Impact of offshore outsourcing on us economy

The purpose of this paper is to introduce, discuss, and analyse the topic of the American business practice of outsourcing jobs offshore. Specifically it discusses the cause and effect of this practice on the American economy, labour force, customer service, etc. Outsourcing a variety of American jobs overseas has become common practice during the last decade or so. The cause of this practice is clear. American wages are higher than offshore wages, and it saves American companies money. The effects, however, are beginning to be noticed in a wide area, from customer service to job loss. Outsourcing overseas may save companies money, but in the end, it places them in a negative light and indicates their lack of interest in protecting and enhancing America and the American economy.

Outsourcing has really taken off in the last few years. Thousands of American businesses routinely outsource customer service and other jobs to outsourcers in India, China, Russia, and other foreign companies. CBS News reports, “ The U. S. government does not keep track of how many American jobs have gone overseas, but there are estimates that in just the last three years, as many as 400, 000 jobs have gone to places like China, Russia, and India” (Editors 2004). In fact, outsourcing is on the rise, and it looks as if that trend will continue. Another expert notes, “ The number of service sector jobs moving overseas is expected to reach 588, 000 by 2005, up from 100, 000 in 2000” (Challenger 2004, p. 22). This shift of jobs to overseas locations can create several negative affects to the country in a number of areas.

At least 400, 000 Americans have lost their jobs due to outsourcing, and this demonstrates one of the largest negative effects of outsourcing on American business. Often these employees find it difficult to find comparable jobs, and this affects the economy in a number of ways. For example, if a call center employee, who is displaced when the jobs are moved to India, finds another job that pays less, it could affect their own economic outlook. They could lose their home, their car, or go bankrupt, which has an affect on the national and local economies as well. This might not affect the economy if it only touches a few workers, but the numbers indicate that hundreds of thousands are affected, and the numbers are rising. In the future, the workforce could be much more severely affected and social services such as unemployment, welfare, and medical services could be affected, too.

Many people look at off shoring jobs as a cost saving measure, but that is not always the case. As one expert notes, “ For one thing, there are governance and management issues involved in off shoring. Implementing both process and procedural controls as well as compliance controls costs money, which takes away from the savings of the cheaper labour markets seen overseas” (“ Globalthink”). Set-up costs can be major in some industries such as call centres and training can also be extremely costly. So can maintaining quality and security at offshore sites. For example, one company who processed credit cards in Juarez, Mexico found it had additional costs in auditing, regulation, and security in the Mexican location in order to ensure customer privacy and credit card security (“ Regulators”).

There is another cost to companies’ off shoring, and that is the company’s reputation. Offshore call centres have continuously come under fire from off shoring critics because of the level of service they sometimes provide. Consumers speak of difficulty understanding some call centre employees, of not receiving high-quality service and even being disconnected if the employee cannot solve the problem. This gives companies engaging offshore call centres a bad customer service reputation, and some consumers will avoid purchasing products and services, if they know the company call centres are manned by overseas workers. In addition, the quality of some foreign-produced products has come under fire from consumers, leading to distrust of some brands that rely heavily on offshore production.

Offshore outsourcing is also extremely controversial because of the very reason companies choose to outsource â€" low wages. The Nike Corporation is just one company that has come under fire for paying oversees workers incredibly low wages that do not allow them to escape poverty or better their economic situation. Two authors write, " According to the Nike Corporation, the advantage of locating in Indonesia is that a pair of shoes selling for $80 in the United States will involve direct labor costs in Indonesia of only $2. 60. [â€¦] Although the subcontractors who sell their output to Nike are pressured to pay a minimum wage of $52. 50 per month, they often do not" (Cypher, and Dietz 2004, p. 409). This is not an isolated case; the same type of low wage work has been chronicled around the world, as U. S. companies attempt to reap greater profits by sending work overseas. In the process, they support the lowest forms of poverty and create an atmosphere not unlike documented American sweatshops of the 19th century. Often, when workers complain about the wages, the government steps in and quells the protests because of agreements with American firms to keep wages and operating costs low (Cypher, and Dietz 2004, p. 409).

Lawmakers have also attempted to ban outsourcing or strictly enforce how it may be used. This is largely due to a public outcry against the practice;

because they believe sending jobs overseas removes workers from the American workforce and leads to unemployment and other social service costs. Another writer states, “ Within the first three months of 2005, more than 112 bills to restrict ‘ outsourcing’ already had been introduced in at least 40 states, an increase over last year at the same time” (Anderson 2005, p. 30). Legislators are creating these bills as complaints from their constituents arise and more jobs are lost to overseas operators.

Perhaps the most controversial concern about outsourcing revolves around security and privacy issues. This year, the public discovered many large tax-processing firms and CPAs outsource taxpayer information to India and other overseas locations for processing. The security of tax records, including Social Security numbers and other private information has come under question, especially since the information is transmitted over unsecured phone lines or the Internet. As CBS News notes, “ Those American firms scan an individual’s tax documents into a computer. An Indian accountant logs on, fills out the return on his computer, and then it’s printed out in the U. S., checked, signed and sent to the IRS” (Editors 2004). Ultimately, security is in the hands of the outsourcing firms, and while many provide extremely secure environments, others do not (Editors 2004). In addition, some outsourcing firms are now commonly outsourcing at least some of their contracts to third-party outsourcers, which can further muddy security and personal identity issues (“ Regulators”). Finally, there is the issue of terminating a contract with a financial services outsourcer. Once the contract is terminated, what happens to the financial data, and how does the American financial institution ensure it receives the data back â€”

uncorrupted and secure? These are issues that are still troubling to many, and must be addressed to ensure security, privacy, and financial safekeeping.

If outsourcing is so detrimental to so many areas of business, how can companies utilize local employees and still keep costs down? One expert recommends " virtualizing," or applying virtual concepts to just about any business model. She writes, " Sun Microsystems virtualizes office space: Many Sun employees telecommute, using secure broadband or cable connectivity to perform their day-to-day functions. In addition, many onsite employees use shared workspaces, or can work from any location within a facility" (Young 2004, p. 56). This practice allows workers more freedom in their jobs and makes for happier employees, but it also makes fiscal sense. Young continues, " Virtualized office space reduces Sun's real estate expenses as well as associated building maintenance and support expenses. The latest numbers Sun has identified as pure annual cost savings include $71 million in real estate leases and $2. 8 million in reduced utilities costs" (Young 2004, p. 56). Thus, Sun has reduced costs significantly, while keeping its workforce solidly on American soil. There are ways for smaller companies to utilize these types of solutions, as well. Flex time, telecommuting, and even satellite offices can help save money while creating a more motivated and productive workforce. Often, after implementing flexible work options such as these, output increases, because employees are happier and more productive in their jobs.

In conclusion, outsourcing jobs offshore may make short-term fiscal sense for many employers. However, the long-term effects of outsourcing remain to be seen. Outsourcing reduces loyalty and trust in consumers, reduces the level of customer service, takes jobs away from US workers, and may even turn the economy downward as it continues. Outsourcing produces cheaper labour costs, but all too often, it also produces inferior products and services. Keeping jobs in US is not only the right thing to do; it can make economic sense in many cases. Virtualizing jobs can save money and add to production, and even small businesses can benefit by utilizing less traditional, flexible work solutions. Outsourcing is a quick fix practice that is over utilized and misguided. This practice must stop or the effect on the country in the future could be staggering.