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Public Misconception # 103

Bad Sources on "Insourcing"

The debate over "outsourcing" as a cause of job loss has taken an interesting twist in recent weeks, as proponents of the practice now tout the phenomena of "insourcing" as a job creator. According to this view, the jobs that U.S. firms outsource to various developing countries are largely offset by the jobs that foreign firms "insource" to workers in the United States. In this view, outsourcing and insourcing are roughly offsetting, with the economy in general benefiting from the greater efficiency that both practices allow.

To support this view, several analysts and columnists have turned to data from the Bureau of Economic Analysis (BEA) on foreign investment (Michael Walden, A Potent 'Insource' of U.S. Jobs. *The News & Observer*, 2-2-04:A13.[1] Josephine Hearn, Outsourcing is bad, insourcing is better: Republicans test a new phrase in debate over jobs. *The Hill*, 3-9-04:1. Walter Wrinston, Ever Heard of Insourcing? *Wall Street Journal*, 3-24-04:A20. Glenn Hubbard, Outsourcing is good for America. *Financial Times*, 3-24-04:17. Daniel Drezner, The Outsourcing Bogeyman. *Foreign Affairs*, May/June 2004.)[2] The BEA keeps data on foreign businesses that are owned or controlled by U.S. corporations, as well as U.S. businesses that are owned or controlled by foreign corporations. It also keeps data on employment at both types of firms. The proponents of insourcing as a major source of job creation note that the number of jobs at foreign owned businesses in the United States is not very different from the number of jobs at U.S. owned businesses overseas.

Unfortunately, this comparison provides almost no information on outsourcing and insourcing. In most cases, the jobs that have been identified as being outsourced have very little to do with patterns of foreign investment flows. For example, when Hollywood outsourced the special effects work on *Men in Black* to Compudyne Winfosystems of Bangalore, India, these jobs were *not* counted in the BEA data because Compudyne Winfosystems is an Indian company. Similarly, when a computer company contracts out software development or a credit card company contracts out its call center these job losses will most often not be associated with an investment flow.

On the other side, foreign investment in a U.S. firm does not necessarily mean net job creation. For example, when Daimler-Benz bought Chrysler in 1998, it did not directly create any new jobs in the United States, even though all of the U.S. workers who remained employed were now working for a foreign owned corporation. (The same holds true in the opposite direction – when a U.S. firm purchases a foreign corporation, it does not necessarily imply any job loss in the United States.)

By Dean Baker and David Rosnick

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[1] This editorial was then circulated in the U.S. House by Rep. David Dreier in a dear colleague letter dated February 10, 2004.

[2] The Organization for International Investment keeps a list of insourcing references at http://www.ofii.org/insourcing/