Lesson: Offshore outsourcing and deindustrialization
Class: AP Human Geography
90 minute block

Context:
The following lesson is designed for an AP Human Geography class as part of their unit on Economic Development and Industry. Prior to this lesson, students have learned about indicators of countries' developmental level, approaches to development, and the challenges to development. In the industry realm, they have learned about the Industrial Revolution and profit maximization approaches for modern industries. For this lesson, they will debating the issue of American businesses outsourcing tasks to less developed countries like India and China. For homework before this lesson, the students were assigned a series of articles that present arguments both for and against offshoring, upon which they were supposed to highlight and make notes marking what they felt were the especially compelling arguments. For this lesson, students meet in the groups to which they were previously assigned, one being for and the other being against offshoring.

Materials:
Offshoring articles

Objectives:
By the end of this lesson, students will be able to:
- Debate the pros and cons of offshore outsourcing for both More Developed Countries and Less Developed Countries
- Explain various profit maximization approaches/theories for modern industries
- Describe the process of economic restructuring and deindustrialization

Procedure:

[10 minutes]
Each group will be given 10 minutes to agree on which group member will present first, second, and last. Once they have decided on this, they will use the remaining time preparing what they feel are the most compelling opening arguments for their side.

[2 minutes]
The first group will present their opening arguments. A coin toss can be used to decide which group will present first.

[2 minutes]
The second group will present opening arguments

[5 minutes]
Each group gets 5 minutes to prepare their counter arguments

[4 minutes]
2 minute counter arguments from each group

[5 minutes]
5 minutes to prepare final arguments

[4 minutes]
Final arguments from each group

[25 minutes]
The class will now be given a chance to voice any of their personal opinions. All students will stand up and move around the room to show where they stood on the issue before the debate started. One wall represents the pro side, the other side con, and the middle is a moderate or undecided stance. Students will be called on to explain what their views were and why they felt that way. Then the teacher will ask them to move around the room based on what their opinion of offshoring is after the debate. Any students who changed viewpoints, even if only slightly, will be asked to share what they now believe and what convinced them to change. Students should also be able to ask any clarifying questions or to bring up any points they felt weren't addressed well enough in the debate.

[30 minutes]
The teacher will give a lecture on profit maximization approaches and economic restructuring as students follow along taking notes. As much as possible students will be asked questions and encouraged to ask their own questions.

Assessment:
Students will be given 5 point rating scales with which to rate their group members' level of participation and contribution to their group's side of the debate. The students in these Human Geography classes are motivated enough during debates that I am not worried about their quality of arguments. Whether or not they are improving in that regard will be a formative assessment on my part, and they do not need the prospect of a grade on their arguments to motivate them to try harder in this debate.

Business Week
December 6, 2004
Offshoring: The Pros And Cons For Europe;
Wage insurance for displaced workers can help ease the transition
BYLINE: By Laura D'Andrea Tyson.
SECTION: Economic Viewpoint; Pg. 32 Vol. 3911

American companies lead the world in offshoring business services to India and other low-cost countries. But faced with stiff American competition -- due in part to the falling dollar -- more European companies, especially British ones, are starting to offshore services. Will European economies benefit from the trend? The answer turns out to be yes -- if certain conditions are met.
Even then, gains will not be evenly distributed: Workers and communities that lose jobs may suffer considerable pain.

Incentives for offshoring by European companies are huge: Services costs can drop by 50% to 60%. And the scope for offshoring is vast. By IBM estimates, less than 8% of the $19 trillion spent each year on sales, general, and administrative expenses has been outsourced so far. Many companies say they can offshore half or more of this work.

Offshoring services should benefit Europe's economy: Companies will become more competitive so they can raise profits and reduce prices. This will bolster demand and keep inflation in check. Companies can invest to improve existing products or introduce new ones. Greater demand will spark innovation and create jobs to replace those that have gone abroad.

