



# **THERE THEY GO AGAIN: THE TRUTH ABOUT “EXPORTING JOBS”**

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**Tad DeHaven  
Economic Policy Analyst**

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## **I. Introduction**

Liberalization of trade and the rising globalization of the provision of goods and services among the community of nations have brought about tremendous economic changes and much controversy. In recent decades advocates of free trade have achieved considerable victories and vindicated many of their centuries-old theories. However, despite the setbacks for economic protectionists, their populist appeal serves as a potent voice in the battles still being fought.

The latest battle being waged is over the importation of services from foreign countries, also referred to as *offshoring*. Just as goods are imported from abroad, services are also imported—and in increasing numbers. However, the more human element associated with services tends to elicit a stronger emotional reaction. As a recent Government Accountability Office (GAO) paper states, “Offshoring causes controversy because some jobs are lost immediately and visibly, while other potential impacts such as lower costs, job creation in other sectors, and economic growth are less visible, more diffuse, and typically delayed.”<sup>1</sup> In fact, it is common to hear this dynamic referred to as “outsourcing” or “exporting jobs.” While using a term like *outsourcing* is incomplete and thus incorrect, saying that jobs are being *exported* is entirely erroneous. After all, because a job is neither a good nor a service, it cannot be exported.

Unfortunately, many politicians and members of the media continue to employ such dubious words and phrases. And because the debate continues to be clouded by overblown rhetoric from populist politicians and uninformed journalists, the truth about services importation remains obscured. The purpose of this paper is to bring a more reasoned, fact-based assessment of the situation to light.

## II. The Present Situation

### Service Sector Trends

Often lost in the confusion of the service importation debate is the fact that the United States maintains a sizable trade surplus in private services with the rest of the world. That is, the U.S. exports more services than it imports—\$74.3 billion more in 2002.<sup>2</sup> In 2002, the U.S. exported almost \$300 billion in services to the rest of the world compared to a total of only \$62 billion for India and China combined.<sup>3</sup>

Now it is true that the increased globalization of the last decade has fueled greater U.S. importation of foreign services. In the last five years, U.S. spending on foreign information technology software and services has grown at a compound annual rate of 32 percent.<sup>4</sup> In 2002, U.S. imports of services associated with offshoring, including call centers and data entry, were up 76.9 percent to \$37.5 billion over the same five-year period. However, U.S. service exports in the same category were also up 48.6 percent, maintaining a substantial trade surplus in this category.<sup>5</sup> It is also worth mentioning that such importation statistics do not tell us whether U.S. importers had originally been buying these services domestically. After all, if there has not been a switch to a foreign producer, domestic workers cannot be displaced.

### Jobs

Periods of lackluster economic growth and rising unemployment tend to produce convenient bogeymen for the political class to blame, and offshoring is their choice to explain the latest slump.<sup>6</sup> While it is undoubtedly true that U.S. importation of services has risen in the past few years, there is little statistical evidence to indicate that it is responsible for recently stagnant job growth. In reality, most studies show that the jobs situation is better explained by other factors such as the decline in the world economy, higher rates of domestic labor productivity, and the bursting of the technology bubble. As University of Chicago Professor Daniel Drezner states, “Believing that offshore outsourcing causes unemployment is the economic equivalent of believing that the sun revolves around the earth: intuitively compelling but clearly wrong.”<sup>7</sup>

Misperceptions about recent job statistics have been fueled by anti-offshoring advocates who use the peak of the late economic boom as their base for calculating job losses. Thus their numbers are generated in the worst possible light, as they are reflective only of the downward portion of the business cycle.

Fortunately, the Institute for International Economics’ Catherine Mann examined U.S. labor market data encompassing the period before the economy’s peak as well as the current recovery, and reached a more informed conclusion: employment in the private services sector increased throughout that period, and was 1.5 percent higher in October 2003 compared to 1999. Within this broad category, computer and mathematical occupations were 6 percent higher and business and financial occupations were 9 percent

higher.<sup>8</sup> Mann concludes that, “Without a doubt there is offshore job activity, and the domestic labor market remains subdued, but job growth in many white collar occupations at home deemed particularly at risk to offshore operations is expanding, not contracting.”<sup>9</sup>

Mann’s colleague at the Institute for International Economics, Jacob Kirkegaard, has also uncovered evidence that recent offshoring concerns have been misplaced. Critics of offshoring have often complained that the service sector jobs being relocated or created abroad are high paying. However, Kirkegaard—using government figures—has determined that most of the jobs threatened by offshoring pay a wage below the U.S. average. He states that, “of the 12 IT [information technology] occupations that earned more than \$50,000 in 2002, 75 percent increased their employment from 1999 to 2002. IT jobs earning more than \$50,000 expanded by 184,000 from 1999 to 2002, of which computer software engineers earning approximately \$75,000-a-year accounted for 115,000 jobs.”<sup>10</sup>

