Outsourcing: Unemployment in America

By:

Rachel Converse
Rachel Denenberger
John Holt
Nick Murphy
Aimee Winemiller
Introduction

How would you feel if the company you had been employed with for several years suddenly told you that you no longer had a job there? How would you feel if you knew that your job was given to someone in a foreign country for merely a fraction of your salary? This is not a simple hypothetical situation; this is something that countless Americans are dealing with due to the decline of the U.S. economy. Outsourcing has become a serious issue for American workers, major corporations, and politics.

Outsourcing is used by major corporations, such as DELL ™, to employ foreign workers at lower wages than American workers. While this idea is great for eliminating high costs during a tough economic time, it puts hard working Americans out of jobs and gives them to foreign countries at one third of the cost.

Outsourcing also poses several other risks. National security is a second main issue. By sharing vital information with other countries, we put our national security at jeopardy and ultimately putting the country in danger for more terrorist attacks.

Other issues involved in outsourcing include cultural barriers, inability to communicate with workers overseas, technical errors, and we lose control of our work and our workers.

Nonetheless, outsourcing is not something of popular debate in recent years; in fact, manufacturers have been relying on foreign suppliers for years to meet their business needs. However, with the advent of globalization, the practice of outsourcing has taken on new significance, raising its place in the political arena to the highest level during the 2004 and 2008 presidential elections. Regardless of one’s political affiliation it is clear that jobs are being lost due to outsourcing. This deliberative guide poses three potential approaches to solve the issue of unemployment caused by outsourcing.

Enclosed in this book are three approaches to solve the foremost issue caused by outsourcing: U.S. unemployment.

Approach One:
10% Limit

The first approach is entitled the 10 Percent Plan. This approach allows companies to outsource, but they must cap the jobs outsourced to 10 percent. Ultimately what this means is that, should a company outsource, they may only outsource 10 percent of the jobs in their company.

This will ensure stability in America for American workers while still allowing companies to take advantage of the low production costs overseas. By increasing U.S. jobs, but still allowing companies to outsource, we will boost our economy and enjoy the benefits of lower consumer costs here in America.
Approach Two:
An Even Exchange

The second approach involves an even trade of jobs. For every job we outsource to another country, that country must bring a job of equal standing back to the U.S. This will provide a steady flow of jobs exchanged between countries.

This plan ensures that more jobs will be created for American workers because the country we outsource to must provide jobs of equivalent positions for Americans. This plan also helps keep up foreign relations as well as bridges the cultural barrier that can sometimes create problems during the process of outsourcing.

Approach Three:
The Homeland Onshore Model

The final approach is one that would eliminate outsourcing all together. Since the majority of jobs that are outsourced are those in the IT field, the Homeland Onshore Model (H.O.M.) proposes that instead of outsourcing to another country, a company may outsource to another state. For example, if an IT corporation is based in California, but there is a talented worker in Ohio willing to work for a competitive rate, the worker in Ohio is able to work for the company, but from the comfort of their Ohio home.

This plan promotes a complete termination of outsourcing to other countries. Instead it provides quality, stable jobs for American workers at competitive rates.

Through this book we will explain each approach in full, examine each plan’s benefits as well as its costs, and provide a detailed analysis as to why these programs should be implemented.
Approach One

A popular way for large corporations to save on production costs is to outsource jobs to other countries. In doing so, corporations cut U.S. jobs causing a continuous rise in unemployment in America. A severe problem with outsourcing is that some corporations over outsource causing thousands of jobs to be lost in America. Several bills have been presented to congress to attempt to give Americans their jobs back but with little luck. It is important that America implement a program to secure jobs in America and encourage large corporations to keep jobs in the U.S.

Proponents of approach one, argue that a regulation on how much a company may outsource would help keep jobs in America while still allowing companies the freedom to outsource. Approach one entails a ten percent cap on how many jobs a company may send overseas. The government would provide tax incentives for companies to keep jobs here. They are still permitted to outsource, but the more jobs they supply for American workers, the less they pay in taxes for that year. Should a company outsource more than ten percent of the jobs in their company; their taxes will be higher at the end of the year.