With flexible labor markets and strong economic growth, countries that offshore services can shift labor to higher-value activities, boosting productivity and living standards. And countries that attract outsourced jobs will enjoy improved productivity and higher growth, so they can buy more exports from offshoring nations. Applying this logic, the McKinsey Global Institute estimates that for every dollar U.S. companies spend on offshoring work in India, the American economy gains $1.14, while India gets 33 cents. Thus, there are ``win-win'' returns for both high-wage and low-wage countries.

BUT A CLOSER LOOK AT THE LOGIC reveals that benefits to the offshoring nation depend on two critical assumptions: the redeployment assumption (or what percentage of workers who lose jobs find new ones); and the recapture assumption (or what percentage of the wages paid in lost jobs are recaptured by the wages paid in new ones). For example, the McKinsey calculation of gains from U.S. offshoring is based on the assumption that 69% of displaced service workers will find new jobs within one year and that these workers will earn 96% of their former wages. These assumptions are based on the U.S. economy's performance between 1979 and 1999.

More recent data from 2000-03 suggests these estimates may be overly optimistic. Even according to the McKinsey assumptions, nearly one-third of American workers who lose their jobs will not find other jobs within a year. Older workers with less education are the most vulnerable.

In Continental Europe and Japan, where employment practices are more rigid than in the U.S., redeployment of displaced workers is likely to be much lower. If low enough, this could cause an increase in the overall unemployment rate and a reduction in overall income in the offshoring country. In a recent study, McKinsey concludes this might be the case in Germany, where redeployment might reach only 40%. So German companies and shareholders could benefit from offshoring, while workers and the overall economy suffer.

By contrast, labor markets in Britain are more flexible, and offshoring is apt to generate both company-level and economywide gains. This is indeed the conclusion of the Advanced Institute of Management Research, which finds that service jobs have continued to grow strongly in Britain despite rapid growth in the offshoring of similar jobs by British companies.

Offshoring is a process of creative destruction. The challenge for governments is to develop policies that ease the pain that offshoring inflicts and speed workers' transition to new jobs. So-called wage insurance policies are a promising policy response. Such programs are designed to cover the loss of wages for displaced workers until they gain new employment or to make up the difference between the old wages lost and wages paid for new jobs. A small scheme of wage insurance was introduced in the U.S. as part of the 2002 trade legislation, but it is limited to older workers who lose manufacturing jobs to foreign imports. It is time to expand this program to workers who lose service jobs to offshoring.

The British government should introduce its own wage insurance program. Such a program would be in keeping with Labour's ``Third Way" approach that values both market flexibility and social equity and that has been the foundation of Britain's strong performance over the past decade.

VARBusiness
May 31, 2004
The Crusade Against Offshoring
SECTION: LETTERS TO THE EDITOR; Pg. 12
HIGHLIGHT: Editor's note: The following letters are in reference to the article, "Offshoring-Learn To Love It!" May 17, page 32.

I read your article on offshoring jobs. I have developed software in America and offshored to India and Russia. I am well aware of the positives and negatives of offshoring. Respectfully, your conclusions are incorrect. In brief, let me give you some of the reasons why:

- Historically, offshoring has decimated U.S. jobs. Offshoring of tech jobs will be no different. Like the historical example of Steve Jobs' refusal to comprehend the Sony Betamax vs. VHS, you are refusing to study the history of the huge loss of manufacturing jobs in the United States to offshore outsourcing.

- The argument to offshore basic programming or any type of basic service so Americans can have the middle- and upper-class jobs is wrong. Use a ladder as an analogy. If you remove the bottom steps of the ladder, you cannot step up to the next. Furthermore, when you remove the bottom steps of the ladder, you not only lose those jobs, tax revenue and money circulating in the U.S. economy, but the valuable training as people move from one level to the next in an organization.

