

Outsourcing Has Its After-effects

by Paul Craig Roberts

Is offshore outsourcing good or harmful for America? To convince Americans of outsourcing's benefits, corporate outsourcers sponsor misleading one-sided "studies." But very few people have looked objectively at the issue. These and the large number of Americans whose careers were destroyed by outsourcing have a different view of outsourcing's effect. But so far there has been no debate, just the shouting down of skeptics as "protectionists."

Now comes an important new book, *Outsourcing America*, published by the American Management Association. Authors and brothers Ron and Anil Hira, are experts on the subject. One is a professor at the Rochester Institute of Technology, the other a professor at Simon Fraser University.

The authors note, despite the enormous stakes for all Americans, there is denial among policymakers and corporate champions about outsourcing's adverse effects on the U.S. The Hiras interject harsh reality where delusion has ruled.

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In what might be an understatement, a University of California study found 14 million white-collar jobs are vulnerable to offshore outsourcing. These are not just call-center operators, customer-service and back-office jobs, but information technology, accounting, architecture, advanced engineering design, news reporting, stock analysis and

**Outsourcing
America: What's
Behind Our
National Crisis
and How Can We Reclaim
American Jobs**

by Ron Hira and Anil Hira
Foreword by Lou Dobbs
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medical and legal services. The authors note these American Dream jobs of upward mobility generate the bulk of tax revenues to fund our education, health, infrastructure and Social Security systems.

The loss of these jobs "is fool's gold for companies." Corporate America's short-term mentality, stemming from bonuses tied to quarterly results causes U.S. companies to lose not only their best employees – their human capital – but also the consumers who buy their products.

Employees displaced by foreigners and left unemployed or in lower-paid work have reduced power in the consumer market. They provide fewer retirement savings for new investment.

No-think economists assume new, better jobs are on the way for displaced Americans, but no economist can identify these jobs. The authors note "the track record for the re-employment of displaced U.S. workers is abysmal:

The Department of Labor reports that more than one in three workers who are displaced remains unemployed, and many of those who are lucky enough to find jobs take major pay cuts. Many former manufacturing workers who were displaced a decade ago because of manufacturing that went offshore took training courses and found jobs in the information technology sector. They are now facing the unenviable situation of having their second career disappear overseas.

American economists are so inattentive to outsourcing's perils they fail to realize the incentive that leads to outsourcing one tradable good or service does the same for all tradable goods and services. In the 21st century the U.S. economy has only been able

to create jobs in non-tradable domestic services the hallmark of a Third World labor force.

Prior to offshore outsourcing, U.S. employees were shielded against low-wage foreign labor. Americans worked with more capital and better technology, and their higher productivity protected their higher wages.

Outsourcing forces Americans to ‘compete head-to-head with foreign workers’ by ‘undermining U.S. workers’ primary competitive advantage over foreign workers: their physical presence in the U.S.’ and ‘by providing those overseas workers with the same technologies.’

The result is a lose-lose situation for American employees, American businesses and the U.S. government. Outsourcing has brought record unemployment in engineering fields and a major drop in university enrollments in technical and scientific disciplines. Even many of the remaining jobs are filled by lower-paid foreigners brought in on H-1b and L-1 visas. American employees are discharged after being forced to train their foreign replacements.

U.S. corporations justify their offshore operations as essential to gain a foothold in emerging Asian markets. The Hira brothers believe this is self-delusion.

There is no evidence that they will be able to out-compete local Chinese and Indian companies, who are very rapidly assimilating the

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technology and know-how from the local U.S. plants. In fact, studies show that Indian IT companies have been consistently out-competing their U.S. counterparts, even in U.S. markets. Thus, it is time for CEOs to start thinking about whether they are fine with their own jobs being outsourced as well.

The authors further note the national security implications of outsourcing ‘have been largely ignored.’

Outsourcing is rapidly eroding America’s superpower status. Beginning in 2002 the U.S. began running trade deficits in advanced technology products with Asia, Mexico and Ireland. Since these countries are not leaders in advanced technology, the deficits obviously stem from U.S. offshore manufacturing. In effect, the U.S. is giving away its technology, which is rapidly being

captured, while U.S. firms reduce themselves to a brand name with a sales force.

In an appendix, the authors devastatingly expose the three ‘studies’ used to silence doubts about offshore outsourcing: the Global Insight study (March 2004) for the Information Technology Association of America, the Catherine Mann study (December 2003) for the Institute for International Economics, and the McKinsey Global Institute study (August 2003).

The ITAA, an outstanding lobbying group, spun study results by releasing only the executive summary to reporters who agreed not to seek outside opinion before writing. The Mann study is ‘an unreasonably optimistic forecast based on faulty logic and a poor understanding of technology and strategy.’ The McKinsey report ‘should be viewed as a self-interested lobbying document that presents an unrealistically optimistic estimate of the impact of offshore outsourcing and undeveloped and politically unviable solution to the problems they identify.’

Outsourcing America is a powerful work. Only fools will still cling to the premise that outsourcing is good for America.