This approach, we believe, will create more jobs for struggling U.S. workers and will reduce potential risks caused by outsourcing.

Tradeoffs to this Approach

When you have a company, you figure the workforce generally is between 10 and 5,000 employees. If the workforce of a company is less, then a smaller amount of jobs will be able to be outsourced, up to 10%. If the workforce is into the thousands with a company, then a higher amount of jobs will be sent overseas, but only up to 10%. No matter what, in any situation, no matter how many employees a company has, they’ll only be able to outsource up to 10% of their workforce. This plan, if implemented will drive U.S. companies to keep higher skilled workers in the workforce and let up to 10% go overseas to lower skilled workers that demand much less pay for the same work that would be performed in the U.S.

If the U.S. Government were to implement a bill that states if companies were to outsource more than 10% of their workforce, higher taxes would be placed upon those companies. This would work excellent if the government were to make sure that this would occur each and every time this happened. If there were a slight chance they could get away with outsourcing more than 10%, they would. But if the companies knew that they would get caught and taxed, this would deter would be cheaters of the 10% bill.

Over the past several decades, the world’s economies have become increasingly interdependent, and many CEOs’ of big corporations along with small business owners have come under increasing pressure to raise productivity and profitability while lowering operation costs. Outsourcing has emerged as a popular competitive strategy for large, along with smaller companies that believe they must perform their business processes offshore in order to survive and avoid a financial downfall. If companies do not use this 10% rule then their company could be in jeopardy and fall victim to going under.
Proponents Argue…

One argument is that too many companies outsource the majority of their workforce, therefore taking jobs away from the U.S. Statistics show that companies are turning more and more to outsourcing for services and/or manufacturing positions in order to cut costs, which is not helping our economy. If companies have free reign for how many jobs they outsource the American workers job will be given to someone overseas willing to work for a fraction of what would be paid to a U.S. worker. Take IBM for example, the company has planned to lay off 13,000 employees and increase the employment overseas by 14,000. They are even planning on opening an India based outsourcing company. Several companies all over the United States are doing the same thing IBM is doing. They are continuously taking more jobs away from American workers and giving them to workers overseas. They claim it is to take advantage of the low production costs, but are the reduced costs truly worth the expenditure of higher U.S unemployment?

Several argue that the advantages of cheap labor that come from outsourcing do not outweigh the risks involved in outsourced work. Such risks include, but are not limited to national security and cultural barriers. Through this plan, the government can regulate how much a company may outsource that could potentially reduce these risks created by outsourcing.

Another Argument is that companies cut costs by outsourcing. Outsourcing jobs is a third of the cost than insourcing. If companies can save money by outsourcing while they are receiving the same product why would they want to insource? With this plan it will still allow the companies to outsource but will still keep jobs in the U.S with a cap on the ones outsourced. This way they can reinvest in the U.S economy and increase domestic jobs.

With the development and enforcement of this plan, companies can reduce risks caused by outsourcing and will help to rebuild our economy while still allowing companies to access the world’s highest level of intelligence.

In Opposition

Creating barriers, and decreasing the amount of outsourcing we provide to foreign countries could potentially be costly. Since the amount of jobs outsourced to foreign countries were at it’s peak under the Bush administration, much of our foreign relations have increased when countries, such as India, have seen a significant positive effect on their own countries economy. With this being said, it has become our responsibility to meet recent needs of those countries that we have created. By implementing the Ten percent limit approach, we are simply no longer going to be able to send the significant amount of jobs overseas, creating our foreign relations to decline. Not only is this a bad impression left on the United States government through others’ eyes, and possibly our own, but we are putting ourselves in a position of even more possible backfires and costs.

