



Why Your Job Isn't Moving to Bangalore

By Jagdish Bhagwati

Recent criticism of overseas outsourcing as costing American jobs is misguided. American job losses are generally due to technical change, whereas outsourcing actually improves the competitiveness of American companies and increases the overall economic pie.

Greg Mankiw, head of President Bush's Council of Economic Advisers, has been widely criticized for telling reporters the simple truth that "outsourcing" of jobs is beneficial to the U.S. economy (even though he hedged his comment with a "perhaps"). John Kerry, the presumptive Democratic presidential nominee, described executives who import services—such as using lower-paid workers in foreign countries to handle customer-service calls and Internet queries from American consumers—as "Benedict Arnold CEOs."

In objecting to moving service jobs overseas, Senator Kerry is wrong on two counts. First, his economics is faulty: the practice only adds to the overall economic pie and improves the competitiveness of American companies. In a world economy, firms that forgo cheaper supplies of services are doomed to lose markets, and hence production. And companies that die out, of course, do not employ people.

Second, Mr. Kerry is making a political error. By playing to the understandable but incorrect fears of American workers that outsourcing is "taking away" jobs from Americans, he is painting the Democratic Party into the wrong corner on trade issues.

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As Bill Clinton showed the country, there is a way for politicians—even Democrats—to explain the benefits of free trade. They could start by explaining that service imports fall broadly into two types. The first is made up of the simple, labor-intensive services like answering complaints, solving basic computer problems by taking customers through defined steps on the phone, or interpreting results of routine medical tests.

Putting these jobs overseas is, in economic terms, no different than importing labor-intensive textiles and other goods. In the 1980s and '90s, labor unions warned that imported cheap goods from the Far East would depress our wages and labor standards. But, as virtually any economist who has studied the empirical evidence of the last two decades knows, the overwhelming cause of wage stagnation in manufacturing has been automation within America, not pressure from cheaper imports. The same dynamic applies today—with the technological change affecting service jobs rather than manufacturing.

The second, newer type of outsourcing involves American companies that do highly skilled research and development work abroad. Craig Barrett, chief executive of Intel, has said that American workers face the prospect of 300 million well-educated people in India, China, and Russia who can "do effectively any job that can be done in the United States." But such concerns seem exaggerated. There is little evidence of a major push by American companies to set up research

operations in the developing world. I have taught hundreds of fine foreign students in the last few years, but only a small fraction are at the level of proficiency that Intel looks for in its research programs. And a cursory look at American immigration shows that the best students in high-tech fields come from just a handful of world-class institutions in those countries.

Unfortunately, the issue is further confused by claims that American jobs are being “transferred” abroad. This is usually not the case. When I came to my university twenty-five years ago, I got a secretary. Today, the new hires get a computer instead. In India, where a secretary costs a small fraction of what one

would in New York City but a computer costs more, any Indian professor who asked for a new laptop would probably get a secretary instead. It is simply a matter of economic reality in both places. The hiring of the secretary in India should not be seen as “transferring” a job out of New York.

The fact is, when jobs disappear in America it is usually because technical change has destroyed them, not because they have gone anywhere. In the end, Americans’ increasing dependence on an ever-widening array of technology will create a flood of high-paying jobs requiring hands-on technicians, not disembodied voices from the other side of the world.