- Offshore companies have a big advantage of not having the expense of U.S. company benefits, social security taxes, Medicare taxes, state disability taxes, sales taxes, environmental controls, ergonomic laws, employee lawsuits and [more]. The result is employees often are exploited and the environment compromised.

- Offshoring increases taxes on the remaining jobs in the United States because there are fewer taxpayers to carry the load. We are experiencing the slowest job growth ever out of a recession and doing so while the federal government is borrowing more than ever.

- Once again, look at history. The foreigners will come back and compete with you. The Indian consulting companies that are now doing in excess of $1 billion annually did not get there by selling to new companies alone. The piracy of U.S. intellectual property in India, China, Russia and other countries is incredibly high.

If [you] make a decision to offshore based solely on short-term profits, you are correct. If you want to build a strong America long term, then you need to correct the advantage foreigners enjoy and let us compete on level ground.
In closing, these views are my own and not necessarily those of my company.

David Russell
Vice President of Partner Development
KnowledgePoint

Christian Science Monitor (Boston, MA)
June 23, 2005, Thursday
The unwatched offshoring pot: Will it boil over?
BYLINE: By David R. Francis
SECTION: FEATURES; PLANET; Pg. 17

If the US economy is a busy kitchen, then offshoring - the shipping of American jobs abroad - is a simmering pot that gets little attention.

Occasionally, it spatters, causing a flurry of worry. But soon the cooks are back to more pressing issues. If nothing is done, however, the outsourcing pot could boil over, stir up protectionist forces, and lead to a big political backlash against globalization. Already, pressure is building.

For years, offshoring was almost entirely a manufacturing problem. Plants moved to countries where workers were paid much less. Unions protested. But it seemed to many like old-economy stuff, hurting a portion of the workforce that was dwindling anyhow. Then, services got hit. The attention, though, centered on low-wage workers in call centers, the principal targets.

And for all the hoopla, the numbers were small. In 2003, offshore employment was a mere 1.5 million of the 1.4 billion-plus positions in the worldwide service industries, according to a new study by McKinsey Global Institute (MGI). But the trend is picking up steam.

By 2008, an estimated 4.1 million service jobs will have left the shores of rich nations, the study projects. In theory, 160 million jobs, or 11 percent of the world's service workforce, could be done remotely by then, it says. But there are barriers to a rapid shift - language skills, competition within poor nations for talent, lack of mobility, etc.

Adding to anxiety: The jobs headed offshore have become more sophisticated, such as computer programming, architecture, and medical diagnosis.
"It's a lot of people to be displaced," says Diana Farrell, director of MGI.

Some fear service jobs could disappear as fast as manufacturing jobs. "Everybody knows that offshoring is picking up the pace," says Lori Wallach, director of Public Citizen's Global Trade Watch in Washington.

Overseas, the trend has pepped up economies. India's National Association of Software and Service Companies (NASSCOM) calculates India's offshoring business reached $ 17.2 billion in the fiscal year ended in March, up 34.5 percent from the year earlier.

India's 3,000 information technology companies export to 150 countries. Software sales alone rose to $ 12 billion from $ 9.2 billion the year before. The biggest customer by far was the US.

If such growth rates continue, and include other poor nations such as China, the impact of offshoring could exceed MGI estimates. India's NASSCOM already reckons India's outsourcing industry employs 1 million programmers and other skilled workers, and indirectly provides jobs to 2.5 million Indians in such areas as transport and catering.

Back in the US, offshoring is raising fears. It is one reason, experts say, support for free trade has faded so fast among service professionals. They had seen their jobs as impervious to foreign competition. No longer so, surveys show.

That could be one reason the Central American Free Trade Agreement sought by President Bush remains in deep trouble in Congress.

Offshoring could also be "a significant factor" in the relatively slow job growth after the 1990 recession in the US, holds Rob Atkinson, vice president of the Progressive Policy Institute, a Washington think tank for middle-ground Democrats. The loss of jobs to offshore sites has a "multiplier effect" on other jobs in the US, he adds.

