Outsourcing Overseas and its Effect on the US. Economy

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Outsourcing is controversial and often politically manipulated to make claims about job losses in the United States with little to no discussion on job creation from outsourcing by U.S. companies. However, outsourcing by U.S. companies provides benefits to foreign economies and to the U.S. economy. Foreign economies are boosted by demand for products by U.S. consumers, and the U.S. economy benefits as well. The U.S. economy engages in international trade and obtains needed goods at lower cost, which results in better returns on investment and more economically priced goods for U.S. citizens. Components produced through outsourcing and incorporated into larger products in the United States results in a demand for higher skilled jobs in the U.S. Unfortunately, these benefits are often buried in stories that refer vaguely to U.S. job loses. Ultimately, foreign products are produced competitively and offered as U.S. consumers’ products at more affordable prices-boosting the economies of foreign countries and the U.S.

Many countries have built economies based on outsourcing. For example, Singapore actively participates in outsourcing. "If you deprive yourself of outsourcing and your competitors do not, you're putting yourself out of business." - Lee Kuan Yew, former Prime Minister of Singapore. Today's economies rely on global marketing-not only for the U.S., but for foreign countries as well. The U.S. relies heavily on imports, making the U.S. a part of the global market when U.S. companies outsource. In order to balance revenue lost from imports, the U.S. needs to export either U.S. dollars or U.S. goods to other countries as well. The U.S. cannot depend on sales in the U.S. alone. In order to sustain business from foreign countries, the U.S. must be a part of the global market to compete with products produced by companies in such countries as Mexico, Brazil, China, Singapore, India, and those in Europe.

Outsourcing by U.S. companies to foreign countries stimulates investment by these foreign countries. This investment helps boost those countries' economies by improving their standards of living and providing jobs for the unemployed. With these economic improvements in foreign countries, this allows them to be a part of the global market by enabling them to buy more exports from the U.S. "The U.S. economy and the world economy are linked in many ways. Economic developments in this country have a major influence on production, employment, and
prices beyond our borders; at the same time, developments abroad significantly affect our economy. - said from George B. Grey's book Federal Reserve System: Background, Analysis. and Bibliography.

Further, because of the enormous size of the U.S. economy, the U.S. dollar is the currency most used in international foreign exchange transactions, making the U.S. dollar the official foreign exchange reserve currency for more than half the countries in the world. Linda Goldberg, *Is the International Role of the Dollar Changing?* Current Issues In Economics and Finance, Vol. 16:1 (Fed. Reserve Bank of NY, Jan. 2010). This results in U.S. banks and foreign banks using U.S. dollars to stabilize these foreign economies and the international market place. When U.S. companies invest in outside countries, the investment helps the foreign country investors (i.e., domestic stockholders) to access the international market place to support their local, foreign economy. Foreign investors pull in other outside investment as the foreign economy grows. "Furthermore, a successful investment in a poor country will send a signal to other potential investors that there is a stable environment for investment there, which can lead to even more investment, job creation and prosperity." according to Thomas J. DiLorenzo, Professor of Economics, Loyola University (Maryland).

Outsourcing by U.S. companies also benefits the U.S. economy because the U.S. acquires goods from foreign countries at lower costs. This benefits U.S. consumers, but it also benefits U.S. manufacturers that produce large, complex goods for export to other countries. For example, the U.S. commercial aircraft industry has had a practice of outsourcing since the early 60's better known as "offset programs," whereby foreign manufacturers produced key components in exchange for completed aircraft purchases. Thus Italy's national carrier Alitalia fleet consisted of all McDonnell Douglas/Boeing Aircrafts, as does Switzerland's Swissair. Components of these aircraft are outsourced to manufacturers in Italy and Switzerland to boost these economies and to aid U.S. aircraft manufacturers. The value to the U.S. economy in terms of export revenues significantly outweighs the value of imports associated with the aircraft components imported back to U.S. aircraft manufacturers such as Boeing. [U.S. Dept. of Commerce, Bureau of Industry and Security, 7th Offset Report (Jul. 2003), www.bis.doc.govjd efenei nd ustriai taseprogc.ams/Qsies/offsets/offsettrpt7/chapter 6.htm.] As this offset practice continues, Boeing relies on export trading in order to create sales and bring in revenue from foreign plane sales that cost millions of dollars, which also helps
creates more jobs in the U.S. for Boeing.

