Outsourcing and Globalization

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Outsourcing – will your job move to Bangalore?

- Hot-button issue in Presidential election

- Very different views of outsourcing:
  - “…it’s something that we should realize is probably a plus for the economy in the long run” (Gregory Mankiw, Chair of CEA)

  - “Outsourcing is a critical issue for my district…Gov. Taft needs to step up to the plate and help prevent the job losses Ohio is experiencing everyday” (Robert Hagan, D Youngstown)
What is outsourcing?

- Some confusion over concept
- Procuring of service or material inputs by a firm from a foreign source - offshoring
- Origin - contracting out of design work in UK auto industry to Germany in 1970s
- Focus now on service outsourcing to low-wage countries such as India
Outsourcing: by whom, where to and what jobs?

- Mainly US and UK-based firms to English-speaking countries
- Back-office services (accounting), telephone call centers, and computer programming
- Examples in Ohio:
  - LexisNexis (Dayton) IT jobs
  - Chiquita (Cincinnati) IT jobs
  - Procter & Gamble (Cincinnati) IT/back-office jobs
  - MCI (Niles) telephone call center
What causes outsourcing?

- Lower labor costs overseas
- Increase in educated workers overseas
- Technological advances in computers and telecommunications
- Deregulation and trade liberalization in services sector
How many US service jobs?

- Increased from 103,000 in 2000 to 315,000 in 2003 (Forrester Research, 2004)
- 3.4 million service jobs expected to be lost by 2015, with wage loss of $151 billion
- More US jobs *in-sourced* than *outsourced* (Amiti and Wei, 2005)
- Expected annual job losses accounts for 1% of 30 million jobs “churned”/year
Why the concern?

- Employment in services sector has outgrown that in manufacturing
- Service sector previously impervious to international competition
- Pace of outsourcing will be swift given modern communication technology
- Concerns about a “jobless” recovery
Economic impact of outsourcing

- Trade not expected to reduce output or employment in long-run
- Short-run effects on employment due to job losses/dislocation
- Workers who lose jobs, suffer income loss
- Outsourcing expected to raise average real income in US (Bhagwati et al., 2004)
Policy options and outsourcing

- Proper macroeconomic policies
- Protection a costly way to preserve US jobs
- Improve and extend Trade Adjustment Assistance Program, e.g., wage insurance
- Reduce barriers to US service exports
- Education and research to maintain US comparative advantage in services
Doonesbury's view

Do you know that Alex, who's all of 16, is already worrying about outsourcing?

Well, she needn't be...

She's just got to learn how to make it work for her.

For instance, my nephew Zig, who's a systems analyst, recently outsourced his own job!

Every night he e-mails a day of work to this wicked smart engineer in Bombay. The next morning, the completed work is sitting in his mailbox.

Zig pays the engineer a third of his salary, and is now looking for a second job!

Wow... that's impressive...

And his boss hasn't caught on? No, every few weeks Zig has the engineer screw up.

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