



# Offshoring and U.S. Labor Markets

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**Services Offshoring: What Do the Data Tell Us?**

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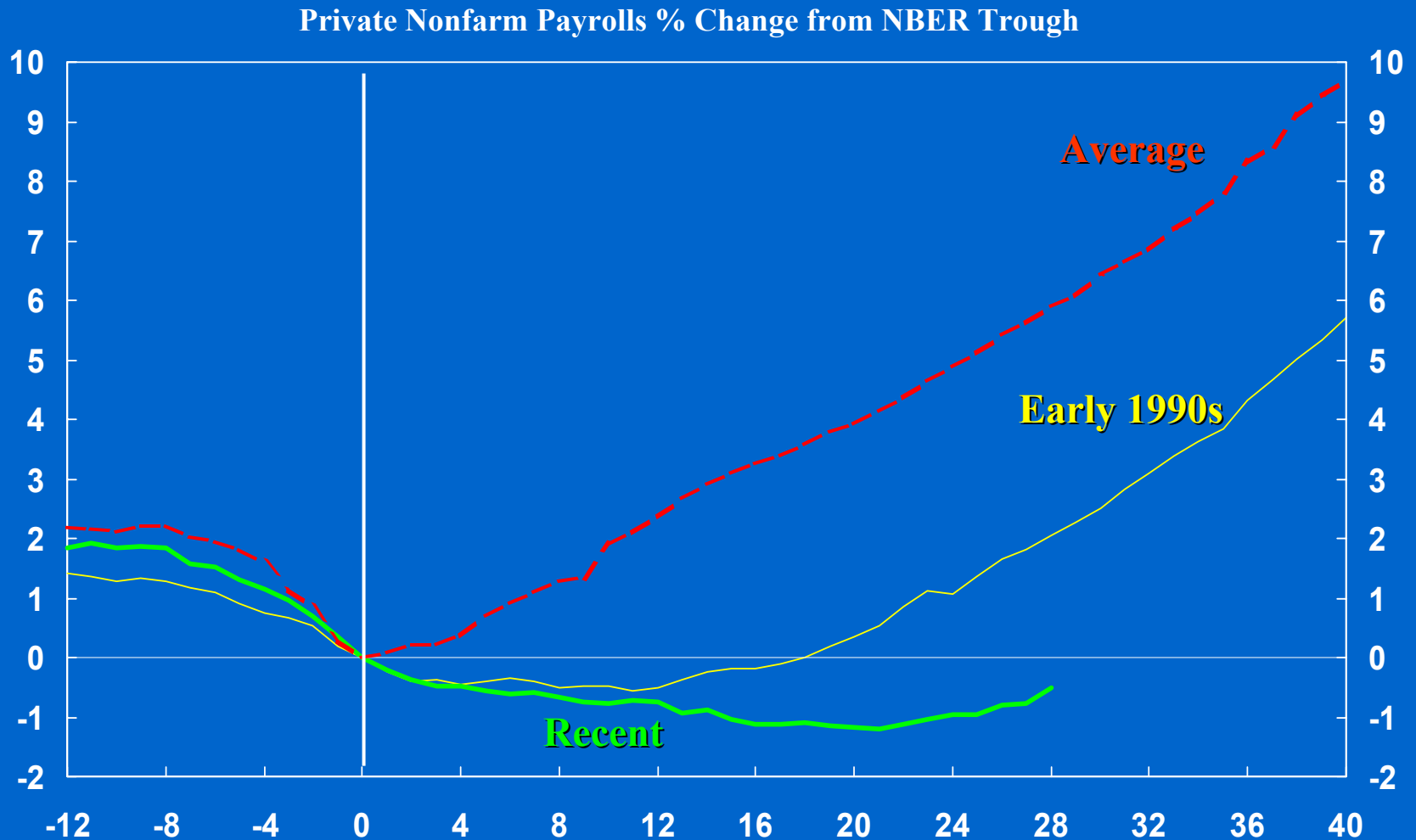


# What Do We Want to Know?

- For this discussion, “we” refers to monetary policymakers
- Why are monetary policymakers interested in offshoring?



# Job losses continued for 2 years after NBER trough



Source: Bureau of Labor Statistics; Author's calculations.

