The Great Outsourcing Scare of 2004

BY JUDE BLANCHETTE

Last year a protectionist wind filled the air. All the good jobs, Americans were told, were disappearing faster than one could say "New Delhi."

On opening his local newspaper, the typical American would find articles alerting, "As job exports rise, some economists rethink the mathematics of free trade." Or: "Thomson Trims 1,535 Jobs by Shifting Work to China." On his drive into work, he might turn on NPR and hear a sound bite by Senator John Kerry lambasting the "Benedict Arnold" CEOs who ship jobs abroad. That night after dinner, this American might turn on CNN to hear Lou Dobbs warn of "Exporting America."

In short, it appeared as if the whole country might soon find itself working at the nearest McDonald's. The new outsourcing, the use of white-collar services in foreign countries to cut costs, became one of the most debated issues on the news, in magazines, and on the op-ed pages of the largest newspapers. However, the Great Outsourcing Scare of 2004, like all protectionist scares, turned out to be one part sensationalism, one part economic ignorance.

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A much-publicized and well-reasoned *Foreign Affairs* article by Daniel W. Drezner essentially put the jobs issue to bed last May. Drezner showed that the numbers don't support the Dobbs argument: even using one of the most liberal estimates of job losses from outsourcing, "less than .2 percent of employed Americans" would be affected.[1] Drezner also notes that in regards to the outsourcing of the information-technology (IT) sector, many estimates use 2000 for comparison. Yet that was "an unusual year for the technology sector because Y2K fears and the height of the dot-com bubble had pushed employment to an artificially high level. When 1999 is used as the starting point, it becomes clear that offshore outsourcing has not caused a collapse in IT hiring."

Drezner concludes, "It is easy to praise economic globalization during the boom times; the challenge, however, is to defend it during the lean years of a business cycle. Offshore outsourcing is not the bogeyman that critics say it is. Their arguments, however, must be persistently refuted. Otherwise, the results will be disastrous: less growth, lower incomes—and fewer jobs for American workers."

While focusing exclusively on job losses (which the data show to be minor relative to the overall economy), detractors miss the dispersed benefits outsourcing will help bring via lower prices. According to the Reason Public Policy Institute, "For every dollar of spending on business services that moves offshore, U.S. companies save 58 cents."[2] Moreover, the McKinsey Global Institute (MGI) found that "Of the $1.45–$1.47 of value MGI estimates is created globally from every dollar . . . a domestic company chooses to divert abroad, the U.S. captures $1.12–$1.14 while the receiving country cap-

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tures on average 33 cents. In other words, the U.S. captures 78 percent of the total value."[3]

A further challenge to the protectionist case came in the form of "insourcing"—the opposite of outsourcing. Foreign firms, attracted by this country's (relatively) stable currency and political process, adherence to the rule of law, and protection of property rights, have hired Americans to replace workers in their home countries. There is, of course, little objection to this by Americans (including Dobbs). Observers have begun to report that jobs created by insourcing greatly outnumber those lost to outsourcing. According to the Organization for International Investment, 6.4 million jobs were insourced in 2001 alone. (Remember that the most alarming prediction is for three million jobs to be outsourced by 2015.) This is up from 5.1 million jobs in 1996.[4]

Two Reports

Yet perhaps the most damning evidence against the outsourcing scare comes from the federal government in two recent studies. Last June the Department of Labor reported that just 4,633 jobs were replaced by overseas labor during the first three months of 2004. This number represented 2 percent of the 239,361 layoffs for that same quarter.[5] Another study, released in September by the Government Accountability Office (GAO), concludes, "The Department of Labor's Mass Layoff Survey data show that layoffs attributable to overseas relocation represent a small fraction of overall total mass layoffs."[6] Put another way, the hysteria over outsourcing wasn't warranted. Even before these reports, economists who actually spent time examining the logic and numbers knew the protectionist rumblings were hot air.

The opponents of outsourcing presented it to the American public as a menace—if the government didn't protect us, virtually all white-collar jobs would be lost. It was a clear case of corporations ruthlessly pursuing ever-higher profits at all costs. Loyalty to the American worker and to the United States was abandoned for mammon and greed. Americans had gotten somewhat used to the idea of manufacturing jobs moving overseas, but the idea that office jobs could vanish too was frightening.

This simplistic outlook belies the multitude of factors that affect the outsourcing of jobs; cheap labor is but one. The high wages paid to Americans are determined, to a large extent, by productivity. American employers pay more because they receive more.[7] The United States has a highly skilled, proficient workforce that pays large dividends to employers. Furthermore, the relative stability of the American political and economic system offers benefits unmatched by most countries. If there is a threat to American workers, the U.S. government should get a large portion of the blame. Taxes, regulations, and mandated employee benefits, when taken together, drastically increase the cost of hiring Americans.[8]

Despite this preponderance of evidence, the issue of outsourcing still lingers, partly because of some workers' legitimate fears, but also because of a latent nationalism and xenophobia on the part of the protectionists. Outsourcing to Virginia is fine, but lo, give the job to an Asian and it's a national calamity. A man I recently spoke to told me that the only colors he saw were red, white, and blue. It is this unfortunate attitude that propels much of the protectionist nonsense today.

1. Daniel Drezner, "The Outsourcing Bogeyman," *Foreign Affairs*, May–June 2004, www.foreignaffairs.org/20040501faessay83301/daniel-w-drezner/the-outsourcing-bogeyman.html.

2. Adrian T. Moore, "More Good Than Harm: Can America Learn to Love Outsourcing?" *Privatization Watch*, vol. 28, no. 4, 2004, www.rppi.org/pw326.pdf.

3. McKinsey Global Institute, "Offshoring: Is It A Win-Win Game?" www.mckinsey.com/knowledge/mgi/rp/offshoring/perspective/index.asp.

4. Organization for International Investment, "The Facts about *Insourcing*," www.ofii.org/facts_figures/.

5. "U.S. Survey Finds Few Jobs Moving To Offshore Homes," *Wall Street Journal*, June 11, 2004.

6. See Government Accountability Office, "Report Abstract," September 22, 2004, www.gao.gov/docsearch/abstract.php?rptno=GAO-04-932.

7. See Bruce Bartlett, "Passage to India?" National Review Online, August 27, 2003, www.nationalreview.com/nrof_bartlett/bartlett082703.asp.

8. Joseph M. Johnson, "A Review and Synthesis of the Cost of Workplace Regulations," Mercatus Center, George Mason University, August 30, 2001, www.mercatus.org/pdf/materials/10.pdf.