

OUTSOURCING: THE CASE FOR RESIDUAL OBLIGATIONS

Albino Barrera, O.P.
Providence College
abarrera@providence.edu

I. Economic-ethical linkages

This paper approaches the issue of offshore outsourcing by first examining the economics of the practice and then assessing its resulting ethical implications. Given the limited space available, I will deal only with some of these economic-ethical linkages, namely: the place of reciprocity and mutual advantage in trade, the market's unintended redistribution of burdens and benefits due to price adjustments, the shifting cost of labor protection, the question of a uniform global code of labor standards, the potency of trade in alleviating poverty, and the preconditions of job security.

First, industrialized nations have long championed liberalization in the markets for manufactures, high-end services, and capital—areas in which they clearly enjoy a comparative advantage. By curtailing overseas outsourcing, these nations do not live up to the two principles of consistency and mutual advantage (reciprocity). One cannot be selective in subscribing to rules of international trade only when they are in one's own interest.

Second, offshore outsourcing is a much more complicated ethical question of balancing equally strong claims between competing stakeholders, namely: workers and local communities at risk in the outsourcing countries, on the one hand, versus the laborers and local communities in the poor, host/recipient nations and the shareholders and consumers in the developed countries, on the other hand.

Third, the costs of offshore outsourcing borne by displaced workers are heavy, their reintegration into economic life is uncertain, and they may never regain the same economic welfare they had prior to the loss of their employment. We have to seriously ask ourselves whether it is right to simply leave economic agents to deal with particularly severe adverse pecuniary externalities on their own.

Fourth, offshore outsourcing is a potent vehicle for poverty alleviation because of its enormous positive externalities of job creation and technology transfer in poor nations. Moreover, by integrating impoverished populations into the global marketplace, industrialized nations, in effect, prevent the further marginalization of these vulnerable groups. Two questions arise in this regard: (1) Is there, in fact, an obligation to engage in this business practice? (2) Can a case be made for outsourcing on the basis of the obligation to be efficient for the sake of future generations?

Fifth, in order to avert or at least discourage a race to the bottom, many have proposed uniform, global labor and environmental standards as a condition of international trade. Is there an obligation to require such as a condition of offshore outsourcing? Unfortunately, mandating a

uniform code of environmental and work conditions is not a straightforward ethical exercise. Is such harmonization a paternalistic, undue interference in local communities' and sovereign nations' preferences or is it a necessary safeguard to delimit an impersonal, amoral market from using human beings as means rather than treating them as ends in themselves? Should we impose labor standards, or should we simply let the market take its course and rely on people to demand these norms for themselves in due time after they have satisfied their other, more pressing needs as economic development unfolds? Should we simply allow people to make their own choices with respect to labor and environmental standards given that people are presumed to know better than anybody else what is in their own best interest, or is this allowing them to fall prey to economic coercion and exploitation?

Sixth, firms and workers should already start internalizing today the cost of a future, expected lay-off as part of the normal course of the product life cycle. This includes setting aside money, time, and effort for continuing education and training to hone and further develop human capital. This is consistent with the principle of subsidiarity in which people are supposed to take responsibility for their own well-being, to the extent possible.

Seventh, notwithstanding the efficacy of international trade (including offshore outsourcing) in raising people out of poverty in the Third World, do the developed nations have a primary obligation to their own citizens first? The duty to ones' own citizens first must be satisfied within the larger set of obligations as a member of the global community of nations. This responsibility to one's own citizens first can be satisfied not necessarily through curtailing international trade (or outsourcing) but by better preparing their citizens and themselves collectively as a nation to move ever higher up the ladder of comparative advantage.

II. Catholic social thought

Catholic social thought (CST) has much to offer on this issue from its treasury of philosophical and theological resources. It provides much more specific guidelines on some of the more difficult, indeterminate ethical issues raised in the previous section. Let us revisit each of the aforesaid economic-ethical linkages.

