

# The politics and economics of outsourcing

[Economics](#)



**ASSIGN  
BUSTER**

As globalization becomes an inevitable phenomenon in today's world economy, several U. S. companies and corporations are faced with choices that will affect their edge in both the world and domestic markets. The most controversial choice which these firms are facing today is whether or not to outsource. Outsourcing, the current buzzword in today's business world has been the focus in economic news for the past two years. It has become a highly debatable practice which has significantly affected the United States job market, foreign relations, and role in the global economy, specifically in the information technology industry.

However, the debate over outsourcing lies in whether its ramifications are detrimental or beneficial to these factors being affected. The answer to this question is highly dependant on the perspective and scope from which outsourcing is being perceived. Meaning, if it is from a Chief Executive Officer or an unemployed software engineer, and whether the implications are being interpreted on a domestic or international scale. In any case, the answers to these questions are extremely important to the American people, and the business world at large.

First and foremost it is important to define outsourcing. Outsourcing is essentially the practice of contracting labor overseas if it is more cost effective than keeping the labor as an inside expense. The goal of any business is to make a profit, without one a business cannot survive in a competitive marketplace. Outsourcing has sharply increased profitability for several U. S. firms by cutting costs and making them more economically efficient.

Information technology is the predominant industry in which outsourcing is occurring, especially in the fields of technical support, software engineering, and web design. However, other industries such as medicine, accounting, and finance are also beginning to outsource as well. India is the country of choice when it comes to sending labor overseas, due to its abundant job market of well-trained and highly proficient English-speaking workers. To give an idea of the amount of savings gained from outsourcing labor, the following salary comparison chart shows the average annual pay for a systems programmer.

It is evident that outsourcing potentially saves U. S. firms millions of dollars by cutting labor costs. Now that a basic understanding of outsourcing has been established, its ramifications can now be analyzed in further detail. The controversy that is primarily associated with outsourcing by those against it is the argument that outsourcing is taking away American jobs. Several Information Technology positions have been sent to India, as well as a vast number of medical research projects.

Approximately 200 companies of the Fortune 500 have outsourced overseas, and it is apparent that there has been a significant decrease in jobs due to downsizing on the part of several business firms, but skeptics believe that this is only a short-term consequence and that a sluggish economy is playing a more significant role in the loss of jobs. Thus, the most popular negative consequence of outsourcing, which is losing American jobs, is said to dissipate in the long run; this theory will be further explained later.

The point at hand is what sort of negative ramifications outsourcing is having on the United States. One problem which has been arising more and more

often is the complexity of work outsourced. Technical support and customer service operators have been the primary outsourced labor, but now more complex data analysis and programming contracts have been sent overseas, in which many workers are ill-equipped and inexperienced to handle. This in return has cost U. S. companies even more to fix errors and bugs in the final products.

Also a degree of xenophobia or the dislike of foreigners has also been a factor in the discontent of outsourcing. High volumes of complaints received from companies such as Dell regarding poor communication skills and thick accents has caused Dell to relocate its office back to the United States.

Capital One has recently removed a 250 person call center in New Delhi due to workers issuing unauthorized lines of credit to boost sales. Identity theft and personal data has also been comprised due to outsourcing, since the information being sent overseas is difficult to guard in foreign countries.

Even though these circumstances are arising, several of these companies that have experienced drawbacks are still committed to outsourcing.

According to research analyst Frances Karamouzis, " Companies are focusing on relentless cost-cutting and are off shoring their problems rather than finding a true business solution" (Stone). For the most part outsourcing has an overwhelming beneficial value for U. S. businesses, but instinctive thinking seems to suggest otherwise that sending American jobs overseas is counter productive this is not taking into account the more favorable qualities of outsourcing.

In terms of outsourcing as a beneficial business practice, several proponents argue two main benefits: innovation and better jobs. According to the pro outsourcing argument, companies that outsource fundamentally create opportunities to focus their resources on innovation. By becoming more innovative and freeing up resources to be focused on other parts of the economy, technological advances become more foreseeable in the long run, which will in theory benefit society. In essence proponents are advocating that outsourcing is not at all an economic problem, but a political one.

Meaning that it may seem intuitive to create a connection between high unemployment and outsourcing, but proponents argue that outsourcing actually creates more jobs. Of course there is an immediate loss of jobs, but these jobs are made up by the creation of jobs in other sectors of the economy. This is a key point made by Kaushik Basu, Professor of Economics at Cornell University in his article, Outsourcing: Long-term Gains for All. Basu states that, " When an industrialized nation opens itself to economic interaction with a poor country the scope for gains are the greatest" (Basu).

In fact, according to several other economic analysts and recent studies by the Information Technology Association of America (ITAA), outsourcing has created a surplus in Information Technology services of \$4. 2 billion (ITAA).

The report which has been released by the ITAA also indicates that outsourcing is creating jobs and developing a stronger U. S. economy.

Another important finding of the report was that " global sourcing actually adds to the take-home pay of average U. S. workers. With inflation kept low and productivity high, worldwide sourcing will increase real wages in the U. S. y 0. 13 percent in 2003 climbing to 0. 44 percent in 2008" (ITAA).

<https://assignbuster.com/the-politics-and-economics-of-outsourcing/>

This reaffirms that the controversy over outsourcing is more of a political concern than economic one, and that accusing the practice for the cause of high unemployment is simply leverage to pass ant-outsourcing legislation. The most recent example of this legislation was a bill drafted by Ohio Republican Senator George Voinovich, which was proposed to the senate, but did not have enough votes to pass. The bill attempted to prohibit U. S. firms from subcontracting government projects to India or any other foreign countries.

This has been one of the most significant steps towards blocking outsourcing, but even if it was enacted it would have not strained Indian firms since only a small percentage government projects are contracted to them. It is no surprise that outsourcing has become a current debate topic between Senator John Kerry and President George Bush. The Republican Bush Administration has been pro business and in support of outsourcing. This is based on a foundation backing free trade, and Bush has even stated, " When a good or service is produced more cheaply abroad, it makes more sense to import it than to make or provide it domestically" (Rajghatta).

This assurance has effectively put the Bush Administration in support of outsourcing at a time when John Kerry, elite Democrats, and sections of the media are trouncing the idea in the face of economic troubles. John Kerry has been against outsourcing and has proposed several tax initiatives on big business in order to deter them from the practice. Kerry is said to have nicknamed these corporations " Benedict Arnold companies," and is cantering the topic of unemployment in the upcoming elections around the ramifications of outsourcing.

<https://assignbuster.com/the-politics-and-economics-of-outsourcing/>

However, recent findings have shown inconsistencies with his stance on outsourcing in that he is slowly reversing himself in light of its overall economic benefit. The United States is a capitalistic nation, thus there will always be competitive competition and strategies on the part of big business to become profitable. Outsourcing has definitely altered the U. S. business world and economy, and although the most debatable issue is whether or not this altercation has been beneficial or detrimental. The scale seems to be tipped towards the beneficial side.

Outsourcing is a relatively new concept for several business firms, so only its short term effects are present. However, taking into account the testimonies of several economic analysts the United States will see a great turn around, and the potential of a booming economy due to the innovation and highly productive companies. As it was said earlier outsourcing is simply a case of politics vs. economics, and unfortunately the political argument is clouding the better judgement of the true benefits that it can bring to the United States.