

<b>The Outsourcing Backlash</b>	<b>1</b>
<b>Common assumptions about outsourcing</b>	<b>1</b>
<i>Does outsourcing take jobs away from American workers?</i>	<b>2</b>
<i>Does outsourcing slow economic growth in the U.S.?</i>	<b>5</b>
<b>Are Foreign Workers Exploited?</b>	<b>7</b>
<i>How outsourcing benefits foreign workers</i>	<b>8</b>
<i>Low wages and high skills</i>	<b>10</b>
<i>Intellectual Property Reform</i>	<b>12</b>
<b>Why trade barriers do not protect trade</b>	<b>12</b>
<i>The impact of trade protectionism on the poor</i>	<b>12</b>
<i>The impact of trade protectionism on economic growth and competitiveness</i>	<b>14</b>
<i>The United States Outsourcing Trade Surplus</i>	<b>15</b>

## The Outsourcing Backlash

### ***Common assumptions about outsourcing***

For many people, the equation is simple. If a U.S. firm hires a worker in a foreign country, then they have failed to hire a worker at home or, worse yet, they have fired a local worker in favor of this worker who resides in a low wage country.

Fortunately, it doesn't work that way.

In subsequent chapters I will provide you with tools to help you to decide which business processes are most suitable for outsourcing in your own firm. You will see then that the bottom line is that you will outsource in order to add capabilities to your firm as part of your overall growth strategy. When you add capabilities, you are positioning your company for future growth, which is good for both owner and employee alike.

Still, there are a lot of people who worry about the practice of outsourcing, afraid that it will hurt the U.S. economy in the long run. They are also concerned about the welfare of unemployed and displaced workers. The economic recession and the relatively slow

pace of recovery have only added to the belief that something is wrong and that something needs to be done. Politicians have heard these concerns and in many places are proposing trade protection legislation as a way to address what some view as a major problem for American workers. As many as twenty states now have pending legislation whose purpose is to place some kind of restriction on business's use of outsourcing. Most of this legislation proposes requiring companies who do business with government (either state or federal) to limit or restrict its use of offshore outsourced labor and also provides for tax incentives based on a business's hiring practices.

Both the concerns and the proposed solution to them are based upon three common assumptions:

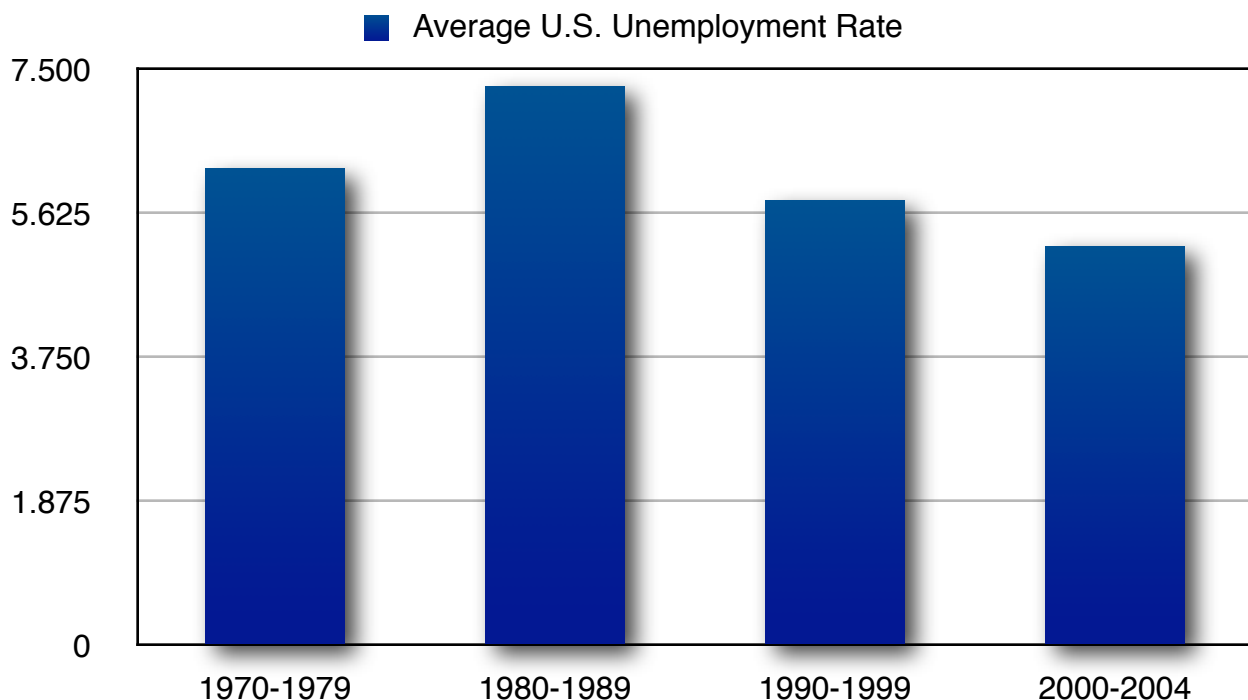
- Offshore outsourcing costs the U.S. jobs and has hampered the economic recovery.
- When jobs move offshore, they avoid U.S. intellectual property, labor and environmental legislation and are operated in "sweat-shops" that neglect worker safety and pollute the environment.
- The government can put up trade barriers that will stop the decline of jobs and improve the livelihood of working Americans.

