

How outsourcing is affecting america's economy and future college graduates essay...



**ASSIGN
BUSTER**

Recently, there have been many debates over the important issue on how companies and governments in the past decades have been increasingly sourcing a wide range of tasks to offshore sites. A group member of ours is an overseas buyer for his company. He is fortunate enough to experience what that is like firsthand. As a buyer, he is required to travel to different countries where large labor and talent pools are available at lower costs to try to procure goods and services at the lowest price, in order to help his company reach higher profits. Many Americans believe that outsourcing is one of the main reasons that the unemployment rate has been increasing in the United States, so they complain and publicly criticize the companies and governments who outsource jobs abroad. Also many U. S. workers (from white-collar well educated individuals to semi-skilled workers) have become more concerned about the security of their jobs due to increasing global economic integration since the early 2000s.

In many circumstances a product can be made here in the United States by a worker making fifteen dollars an hour plus benefits; or companies can find the same product somewhere else made where a worker is paid four dollars an hour, with no benefits. Which one would be more of a logical move? After all, it is the bottom line companies are chasing here. Why wouldn't companies want to take jobs overseas? Which leads us to what outsourcing really does to the U. S. economy. Is it really hurting the economy? If so, why are so many companies considering offshore outsourcing to be beneficial? What should we as students do to prepare for the future if outsourcing continues to grow? Below will contain an analysis of the advantages, and disadvantages of outsourcing, and how these will affect future college

graduates seeking employment in the U. S. economy. Disadvantages to Outsourcing

Many Americans believe that outsourcing is one of the main reasons the unemployment rate has been increasing in the United States. Therefore, they complain and publicly criticize the companies and government who outsource jobs abroad. Many U. S. workers ranging from white-collar, well-educated individuals, to semi-skilled workers, have become more concerned about the security of their jobs due to increasing global economic integration since the early 2000s. The topic of outsourcing has been controversial for many Americans. Oftentimes it leads to heated arguments when opposing parties debate the pros, cons, and effects outsourcing is having on the U. S. economy. Both sides have provided adequate arguments about offshore outsourcing. First, we will need to understand what offshore outsourcing is. In the IMF working paper " Fear of Service Outsourcing: Is It Justified?", Mary Maiti and Shang-Jin Wei explain that offshore outsourcing, also commonly called offshoring or international outsourcing, refers to a company obtaining inputs or services from a firm in a foreign country. The object of offshore outsourcing is the same as that of outsourcing; however, the concept of comparative advantages still applies.

Businesses have discovered they can hire workers in the other countries for a lower wage rate, which lowers their cost of production. [Amiti and Wei, 2005a, Page313]. The Bureau of Labor Statistic (2009) claims: service jobs that are highly labor-intensive are most likely to be shipped overseas.

Companies will experience a large decrease in production costs when they move jobs to a country where labor costs are very low like India or China. <https://assignbuster.com/how-outsourcing-is-affecting-americas-economy-and-future-college-graduates-essay-sample/>

The most common labor-intensive jobs that have been internationally outsourced are service jobs like telemarketing or call centers. Another type of job that is more likely to be out sourced, according to the Bureau of Labor, is information-based jobs. Now companies understand information can now be accessed anywhere in the world. The internet and improved communication channels have allowed for easy accessibility of information common service jobs that are information-based are accounting, customer service , and billing.

Many people believe jobs being outsourced will continue to increase [N. Gregory Mankiw, 2006, page 7] as long as workers in other countries are willing to work at a lower cost than workers in the United States. Companies will always use offshore outsourcing as an option to lower the cost of the production and increase their profit. Many people, such as Henry Kissinger, see offshore outsourcing as dangerous to the American economy and they have expressed concerns over the number of jobs that are being filled by non-American workers. In his book " Henry Kissinger on China" page 211: Henry Kissinger stated: " The question really amounts to whether America can remain a great and dominant power if it primarily becomes a service economy". He answered his own query by saying " And I doubt that." He went on to say that the movement overseas calls for " some careful thought of national policy of how we can create incentives to prevent that from happening."

Kissinger believes there is also a need for new arrangements—both within the United States and between countries—that prevents tax competition.

Such competition is generated by corporations shopping for tax abatements <https://assignbuster.com/how-outsourcing-is-affecting-americas-economy-and-future-college-graduates-essay-sample/>

and lower rates as conditions of making investments. The result is either an unfair shift of the tax burden onto labor incomes or an underfunding of needed public investment and spending when corporate tax avoidance strips the public purse of revenue. Another area requiring new institutional arrangements is exchange rates. The need is to prevent countries from using undervalued exchange rates as a means of competing. Engaging in competitive devaluation is a form of economics wherein countries rely on demand in foreign markets rather than building domestic markets. Undervalued exchange rates are an unfair subsidy that distorts the pattern of trade. They also risk causing global deflation because they promote increased supply of exports without increasing global demand. In Kissinger's book, he is concerned outsourcing to other countries like China will lead to lower wages in the United States.

