Outsourcing American Jobs—A Plan

In the last ten years the global economy has grown from a suckling calf to a raging bull. It is an economic reality for every nation of the world from the poorest to the richest. This growth is fueled by the twin jinns of communications and transportation technology, and they aren't going to go back into the bottle just because they present problems to a few of the world's established economies. For the established economy of the United States, the outsourcing of our industrial jobs is a sign that we are still at the top of the technological food chain. On the other hand, the outsourcing of our technological jobs is a warning that our position at the top is eroding.

So far, our government has taken its usual polarized positions on a solution to the problem of outsourcing. One extreme wants to pass laws forbidding the outsourcing of American jobs and the other wants to allow whatever outsourcing is needed to maximize profits to American business. Neither solution will work, and a workable solution cannot be a simple compromise of these two extremes.

To find a solution to our nation's outsourcing problem requires that the true nature of the problem be understood. First, it is necessary to come to grips with the reality that the global economy now has the inertia of a freight train moving at full speed. To think that we can somehow stand in the middle of the track and slow it down is ludicrous. It likewise does little good to stand on the side of the grade waving as the train goes barreling through. We must not only climb aboard but make sure we are the engineer that controls the speed and decides which stations need to be visited along the way.

Enough metaphor, let's talk about the details. The global economy was born when communications technology (primarily satellite relays, the Web, and cell phones) created a world market for products and services by displaying their existence and providing a means to purchase them. The kindled desire was served by the growing efficiency of global transportation systems that (mostly through economies of scale) were able to provide unit transportation costs that were a small fraction of total product cost. With these two elements in play, it became apparent to even the dull-witted that raw resources would come from countries that had a plentiful supply and could provide those resources to the buyer at the lowest delivered price; manufactured goods would come from those countries with the necessary infrastructure to produce them but with labor costs still low enough to make them cheaper at the point of delivery; services that were either physical or communications-based could and would be delivered by whatever countries had the skills and infrastructure to provide them to the user at the cheapest price. Participation in the world economy was being driven solely by contribution to the bottom line—supposedly, the American Dream.

Adding fuel to the fire of the global economy is the changing nature of consumer goods. Every year seems to bring a higher percentage of electronics to the total products available in the world marketplace. These products are compact and light by nature, making them easy and inexpensive to transport in large quantities. The American computer industry is a perfect example of how all this works. The high-technology world of micro-processors was once the exclusive domain of the United States due to the research fostered by our military build-up against the Soviet threat and by the space program. However, when less developed countries acquired the skills to provide cheaper labor than could be found in the U.S., companies took their electronic manufacturing off-shore (the U.S. TV manufacturer is an oxymoron) where the combined cost of labor and transportation provided a lower total cost than that provided by U.S. workers and transportation. Even today, some U.S. computer makers are doing final assembly of primarily foreign-built components in U.S. factories because there is still a large market for customized capabilities computers, which cannot be served directly from foreign plants because of long delivery times. However, if a transportation solution is found to meet the necessary delivery time requirements without exceeding the costs of custom assembly in the U.S., there will be no computers built in our country. Simple business economics.

On the manufacturing side, the Japanese provided the model years ago when they built assembly plants for their cars in the U.S. The rising cost of labor in Japan was eroding profits. Automation had stemmed the tide for a while, but there were really only two basic options: to move the assembly operations to a country that had lower labor costs or to move the operations to the market, where the very large costs for transportation of the bulky end-product were minimal. Analysis showed that total costs would be reduced by moving the assembly plants to the U.S. market, thereby creating the greatest profits. Again, simple business economics.

Is the global economy a short-lived phenomenon that we can afford to ignore until it fades away? No! It is here to stay, though its exact form will no doubt change as it grows and new technologies enter the equation. With this reality, it is clear that passing laws forbidding outsourcing will only make American businesses less competitive in the world market by forcing them to utilize higher cost labor and components in their products. The long-term result of this policy would be the immediate slide of the United States into a secondary status in the world's economies, and a long-term guarantee of staying there with the loss of technology preminence.

How can the U.S. stay at the top of the economic food chain in the era of the global economy? Through more emphasis on education and retraining, and with a focused approach to funding and conducting the effort. Education and retraining is already available to the unemployed, but it is different in every state and amorphous in nature, since it must meet the requirements of the full spectrum of skilled and unskilled unemployed persons. What is needed is a federal program that is focused on the specific group of outsource replaced persons—their location, their general education level, their old skill sets, their economic bracket. And that program needs to be able to deliver all this when it is needed.

But how would you do that and, most importantly, how would you pay for it? You would do it by passing a law that required a U.S. company to declare its intentions for a major outsourcing of its work from six-months to one year before being allowed to proceed. This would provide the government agency tasked with the education and retraining job time to plan its curriculum and bring together the resources it would require. At the time of declaration of intention to outsource, the company would begin to make payments toward education and retraining based on a percentage of displaced personnel salaries. These payments would be made until the education and retraining is complete.

This simple plan has multi-leveled benefits. First, it puts the responsibility for the welfare of employees where it belongs, on the company. Second, it provides a warning for the employees to look for another job or to consider retraining rather than finding themselves suffering from pink-slip shock. Third, it adds a new factor for the equation of outsourcing benefits to the company by modestly raising the cost of outsourcing and hopefully encouraging that outsourcing plans be well reasoned and long-term rather than knee-jerk reactions to immediate balance sheet worries. Fourth, it provides time and money for a focused approach to educating and retraining the displaced workers.

These are the benefits of the plan at the surface. The next level of benefits might be even better. By slightly changing the bottom line benefit for companies considering outsourcing to bring down costs, there would be fewer decisions to outsource or the pace of outsourcing would slow. This would please the proponents for stopping outsourcing.

By making the declaration of intent to outsource and the outsourcing fee apply to all companies, the competitive playing field would be maintained at least in the U.S. market. This would please the more responsible companies by relieving the pressure for them to join the outsourcing stampede.

The plan would encourage companies to work harder at finding new jobs within the company for those that are being displaced, even if some education and training were necessary. This would bring the obvious benefits of cross-training and help the companies build employee loyalty, a concept that many companies have succeeded in killing with the mass pink-slip mentality.

The implementation of this plan, while delaying outsourcing through its one-time shift of bottom-line dynamics, would not be the draconian measure of restricting or eliminating outsourcing. This plan would keep U.S. companies in the game for global markets, which they must be able to pursue.

Both sides of the debate would get some but not all of the things they want. American business would remain in the hunt for global market share, and the U.S. labor force would be adding a commensurate level of education and new skills to ensure its place at the top of the economic food chain. But this plan alone will not stop the developing countries from improving the education of their citizenry, nor the skill levels of their labor force, nor the infrastructure of their industrial base, and ultimately displacing American workers in the global workforce.

Of course, this plan is only a stopgap measure. Re-educated and retrained workers are, by definition, older employees with higher salary and benefit expectations that are not as desirable to potential employers as young workers with the same skills. The only thing that will keep America at the top is to make fundamental changes to our educational system that encourage science, technology, and rational thought—and to make this education available to everyone, not just a privileged few in the upper economic brackets. These are the skills that will keep us out of competition with the world's rising economies and ensure our economic position through the next millennium.

The reality is that the current generation of American workers, while not a lost cause yet, are severely disabled by the degradation of the educational system in this country since the 60's. Our schools need to be removed from their status as an extension of "Social Services" and rededicated to teaching us how to think. On the other hand, new fiscal policies of our government, which mutated during this same period, should remove the focus on immediate bottom-line results and substitute research and development incentives that promote long-term growth and stability.

No simple solution will save us in the future global market.