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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Offshoring: You Ain't Seen Nothin' Yet

The transfer of service jobs abroad will gather steam for generations

Only a few months ago, the transfer of American jobs to India, China, and elsewhere -- frequently called offshoring -- was politically white hot. Now it is dying as a focus of the Presidential campaign. The headlines from Iraq have crowded out most other news, but perhaps more fundamentally, in the past three months a strong economy has created nearly 1 million jobs, heralding the end of a jobless recovery. President Bush has proclaimed economic victory, and Senator Kerry has backed away from his focus on "Benedict Arnold CEOs." We should cheer the good news, of course, but the downgrading of offshoring as a national issue is a big mistake.

TRUE, THE NUMBER of workers generally associated with offshoring -- somewhere between 1 million and 2 million, according to most projections -- isn't huge compared with a U.S. workforce of 140 million. However, I believe the recent news obscures the longer-term reality: that the transfer of jobs abroad, particularly service jobs, will gradually accelerate for generations to come. The U.S. will not be prepared to deal with that unless more deliberate policies are put in place.

Forrester Research Inc. ([FORR](#)), the most widely quoted company on offshoring statistics, estimates that 3 million to 5 million more jobs will be transferred in the next 5 to 10 years. But that projection and others like it may vastly underestimate the future challenge. The combination of rising productivity made possible by widespread use of information technology, plus the unrelenting pressure on U.S. companies to continue to cut labor costs, guarantees that more work will be done in America by fewer people. In addition, from China to the Czech Republic, there is virtually an unlimited supply of industrious and educated labor working at a fraction of U.S. wages. And these workers' skills will be enhanced by the expansion abroad of the research operations of companies such as IBM ([IBM](#)) and Intel ([INTC](#)) employing local talent.

Moreover, as U.S.-based employers consider the cost of adding either one American or, say, one Indian to the payroll, the alternative of offshoring will put downward pressure on middle-class wages throughout the U.S. And in a broadband world that allows overseas work to be supervised in real time, the sheer speed at which large swaths of the service sector can be moved to another country will create far more disruption for workers and communities than we've seen so far in the slower-moving manufacturing sector.

For all these reasons, offshoring is the canary in the mine shaft, signaling wrenching adjustments for the American workforce. What is needed in the U.S. is a broad package of policies that do not endeavor to preserve today's jobs artificially but to create the best possible environment for the jobs of the future.

As workers seek new employment, they need the following: affordable health insurance that they can take from job to job, pensions that are equally portable; extended unemployment benefits; insurance to guarantee minimum income for periods between jobs; and tax credits or loans for education and training. These policies aren't luxuries. They are a prerequisite for the viability of a robust American workforce.

Second, Washington should press other nations to open their markets faster and to comply scrupulously with trade rules. It should also push them to rely less on exporting to us than on generating their own internal growth, thereby creating many new American jobs related to exports of sophisticated services, from medical advice to architectural design. And the U.S. should get behind minimum international labor and environmental standards to level the global playing field.

A third imperative is educating more scientists and engineers and establishing an immigration policy that allows foreign talent to work more easily in the U.S. A study released in May by the National Science Board paints a picture of dwindling American prowess in new patents, path-breaking research, and innovation. Policies to reverse these trends, starting with less restrictive visa requirements for the best and brightest foreign students, are sorely needed.

Long after the American occupation of Iraq, and years after the current upswing in the business cycle, the issues raised by offshoring will be a central American concern. In giving them short shrift, both George Bush and John Kerry are not only letting Americans down today but also ensuring bigger problems down the road.

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