

A Functional Relationship between Division of Labour and Outsourcing

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ABSTRACT Division of labour has been recognised as a source of wealth to nations, by some experts without considering its effects on labour. However, some experts are of the view that increasing division of labour contracts the range of choice of ways of making a living for the working class. Thus the outcome of division of labour is the lowering of value of individual workers. Workers' activities become increasingly narrow and monotonous, through division of labour which mars instead of developing their creativity. Outsourcing on the other hand, has been considered a requirement for corporations to earn higher profits and to respond to competition. Thus, companies that refuse to look outward for lower-cost inputs may lose their competitive advantages under a global setting. This paper contends that the logic of outsourcing cannot be mutually exclusive from the logic division of labour. Outsourcing simply implies the internationalisation of division of labour. Whereas division of labour was localised, outsourcing has been globalised to provide capital with additional leverage to exploit labour globally

INTRODUCTION

Management is the act of doing things through people in an orderly, organised manner. This act of doing things through people has come in different forms at different times over the years. Since the inception of the production function to the current period of globalisation, people have utilised other people to achieve some desired results. However, this process of utilising people over the years has not been an easy task. Different methods of utilising people have emerged over the years. However, for this discourse, we shall consider the mutuality between logics of division of labour and outsourcing.

THE LOGIC OF DIVISION OF LABOUR

The renowned treatise of Adam Smith (1776 cited in Stoner and Freeman 1992: 312; also see Boonzaier 2001: 18) on 'division of labour', has been considered as a major step in the productive and optimal utilisation of labour. Adam Smith (1850 cited in Hackman and Oldham 1980: 47; Giddens 1993: 493; Boonzaier 2001: 18) presented one of the clearest and oldest illustrations of the application of division of labour. While analysing the pin-making process in his famous book, 'Wealth of Nation' (WN), Smith explained: "A person working alone could perhaps make twenty pins per day. But by break-

ing down the task into a number of simple operations, however, ten workers carrying out specialised job in collaboration with one another could produce 48,000 pins per day. The rate of production per worker, in other words, is increased from 20 to 4800 pins, each specialist operator producing 240 times as much as he or she was working in isolation". Thus, Smith has suggested that the increase in productivity is itself a result of three processes: an increased dexterity that accompanies the confinement of workers to a specialised task, a saving of time for workers from passing from one tool to another and the possibility for the creation and introduction of technology that the division of labour stimulates.

In concordance with the above thought, Charles Babbage (1835 cited in Giddens 1993: 493) has posited: "Technological progress in production can be measured by the degree to which the tasks of each worker are simplified and integrated with those of other workers. This process reduces the price employers have to pay for hiring workers and the time needed to learn each job, as well as weakening the workers' bargaining power and thus keep wage costs down".

Taylorism seems to agree with Smith's views by explicating how industrial processes could be broken down into simple operations that could be precisely timed and organised (Worsfold 2004: 1). Taylor was only concerned with improving industrial efficiency, but gave

little consideration to how products should be marketed. 'Mass production necessitates mass markets' and the industrialist, Henry Ford, was one of the first to take notice of this and exploited its possibilities. Fordism was designated to the system of mass production, which is tied to the cultivation of mass markets.

Henry Ford established his first plant at Highland Park, Michigan, in 1913 and made only one product- the Model T Ford- thereby allowing the introduction of specialised tools and machinery that was designed for speed, precision and simplicity of operation. The most spectacular innovation of Ford was the construction of a 'moving assembly line', which was inspired by Chicago slaughterhouses, where animals were disassembled section-by-section on a moving line. Each worker on Ford's assembly line had a specific task, such as fitting the right-side door handles, while the car bodies moved along the line. The result of this system was astronomical, since before 1929, when production of the model T ceased, fifteen million cars were made and 80 per cent of the cars in the world were registered in the United States of America (Giddens 1993: 494).

The French sociologist, Emile Durkheim, in wrote towards the end of the 19th century, that the greater the division of labour, the more people would have to depend on each other, and the closer they would become (Hawthorn 1981: 33).

Thus, Smith and his associate, without considering the negative effect of division of labour on the working class, believed it leads to efficiency and growth, thereby tracing the wealth of the nation to the interaction between a growing division of labour and the scope of market relations.

