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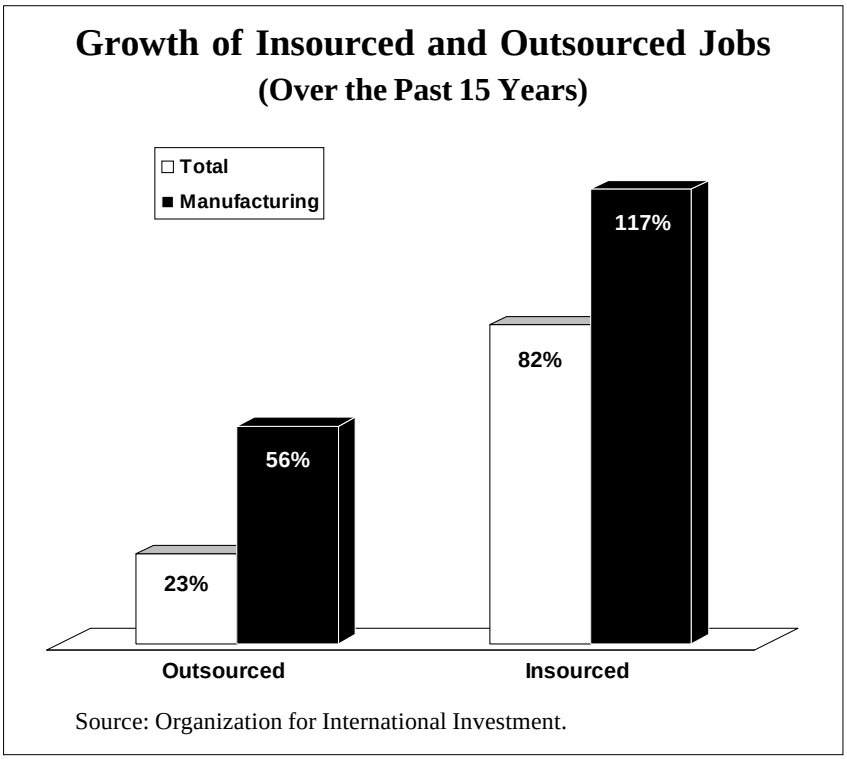
How Outsourcing Creates Jobs for Americans

by Bruce Bartlett

Though the pace of U.S. job creation has quickened recently, some "Benedict Arnold" companies are still being criticized for outsourcing work from the United States to other countries. U.S. manufacturers have outsourced operations to countries such as China to lower wage costs and escape from high taxes, burdensome government regulations and intransigent unions at home. For similar reasons, service jobs in information technology (IT) are outsourced to India. Less well known though, is that increased economic globalization has caused jobs to move to the United States as well as away from it. And because of the higher, increasing productivity of American workers, the jobs that move here pay more than the ones that leave.

Outsourcing versus Insourcing. Countries around the world are outsourcing their jobs to the United States in huge numbers, according to the Organization for International Investment:

- For the past 15 years, corporations have moved jobs to the United States at a faster rate than jobs have left, for an 82 percent increase in insourced jobs compared to a 23 percent increase in outsourced jobs. [See the figure.]
- Manufacturing jobs have been insourced at an even faster pace than service jobs, more than doubling over the period (though beginning from a smaller base).
- Jobs insourced to the United States increased from 4.9 million in 1991 to 6.4 million in 2001.



Source: Organization for International Investment.

Insourced jobs pay 16.5 percent more than the average domestic job, and one-third of them are in the manufacturing sector, These include plants that assemble German and Japanese automobiles and produce pharmaceuticals. Contrary to the widespread perception, we are not manufacturing fewer goods than we used to; in fact, Americans are producing more goods than ever before. Manufacturing employs a smaller percentage of American workers because other sectors of the economy have grown faster, and manufacturing requires fewer workers today because of the phenomenal increase in workers' productivity. [For evidence on the health of U.S. manufacturing, see NCPA Brief Analysis No. 456, "The State of U.S. Manufacturing."]

