

# Labor supply and demand scenario



The recent developments in the recording process of historical background and interview of patients in hospitals and clinics, of full details of cases handled by lawyers and law firms, and the actual handling of customer service and promotional sales of major companies, led to the uproar of outsourcing. In fact, international outsourcing has become a symbol of globalization.

Countries like India and Philippines have been experiencing great labor inflow from the destination countries like the United States and Europe. Outsourcing of services such as communications and transcriptions happen due to increasing returns to scale which agitates the re-allocation of labor through a change in the productivity of the service sector which in turn agitates the increase of salary of employees belonging to the semi-skilled labor sector. The latter sector constituted by men and women without reference to age and educational attainment, as long as they possess high quality of English proficiency and/or other foreign languages, depending on the destination countries.

This happens due to the decision of industrialized countries to concentrate on advanced technologies and thereby setting aside the communications side of their companies. Since the latter eats up much of the investment of companies, and considering further that citizens of these countries demand high salaries, international companies opted to shift this demand for labor to countries where salaries are relatively lower. Since outsourcing requires a fixed cost for communications, it is on salaries that companies limit on the cost.

If the communication cost is below than the critical level, outsourcing would increase the aggregate output of business service. Trade in business

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services increases the productivity of semi-skilled labor in the consumer service if the number of business partners is greater than the percentage increase on the fixed cost.

International trade in business services would increase the wage of semi-skilled labor by increasing the diversity of business sources. Its price is determined/set by the competitive condition.

This scenario led to the increase of salary scale of the semi-skilled labor which agitated the swift shift of both skilled and unskilled labor to semi-skilled, the former by lowering their standards as long as they earn, and the unskilled take extra efforts to learn in order to be able to suit the needs of companies handling outsourcing services.

This situation however appears to be temporary as continuous inflow of semi-skilled labor would cause a decrease in the salary scale, based on the theory of supply and demand. Oversupply of semi-skilled labor would send a signal to the outsourcing companies to lower their offer. Demand must be equivalent to endowment, the factor that determines the equilibrium number of business services. Hence, the higher the endowment, the greater diversity of business services is. The demand and supply of outsourcing service determines the price in equilibrium where the demand for such service is determinable by the income. In order to restore the equilibrium, the wage of unskilled labor should increase in the labor market.