A. Selective subscription to the rules of international trade

Just like philosophical ethics, CST calls for fairness in international relations. As early as the mid-1960s, Paul VI had already raised concerns regarding the fairness of the rules of international trade in his encyclical Populorum Progressio. The urgency of living up to the requirements of commutative justice goes beyond the reciprocity and fairness called for under justice as mutual advantage; it is solidarity that animates the concern for fairness. We are motivated to treat each other with fairness and not take advantage of one another because we are actively and genuinely concerned for the welfare of others. Consequently, trade is not viewed as an occasion to get as much as we can for ourselves even at the expense of our trading partners, but as a cooperative venture together as a family.

B. Adverse pecuniary externalities

One of the issues which philosophical ethics is unable to resolve unequivocally is the question of whether or not there is an obligation to partially reverse the redistribution of burdens and benefits across market participants caused by price adjustments in the normal of course of

market operations. This is not even to mention the more difficult question of the extent and duration during which winners compensate losers.

CST would unambiguously call for attending to the unavoidable adverse pecuniary externalities of market exchange. This is founded on the biblical principle of restoration that is vividly laid out in the Old Testament. Given the space constraint, I will only outline the key points of the argument. As part of the Covenant, the Hebrews understood that they were morally obligated (1) to provide loans (grain or money) to their fellow Hebrews in need, (2) to provide these loans without charging any interest at all unlike the usual practice of their time, (3) to write off these debts after six years, (4) to take into their households fellow Hebrews who had fallen on hard times as tenants or as hired hands but not as slaves, (5) to release after six years of service all those who are held in bondage, and (6) to return ancestral land to their original owners during the Jubilee year. A common underlying principle tying these prescriptions of the Law together was the need to restore fellow Hebrews who had fallen prey to the chance and contingencies of socioeconomic life. Note that the goal was not merely to provide a hand-out or a stop-gap measure to temporarily relieve distress. The aim was to restore Hebrews as free, landholding households that were then able to take their rightful place in the nation Israel and contribute their share in sustaining the nation.

Applied to our own era and following the spirit of this biblical principle of restoration, we cannot leave people to deal with the harsh consequences of economic chance and contingencies on their own. Just like the Hebrews, we are obligated to provide assistance, not merely out of our surplus but out of our substance, so that our brothers and sisters may be restored in their ability to participate in economic life. This unambiguous position is a major difference between CST and philosophical ethics.

C. Increasingly heavier burdens on the unskilled, under-educated, and the middle-aged

Just like philosophical ethics, CST calls for assistance for the segments of society that are particularly vulnerable, such as the unskilled, the under-educated, and the aged, who may be increasingly unable to keep up with the requisite changes of a very fluid economy. Two principles are particularly helpful: primacy of labor and the preferential option for the poor. The primacy of labor clearly lays out the arguments for why every person is deserving of meaningful and gainful employment opportunities. As a community, we have a collective obligation to work toward securing those conditions that provide meaningful employment for all, to the extent possible. The preferential option for the poor is also relevant for this particular dimension of the issue of outsourcing because it calls for even greater assistance to be accorded to people who are clearly unable to fend for themselves. Both of these principles add weight to the duties we individually and collectively owe to members of our community who have been marginalized as a result of an increasingly demanding, globalized marketplace.

D. Race to the bottom

Philosophical ethics is unable to conclusively adjudicate the clashing claims between the freedom called for under unfettered market operations versus the extra-market harmonization of labor and environmental standards to forestall the race to the bottom. CST would have little difficulty weighing this case using its principles of human dignity, the common good, and subsidiarity. A non-negotiable premise for CST is the centrality of the human dignity that must be affirmed in every person. Such respect for human dignity is possible only within the

nurturing womb of the common good. Consequently, there are certain boundaries that should not be crossed in our treatment of one another.