With this being said, the Ten Percent Approach would create an increase in costs, product and pay, which is the reason many of the jobs were sent elsewhere in the first place. Many of the businesses who outsource, chose to do so because their companies were not able to pay employees at the pay rates deserved, and still stay afloat in the diminishing economy. Outsourcing not only allows these businesses to decrease their costs, and still receive quality products, but also enables consumers within the U.S. to pay for lower products costs. The implementation of the Ten Percent plan, would ultimately take away these luxuries for business and as a consumer.

To this extent, the Ten Percent approach would not only generate other problems, but would not fully illuminate some of problems already seen within the outsourcing and labor trade system. To emphasize, problems such as hidden costs, language and cultural barriers or differences,
time zone disconnects, employee morale, analysis issues or economic fluctuations could still be prevalent in the outsourcing structure because this approach is not entirely ridding outsourcing altogether. Problems such as these are still relevant within the outsourcing structure and can alternatively cause more miscommunications and barriers in corporations than if the positions were kept domestically and within the same environment.

Discussion Questions

- Should the 10% rule apply to all of the industries in the U.S. that outsource, or should it only be certain industries?

- Through this plan do you think that more jobs would actually be brought to the U.S? Why or why not?

- Would this approach be the best solution to the unemployment and outsourcing problem in the U.S.? And help prevent from reaching these dangerous levels in the future?
Approach Two

Even Exchange Clause

During the years of the Bush administration, he used tax incentives to encourage large corporations to use outsourcing in order to increase profits and save on production costs. As a result, the availability of jobs to American workers decreased substantially. On the opposing side, Obama has attempted to repair the job loss by implementing tax incentives to urge companies to bring jobs back into the U.S. Both plans have changed the American job market drastically. However unemployment still remains a major issue for Americans.

Because major problems with outsourcing are the cultural barriers between countries, approach two anticipates the resolution of this issue. Through an even exchange a job may be outsourced overseas in return for a job of equal standing in the U.S. This program will help resolve issues of cultural barriers and improve foreign relations because, as we provide a job for another country they give a job back to America.

Proponents of approach two argue that the issues of unemployment and cultural barriers would be solved by an even exchange of jobs outsourced between countries.

Tradeoffs to this Approach

With the exchange of jobs from one country to another, your never quite sure what you will end up with on either end. If the U.S. were to send an IT job over to India, the U.S. would expect that type of work to be shipped over here. The jobs that are outsourced have to deal with: manufacturing, call centers and most of all IT. For all the work that we here in the U.S. ship over to foreign countries, it would be nice to replace those jobs with equal paying jobs here in the U.S. The problem with that is that we ship jobs overseas to save money not to spend more. But this is a start to replenish the jobs that we lose here due to outsourcing and to help with the unemployed. Having a less paying job, is better then having no job.

Understanding that businesses need to evaluate and act on initiatives that allow them to compete and make a profit, truly believing there are alternatives to outsourcing such as natural attrition and retraining for positions where people left the company on their own, offering voluntary resignations with incentives and other creative solutions. One would be the exchange of positions. If 10 positions go overseas then the country where they were sent need to send 10 over here to the U.S. This can also include sending people over here also. There are now more people coming in with H1b visas, support people who needed to be imported to this country (after all India is on the other side of the world, and they sleep when we are working, and vice versa), and a whole new layer of middle management from the foreign country who came here, called Liaison people who command less salaries then U.S. workers. This is a good start to an exchange system between countries.

Offshore outsourcing risks include those associated with running a business in a country that has different laws or an unstable government. Many prime outsourcing locations are not in the most stable of governments, and great money loss could be accrued if political situations worsened. Sudden changes in leaders could prove a problem too, and coups might end with the outsourcing company being owned by a new country leader. A lower level of maintenance, particularly in third world countries, might mean unexpected shut-downs, as from natural disasters, that cannot be immediately attended to by municipal or other government. These are some of the problems that the U.S. has to deal with, but in turn we still get a good quality product at a great price.
Proponents Argue...

