

## **Macroeconomics Activity: How Could Outsourcing Produce More Jobs?**

The following macroeconomics activity is taken from the Instructor's Manual to Accompany "Teaching Tools for Microeconomics from John Stossel -- College edition" by James Gwartney, John Morton, Mark Schug, and Joseph Calhoun. The accompanying Stossel DVDs may be purchased at: [AbcNewstore.com](http://AbcNewstore.com)

### **Common Sense Economics Part II: Element 7**

**Key Economic Words and Concepts:** Cost of Production, Outsourcing, Profit

Distribute the following handout to your class and ask them to respond to the Questions for Discussion.

#### **How Could Outsourcing Produce More Jobs?**

A study done in 2004 by Professor Matthew J. Slaughter at Dartmouth University found that outsourcing is actually a way of increasing the number of American jobs. He found that employment increased both for American firms involved in outsourcing but also for their affiliates in other countries. While employment in foreign affiliates rose by 2.8 million jobs, employment in the U.S. parent firms rose even more --by 5.5 million jobs. In other words, for every one job outsourced, U.S. firms created nearly two jobs in the United States. Companies that outsource create far more domestic jobs than companies that do not.

Professor Slaughter's findings are surprising to some. Is this some statistical trick? How could jobs be created by outsourcing in the real world? Consider the case of a small manufacturer in Milwaukee, Wisconsin. Irv Jackson owns a factory that manufactures parts for large, earth-moving equipment.

Irv's customers started to tell him that his prices were too high. He protested. He was charging the same prices for his products as he did in previous years. His customers said that while that was true, Irv's competitors were charging even less. Irv's customers valued their relationship with his company. He had been a trustworthy supplier from many years. They encouraged him to consider outsourcing some of his manufacturing to China. This was all new to Irv. Like many Americans, he was skeptical that outsourcing could work.

Irv's business started to decline. He lost contracts. He laid off workers. He hated this. He'd always been proud of the number of jobs his business had created. He decided that he had to make a change. He contacted a manufacturer in China. He was stunned at the low prices charged by the Chinese company to produce some of the parts he wanted. He quickly made a deal and shifted some of his manufacturing to his new affiliate in China.

What happened? Irv's business was able to cut costs. Soon, his bids were being accepted by more of his customers. His business expanded. As his business expanded, he hired more workers. Not only did he hire back most of the people who were laid off, he started hiring new workers.

All this took place over the period of a couple of years. There was no single event. No reporters sought out Irv to learn how he had gradually added new jobs due to outsourcing. Lou Dobbs never called to see how Irv was able to add new jobs in Milwaukee.

### **Questions for Discussion**

1. Why did Irv Jackson's business begin to decline?
2. What did the decline in sales mean for some of Irv's workers?
3. How did Irv's arrangements with a manufacturer in China help his business?
4. Why didn't Lou Dobbs call Irv Jackson?

***Point to consider:*** *Irv's success took place gradually. There was no one event to attract attention.*