

Nearshore Americas



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Insourcing Jobs for Americans: Can It Work?

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"Insourcing is a smart strategy right now..."

By Clayton Browne

President Obama hosted a White House forum today entitled "Insourcing American Jobs."

Executives from several companies spoke at the event, all representatives of businesses that have recently made major investments in the U.S. resulting in thousands of new jobs – many of them IT jobs.

Several business and academic experts at today's conference

emphasized that productivity gains in many industries are improving America's competitiveness at a time when companies are looking at where to build manufacturing facilities to produce more skill- and capital-intensive products.

President Obama mentioned that he is [crafting tax incentives](#) for businesses that bring jobs home and removing current tax breaks for companies that outsource. "Insourcing jobs is a smart strategy now...because the economic case for bringing jobs back home is strong and getting stronger," he said.

The term insourcing has come into vogue the last few years, and is generally defined as the practice of both foreign and domestic companies opening up development/delivery centers or manufacturing plants and other businesses in the U.S. The jobs for American workers created by these businesses are "insourcing jobs" and represent the other side of globalization and the decades-long and well-publicized outsourcing of U.S. jobs trend.

Obama and his team have chosen to adopt the term insourcing for its antonymic relationship with outsourcing and give it a domestic spin to convey their populist message of bringing jobs home to America. And given how well this theme resonates

with working-class values and concerns right now, it is likely to be a highly effective political strategy for the Democrats.

Unfortunately, the question of whether insourcing American jobs can really work on a large scale in today's global world was not really addressed during this White House forum. While the CEOs who told their insourcing America success stories were sincere and the jobs they created real, the special circumstances that surround most of these companies and insulate them from the realities of global competition were not mentioned, which made the event more about political theater than economic substance.

Globalization and Outsourcing vs. Insourcing

Globalization is a cultural, political, and economic process. It happens as groups of nations sign trade agreements and as one country at a time transitions towards free trade or opens up its economic policy. Globalization also happens every day as companies decide to undertake business in another country. In every case, the process involves offering something of value to trading partners in return for needed materials or goods. And in many cases, this something of value is an inexpensive place to do business.

Globalization and the attendant decades-long trend toward outsourcing has affected almost every U.S. industry, but the manufacturing industry has been especially hard hit. It is difficult to provide accurate statistics on outsourcing, as companies are not required to report most information, but some statistics can offer a sense of scale.

Consulting firm High Road Strategies used Bureau of Labor Statistics data to determine that at least [eight million manufacturing jobs](#) were lost in the U.S. from 1979 to 2009. To be fair, it should be noted that many of these manufacturing jobs were lost due to technological innovations and automation during these three decades, not outsourcing.

Beginning in the 1990s businesses began to also outsource service and information technology jobs to places like India and Mexico, and this trend continues to grow in the 21st century. According to 2011 U.S. Commerce Department data, U.S. multinationals (which represent one-fifth of the U.S. workforce) [cut their total number of U.S. employees](#) by 2.9 million in the 2000s, while adding 2.4 million jobs overseas. [Other researchers](#) also argue that U.S. Commerce Department and Labor Department statistics significantly underestimate the number of outsourced jobs (and overestimate the related productivity improvements), and point out that outsourcing continues to expand rapidly in fields such as IT and HR.

The other side of the globalization coin is insourcing. According to [“Insourcing Jobs: Making the Global Economy Work for America,”](#) a report authored by Matthew Slaughter of the Tuck School of Business at Dartmouth, insourcing has led to 2.7 million jobs for American workers since 1987, with the total number of American workers hired by foreign companies standing at [5.4 million](#) as of the end of 2002. However, a 2004 [WSJ article reviewing Slaughter's report](#) pointed out that the trend toward foreign investment in the U.S. has been decreasing since 2000, and that this was not likely to change given the attractiveness of investment opportunities in other countries.

U.S. workers have become more productive in the last few years, and as today's forum emphasized, America remains an attractive place to invest in for a number of industries in the 21st century. However, the roster of industries where this makes economic sense is shrinking, not growing, and even significant productivity gains will only slow the trend.

It would be great if businesses would build their new factories and design centers in the U.S. simply because Americans need jobs, but it's not that easy. Businesses will invest and create jobs where it makes the most economic sense for them, and despite the productivity improvements in many industries discussed at today's White House forum, it is unlikely to be the U.S. unless we start to produce more of the kind of workers that 21st century businesses need.

Outsourcing Is Often Win-Win

For the country hosting the outsourcing there are the obvious benefits of gainful employment, and in most cases there are also infrastructural improvements in the area of the facility. In many cases, as with [Intel's design center in Guadalajara](#), the companies doing the outsourcing also make significant contributions to improving the educational systems and often partner with local governments or businesses in other social projects. And, of course, the business doing the outsourcing is producing a product or service at a lower cost, enabling them to make more profits (and therefore have more money to spend/do good with back home).

Many economists such as [Jadish N. Bhagwati](#) argue that the medium- and long-term benefits to the U.S. economy from globalization more than make up for the loss of jobs that were doomed to disappear anyway. That is, of course, little comfort to the tens of thousands of individuals and families affected by unemployment, but the economic reality is that companies in many industries must outsource to stay competitive or go bankrupt. One other incidental benefit of outsourcing is that it encourages improvements in technology and in infrastructure as companies search for ways to increase efficiency without having to outsource.

Considering the Regulatory Burden

Developed countries are always going to have a higher regulatory burden for businesses than less developed countries. And that is the way things should be, as more developed nations have the resources (and responsibility) to insist that businesses protect their workers, the environment, and the general public in the course of doing business.

That said, governments do tend to over-regulate some industries over time as laws are often passed in knee-jerk reaction to specific events, rather than as considered policy. One answer to this problem would be planned review of regulatory policy on an industry-by-industry basis every five or ten years, giving industry leaders input into the process.

Almost everyone agrees the U.S. tax system is overly complex and that compliance can be a real problem for both individuals and businesses. A reform and simplification of the tax code would be a significant first step in lowering the regulatory burden and making the U.S. a more attractive place to do business.

Creating a Competitive U.S. Educational System

The U.S. educational system must be reformed to reflect the realities of a global economy. This will require both institutional and curriculum-based reform of education. Our current private-public hybrid education system is a many-headed hydra that is inherently inefficient, and worse is becoming more and more “[commodified](#)” and its agenda driven by market (rather than political) forces.

The longstanding social model of a working class that just needs a secondary education to get a decent job working in a factory or as a mechanic or plumber, and an educated class that is virtually guaranteed a good job if they just “get a college education” is being gutted by economic realities of globalization. We as a nation must respond to structural changes in the demands of the labor market.

We can no longer afford to let a significant percentage of our children not get the education they need to find a good job, and by the same token we need rapid career retraining programs for the millions of workers unemployed by outsourcing. A 1999 Bureau of Labor Statistics study determined that only 36% of workers displaced by outsourcing found jobs at the same or a higher pay rate.

In order to create an educational system that will allow American workers to compete in the 21st century, we must not let our priorities be driven by short-term profit motivations. We need to accept that globalization has completely changed the playing field and thoughtfully consider what it will take to produce the software engineers, civil engineers, graphic designers, network admins, and so forth required to meet future skill-intensive demands of global businesses.

We need both public and private efforts – like those of New Jersey-based [GalaxE Solutions](#) in partnering with Detroit universities and community colleges, mentioned at today’s White House forum – to emphasize technical education at the primary and secondary level. We need to make kids who don’t realize it understand that software is just as glamorous as marketing or finance or fashion design, and that is where the jobs of the future will be.

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