Contrary to the above views, Marx (1818-83 cited in Hawthorn 1981: 33) has opined: "*division of labour impoverishes the worker and makes him a machine...for as soon as labour is distributed, each man has a particular exclusive sphere of activity, which is forced upon him and from which he cannot escape*". It was on this grounds that Marx (1818 cited in Fine 1982: 40) further rebuff Smith and his supporter: "*Now it is quite possible to imagine, with Adams Smith that the difference between the above social division of labour and the division in manufacture, is merely subjective, exists for the observer who in the case of manufacture can see at a glance all the numerous operations*

being performed on one spot, while... the spreading-out of the work over great areas and the great number of people employed in each branch of labour obscured the connection. But what is it that forms the bond between the independent labour of the cattle-breeder, the tanner and the shoemaker? It is the fact that their respective products are commodities. What, on the other hand, characterises the division of labour in manufacture? It is the fact that the specialised worker produces no commodities". Division of labour in the workplace may be acceptable to the capitalists in their respective sweatshops. However, the social organisation of division of labour is totally unacceptable. Based on this, Marx (1845 cited in Fine 1982: 41) posited: "*division within the workshop implies the undisputed authority of the capitalist over the workers, who are merely members of the total mechanism, which belong to him*". In that case, Marx perceived division of labour (most especially in a capitalist workplace) as ceaseless exploitation of the workers.

The outcome of capitalist system of division of labour is 'surplus value' through productivity increases at deplorable wages, which reduces the value of labour (Marx Cap.v1 1976: 33-34). Marx (1844 cited in Greaves 1975: 212) has further affirmed: "*The source of man's immediate difficulty is the division of labour. Division of labour was the very essence of all that was wrong with the world. It is contrary to man's real essence*".

The effect of division of labour in the workplace is the creation of a hierarchy of skills and wages in correspondence to the increasing specialised tasks that are undertaken. In many instances, however, the detailed labour becomes increasingly simple even if certain dexterity is gained with practice. Hence, in addition to the creation of skilled specialised job, there is an overwhelming amount of simple, unskilled work activities that are formed to which a large section of the working class is assigned (Worsfold, 2004: 1). Marx traced the introduction of machinery that eroded jobs to the increasing division of labour and went further to show the extent to which machinery production utilises the division of labour to diminish the role of workers in the field of production.

Marx (Cap.v1 1976: 548), maintained that "*whereas manufacture adopted existing methods of production and transformed them*

through the utilization of the co-operation and division of labour, machinery took on much greater significance and transformed the role played by labour as a whole in the production process. In manufacture, the division of labour brings a range of specialist tools for the workman to use in his detailed task. Machinery production brings the displacement of the worker from the handling of his own tools and instead he becomes a tool of the machine. He becomes robbed even of the simple and specialised task that has been left by the manufacture. The pace of the machine dictates the pace of work. In short, machinery seizes the division of labour created by manufacture, intensifies it and transforms it into a division of tasks between the parts of the machine to which labour becomes an appendage". In other words, it is no longer the labourer that employs the means of production, but it is the means of production that employs the labourer, since labour has taken the position as one of the limbs of the machine, which he has created (Leatt et al. 1987: 204).

Moreover, as the division of labour intensified, the source of value and surplus value become more deeply obscured. Firstly, increasing productivity is associated with the power of collective labour organised in co-operation with division of labour that mars the skills of many workers. Therefore, it is capital that increasingly appears to be the source of wealth, since what is a gain for the productive power of capital through collective labour, is a loss to the labourer in terms of dilapidated skills, functions and control. With the growing use of fixed and constant capital and the displacement of the labourer by machine, the significance of labour, as a source of value is increasingly denied, and regarded as one source of value amongst other things (Marx Cap.v1 1979: 35).

Adam Smith himself, even later wrote, with discernment, about the intellectual degradation of the worker in a society in which the division of labour has proceeded exceedingly far. Smith (1776, cited in Heilbroner 2002: 5) remarked: "*for by comparison with the alert intelligence of the husbandman, the specialised worker generally becomes as stupid and ignorant as it is possible for a human being to become*". Smith went further to assert that there is a tendency in commercial society, owing to advanced division of labour, to corrupt the 'intellectual, social and martial virtues' of its citizens (WN V.i.f.51 cited

in Alvey 1998: 1433). This 'leprosy' (division of labour) is so great a public evil that it leaves people 'mutilated' and deformed in their character (WN V.i.f.60-1 cited in Alvey 1998: 1433).

Therefore, increasing division of labour (specialisation) narrows the range of choice of ways of making a livelihood for workers (Pasricha 2005: 233). The outcome of division of labour is the lowering of value (in terms of dexterity and remuneration) of individual workers (Hooker 1999: 2). By way of increasing division of labour, workers' activities become more and more narrow and monotonous and instead of developing man's creative powers, it evaporates it, degenerating people into 'idiocy' and 'cretinism' (Leatt et al. 1987: 204; Heilbroner 2002: 5).

