Effect of outsourcing on the economy

- Ben Boesch

Despite the United States long standing role in the global economy the shift from a superpower to subcontractor was not a gradual one as the nation outsourced its industry to low wage nations. This cost cutting strategy of sending work to lower priced locations has not only influenced the economy of the nation, but has also affected the capacity of the American work force and the internal potential of American industry. If we do not begin reintroducing a minimal level of industry back into the nation we will likely not have the chance to again.

The United States has been outsourcing jobs since the 1960's, however, in recent years the country has shifted from moving smaller jobs to factories, management, and production to countries like India, and China. This results in lower priced merchandise, better cost margins on retail items and lower priced consumer goods in general. However, what this means for American jobs tends to be more managerial positions and empty lots.

The debate over outsourcing has always continuously morphed, and today there are growing numbers of people who are beginning to believe that what may have started as a sensible extension of sending some work to specialized groups may in fact be creating long-term unemployment in the US, hollowing out and destroying entire industries. This isn't just an issue for Americans, but many countries and companies have received backlash for outsourcing jobs in past years. Itwas disclosedthat the Royal Bank of Canada (RBC) was saving money by hiring foreign workers when its own employees were capable of performing the same service. The resulting public backlash forced the company to issue a public apology and implement a new policy that its suppliers must, “ not hire foreign workers from outside of Canada, when performing services on behalf of RBC, where a worker eligible to work in Canada is available and able to perform the service” (Guardian). This is due to the fact that jobs are not returning to the United States and instead being sent to lower wage countries. Without new jobs being created, unemployment rises and a higher unemployment rate becomes normal. It could be decades before developing countries have their wages driven up by the saturation of American dollars. In the meantime, more American workers are out of work with fewer prospects of landing a job. At the same time though, the corporations are able lower their prices and be more competitive in the market.

American industry has always had the benefit of what economists like to call competition, this refers to how companies are forced to try and cater to the consumer while trying to make the most of the profit margin. This usually results in consumers trying to get the best results for the lowest cost. The most bang for your buck. However, in order for companies to try and compete, they tend to try and outsource as much manufacturing (industry) and jobs as they can to third world countries that pay their workers twenty percent of the wages of an American worker.

This income inequality results in a heavy hit to the American economy which now has over a quarter of Americans making less than 10$ an hour in other worlds living in poverty. Meanwhile, the top 1% of workers earned more in income than the bottom 40% of workers. This was in 2005, when the economy was still booming. Outsourcing is just one reason which includes technology, globalization and a passion for “ low prices” above all else. Plus it is common knowledge that jobs that move offshore often do not come back. Why would they, these people expect to be paid, to have benefits, in short we the American people are expensive workers why else would the work force be moved to countries that do not have these expectations. As such the jobs go to people who have a significantly lower standard of living and lower living cost. Obviously if all workers are considered equal aside from wages it would make sense to outsource as much production as possible as you would greatly increase the price margin. However, if you look at it from the other side those potential American workers rely upon the availability of those jobs. If the factory were in America there would be a lesser profit margin, but at the same time there would be greater consumer availability. The lower wages and operating costs, plus the simpler administrative requirements in countries such as India and Russia, make operating in those countries cheaper and easier. This level of export of currency to economies outside of the United States results in up to ten percent of the estimated deficit of 500 billion dollars. That's over 5 thousand dollars per man, woman, and child in the United States that leaves the country every month. This also leaves a third of the United States population outside of the work force.

One of the largest destinations of American outsourcing is China, a country that currently is owed over 1. 25 trillion dollars by the American public and the government. China is more than happy to own a large portion of the U. S. debt. Owning U. S. Treasury notes helps China's economy grow by keeping its currency weaker than the dollar. This keeps products exported from China cheaper than U. S. products, creating jobs for its 1. 4 billion people. The U. S.

allowed China to become its biggest banker because the American people enjoyed low consumer prices. Selling debt to China allows the U. S. economy to grow by funding federal government programs. It also keeps U. S. interest rates low. However, China's ownership of U. S. debt is shifting the economic balance of power in its favor. Would you really go against your banker when they held that much money over your heads? I think not. As such our economies are now critically tied together so if one of the countries took a dramatic fall, the other would go down with it. Yet, together China and the US account for two of the top 3 global economies and China is able to improve its economy in exchange for our cheaper products.

