



Protectionism

Global Trends in Business: *Outsourcing is Here to Stay*

The following two articles take opposing views on the trade in services, specialisation, protectionism and how the growing global trend to outsource can have both positive and negative effects on a nation's economy and labour force.

Article 1: U.S. bills threaten Canada's call centres

By STEVEN CHASE
www.theGlobeandMail.com
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Ottawa and the provinces are sounding alarms in Washington about protectionist legislative initiatives in Congress and at the state level that could destroy the ability of Canadian call centres to handle customers for U.S. companies. The Canadian government arguing that these proposed measures would break international law and has asked Washington to ensure Canada gets an exemption from them.

U.S. legislators -- including would-be Democratic presidential candidate Senator John Kerry -- have tabled bills at the federal level and in several states to prevent what they call the "outsourcing" of American call centre jobs. "The U.S. has lost 250,000 call centre jobs since 2001. John Kerry wants to keep jobs in the booming call centre market here in America," an organizer for Mr. Kerry says on his website. One such bill in the New Jersey Senate, which has already drawn direct fire from Ottawa, would force foreign-based call centres working for U.S. companies to identify their location to U.S. customers "within the first 30 seconds" and offer to transfer the call to a U.S. call centre instead.

"Customers would be able to say, 'Sorry, please reroute me to a call centre in the United States,'" says James LeBlanc, a senior associate with the Centre for Strategic & International Studies in Washington. "You peel the onion back on these things and... they are very isolationist," Mr. LeBlanc said of the bills.

International Trade Minister Jim Peterson said federal officials are pressing Washington to make sure Canada is not sideswiped by this legislation. Rules at the World Trade Organization and under the North American free-trade agreement forbid governments to single out foreign operations for harsher treatment than domestic operations. We fully expect the United States to remain faithful to its trade policy obligations under NAFTA," Mr. Peterson said. "Federal and provincial officials continue to address this issue with their counterparts at every opportunity."

The call centre backlash is part of a larger political reaction in the United States to the mass migration of information technology jobs overseas, including to well-educated, low-wage countries such as India. The government of New Brunswick, which has about 100 call centres employing 17,000 people within its borders, says 35 of these centres are working for U.S.-based companies or Canadian subsidiaries of U.S.-based companies. In Ontario alone, the provincial government estimates there are more than 3,000 call centres employing more than 150,000 people. About 80 per cent of the work is serving clients in the United States or other foreign countries. "We have to watch the evolution of the American mood in the States. We can't let this slip below the radar," Sarah Ketcheson, spokeswoman for Business New Brunswick, said of protectionist moves south of the border. Linda Osip, executive director of the Canadian Call Management Association, said "not enough Canadians know about" the legislative schemes working their way through U.S. legislatures.

"It's definitely going to impact our membership. We have to take some kind of an aggressive role with the government to say: 'This is what this means to us,'" he said. Ottawa went so far as to send U.S. Trade Representative Robert Zoellick a letter last year outlining its fears over the New Jersey Senate bill, which some U.S. watchers feel could set a trend. Other states that have considered similar legislation are Maryland, Missouri, Wisconsin, Connecticut, North Carolina, Arizona, Hawaii and Minnesota.

"New Jersey's proposed legislation would unduly and unjustifiably affect cross border trade in a number of key service sectors including business services, distribution services, financial services and tourism and travel-related services," Michael Kergin, Canada's ambassador to Washington, warned Mr. Zoellick in the letter.

Both Ottawa and provincial governments say they remain hopeful that the U.S. business lobby will defeat these bills or that Washington will step in to prevent them from affecting Canada.

Article 2: Outsourcing helps create better jobs

By Dwight Lee
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We are not reducing job opportunities in America by outsourcing jobs to other countries. That's too much to hope for. But outsourcing jobs does create higher-paying jobs for both American and foreign workers. Politicians claiming that, if elected they would restrict this outsourcing are promising to make America poorer, while also harming people in other countries.

The good news on outsourcing is based on the bad news of scarcity. We'll never be able to produce as much as we want - our ability to "produce" is limited, our desire for more isn't - which explains why consumers benefit from outsourcing. We outsource jobs when foreign workers can produce the goods we want better and more cheaply than domestic workers can. But what about workers? How can we afford to buy those goods if we don't have jobs? This is not a serious concern.

Because of scarcity, there are far more jobs we want done than there are people to do them. When we get more goods for less effort, whether by technological improvements or by outsourcing jobs, we end up better off, not unemployed. Getting more for less frees up workers to produce more of other things we want.

It has been estimated that to make the number of telephone calls we make today with the technology of 1900 would require more than half the adult population working as telephone operators. But we are clearly better off without those jobs, since more people can now work as nurses, medical researchers, musicians, writers and entrepreneurs developing new products and technologies that will destroy even more jobs that will be replaced with better jobs. No matter how productive Americans are, some things can always be produced more cheaply in other countries. The problem isn't creating jobs in America, but creating those jobs in which we are the most productive. This doesn't happen when we protect some jobs against the competition from foreign workers.

By forcing our workers into those jobs in which we are the most productive, foreign competition increases wages in America, since higher wages result from increased productivity. And by forcing workers in other countries into their most productive jobs, foreign trade also increases their wage.

Case Questions:

1. What's outsourcing? Protectionism?
2. Why are they done?
3. How's outsourcing relate to the following:
 - a. International trade and globalization
 - b. International organizations and agreements
 - c. Economic interdependence and convergence
 - d. Specialization and wealth maximization
4. Perform a STEEPEC on the decision to outsource work from your firm to another foreign company.

But wouldn't it be nice if buying things made by foreign workers did eliminate most American jobs?

Unfortunately for us, we not only want more, but so do people in other countries. Why are they willing to work producing goods for Americans? Because they want what our money will buy. The money we pay foreign workers comes back to America, either directly or indirectly, as demand for goods that are produced by American workers. If foreigners kept our money as souvenirs, then Americans would be in the enviable position of someone who could buy whatever they wanted with checks that no one ever cashed. We could all live like millionaires without working. But no such luck. Foreigners cash our checks, and we have to produce goods and service here to pay for what we buy abroad.

No one denies that outsourcing and international trade harm some by eliminating their jobs. Most of this hardship is temporary, but not all, as some older workers, or those who refuse to move or learn new skills, will not find new jobs that pay as well as the old. But such job loss is essential to economic progress, as changing technologies and preferences constantly reduce the value of some jobs relative to others. There is no surer way to impoverish a country than by preventing the destruction of existing jobs. Just imagine how poor we would be if we had done that in 1900, or even 1950.

Politicians pander for votes by claiming that workers who lose their jobs are the victims of calloused corporations and an unfair economic system. If these workers are victims, the blame belongs to consumers, including themselves, who want corporations to provide them with the best products at the lowest cost. Workers threatened with foreign competition may want politicians to protect their jobs against that competition, but they would be worse off if all workers received that protection.

Any politician who really believes America would be better off if we restricted the outsourcing of jobs is a threat to our prosperity. I doubt that many politicians are that uninformed, but they must believe that most Americans are. Let's hope they are wrong.

(Lee is Ramsey Professor of Economics and Free Enterprise with the University of Georgia's Terry College.)