**Outsourcing does not benefit the US economy**

Hasnain Attarwala

ECON –101, Section – 950

Professor - Robert Wasilewski

May 5, 2010

**Off**– **shoring**

Off –shoring is contracting with another company or person to do a particular function. Almost every organization outsources in some way. (copy) “Offshore outsourcing is the practice of hiring an external organization to perform some business functions in a country other than the one where the products or services are actually developed or manufactured. It can be contrasted with off shoring, in which the functions are performed in a foreign country by a foreign subsidiary.” (Wikipedia, 2010).

(<http://en.wikipedia.org/wiki/Offshore_outsourcing>)

**Types of Outsourcing**

The four main types of Outsourcing are –

* IT – Information Technology
* BPO – Business Processing Outsourcing
* Software R&D – Software Development
* KPO – Knowledge process Outsourcing

**IT Outsourcing -** Usually relates to when a company outsources its computer, internet and programming related work to foreign countries.

**BPO Outsourcing** – In this type job functions such as Accounting, finance, HR and data entry related job functions, these functions could also be described as back office job functions which is contradictory to front office job functions such as customer service or call centers.

**Software R&D** – In this type, the software is sent to foreign countries at the development stage of in its business cycle. (copy) “The global software R&D services market as contrasted to ITO and BPO is rather young and currently is at early stages of its development, but India is leading the world in this field.” (Schifferes, 2007)

**KPO –** Is the one of the few type of job functions which is outsourced only due to lack of high skilled workers. This type of outsourcing may not always be cheaper.

**Why outsource?**

* **Cost savings - The lowering of the overall cost of the service to the business. This will involve defining levels of quality, re-pricing, re-negotiation and most importantly Cost-restructuring due to the vast wage gap between developing and developed nations.**
* **Outsourcing usually creates positive foreign relations, as dollars (Money in which oil is traded.) is flowed into off shored country’s economy, without that country having to sell America external or valuable products.**

Foreign relations also helps America maintain economic and political ties with the off shored country especially during crisis and give support during the times of war.

* **If the company outsources non-core activities, it gives that company to concentrate on core activities. This is very helpful to smaller companies.**

Example – If a small Programming company wants to set up a small call centre, it can hire foreign companies as it would save the company time and effort setting the call centre up and it may also save the company a whole lot of money in wages in the long run if it were to outsource the jobs to developing countries where the equilibrium wages are much lower than it is in America.

* **Outsourcing then also helps the company experience increased efficiency and productivity in non-core job functions.**

As a company’s workforce is concentrated on the jobs’ core job functions and enhancing them, the company does not need to spend time and effort on non-core functions.

* **It also helps simplify business operations.**
* **It helps the organizations very flexible to change.**

Sometimes it is difficult to lay off workers, but in a lot of different countries they don’t have any such kinds of laws, so it is very easy for a company to hire new minds.

* **Organizations save money if they would have to investment on technology, software and infrastructure as the outsourcing partner invests in that.**
* **Outsourcing also helps save on management problems, as the offshore partner takes care of it.**

This is also a major part as the management level wages in different countries are very low compared to here in America.

* **Countries offer tax incentives to move manufacturing operations to counter high corporate taxes within another country.**
* **It helps companies share business risks.**
* **In some cases operational costs are also cut in half.**

But there are always two sides of a coin and with such advantages comes great disadvantages.

**Disadvantages**

* **Looses potential American jobs**
* **Security threat**

Foreign companies have access to confidential company information such as social security numbers of workers, tax information, payroll information, future business plans etc

#### Quality risk

#### This may be due to lack of communication between the two companies, also due to when outsourcing customer service jobs, customers may find hard to understand the foreign accent and some time give up seeking help from the help desk which may have a major negative result in the companies goodwill.

* **In case the offshore company goes bankrupt, the outsourcing company will have to train, hire and employ new recruits and fast, this may result in the company’s overall performance.**
* **Job insecurity among internal workers.**

If the company starts outsourcing jobs, the employees always think that their jobs might get outsourced and there is a insecurity amongst employees which results in the overall quality of work.

* **Loss of control.**

The outsourced company may lose control over time over the process that is outsourced.

* **Legal problems.**

The company has to learn about legal procedures in the country it wants to outsource it jobs. The legal procedures are usually very slow in countries like India and South America. Foreign companies usually assume that the procedure might get completed in the due date and might set up different priorities, but if it does not then the company’s might have to pay late fees or penalties. There may also be a misunderstanding the terms of the contract which may result in a negative image of countries, sometimes, the dispute may be so great that it may also hamper foreign economic ties with countries.

* **Negative Public Opinion**

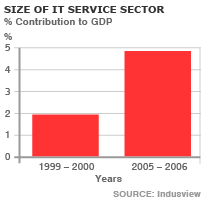
General American public have a strong dislike against outsourcing as it usually leads to job displacement in the country. Sometimes it may also affect the goodwill of the company

**Conclusion**

Outsourcing is also a major political issue especially during presidential election campaigns as the president elects usually favor against outsourcing manufacturing and low skilled jobs as it creates unemployment for the country in the short run.

Outsourcing unquestionably creates unemployment for low skilled workers and creates management level jobs, but these management level jobs may not be as many as the loss in low skilled level jobs and it creates unemployment.

Outsourcing does create foreign ties with countries. As you may be well aware of India’s growing GDP and most of the IT level jobs are outsourced jobs from America. 5% of India’s GDP was from the IT service sector in 2005-2006, as you can see in the chart below.

 (IndusView)

Such kind of outsourcing on a massive level does helps the economy of that nation to grow, but if we were to keep those jobs in our country, it were to boost our economy.

What I would conclude Outsourcing does help reduce costs and increase profits for the company, but at an even costlier price. Outsourcing may create a few management level jobs but it creates unemployment in America as most of the jobs are outsourced to different countries.

Outsourcing jobs is a cost-effective method to manage business, and sometimes it also creates well paying management level jobs in America, but businesses must not lose sight of the long term ramifications when they decide to outsource jobs.

America must not lose its solid middle class, as it would lead to the fall of America just as the fall of Rome, when there are is a minority of few upper-classes, and the majority of the population is below poverty line.

I also believe that the government should limit IT and BPO outsourcing as it creates a massive lost of American jobs but does not help the economy in the long run.

**Works Cited**

*IndusView.* (n.d.). Retrieved from http://www.indusview.com/.

Schifferes, S. (2007, Jan 21). *BBC News*. Retrieved April 29, 2010, from http://news.bbc.co.uk/: http://news.bbc.co.uk/2/hi/business/6279679.stm

*Wikipedia*. (2010, April 10). Retrieved April 30, 2010, from http://en.wikipedia.org/: http://en.wikipedia.org/wiki/Offshore\_outsourcing