



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.....