Over the past three months, the rate of job growth has averaged 158,000 a month. "It should be in the 200,000 to 250,000 range," says Mr. Atkinson. "It's a puzzle to me why people are puzzled" with the slow job growth.

Offshoring not only means the loss of call-center jobs, but also puts pressure on wages for those jobs staying in the US, says Tony Daley, research economist at the Communications Workers of America. His union has been striving to organize more workers at call centers. So far, a mere 100,000 among more than 3 million or 4 million workers belong.

Defenders of offshoring often argue that the US benefits from outsourcing even more than it loses. US software firms and high-priced consultants in such areas as strategic business planning sell huge amounts of their work to foreign nations. Two economists at the International Monetary Fund, Mary Amiti and Shang-Jin Wei, calculate that the US net surplus in services has been growing recently. Last year, too, says Mr. Wei.

Whether that will be true in the future remains uncertain. Wei notes that outsourcing as a percentage of gross domestic product has been doubling every 10 years in recent decades.

One way to mitigate the problem, Atkinson and others say, is to offer service workers assistance under a federal trade-adjustment program launched in the 1960s. It gives money to those who lose job to imports of physical goods while they search and train for new jobs.

So far, however, the Bush administration has resisted efforts in Congress to extend such help to the service sector.

FOR IMMEDIATE RELEASE
May 11, 2004

Meeting the Offshore Outsourcing Challenge
Remarks by Senator Joe Lieberman

New America Foundation and Electronic Industries Alliance
As Prepared For Delivery
http://lieberman.senate.gov/newsroom/release.cfm?id=221346

I want to thank the New America Foundation and the Electronic Industries Alliance for giving me this forum to talk about the outsourcing of American jobs overseas, and the larger challenge it represents to our economic future.

To meet that challenge, we first have to stop blaming others and face some hard facts. The American economy is failing to adapt to fundamental changes and to growing competition in the global economy. We are not just losing jobs – we may be losing critical parts of our innovation infrastructure, and with them, our competitive edge in the global marketplace. The offshore outsourcing of jobs is just the tip of an economic iceberg that America is sailing towards.

Here's one measurement of the size of it. An analysis by the Institute of Business and Economic Research at UC Berkeley estimates that 14 million American jobs are at risk. If that's right, our economic vitality and national security are in jeopardy. As the President's Council of Advisors on Science and Technology concluded recently, "Maintenance of U.S. technical preeminence is not forever assured." Carly Fiorina put it more succinctly and memorably: "There is no job that is America's God given right anymore."

Today I am releasing a white paper that my staff and I have worked on in the hope it will stimulate a better, broader response to the long-term implications of offshore outsourcing. The paper goes beyond the current debate to focus on the next wave of this challenge – not just manufacturing and entry-level service jobs, but high-end services and R&D research jobs, too. I argue in this paper that the offshore outsourcing challenge has not just grown quantitatively – threatening a broader range of American jobs – but also qualitatively – threatening America's innovation infrastructure, the foundation of future job growth. I conclude that what we always believed was our nation's ultimate competitive advantage – our high-end R&D [research and development] and technological prowess – is at risk.

How do we reassert our world economic leadership and regain our innovation advantage in a more competitive world? And how do we do so without turning a blind eye to the very real pain that many American workers are feeling as a result of the churning in the global job market? These are the big questions we must answer together – private and public sectors, business and labor, even Democrats, Republicans, and Independents.

But first, we have to better understand what is occurring. Outsourcing is not new. It is really just a variation of the division of labor, a defining feature of capitalism. In a competitive marketplace, with its premium on efficiency, businesses naturally focus their limited resources on their most profitable operations while subcontracting – or outsourcing – functions that can be performed more efficiently and cheaply elsewhere. Jobs shift as a result.

What is new about outsourcing today is its global reach. Technological innovations in transportation and communication have erased geographic borders. Physical proximity to the point of sale is no longer the absolute economic necessity it used to be, particularly for service jobs.

