

Potential Effects of Increased  
Outsourcing for the United States

Introduction to Argument and Persuasion

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### Abstract

The issues surrounding increased outsourcing for the United States mainly involve the ability for people to make informed decisions about the topic. There is a distinct separation between people's opinions based upon the differences in party affiliations and their actual understanding of the issue. This paper attempts to simplify the topic by providing examples from both sides of the argument and then a final position based upon the evidence collected. The questions involving outsourcing and specifically the movement of jobs to foreign countries are difficult ones, but the benefits of its practice greatly outweigh the possible negative effects. The current increase in major outsourcing from the superpower countries creates positive effects for the world economy.

### Potential Effects of Increased Outsourcing for the United States

With prices rising every day, there needs to be some relief for consumers. How would you feel if you went to the store today and saw that the prices of all the items were reduced by half? Even more astonishing, how would you feel if the quality was twice as good? This is the result of the American market system at work. Capitalism results in competition between businesses that fight to produce the best product for the lowest amount in order to increase sales and profit revenue for that company. This has been the center-point a new controversy that threatens American ideals and promises to divide its people. Outsourcing/Off-shoring has the potential to alleviate all spending pains, and some people chose not to embrace it. If the market system which helped to elevate the United States to its current status is allowed to work, outsourcing would be the next logical step in the progression of the American economy leading to both a personal and a worldwide benefit as the balance of wealth is distributed throughout the world.

Outsourcing is a sub-contracting process that transfers control of certain aspects of a local company, such as manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering costs or redirecting the physical energy of a particular business in order to make more efficient use of land, labor, capital, and technology. Off-shoring refers to a particular ideal of outsourcing involving the reallocation of a company's resources to foreign market in order to take advantage of differing production factors which usually include lower operation costs. These processes are often perpetuated by an economic event known as a comparative advantage. Comparative advantages explain how countries can benefit from specialization of a particular good or service and then subsequently trading those goods to other countries instead of trying to provide multiple goods and services domestically and ignoring foreign trade.

Issues now arise not only because of the differing opinions of American citizens, but also because those citizens are not independently educated enough about a topic to make a truly informed decision. People generally try to identify and decide their opinions on an issue based upon traditional political party

ideals. This leads to substantial disillusionment as people no longer strive to educate themselves on an issue and instead become political parrots and repeat whatever they are told without any question of accuracy or validity. The controversy surrounding outsourcing is no different. The ironic aspect of the argument is the change in opinion based upon economic ideals and the beliefs based upon social welfare or domestic job protection. Conservative citizens usually tend to favor an open market economy which includes the fundamental practice of the Capitalist system, but socially they favor a more protectionist strategy involving American workers. Those citizens who believe in “change” would tend to favor an economic system that was “fair” to everyone, and would try to distribute jobs based upon a social welfare system from which no one would be excluded. This creates the ultimate paradox when facing the issue of outsourcing. Social conservatives would be in favor of protecting American jobs while economic conservatives would hope to encourage the Capitalist system by sending those jobs to other countries to encourage Capitalist practices. The opposite is true with the more “free-thinking” citizens. Socially they would be in favor of distributing those jobs while economically they would be in favor of holding an isolationist stance and keeping the jobs in the United States as a way to fuel their social welfare initiatives.

Although the issues surrounding the controversy are extremely convoluted, the actual arguments made by both sides are surprisingly simple. Marquardt (2007) outlines the main argument of those opposing major outsourcing in the United States. He states that off-shoring is simply a way of unfairly exploiting cheap labor. He adds that by shifting production to low-wage economies, companies are able to profit from paying substandard wages and sometimes offering appalling working conditions. Off-shoring portrays underdeveloped countries as being cheap sources of support for the developed economies. The focus is not on helping the poorer countries to develop strong economies, but rather to exploit their weaknesses and satisfy the consumer culture of richer countries. The fact that there are so many poor, underdeveloped countries with substantial unemployment means that countries will “race to the bottom” in a desperate attempt to undercut each other and therefore make themselves more attractive for off-shoring investment. “In other words, off-shoring and outsourcing decreases costs for companies, but does

not necessarily benefit the consumer through quality service or lower prices” (para. 7). His argument is directly addressed and rebutted by Grossi (2008) when he says that off-shoring increases transparency (efficiency) between companies and countries. It does so through a more ruthless display of pricing competition which means that there is a freer market between companies, and that those companies who are not efficient are less likely to succeed. This is good for consumers (specifically) and the economy (generally) because goods and services will be produced more cheaply and efficiently. This does not necessarily mean that corners will be cut or jobs lost as the threat of overseas competition may serve to sharpen a company’s own focus on efficiency or to innovate in ways which set it apart from potential off-shoring companies.