Admittedly, there have been few solid numbers available on precisely how many jobs have moved offshore. However, the two most commonly cited reports show that the number of service sector jobs being offshored is relatively minimal. A March 2004 report by Global Insight, Inc. (GII) calculated that 10 percent of U.S. IT software and service jobs have been lost since the technology bubble began to deflate in 2000. Out of this 10 percent, *only 2.8 percent* of the jobs were lost due to offshoring.<sup>11</sup>

Recent figures provided by the government’s own Bureau of Labor Statistics (BLS) have really taken the wind out of offshoring opponents’ sails. For the first time BLS has attempted to discern what portion of quarterly job losses is attributable to offshoring. BLS found that, “Of the 239,361 private sector nonfarm workers who were separated from their jobs for at least 31 days in the first quarter of 2004, the separation of 4,633 workers were associated with the movement of work outside of the country, according to preliminary data.”<sup>12</sup> Thus, only 1.9 percent of the job losses were due to offshoring. Although the BLS report has its limitations, the information is “useful for understanding services offshoring.”<sup>13</sup>

Perhaps the biggest distortion of anti-offshoring adherents is to cite *gross* job loss figures while ignoring *net* job gains. From 1993 to 2002, 310 million private sector jobs were lost in the U.S. But, 328 million jobs were added.<sup>14</sup> Even during the boom years of the late 1990s, upwards of 8 million jobs were lost every quarter. But again, even more were created.<sup>15</sup> Our vast and dynamic economy naturally creates and destroys jobs by the millions on an annual basis. It is this “creative destruction” that provides for new industries, new economic growth, higher living standards, and ultimately better employment opportunities.

Distinguishing between *gross* and *net* figures is particularly significant when discussing possible future job losses due to offshoring. A 2002 report by Forrester Research has caused a sustained media frenzy with its projection that 3.3 million jobs will be offshored by 2015, including 473,000 IT sector jobs. That this report has been

subject to scorn in knowledgeable quarters is only a side issue.<sup>16</sup> More important is the media's general failure to acknowledge that these projected job losses are *gross* figures.

The author of the Forrester report, John McCarthy, has even lamented the media hype over his numbers, admitting that it “makes me a little mad.” In fact, McCarthy has reportedly dismissed all of the attention as “this call center baloney.”<sup>17</sup>

Even if Forrester's numbers end up being correct, gross losses would amount to fewer than 300,000 offshored jobs a year over the next decade—statistically insignificant, considering that upwards of 30 million jobs are lost every year. And, again, these figures are not *net* losses of jobs. In fact, future job prospects for the service sector are bright—with offshoring playing a positive role. A more detailed examination of the future jobs situation will appear later.

### **Services Importation is a Global Trend**

The United States is not the only nation importing services from less developed countries. Deloitte Research has estimated that Western Europe and Japan will offshore 730,000 and 400,000 service jobs, respectively, by 2008.<sup>18</sup> Indeed, Japan's elderly workforce and restrictive immigration policies will, over time, cause it to offshore more service jobs than the United States (as a percentage of its workforce).<sup>19</sup> Much of Japan's offshoring is directed to countries like India, China, and Malaysia.

Western Europe on the other hand predominantly imports services from former members of the Soviet Bloc, including Poland, Hungary, and the Czech Republic. However, as these three countries integrate into the European Union (and become subject to costly EU labor regulations), Western Europeans are shifting their offshoring to non-EU countries such as Romania and Bulgaria.<sup>20</sup>

Even India, the target of constant derision by the anti-offshoring clique, imports services. The American Electronics Association (AEA) observes that Tata Consulting Services, one of India's four largest software exporters, plans on locating 15 percent of its global workforce to China. The AEA also notes that other Indian companies are importing services from similarly less developed countries in Eastern Europe. These Indian ventures into Eastern Europe probably have as much to do with language and access to Western Europe as they do cost.

Indeed, in a globalized economy it would be foolhardy for U.S. companies *not* to import services from abroad given that their competitors are doing precisely the same. To not offshore would place them at a distinct competitive disadvantage, and ironically endanger U.S.-based jobs that the companies provide.

### **III. Factors Driving Services Importation**

Regardless of the controversies and confusion surrounding the offshoring debate, the fact remains that offshoring will be a permanent facet of our increasingly globalized economy. While we can only estimate the degree to which U.S.-based companies will continue to import services from abroad, nobody disagrees that the growth rate will rise.