The question, of course, is whether these assumptions are true or not. Is it true that outsourcing harms economic performance? Would foreign workers be better off without the jobs that have been outsourced to them? Can government do anything about the practice? The answer to these questions according to most economists is that offshore outsourcing does not increase unemployment and slow economic recovery. In fact, they see it in an entirely different light and consider it to be a necessary additive to the fuel that will drive the engine of future economic growth.

### ***Does outsourcing take jobs away from American workers?***

When Americans learn that 11% of manufacturing jobs have been lost over the preceding decade and that as many as three million IT jobs will be moving offshore, they naturally assume that the jobs that go overseas represents a net loss to the economy. (REF). Partisan politics adds to the impression, especially those who repeatedly claim that over 1 million jobs have disappeared from the economy under the current administration.

There are a few things worth mentioning at this point. First is that the current unemployment rate is 5.4% which, when compared with historical unemployment rates, is very good. In fact, when compared with the average rates in the '70s, '80s and '90s, the average unemployment rate in the U.S. Over the last four years is lower than all three.

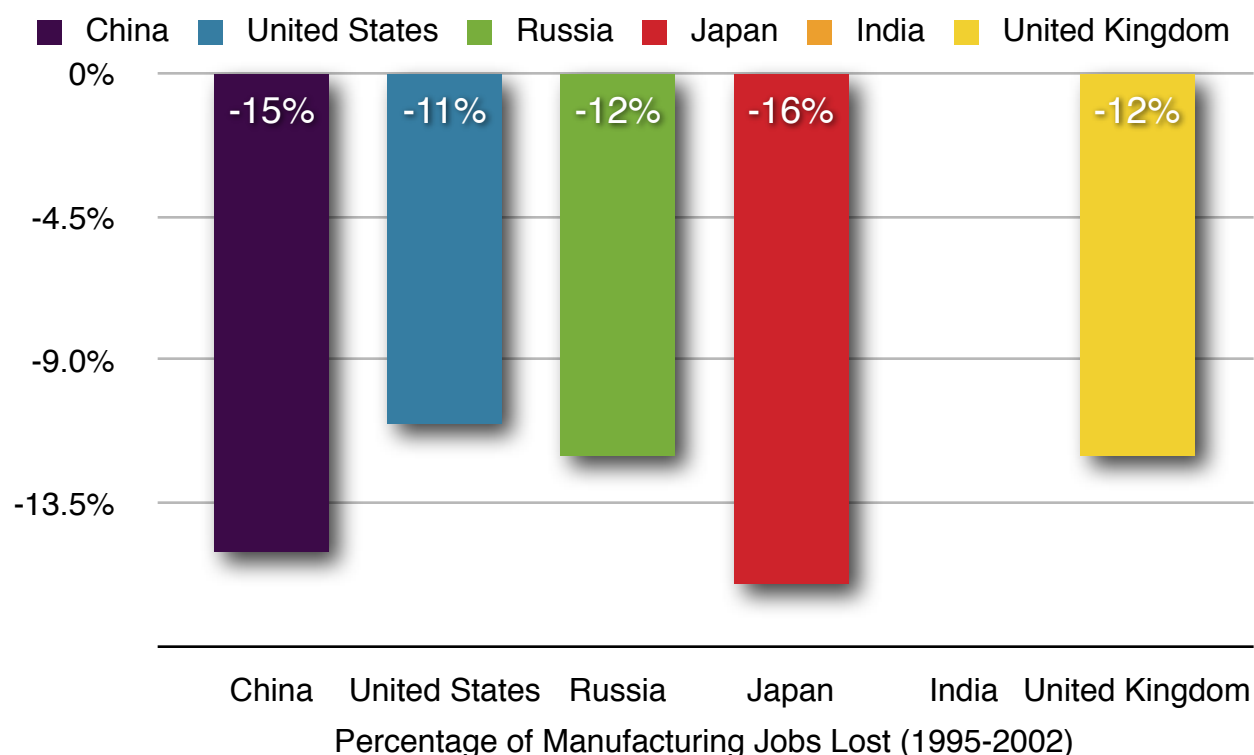


**Figure 1 Source: Bureau of Labor Statistics, 2004**

It is true that the U.S. Economy now has fewer jobs than it had in 2,000 but it is also true that the economy is enduring a unique historical situation. According to data published by the American Electronics Association, the primary reason the U.S. Economy has lost IT jobs is the combination of the bursting of the dot com bubble and the effects of the economic downturn which began in 2000 and was heightened by the terror attacks of September 11, 2001. In 1999, there were two unique forces at work to lead to an unusually high number of IT jobs being created. These jobs existed as a result of the work required to insure critical systems were “Y2K” compliant and the “irrational exuberance” that lead to over-zealous speculation in Internet-related companies. Both anomalies lead to record low unemployment rates and the consequent labor shortage produced excessively high wages for IT professionals. It was only a matter of time before the market would correct itself. This correction was made significantly worse after September 11 – in the four months following the terror attacks, the U.S. Economy lost over 1.1 million jobs (REF). In fact, when the correction finally did come, it was so sharp and so severe that venture capital investments dropped from \$106 billion in 2000 to a mere \$21 billion in 2002 (PriceWaterhouseCoopers).

There is another culprit at work. Earlier I said that the U.S. Economy lost 11% of its manufacturing jobs between 1995 and 2002. The conventional wisdom is that this is because manufacturing jobs are being sent to low-wage countries, but the facts tell a much more interesting story. While the U.S. lost 11% of their manufacturing jobs, Russian and the United Kingdom lost 12% respectively, China lost 15% and Japan an astonishing 16%. If only the U.S. were losing manufacturing jobs while other nations were

