

outsourcing problems essay sample

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Outsourcing has been a topic of public debate for quite some time. There is a lot of hype that says outsourcing is beneficial to the economy. However, the biased agenda of many consulting firms, politicians, and economists causes misleading information to be spread to the public as “credible” sources.

Outsourcing has also caused significant wage pressure on high-wage jobs along with the disappearance of high-wage jobs. Overall, outsourcing is very harmful to our economy and is causing more harm than benefit to American job holders and American job seekers.

Outsourcing has become an epidemic veiled as beneficial to the American economy. American job holders and American job seekers have been far more hurt by the ramifications of outsourcing than is led to believe.

Outsourcing is commonly known to cause job loss in the United States. However, studies and reports given out by consulting firms and economists have caused the general public and politicians who control the policy to be involved with outsourcing to believe that it is beneficial to the economy and the consequences of it are minimal. There have been three major studies and surveys that have tremendously helped the outsourcing advocates rationalize their points.

The first study is “The ITAA study” which claims that forecasts that twice as many jobs would be created than would be destroyed as a result of outsourcing. The second study is “The Mann Report” which says outsourcing will create many more American IT jobs than it will destroy. The third study is “The McKinsey Report” states that companies will save a tremendous amount of money from outsourcing and the American workers will eventually benefit from it. The problem with these studies is they ignore the other

important variables such as distributional effects of who wins or loses, and impacts on innovation and national security. There is no conclusive evidence that proves how outsourcing is affecting our economy. Yet, the advocates refuse to acknowledge the implications and attempt to keep outsourcing secret within their firms to avoid any exposures being leaked.

Outsourcing is beginning to be widely adopted by big firms in the United States. The biggest reasoning behind offshore outsourcing is due to the much lower costs associated with hiring professionals in other countries, mainly in pay levels. For instance, an Indian worker might take a position for around a tenth of the salary compared to an American worker. A better question begs the answer, just how vulnerable are American jobs? Data extracted from the Bureau of Labor Statistics website in 2001, showed that almost 128 million American jobs were at risk of offshore outsourcing ranging from jobs in business, medical, law, computers, and finance (Page 47).

For example, EDS, an IT firm, who announced they were offshore expanding to multiple countries and downsizing in the United States & Western Europe by 20, 000 equally (Page 51). Siemens is another firm that was also offshore expanding to China, India, and Eastern Europe, and also downsizing in the United States & Western Europe by 15, 000 equally (Page 51).

It is broadly believed that companies mainly offshore outsource low-wage jobs from the United States economy that no Americans want. It is also believed that outsourcing these jobs would ultimately lead certain low-wage occupations to disappear altogether and create a new mix of jobs that would

require more education and higher skills for Americans to take. However, this is a fallacy and companies do not seem to show interest in investing into the skills development of their United States workforce. Not only are they not interested in creating higher education jobs in the United States, the companies are even offshore outsourcing high-wage jobs to other countries for minimal wages.

IBM was the flagship that sparked the push of outsourcing amongst United States firms to relocate as many as a couple million high-end IT jobs to Asia, mainly to India. IBM considers itself the world's largest technology employer and computer services provider. IBM has outsourced many of its IT jobs offshore. Between 2003-2010, IBM had fired so many American IT professionals and hired an excessive amount of engineers and computer programmers in India, that it now has a larger workforce in India than in the United States.

The ongoing trend of outsourcing is also inflicting wage pressures on American high-wage jobs. It is also claimed that American workers do not have the sufficient skills due to the poor education system. For example, Kristine Serrano was in IT specialist working IBM working on their Oracle software. Serrano was given notice that she was being laid off due to “Global Resourcing” with a sixty day notice and was given instructions to train her replacement before she left or she would not receive severance pay. Four months later, she later found out that her job had been permanently outsourced to India. As said earlier, advocates of outsourcing have stated that one of the reasons for outsourcing jobs is because the knowledge and skills of American workers is inadequate.

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So why was Serrano laid off? She was a highly experience IT professional who had worked for IBM for sixteen years. The only logical reason for replacing her job overseas was because IBM was able to offshore outsource her job to a different country for a much lower pay level. This is advertently causing high-wage American jobs to decline. Why hire an American worker for \$80, 000 when you can get an Indian worker for a tenth of the salary. One other argument that outsourcing advocates seem to ignore is the fact that they are destroying the buying power of consumers in the United States, which is their most lucrative market, by destroying jobs and downward pressure on American wages.

Regardless of what advocates have been preaching about how outsourcing is beneficial to the economy, this just does not seem to ring true. The studies prove to be dishonest and do not correctly capture the entirety of the consequences that outsourcing may cause. Evidence seems to point that outsourcing is predominately bad for the economy and the benefits seem to be vastly overstated to veil the true consequences. We have to ask ourselves, what will the long term consequences truly be like in the future?