Whether through an offset program or as a stand-alone import of goods, outsourcing tends to allow the U.S. to obtain goods at lower costs because materials do not have to be imported into the U.S., and foreign employment is often cheaper, raising profits for the company and allowing the products to be cheaper for U.S. buyers. Cost of labor in the U.S. can be almost $27 per hour for manufacturing labor. In contrast, cost in Eastern Europe averages $8 per hour for manufacturing labor and, in East Asia (excluding Japan), $13 per hour. Manufacturing labor in the Philippines averages under $2 per hour, and in Brazil the average is $8 per hour. Outsourcing promotes globalization, which is a new source of growth for U.S. businesses. These figures are based on the 2011 U.S. Bureau Labor Statistics hourly direct pay data, www.bls.gov/web/ichcc.supp.toc.htm#table 2.

One of the most pointed-out arguments against outsourcing is the concern of jobs being lost in the U.S. which are then transferred to foreign countries. Companies that outsource to foreign countries tend to hire less skilled workers whenever the work does not require a high skill level to manufacture products. This results in Americans holding higher skill level jobs. It is argued that outsourcing takes away immediate jobs for unskilled U.S. labor. Although this can be true in some instances, the labor employment moved to foreign countries tends to be jobs that pay at a more indigent level by U.S. cost of living standards, leading to impoverished lives to those in the U.S. holding such jobs. Poverty does not benefit the U.S. economy since poverty reduces consumer spending and tax revenues, and increases certain social costs. Also, as a result of cost savings for outsourced goods, these costs savings can be applied to the purchase of additional goods by U.S. consumers, leading to more job creation in the U.S. because of outsourcing. Companies that outsource also have increased productivity because the eligibility of working 24 hours a day, seven days a week due to time zones. Communication systems such as email and video conferencing help coordinate work and increase production details in countries with low labor costs on a 24/7 basis. Thus, outsourcing is an opportunity practiced by all major industrialized countries.

An important factor of outsourcing, though, is to consider how the U.S. benefits from these outside investments. Consumers are given the privilege of lower prices in various products and services. The quality of these goods are high as well, offering greater competition to keep
prices low. "The other part of outsourcing is this: it simply says where work can be done outside better than it can be done inside, we should do it," said by Alphonso Jackson, former U.S. Secretary of Housing and Urban Development. By keeping a good at a low price, this increases the demand and consumption of the good. Rather, if the good were produced in the U.S., it would cost more to pay for it in order to fund for employee wages, require cheaper quality so prices would not be too high, yet still have a higher price compared to how much it would cost coming from outsourcing, leading to consumer dissatisfaction and decreasing demand from the U.S. source. All this means hiring fewer U.S. employees, and paying as close as they can to minimum wage to keep products at a reasonable price so consumers will still buy. Consumers would be forced to pay much more for goods, and for the millions of Americans who shop at Wal-Mart each week, they would incur further economic hardships.

A large majority of Americans believe outsourcing is bad for the U.S. economy. This view might be shared by as many as 71% of Americans. Outsourcing: Where is Uncle Sam? Business Week Magazine (Feb. 2007).


However, how would our modern economy exist without it? Outsourcing keeps U.S. businesses profitable through lower production costs, which benefit consumers, and leads to increases in revenue for the U.S. economy. All this allows the U.S. to compete in the global market, and to expand job creation in the U.S. Outsourcing allows America to focus on innovation and the use of highly skilled labor. It is important to understand that outsourcing is not for lack of confidence in the U.S. work force, or purposely intended to take away jobs; rather, outsourcing is a mechanism to sustain companies that create jobs while providing affordable consumer resources and products.

BIBLIOGRAPHY

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