By having a connection between multiple economies and the dependencies upon each other you can see an obvious fault. If one falls so does the other. This is what is currently happening to the European Union and is known as the Eurozone crisis. When the Greek economy ultimately collapsed it took the economies of its " colleague" countries with it resulting in a major strike to the economies of all countries in the union. At this time the effects are fairly dramatic, however, if the same were to happen between the US and China, or another country that own US debt such as Japan, the results would be devastating. Our current economic drought would seem like a minor bond transfer failure, and the results would be felt everywhere throughout both counties and yet together China and the US account for two of the top 3 global economies and China is able to improve its economy in exchange for our cheaper products.

These low prices not only come at the cost of the employee, but also at the cost of quality primarily due to the disconnect between the manufacturer and the host company which means that there will always be a level of error in the product that we then import. This disconnect can be attributed to the distance, language barriers, cultural interactions, and any manufacturing capacity difference between the two parts. But essentially the product is no longer being made by the people who developed it, therefore the new locations are sent the employees who developed the technology and know the product. These personnel are sent to a different location to develop and organize the factory, workers, and components necessary to make the products, these results in a long term focus on redevelopment and teaching of products and ideology to workers in other locations. This can result in common issues such as product recall, production destruction, or misuse resulting in damaged equipment. Normally if the location was locally managed issues such as these might take a few hours to resolve and then be handled by the staff at the facility. But when a factory is moved from the United States to China this results in staff having to spend long extended periods of time in China. These extended visits result in loss of pay and loss of working capacity as workers spend large lengths of time on maintenance, and quite often will begin losing their perishable skills and can be at a disadvantage when they return. These extended visits often can be strenuous on relationships and typically are resolved by relocation. However, since the company is only looking out for the bottom line who is to say they will keep you on when they decide to move to a different site in say another 3 rd world country, this can result in not so definite job security. This means that despite the fact that the company may have had the people to create the ideas or technology in the United States, we may no longer have them. They are in China, or India, or some other location.

As such, a factory closer to home is no longer an option as we no longer have the people capable of redeveloping the machinery or having the skills to make it. Such a location would be easiest to manage and utilize, however, this requires the consumer base to be in the United States, and this means a work force that is based on Americans. Once there is no longer a demand there will and is a loss of capability, why would people go to school and learn how to develop something when they know it isn't a career possibility anymore. The old factories are gone made into malls and parking lots as we become a consumer society. We don't and haven't produced our own items in quite a while. Realistically which would you expect to see in a store " a made in China" sticker or " made in the USA"?

This isn't necessarily a question that can be answered as being good or bad. There are many undeniable benefits. Outsourcing gives a definite cost advantage to both the consumer and the company. It allows an increase of efficiency which lets the company focus on their core areas/ideals. This allows them to focus on building their brands, investing in research and development and improve upon their services, plus it allows companies without the money to develop their infrastructure to be successful as they can then rely upon already existent infrastructure to build their products. There is no longer a need to invest in recruiting and training resources as providers can do the work for you. This results in better, faster, and cheaper products that that allow new businesses to compete. It brings about the new and the cheaper.

And yet when industry moves offshore, not only do we lose the knowledge, we also lose the manufacturing capacity. For example, the U. S. was once the leader in solar cell manufacturing, but most American solar technology companies have set up new plants in countries that offer significant incentives, such as Germany. The manufacturing capacity is gone and, if the U. S. ever wanted to repatriate these types of industries, it would take years to re-develop the manufacturing equipment and train engineers. Simply said, if we do not begin now, by the time it becomes necessary, it will no longer be an option.

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