It may be easy to show how the growing international division of labour helps to boost world economic performance, while at the same time ignoring its effect on the working class, namely the distribution of this performance. In this regard, Martin and Schumann (1997: 231) opined: "*World market integration is economically very efficient. But, in the absence of state intervention, the global economic machine (division of labour) is anything but efficient in distributing the wealth so produced; the number of losers far exceeds the number of winners*". Division of labour introduces inequality between occupations and generates disunity amongst workers, which results in social inequality that divides society into haves and have-nots, rulers and the ruled, exploiters and exploited (Leatt et al. 1987: 205). In Marx's view, division of labour pits a man against his fellow man; creates class differences and destroys the unity of the human race (Greaves 1975: 212-213).

Division of labour under capitalism therefore amounts to the creation of a class of wage-labourers dispossessed of means of production and forced to become appendages of the machine (Marx v1 1976; Fine 1982; Leatt et al. 1987; Miles 1987). Marx observed that the introduction of machinery (a by-product of division of labour) is a stage in the development of capitalism. In his view, manufacture compelled different capitalists to accumulate and this force was strengthened with the introduction of machinery that necessitates huge funding costs, which was once beyond the power of gathering funds through savings and capital accumulation. The reorganisation of capital through liquidation, acquisition and amalgamation/merger, became

the new trend and credit system through banking, which was utilised as another instrument of such accumulation (Fine 1882: 45). In addition, the greatest stimulus to production by huge automation is only achieved by eradicating the possibility for competition from capitals, which is always achieved through backward methods, namely retrenchment, downsizing, re-engineering and of course through the logic of outsourcing. At this juncture, the discussion will shift towards the logic of outsourcing in order to explicate its mutuality with division of labour in the workplace.

THE LOGIC OF OUTSOURCING

Outsourcing or the foreign 'sourcing' of inputs is one important aspect of globalisation in production, which is the reason why outsourcing is at times referred to as globalisation of production. As a matter of fact, there are barely any products these days that does not have some foreign components in it. Thus, this method of production has developed so rapidly, to the extent that it has become difficult to determine the nationality of most products. Indeed, Salvatore (2004: 544) has stated: "*should Honda Accord produced in Ohio, be considered American? What about a Chrysler mini-van produced in Canada, especially now that Chrysler has been acquired by Daimler-Benz (Mercedes)? Is a Kentucky Toyota or Mazda that uses 50% imported Japanese parts American? It is clearly becoming more and more difficult to define what is American and opinions differ widely. One could legitimately even ask if this question is relevant in a world growing more and more interdependent and globalised. Today, the ideal corporation is strongly decentralised to allow local units to develop products that fit into local cultures, and, yet, it is much more centralised at its core to coordinate activities around the globe*".

Indeed, outsourcing has become a requirement for corporations to earn higher profits and to respond to import competition (Feenstra and Hanson 1996: 4). In this case, companies that refuse to look outward for lower-cost inputs may lose their local and international competitiveness under a global setting. Salvatore (2004: 544) further maintained that the need to be competitive, "...is the reason that \$625 of the \$860 total cost of producing an IBM PC was incurred

for parts and components manufactured by IBM outside the United States or purchased from foreign producers during the mid- 1980s. Such low-cost offshore purchase of inputs is likely to continue to expand rapidly in the future and is being fostered by joint ventures, licensing arrangements, and other non-equity collaborative arrangements. Indeed, this represents one of the most dynamic aspects of the global business environment of today". According to Roger Herman, of The Herman Group (Greensboro, North Carolina, USA) (cited in Nel et al. 2004: 589), "*One area that will continue on its current part, is outsourcing. Indeed, outsourcing has greatly increased over the last two decades. For example, between 1972 and 1990, imported intermediate inputs to Britain alone increased from 5.3% of materials purchased to 11.6% of materials purchased (Feenstra and Hanson 1996: 4). In fact, substantial evidence points to the fact that outsourcing has become widespread among modern producers. For example, Nike only employs 2,500 persons in the USA for marketing and other headquarters services, whereas about 75,000 persons are employed in Asia to produce shoes that are purchased back by Nike. Also, currently, General Electric in the US imports from Samsung in Korea all the microwaves that are marketed under their brand-name (Magaziner and Patinkin 1998; Klein 2001). Outsourcing is also claimed as an important activity in industries such as footwear (Yoffie and Gomes-Casseres 1994; Adams et al. 2005), textiles (Gereffi 1993; Legrain 2002) and electronic (Alic and Harris 1986 cited in Anderton and Brenton 1998: 2). These aforementioned examples demonstrate that outsourcing applies to both finished goods and intermediate inputs (Anderton and Brenton 1998: 2).*