increasing them, then it would be reasonable to view a connection. Since the losses are occurring in other nations, there must be another reason. According to many economists the cause of this global decline in manufacturing jobs is the result of productivity gains. As manufacturing processes become more efficient and workers become better educated, it takes fewer people to get the same amount of work done and this directly impacts the number of jobs available in the manufacturing sector.



**Figure 2 Source: Haver Analytics, AllianceBernstein, quoted by AeA**

Now that the natural business cycle is entering into a period of recovery, we are seeing growth in U.S. High-Tech exports. According to the U.S. Census Bureau, exports rose \$5 billion between 2002 and 2003. While this was still not yet enough to stem IT job losses, the U.S. Department of Labor predicts a 35 percent increase in related jobs over the next ten years. Four of the top 10 industries in terms of wage and job growth are technology-related, according to the Bureau of Labor Statistics (See Table 1). Software publishers are predicted to see a 67.9 percent growth in jobs over 10 years, along with

55.4% job growth in consulting services, 54.6% growth in computer systems design and services, and 46.2% growth in Internet and data processing occupations. Perhaps of even greater significance is the Bureau of Labor Statistics projection of job growth into the future. Because of the aging of the “baby boom” generation who are now approaching retirement age, BLS expects a major labor shortage by 2010. According to the BLS, by that time there will be 10,033,00 more jobs than there are people to fill them. When given proper consideration, the evidence suggests that offshore outsourcing has had only a nominal effect on unemployment, with the biggest contributors being the recession, terrorism and improved productivity.

### ***Does outsourcing slow economic growth in the U.S.?***

Knowing that outsourcing is not the primary cause of job losses eases only part of people’s concerns because they also fear the impact of outsourcing on the overall U.S. economy. Even if it hasn’t already caused job losses, won’t it at least slow job growth in the future and dampen workers earning power due to competition with low-wage workers overseas?

According to McKinsey & Company the answer to those questions is a big fat ‘No.’ McKinsey research suggests that “far from being bad for the United States, offshoring creates net additional value for the U.S. economy that did not exist before, a full 12-14 cents on every dollar offshored. Indeed, of the full \$1.45 to \$1.47 of value created globally from offshoring \$1.00 of U.S. Labor cost, the U.S. Captures \$1.12 to \$1.14, while the receiving country captures, on average, just 33 cents” (Farrell).

Economies are in a constant state of change. Jobs are created and jobs are destroyed. More often than not, the result is the forward progress of technology that provides new, more efficient ways of doing old tasks, which ultimately lowers costs for consumers and drives growth in the economy. Whenever this happens, certain workers are displaced. At the same time, most economists agree that the net result is an increase in jobs.

According to a 2003 study by Diana Farrell at the McKinsey Gold Institute, one of the primary benefits of outsourcing is that it generates lower prices. According to Farrell, outsourcing is responsible for an overall 60 percent reduction in costs associated with information technology. This makes U.S. Products like computers, telecommunications hardware and software much more competitive in global markets (Farrell).

