

Romney's Chance to Embrace Outsourcing

By Michael Tanner

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There is a story, perhaps apocryphal, that Milton Friedman was touring the Chinese countryside when he came upon a government project where workers were digging a canal. Friedman was surprised that instead of bulldozers and modern earth-moving equipment, the workers were using shovels and wheelbarrows. Thinking this was remarkably inefficient, he asked the bureaucrat in charge of the project why this was so. "You don't understand," the bureaucrat responded. "This is a jobs program." "Oh," Friedman replied, "I thought you were trying to build a canal. If jobs are all you care about, take away their shovels and give them spoons."

One wishes that Mitt Romney would display a bit of Friedman's common sense in responding to the silly controversy over outsourcing at Bain Capital companies. Instead of defensive technical explanations about when he left the active management of Bain Capital, Romney should point out the central fallacy of Obama's argument. Contrary to the president's complaints, outsourcing is generally good for America.

As Friedman pointed out, economic policy is not about preserving every single job that currently exists at any cost. Rather, it should be about creating general prosperity. The United States once had a thriving buggy-whip industry. Would we be better off if we had blocked development of the automobile in order to preserve those jobs?

That's not so farfetched. After all, President Obama has already blamed ATMs and self-service gas stations for unemployment.

Outsourcing is based on an unpleasant truth: Certain types of operations, such as call centers, for example, or unskilled product assembly, are simply

too costly for companies to do in the United States. By having those jobs performed overseas, companies are able to preserve their resources for the things those companies do best, their “core competencies.”

There is a reason, after all, why LeBron James doesn't mow his own lawn. Even if he were the world's best lawn mower, his talents are much more valuable directed elsewhere. It is what David Ricardo referred to as “comparative advantage.”

Additionally, having some jobs done overseas makes it easier for U.S. companies to serve foreign markets, by shortening shipping distances, avoiding foreign trade barriers, and creating an on-the-ground presence in emerging markets. If Ford is going to sell cars in China, it makes sense for them to build those cars in China rather than build them here and ship them across the Pacific. Far more outsourcing occurs because of the need to serve foreign markets than because of a search for cheaper labor. In fact, studies suggest that more than 90 percent of outsourcing jobs involves foreign-market considerations rather than labor costs.

All of this makes U.S. companies that outsource more competitive in a world market, allowing them to hire more workers here at home. And generally the jobs created here are better paying than those unskilled jobs that have been forgone. Reduced production costs also mean lower prices for Americans, especially on basic goods such as clothing. One would think that a president who was concerned about the plight of the poor would favor policies that helped low-income Americans to stretch their dollars. And, finally, lower production costs increase profits and stock prices. And who benefits when stock values go up? Everyone who owns stocks, including all Americans with a 401(k), as well as institutional investors such as universities and charities. Bain Capital was managing funds for precisely these types of institutions.

But for some reason, on this issue as on so many others, Romney has been unwilling to make a full-throated defense of capitalism. Over the weekend,

Romney and his surrogates were repeatedly asked whether outsourcing was a legitimate business strategy. They declined to answer. Worse, Romney has indulged in his own demagoguery, attacking the president for being “the real outsourcer-in-chief.”

The American people are rightly concerned about jobs. But our nearly jobless recovery has nothing to do with outsourcing. To pretend that it does is to ignore the real job-destroyers — debt, taxes, regulation, and the burden of government.

It’s time for Mitt Romney to stand up and say so.

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