Reflecting a bit on the meaning of outsourcing, Anderton and Brenton (1998: 5) have stated that "*outsourcing takes place where companies take the benefit of both the low wage costs of relatively labour-abundant countries and modern production techniques, and whereby the process of producing a product can be broken into a number of discrete activities, by shifting the low-skill intensive section of production abroad, but continue to carry out the high-skill intensive activities themselves, and, once the low-skill activities have been completed, the goods are then imported back from the low-wage countries and either*

used as intermediate inputs or sold as finished goods". Hence, outsourcing includes parts and components arrangement from offshore and contract work done by others. Moreover, another category of outsourcing includes goods that are produced entirely by subcontractors, where the outsourcing manufacturer attaches its brand-name to the completed product. An example of such outsourcing is reflected in the statement of the president of the American division of Levi Strauss, John Ermatinger (quoted in Klein 2001: 195): "Our strategic plan in North America is to focus intensely on brand management, marketing and product design as a means to meet the casual clothing wants and needs of consumers. Shifting a significant portion of our manufacturing from the U.S. and Canadian markets to contractors throughout the world will give the company greater flexibility to allocate resources and capital to its brands. These steps are crucial if we are to remain competitive". Similarly Klein (2001: 198) noted: "From El Paso to Beijing, San Francisco to Jakarta, Munich to Tijuana, the global brands are sloughing the responsibility of production into their contractors; they just tell them to make the damn thing, and make it cheap, so there's lots of money left over for branding. Make it really cheap". Indeed, contracting a foreign firm to manufacture goods that have been designed and distributed by companies in the advanced country, has become an important form of outsourcing.

Another type of outsourcing includes contract work done by others through the use of foreign plants for product assembly. Currently, assembly services represent large shares of U.S. imports from low-wage countries. For example, imports from offshore assembly plants accounted for 42.2% of U.S. imports from Mexico (Feenstra and Hanson 1996: 4-5). Therefore, within the context of globalisation and the need to respond to competition, organisations are reverting to their core functions, consolidating these functions and casting off or outsourcing peripheral activities. (Bendix 2005: 408). Hence, Kirkbride (2001: 77) observed that "The merits of large highly integrated corporations occupying multiple stages in the value chain were diminished in favour of 'focus, focus, focus'. This new conventional wisdom decreed that organisations should concentrate on those activities in which they have significant, competitive advantage.

Any 'non-core' activities should be outsourced".

Indeed, with respect to the global economy, outsourcing has become the manufacturer's new international economies of scale. Salvatore (2004: 544) noted that "just as companies were forced to rationalise operations within each country in the 1980s, they now face the challenge of integrating their operations for their entire system of manufacturing around the world to take advantage of the new international economies of scale. What is important is for the firm to focus on those components that are indispensable to the company's competitive position over subsequent product generation and 'outsource' all the rest from outside suppliers in order to have a distinctive productive advantage". On this keynote, Klein (2001: 197) stated: "Many companies now bypass production completely and instead of making the products themselves, in their own factories, they 'source' them, much as corporations in the natural-resource industries source uranium, copper or logs. They close existing factories, shifting to contracted-out, mostly offshore, manufacturing. And, as the jobs fly offshore, something else is flying away with them: the old-fashion idea that a manufacturer is responsible for its own workforce".

In fact, the origin of outsourcing could be traced to two important revolutions that occurred in business, namely the Multi National Corporation (MNC) and the 'Retail' business revolutions. In the first instance, the MNC revolution enabled business to learn how to render high-tech innovations that complements with globally mobile production systems. Moreover, MNC activities offered a first scope within which capital was able to put labour in international competition, and this competition, indeed, has had significant, negative effects on manufacturing wages, employment and union membership (Bronfenbrenner 2000; Bronfenbrenner and Luce 2004). Then, the second revolution, namely the retail business revolution, was linked to some new sourcing model based on big-box discount stores. The first phase of this revolution could be traced back 40 years ago with the surfacing of big-volume discount stores like Wal-Mart, which was founded in 1962 (Palley 2006: 2). During this phase, the business model was mainly based on national sourcing, and the big-box stores bought from the cheapest, national manu-

facturers. These stores created competition for producers nationally, so that for example, companies in California were forced to compete with those in New York. This national rivalry provided lower prices, and it was beneficial because all suppliers were located and operated within the same territorial jurisdiction. However, to some extent, it also led to cut-throat competition as it pressured some manufacturers to move southward to non-union *'right-to-work'* states where organising workers was much more difficult and labour costs were lower (Palley 2006: 2).

However, the most contested phase of this revolution commenced in the 1980s, when the big-box discount stores began to move out of their territorial boundaries to outsource goods and services. The consequence of this new trend was that US suppliers were no longer merely in national competition, but they were in an international bidding competition. Thus, California was no longer only competing with New York, but US producers were now forced to compete with companies in China, Indonesia and Mexico. According to Palley (2006: 2), *"The economic logic of this global sourcing model is simple. Scour the world for the cheapest supplier and lowest cost- the so-called 'China price'- and then require US manufacturers and workers to match it if they wish to keep their business"*.

