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UC Berkeley study assesses 'second wave' of outsourcing U.S. jobs

By Kathleen Maclay | 29 October 2003

BERKELEY – A ferocious new wave of outsourcing of white-collar jobs is sweeping the United States, according to a new study published by University of California, Berkeley, researchers, who say the trend could leave as many as 14 million service jobs in the United States vulnerable.

Study authors Ashok Deo Bardhan and Cynthia Kroll, both researchers at the Fisher Center for Real Estate and Urban Economics housed at UC Berkeley's Haas School of Business, say that not all of the at-risk jobs are likely to be lost. But, they note, jobs remaining in the United States could be subject to pressures to lower wages, and the jobs that leave may slow the nation's job growth or generate losses in related activities.

Jobs most vulnerable to the new wave of outsourcing, the researchers say, include medical transcriptions services, stock market research for financial firms, customer service call centers, legal online database research, payroll and other "back office" activities. Altogether, the positions feature vulnerability-producing attributes such as a lack of face-to-face customer service, work processes that enable telecommuting and Internet work, high wage differentials between countries, a high information content, low social networking requirements, and low set-up costs.

Bardhan and Kroll say that the widely quoted Forrester Research (an independent technology research company) report issued in 2002 that 3.3 million jobs would be lost to outsourcing by 2015 already seems conservative. They point to the rate of outsourcing over the past few years to India - 25,000 to 30,000 jobs in June 2003 alone.

Hourly wages for selected occupations US and India, 2002-03		
Occupation	US Wage	India wage
Telephone operator	\$12.57	Under \$1.00
Health record technologist/ Medical transcriptionist	\$13.17	\$1.50 - \$2.00
Payroll clerk	\$15.17	\$1.50 - \$2.00
Legal assistant/ Paralegal	\$17.86	\$6.00 - \$8.00
Accountant	\$23.35	\$6.00 - \$15.00
Financial researcher/ Analyst	\$33.00 - \$35.00	\$6.00 - \$15.00

India, they say, is the leading destination for outsourcing due to its population's widespread use of English in both education and business, institutional similarities with the United States in its legal system, wide wage differentials with the United States, and its large numbers of science and engineering graduates.

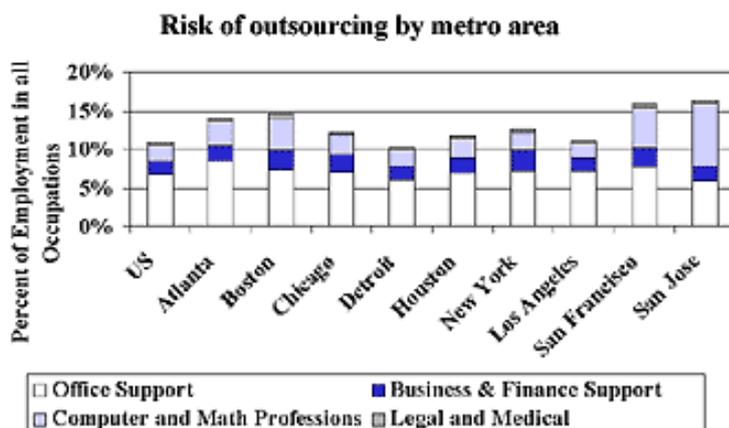
Source: US wages are from US Bureau of Labor Statistics, National Compensation Survey, July 2002; India wages are from interviews, business literature search and review of employment want ads by the authors.

Yet, other locations such as China, East Asia, Russia, Israel, and Ireland also are increasingly popular and competitive outsourcing destinations, the authors say. They cite tentative evidence that shows the outsourcing of business process and software jobs generated more than a million jobs in the '90s and hundreds of thousands more since the turn of the century.

"Because white-collar work is so widely spread throughout the United States, many different parts of the country may feel the effects of this wave of outsourcing," says Kroll.

Areas that benefited over the past two decades from the migration of "back office" work out of central cities could now see a share of those jobs leave for other parts of the world, warn Kroll and Bardhan.

Major metropolitan areas are not immune either, they say. San Francisco and San Jose as well as expensive East Coast locations such as Boston and New York City are vulnerable, according to the researchers, both because of their high shares of occupations that can be outsourced and because of their high cost of labor.



This graph, based on Bureau of Labor Statistics data, shows how outsourcing of jobs is likely to vary by geographic area, and by job classification within those areas. (Source: Bardhan and Kroll)

In terms of real estate markets, "outsourcing will not empty out office buildings in the United States," says Kroll, "but it will certainly slow the rate at which current vacancies are absorbed." Both "back office" markets and high-tech centers are likely to feel the effects, she says.

But all is not necessarily gloomy for the United States' economy, the researchers say.

For example, outsourcing of service jobs may prove more costly to the economy than the earlier wave of manufacturing outsourcing, conclude Kroll and Bardhan. This, they say, would be the case if the economy does not generate enough technological growth to replace the jobs lost with new

ones and workers eventually find new work in lower-wage occupations.

"On the other hand," says Bardhan, "continuing innovation and technological advances could allow the U.S. and California economies to keep the 'cream' of new development and higher-value-added jobs at home, while more routine activities are outsourced."

This was the pattern for high-tech manufacturing outsourcing of California's low-wage assembly jobs during a downturn that brought productivity increases in its wake and a wide range of opportunities in new service jobs, he said.

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[Research report: The New Wave of Outsourcing \(PDF\)](#)

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