

OPINION: Actually Senator Warren, outsourcing is great

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WRITING in the pages of USA Today recently, Sen. Elizabeth Warren, D-Mass., criticized President Trump for taking insufficient action to arrest the flow of jobs from U.S. factories to foreign countries such as Mexico.

Labeling Trump the “King of Offshoring,” Sen. Warren called for U.S. negotiators participating in the renegotiation of the North American Free Trade Agreement to take “bold actions that will stop the offshoring of American jobs.”

That would be a mistake. In fact, outsourcing helps to boost productivity — the art of doing more with less — which is the sine qua non of improvements in living standards.

Although it is perhaps understandable when casual observers are seduced by the notion that the outsourcing of jobs to overseas locales is a sign of weakness, more should be expected of a sitting United States senator. In fact, both theory and experience teach us that foreign outsourcing helps promote economic vitality in a variety of ways.

Cheaper goods: By shifting production overseas companies can reduce the cost of production, which — assuming a competitive marketplace — will translate into lower prices for consumers. This is a particular boon to the working families Senator Warren repeatedly invokes in her op-ed, who tend to spend a greater percentage of their income on imported non-durable items such as clothing.

Improved competitiveness: Beyond benefits to consumers, cost reductions also help improve the competitive position of U.S. companies and ensure they will survive and thrive versus rival firms.

New jobs: While the jobs lost via outsourcing understandably receive considerable attention, an all too often unseen aspect of this process is that the money saved both by firms and consumers frees up resources to be either spent or invested, supporting yet other types of jobs.

Better jobs: By finding ways to lower costs and sell the goods they produce more cheaply, companies can boost sales and firm growth. This, along with money saved through outsourcing that is reinvested in the firm, leads to more jobs in areas such as design, research, marketing,

finance, and management which typically feature better compensation than those found on the factory floor.

Increased exports: Overseas job creation helps provide much-needed growth in relatively poorer countries such as Mexico. This, in turn, leads to increased demand for higher-end goods produced in the United States which range from Hollywood movies to financial products to Boeing aircraft. In addition, supply chain linkages resulting from outsourcing help drive exports. The largest truck factory of U.S.-headquartered firm Navistar, for example, is in Mexico, but the engines — which by themselves can account for up to 45 percent of the truck's cost — are made in Alabama. Wrangler jeans, meanwhile, has shifted its production away from the United States but over 70 percent of the material in its Mexico-made products comes from American companies.

Representing Massachusetts, Senator Warren should be well-versed in the benefits of foreign outsourcing. The state, after all, is the former home of a vibrant textile industry which has long since decamped in search of cheaper labor and other costs, first to the American South and then later on to places such as Central America, China, and Southeast Asia. While this no doubt resulted in some painful adjustments, Massachusetts has long since adapted and today features a vibrant economy with an unemployment rate well under 4 percent and numerous companies in such sectors as technology, medical devices, and financial services. Indeed, some of the state's former textile mills have been converted into high-end condominiums which house some of the workers now employed in these industries.

It should also be noted, however, that while public policy should not seek to halt outsourcing, neither should it be actively encouraged through unreasonable taxation or regulations which unnecessarily drive away companies from U.S. shores. Indeed, to the extent outsourcing requires a legislative solution it is through the adoption of market-friendly policies which both encourage investment in the United States and ensure a dynamic job market so that the losers from outsourcing can more easily find new sources of employment.

Even the most ideal policy environment, however, will not prevent all jobs from being outsourced. Nor should we want them to. Instead of swimming against this tide Senator Warren and her fellow legislators should focus their energies on creating a policy environment in which commerce can thrive and create the jobs of tomorrow instead of a misguided effort to preserve those of yesterday.

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