However, today outsourcing is not only a game of the retail sector, but has drifted to the production and service sectors. In fact, production and service companies, in the advanced countries, are now busy shifting their activities offshore (have become transnationals and mobile) in order to compete with low cost companies, in the developing countries. Feenstra and Hanson (1996: 5) reported that more and more TNCs are engaged in a substantial amount of outsourcing. For example, the Compaq Computer Corporation purchases parts for personal computers from its foreign branches and from outside foreign suppliers. In both cases Compaq imports components that it could have previously produced domestically. Hence, both forms of outsourcing will definitely affect the range of activities that Compaq would perform in its local production operations. Another example is when Texas Instruments, which set up an impressive software programming operation in Bangalore in India some few years ago, was emulated by other American MNCs. Presently, Motorola, IBM, AT&T, and many other high-tech firms have

currently shifted a lot of their basic research abroad and, in 2004, IBM indicated that it would shift about 7,500 high-tech jobs abroad to lower costs (Salvatore 2004: 545).

Thus, outsourcing can be viewed as an application of the retail sector's sourcing model to production and service sectors, and this development has been accelerated by technological innovations and improvements in computing, electronic communication and the internet (Streeten 2001: 45). Chanda (2004: 3) reiterated: *"In a way, the latest outsourcing phase is simply a result of the internet bubble. Thousands of kilometres of fibre optic cable and high bandwidth connections, laid during the boom years, have united much of the world in high speed connectivity. Relentless growth in storage capacity and high-speed transmission (digital scanning is currently at 200 pages a minute), has meant that anything can be digitised and sent anywhere for processing"*. Similarly, Palley (2006: 3) remarked: *"Owing to improvements in electronic communication and the internet, many services that were previously non-tradable, have become tradable. These include basic computer maintenance and software programming, tax preparation and accounting, architectural planning, and telephone call centres. Even retail sales are potentially tradable, as indicated by the success of the Amazon.com business model"*. In effect, all types of companies are now engaged in outsourcing, and also want suppliers to meet the so called *'China price'*. These dynamics, though originating in the retail sector, have eroded manufacturing and service jobs and wages.

Outsourcing does, indeed, deliver low prices but at the expense of workers (Palley 2006: 2). In this regard, with American workers, Chanda (2004: 2) observed: *"Blue-collar workers, long wary of outsourcing, have been joined by programmers, engineers and office workers. The media is covering the story more than ever before. One CNN program has begun campaigning against outsourcing, compiling a web based list of companies (so far totalling 326) that it accuses of 'exporting America' by 'either sending American jobs overseas, or choosing to employ cheap overseas labour, instead of American workers"*. Anderton and Brenton (1998: 5) felt that trade with the low-wage countries via outsourcing, will surely shift employment away from less-skilled towards skilled work-

ers in the advanced nations and put a downward pressure on the relative wages and employment of low-skilled workers within industries.

Although it was previously believed that outsourcing was companies' response to global competition, however, from the 1980s onward, it became clear that most TNCs have resorted to it, in order to counter some of the rigidities necessitated by government regulations in some countries. A majority of the TNCs adopted it because it provided some leeway from a legal point-of-view against labour. However, there remain innumerable pitfalls with such modes of outsourcing, particularly where skilled jobs are sent away. In such situations, employers may find in the long-run, that the decision to outsource is not as sagacious as envisaged (Bendix 2005: 493-494). For example, the negative repercussion of this style of outsourcing, can be exemplified by the two US auto part companies Visteon and Delphi, former subsidiaries of Ford and General Motors, respectively. Visteon and Delphi had initially competed nationally. However, as both Ford and General Motors announced in 2005 their intentions to outsource from low cost companies in order to meet the 'China price' of being globally competitive, both Visteon and Delphi, owing to higher union wages and benefits in America, joined the race by shedding jobs and moving production offshore, including to China. However, in the long run, both came to realise the difficulties that are associated with this mode of outsourcing and in October 2005, Delphi became bankrupt (Palley 2006: 3).

In fact, this increasing drive to outsource began after the 1987 recession, when companies became desperate for cost-cutting measures to boost profits. Thus, with manufacturing transferred overseas, high-speed imaging and communication technology helped to reduce costs in software applications, data processing, accounting and customer service. In addition to the high-tech innovations, there was also an increase in the number of English-speaking accountants, engineers and business students who came from low cost country universities, such as India and, for many of these new graduates, the call centres are a first step into the job market, while indeed, many of these graduates are willing to obtain a little portion of what their counterparts earn in America and Europe. This

is the main reason why most TNCs have rushed into India's cyber-office space (Chanda 2004: 4). Presently, most TNCs have become 'virtual manufacturers'. Although their product design and marketing is done in their parent countries, the actual production work is carried out in lower cost locations, such as China or Mexico (Chanda 2004: 3). Kirkbride (2001: 77) commented: "*Much was written about the advent of the 'virtual corporation' that would only exist as a brand. Labour market problems were to be vanquished in the electronic lightening of new technology*".