He feels that Americans now have to compete with workers in the other countries who are willing for lower wages , which causes American workers to believe they will have to settle for lower wages or risk their jobs to foreign workers. Kissinger also believes American workers being forced to accept lower wages is unfair since cost of the living is much higher in the United States compared to developing countries. Kissinger also believes lowering wages declines the standard of living. If American workers have to accept lower wages in order to keep their jobs, their Standard of living is going to fall. Americans are no longer going to be able to afford the consumption they had at the higher wage. In order to meet their needs, people will have to cut their consumption, therefore lowering the standard of living. But is Henry Kissinger's thinking correct? Is offshore outsourcing actually affecting the

American way of living? Are Americans being laid off because more jobs are being outsourced? It is important to look at data in addition to just accepting one's opinion. The Bureau of Labor website contains some interesting information. By looking at past trend of the unemployment, it can be observed that it has remained basically unchanged for five years between 2004 and 2009.

Advantages to Outsourcing

The Bureau of Labor Statistics made a study that found that the number of jobs lost to outsourcing is offset by the number of jobs created with insourcing. New positions are constantly created, as outsourcing eliminates old ones. Many overseas companies come to United States to invest in America's own businesses. The jobs that are outsourced are semi-skilled jobs, like customer service or tech support jobs. Many countries that are not manufacturing heavy will come to America and look at the manufacturing sector in order to expand. China and India, who has strong manufacturing bases comes to America to invest in business and products. If offshore outsourcing is as bad as people say, then why are companies are still doing it? There has got to be some good in it? A book called " Outsourcing America: The True Cost of Shipping Jobs Overseas And What Can Be Done About It" by Ron Hira and Anil Hira. Argues that offshore outsourcing is a form of free trade. They believe outsourcing lowers costs and encourages competitiveness [Hira and Hira, 2008]. This argument often comes from economists who see this topic by looking at the long-term effects, while Americans look at the short- term effects.

Economists consider that some jobs are lost with outsourcing, but many people are forgetting the number of jobs created during this same time period. The Institute for International Economics study by Catherine Mann notes that globalization of computer hardware manufacturing led to a 10 to 30 percent decline in prices, making such equipment more affordable and leading to a far greater increase in jobs in the long run. They also consider an example like this has a positive effect on productivity. If a business can relocate the less efficient processes of its production to another country that has the good process at a lower cost, the business can then focus on its more efficient processes. When businesses are allowed to focus on what they do best, the productivity as a whole goes up. Another study done by Gregory Mankiw and Phillip Swagel of Harvard University, found that small companies and new startups gain more from outsourcing than large corporations.

The latter have managerial structures that hinder their ability to take full advantage of outsourcing's benefits. Smaller and younger companies can easily organize themselves to utilize outsourcing, thereby gaining sales and competing better in today's global marketplace. From our research, the people who support outsourcing say that lowering expenses of corporations will create jobs. There are plenty of government agencies that outsource some of their work, saving them millions of dollars, a direct effect on the US economy and on federal spending. A common theory contends that being able to pay people lower wages for work means that companies will be able to produce things with less expense and transfer this saving to consumers. Lower prices may mean more consumers spending, and companies will be

able to hire more workers in the US because they're paying less for workers outside of it.

Further, many argue that giving jobs to workers in less developed countries improves those countries economically and increases trade for US products. It also increases a country's ability to pay back debts to the US, and may promote better political relationships. Companies economically benefit by selling their products in other countries. This means they can hire more people in the US, and lower their prices on products for US consumers.

Analysis for Prospective Graduates

Although outsourcing occurs in many sectors of America's workforce, its effects positive or negative on student life after graduation in particular, have not been researched adequately. However, our group analysis is based on our application of our references researched, as well as our opinion in describing prospective college graduates preparing to enter the workforce in the current U. S. economy.

Worst Case Scenario

Considering the possibility that outsourcing continues to take place in America, It would be a wise decision to consider that a recent graduate might not want to have to compete for work with those in countries who have much lower living costs, but have the same education or skills. For future graduates, this would mean that areas of potential employment where a job can be easily outsourced would include anything to do with the software side of computers, for example. It is becoming more common that if

an employee doesn't need you to drive to a location to do the work, then it can most likely be outsourced; and for a rate a recent graduate likely can't afford to take, if the work was given to him or her.

There are careers that will continue to be reliable, and won't be able to be outsourced which students can prepare for seek to be employed in. Careers in health care, teaching, and law enforcement are examples of such opportunities. Due to local tax laws, Accounting will continue to be an in-country career; and of course, legal positions as well. Careers in most any job that requires a special type of skill that must be done in person, will be a safe bet for future employment. The kinds of wages these kinds of jobs will pay is also fairly safe to stay the same, or similar to what they are now in respect to the current economy. Many prospective graduates have student loans they need to begin paying off after they have received their degree. The worst-case scenario for a recent graduate today is not being able to find a job, having thousands of dollars of loans to pay off, and still face the current cost of living.