Catherine L. Mann of the Institute for International Economics, supports McKinsey’s position and adds to the argument. According to Mann, offshore outsourcing of IT hardware production has resulted in a 10%-30% drop in the cost of computers. Not only does this make computer manufacturers more competitive when selling abroad, it also makes computer technology less expensive for U.S. Companies to purchase. The result of such cost reductions is that businesses throughout the country have been able to adopt this technology more quickly and less expensively than could otherwise have been done. This stimulated higher productivity growth that ultimately created an additional three-tenths of a point of GDP growth and added \$230 billion overall to the U.S.

GDP between the years 1995 and 2002. She also notes that the recent efforts of some to quantify the number of jobs lost to offshore outsourcing is overstated because they failed to take into consideration “the business cycle, trend decline in manufacturing employment, dollar overvaluation, and technology bust.” She goes on to say that once the “technology boom” and the business cycle are removed from the equation, the facts are that employment in architecture and engineering occupations are stable, and math and computer occupations are up 6 percent in October 2003 relative to end-of-year 1999 (Mann).

Finally, a similar report by Global Insight undertaken on behalf of the Information Technology Association of America (ITAA) came to the following conclusion “The cost savings and use of offshore resources lower inflation, increase productivity, and lower interest rates. This boosts business and consumer spending and increases economic activity.” As a consequence, global sourcing added an additional \$33.6 billion to the U.S. GDP in 2003, with a net gain in GDP expected to be \$124.2 billion by 2008. Increased productivity, stronger economic growth and lower costs also will ultimately create a “bump in real wages.” Since inflation will be lower and productivity higher, “real wages were 0.13% higher in 2003 and are expected to be 0.44% higher in 2008.” Also, since this also means that U.S. Produced goods and services will be less expensive, U.S. Exports will increase. In 2003, “real exports were \$2.3 billion higher in 2003 and are expected to be \$9 billion higher by 2008” (Global Insight).

According to the experts, the answer to the question of whether outsourcing is bad for the U.S. Economy is that not only is it not bad for the economy, it’s good for it. It is not responsible for the current job losses and it is responsible for economic growth, lower inflation and, ultimately will be a driver for job creation as the U.S. Economy continues to recover.