Global Insight, Inc. estimates that U.S. spending on offshore IT software and services alone will be \$31 billion by 2008, which could result in potential savings of up to \$21 billion.<sup>21</sup> The McKinsey Global Institute (MGI) calculates that for every dollar spent offshore, “58 cents are captured as net cost reduction to businesses even as they receive an identical (or better) level of service.”<sup>22</sup> And, the Boston Consulting Group estimates savings of 20 percent to 40 percent in production expenses for companies that globalize their cost structures.<sup>23</sup> With these numbers in mind, it is essential to look further into the factors and forces that drive offshoring.

#### **Lower Labor Costs**

The obvious and most important driver of services importation is the relatively low cost of employing labor in certain foreign countries, namely India. A typical overhead employee in the U.S. service sector commands \$26 to \$30 an hour, whereas his or her Indian counterpart would require only \$10 to \$12.<sup>24</sup> A software developer earning \$60 an hour in the U.S. would cost \$6 an hour from an Indian equivalent. Likewise, an Indian data entry employee would only cost a company \$2 an hour, versus \$20 an hour for a U.S. worker.<sup>25</sup>

According to the Boston Consulting Group, companies importing services from India can garner cost savings of up to 60 percent.<sup>26</sup> Similarly, the McKinsey Global Institute calculates that companies importing services from India can achieve cost savings of 45 percent to 55 percent even after taking into account the costs of setting up and running the offshore facility. MGI further calculates potential savings of up to 70 percent for companies that “reengineer” their offshored business processes to achieve greater efficiencies.<sup>27</sup>

However, it is wrong to simply dismiss India as nothing more than a source of “cheap labor” as many politicians and pundits have done. There are reasons why certain services are being imported from India rather than, say, Mexico. These reasons will be made apparent later.

#### **Market Access**

Globalization is opening up new markets and creating substantial business opportunities for U.S.-based companies. Although the desire to achieve cost savings in labor may initially lead a domestic company to import services abroad, the consequent establishment of a foreign presence allows for further penetration in that market. Thus,

beyond being a source of cheaper labor, offshoring offers better access to a new source of potential customers.

The Boston Consulting Group relates an excellent example of this situation. A few years ago General Electric (GE) transferred some of its technology capabilities to Chinese research and development facilities. These plants began designing “Chinese” versions of GE products that contained approximately 80 percent of the functionality of the Western versions but for 50 percent of the price. These “niche” designs were a success and resulted in GE becoming the dominant producer of such products in China. But better yet, more developed countries in the West also took to the products due to the appealing tradeoff between functionality and price. BCG concludes, “In short, by focusing on the local Chinese market, GE has both built a profitable local market and created a new worldwide segment.”<sup>28</sup>

Another example is the U.S.-based Emerson Electric, which initially shifted some manufacturing production to emerging markets but has recently been shifting white-collar engineering and product design jobs as well. Approximately 2,000 of Emerson’s 7,000 engineers are currently working outside of the Western world. David Farr, Emerson’s CEO, says that in the next four years Emerson expects to have 10,000 engineers worldwide, but with 50 percent of that total employed outside of developed Western countries. (Note that Emerson is planning on increasing employment in *both* the West and developing countries.) But Farr’s decision to offshore goes beyond reduced labor costs. As he succinctly states, “If half of your sales go outside of the United States, you’re going to have half of your engineering outside of the United States, too.”<sup>29</sup>

## **Education**

As stated earlier, it would be foolish to dismiss the importation of services from less developed countries like India as merely employing “cheap labor.” The number of engineering degrees granted in the United States has fallen 20 percent, since a high of 76,200 in 1985.<sup>30</sup> This compares unfavorably to countries like China and India who graduate millions of engineers annually.<sup>31</sup> Moreover, almost 50 percent of U.S. engineering degrees granted in 2002 went to foreign nationals, along with over half of all math and engineering PhDs awarded.<sup>32</sup> As countries like China and India expand their educational programs, the proportion of engineering and related degrees being earned in the United States will continue to drop.

Although critics may be tempted to question the value of a foreign degree awarded in countries like India, recent studies on the offshoring debate are quick to point out that the quality of these foreign degrees is becoming extremely competitive with U.S. degrees.<sup>33</sup>

Some experts have rightly questioned whether the poor quality of U.S. K-12 education is causing American students to avoid pursuing more rigorous math, science, and engineering in college. A study by the World Economic Forum concluded that the U.S. had the best scientific institutions in the world but that in terms of quality, math and

science education in the U.S. ranked an appalling 37<sup>th</sup>.<sup>34</sup> U.S. students regularly score unfavorably on science and math global benchmarks despite U.S. per pupil spending ratios that are among the highest in the industrialized world.<sup>35</sup> It is worth noting that many of the same politicians and interest groups who are leading the charge against offshoring tend to be in favor of maintaining the undesirable status quo in U.S. K-12 education.