Best Case Scenario

The best case scenario for prospective graduates is that students coming out of school understand and are prepared to enter the workforce by focusing their studies and efforts in looking for jobs where their training activities match the companies needs. Most students will look for jobs that focus on core company functions of the business, such as sales and marketing; as well as certain jobs as mentioned earlier that wouldn't be possible to outsource. Students will need to offer the companies they are looking to

work for new competence and skill-sets that can be used as a competitive advantage for the business. Students choosing the right company to work for can avoid many of the pitfalls of outsourcing. Before students apply for their jobs, they need to align their goals with the company they look to work with, and make sure the company is not considering outsourcing. Though outsourcing has its share of advantages and disadvantages, the many benefits that outsourcing brings to the United States and the disadvantages it shows in student life after graduation far outweigh one side or the other. For that reason we can't reach a conclusion, we believe its mostly based on a case by case scenario. As far as student life goes, we understand that they way our country is, we as students need to be prepared with more specialized skills to compete for jobs.

Conclusion

Nowadays, a large majority of people is still apprehensive regarding the subject of outsourcing and concern about increase in service offshore. Mainly because of the fear of losing jobs, lower wage rates, or lower living standards. They assume that outsourcing hurts the economy and that the U. S. has been losing jobs for a long period of time. Many people even blame the current economic downturn and the several billion-dollar trade deficits on outsourcing. Others support the increase in offshore outsourcing and believe offshoring is beneficial to society, they find that international outsourcing is a form of trade that allows companies to specialize; that will lead to improvements in the overall economy. Companies realize higher profits and consumers see lower rate. All the research we have done supports this argument. Overall, negative effects were found on the unemployment rate, <https://assignbuster.com/how-outsourcing-is-affecting-americas-economy-and-future-college-graduates-essay-sample/>

more jobs have been coming into the U. S. and gross job gains are mostly greater than job losses. We believe outsourcing is an inevitable trend that will not stop and cannot stop because it is vital to the world economy as well as U. S. economy.

If the U. S. corporations cannot outsource work overseas, undeniably they will become less competitive in the world market; thus, the health of the economy will be undermined and declines. Also, the companies will lose opportunities to increase their productivity, invest in new business opportunities, and resources to create higher value-added jobs at home. At the industry level, it is clear that jobs are rapidly disappearing. It is also true that the industry has gone from having no impact on trade, to becoming an import industry; one that adds to the current trade deficit. If you look at the companies themselves, however; they are growing, they are prosperous, they are productive, and they have added U. S. jobs. We might easily conclude that outsourcing creates growth and jobs in the United States. However, we must be careful when we talk about this topic because benefits for offshore outsourcing are good for the public as a whole. Those who have seen the negative sides of the economy probably have trouble seeing the net benefits and have good reason to be concerned about outsourcing. One must be aware of the overall effect and realize that offshore outsourcing has possibly seemed to hurt the economy, by many goods have occurred because of offshoring. We believe there is still need for more research to be done on the topic of jobs lost.

Now the economy is slowly coming out of the recession. Outsourcing remains a difficult issue, but it does remain. Virtually no one, on any side of the <https://assignbuster.com/how-outsourcing-is-affecting-americas-economy-and-future-college-graduates-essay-sample/>

argument concedes that outsourcing can be eliminated completely. There are those who feel that corporations are evading taxes and depriving the government of needed money and suggest corporations should be taxed for outsourcing, and rewarded for keeping jobs within the US. Others feel the temporary loss of jobs will be followed by greater economic growth in the US and will ultimately be worth the cost.

References

Amiti, Mary, and Shang-Jin Wei, 2005. "Fear of Service Outsourcing: Is it Justified?" *Economic Policy*, April, pp. 308-348. Print

Amiti, Mary, and Shang-Jin Wei, 2006. "Service Offshoring and Productivity: Evidence from the United States," NBER working paper 11926, January. Print

Hira, Ron, and Anil Hira. *Outsourcing America: The true Cost of Shipping Jobs Overseas and What Can About It*. First. New York, NY: Amacom, 2008. Print.

Kissinger, Henry. *Henry Kissinger On China*. First. New York, NY: The Penguin Press, 2010. Print.

N. Gregory, Gregory, and Phillip Swagel. "The Politics and Economics of Offshore Outsourcing." NBER Working Paper Series. National Bureau of Economic Research, July 2006. Web. 28 July 2012. .

U. S. Census Bureau, Foreign trade Statistics, Retrieved July 28, 2012 :
[Http://www. census. gov.](http://www.census.gov)

U. S. Department of Labor, Bureau of Labor Statistics Retrieved July 28, 2012
[http://www. bls. gov/news. release/pdf/cewbd. pdf.](http://www.bls.gov/news.release/pdf/cewbd.pdf)