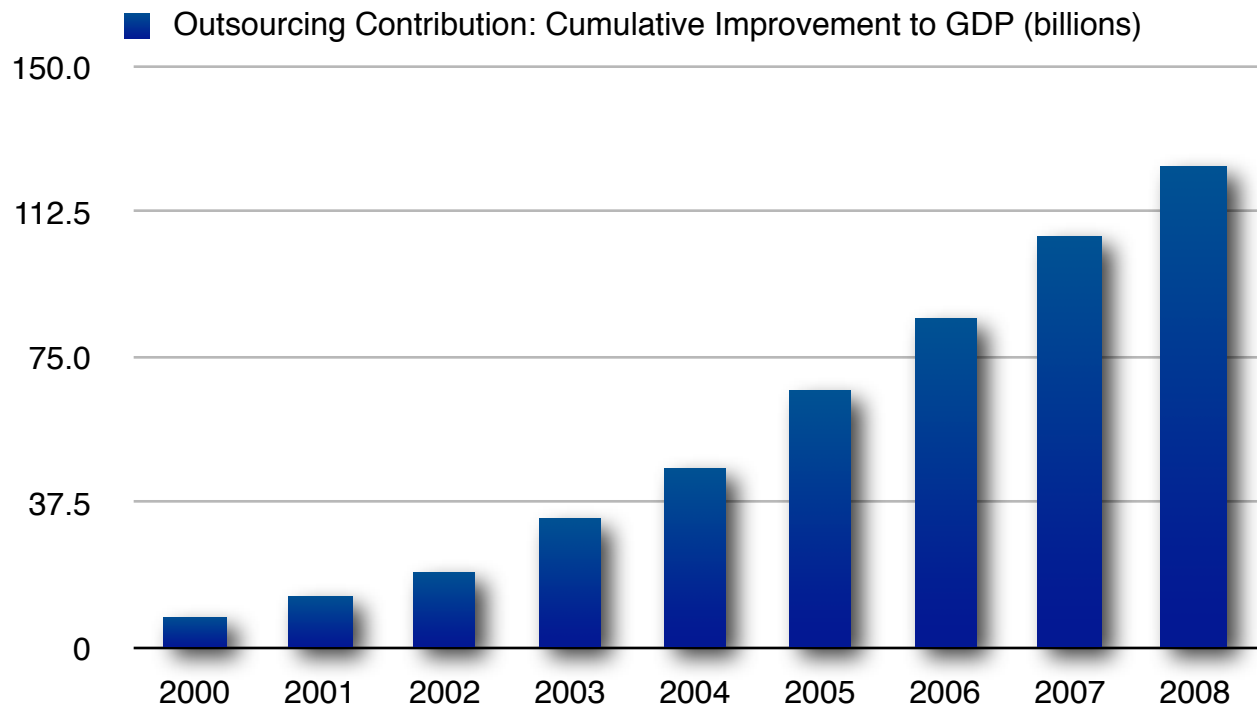


Figure 3 Source: Global Insight

## Are Foreign Workers Exploited?

"Altogether, given freer trade, both rich-country and poor-country living standards rise. That gives governments more to spend on welfare, education and other public services."

- **Profits over people**, *The Economist*, September 21, 200

Critics of offshore outsourcing also believe that labor, environmental and intellectual property laws are inadequate in countries like India and that this leads to what amounts to an unfair playing field.

Perhaps the most troubling of all the charges made by opponents of offshore outsourcing is that labor conditions in foreign labor markets are inhumane, employing children, forcing workers to work long hours without the benefit of overtime and with inadequate, unsafe working conditions. While there are instances of this in some poor wage countries (as well as in wealthy countries, too, according to *The Economist*), the prevailing evidence suggests that free trade, including outsourcing, is beneficial to the workers in those countries.

It is important to remember these are low wage countries because of the historic condition of their economy. As the local economies improve and grow, the overall conditions for these workers will improve as well. If business fails to invest or fails to take advantage of the opportunities that exist in these locations then the population as a whole will be condemned to persistent poverty with very little prospects for improvement in their living conditions.

Rhetoric often includes references to “sweat shops” and other images of worker exploitation designed to foster moral indignation. A closer look at the facts on the ground provides a different view.

### ***How outsourcing benefits foreign workers***

It is sometimes claimed that growth is less effective in raising the incomes of the poor in developing countries than in rich countries. This is a fallacy. A recent study confirms that, in 80 countries across the world over the past 40 years, the incomes of the poor have risen one for one with overall growth

- **Grinding the poor, *The Economist*, September 21, 200**

In India, global outsourcing has created a burgeoning middle-class where there once existed merely the haves and the have-nots. I know of one American reporter who visited an offshore outsourcing vendor in India. While there, he pointed to all the IT workers and asked, “Don’t you see that these are all the jobs that have been snatched from the

US?” In response, he was shown all the Compaq computers and other computing hardware being used by these workers, the U.S. Produced software that was being used on them, the Nike and Reebok shoes that the programmers wore, the bottles of Coke and Pepsi, the Tommy Hilfiger and other big U.S. Label clothes that they wore, etc. The response given was, “And did we not create additional jobs in the U.S. In purchasing all these goods from you?”

In “A richer future for India” from The McKinsey Quarterly Diana Farrell and Adil S. Zainulbhai said that outsourcing is a \$1.5 billion business in India that is expected to generate \$60 billion in exports by the year 2008. This is setting the stage for a dynamic Indian economy from which will only benefit U.S. Firms (Farrell).

<b><i>Average wages paid by foreign affiliates compared with the average domestic manufacturing wage in the host country (1001)</i></b>				
	<b>All countries</b>	<b>High-income</b>	<b>Middle-income</b>	<b>Low-income</b>
Average wage paid by affiliates (\$ 000s)	15.1	32.4	9.5	3.4
Average domestic manufacturing wage (\$000s)	9.9	22.6	5.4	1.7
Ratio	1.5	1.4	1.8	2.0

Source: Edward M. Graham, Institute for International Economics; The Economist, "Grinding the poor", September 27,2001.

Already, Indian ITO/BPO workers are paid a premium and their salaries keep rising every year. The attrition rate in Indian call centers is 35%. People are free to seek higher salaries with other companies and they do. It is a market driven approach, much like the US, Indian outsourcing vendors have been constantly adding incentives for employees in order to retain them.