The positive side of this story is that countries like India, have leapfrogged into the 21st century by setting up high speed networks, effectively turning their cyberspace into virtual office space for the West. In that case, an employee sitting in Chennai, in India, can examine the image of a medical insurance claim in the West on his computer screen and complete the form for processing. In that light, Andrew Grove, CEO of Intel Corporation (cited in Chanda 2004: 3) exclaimed: "*From a technical and productivity standpoint, the engineer sitting 6,000 miles away, might as well be in the next cubicle and on the local area network*". Certainly, it is this imperceptible worker that is willing to work for a little fraction of the average US wage that has eroded America jobs. Indeed, McKinsey's (cited in Chanda 2004: 2) predicted that by 2008 IT services and back-office work in India will grow fivefold and will employ four million people. This is indeed a sign that the upward trend in service outsourcing to low cost nations, will continue unabated to the detriment of service workers in advanced countries. In this respect, Chanda (2004: 4) retorted: "*There is a gnawing fear that, given the cost advantages and unlimited supply of competent workers, jobs now leaving the US may not come back. The savings that corporations achieved through outsourcing will reduce consumer prices and raise shareholders' profits, but without necessarily creating any jobs at home. The classic solution to the problem of job loss, created by technology, has been to promote education and re-training programs. But, if an unlimited supply of workers with similar skills is available at the end of a broadband wire for a tenth of the salary, the textbook economics remedy may not work. There will obviously be many office jobs requiring direct client and team contact, but those jobs that can be done in isolation, are*

increasingly up for grabs in a global labour market". Indeed, work that was previously done in the United States and other industrialised countries, is now done at a lower cost in some developing countries. This is not only for low-skilled assembly-line jobs but includes job requiring high computer and engineering knowledge.

Previously, it was a general belief in the US that only the unskilled job would fly away, leaving American workers with the highly paid white-collar jobs. However, recently IBM has moved millions of white-collar jobs to countries like India and China, and contended that such moves enhance their competitive advantage, hold costs down for American consumers, and help to develop poorer nations while supporting overall employment in the United States, by improving productivity and the nation's global reach. Nevertheless, this rationale does little to calm the growing concerns of many politicians and employees in the US and other advanced countries that are affected. This is the reason why it was predicted that outsourcing will result in unemployment, resentment of foreigners training in the US and retaliatory unionisation efforts (Greenhouse 2003: 1). However, in spite being concerned about the repercussions, IBM continued with their plans to outsource thousands of jobs overseas. According to the company's employee relations officer, Tom Lynch (cited in Raynor 2003: 4), *"This challenge really hits us squarely between the eyes. We don't want to sit back and say 'don't do it' because it's going to be a real problem. Our competitors are doing it and we have to do it"*. Similarly, Salvatore (2004: 545) commented: *"Globalisation in production and labour markets is important and inevitable because it increases efficiency; inevitable because international competition requires it. Besides the well-known static gains from specialisation in production and trade, globalisation leads to even more important dynamic gains from extending the scale of operation to the entire world and from leading to the more efficient utilisation of capital and technology wherever they are more productive. Otherwise, competitors would do so and the firm would lose its markets and might even be forced to shut down. For the same reason, firms must outsource labour services or employ labour off-shore where it is cheaper or more convenient"*. However, one computer company executive worried

that *"Once those jobs leave the country, they will never come back"* (YaleGlobal 2007: 4).

John Ermatinger, while explaining the decision to shut down twenty-two Levi plants and lay-off more than 16,000 workers, stated: *"As far as the company is concerned, those 16,310 jobs are off the payrolls for good, replaced by contractors throughout the world. Those contractors will perform the same tasks as the old Levi's- owned factories- but the workers inside will never be employed by Levi Strauss"* (Klein 2001: 201). Indeed, most Americans have only now come to fully realise that there is a truly competitive labour force around the world that is willing and able to do their jobs more efficiently at much lower costs. Thus, service industries are not immune to global competition and outsourcing. For example, more than 3,500 workers in the island of Jamaica, are connected to the United States by satellite dishes to make airline reservations, process tickets, answer calls to toll-free numbers, and do data entry for US airlines at a much lower cost than could be done in the United States. Therefore, even highly skilled and professional people are not spared from the competition which is triggered by outsourcing (Martin and Schumann 1997; Matthews 1998).