# Cyclical vs. Structural Fluctuations

- Monetary policy needs to distinguish cyclical from structural movements in labor market
  - React to cyclical
  - Don't react to structural
- Boils down to needing an accurate estimate of trend payroll growth and/or the “natural rate” of unemployment

# What are Structural Factors?

- Literature offers no clear definition
- **Demand:** Outsourcing/Offshoring, overall international trade patterns, technology, workplace practices, growth of temporary help sector, etc...
- **Supply:** participation rates fluctuate for “secular” reasons as well as cyclical

# The Recent (Lack of) Recovery

- New York Fed study released in August 2003 pointed to important role for structural change (Groschen and Potter, August 2003)
- Recent Chicago Fed study (Aaronson, Rissman and Sullivan, 2004:Q2) did not find evidence of extra sectoral reallocation in current period
- Both studies use macro data (industry level)

# The Recent (Lack of) Recovery

- McConnell and Tracy (2004) use micro data in addition to macro, to examine phenomenon such as:
  - Industry mobility rates
  - Geographic mobility rates
  - Role of demographic factors
- Preliminary findings suggest that structural factors were not likely to have been very important in recent episode

# Where Does Offshoring Fit In?

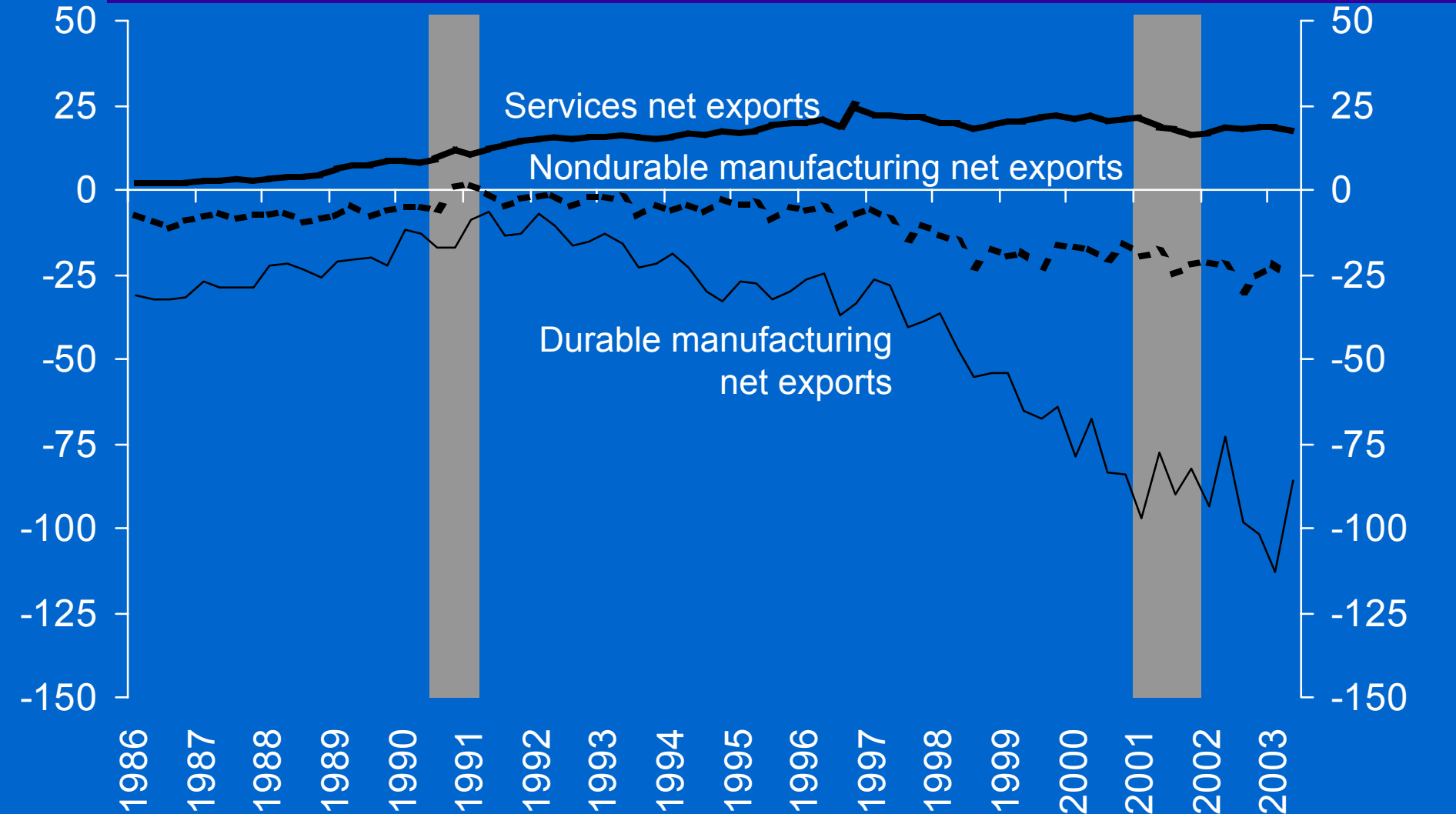
- Has received much attention in recent period
  - But, do we want to think of this as something different from international trade in goods and services?
- Can this account for sluggishness of recent recovery?
  - No. (Groshen, Hobijn and McConnell (2004))