One argument for implementing this plan is that the exchange of jobs is not even across the board, therefore instead of benefiting both countries’ economy it only helps one countries’ economy. For example, Toyota and Honda, both Japanese based automotive companies provide approximately 24,000 jobs for Americans. While we are providing them with multiple jobs, they are only providing us a handful of jobs for Americans. Therefore there needs to be an even exchange implemented on outsourcing.

Another argument is that there are cultural barriers that need to be broken down. The U.S needs to increase foreign relations. With the Exchange approach, this will bring a job for a job. This increases cultural experiences while providing jobs for both countries, boosting both economies also. Companies get the best of all worlds because they can still outsource and provide jobs at home, while breaking cultural barriers.

In Opposition

As previously mentioned with the Ten Percent Approach, the Outsourcing Exchange Agreement would not be eliminating outsourcing altogether, therefore barriers and problems within the company would still persist within the structure. However, with this plan, possible increases in these problems could arise, with a rise in the number of insourced jobs to the United States from foreign countries. This is because problems such as language and cultural barriers would be involved in the agreements made as well as the system itself.

With this example, it is clear that the agreements could raise communicative and lawful issues if they are not looked at carefully and agreed upon accordingly. Meaning, the cultural and language barriers that are already seen between countries could result in many more issues within these contexts because

we are not only creating more traded jobs, but we are involving contracts with information that could mean two separate things for either country. This being said, the Equal Exchange agreement would not only retain the same problems seen within the outsourcing structure today but would increase the amount of such problems in the traded workforce.

Within all of these considerations of possible increases in riskiness and problems, The Equal Exchange agreement would also potentially increase the backfires seen with economic fluctuations of the stock market and political economy. Because we are increasing the involvement of world trade, with human capital, we are essentially increasing our risks of instabilities seen in economic fluctuations. Meaning, if their economy suffers, our economy would ultimately also suffer. This being said, if a company falls to bankruptcy across seas, the jobs outsourced to the States would be at risk of also receiving the extremities that particular company falls victim of. Jobs could be lost in an instant. These repercussions could be devastating.
Discussion Questions

- **S**hould the U.S. expect countries that we outsource to, to pay the same salary for the same positions?
- **H**ow do you think this would improve foreign affairs?
- **A**re the insecurities worth the job increases and maintenance of foreign relations?


Zimmerman, Alan. Member of the Business Department of City University of New York, College of Staten Island. Fair shares: A preliminary framework and case study analyzing the ethics of offshoring. Science and Engeineering Ethics, 16(2), 353. 2010.

One of the most frequent jobs that are outsourced are those in the IT field. This is due to the ease of access to highly skilled IT workers. However, there are countless risks involved in IT outsourcing such as, national security, cultural barriers, difficulty to oversee work, and time-zone disconnects. These are major issues that affect all Americans and not merely those in the IT field.

The Homeland Onshore Model, or H.O.M., is a program developed by the Synergy group in California in an effort to reduce the process of outsourcing by American corporations. The model works best for jobs in the field of Information technology. In more detail, the program implies that the process of outsourcing may be done, within our own country. This means that a company may hire an associate from another state at a competitive wage, similar to a wage paid for a worker overseas.

For instance, a large corporation located in Alaska would like to hire a very talented man in the IT field who lives in Florida. However, the man in Florida does not want to uproot his family to move to Alaska. Through the H.O.M. this is no problem, the man may stay in Florida and maintain his employment in Alaska. He will be paid a rate similar to that of an IT worker overseas.

Proponents of the Homeland Onshore Model believe it will be a powerful alternative to offshore outsourcing. Not only will it solve the increase in unemployment rates, but it will reduce the security risks posed with outsourcing IT jobs.

Tradeoffs to this Approach

It is important to review what type of work is safe to send offshore. For instance, outsourcing production support overseas entails a high degree of risk. Engineers providing production support generally need to have highly privileged access in order to provide said support. Such access also simplifies illegal activities such as data theft and industrial espionage. Give a clever engineer enough access, and he or she can not only steal data from you, but they can also thwart any monitoring software designed to detect such activities. Consider projects that don't entail sending sensitive customer information offshore, or granting remote access to your internal network. Software development doesn't require providing sensitive customer data offshore. The development work can be performed offshore, then the code can be securely transmitted to your company. You may consider creating a special offshore/development segment of your network allowing your offshore engineers to work, while not providing access to the rest of your internal systems.

