Offshoring and Outsourcing a Mixed Bag for U.S. Jobs, Wages

UC Berkeley and Massachusetts Institute of Technology (MIT)

BERKELEY — A new study by UC Berkeley and Massachusetts Institute of Technology (MIT) researchers finds that the practices of outsourcing and offshoring jobs appear to have both positive and negative effects on American jobs and wages.

The pilot study, funded by the National Science Foundation, provides the first representative and internationally comparable evidence of the domestic and international sourcing practices of U.S. private and public sector organizations. Its coauthors, UC Berkeley economics professor Clair Brown [1], and Tim Sturgeon [2], a senior research affiliate with MIT's Industrial Performance Center, found that a near majority of employers in the United States outsource work to contractors and suppliers within the country, and about a quarter of U.S. companies offshore work to other countries.

The researchers found that the actual share of business costs for domestic outsourcing and international sourcing in the study year (2010) was, on average, quite modest, but they also saw significant differences across firms of different sizes and in different sectors.

Not just one economy

"The portrait that emerges is of two economies – an entirely domestic one made up of small firms and public organizations, and another one consisting of large firms with much deeper global engagement," said Sturgeon.

This is important because big firms employ more than 20 percent of the country's full-time workers and tend to offer higher-quality jobs with better wages and benefits than does the average U.S. employer, said Brown, who directs the Center for Work, Technology and Society [3] at UC Berkeley's Institute of Labor Research and Employment. The majority of companies engaged in offshoring, she said, were in the goods-producing sector, which has obvious implications for U.S. manufacturing.

Offshoring to pricier places

Without solid numbers, many have assumed that most of the offshored jobs go to developing countries where workers are paid near-poverty wages in less than ideal working conditions. However, the researchers said public fear that offshoring to lower-cost countries is putting downward pressure on U.S. jobs may be overblown.

Brown and Sturgeon found that most international sourcing is to high-cost locations

such as Canada and Western Europe, reflecting a long history of U.S. companies participating in these markets. The work offshored to very low-cost countries, where U.S. companies might be searching for new markets as well as low wages, is relatively modest in comparison.

UC Berkeley economist Clair Brown (Photo courtesy of UC Berkeley)

“While offshoring appears to be complementary to U.S. employment, in that it is associated with a relative increase in higher-paid jobs, it could be undermining lower-wage jobs,” said Brown, also coauthor of “Chips and Change: How Crisis Reshapes the Semiconductor Industry” [4] (2009). “But in this initial study, we weren’t able to estimate how globalization affects the total number of domestic jobs.”

Growth forecast

“We do expect offshoring and domestic outsourcing to expand as the economy continues to grow. The recovery allows companies to restructure and expand through more offshoring and outsourcing, instead of just rehiring and returning to old practices,” said Brown. “This could certainly affect U.S. jobs adversely. We would need to conduct a follow-up survey to understand how companies structure their businesses globally and domestically.”

Brown and Sturgeon said that while their study was conducted at the bottom of a long and deep recession, it was the first in what they hope will be a series of similar explorations.

Below are a few more highlights from the report’s analyses:

- U.S. employers’ domestic outsourcing is concentrated in transportation, information technology services and facilities maintenance.
- On average, only about 6 percent of primary business function costs in large, goods-producing companies are outsourced domestically, while 10.5 percent are offshored.
- Higher levels of international and domestic outsourcing are associated with a higher share of low-wage jobs in research and development.

The study relied on data from a 2010 survey of a nationally-representative sample of for-profit, non-profit and public U.S. organizations, and included an oversample of large organizations drawn from the Fortune 1000.

The researchers collected data on domestic and international sourcing practices and the characteristics of domestic jobs at U.S. companies based on eight standardized business functions, including the primary or core business function, and seven support functions, such as research and development; sales and marketing, customer service and management.

The report is available as a free download [5]. Its data set will be publicly available online [6] soon at the Inter-university Consortium for Political and Social Research data archive.

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