There is not doubt that there are troubling examples of worker exploitation. At the same time, there are heart-warming stories of worker empowerment as well. Edward M. Graham, Senior Fellow at the Institute for International Economics, tells the following story:

"Some years ago, I visited Bangladesh, where I had the opportunity to visit a number of apparel operations. Some of these were abominable: dirty, ill-lit shops wherein some workers clearly were underage and all were poorly treated. But other shops did not meet this description. I remember particularly well one plant that was clean, well-lit, and even provided day-care for children of women who worked in the plant, who were almost all female. Also, those workers who could not read or write were required to attend literacy classes run by the employer. Was this latter an altruistic gesture? No, not really. The firm was implementing a computerized inventory control system that would require each worker to be able to read computer monitors. In a country where 90 percent of the female popula-

tion was then illiterate, company-provided education was necessary to make the system operational." (<http://www.iie.com/publications/papers/graham0301.htm>)

This is a perfect example of how the demands of growth eventually benefit workers in untold ways. Think about Bangladesh's prospects if there were no global trade and no foreign direct investment or outsourcing activities in their country. When a nation starts off poor, it is almost impossible to change that situation without external investment. If an entrepreneur were to open a factory in Bangladesh, but could only sell the products of that factory within the borders of Bangladesh then he would have a difficult time finding customers for the products. There are plenty of customers in wealthy nations, so free trade stimulates the Bangladeshi economy in two ways, first by direct investment in the country itself for foreign-owned multinationals, and second by giving them access to customers who can actually afford to buy what they produce.

Graham goes on to say, "Globalization has at least brought the garment factory to Bangladesh, and it holds the promise of bringing better opportunities in the future. The antiglobalists, plainly and simply, would not only take these opportunities away. They would shut down the garment factory, and condemn those lucky enough to have a job to return to the street."

Do not underestimate the benefit of globalization on the poor in developing countries. The previous example was from a locally owned company. Critics often charge multinational firms of exploiting workers in these countries by paying unfair wages.

What do the facts say? When they invest in a country and open up a factory or plant, are they exploiting workers and operating sweatshops? Graham's research shows that they do not operate sweat shops. In fact, in poor countries, foreign owned affiliates pay wages twice as high as the prevailing wage in those countries. While critics argue that they are still getting paid less than U.S. workers which somehow makes this rate of pay unfair, I would ask them the following question in response: what do they think these workers will be getting paid if they did not have a job at this foreign-owned plant?

It is not only the employees directly hired by the business who benefit. Any increasing in hiring reduces the supply of labor which ultimately leads to higher wages for everyone. Most importantly, from the perspective of the worker himself or herself, they clearly have made the choice that working for this company is preferable to the other alternatives they face.

### ***Low wages and high skills***

There is also growing evidence that shows that while cost-benefits are the primary reason companies outsource work, another leading reason is that they outsource in order gain access to more qualified workers. In fact, the U.S. Chamber of Commerce says that the biggest threat to America's technological leadership is "slippage in education and broadband" applications (Donohue).

In March, 2004, the American Electronics Association published a report called “Off-shore Outsourcing in an Increasingly Competitive and Rapidly Changing World”, and this report painted an interesting picture of the nature of the job markets in India and elsewhere in the world. It quotes data from the U.S. National Science Foundation that says that the U.S. Only produces 6.6 percent of the world’s supply of engineering bachelor degrees and China, the European Union, Japan, Russia and India all produce more. The U.S. Department of Education data shows that this gap is going to continue to grow, since engineering degrees awarded in the U.S. Dropped 4 percent between

“Whereas in the U.S. many of the offshored jobs are seen as relatively undesirable or of low prestige, in the countries they are offshored to they are often considered desirable and attractive. As a result, workers in low-wage countries often have higher motivation and outperform their counterparts in developed countries in terms of performance measures such as the number of transactions per agent, or the number of errors per transaction.”

- **Offshoring: Is It a Win-Win Game? McKinsey & Co, August, 2003**

1995 and 1999 while they grew in China by 37 percent.

At the same time, the quality of overseas education is improving. According to the AEA report, “India’s premier technology university, the Indian Institute of Technology, is widely considered to be one of the best and most selective technology universities in the world, accepting only 3,500 of 178,000 applicants.” When you turn to luck at U.S. Universities, you’ll find that just about 55 percent of math and engineering [Ph.D.s](#) are awarded not to U.S. Citizens, but to foreign born nationals who often return home with the skills they acquired in the U.S.

The report also points to a study undertaken by the World Economic Forum that concludes “the United States ranked first in the quality of its scientific research institutions. However, it only ranked 8<sup>th</sup> in availability of scientists and engineers (India ranks 3<sup>rd</sup>). And in quality of math and science education, the United States ranked an abysmal

37<sup>th</sup>.” Findings by the International Association for the Evaluation of Education Achievement TIMSS International Study Center, “U.S. 8<sup>th</sup> graders ranked 19<sup>th</sup> in math and 18<sup>th</sup> in science, among the 38 nations of the survey. Between 1995 and 1999, there was no change in 8<sup>th</sup> grade math and science achievement in the United States (Novak).

This data does not paint the “sweat shop” picture so many people envision. Instead, it’s a picture of a highly educated, motivated work force that secures work based as much on skill and expertise as on cost differentials.

