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Cato Institute: Why Outsourcing Is a Good Thing

By: Christina Medici Scolaro – June 5, 2013

A great many Americans believe that U.S.-based companies ship jobs overseas in order to chase low-wages and weak labor standards, but Dan Ikenson, director of trade policy studies at the Cato Institute, disagrees.

Ikenson pointed out that only 5 percent of the world's consumers and workers live within the United States. Ikenson said the goal of any business is not to maximize national employment but to maximize profits. There are many considerations a business would take such when locating its operations, such as quality and skills of the work force, access to ports, size of nearby markets, taxes, political climate and the proximity of production location to the next phase in supply chain.

The Cato Institute is a Libertarian think tank whose stated policy is to encourage policies based on "individual liberty, limited government, free markets and peace."

Most U.S. foreign investments are directed to "rich" countries. According to the Bureau of Economic Analysis, a U.S. Government agency, 75 percent of U.S. direct investment abroad at the end of 2011 was in Europe, Canada, Japan, Singapore, Australia, New Zealand, Taiwan, Korea and Hong Kong. In contrast, a mere 1.3 percent of total foreign investment went to China.

Between 90 and 93 percent of investment abroad has been created to serve foreign demand, according to the Bureau of Economic Analysis. Retail stores provide an example. Less than 10 percent of investment abroad is for the purpose of moving sales back to the United States.

Of course, there's "insourcing" too. A fair share of Americans receive foreign-generated paychecks. According to the Bureau of Economic Analysis, 5.3 million Americans work for foreign-owned companies such as BMW, AstraZeneca and Anheuser-Busch (the St. Louis-based brewer was formerly U.S.-owned but was acquired by Belgian-Brazilian brewer InBev in 2008.) Those workers are paid on average $77,000 annually, or 25 percent more than those who work for the average American company. Those foreign-owned companies account less than half of one-percent of all companies in the U.S. but account for 5.2 percent of GDP.

Ikenson added that in a globalized economy, outsourcing is a natural progression of competition.