Outsourcing in production is the cause of the decline in the demand for, and the wages of semi-skilled and unskilled labour in the advanced countries (Streeten 2001: 45). For example, in the age of outsourcing, companies throughout the Silicon Valley have abolished many permanent jobs, and contracted work to agencies for temporary staff, where they have few or no benefits (Bacon 1996; Burbach 2001: 55). Regular employment in major computer companies, like Sun, Hewlett-Packard and Apple, is stagnant or declining, while these same companies subcontract for many of their components with manufacturers who pay 30% less to their employees (Benner, 1998: 32). Indeed, most workers will turn to free agents, and a number of them will sell their services through an international network of brokers (Nel et al. 2004: 589-90).

Therefore, outsourcing could be one the main culprits for the widening inequality in the advanced nations. In this regard, Feenstra and Hanson (1996: 1) pointed out that since the late 1970s, the wages of less-skilled U.S. workers have decreased dramatically, both in real terms and relative to the wages of more-skilled U.S. work-

ers. Indeed, two main explanations frequently offered for the apparent shift in demand away from low-skilled workers in the UK and other industrial countries, are that skill-biased labour-saving technical progress has reduced the relative demand for unskilled workers and that increased international trade with nations that have an abundant supply of low-skilled and low-wage labour, has decreased the demand for low-skilled workers in the advanced, industrialised countries (Anderton and Brenton 1998: 1). Therefore, ignoring outsourcing misses an important channel through which trade affects the demand for labour of different skill types (Feenstra and Hanson 1996: 1). Hence, when firms outsource, they narrow the range of activities that the domestic industry performs, which can reduce the industry unit demand for less-skilled labour (Feenstra and Hanson 1996: 6). In that case, outsourcing can have a damaging effect on the economic fortune of the less-skilled within the advanced countries (Anderton and Brenton 1998: 18), and, indeed, that could explain the reason why workers who were retrenched in the US during the 1980s, were not rehired (Feenstra and Hanson 1996: 8).

Ensuing job losses appear more unnerving for three additional reasons. Free trade theorists, Stolper and Samuelson (1941 cited in Palley 2006: 4) have long established that when a rich capital-abundant country engages in free trade with a poor labour-abundant country, wages in the rich country decrease. Therefore, by combining global sourcing with globalisation of production, the new system places the Stolper-Samuelson effect on motion (Palley 2006: 4). Hence, one explanation of how trade with low wage countries may push down the relative wages and employment of unskilled workers within industries, is provided by the notion of 'outsourcing' (Palley 2006:4).

Outsourcing can account fully for 51.3% of the increase in the non-productive wage share. Therefore, outsourcing performs substantially better in accounting for the increase in the relative demand for non-production labour in advanced nations. This should not be too surprising, since the new measure of outsourcing is a much more direct estimate of the extent to which industries move production activities offshore (Feenstra and Hanson 1996: 7). For example, the price of imports from low-wage countries, relative to the price of UK products, explains some

of the rise in UK inequality. It may be the case that this relative price term captures the 'threat' of increased competition from low-wage countries, arising from appreciation of the UK currency. Therefore, as an alternative to reducing labour costs by outsourcing, may have also encouraged other firms to implement measures, which restrain the wages and, perhaps terminate the employment of less-skilled workers in order to remain competitive against low-wage countries.

At the same time, this 'threat' may have made it considerably easier for firms to obtain the agreement of their workforce for the implementation of such measures (Anderton and Brenton 1998: 17-18). In the UK, the relative wages and employment of the low-skilled, have indeed fallen dramatically during the 1980s. For example, the real earnings of the top tenth of male earners in the UK, rose at a rate five times faster than that of the earnings of the bottom tenth of male earners (OECD 1993: 157). The unemployment rate of less-skilled males in the UK rose from 6.4% in the mid-1970s to 18.2% by the mid 1980s, whereas over the same period, the unemployment rate of skilled males only rose from 2.0% to 4.7% (Nickell 1996 cited in Anderson and Brenton 1998: 3).

Furthermore, outsourcing is deeply embedded in the service sectors and has led to a spate of retrenchments in this sector. This development will continue to be a cause for renewed concern in the advanced countries. For example, in the US today, the discordance towards outsourcing is not like that of the past decades when manufacturing jobs left America for cheaper shores, and then, some opposition were calmed by the prospect of US workers moving 'up the economic ladder', as the US transitioned to a service economy. However, currently, the upper end of that very growing sector of the US economy, is under threat. Unlike in the 1990s, when a period of mass lay-off was more than offset by the net creation of 22 million new jobs, the current job creation machine seems to be sluggish (Chanda 2004: 2). Mandel (2003 cited in Raynor 2003: 2) reiterated: "*Two decades ago, the loss of auto jobs and other high paying manufacturing jobs sparked fears of a hollowing-out of the US economy. Yet, painful as the loss of those positions were, strong economic growth and innovation created far more- and better- jobs to replace them. Now, the same pro-*

cess, many economists argue, is going on in services. Yes, some individuals are losing out as well-educated programmers or engineers can do the same jobs for far less halfway across the globe. But, as the US economy evolves, innovation will create new high-paying jobs. Others, though, argue that the outsourcing of highly skilled service jobs is fundamentally different- and poses greater risks for the US economy”.

