

Myths about Outsourcing

Ten Myths about Jobs and Outsourcing

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The American economy never rests—at this moment, in fact, economic growth is vigorous. Yet every time there is a slight dip in the acceleration of output, jobs, or incomes, the undying myths of a sputtering, backfiring economy rise again. Today, many of those myths concern the ills of outsourcing.

The plain facts, however, lay all of today's myths about outsourcing to rest. But there is still a real danger that politicians working with incomplete or incorrect information will hobble American competitiveness. Scapegoating poor Third World countries, "Benedict Arnold CEOs," and free trade will not improve the U.S. economy or labor market, but would likely cause great harm. Robert McTeer of the Federal Reserve Bank of Dallas summed up the promise of government action on outsourcing well: "If we are lucky, we can get through the year without doing something really, really stupid."[\[1\]](#)

Myth #1: America is losing jobs.

Fact: More Americans are employed than ever before.

The household employment survey of Americans indicates that there are 1.9 million more Americans employed since the recession ended in November 2001. There are 138.3 million workers in the U.S. economy today—more than ever before.[\[2\]](#)

Myth #2: The low unemployment rate excludes many discouraged workers.

Fact: Unemployment is dropping, despite a surging labor force.

Not only is the unemployment rate low in historical terms at 5.6 percent, but the workforce has been growing—there are now 2.03 million more people in the labor force than in late 2001. Without a higher rate of unemployment or a shrinking workforce, there is no evidence of growing discouragement.[\[3\]](#)

Myth #3: Outsourcing will cause a net loss of 3.3 million jobs.

Fact: Outsourcing has little net impact, and represents less than 1 percent of gross job turnover.

Over the past decade, America has lost an average of 7.71 million jobs every quarter.[\[4\]](#) The most alarmist prediction of jobs lost to outsourcing, by Forrester Research, estimates that 3.3 million service jobs will be outsourced between 2000 and 2015—an average of 55,000 jobs outsourced per quarter, or only 0.71 percent of all jobs lost per quarter.

Myth #4: Free trade, free labor, and free capital harm the U.S. economy.

Fact: Economic freedom is necessary for economic growth, new jobs, and higher living standards.

A study conducted for the 2004 *Index of Economic Freedom* confirms a strong, positive relationship between economic freedom and per capita GDP. Countries that adopt policies antithetical to economic freedom, including trying to protect jobs of a few from outsourcing, tend to retard economic growth, which leads to fewer jobs.

Myth #5: A job outsourced is a job lost.

Fact: Outsourcing means efficiency.

Outsourcing is a means of getting more final output with lower cost inputs, which leads to lower prices for all U.S. firms and families. Lower prices lead directly to higher standards of living and more jobs in a growing economy.

Myth #6: Outsourcing is a one-way street.

Fact: Outsourcing works both ways.

The number of jobs coming from other countries to the U.S. (jobs “insourced”) is growing at a faster rate than jobs lost overseas. According to the Organization for International Investment, the numbers of manufacturing jobs insourced to the United States grew by 82 percent, while the number outsourced overseas grew by only 23 percent.^[5] Moreover, these insourced jobs are often higher-paying than those outsourced.^[6]

Myth #7: American manufacturing jobs are moving to poor nations, especially China.

Fact: Nations are losing manufacturing jobs worldwide, even China.

America is not alone in experiencing declines in manufacturing jobs. U.S. manufacturing employment declined 11 percent between 1995 and 2002, which is identical to the average world decline.^[7] China has seen a sharper decline, losing 15 percent of its industrial jobs over the same period.

Myth #8: Only greedy corporations benefit from outsourcing.

Fact: Everyone benefits from outsourcing.

Outsourcing is about efficiency. As costs decline, every consumer benefits, including those who lose their jobs to outsourcing. A 2003 study by Michael W. Klein, Scott Schuh, and Robert K. Triest, which includes dislocation costs in its calculations, shows the benefits of trade outweighing its costs by 100 percent.^[8]

Myth #9: The government can protect American workers from outsourcing.

Fact: Protectionism is isolationism and has a history of failure.

Proposals to punish businesses that outsource jobs, institute tariffs, or change tax rules will carry unintended consequences if enacted. Such measures would injure U.S. firms that export goods and services and erode U.S. competitiveness, often in unexpected ways. Recent steel tariffs, for example, cost jobs in dozens of industries while raising prices for consumers.^[9]

Myth #10: Unemployment benefits should be extended beyond 26 weeks.

Fact: Jobless benefits are already working

The median duration of unemployment is now 10.9 weeks; most workers are covered by existing benefits, which last for 26 weeks. Extending today’s coverage to 39 weeks would cost billions of dollars and have little impact.

Conclusion

America’s workers deserve a more informative, less partisan debate on outsourcing. The negative impact of outsourcing on the economy and American employment has been greatly exaggerated, and the benefits of outsourcing almost entirely ignored.

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