Because of currency fluctuations, last year's invoice of $1 million a month could be $1.4 million today. Your contract may include a two-year refresh of hardware like desktops/laptops and software like Microsoft Office. But if your outsourcing deal is five to seven years, you're going to need another refresh- and it's usually not in the contract. Fail to account for it, and the cost can be $500 to $2,000 per employee. One pharmaceutical company, for example, mistakenly assumed its service provider would pay for an unscheduled refresh, and the company had to come up with $20 million. Companies typically underestimate the people, process and technology required to manage the outputs of an outsourcing contract. In fact, provider invoice errors alone can erode your monthly savings by two to 10 percent. For example, when one global consumer goods company assessed the
performance of its governance organization, it discovered overcharges on 5 percent of the provider’s invoices, to the tune of $40,000 monthly. Companies typically overlook the effort required to do things in a new way. In one outsourcing deal for finance and accounting, which included a new e-system for accounts payable, the buyer failed to budget for the interface development required on the client side—an oversight that cost $2.5 million in the original business case. Most companies plan to reduce headcount through outsourcing, but they usually end up keeping some employees to help in the transition—and that’s a cost they didn’t account for. To minimize its risk, for example, one pharmaceutical company kept about 20 percent of its staff for six months after the go-live date, which added $1.5 million in cost. Overambitious headcount estimates can cut projected savings by 10 to 20 percent. If your transition is six- to 12-months long, but employees leave before the transition is complete, then you have to backfill those positions, which adds unanticipated hiring and training costs. One transportation company, for example, failed to keep about 20 employees long enough to do the testing and process-mapping required for the transition. So it paid its service provider an extra $500,000 to do the work. That’s a premium of about 20 percent over the salary of each lost employee. Companies always need to budget for unexpected costs when starting a company up and running in a foreign country.

Proponents Argue…

One argument is the potential troubles companies run into with outsourcing jobs. There is a lack of experience dealing with American businesses because they are dealing with people overseas from a different country. With this homeland onshore model companies insource to other states in the country which creates more jobs in the U.S.

Another concern is security risks associated with outsourcing. With this model you are working in the U.S, so business ethics and morals will be on par with one another. This makes it easier for the CEO of company to better oversee their workers. This also reduces security risks involving important information being transferred over open lines.

This plan is great for IT work. With the implementation of this program a company, for example, based in California has the ability to hire a talented worker from New York for the same wage as a worker overseas, and the employee has the luxury of working from their home in New York. Through the HOM, all outsourced jobs will return to U.S. workers at competitive wages and will secure any national risks brought on by outsourcing.

In Opposition

Questions have since risen about the Homeland Onshore Model since the idea was proposed and used among some companies in the United States. Though this may be something of a progressive nature, for now The Homeland Onshore Model is only used among IT positions and excludes other positions that are outsourced to foreign countries, such as manufacturing jobs or call centers. This plan therefore, could have some potential benefits among that sector of the outsourcing world, but what about the manufacturing jobs that not only pollute their atmosphere but also practice unhealthy labor laws? These morale’s should be taken into consideration of other outsourced jobs because the onshoring of only IT jobs won’t diminish these work spaces we are practicing in others’ countries.

Also, the Homeland Onshore Model, or HOM, may potentially decrease the product quality because the competitive pay rates are much lower than what is needed within the United States. In short, outsourcing is seemed to be favored by companies because not only do they have to pay a significantly smaller amount of money to the employees, but the product quality essentially remains the same. In full effect, American workers may not be willing to create the same products with the same amount of quality India is willing to create them at because they are receiving less than half of their work’s pay.
Discussion Questions

• Should the U.S. mandate copyright laws in countries that are used for outsourcing that don’t already have these protection laws in place?