### ***Intellectual Property Reform***

India has also made significant inroads in improving intellectual property legislation. India is a WTO member and it conforms to the Trade Related Intellectual Property Rights (TRIPS) agreement of 1994 as well as the WIPO Copyright Treaty (WCT) (1996). Throughout the 1990s, “India has undergone a series of reforms, opening itself to globalization and investment, leading to innovation, opportunities, and jobs for its indigenous population that heretofore never existed. Before these reforms, India did not welcome foreign investment, had strong protection in trade policies, and questionable intellectual property restrictions.” Much of this has changed. According to a report provided by the Embassy of India located in Washington, D.C., the “year 1999 witnessed the consideration and passage of major legislation with regard to protection of intellectual property rights in harmony with International practices and in compliance with India’s obligations under TRIPS.” This included new legislation covering patents, trademarks, and copyright. (Indian Embassy).

### **Why trade barriers do not protect trade**

Erecting trade barriers is the knee-jerk solution of choice for many whenever they think they see any unfavorable economic trend. All the evidence suggests that trade protectionism is always the wrong solution, for the following reasons:

1. It increases the cost of products to consumers, which offsets any wage protection that might exist from the protection itself. This means lower overall purchasing power for the poor. In fact, some studies suggest that the only beneficiaries of trade protectionism are the owners of the businesses who are protected.
2. It slows economic growth by making businesses less competitive abroad, the region of the world where the greatest potential for growth exists (and the most customers).
3. It makes the U.S. economy a potential target for retaliation from trading partners.

In the following sections, I will address these issues in much greater detail.

### ***The impact of trade protectionism on the poor***

Finally, critics of outsourcing say that government should do something about it, basing this on the belief that putting trade barriers in place will preserve jobs and improve the

U.S. Economy. These critics are arguing against the tide of history. Trade protectionism is an idea that has fallen out of favor for one simple reason: it does not work. Instead, the greater trend throughout the global economy is an increasing movement toward free trade and the establishment of free trading zones like that established in the North American Free Trade Agreement (NAFTA). Trade protectionism takes many forms – it can manifest itself in the form of tariffs or quotas on imported goods, or through government subsidies to home-grown businesses. Current legislation that is pending proposes requiring government contracts to go to local businesses who do not outsource offshore, or tax incentives to keep jobs here and both strategies amount to providing subsidies to U.S. businesses.

Regardless of which trade protectionist strategy government chooses, the end result is always the same: higher prices for goods and services produced by the effected companies. Tariffs, by definition, raise the price of imported goods so that domestic companies do not need to lower theirs. This means that customers have to pay more for what they buy and if that customer is a business, then it has to decide whether to reduce how much of the product it purchases, or pass along the added expense to their customers which, in turn, leads to higher prices downstream. The lesson to be learned is this: if governments implement trade protectionist measures the consequence is inflation or reduced consumption and ultimately lower purchasing power for the nation's citizens.

Much of the pending protectionist legislation avoids import tariffs or quotas, which is good news for business, but bad news for government because the proposed solution is establishing rules that control government purchasing practices and limits them to companies who produce the product or service within U.S. Borders.

For example, Fortune Magazine reported in February or 2004 that "Indiana's governor this past fall canceled a contract to pay India's Tata Consultancy Services \$15 million for processing, ironically, state unemployment claims. The next-highest bidder, a U.S. Company, reportedly wanted \$8 million more for the same work." That amounts to a 50% premium that the Indiana state government was being forced to pay in order to contract with a local firm. (Kirkpatrick)

When government subsidies are offered, the result is a higher cost of governing, either in the form of lost tax revenue due to tax relief or in terms of greater government expenditures for the protected products and services it purchases. Government must make up this inequity either through higher taxes, reduced spending on other programs or, as is often the case, through greater deficit spending that eventually leads to higher interest rates. In Indiana, the state government was willing to pay a 50% premium in order to accept the bid of a domestic company. The question that needs to be asked is whether that was the best way to spend \$8 million. Keeping in mind that this is just one example of many, and that legislation may require government to always make these kind of decisions it quickly becomes evident that the cost to U.S. Taxpayers is potentially enormous.

This money that would be spent protecting current businesses would build in inefficiency in the economy and limit innovation since the competitive pressures that inspire it would be lessened. It also means that other worthy projects will go unfunded. This is money that could be spent on worker re-training and education that can address current deficiencies in this area and help to prepare our children for the jobs of the future. It could also be returned to the economy in the form of tax cuts which will further stimulate the economy and fuel the engines of job growth.

