Outsourcing: Is your job at risk? (AP)

Under Bill Clinton’s administration, outsourcing exploded throughout the 90s and continues today. The American manufacturing era is over. Outsourcing will continue to be the wave of the future. Outsourcing takes jobs from our shores and sends them abroad, where wages are often lower and other conditions are favorable because they lower a company's overhead. Outsourcing typically involves the reallocation of menial/labor-oriented jobs, often production tasks, to another country, while administrative operations remain centralized in the U.S.

Countries are chosen as sites for outsourcing because they offer a number of attractive and competitive benefits. Labor laws, wage laws, and tax laws all create favorable conditions that help a company lower its overhead and increase its profit. Increased taxation contributes to outsourcing as it reduces corporate profit.

Outsourcing in the United States began in the 1980s and has become increasingly popular, particularly in industries such as manufacturing and has increased in popularity with the explosion of globalization.

As companies in the United States and other western nations began experiencing success with outsourcing in terms of the economy and their businesses, other industries and businesses began to establish operational branches abroad. The core industries that currently utilize outsourcing include phone-based customer service relations, production of material goods (such as clothing, shoes, and car parts), and accounting. Despite its popularity as a 21st century business practice, outsourcing jobs to foreign countries hurts the U.S. economy, directly and indirectly. Menial and technological jobs that are outsourced contribute to unemployment in the U.S., while foreign students who come here to study for degrees are returning to their home countries, where increasingly attractive employment packages are offered as incentives.

Companies that use outsourcing insist that there are many benefits that make outsourcing preferable to the centralization of business within the U.S. Outsourcing lowers a company's overhead because it transfers operations to countries where operational costs tend to be lower. This benefit is passed on directly to the consumer, who enjoys lower prices and thus has minimal incentive to complain about outsourcing unless it affects his or her community directly in terms of job loss. The United States national economy benefits as consumers are stimulated to participate in the economy by increasing their purchases; however, this benefit is offset by negative economic variables. Outsourcing benefits other countries' economies as well, and it is not infrequent to see proponents of outsourcing lauding the fact that this practice results in productive employment for people living in economically and professionally depressed areas. Outsourcing provides workers in other countries with a higher wage than they might receive normally, and it relieves the burden of another country's government to provide jobs for its workers.

Despite the alleged benefits of outsourcing, this practice also has negative implications, both for individuals and the U.S. economy. Outsourcing contributes to unemployment in the U.S.  In one California county, the estimated costs of just 2000 jobs outsourced to Europe, Asia, and Latin America will result in the county's economic losses in excess of $949 million annually. Personal losses will be felt as well; of the $949 million, $301 million represents lost wages. When labor and manufacturing jobs are outsourced, individuals, families, and communities suffer economic losses due to limited job replacement. Most people who work in these industry sectors are not academically or professionally qualified to work in other fields, so their job choices are severely limited, especially when the trend in a community is for industry to be outsourced. When there is massive unemployment, especially within single communities that lose manufacturing jobs, the entire economy of a region can be threatened, creating other social problems that result in economic costs.

Such problems may include spiraling personal debt, the loss of one's car or home, and the inability to pay for a child's education, thus perpetuating the cycle of economic and vocational poverty. These are indirect but important economic impacts of outsourcing. Finally, another negative outcome of outsourcing is that jobs in certain sectors-especially technology-effectively lure foreign nationals educated in the U.S. back to their home countries, causing the United States to experience a phenomenon known as reverse brain-drain. After offering generous scholarships, grants, and in-kind support to foreign nationals, increasing numbers of U.S. educated foreigners are returning to their home countries to pursue lucrative job opportunities offered by United States companies. In many cases, foreign nationals may already have initiated the visa process that would allow them to remain in the United States to work, but their return to the home country aborts that process, resulting in unnecessary costs that cannot be recuperated by U.S. based employers.

Despite the clear economic disadvantages of outsourcing, it is unlikely that this practice will decrease in popularity or use anytime in the near future. U.S. companies are interested more in their own performance than the national economy, and will defend what they perceive to be the positive effects of outsourcing. As profit motivation drives the offshore outsourcing phenomenon. The increasing trend of globalization will also support the continued use of outsourcing as a business practice. As political, legal, and economic boundaries begin to be relaxed, or to dissolve completely, the processes of outsourcing are likely to be facilitated, thereby increasing the use of this practice even more. Finally, it is unlikely that outsourcing will slow down anytime soon because, quite simply, there is limited research that substantiates the exact nature of the impact of this practice on individuals, industries, and the U.S. economy at large.

The sad reality is we can't fix this problem. We can't turn back time and change the events of the past. We can't manufacture products like the United States did in the past and if we did we wouldn't be able to purchase them because the prices would be too high. As new technologies are developed and introduced in America, the majority of components will be manufactured in foreign nations imported to the United States, then assembled and sold to the consumer. The business scheme has changed and there is no correcting it, the true question is how do we move forward and create employment in America that will support our current and future work forces as the population in the United States continues to climb? Resolving this problem will determine the economic success of our country.