American companies generally outsource work to India or China that requires little skill or training. The high-end work and wages stay here; but in fact, they might not be retained if the stateside work were not augmented by outsourced functions in lower-cost countries. Furthermore, workers freed up from routine tasks that have been outsourced are often redeployed within the company to higher paying jobs, or on projects that generate greater value-added services or products.

The U.S. Department of Commerce reports that, in 2003, the United States bought $77.38 billion in services from foreign countries and sold $131.01 billion to them. Thus, we exported nearly $54 billion more in services — including legal work, computer programming, telecommunications, banking and engineering — than we imported. Moreover, this surplus was responsible for the addition of 400,000 jobs in 2003.

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The Benefits of Outsourcing. Contrary to popular belief, abundant evidence shows that American consumers, workers and businesses are benefiting from outsourcing.

Increase in Product Availability. An Institute for International Economics study by Catherine Mann notes that globalization of computer hardware manufacturing led to a 10 to 30 percent decline in prices, making such equipment more affordable and leading to a far greater increase in jobs in the long run.

Stronger U.S. Job Demand. Mann believes globalization of Information Technology (IT) services "will yield even stronger job demand in the United States for workers with IT proficiency and skills." Indeed, she notes that overall employment in job classifications most affected by IT service outsourcing is rising, not falling.

Competitive Gains for Small Businesses. Researchers have also found that small firms and new startups gain more from outsourcing than large corporations. The latter have managerial structures that hinder their ability to take full advantage of outsourcing's benefits. Smaller and younger companies can easily organize themselves to utilize outsourcing, thereby gaining sales and competing better in today's global marketplace.

Rising Standards of Living. Indians now doing jobs outsourced from America are seeing a rapid rise in their wages and standard of living. In the process, they are becoming more like Americans, which is translating into demand for American goods and lifestyles. Thus, according to the McKinsey Global Institute, for every $1 outsourced, the economic gain to the United States as a whole is $1.12 to $1.14; whereas the country to which a job is outsourced gains just 33 cents.

The Future of Outsourcing. Earlier this year, the Senate adopted a measure that would bar federal contracts to companies that outsource any job previously done by an American. Additionally, it would prevent state and local governments from using federal funds for outsourcing. While it is unlikely that this provision will become law, it undermines U.S. attempts to expand world trade.

Democratic members of Congress, with some Republican support, are also pushing a measure that would require a company to notify workers 90 days in advance of its intention to outsource their jobs overseas. This measure would be difficult to enforce, since it would be complicated to determine which jobs are transferred overseas, rather than eliminated. In Europe, eliminating obsolete jobs is an expensive, lengthy process for businesses. Burdensome job protection measures create a climate in which European businesses are very reluctant to create jobs in the first place. Rather than outsource jobs, their corporations make job-creating investments in other countries to begin with — including the United States. Increased investment per worker raises the productivity of labor, making exported American goods and services more competitive internationally. Thus unemployment rates are far higher in Europe than in the United States.

Conclusion. Outsourcing is not a new concept. Blue-collar manufacturing jobs have been outsourced for 100 years. Textile jobs in South Carolina today were originally outsourced from Massachusetts. While the transition was painful for Massachusetts textile workers in the short run, they soon found better jobs in new industries. The same will be true as South Carolina textile jobs are outsourced to China. The truth is that outsourcing is far less of a threat to American workers than they imagine. Their apprehension over outsourcing will diminish as the economic expansion reduces the unemployment rate.

The benefits of outsourcing to American workers and the U.S. economy greatly outweigh the costs. Restrictions on outsourcing may save a few jobs in the short run, but they will come at the expense of better jobs in the future — jobs that will not be created. We can put quotas and tariffs on goods that cross our borders, but it is impossible to stop people from importing software and data from other countries over the Internet when it makes sense to do so. The only reasonable response is to adapt, innovate and stay ahead of the curve.

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