According to a private IT research firm, Forrester, about 400,000 American service jobs have been moved overseas since 2000. Over the last decade, the top 25 British companies have destroyed more than 200,000 British manufacturing jobs, and acquired, or created, a similar number of jobs overseas (Matthew 1998: 385). Forrester further maintained that by 2015, about 3.3 million American service jobs will be offshored. Disturbed about the current events, an Illinois congressman, who previously chaired the US House Committee on Small Business, Don Manzullo, opined: “*What do you tell the Ph.D., or professional engineer, or architect, or accountant, or computer scientist to do next? Where do you tell them to go?*” (Chanda 2004: 4).

Indeed, global outsourcing poses some new economic challenges and its solution requires a new set of institutions. The task is complicated by problems associated with a lack of global, regulatory institutions and changes in the balance of power between the government and the TNCs that makes it difficult to enact needed reforms. The eminent researcher and writer, Dr Craig Roberts, expressed his remorse towards the current logic and maintained that: “*Trade implies reciprocity. It is a two way street. There is no reciprocity in outsourcing, only the export of domestic jobs...if there are no given endowments because of business know-how, capital and technology are globally mobile, the advantages lies with countries with untapped pools of educated and skilled low-wage labour*” (Roberts 2003 cited in Raynor 2003: 2). In a similar frame of mind, the former US Democratic Party Presidential candidate, Senator John Kerry, criticised companies outsourcing American jobs, and nicknamed them ‘*Benedict Arnold companies*’, after the most reviled traitor of the American War of Independence. During his presidential campaign, Kerry stated: “*Companies will no longer be able to surprise their workers with pink slips instead of pay check;*

they will be required to give workers three months notice if their jobs are being exported offshore”. (Chanda 2004: 3). Dr. Alfie Kohn is of the opinion that outsourcing is essentially detrimental, and believes that even productivity would all be improved if this pattern of relentless competition is abandoned (Catlin 2003 cited in Raynor 2003: 4).

Presently, a plethora of anti-outsourcing legislation has been introduced to US state legislature, and the US Senate has considered banning the outsourcing of government-funded projects (Chanda 2004: 2). Though, previously, tough immigration policies worked to keep millions of Third World workers out of the developed country shores. Nevertheless, the challenge of a global, visual labour force will necessitate a new global development strategy. Of course, trade protectionism may seem plausible under the current dispensation. However, the solutions of another era may not measure well in the post industrial age (Chanda 2004: 4). In fact, sooner or later, firms may come to realise that they are trading off long-term interest, in favour of short-term gains for immediate returns. In fact, most firms that outsource, may eventually find that other alternatives would have been wiser to protect their knowledge assets and workers, rather than search the globe for the next low-wage earners. They may come to realise that their real strategic advantage comes from maximising knowledge and leveraging ideas in the long run, instead of maximising employee costs now for short-term gain (Raynor 2003: 5).

Moreover, Dapice’s (cited in YaleGlobal 2004: 1) contended that the argument that outsourcing allows hundreds of thousands of people in developing countries, like Vietnam, the chance to earn wages, pull themselves out of poverty and, in turn buy goods that are produced overseas is unrealistic. In fact, most of the workers in those poor nations cannot afford the goods, which they have produced for the TNCs in their countries, much less the ones produced overseas. In addition, most of these jobs sent to the Third World nations are of low quality, cheap, and do not arrive in the Third World in the same form that it left the First World. This, indeed, amounts to a global depletion of the value of labour. Furthermore, countries in the Third World do not need cheap or devalued jobs because these have not brought development and growth to the region. It simply drains their human resources.

What are most needed in the poor countries are the cancellation of their debts, reparation and developmental aids and overheads. These would enable them to create jobs for their people rather than being exploited by the so-called job providers who pay mere subsistence wages.

CONCLUSION

Division of labour in production obscures the role of labour in the production of value and surplus value. In the social division of labour, the concealment is reinforced. The confinement of each worker to a particular task, within a particular sector, renders impossible a direct vision of the performance of surplus labour. Therefore, as the social division of labour develops, the source of profit in surplus labour will continue to be less transparent. Outsourcing as well obscures the role of labour in the production of surplus value. Therefore, outsourcing, off-shoring, foreign-sourcing, globalisation of production and whatever other name it may be called, is nothing but division of labour (discussed above), which has assumed an international dimension. Whereas previous division of labour was localised, the current one has been internationalised or globalised to provide capital with additional leverage to exploit labour globally. Hence, the logic of outsourcing cannot be mutually exclusive from the logic division of labour.

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