# Trends in net exports

1996 Dollars (billions)

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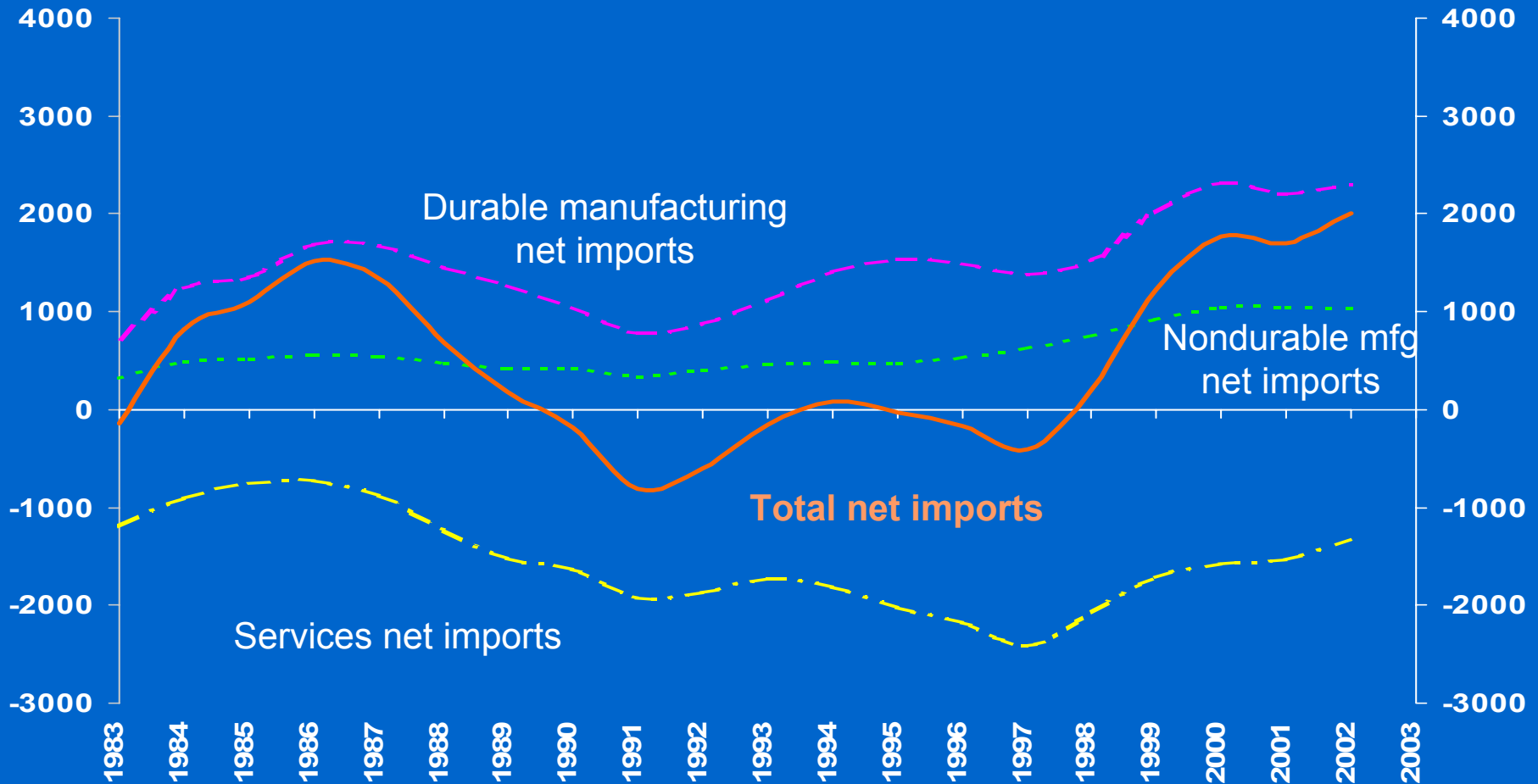