### **Quality and Productivity**

In what may be a newsflash to many, the common view among offshoring companies is that the quality of products and services provided by foreign labor is equivalent and often superior to that of U.S. workers. Offshoring companies tracked by the Boston Consulting Group have seen quality improvements “ranging from 30 to 50 percent above the levels specified in the service level agreements signed with vendors.”<sup>36</sup> The American Electronics Association reports, “Of all the companies in the world to receive the highest level of certification for quality from Carnegie Mellon, 58 percent are Indian software companies.”<sup>37</sup>

Whereas the typical call center worker in the U.S. tends to be a high school graduate, in countries like India he or she usually has a college degree. But not only does such a foreign-based worker tend to have a “human capital” advantage, such an employee also tends to be decidedly more motivated than a U.S. counterpart. This is largely due to the comparatively higher degree of prestige and desirability that typically offshored jobs carry in less developed foreign countries. This reality should not be viewed as a blanket indictment against U.S. workers, however. After all, such a natural phenomenon has already occurred in other sectors (agriculture for example) as our nation progressed and the labor market reflected changes in society.

### **Technology Proliferation**

In the absence of the Internet explosion and concomitant decrease in the cost of worldwide telecommunications, it is doubtful that the debate over the importation of services would even be occurring. A company’s ability to conduct business is no longer subject to the constraints of its physical location. The Internet has made the diffusion of information cheap and expedient, which has in turn obviated the need to keep many rudimentary functions geographically close at hand. Foreigners willing and able to work at a dramatically lower cost—and with no loss in quality—can provide these same services.

### **Demographics**

In the next 10 to 20 years the entire Western world will begin to feel the effects of a more shallow pool of labor. Continued low birth rates combined with an ever-aging populace will spur Western-based companies to seek out labor-rich countries like China and India to replenish and grow their ranks. India’s pool of 25 million educated, English-

speaking workers is expanding by a million a year and will continue to be an attractive venue for U.S.-based companies.<sup>38</sup>

In the next 25 years China and India are expected to add 200 million and 400 million people to their populations respectively.<sup>39</sup> Over that time period the 65+ population of the U.S. is expected to double while the working age population is only expected to grow by 6 percent. By 2025 the ratio of working age people to every one retirement age person is scheduled to drop to 2.7, from 4.4 today.<sup>40</sup> Germany and Japan, on the other hand, are expected to see a net decline in their populations. As noted earlier, the situation for Japan is particularly serious given its regulations against immigration and the fact that it has the “oldest” population in the world.

#### **IV. Economic Benefits of Services Importation**

In the absence of government imposed protectionist measures, the increased utilization of foreign labor in the service sector by U.S.-based companies is inevitable. And, given that offshoring is a global phenomenon, U.S.-based companies have no choice but to embrace it. But will rising service importation be a net advantage to the U.S. economy and the U.S. worker? Or, will the unavoidable displacement of workers that comes with freer trade in goods and services be a net detriment to our society as many are currently claiming?

Contrary to the protectionists and their alarmist sympathizers, service importation actually is—and will continue to be—a significant net gain to the United States. Yes, as has always been the case with freer trade there will be Americans who are disadvantaged in the short run. However, policy should be guided by a vision of seeking the greater good in the long term. And, in the case of offshoring, the greater good is stronger economic growth, more jobs, better living standards, and cheaper products, just to name a few.

The following is a more detailed list of benefits to the United States from service importation. They are in no particular order but are significantly interrelated.

##### **Exports**

When a U.S.-based company creates a new facility in an underdeveloped market like India, it is also creating new customers for the U.S. As discussed earlier, offshoring provides access to new markets and millions of potential customers. Global Insight, Inc. calculates that U.S. exports of IT services and software alone were \$2.3 billion higher in 2003 due to offshoring. They estimate that this figure will climb to \$9 billion by 2008.<sup>41</sup>

Even the mere act of offshoring generates exports. New facilities in foreign countries need software and hardware (computers and telecommunications equipment) to function. It is estimated that every dollar spent on offshoring results in the offshore provider purchasing an additional five cents worth of goods and services from the U.S.<sup>42</sup>

