APAC Agricultural Policy Analysis Center

The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

Jobless recovery: Another example of the fallacy of composition?

As I listen to Lou Dobbs talk on CNN about the exporting of American jobs and as I read about the jobless recovery that it seems we are now in, I am struck by how similar some of the dynamics are to what has been happening in agriculture for decades, if not longer. It reminds me of sitting in the back row of the bleachers during a basketball game. The child of a friend of mine comes off the bench and onto the court and so I stand up to get a better view. From this position my view is better. But then, there is a dramatic play and everyone stands up. They stand up to get a better view and when everyone does that no one can see any better than when we were all sitting. An action that provides benefits for one person may provide no benefits at all if everyone does it. People who study logic call this the fallacy of composition.

In crop agriculture, the number of producers is large and the impact any one individual has on the market is minimal. For the most part, farmers are price-takers not price-setters. Starting back with some of the earliest research and extension work, the goal has been to help individual farmers improve their profitability in the context in which they find themselves. One of the sure fire ways to help an individual producer is to help that producer find ways to increase production at a faster rate than costs.

This has been achieved through the use of better cultivation techniques, increasing soil fertility, and increasing yields. If any one farmer finds a way to increase yields and thus production that farmer benefits. After all, the production of one farmer does not significantly affect the overall amount of grain available and thus the price is not affected. However, when the neighbor and the neighbor's neighbor and farmers across the country all begin to use this production-increasing technique, the result is a significant increase in production. If demand for that product does not increase at the same rate, what happens? Prices fall. We have all seen that time after time.

This technology treadmill comes about because in the face of lower prices, a farmer acting rationally seeks to find new techniques or technologies to decrease per unit production costs as a hedge against lower prices. The early adopters achieve some benefits, but these benefits quickly disappear as more and more farmers come on board. What makes sense as an action for any one producer has negative consequences when put in the broader perspective of the crop agriculture sector. This, again, is an example of the fallacy of composition because we act as if what is true for a part is true for the whole.

Let us now turn to the exporting of American jobs and the jobless recovery. In a competitive environment, the manufacturer of any given product has an incentive to reduce costs to increase profits and price competitiveness. Often one of the biggest costs is labor. One surefire way to reduce costs is to export jobs. Labor costs in the maquiladores in Mexico and the shops of China and Southeast Asia are a fraction of what they are in the U.S.

In the past, most of the jobs leaving the U.S. have been in textiles, shoes, and heavy manufacturing. We have been told that this is OK because America will convert its workforce to take the high-end skilled technical and software jobs, leaving the U.S. better off. But now the jobs that are leaving are high tech and back office support jobs.

When calling for technical support for my computer, I used to get someone somewhere in the U.S. Today that 800 number call lands me somewhere in India. The quality of support is great and a supervisor in the U.S. comes on line at the end and confirms the transaction. In December IBM announced that it was planning to move the work of as many as 4,730 programmers to India, China and elsewhere. From the perspective of IBM it is a no-brainer. Total costs overseas are around $15 per hour vs. $50 in the U.S.

One firm at a time it all makes sense. They can lower costs, increase profits and watch stock prices rise. But what happens as more and more firms begin to do that? We have a jobless recovery with stock prices rising. Once again, the fallacy of composition.

Like with farmers, there is a crunch when everyone engages in a behavior that is rational at the individual level. With all of the good paying manufacturing and tech jobs being exported overseas, who is going be able to afford to buy the computers, and blue jeans and running shoes? Not only could this create problems in the U.S., other countries could be hurt as well. As the income of U.S. consumers shrinks they will be able to afford fewer imports. Increasing electronic communication and lower transportation costs for products may only accelerate the trend.

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