We know that manufacturing jobs have been shifting overseas for some time. But now the services sector is being hit hard by offshore outsourcing – and that hurts. The services sector provides 83% of America's jobs, employing 86 million people. It dominates our economy. Customer call centers and data entry facilities are being relocated to places where capable labor can be found at lower wage levels. High-speed digital technologies make a connection between Boston and Bangalore as fast as between Boston and Baltimore.

But offshoring is no longer limited to entry-level services jobs. Higher skilled professional jobs like computer chip design, information technology services, programming, architecture, engineering, consulting, automotive design and pharmaceutical research are beginning to go overseas. That is the bulk of the iceberg below the surface of the sea. The outsourcing of R&D is probably the most alarming illustration of this new problem. American companies now invest $17 billion in R&D abroad every year. IT multinationals have now established 223 R&D centers in China alone.

One study by Forrester Research estimates that over the next 15 years, 3.3 million U.S. service jobs and $136 billion in wages will move offshore. Another by McKinsey's Global Institute suggests that the number of U.S. services jobs lost to offshoring will accelerate at an annual rate of 30 to 40 percent during the next five years.

Because the government collects no official data on offshore outsourcing in the services sector, we cannot be at all certain of these figures. But we can be certain that, although the offshore outsourcing problem in the high-end services sector may not be acute at the moment, it will be in the near future if current trends continue. If a software programmer in India earning $7,000 a year can do the same work as a software programmer in the United States making $64,000 a year, it is only a matter of time before more of those jobs relocate overseas.

The Washington response to offshore outsourcing has been predictable: politicians and policy makers jump to predetermined conclusions and finger the usual suspects.

On the one hand, we have the Do Nothings who profess an abiding and absolute faith in laissez faire capitalism, and see any government intervention as self-defeating. In fact, they argue that jobs flowing overseas are healthy, that they are evidence that the system is working, and that we have nothing to worry about.

The problem with this view, of course, is that we do have something to worry about. Not only does rising unemployment take a real human toll, it also eats away at our ability to create new jobs. Advanced production capabilities and research and development jobs are strategic assets that have defined our nation's competitive advantage. While proximity to the point of sale is less critical, geography still matters in the innovation process. Countries and regions that cluster university and industry research, knowledge-based start-ups, capital for entrepreneurs support from larger firms, and advanced manufacturing – with the talent to support all of this – capture new industries.

As we lose jobs to foreign countries, especially high-skilled services jobs, we lose critical parts of our innovation infrastructure – labor, capital, knowledge, facilities, and technology – and with them, the engine of job creation. To cash in on our crops, we are moving the farm – and with it, the promise of future economic harvests.

On the other hand, you have the Do Anythings who will do anything that might save some jobs today, even if it means losing more tomorrow. Protectionism is their favorite tool – raising higher and higher trade barriers on the unproven argument that it will make it harder and harder for jobs to go overseas.

In their attempts to build a tall wall to stop offshore outsourcing, the Do Anythings are falling into a trap. Trying to keep jobs in our own borders through protectionist measures will only keep other jobs out. It will also invite retaliation from beyond our borders that will cost us many of the millions of American jobs that are based on exports.

The bottom line is that both the Do Nothings and the Do Anythings are wrong. Neither gets to the heart of the outsourcing problem – America's failure to innovate. That's what we all need to Do Something – the Right Thing – about.

To stop offshore outsourcing and preserve American jobs, America needs to rise to the international competition and grow again through innovation. There is no other way. Leaving it all to the markets won't work. Hiding behind a wall won't work. Attempting to rig the game won't work. Only education, innovation, investment, trade, training and hard work will give us the growth and jobs we want and need.

In my white paper, I lay out a number of suggestions about how we can achieve this. Let me highlight a few.