Often forgotten or ignored is the fact that free trade in goods and services is not a zero-sum game. In the case of offshoring, India does not “win” while America “loses.” Both countries win as cheaper and newer products flow back and forth, creating jobs, wealth, and economic growth between them. Nor does prohibiting offshoring to less developed nations (and thus helping to keep countries like India underdeveloped) make America better off. It should be obvious that a wealthy country can buy more goods and services from the U.S. than an impoverished one. As trade barriers have come down across the globe and India has begun to open up its economy, U.S. exports to India have risen by over 50 percent since 1990.<sup>43</sup>

### **Productivity & Economic Growth**

Economists have estimated that over half of the increase in labor productivity growth in the U.S. economy during the past decade can be attributed to the massive investment in and proliferation of information technology.<sup>44</sup> But it was the globalization of IT hardware production that drove down prices and enabled IT utilization to spread.

The Institute for International Economics’ Catherine Mann calculates that globalized production and trade reduced the cost of IT hardware by upwards of 30 percent. The result was higher productivity growth and an extra \$230 billion in GDP.<sup>45</sup> With IT software and services spending now twice that of IT hardware, analysts conclude that a “second wave” of productivity growth is underway in the U.S. Like IT hardware in the last decade, globalization of IT software and services will fuel this trend by making IT more affordable and consequently more widespread.

For much of the 1990s economists fretted that a heated economy could spark inflation. However, it is now generally recognized that the U.S. was able to enjoy strong, sustained economic growth in the ’90s without serious inflation because productivity kept a lid on it. Global Insight, Inc. estimates that increasing IT offshoring during the 1990s resulted in a 0.6 percent reduction in the overall price level by 2003. GII expects the price level to be 2.3 percent lower by 2008 due to IT offshoring than it otherwise would be.<sup>46</sup>

For example, upward spiraling health care costs continue to place mounting stress on employee and employer alike (as well as the taxpayer). Further diffusion of IT into the health sector—where it has lagged in comparison to other sectors—would help put downward pressure on prices. Direct importation of health care services would help keep costs in check. Pharmaceuticals could offshore portions of their R&D to more economical locations abroad or X-rays could be simply transmitted via broadband to well-trained radiologists in India to read.<sup>47</sup>

Increasing labor productivity, falling inflation, rising spending, and growing exports induced by the continued globalization of services add up to a stronger, more vibrant economy. As this globalization of services gains steam the economic benefits will grow and multiply. Global Insight forecasts an additional \$124.2 billion in U.S.

GDP by 2008 from IT software and services offshoring alone.<sup>48</sup> Incremental wage gains adjusted for inflation would reach 0.44 percent.<sup>49</sup>

Deloitte Research's Carl Steidtmann accurately sums it all up:

The benefit of importing services is the same benefit that comes from importing goods. The most important benefit is an improvement in productivity. The buyer is able to get more for less. Increased trade also forces domestic producers to be more productive in order to remain competitive. Improving productivity raises the standard of living, puts downward pressure on prices and gives a boost to profitability and wages.<sup>50</sup>

## **Jobs**

The media have been erroneously fixated on the projected *gross* loss of jobs due to services importation. Yet, it is simply impossible to obtain an accurate picture of the situation without examining the *net* effect of offshoring. Global Insight, Inc. estimates that because of IT software and services offshoring, 193,000 new jobs were created by 2003—for a *net* increase of over 90,000 jobs. Going forward, GII estimates that 589,000 jobs will be created, for a *net* gain of 317,000 by 2008.<sup>51</sup>

There has been quite a fuss over the prospect of America “losing” white-collar IT jobs. However, Catherine Mann’s review of the Bureau of Labor Statistics’ prognostication for future job trends shows that this hand wringing is unfounded. BLS forecasts that 10 of the 20 top occupations in terms of future growth require IT skills. Of the 10 job categories projected to realize the largest growth, three are computer-related occupations (computer support specialists, computer software applications engineers, and computer software systems engineers).<sup>52</sup> Mann writes, “Considering all occupations projected to 2010 by BLS, 13 percent of the total number of jobs created in the economy will be IT-related, and the growth in these occupations will be 43 percent, compared with an economy-wide job growth rate of 13 percent.”<sup>53</sup> It is certainly worth mentioning that many of the jobs not projected to see expansion—bank tellers, switchboard operators, and telephone operators—will be casualties of technology and automation rather than offshoring. And, these are not exactly high-paying, high-skill jobs to begin with.

