**Outsourcing Does not Benefit the US Economy**

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**Off**– **shoring**

Off –shoring is contracting with another company or person in a different country to do a particular function. Almost every organization outsources in some way. “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).

**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** – Refers to job functions such as Accounting, Finance, HR and Data Entry related job function these functions could also be described as “back office” job functions which is in contrast to front office job functions such as customer service or call centers.

**Software R&D** –Software at the development stage of its business cycle to be produced in foreign countries. “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 –** One of the few type of job functions which is outsourced due to lack of enough high skilled workers in America. This type of outsourcing may not always be cost effective.

**Why outsource?**

* **Cost savings – “Lowering of the overall cost of the service to the business. This involves defining levels of quality, re-pricing, re-negotiation and most importantly cost-restructuring due to the vast wage gap between developing and developed nations.”** (Engardio, 2006)
* **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 its resources or products.**

Foreign relations also helps America maintain economic and political ties with the off shored country, especially during crisis including wars.

* **Better Prices for consumers**

As the production and the operational prices in the production cycle go down, the prices of the final goods will also go down.

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

Example – If a small programming company wants to set up a small call center, it can hire foreign companies. This would save the company the time and effort setting up the call center.

* **It may also save the company a 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 in America.**
* **It also helps simplify business operations.**
* **It helps the organizations to be very flexible to change.**

Sometimes, in America it is difficult to lay off workers; however, in many countries they don’t have any restrictions, so it is very easy for a company to hire new workforce when the time arises.

* **Outsourcing also helps save on management problems, as the offshore partner takes care of them.**

Not only do the foreign firms take on the responsibility of managing the workers who perform the outsourced tasks; they do so with a lower wage level of the managers compared to the wage level of the managers in the US.

* **Countries offer tax incentives to move manufacturing operations to counter high corporate taxes within another country.**

Some countries offer American companies beneficial tax breaks as those countries can get Dollars in which oil is traded which is helpful to them in buying oil a necessity, without having to sell America it’s valuable resources or products.

* **It helps companies share business risks.**

As American companies tie up with local companies in the foreign market, if it were to go bankrupt or pay some hefty fee due to some reason in the foreign market, the foreign company would share the expenses.

* **In some cases operational costs are also cut in half.**

There are always two sides of a coin and along with the listed advantages come a number of possible disadvantages.

**Disadvantages**

* **Looses potential American jobs**

Over 200,000 American jobs are outsourced to foreign countries each year. (OLIAN, 2004)

* **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 it difficult to understand foreign accents and some time give up seeking help from the Help Desk, this may have a major negative impact on the companies goodwill.

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

If the company starts outsourcing jobs, many home based employees will think that their jobs might get outsourced; this insecurity amongst the employees may results in a lower quality of work. (US. Department Of State , 2005)

* **Loss of control.**

The outsourcing company may lose control over time over the processes that are outsourced.

* **Legal problems.**

The company has to learn about legal procedures in the country to which it wants to outsource jobs to. The legal procedures in many countries are usually very slow, *e.g., India and South America*. Foreign companies usually assume that a procedure might get completed by 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 the foreign countries; sometimes, the disputes may be so great that it may also hamper foreign economic ties with countries.

* **Negative Public Opinion**

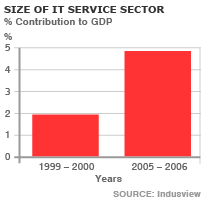
The general American public has a strong dislike towards outsourcing since it usually leads to job displacements in the home country. Sometimes, it may also affect the goodwill of the company. A poll conducted by the **Associated Press in 2004 said that 69% of the American population feels that outsourcing hurts the US Economy.** (Would you say outsourcing does more to help or hurt the economy?, 2004)

**Conclusion**

Outsourcing is also becomes 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 creates ties with foreign 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 seen in the chart below.

 (IndusView)

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

What I would conclude is that 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. (Griswold, 2004)

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 a diminished standard of living, when there is a minority of few upper-classes, whereas the majority of the population is living around the poverty line.

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

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