First, we must encourage greater innovation and technology development. Basic research and development have been essential to creating the kind of technological breakthroughs that create jobs and reap profits. But the high costs and high risk associated with early stage R&D make the needed investments burdensome for many businesses. Federal funding is crucial here, but federal R&D spending as a percent of GDP has been in steady decline since the mid-1960's – it is less than half of what it was then.

We need to reinvest in R&D. And we need to reorganize our innovation ecosystem to bring on innovations much faster. Tax incentives for R&D investment are one means of doing so. We should make the R&D tax credit permanent, and restructure it to spur collaborative research.

We also need to look at the kind of R&D we do. Although the United States is overwhelmingly a service economy, our federal and corporate R&D is geared to manufacturing. Corporate R&D is now 68% of the total national R&D expenditures – and 62% of that amount is still focused on manufacturing. But much of the offshore outsourcing challenge will hit our services sector. That's why we must add a new services sector emphasis to our R&D investments. Government and industry should review their R&D portfolios and raise their investments in services research.

Second, we must recognize that no matter how much we innovate, some people are going to lose the jobs they have now. We need to shore up our safety nets to help those hurt by offshore outsourcing. We need, for example, to extend coverage of Trade Adjustment Assistance programs to support and retrain service workers who lose their jobs due to trade. We should also experiment with new concepts like wage loss insurance, offered as part of severance and paid for by a small percentage of the employer's savings from offshoring.

Third, we need to strengthen our trade policies. America will prosper by selling high value goods and services to other nations, not by shutting ourselves off from competition and markets. We need to innovate new goods and services and lower trade barriers abroad to start to reverse our trade deficits, so trade becomes a net jobs insourcer – not a net outsourcer. Overseas markets for American exports are critical to our economic well-being, already directly supporting 12 million American jobs and indirectly many, many more. We can't lose those jobs. We can and must add to them.

Fourth, our talent base is what ultimately sizes our economy, yet the number of U.S. graduates in engineering and physical science is dropping 1% a year. In China, 45% of all graduating students received their degree in engineering. In the United States, it's only 5%. Education reforms are no longer a policy option for us. They are a necessity, from kindergarten through university diploma.

We also need a whole new approach to job training. This century, 60% of the new jobs will require skills held by only 20% of today's workforce. That is one huge skills gap that we must fill fast if we want to remain competitive. One way to do so is to build stronger partnerships between companies and community colleges to ensure workers get the training they need. Increasing the number of graduates in science, technology, engineering and mathematics through incentive grants and special scholarships is another way to fill the skills gap.

Updating our methods of training to 21st century standards is also important. One way to do so is to train workers by using interactive internet gaming technology to foster better knowledge retention, promote continual skills updating, and even have fun. IT has transformed many sectors – it is time it got to training.

Finally, we need to get our federal fiscal house in order. Our staggering $550 billion current annual deficit, and the course we are on to add $10 trillion to the deficit in the next decade, will eventually raise interest rates. The Medicare Trustees told us last month that our unfunded liabilities are $72 trillion. That's right – $72 trillion. Meanwhile, other nations are buying our debt and are acquiring too much influence over our future. Foreign nationals hold 46% of the U.S. national debt. China and Japan together hold $662 billion. We must get our fiscal house in order to stay strong, independent and competitive.

At the beginning of the last century, America faced equally profound economic and social changes. In his inaugural address, President Theodore Roosevelt noted that, "Modern Life is both complex and intense. And the tremendous changes wrought by the extraordinary industrial development of the last half century are felt in every fiber of our social and political being."

He went on to say that, "There is no good reason why we should fear the future. But there is every reason why we should face it seriously – neither hiding from ourselves the gravity of the problems before us, nor fearing to approach these problems with the unbending, unflinching purpose to solve them."

To meet the challenge of offshore outsourcing, we need to summon up the same honesty, seriousness, and sense of national purpose that TR called for a century ago. If we do, I am confident we will prevail, the American economy will keep on growing, and the next generation of Americans will live better and better lives. Thank you.

