



Highlights of [GAO-06-05](#), a report to congressional committees

## Why GAO Did This Study

Much attention has focused on the “offshoring” of services to lower-wage locations abroad. Offshoring generally refers to an organization’s purchase of goods or services from abroad that were previously produced domestically. Extensive public debate has arisen about both the potential benefits of services offshoring, such as lower consumer prices and higher U.S. productivity, as well as the potential costs, such as increased job displacement for selected U.S. workers.

In response to widespread congressional interest, GAO conducted work under the Comptroller General’s authority to help policy makers better understand the potential impacts and policy implications of services offshoring. This report:

(1) provides an overview of experts’ views on the potential impacts of services offshoring, (2) describes the types of policies that have been proposed in response to offshoring, and (3) highlights some key areas where additional research might help advance the debate about offshoring.

In its comments, the Department of Commerce generally agreed with the findings of this report. Commerce, Treasury, and the Office of the United States Trade Representative also provided technical comments that have been incorporated as appropriate.

[www.gao.gov/cgi-bin/getrpt?GAO-06-05](http://www.gao.gov/cgi-bin/getrpt?GAO-06-05).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd Nilsen at (202) 512-7215 or [nilsens@gao.gov](mailto:nilsens@gao.gov).

# OFFSHORING OF SERVICES

## An Overview of the Issues

### What GAO Found

Analysts of the offshoring phenomenon have expressed a range of views about the likely impacts of offshoring on four broad areas. The differing views reflect several factors: the fact that services offshoring is a relatively recent development whose impact is not fully known, the limitations of available data on offshoring, and different theoretical expectations about how services offshoring will impact the U.S. economy. These four areas are:

- *The average U.S. standard of living:* Traditional economic theory generally predicts that offshoring will benefit U.S. living standards in the long run. However, some economists have argued that offshoring could harm U.S. long-term living standards under certain scenarios, such as if offshoring undermines U.S. technological leadership.
- *Employment and job loss:* While economic theory generally predicts that offshoring will have little effect on overall U.S. employment levels in the long-run, there is widespread recognition that pockets of workers will lose jobs due to offshoring, though there is disagreement about the expected magnitude of job loss and implications for displaced workers.
- *Distribution of income:* Some economists maintain that offshoring could increase income inequality in the U.S., while others argue that changes in the income distribution are driven primarily by factors other than offshoring, such as technological change.
- *Security and consumer privacy:* Experts express varying degrees of concern about the impact of services offshoring on the security of our national defense system and critical infrastructure—such as utilities and communication networks—as well as the privacy and security of consumers’ financial and medical information.

A wide range of policies has been proposed in response to concerns about offshoring and its potential effects. These proposals can be categorized into four areas by the concerns they seek to address: (1) improving U.S. global competitiveness, (2) addressing effects on the U.S. workforce, (3) addressing security concerns, and (4) reducing the extent of offshoring. Some analysts have recommended policies in more than one area.

Determining appropriate policy responses to the offshoring phenomenon is challenging due to the limited state of knowledge about the extent and impacts of offshoring. Nonetheless, there are some key areas where additional research might help advance the debate, such as trends in the wages and skill levels of jobs being offshored, reemployment experiences of workers displaced by offshoring, and the extent to which current laws and practices in different sectors of the economy mitigate any increased security-related risks posed by offshoring. In the face of limited federal data, researchers have begun using a variety of approaches to examine such areas.