Restricting Outsourcing Is Bad Economics

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Politicians are quick to claim that outsourcing jobs is a serious problem, and promise to save domestic jobs by restricting it. I doubt many of these politicians believe that outsourcing destroys job, but they must think that most voters do. And they might be right, which means that bad economics is good politics.

Outsourcing jobs to foreign countries doesn't reduce domestic job opportunities. Quite the opposite. It creates higher-paying domestic jobs. When politicians say they will restrict outsourcing, they are promising to make their countries poorer.

The good news on outsourcing is based on the bad news of scarcity—our ability to produce is limited, our desire for more isn't. Outsourcing allows us push back the limits of scarcity by letting foreign workers provide us with things they can produce better and more cheaply than domestic workers can. But, some will object, what about the domestic jobs that are lost?

Because of scarcity, there will always be far more jobs we want done than people to do them. When we get more with less effort by outsourcing jobs, we end up better off as workers are freed up to produce new things. More people can work as nurses, teachers, medical researchers, musicians, writers, and entrepreneurs developing new products and technologies that will release more people to produce even more goods and services.

No matter how productive a country is, some things can always be produced more cheaply in other countries. Even if Indian workers, for example, were better at producing everything, it would still pay India to outsource jobs to other countries. The advantage India's workers had over workers in other countries would be greater in some jobs than others—India's workers would have an *absolute advantage* in every job, but a *comparative advantage* in only some jobs. By concentrated its efforts in those jobs where it has a comparative advantage, and outsourcing the other jobs, India would increase its productivity, and its wealth.

The concept of comparative advantage is easily understood by considering Tiger Woods, the World's best golfer. No one thinks it would make sense for Tiger Woods to work as a caddy, even though he could be the world's best caddy—who could give you better advice on which club to use, the right way to grip the club, and how to line up a putt? His *opportunity cost* as a caddy would be the millions of dollars he would sacrifice as a golfer, which is the job in which he has a comparative advantage.

Tiger Woods earns a higher income by specializing in the job he is most productive doing. Similarly, workers everywhere earn higher incomes by specializing in those jobs where they are most productive. This is why free trade and job outsourcing increase wages and salaries. They create competition that directs workers into those jobs where they produce the greatest value.

Obviously outsourcing and international trade harm some by eliminating their jobs. This hardship is usually temporary, but some older workers, or those who refuse to move or learn new skills, don't find new jobs that pay as well as their old ones. But job loss is essential to economic progress, as changing technologies and preferences constantly increase the value produced in new jobs relative to old jobs. The surest way to impoverish a country is by preventing the destruction of existing jobs. Workers threatened with foreign competition may want politicians to protect their jobs against that competition, but they would be worse off if all workers received that protection.

As long as politicians think the typical voter is economically illiterate, they will threaten our prosperity with proposals to restrict job outsourcing. The best protection against such destructive economic policies is increased public understanding of basic economics principles. Restricting job outsourcing is bad economics. With more economic literacy, it will also be bad politics.