Rage against off-shoring is off target

By David Kirkpatrick
FORTUNE.COM
Monday, February 16, 2004 Posted: 5:42 PM EST (2242 GMT)
http://www.cnn.com/2004/TECH/ptech/02/16/fortune.ff.offshoring.benefit/index.html

(FORTUNE.COM) -- Seldom have so many had such strong opinions about something they understand so poorly.

The topic is off-shoring -- and the anger over it is hard to avoid. Politicians are shocked and outraged at the prospect of U.S. service and back-office jobs going to places like India. Democratic presidential candidates condemn off-shoring and blame it on George Bush's policies.

Economic Cassandras warn that as many as ten million U.S. jobs could be at risk. New York Democratic Senator Charles Schumer recently co-wrote a New York Times op-ed confessing that because of off-shoring, he's doubting the whole concept of free trade.

Legislators in Washington, D.C., and a number of states are pushing to restrict off-shoring. Indiana's governor this past fall canceled a contract to pay India's Tata Consultancy Services $15 million for processing, ironically, state unemployment claims. The next-highest bidder, a U.S. company, reportedly wanted $8 million more for the same work. When you're willing to pay a 50 percent premium -- well, that's real anger.

Or is it just real stupidity? The fact is, we can't stop off-shoring -- and we shouldn't try.

For all the handwringing, off-shoring is inevitable, frequently makes business sense, and might even be beneficial.

A recent study by the McKinsey Global Institute, an economics think tank, calculated that for every dollar spent on a business process that is outsourced to India, the U.S. economy gains at least $1.12. The largest chunk -- 58 cents -- goes back to the original employer.

But there are many other benefits. For instance, 30 percent of Indian off-shoring is performed by U.S. companies, so money returns home as earnings. Additional benefits accrue from freeing U.S. workers to do other tasks. A good example is the much-fretted-over idea of sending X-rays to India for analysis. Diana Farrell, the institute's director, says doing so reduces the cost of health care and can free up money for medical innovation.

By focusing on India, politicians are ignoring basic economics. Job turnover, after all, is a sign of a healthy economy. The U.S. has lost two million jobs due to global trade over the past 20 years, says Farrell, but in just ten years has added 35 million new jobs.

Many of the same jobs politicians are trying to protect may end up disappearing anyway, as automation in business intensifies.

Michael Fleisher, CEO of the Gartner research firm, put it this way at the recent World Economic Forum in Davos, Switzerland: "Much of what's being outsourced using technology today will be completely eliminated by technology tomorrow."

We need to rethink our views on the global workforce. First, we should realize that the boom in part proves how much the U.S. economy achieved in the roaring '90s.

Nandan Nilekani, CEO of big Indian outsourcer Infosys, pointed out in Davos that American technology companies -- think fiber-spewing Global Crossing -- made Internet-driven outsourcing possible. In addition he notes that the U.S. for years has pushed nations like India to free up their markets; now we're just seeing the result.

The U.S. is helping the rest of the world work its way into wealth. That is in all of our interests. And it isn't a zero-sum game. American productivity, again fostered largely by intelligent use of technology, remains the highest in the world. That's likely to ensure we stay wealthy.

Nonetheless, displaced workers have legitimate gripes. What they ought to be demanding is not an end to off-shoring but better education and retraining to compete in a global marketplace, as well as social programs to cushion the blow of inevitable job losses.

Increasingly in the Internet Age, we will all rise, or fall, together.

***_**The Article below is optional! I recommend reading it as well, but it is not required.**_**

Financial Times (London, England)
September 27, 2004 Monday
Offshoring: a winner for both parties? THE ECONOMICS OF JOB DISTRIBUTION: Alan Beattie explains why many see the benefits as self-evident
BYLINE: By ALAN BEATTIE

When Greg Mankiw, who heads the White House council of economic advisers, presented the annual Economic Report of the President in February, he could little have imagined he would walk into a political firestorm. The mild, bookish academic, working at the White House on leave from Harvard, tends studiously to stay clear of controversy, confining his public remarks as much as possible to dispassionate advice.

