

Debate

Is Outsourcing a Problem, or Is It Good for America?

ISSUE: Has outsourcing production and manufacturing to low-wage countries helped or hurt the United States?

In the United States, outsourcing is considered a bad word. Politicians pledge to stop it and businesses feel the need to downplay their involvement in it. Slogans like “Buy American” have been popular rallying cries for years, and many people bemoan the outsourcing of jobs to low-wage regions like Asia and Latin America. In a time when unemployment is approaching 10 percent (combined with underemployment, the rate is likely closer to 20 percent), the idea of shipping any jobs overseas is highly objectionable to many Americans.

Many businesses have done more than outsource the manufacturing of their goods. Outsourcing non-core activities and services has been a growing trend for years. The top beneficiary of this trend has been India, where companies have found an abundance of highly-trained English-speaking employees to fill call centers and customer service jobs and even high-skill positions like analyzing hospital X-rays.

Although there has been a loud uproar over the upswing in outsourcing, some experts argue that it may not be all that bad. Companies sometimes need to cut costs in order to stay in business, especially in a recessionary period, and outsourcing manufacturing and non-core business activities has allowed many companies to do that. If outsourcing allows a company to cut costs and produce goods more cheaply, thereby remaining a healthier business and passing on savings to consumers, is it not acceptable for a company to outsource jobs? That is the idea behind comparative advantage, after all. The United States does not have a comparative advantage in manufacturing because of high wages and a relatively strong dollar (although the dollar has been on the decline in recent months).

Many critics argue that outsourcing has been overhyped and that it is difficult to quantify its costs and benefits. Some companies believe they realize significant savings, while others are not so sure. What is relatively certain to anyone who has ever shopped at a Wal-Mart is that goods produced in low-wage countries are everywhere and their costs tend to be much lower than similar products produced in the United States, Canada, or Europe.

Interestingly, according to an article in *Blumberg Businessweek*, the United States is now one of the fastest-growing countries as a destination for outsourcing. Online contracting, in which workers are hired for short-term assignments and work via the Internet, is one of the fastest-growing fields for outsourcing. American workers, with their technical expertise and widely-available Internet infrastructure, are highly desired. Freelancing, which was expected to shrink because of the recession, has actually increased as more stable full-time jobs with corporations dry up. The Internet allows firms to select contractors from all over the globe and hire whoever has the skills to fit the project. It turns out that wage differentials between American and Indian workers are less than \$6 per hour on average, and that U.S. workers receive generally higher ratings for their work. This is yet

another instance of the Internet smoothing over barriers and connecting the world. Increasingly, Thomas Friedman may be right: the world is growing “flat.”

There are two sides to every issue:

1. Outsourcing hurts America by sending jobs overseas.
 2. Outsourcing helps America by allowing goods to be produced more cheaply, with savings being passed on to consumers.
-