Freedom of action in unfettered market operations is not a license for inhumane and abusive working conditions. In fact, the latter are reflective of our lack of authentic freedom—the freedom that empowers us to wholeheartedly embrace our responsibilities toward each other (Gaudium et Spes). We are held responsible for each other’s well-being, just like the Hebrews, and as a consequence, we enjoy certain claims (rights) that we can then present to each other and to the community for satisfaction. In other words, market operations are bounded by constraints that must be respected—human rights in particular. Furthermore, the extra-market harmonization of labor standards may not necessarily be paternalistic or be a violation of economic freedom on the basis of a proper understanding of the principle of subsidiarity. Recall that this principle invites people to do what they are capable of accomplishing themselves instead of passing on the responsibility to a higher body. However, higher bodies are obligated to step in and provide assistance to the individual or lower bodies if the latter are no longer able to perform these functions for the common good. Thus, in our present case, the imposition of a global core set of labor standards is not a violation of individual economic freedoms but is, in fact, an affirmation of the common good and human dignity as required by the principle of subsidiarity. A race to the bottom, if true, is not permissible in CST’s vision of a properly functioning economy.

E. Trade a potent vehicle for poverty alleviation

Again, CST has a longstanding position on the use of trade as a means of addressing global poverty. In his encyclical Populorum Progression, Paul VI had already spelled out the heavy obligations of developed countries in exercising proper stewardship of the signal gifts they have received. In particular, such stewardship calls for the use of such wealth and power on behalf of the poor and the powerless. Note Paul VI’s impassioned appeal to the First World to assist poor nations struggling to improve the lives of their citizenry. The entire spectrum of CST principles points to the importance of and the need to use trade as a vehicle for alleviating the plight of the destitute. It is a mandate of the preferential option for the poor. Those who have the means to do good are bound by the principles of subsidiarity, socialization, and solidarity to actually accomplish such good. Moreover, it is living up to the vision of the principle of the universal destination of the goods of the earth in which the fruits of the earth are put at the service of all regardless of how titles of ownership are assigned. Furthermore, it is consistent with the principle of the primacy of labor which calls for the provision of work as a means of sharing in the creative act of God. And, of course, using trade as means of poverty alleviation is an act that seeks to promote human dignity and the common good. Indeed, CST has much to contribute in shedding light on the value of offshore outsourcing, and trade for that matter, for the poor of the world.

F. Internalizing future adjustment cost

Just like philosophical ethics, CST calls on people to internalize today the adjustment costs of an expected future job/career change. This is consistent with the principle of subsidiarity in which people are expected to take responsibility for their own well-being, to the extent possible. Moreover, the need to constantly upgrade one’s human capital through continuing education and training is consistent with CST’s call for integral human development,

that is, the never-ending process of improving ourselves in a holistic manner—body, mind, and spirit. In fact, preparing for such expected future job/career changes is not merely an option, but it is a duty as part of the stewardship of the personal gifts entrusted to us by God.

In sum, offshore outsourcing is an issue that the Church must address since it is a constitutive part of the process of “de-industrialization” in the ordinary course of nations’ economic growth and development. It is a contentious problem that will only get more complicated and affect more people in the face of globalization. CST has much to contribute in the public square of ideas in this regard.

III. Summary

Many critics have dismissed offshore outsourcing as an unconscionable practice that puts in jeopardy the livelihood of hapless displaced workers, and all because of the need to bolster firms’ profit margins. It is, in fact, a much more complex moral question with multiple stakeholders. On the one hand, the outsourcing firms’ constituencies (shareholders, consumers, and core employees) reap enormous benefits by having these firms become leaner and more cost-competitive in the global marketplace. They are better positioned to create even more high-paying employment at home. This is not to mention the real assistance afforded to workers in the poor, recipient countries in terms of job creation, technology transfer, and skills acquisition. On the other hand, current workers, many of whom have long served these firms, will have to be laid-off. This problem is particularly acute in the case of aging industries. Indeed, offshore outsourcing is a much more complicated ethical issue because of its manifold stakeholders, all of whom bear a shared responsibility not only for ensuring job security, but equally important, for letting international trade be the potent tool that it can be for poverty alleviation.

Who has responsibility for ensuring job security? And for whom? Everybody has a legitimate claim to job security, and because of this, they each share in the obligation of effecting such job security both for themselves and for one another.