But when he strayed on to the topic of offshoring, or US corporations outsourcing work functions overseas, he found himself reaping a whirlwind of criticism that included prominent Democrats calling for his resignation. The irony is that Mr Mankiw's comments on the subject - that offshoring was just another form of trade, which benefited both economies involved - would be regarded as common sense by mainstream economists.

A raft of studies have largely confirmed what Mr Mankiw argued: that while offshoring creates winners and losers, the net benefits are positive. But spreading support for offshoring beyond academia might well mean better efforts to ensure the losers are compensated - in an area in which the US, in particular, has struggled to come up with policy prescriptions that command widespread support.

The benefits of offshoring for low-wage countries such as India and China are obvious: such jobs pay far higher salaries than the average. Most economists have concentrated on refuting scare stories about the impact of offshoring on the jobless economic recovery the US has undergone in the past few years.

A recent study by Maury Harris, US economist at UBS, the investment bank, estimated gross job losses from offshoring by US companies abroad totalled 400,000 per year. That may sound large but it was only 2 per cent of annual initial claims for state unemployment insurance, and just 0.3 per cent of the US labour force as a whole. Nor do multinational companies seem to be shifting work to overseas subsidiaries: job cuts of 1.5m at US parent companies in 2001-2 were offset by only a 63,000 rise in employees at their majority-owned foreign affiliates.

Moreover, while no one can deny that information technology and back-office processing companies in countries such as India have made remarkable inroads in some sectors of service economies of rich countries, US Commerce Department calculations suggest that for US-headquartered multinationals, the share of purchases bought directly from foreign suppliers was pretty much unchanged at 9 per cent between 1977-2002.

Further evidence on displaced workers also suggests that, as mainstream economic theory would argue, jobs lost to offshoring competition are not gone forever. Critics of offshoring say that, far from merely taking badly-paid and short-term work abroad, it is now making experienced and highly-paid workers redundant.

But the UBS study notes that of the estimated 5.3m workers who had at least three years of job tenure who lost their jobs in 1999-2000, half found another job within five weeks. True, this does not tell the whole story, because such workers may have displaced less skilled or experienced employees. But three-fifths got a job in the same occupation as their previous one, suggesting stories of whole sectors being destroyed by offshoring are overdone. Indeed, those white-collar employees whose jobs are threatened by the most recent wave of offshoring are likely to find other jobs faster than the displaced workers of years gone past, such as the carworkers of Michigan or the coalminers of Pennsylvania, because their skills are more applicable elsewhere.

Moreover, most economists also argue the net effect on rich economies of offshoring is positive, because of the efficiency gains and lower prices they enjoy as a result. The well-known 2003 study by the research arm of the management consultancy McKinsey argued that for every dollar of corporate spending switched to a low-wage nation, the spending economy captures as much as Dollars 1.14 in return.

The problem is that, as Mr Harris of UBS puts it, "the costs of offshoring are obvious but the benefits are subtle". Lower prices for IT products and the knock-on effect in terms of higher productivity and greater real wages and profits are diffused throughout the economy, whereas the gross job losses are immediate and obvious.

As many economists have argued, the solution is for displaced workers to be offered aggressive retraining programmes, and perhaps some form of wage insurance to compensate them for the effects of trade. It is also a good argument for having health and pension rights that can be taken between jobs rather than being tied to one, which will lessen the impact of job churning on the workforce.

Instituting policies such as these, particularly in countries such as the US where the healthcare system is heavily reliant on employer provision, is not a trivial matter. Yet insulating the minority of losers against the effects of offshoring might turn out to be vital in ensuring political support for the phenomenon whose benefits most economists regard as close to self-evident.