

'The Future of Outsourcing: 'The Largest Economic Transformation Ever



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Since World War II, trade and technology have been expanding rapidly. Increased technology has led to increased trade, which spurs increases in technology and contributes to a constant fear of outsourcing.

As technology progressed in the 1960s, Americans began to fear the loss of our manufacturing jobs. Then again, in the late 90s, we feared the loss of our administrative jobs. Today, we fear the loss of online jobs: graphic design, web development, translation, and transcription jobs are going overseas.

But each time technology has increased trade, the data shows that there was nothing to fear. Outsourcing was good for individuals in the past and online outsourcing is good for individuals today.

Moving Jobs Overseas

Historically, technology has always caused shifts in the labor market and these shifts always lead to an increase in human productivity. The invention of the airplane did not replace driving but allowed humans to travel widely, creating connections between cities and societies that would not have existed before.

Similarly, the evolution of the Internet has not resulted in robots eliminating all jobs but rather has provided humans with the tools required to increase productivity.

For over two centuries, starting with economists like Adam Smith and David Ricardo, people have recognized the benefits of trade at the international level. Ricardo referred to this as comparative advantage: even when one country is more

productive than another in two industries, each nation is better off specializing in one field and trading for access to the other.

Online outsourcing is the modern manifestation of international trade and should receive the same support from economists as free trade does.

When outsourcing shifted manufacturing jobs overseas in the 60s, U.S. parent companies used more labor overall. Because outsourcing reduces costs for the firm, freeing up resources for capital investment elsewhere, the firm is able to hire more labor in new areas. Similarly, during the second wave of outsourcing in the late 90s, when American companies chose to outsource their back-office work to call centers in India, we saw an increase in trade and employment for U.S. foreign affiliates.

The third wave of outsourcing, online outsourcing, is happening now. Like the first two, this wave is good for individuals and for the economy. 68 million people in the United States are engaged in alternative work arrangements – approximately 27% of the working-age population. More importantly, up to 129 million report that they would eventually prefer to be engaged in independent work. And with online outsourcing, they are more likely to do so than ever before.

Changing the Way We Work

Using Amazon, Mechanical Turk, Upwork, or any one of hundreds of other platforms, you can make money with only a computer and an Internet connection. These online gigs can be as simple as transcribing the text on a picture of a receipt for 2 cents a minute, or advanced graphic design work that pays at a rate of \$200 an hour.

As technology becomes cheaper and internet connectivity spreads, people in impoverished countries will be able to make ends meet with increasing ease, thanks to online outsourcing.

In the near future, as online outsourcing expands, work will occur primarily over the Internet, and technology platforms will allow buyers and sellers to contract for work through dynamic and continuous auctions. Corporations will no longer hire full-time employees at home who conduct all tasks themselves, but rather these employees will interface with a global network of workers available on-demand. This third wave of outsourcing will open new worlds of productivity, expand economic opportunity across the globe, and change the nature of work.

Online labor markets are mixtures of marketplaces and technology. They demand depths of skills in both economics and computer science. Whether this demand is for the individual to have competence in both skills, or for many individuals to have overlapping competence in one or the other, it is impossible to know right now.

Employers of the future will require expertise in building technology platforms that are calibrated to market conditions, such as finding the best way to measure human performance and integrate that data into the economic mechanisms that will run the platform. Participation in the online labor market will require skills that will emerge from the demand side from the market itself.

Online Outsourcing, Not like Its Predecessors

Online outsourcing differs from its predecessors in three ways. First, the Internet has led to disintermediation in transactions. The age of the middle man is over. Although they are geographically further apart, with the prevalence of the Internet, employers and employees are connected more closely than ever before.

Second, the rise of global Internet connectivity makes this wave of outsourcing the most beneficial to impoverished workers. In the coming years, billions of people will be coming online. The worldwide distribution of income suggests that these new users will contribute labor, rather than capital, to the global economy. Given their low incomes, they are unlikely to be large consumers and, therefore, are not the usual audience for advertisements that Facebook and Google target. Instead, they will bring their labor to a global market. New companies will form to harness this human capital. Bringing human capital online will be the largest economic transformation the world has seen.

Third, this wave of outsourcing brings with it a shift from input-based pay to output-based pay. Input-based pay describes most of the forms of compensation that are in place today with physical, face to face employment. Workers are paid a salary with possibly some discretionary bonuses.

Output-based pay refers to paying on the performance of the worker. This can take the form of stock options for the CEO or a piece rate for every unit produced for a factory worker. The remote and distributed environment of the Internet makes it a natural candidate for output-based pay. This will lead to significant efficiencies.

Now, it is not technology alone that benefits us; we can choose to develop only machine technology, ignoring human productivity, or we can think more holistically about the macro environment – the global mix of skill, education, demographics, and interconnectedness – to design a better future. This does not need to occur for reasons of equity and fairness but for pure economic efficiency.

The billions of people coming online in the next decade will be the economic transformation of our time. It is up to us as a society to make this transformation an opportunity, to advance human potential, and to harness the most valuable asset in the world: our human capital.



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