• How do you think our relations with other countries would be affected if we were to stop outsourcing?

• Is it problematic how the Homeland Onshore Model is only relevant in the contexts of IT jobs?


Throughout this booklet, we have discussed three viable alternatives to outsourcing, as it now exists in the United States: the Ten Percent Plan, an Even Exchange, and the Homeland Onshore Model. Balancing the need of the individual against that of corporations, the understanding that no one wants to lose their job to an offshore company against the awareness that large companies must reduce their expenditures in order to make a profit, we have engineered several alternatives to the status quo. With respect to the impact of outsourcing on the U.S. economy, as well as that of foreign nations with whom America maintains diplomatic relations, individual risks to privacy and collective concerns for national security, cultural barriers and technical errors, we have assembled several working methods by which to address one of the nation’s most contentious issues.

As discussed in the placemat’s introduction, outsourcing is nothing new; indeed, large corporations, manufacturers of goods and providers of services, have relied on outsourcing for years to lower costs and raise profits. However, with the advent of globalization and the emergence of a multinational economy, the once quite practice also known as offshoring has become increasingly loud, striking a chord with voters during the 2004 and 2008 presidential election cycles. Yet, regardless of one’s political affiliation, be it Republican or Democrat, Independent or Green, one note rises above the din of the political rhetoric and that is the resounding sound of disapproval among voters who see their jobs moving overseas were companies pay foreign employees pennies on the dollar, undercutting the U.S. tax base.

Referenced in the booklet and highlighted in the placemat, the Ten Percent Plan, is designed to keep jobs in America while maintaining positive foreign relations with the nation’s formidable trading partners, emerging superpowers China and India, as well as developing nations, Mexico and the Philippines, among others. By implementing federal regulations that limit the number of jobs that may be outsourced by any given corporation, the U.S. will effectively create a demand for skilled workers within its borders thus securing the nation’s independent future and respectful place as the industrial leader of the world. Though the Ten Percent Plan will allow larger companies to send more jobs overseas than its smaller counterparts, and may involve hidden costs due to market fluctuations, it will nonetheless bolster the nation’s Gross Domestic Product, and offer voters much needed piece of mind by placing limits on a now unregulated practice.
Also referenced in the booklet and highlighted in the placemat, the Even Exchange program seeks to capitalize on the international goodwill realized through the inclusive policies of the Obama Administration. Well received around the world, the president and his cabinet have made affirmative gestures to stem the tide of outsourcing by offering tax incentives to companies that keep jobs onshore; however, we believe that an even exchange of jobs between partner countries would be more proactive, facilitating trade between nations while enhancing cultural understanding and appreciation between sister citizens. Simply put, just as the U.S. and foreign countries trade raw materials, steel, lumber, and gas, so can they trade intellectual capital, the talents of their best and brightest individuals. Though pure salaries between nations may not be comparable, and issues concerning morale may arise, we believe that such imbalances will resolve themselves peaceably over time as entrepreneurial people cross borders and adapt to the customs of their partner countries.

Similarly, a worker that utilizes the Homeland Onshore Model need not commute, and as a result may save money on price to purchase or lease of a vehicle, the maintenance required to keep it in proper working order, and the utilities needed to maintain its controlled climate.

Having engineered three viable alternatives to the status quo, three working solutions to America’s unemployment woes due to outsourcing, we have attempted to create a hospitable climate for public deliberation, a peaceable setting in which to address, and hopefully solve, one of the nation’s most contentious sociopolitical issues. As a group, we have strived to work cooperatively, stumbling at times, but ultimately prevailing in our effort create a cohesive booklet that takes an objective look at a divisive issue. A microcosm of geopolitical failure and success, our struggles and triumphs represent the fate of nations brought together out of common need and desire for a better life. Indeed, if this exercise, this topic, has taught us anything, it is that as difficult as it may be to overcome social and cultural barriers, it is ultimately best when people put aside their resources and work together towards a common goal, towards a common good.