But the benefits of services importation also accrue to occupations not commonly thought of as IT-intensive. Further diffusion of IT in the economy (spurred on by offshoring) will propagate job growth in other sectors not commonly associated with IT, such as the previously discussed health care field. Traditionally non-IT sectors such as education, transportation, construction, utilities, financial services, and retail and wholesale trade are all expected to realize *net* job growth.<sup>54</sup> And, many of the jobs in these sectors will demand IT skills. As companies across *all* sectors of the economy integrated IT into their businesses during the 1990s, jobs requiring IT skills increased at a rate of 200 percent—twice that of the economy as a whole.<sup>55</sup> This trend will continue.

Indeed, there will be those that suffer the loss of their jobs. However, the United States has the highest rate of reemployment in the developed world—nearly twice that of the next highest country—despite having the least stringent job protection laws.<sup>56</sup> It is in fact this flexibility in the labor market, combined with our more entrepreneurial economy, that makes such reemployment possible.

Using BLS data from 1979-1999, the McKinsey Global Institute calculated that almost 70 percent of U.S. workers who lost jobs due to trade were reemployed. Of these reemployed workers, the average wage recapture was 96.2 percent.<sup>57</sup> Given that service workers tend to be reemployed faster than manufacturing workers, rising service importation should not disturb these trends.

Moreover, trade-induced redeployment of labor creates a sizeable amount of extra value for the economy. MGI reports that, “Far from being bad for the United States, offshoring creates net additional value for the U.S. economy that did not exist before, a full 12-14 cents on every dollar offshored. Indeed, of the full \$1.45 to \$1.47 of value created globally from offshoring \$1.00 of U.S. labor cost, the U.S. captures \$1.12 to \$1.14, while the receiving country captures, on average, just 33 cents.”<sup>58</sup>

During a recent online chat set up by *The Washington Post*, Marc Andreessen, co-founder of Netscape Communications and now Chairman of the Silicon Valley-based software company Opsware, offered insight into how this value recapture works to our benefit. Andreessen acknowledged that it has become common for companies to relocate portions of their tech operations offshore to save on costs. However, he notes that these companies “are taking many of the dollars that [offshoring] frees up and spending them on new development projects, including hiring new developers, often in the U.S.”<sup>59</sup>

## V. Moving Forward, but Looking Back

Ten years from now it is more than likely that today’s debate over services importation will be viewed as little more than the 21<sup>st</sup> century’s first Luddite revival. But it will not be the last, given the history of the 20<sup>th</sup> century. Thus it is important to keep sight of the fact that the U.S. has been through economic change and controversy before and has always come out on top.

At the beginning of the last century the United States was still largely an agrarian society. More than half of the work force was involved with agriculture, generating 60 percent of our nation’s GDP. Only a little over 20 percent of U.S. workers were engaged in services. Today the portion of workers engaged in services is over 80 percent while fewer than 2 percent are still working in the agriculture sector.<sup>60</sup> So was the country *really* made worse off by the loss of all those farming jobs? A brief pass through the produce section of any grocery store should answer that question.

Back in 1964 a group of liberal notables warned President Lyndon Johnson that without massive government spending, “the combination of the computer and the

automated self-regulating machine” would create “almost unlimited productivity capacity which requires progressively less human labor” and thus unemployment and poverty.<sup>61</sup> In defiance of these faux visionaries, the economy went on to add another 72 million jobs—many of which could never have been imagined at that time. Although most people would snicker at such ideas today, new “notables” continue to emerge from the political woodwork, espousing similar beliefs—just slightly repackaged to fit the times.

In the 1980s many economists who had subscribed to the myth of Japan’s “superior industrial policy” predicted that Japan’s economy—in terms of GDP—would surpass that of the United States by 1996. Fortunately, politicians largely resisted public pressure to impose trade restrictions with Japan and adopt their government-heavy economic policies. When recession struck in 1991 the U.S. economy made the necessary structural adjustments that helped create the economic boom of the second half of the 1990s. The Japanese economy on the other hand became mired in a slump, from which the country hasn’t fully recovered.<sup>62</sup>

In the early 1990s the debate over free trade, specifically NAFTA, became the *cause celebre* for the neo-Luddite crowd. Third-party Presidential candidate Ross Perot typified the fears of the time with his infamous warning that NAFTA would create a “giant sucking sound” from jobs being sent to lower-wage Mexico. However, Vice-President Gore memorably made a laughingstock out of Perot in a nationally televised debate, President Clinton signed NAFTA, and another 20 million U.S. jobs ended up being added to the economy.<sup>63</sup> The rest, as they say, is history.