Another argument posed by those that oppose outsourcing relates more to the previously mentioned political paradox. Sasseen (2008) says that off-shoring undermines liberal democratic values as it involves a focus on cost at the expense of all else. It favors governments where cheap, consistent labor is available even where this is because of poverty or government authoritarianism exemplified by the banning of trade unions. Therefore, the sorts of social systems in developed countries are seen as costly and lose in comparison to low-wage economies which support far less social infrastructure. This is doubly damaging, as it leads to a spiral effect in developed economies whereby a diminishing number of workers thus must support an increasing number of social claims, such as welfare, which accelerates the economy’s decline in competition. Sasseen suggests that those in favor of off-shoring often peddle an efficiency myth, but these efficiencies are not necessarily passed on to consumers. Vulnerable people in the supply chain (small businesses) are forced into a viciously competitive, no-win situation while consumers pay the same price for goods that have been inflated by profit seeking corporations. This theory holds some credibility when substantiated by current issues. The United States currently outsources many jobs to Chinese manufacturers. Although American manufacturers are held to a strict quality control standard, practices in China are entirely different. When these standards are ignored, consumers suffer. This is a valuable and completely plausible scenario. However, Smerd (2007) argues that when we remove domestic control of a product and leave it to foreign manufactures, it is in their best

interest to provide a quality, safe product. As a result of the China incidents, the United States established more trade barriers as a way to provide protection against inferior goods and to punish China for their lacking standards. Smerd also contradicts Sasseen and says that outsourcing actually leads to beneficial competition. Thirty four different service providers signed the top one hundred deals in 2005 which is an increase from the twenty nine service providers in 2004 and the twenty in 2003. With more countries competing for the top deals, Smerd points to the basic economic principle that increased competition will lead to lower prices, better quality, and greater selection as it forces the reallocation of labor and capital to more profitable sectors of the economy.

Increasing the amount of job outsourcing has its advantages. Griffin (2007) suggests that not all goods and services which are consumed in a high-cost economy need to be produced there. "There is long standing tacit recognition of this domestically within most countries. For example, only certain activities tend to be carried out in central urban areas where land and operating costs may be higher than elsewhere, and outsourcing simply applies this logic on a large scale" (para. 6). Many businesses are beginning to realize this phenomenon as shown by the forty nine percent increase in the number of companies with offshore operations.

According to Harrison (2006), outsourcing has some Samaritan aspects as well. He says that off-shoring aids the development of underdeveloped countries because of its reliance on a basic industrial system and the necessary supporting infrastructure which includes some sort of education system. This will be present in most developed countries but may be partially or wholly absent in underdeveloped countries. The prospect of profiting from outsourcing contracts will encourage both public and private investment in the physical and social infrastructure. In addition, off-shoring provides bigger markets than would ever be possible domestically for an underdeveloped country, which allows it to benefit from large economies and capital inflow to develop more rapidly. Over time, the demands of companies for accountable, non-arbitrary government will encourage the rule of law and democracy, as will rising education levels and a growing middle class. This allows for the United States to spread influence without the use of force. We can provide an example for under-developed nations to improve their standing in the

world economy simply by the inclusion of our currency into their economic system. Similarly, Wiersema and Bowen (2008) say that globalization enhances cross-border interaction by making it more rapid, cheap, and stable. This effect increases both economic and political ties in a manner that generally improves cooperation among nations. They do allude to the sad truth that not all economic systems are created equal. Modern industrialized nations built their economic strength on colonialism, colonial slavery, and colonial theft. Due to this relatively recent historical imbalance, many poorer nations have an "edge" with outsourcing, if a poor currency and low wages are considered an edge.

The problem with criticisms of outsourcing is an implied double-standard. The success and dominance of American products, from McDonalds to Hollywood cinema, is not necessarily heavily criticized as a disruption to local economies. Because the spread of American stores and the sale of American products around the world benefits Americans, and at times even causes a ruthless dominance of local (non-American) markets, it is not critiqued in the same way as outsourcing. The vast lack of education and knowledge of the subject has led to the inability for many people to differentiate between actions that are a part of outsourcing and those that are not.

Ultimately, there is no final solution to the debate of outsourcing. Many people will continue to be unwilling to see past the initial detriments towards the future implications. As long as there are people that are willing to do that same job for less money, jobs will continue to be moved elsewhere. People in America have gotten away from the traditional belief in hard work and self sacrifice in order to achieve financial stability. They continue to believe that they can be paid more money for doing less work. This can be seen by the gradual increase in the minimum wage. In today's society where everything has been made fast, smaller, and easier, people expect to be paid an exorbitant amount of money. This leads to a decrease in the number of small businesses as the owners are unable to match the rising price of employees. Consequently, by not outsourcing Americans continue to lose their jobs. Outsourcing may just be a characteristic of a new stage in the global economy. The increase in outsourcing should not be viewed with such disdain, as it provides too many positive improvements to both the developed and developing economies of the world.

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