

Fair exchange: Who benefits from outsourcing?

by [Albino Barrera](#) in the [September 21, 2004](#) issue

The outsourcing of U.S. jobs overseas, the subject of much discussion in this year's presidential campaign, is part of an economic movement that promises a better life—indeed, a new beginning—for many people in developing countries. It gives technologically savvy young people in countries like India livelihoods that move them into the ranks of the middle class. On the other hand, workers in industrialized nations are being displaced in large numbers. Comparably well-paying jobs are not being created fast enough to make up for the positions headed offshore.

How does one morally evaluate this complex situation? Since international trade by its nature entails shifting resources for comparative advantage, the phenomenon of international outsourcing is not really new. The U.S. imports goods that would have cost more to produce domestically, and it manufactures and sells to other countries commodities that would have been more expensive for them to supply themselves. It is a win-win situation for nations, providing gains in consumption, production and exchange.

Cheaper imports mean that incomes can be stretched to buy more goods and services. Trade increases real income because it improves people's purchasing power. It also brings gains in production, since it allows countries to manufacture only those commodities that provide them the best possible earnings.

It makes sense for the U.S. to use its scarce natural and human resources to manufacture airplanes, high-end computer chips and advanced software—products that command better prices than do less complex things like shoes or textiles. Why produce something ourselves that we can get more cheaply elsewhere? Why use our resources to manufacture something of lesser value when we could use them to make something of greater value?

The world reaps enormous benefits from letting countries specialize in what they do best and most cheaply. Not only does this system increase efficiency and achieve

economies of scale (both of which lead to a drop in costs), but it lays the groundwork for even more pathbreaking technological changes in processes and products.

Economic history makes clear that openness to the global marketplace is a significant determiner of a nation's economic well-being. Thus, the promotion of trade liberalization has been a perennial part of the World Bank's and the International Monetary Fund's assistance packages.

Yet assertions about the advantages of international trade (and, by extension, international outsourcing) must be heavily qualified. They refer only to overall gains and do not acknowledge how benefits are disbursed. One error in economic reasoning is the fallacy of division: the assumption that what is good for the whole is necessarily good for its individual parts. Not everybody gains from trade. The benefits of international trade come at the price of creating an economic life in constant flux and even disequilibrium.

Concern over the deleterious impact of trade (or technological change) is also not new. Tensions arising from market innovations and expansion began with the onset of the Industrial Revolution. British master weavers' hard-won and highly paid skills were rendered obsolete overnight by the introduction of machinery that quickly and abundantly produced textiles of comparable and uniform quality. Some of these disaffected weavers (eventually known as the Luddites) rioted, destroyed textile machinery and heavily lobbied parliament to ban or regulate the use of labor-displacing equipment (all to no avail).

Earlier, through contentious, drawn-out debates, "free-traders" succeeded in convincing the British parliament to repeal the Corn Laws and allow the unrestricted entry of cheaper grains from abroad. Industrialists asserted that this approach kept food prices (and wages) low, thereby making British industrial products more competitive abroad. Urban workers and industrialists benefited from the liberalization of the food market, but at the expense of farmers and landowners.

Technological change and market expansion can precipitate radical overnight changes in income distribution. They can produce a profound reallocation of burdens and benefits across local communities and even nations. No wonder international trade has always been a contentious issue.

Outsourcing has gained notoriety in recent months because of the accelerating volume of job transfers overseas and the sudden vulnerability of high-tech and

service occupations that were once thought immune to trade displacement. Services that used to be nontradable (back-office operations, call centers, data management and accounting sectors) have now been made fully tradable because of advances in communications and computational technologies. Location is increasingly insignificant in the provision of these services. Moreover, the ready availability of large pools of technically capable and computer-savvy workers overseas has eroded what traditionally had been considered the distinct preserve of the U.S. and other developed countries: sophisticated, high-end technologies.

Many people have come to expect that blue-collar workers will sometimes be displaced as a consequence of trade. The fact that the same fate can descend on highly skilled and educated professionals is a new concern. Developed countries are torn between the steady call to stay the course with international trade and the ever-growing clamor to slow down or even ban outsourcing.

According to the standards of procedural justice, which calls for treating similar cases in a similar fashion, nations should not be selective in implementing trade rules but should simply let mutually agreed-upon processes and procedures run their course. Since World War II, developed countries, especially the U.S., have championed trade liberalization, having learned from the ill effects of trade protectionism during the interwar years. The spectacular economic growth in the second half of the 20th century reflects the enormous benefits reaped from the free trade of goods and services. The Asian Tigers (South Korea, Taiwan, Hong Kong and Singapore) and Japan became economic powerhouses. China owes its current economic boom to the open Western markets for its products and services.

Developed countries, too, have been major beneficiaries, since their comparative advantage lies in the trade of manufactures, services, intellectual property and capital. Industrialized countries have been vocal in promoting trade openness in these areas and have fiercely defended the need to respect and enforce intellectual property rights (e.g., pharmaceutical patents and software). There are, of course, adjustment costs that accompany trade, since segments of local populations are hurt by open markets. Despite these costs, poor countries have subscribed to international trade rules and have slowly but steadily opened their markets in those economic sectors (especially manufactures and services) where industrialized countries have much to gain.

Having reaped enormous profits from free trade in those areas where they enjoy a distinct comparative advantage, developed countries violate procedural justice whenever they curtail or suppress the liberalization of markets in which they have a comparative disadvantage. This is exactly what the European Union, Japan and the U.S. have done in food markets, making poor countries unable fully to reap the gains of their comparative advantage (agricultural crops). The industrialized nations have steadfastly refused to open up trade in farm goods in an effort to protect farmers from being displaced by global trade. This is the proverbial case of wanting to have one's cake and eat it too.

