national intellectual property

Economy is not everything ..

Never mind:

- siphoning out national intellectual property
- making our enemies and adversaries stronger

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Economy is not everything ..

Never mind:

- siphoning out national intellectual property
- making our enemies and adversaries stronger politically and militarily
- making us dependent on their supplies

Economy is not everything ..

Never mind:

- siphoning out national intellectual property
- making our enemies and adversaries stronger politically and militarily
- making us dependent on their supplies and loans.

Some reasons of offshoring

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Minimum wage laws

Other labor laws

Strong labor unions

Regulation of hiring/firing standards

Deterioration of education

Free trade (esp. free movement of capital)

State subsidies for selected companies

Progressive taxation

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Legislative regulation that replaces competition with “intelligent design” of society and economy

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Some reasons of offshoring

Legislative regulation that replaces competition with “intelligent design” of society and economy

Progressive taxation

And what are the results?

Some reasons of offshoring

Legislative regulation that replaces competition with “intelligent design” of society and economy

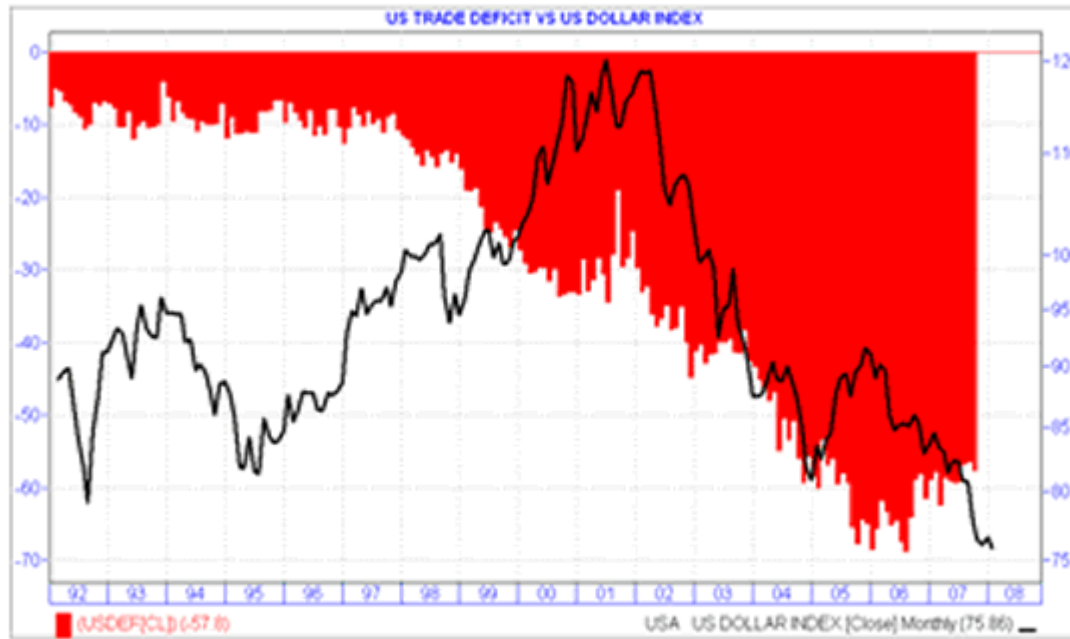
Progressive taxation

And what are the results?

Here is what we get:

Some reasons of offshoring

US TRADE DEFICIT VS US DOLLAR INDEX



Source: Plexus Asset Management (based on data from I-Net Bridge)



Here is what we get:

Some reasons of offshoring

Legislative regulation that replaces competition with “intelligent design” of society and economy

Progressive taxation

And what are the results?

Here is what others get:

Some reasons of



Here is what others get:

Some reasons of offshoring

Legislative regulation that replaces competition with “intelligent design” of society and economy

Progressive taxation

Yet our lawmakers think that they did not inflict enough damage with regulation.

Some reasons of offshoring

Legislative regulation that replaces competition with “intelligent design” of society and economy

Progressive taxation

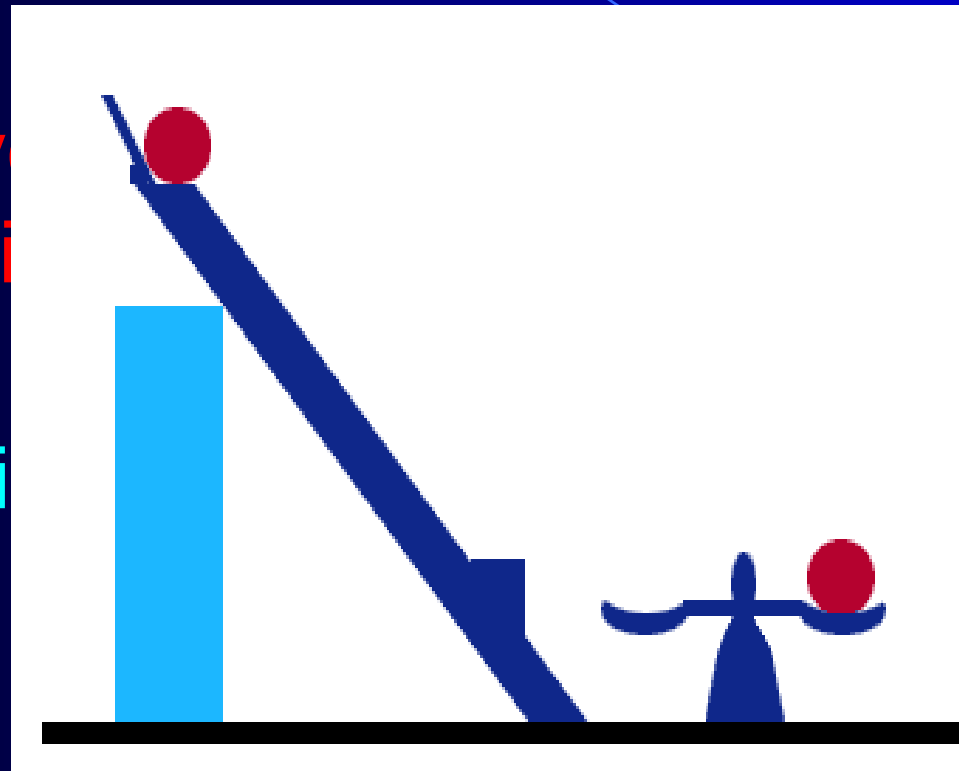
So they try harder and harder to revive ailing economy.



So they try harder and harder to revive ailing economy.

Some reasons of offshoring

Legislative
competi
society
Progressi



n" of

Is this what they are trying to build?
(No competition, just regulating and
planning.)

What's in the future?



What's in the future?



So, is offshoring good or
bad?