**Pros & Cons of Outsourcing Manufacturing Jobs**

by Sam Ashe-Edmunds, Demand Media

Outsourcing manufacturing jobs carries with it a negative connotation among consumers that can damage a small business’s reputation. The benefits of outsourcing can be so significant, though, you might find it’s worthwhile to suffer some bad publicity and reduced sales in exchange for the significant costs savings you realize from moving your production. Carefully comparing the costs and benefits of outsourcing your production will help you determine if this strategy is the right move for your company.

**Lower Labor Costs:** Depending on where you outsource your production jobs, you can reduce your labor costs significantly. This includes not only savings on salaries and hourly wages, but also on payroll taxes and benefits. Overtime laws might also be less stringent than your locale, allowing you to add a shift or offer workers longer hours without increasing your hourly pay rate. You might also be able to reduce your costs by paying an outsourced manufacturer by pieces produced, helping you better control your costs. You are less likely to face a union in many foreign countries, reducing problems such as strikes, contract negotiations and difficulty in terminating poorly performing workers.

**Fewer Regulations:** Businesses outside the U.S. are often subject to fewer regulations regarding labor conditions, use and disposal of materials, right-to-work laws and other areas of manufacturing that raise the cost of producing goods in more developed and regulated countries.

**Lower Real Estate and Plant Costs:** You will save considerable money on outsourcing if you reduce or eliminate your real estate, building, maintenance, property taxes, insurance, security, utilities and other operating and overhead costs. These savings alone might be enough to make outsourcing your manufacturing even if you don’t reduce your labor costs.

**Effects on Sales, Pricing and Margins:** Lowering labor, operating and overhead costs through outsourcing allows you to maintain or lower your current price levels. This can lead to increased sales and the ability to take market share from your competitors. Based on the savings you realize from outsourcing, you can lower your prices and still increase your profit margins.

**Increased Operating Capital:** When you outsource, you reduce your expenses, and if your sales remain the same, you’ll have more money to spend on marketing, debt reduction, research and development, headquarters salaries and other areas that can help improve your bottom line.

## Reduced Quality: When a small business outsources manufacturing, it has to consider its ability to oversee and regulate the production process taking place at its contractor’s location. Unless you can afford pay one of your own employees to be on site, every shift, you won’t be able to examine and control the quality of your product. When an outsourcer produces an inferior product, it might take you weeks or months to find this out, based on how long it takes to ship finished product to you.

## Bad Public Relations: Outsourcing manufacturing often carries with it a stigma in the eyes of consumers. While some manufacturers provide living wages and safe working conditions to outsourced workers, consumers might resent that you are taking jobs from their communities and sending these jobs overseas. Outsourced jobs are often performed by workers who are underpaid, physically abused, overworked or work in dangerous facilities. Some countries allow those companies that outsource to them to pollute the environment. When these conditions are found, consumer groups often publicize this information and call for boycotts.

**The Pros & Cons of Outsourcing to Offshore Companies**

by Cynthia Myers, Demand Media

From factories moving operations overseas to technical support phone banks in India, outsourcing is a part of everyday business life for many companies. Lower wages and decreased regulation can make outsourcing seem appealing to companies trying to cut costs while maintaining quality and services. But the economic benefits alone may not be enough to make outsourcing worthwhile for every business.

**Cost Differentials:** Labor costs in most other countries are lower than in the United States. Employers not only will pay lower wages, but they won’t have to pay unemployment tax, Social Security and Medicare taxes, worker’s compensation, health insurance and other employment costs associated with domestic workers. The larger the company, the more employees it can outsource and the greater the savings will be. However, companies still incur costs to supervise these employees and to train them. These costs may escalate over time, eliminating some of the difference between U.S. and foreign wages. When University of South Florida researchers studied wages in popular outsourcing countries in 2004, they found that wages for skilled workers in India were rising 15 percent a year. In addition, labor disputes in developing countries can disrupt work and result in losses for employers. Even when products are much cheaper to produce overseas, the cost of shipping products back to the United State can further reduce cost savings.

**Quality Control:** While companies can set quality standards for work performed by foreign employees, language and cultural barriers, as well as overseas supply chains, can present barriers to quality control. Products made overseas can be flawed because of out-of-date or worn equipment in overseas factories, or substandard raw materials. In 2000, for example, Masterlock had to recall more than 750,000 locks made in China. Worn dies at the Chinese factory produced locks that could be pulled apart without a key.

**Public Image:** Companies that move jobs overseas can portray themselves as bringing much-needed jobs and aid to impoverished countries. On the other hand, in times of high unemployment in the United States, sending jobs out of the country can hurt a company’s public image. Fewer regulations in other countries can make it less expensive for American factories to operate, but environmental damage and labor abuses that make the news can tarnish the image of companies involved there. Consumers have organized boycotts against companies that use child labor or sweatshops to produce clothing and shoes. In response, companies such as Nike, Dell and Gap have established codes of conduct for their suppliers. Such codes can help improve the image of companies that use outsourcing.

**Expand Capabilities:** Some companies turn to outsourcing because they can’t find the skills or equipment they need to produce their product or service here in the United States. Outsourcing production of a new product can allow you to get to market sooner than if you had to build your own factory, acquire equipment and hire employees. Some countries, such as India, offer large pools of high tech workers. If you operate in an area where such workers are scarce, turning to outsourcing could help fill those jobs with competent employees.