Source: Bureau of Economic Analysis

# US jobs embodied in net imports

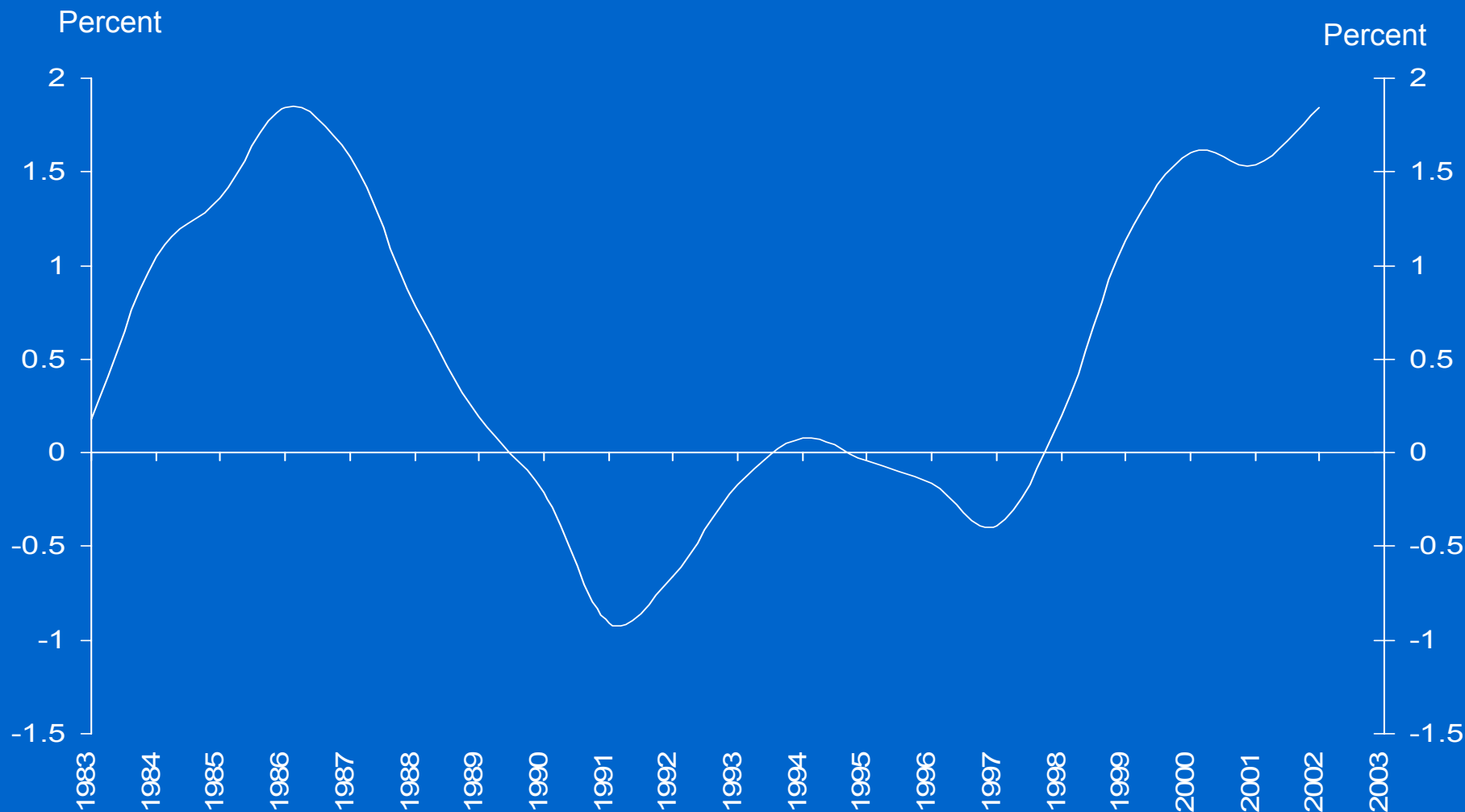
Thousands of jobs

Thousands of jobs



Source: BLS, BEA etc...and author's calculations

# US equivalent jobs in net imports as a share of payroll employment



Source: Authors' calculations

# Beyond the Jobless Recovery...

- Data efforts that help researchers identify “structural” factors are crucial to distinguishing trend from cycle in the aggregate labor market
- Unfortunately, data collection/survey design is unlikely to be well ahead of the phenomenon we’re trying to capture...

# Where Would More Detail Help?

- Mass Layoff Survey moves in right direction
  - *Why* was the decision made? Labor costs, tax rates, etc?
  - What activities are being outsourced?
  - What industries are being outsourced to? (does it vary depending on whether work is moved abroad or stays here?)
  - Is it productive (ex post)?

# Where Would More Detail Help?

- Linking firm and household behavior seems crucial to identification of long-term trends
  - Identify underlying source of fluctuations (cyclical vs. structural)
  - Potential to gain better understanding of factors behind productivity growth (and hence better forecasts?)
  - More easily identify trends in and reasons behind participation/self-employment decisions

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# Where Would More Detail Help?

- Design data/surveys to get better read on service sector
  - Hours, compensation, output?

# Where Would More Detail Help?

- Understanding flexibility of labor markets:
  - What role do contingent workers play? (In a sense, use of temps is just outsourcing?)
  - What activities are being done by these workers? Are they the same ones that often get outsourced?