## VI. Conclusion

According to the National Foundation for American Policy’s website, legislators in at least 36 states have introduced more than 100 bills to restrict services importation.<sup>64</sup> These efforts have largely been attempts to restrict government work from being tasked to foreign workers. In the case of one particular piece of protectionist legislation, New Jersey taxpayers could have been spared \$1.2 million with subsequent savings to come by offshoring just 12 state jobs.<sup>65</sup> Politicians will cloak their arguments in populist rhetoric about “saving jobs,” but their agendas really boil down to fear mongering and trade union appeasement. Perhaps most ironic, the savings from importing government services could be returned in the form of tax relief to businesses and individuals—thus providing far better prospects for meaningful U.S.-based job creation than any government make-work scheme.

Similar legislation has been working its way through the U.S. Congress. The Senate recently passed a measure that would prevent federal contracts from being awarded to companies that offshore jobs previously held by Americans. With Democratic Presidential candidate John Kerry running around the country complaining about “Benedict Arnold” CEOs who dare to import services, it is not inconceivable that politicians will soon make a stronger push for more far-reaching protectionist laws.

Kerry demonstrated his ignorance on jobs and trade at a campaign stop in April. During the course of a discussion on hybrid-electric automobiles like the Toyota Prius and the Honda Civic he remarked, “I don’t want Toyota and Honda to be the seller of these cars.”<sup>66</sup> Candidate Kerry apparently doesn’t realize it is no longer 1980. European and Asian car companies and their suppliers now employ 216,000 U.S. workers—nearly 25 percent of the industry total. One of the original “Big Three” American automakers is now known as *DaimlerChrysler*. And, Ford Motor Company’s brands now include Volvo, Jaguar, and Mazda. Such unawareness on Sen. Kerry’s part would be amusing if he weren’t a step away from the Presidency.

Neither has the Bush Administration’s record on trade and jobs been stellar. In 2002 the Administration signed into law a new farm bill that continued and expanded the government’s costly protections for the agriculture sector. One of the favored commodities to receive further protection was sugar, via import quotas that ensure domestic producers receive an artificially inflated price. The result for candy makers in the Midwest who utilize sugar has been a relocation of their production facilities to Mexico and the disappearance of about 10,000 jobs. Offshoring didn’t cause these jobs to disappear, government protection for sugar producers did. The Bush Administration also allowed tariffs on steel to be imposed for the ostensible purpose of saving steel jobs. Unfortunately for workers in other steel-utilizing industries, the higher price of steel caused upwards of 200,000 of them to lose their jobs.<sup>67</sup> Unlike the bogus use of the term “losses” to describe offshored jobs, these eliminations do have a very real impact on American workers.

Deloitte Research’s Carl Steidtmann recently wrote, “The best way to destroy jobs is for government to try and ‘protect’ them.” Taking Steidtmann’s accurate assessment one step further, the best way for government to create jobs is to do *nothing*. In fact, government *can’t* create jobs (other than government jobs, which are really just an inefficient redistribution of wealth with a human face put on it). But given that *nothing* is an unlikely possibility at this political juncture, the government can at least *foster* job creation by maintaining as *laissez-faire* an approach to economic and trade policy as possible.

Reducing taxation on individuals and businesses while removing burdensome regulations are the key ingredients for promoting the capital formation, entrepreneurship, and risk-taking necessary to generate the exciting jobs of tomorrow. Eliminating trade barriers and ensuring a hospitable environment for foreign investment will likewise fuel exports, economic expansion, and jobs.

Populist politicians and protectionist pundits should forego playing on the fears of the American people. Instead their energies should be focused on cultivating the American people’s unique combination of individual work ethic, ingenuity, and optimism. In the end, services importation is another building block in a constantly evolving economic structure that will continue to comfortably house the American dream. Let’s leave it at that.

## About the Author

*Tad DeHaven is Economic Policy Analyst for the 350,000-member National Taxpayers Union, a non-partisan citizen group founded in 1969 to work for lower taxes, smaller government, and more accountable elected officials at all levels. For further information, visit [www.ntu.org](http://www.ntu.org).*

## Notes

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<sup>1</sup> Government Accountability Office (GAO), “Current Government Data Provide Limited Insight into Offshoring of Services,” GAO-04-932, September 2004, p. 1.

<sup>2</sup> *Ibid.*, p. 22.

<sup>3</sup> Joint Economic Committee of the U.S. Congress, “International Trade and American Jobs,” June 2, 2004, p. 3.

<sup>4</sup> Global Insight (USA), Inc., “The Impact of Offshore IT Software and Services Outsourcing on the U.S. Economy and the IT Industry” (Executive Summary), sponsored by the Information Technology Association of America, March 2004, p. 3.

<sup>5</sup> GAO, “Current Government Data Provide Limited Insight into Offshoring of Services,” p. 3.