### ***The impact of trade protectionism on economic growth and competitiveness***

While the business that is supposedly protected by this legislation may see some short-term benefit, the long-term result is inevitably negative. First, while some of the competitive price pressure may abate allowing them to sell their products at higher cost, this has an impact on the economy at large and ultimately creates an economic environment that is less robust and slower growing. The business may get extra cash today, but it is at the expense of future growth. As the law of supply and demand states, as the price increases, the quantity demanded decreases.

A more important consideration is that not only will this business's products be more expensive when sold in domestic markets, they will also be more expensive when being sold abroad. While trade protection may offer some modest and superficial short-term relief at home, it perpetuates a burdensome competitive disadvantage when competing against foreign competitors who themselves have the benefit of lower costs.

In a global economy, this can spell disaster for a business. Consider this: one of the biggest side effects of the offshore outsourcing trend is that economies in India, China and elsewhere throughout the world are growing rapidly. This means that the overall global market for goods and services is getting larger. Trade protectionism at home means that companies based in the U.S. are going to be unable to compete on price in the global market at the same time that the global market is getting larger every day.

## ***The United States Outsourcing Trade Surplus***

“Despite the political outcry over the outsourcing of white-collar jobs to such places as India and Ghana, the latest U.S. government data suggest that foreigners outsource far more office work to the U.S. than American companies send abroad.”

**- The Wall Street Journal, March 15, 2004**

I call this section "The United States Outsourcing Trade Surplus" and yes, that's right, I said trade *surplus*. Rarely mentioned in the public debate about the consequences of outsourcing is the fact that the United States is far and away the biggest beneficiary of outsourcing of any other country.

According to McKinsey, “U.S. Businesses dominate the global share of offshoring, accounting for some 70 percent of the total market. Europe and Japan account for the remainder of the market, with the U.K. As a dominant player. Both the U.S. And the U.K. Have liberal employment and labor laws that allow companies greater flexibility in reassigning tasks and eliminating jobs. This flexibility is essential to capture offshoring opportunities effectively.”

The United States has benefited tremendously from free markets and is still the leading destination for offshore outsourcing from nation's abroad. What will the consequence be if America restricts U.S. companies from outsourcing in foreign markets? At least one possibility is that those foreign markets will restrict their own domestic companies from outsourcing in the United States.

If the United States passes protectionist trade legislation, then the biggest danger to the health and well-being of the U.S. economy is retaliation. If we shut down outsourcing, then these countries who have long been sending work to the U.S. will retaliate and put up barriers of their own for work that is outsourced to the U.S economy.

Bear in mind that the reason for the recent clamor over offshore outsourcing is that high-paying professional IT jobs are now being outsourced offshore rather in addition to manufacturing jobs. According to the U.S. Bureau of Economic Analysis, the U.S. actually has a *\$50 billion trade surplus in the sale of high tech services*. We are already fac-

ing increased competition for IT work with countries like India and China – the primary consequence of trade barriers will be to hasten the loss of U.S. IT jobs.

As a Wall Street Journal report concluded, “The numbers suggest that Congressional efforts to restrict outsourcing by US companies may backfire, if they provoke retaliation by US trading partners. Economists also say that US service exporters—insurers for instance—might lose some competitive edge if they can’t use foreign suppliers for call centers or other back-office operations.”

### ***The Pending Labor Shortage***

Despite the pessimism so prevalent in the press, the U.S. Economy is growing and free trade is still good. If there is one spot of bad news, it’s that the American public has some dangerous misperceptions about trade. *53% believe that foreign trades hurts the U.S. Economy rather than helps it while only 39% believe that it has done more to help.* The facts are that “U.S. Exports directly support an estimated 10 million jobs, including one in every five manufacturing jobs. Foreign direct investment in our country directly supports another \$6.4 million jobs.” And while the U.S. Has lost 11% of all manufacturing jobs since 1995, China has faired much worse, having seen a 15% decline. Throughout the world, productivity growth is making manufacturing more efficient and this is the primary driver of job loss. (Donohue).

As I have already mentioned, despite the overall loss of manufacturing jobs and the changing dynamics of the global economy, the Bureau of Labor Statistics (BLS) is still projecting a major worker shortage in the United States by the year 2010 due primarily to an aging population that is approaching retirement age and a shortage of younger workers to replace them. BLS estimates a worker shortfall of over 10,000,000. (Donohue). The U.S. Economy is strong, vibrant and poised for growth. Offshore outsourcing does not undermine or weaken it to any degree – it is actually a driver of that economic growth and will be a necessity in future years as the labor supply in the U.S. continues to shrink. Trade protectionism will only hurt consumers, slow economic growth, and make U.S. businesses less competitive overseas.