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Column: Outsourcing benefits U.S. and international economies

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Is outsourcing good? Who benefits and who loses from the migration of high tech jobs by the computer industry to poorer countries like India? In Washington on Wednesday there was an outpouring of condemnation for outsourcing and demands for the resignation of the Chairman of the Council of Economic Advisors, Gregory Mankiw, who dared to say outsourcing is good for the U. S. economy in the long run.

Some readers may be familiar with Mankiw's views through experience with his textbooks and work. For sure, it was not politically clever of Mankiw to make such a remark at a time when the economy is struggling with a jobless recovery. Is this a case of economic theory being out of touch with people's lives or just an academic economist out of touch with politics?

At one level, the evaluation of outsourcing comes down to the theory of gains from trade first articulated by David Ricardo over 200 years ago. If U.S. computer engineers have a comparative advantage in, say, developing new software and Indians in improving the old software, then both countries are better off by specializing.

So, software developed in the United States would later migrate for its upkeep to Bangalore, India, raising productivity in both India and the United States. So goes the theory, but the public remains skeptical. This is a political issue that goes well beyond the loss of white-collar jobs from outsourcing and affects the debate on the entire world trade system.

Explaining the advantage of trading with countries that have cheaper labor to a skeptical public is difficult, but it is extremely important in an election year when popular-but-wrong-headed ideas tend to flourish.

We can evaluate the benefits of outsourcing at two levels: globally and from the point of view of U.S. citizens only. The former is much easier because even if the United States' side is a net loser, there is a chance that gains by Indians would more than offset U.S.

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losses. The benefits to India are real and we should take them into account.

Last month I was in New Delhi for a conference and was struck by how the livelihood of many people depended on a ramshackle bicycle (a significant part of public transport stills depends on rickshaws pulled by bicycles). I remember thinking of all the bicycles that remain locked and rotting around the campus because students do not bother to remove them before they leave town.

Then I thought how those students, if they could see what I was seeing, might go out of their way to unlock the bike so it could be shipped to one of those rickshaw drivers and how satisfied they would be with their act of charity. Unfortunately, there is no charity that would make such a transfer possible.

A substitute for such a charity, an international market in used bikes, would do, too, but even that does not exist. There are, however, other international markets (called world trade) that could accomplish the same and much more, albeit in a roundabout way. First we trade with software engineers who can then afford to pay enough for public transport so the rickshaw owner can afford to equip his rickshaw with to a two-cycle engine.

This will not happen without cost, though. If you were hoping to get one of those jobs that traveled east, you will have to try for something else, perhaps wait longer or even learn new tricks. So, looking at outsourcing from the domestic U.S. viewpoint, the case for outsourcing is less clear. There will be adjustment costs as workers lose their jobs and have to find new ones.

Two arguments can be made in defense of free trade despite these adjustment costs. First, the adjustment costs incurred by those affected by those who lose their jobs are small in relation to the gains to the country as a whole.

These days you can buy a desktop for the price of what your parents paid for a television 30 years ago and there is no comparison between what the two gadgets can do. This gain is in large part due to international trade. Cheaper labor overseas enabled us to move away from manufacturing TV sets and into developing our computer industry. Trade has been good for economic growth.

The second argument is based on the right of consumers to buy what they need from the least expensive source. In the last few months I have had to call the Dell service people several times and been connected to technicians in India.

True, there is often a problem with the phone line — the accent and such — but should I not have the choice between this imported (perhaps inferior) service and waiting two more hours on the line or pay six times as much (yes, that is the wage differential between U.S. and Indian engineers) to talk to an American technician?

When you think about it, denying that choice is not that different from preventing me from shopping in Christiansburg, where things are generally cheaper, in order to preserve jobs in Blacksburg. The right to a job is all right as long as it is not the right to a specific job. You certainly do not want your hairdresser to claim a right to cut your hair!

Having said that, I am not against paying extra in town taxes to dress up the Main Street which would benefit our downtown merchants, nor do I mind paying extra in federal taxes to retrain workers who lose their jobs to world trade. (I would draw the line by refusing to subsidize my hairdresser if she failed to learn how to spike my hair).

World trade is responsible for growth of world incomes by over two percent for the last 100 years. There is no amount of charity or foreign aid that could have matched the effect of world trade which has lifted hundreds of million of Asians out of poverty in just the last 20 years.

There is much room for improvement in world trade that would make it more equitable for poorer nations, but reforming world trade is quite different from stopping outsourcing or abolishing WTO, as Dennis Kucinich suggests. In an election year, politicians will say

what they think voters like to hear. It is therefore our responsibility to learn enough about the issues so our politicians will be thinkers instead of pollsters.

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