<sup>6</sup> Daniel W. Drezner, “The Outsourcing Bogeyman,” *Foreign Affairs*, May/June 2004.

<sup>7</sup> *Ibid.*

<sup>8</sup> Catherine L. Mann, “Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth,” Institute for International Economics, International Economics Policy Brief PB03-11, December 2003, p. 6.

<sup>9</sup> *Ibid.*

<sup>10</sup> Jacob F. Kirkegaard, “Outsourcing—Stains on the White Collar?,” Institute for International Economics White Paper, 2004.

<sup>11</sup> Global Insight (USA), Inc., “The Impact of Offshore IT Software and Services Outsourcing on the U.S. Economy and the IT Industry,” pp. 2-3.

<sup>12</sup> Bureau of Labor Statistics, “Extended Mass Layoffs Associated With Domestic And Overseas Relocations, First Quarter 2004,” June 10, 2004.

<sup>13</sup> GAO, “Current Government Data Provide Limited Insight into Offshoring of Services,” p. 34

<sup>14</sup> Brink Lindsey, “Job Losses and Trade: A Reality Check,” Trade Briefing Paper, Cato Institute, March 17, 2004, p. 4.

<sup>15</sup> Kirkegaard, “Outsourcing—Stains on the White Collar?”

<sup>16</sup> For an excellent discussion of the Forrester Report, see Kirkegaard.

<sup>17</sup> Jon E. Hilsenrath, “Behind Outsourcing Debate: Surprisingly Few Hard Numbers,” *The Wall Street Journal*, April 12, 2004.

<sup>18</sup> American Electronics Association, “Offshore Outsourcing in an Increasingly Competitive and Rapidly Changing World,” March 2004, pp. 12-13.

<sup>19</sup> *Ibid.*

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<sup>21</sup> Global Insight (USA), Inc., “The Impact of Offshore IT Software and Services Outsourcing on the U.S. Economy and the IT Industry,” p. 3.

<sup>22</sup> McKinsey Global Institute, “Offshoring: Is It a Win-Win Game?,” McKinsey & Company, Inc., August 2003, p. 7.

<sup>23</sup> The Boston Consulting Group, “Capturing Global Advantage,” p. 16.

<sup>24</sup> *Ibid.*

<sup>25</sup> McKinsey Global Institute, “Offshoring: Is It a Win-Win Game?,” p. 2.

<sup>26</sup> The Boston Consulting Group, “Capturing Global Advantage,” p. 16.

<sup>27</sup> McKinsey Global Institute, “Offshoring: Is It a Win-Win Game?,” p. 2.

<sup>28</sup> The Boston Consulting Group, “Capturing Global Advantage,” p. 21.

<sup>29</sup> Russell Flannery, “Hiring Hall,” *Forbes*, July 26, 2004, p. 80.

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- <sup>30</sup> American Electronics Association, “Offshore Outsourcing in an Increasingly Competitive and Rapidly Changing World,” p. 9.
- <sup>31</sup> The Boston Consulting Group, “Capturing Global Advantage,” p. 18.
- <sup>32</sup> American Electronics Association, “Offshore Outsourcing in an Increasingly Competitive and Rapidly Changing World,” p. 10.
- <sup>33</sup> *Ibid.*, p. 9.
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- <sup>35</sup> Organization for Economic Co-operation and Development, “Education at a Glance 2003,” p. 198.
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- <sup>37</sup> American Electronics Association, “Offshore Outsourcing in an Increasingly Competitive and Rapidly Changing World,” p. 11.
- <sup>38</sup> The Boston Consulting Group, “Capturing Global Advantage,” p. 18.
- <sup>39</sup> American Electronics Association, “Offshore Outsourcing in an Increasingly Competitive and Rapidly Changing World,” pp. 13-14.
- <sup>40</sup> *Ibid.*
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- <sup>42</sup> McKinsey Global Institute, “Offshoring: Is It a Win-Win Game?,” pp. 7 and 9.
- <sup>43</sup> *Ibid.*
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- <sup>45</sup> *Ibid.*, p. 1.
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- <sup>52</sup> Mann, “Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth,” p. 9.
- <sup>53</sup> *Ibid.*
- <sup>54</sup> Global Insight (USA), Inc., “The Impact of Offshore IT Software and Services Outsourcing on the U.S. Economy and the IT Industry,” p. 7.
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- <sup>57</sup> *Ibid.*
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- <sup>63</sup> Steidtmann, “The Macro-Economic Case for Outsourcing.”
- <sup>64</sup> See <http://www.nfap.net>.
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- <sup>66</sup> Richard J. Newman, “The Honda Vote,” *U.S. News & World Report*, June 7, 2004.
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