A second conception of justice, justice as mutual advantage, calls for an equitable disposition of costs and benefits for all involved. Relationships should not be one-sided; gains and liabilities should be shared according to some mutually approved criteria. There are many variants of this school of thought, one of the best known being John Rawls's conception of justice as fairness: every person has the maximum freedoms consistent with others' enjoyment of the same liberties; and inequalities are permitted only to the extent that such disparities benefit the most disadvantaged.

The quickest and easiest way to understand the second condition is to use its theological analog, the preferential option for the poor: the more disadvantaged and marginalized people are, the greater should be the assistance and solicitude extended to them by those in a position to help.

The promise that outsourcing holds for many impoverished people is vividly seen in India. Computer-related industries around Bangalore have spawned a wide and beneficial ripple effect across the nation. Human capital has replaced physical capital and natural resources as the primary creator of wealth in this postindustrial era. This augurs well for many nations poor in financial capital and natural resources but richly endowed with an educated workforce. They can leapfrog the traditional process of industrial development and parlay their human capital into much-needed foreign exchange. In other words, the technological advances that have made outsourcing possible have created a new global market for what used to be "nontradable" services.

In assessing mutual advantage in economic exchange, second-order effects should also be considered. U.S. consumers benefit from outsourcing through their gains in consumption. Moreover, a leaner cost structure makes U.S. producers more

competitive in global markets, which should create more jobs. Blocking outsourcing thus imposes hidden costs (“taxes”) on other Americans.

Future generations are the biggest beneficiaries of the dynamic gains from trade brought on by technological advances. Innovation is price-sensitive and responds to incentives and increased earnings. Trade distortions would erode future gains from efficiency, and succeeding generations would be adversely affected if outsourcing were impeded. The efficient use of finite resources benefits not only contemporary market participants but future economic agents as well. Justice requires mutual advantages across different generations.

Despite these arguments against obstructing outsourcing, a laissez-faire approach is also not right. Justice calls for remedial action for the negative unintended consequences of market operations. Those who reap the benefits of international trade have duties toward those who bear the costs of making such market exchanges possible.

The claim that trade is ultimately beneficial because it creates new jobs even as it destroys old ones runs into two problems. First, disparities in skills or in geographic location may make for a bad fit between displaced workers and new jobs. Finding a new job, getting retrained, shifting to a new field or securing age-appropriate employment can be difficult and costly. A second problem is the time lag between job destruction and job creation.

Who should bear these unavoidable and significant costs? A laissez-faire approach to outsourcing simply leaves people to fend for themselves. Justice as mutual advantage requires a transfer of resources and assistance between beneficiaries and losers in market exchange. Relief cannot be limited to unemployment payments, food stamps or other stopgap measures, but must be substantive and geared toward reintegrating displaced workers back into the economy. This can take many forms, such as the provision of trade adjustment assistance grants, retraining, tuition assistance, extended health care benefits and career counseling.

Funding these programs will be a contentious issue because of the difficulty of identifying and then compelling beneficiaries (e.g., firms and consumers) to give up some of their gains from outsourcing. Government should not be viewed as the sole provider of these measures. Unions and local communities have an obligation to do whatever they can for themselves. Higher bodies should not arrogate functions that

lower bodies can provide for themselves. Involving nongovernmental organizations can elicit new and creative ways of providing assistance to those who have been hurt by outsourcing.

Theological ethics arrives at the same conclusion as philosophical ethics: though outsourcing must take its course as part of the normal workings of international trade, the beneficiaries of this market exchange must help displaced workers make the transition to a new place in the economy. We have a dual obligation to be efficient in our use of the goods of the earth and to cooperate with one another in our economic work. God entrusted the earth to our care as we use it to fill our needs. International trade fulfills these twin duties by satisfying human needs in the most effective way while eliciting collaborative work through the division of labor.

The formation of ancient Israel provides insights into how the global economy ought to approach the dilemmas posed by outsourcing. Yahweh not only liberates the oppressed Hebrews from their slavery in Egypt but also brings them into a land “flowing with milk and honey.” God offers his people a life both free and abundant, but only if they live up to their covenantal responsibility. The covenant code (Exod. 20:22–23:33), the Deuteronomic law (Deut. 12–26) and the code of holiness (Lev. 17–26) present a formidable array of statutes governing economic life: mandatory lending, interest-free loans, sabbatical rest and festivals, jubilee releases and land tenure, gleaning restrictions, tithing, debt remission, slave manumission, and the preferential treatment of widows, orphans and strangers.

We can draw various insights from these divine initiatives. Divine providence fills our needs; God intended us to have a bounteous life. But this abundant life is possible only if we truly care for each other. Our mutual solicitude is God’s channel for providing us with plenty. Consequently, we must take responsibility for those who are in economic distress, reintegrating them into the community’s economic life. Globalization affords us unique opportunities to take responsibility for each other’s welfare. We are on the cusp of a global economy that requires humans to function as a single interdependent family. If we embrace the claim that we are all brothers and sisters in Christ, then national borders cannot limit our solicitude for others.

We cannot end outsourcing simply because local jobs are lost; outsourcing has an immense upside in its effect on the lives of poor people. It presents a unique opportunity to assist people mired in poverty. Economists and policymakers know that the best and most enduring form of assistance developed countries can give to poor nations is not in direct grants but in open markets. The global economy can be

the “land flowing with milk and honey” entrusted to us all. Nevertheless, neither outsourcing nor trade should be completely unfettered. The moral obligations that tell us to assist the poor of the world by opening our markets also call us to help displaced workers find another place in the economy. Our duties toward poor nations and displaced domestic workers are not mutually exclusive. They can be satisfied simultaneously, but only if people are willing to sacrifice for each other’s well-being.