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A More Productive Outsourcing Debate

By Daniel Altman, [May 2004 Issue](#)

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Listen to [Lou Dobbs](#) or John Kerry and you could easily get the impression that the [outsourcing](#) of white-collar jobs is just another form of [Enron](#)-like corporate treachery. But the fact is, the [service](#) workforce was long overdue for a collision with global competition, and complaining won't make it go away. The real question is what to do about it.

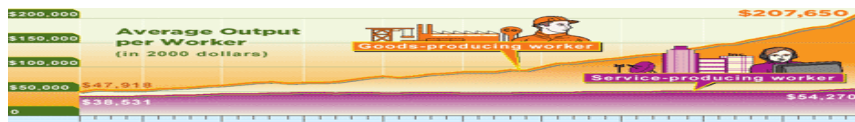
Fifty years ago, a typical service-sector worker produced about \$39,000 worth of output (in 2000 dollars). The average worker in a goods-producing industry, like [manufacturing](#) or construction, was responsible for only slightly more revenue, about \$48,000. Today, the service worker's output has risen by 47 percent, to just over \$54,000. But the average output for a goods-producing worker has shot up over 330 percent, to more than \$207,000.

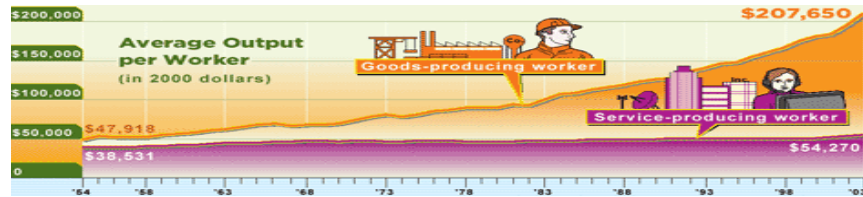
There are a number of reasons service productivity didn't keep up, but the lack of international competition is probably the most important. The global market for manufactured goods has been a battlefield for decades. American manufacturers found they could dramatically cut costs by importing, say, Korean steel or Taiwanese memory chips. U.S. steel mills and semiconductor fabs, in turn, had to become drastically more productive or go under.

Meanwhile, international trade in services remains relatively closed. Companies in heavily regulated fields like household insurance and [telecom](#) services generally needn't worry about foreign rivals. Nor, until recently, did they have to wonder whether local competitors might steal an advantage with cheap imported parts. After all, how do you source components abroad for, say, investment advice or home health care?

But even if they can't import components, service companies *can* bring in cheap labor (or export expensive jobs, depending on how you look at it). And it should come as no surprise that they began to do so as soon as telecommunications technology made it possible. Offshoring creates a new kind of global competition, one that pits workforce against workforce, rather than product against product. But global competition will have the same effect on services that it did on manufacturing: It'll make American companies leaner and meaner.

U.S. manufacturers responded to their global challenge by largely abandoning commodity products and improving quality. For American service workers to hang on to their jobs, they will have to make similar changes. Barry P. Bosworth, a senior fellow in economic studies at the Brookings Institution, points out that the fastest-growing service fields are the engineering and management of computerized sales and supply systems. To shine in those careers, he says, workers have to master at least four skills: computer literacy, typing, an understanding of how complex organizations work, and the ability to deal with people (either in person or electronically). Yet despite the fact that services account for 80 percent of private-sector employment, how many high schools require courses in typing, computer science, operations research, and interpersonal relations? Talk about productivity: If critics want to be truly effective at keeping jobs at home, they should stop scolding businesses and start crusading for better education reform.





Sources: Bureau of Labor Statistics; Bureau of Economic Analysis

Daniel Altman, formerly of the New York Times, is the author of a forthcoming book on George W. Bush's economic policy.

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