Unpacking the Implications of Outsourcing and Offshoring for Work in Canada

Cambrian Shield, Rockies, or Western Canadian Sedimentary Basin?

Bruce Curran, PhD
University of Manitoba Faculty of Law
Agenda

• Theoretical Model
• Key Findings
• Implications
• Gaps in Knowledge
Theoretical Model

Primary Source: Weil, 2014
Key Findings

• Fissured workplace incapable of precise definition
• Measuring fissuring is difficult
  • Requires linking business transaction data with worker data
  • A lower-bound rough estimate that 19% of US private-sector workforce were in highly fissured industries (Weil, 2019)
  • Lack of Canadian prevalence data on outsourcing
Key Findings

• There’s a lot we don’t know (despite model being intuitive)

• ICTs are increasingly making it possible to offshore services, not just manufacturing activities, to countries outside Canada
  • High-skilled jobs are increasingly being outsourced

• Fissuring is increasing

• Some empirical evidence confirming that capital markets are causing employers to make the strategic choice to shed employees

• A norm of shareholder primacy has evolved in Canadian corporate law
Key Findings: Impact on Compensation

• Some evidence that fissuring is causing an erosion in internal equity in firm compensation systems

• Some evidence that fissuring is causing a destruction of economic rents in US and Germany, particularly for low and medium-paid workers

• Some evidence that domestic outsourcing is contributing to income inequality in US and Germany

• Recent meta-analysis on the impact of offshoring on wages failed to detect any statistically significant average effect
Key Findings: Employment Levels

• About 1/5 of service jobs in Canada could potentially be outsourced (Gomez and colleagues, 2013).
  • The offshoring of business service jobs is unlikely to lead to large adverse effects on Canadian employment.

• For manufacturing GVC, Canada increased inputs from capital and high-skilled, while decreasing those from low-skilled and medium-skilled labour.

• Canada lost low-skilled jobs in the GVC to developing countries more quickly than other advanced economies.
Key Findings: Employment Levels

• From 2000 to 2013, Canada’s jobs related to the GVC decreased from about a third to approximately a quarter

• Canada has the most concentrated GVC-related job dependency in the world, with around half of all its GVC-related jobs relying on exports to US
Key Findings: Adherence to Labour Standards

• Franchised outlets have far higher levels of noncompliance than comparable company-owned establishments (Ji and Weil, 2015)
Important Implications

• Waning utility of model of unitary employer
• Not all outsourcing/offshoring is bad
• Fissuring has spillover effects on employees not working in fissured environments
• COVID has impacted fissuring, both in the short-term, and the long-term.

Policy implications
• Balance between equity and efficiency
• Outsourcing and offshoring make labour markets more competitive (disappearance of economic rents)
• Negative impacts are most heavily borne by most vulnerable workers.
Gaps in Knowledge

- Technological Changes
- Capital Markets
- Legal Environment
- Strategic Choice
- Fissuring Activities (Outsourcing, Offshoring, Independent Contracting)
- Working Conditions