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GROWING CONCERNS

By David Gumpert

Doing a Number on Outsourcing Statistics

Labor Dept. estimates of U.S. jobs shipped overseas are laughably divorced from the reality. That's why a SBA research project is so important

The U.S. Small Business Administration's Office of Advocacy is seeking a few good men and/or women. It [is inviting proposals](#) from academics to research the impact on small business of things like outsourcing and employment.

I hope some bright graduate students or professors take up the SBA's challenge, because right now, there is too much confusing and contradictory information coming out about both outsourcing and employment. Because small businesses create the bulk of the nation's new jobs, and job creation has suffered significantly over the last three years, it makes sense to try to understand how outsourcing affects employment and small businesses.

MUCH ADO ABOUT NOTHING? So you can see what I mean, let's examine outsourcing data more closely. Last month, the U.S. Labor Dept. reported as part of a new survey that 4,633 jobs moved overseas during the first three months of 2004. This was less than 2% of layoffs for the quarter.

A couple of minor caveats: The survey only examined large companies, and even among those, the outfits had to have had 50 or more layoffs. So small companies were excluded at a time when growing numbers of venture-capital firms are insisting that the early-stage companies they invest in outsource computer programming and other tasks overseas to save money.

I had to laugh when I read that report, and I'm sure many others who follow outsourcing were similarly amused, though not necessarily in a fun way. The clear message from the Labor Dept. was that outsourcing has been overblown.

Now that job creation in the U.S. has supposedly picked up steam, and more new jobs are finally being created than are lost on a monthly basis, the whole issue of outsourcing seems to have been relegated to the backburner, as if it is a fad that has had its day. The media have begun communicating that message -- the July issue of *Business 2.0* sniffs on its cover, "Stop whining about outsourcing."

BOTTOM-LINE LOGIC? Yet a recent report out of India suggests that outsourcing from the U.S. is creating huge numbers of jobs in that country -- something on the order of 200,000 technology jobs in the year ended last Mar. 31. The report, by a large Indian trade group known as the National Association of Software & Service Companies, suggests about 50,000 per quarter, which is many more than the 4,633 jobs reported lost by the U.S. Labor Dept. for this year's first quarter. And remember, the Labor Dept. survey isn't limited to jobs going to India -- they could be going anywhere in the world outside the U.S.

Part of the discrepancy is attributed in the media to the fact that not all jobs lost via layoffs are transported overseas. The other explanation is that jobs sent to India -- and an estimated 80% of the companies outsourcing jobs to India are American -- are "new" jobs and thus wouldn't necessarily have been jobs that would have been created in the U.S.

I'm not sure why there is so much denial about the relationship between jobs and outsourcing. When U.S. companies create software programming and call-center jobs in India, there is no question that there are Americans who could handle those tasks. The companies choose to send those jobs to India or elsewhere because of their perception that labor costs will be lower. Pure and simple.

SKEWED STATS? I'm not arguing about whether American companies should or shouldn't send jobs overseas. What bothers me is that we seem to know very little, statistically speaking, about the outsourcing trend and its impact on our economy in general, and the role of small business in particular.

It seems whenever a study comes out or an economist speaks about the subject, it has political overtones. Even the Labor Dept., which over the years has taken a seemingly apolitical approach in gathering data about job creation, appears to have selected its political corner in the outsourcing debate by issuing obviously skewed numbers.

All of which brings me back to the effort by the SBA to encourage research on the connection between small businesses and outsourcing. Congress and state governments around the country have any number of proposals before them to limit outsourcing. Without detailed and unbiased information about the extent of the trend and its impact on our economy, it's very difficult to make appropriate decisions.

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