

## RESEARCH SUMMARY

## Online Outsourcing and the Future of Work

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When Americans think of outsourcing, they usually think of sending manufacturing jobs overseas. But outsourcing has evolved to include functions that used to be internal to firms, like call centers and finance departments, and now it even includes sending work to individual freelance workers.

In “[Online Outsourcing and the Future of Work](#),” Korok Ray explores online outsourcing and how it can be expected to affect the American and the global workforce. He concludes that government policy should at minimum not interfere with the development and growth of online labor markets and ideally should encourage their development.

### BACKGROUND

In 2014, nearly 25 percent of US workers were freelance or contingent workers, a number expected to increase to 40 percent by 2020. The “gig” economy, as it’s often called, uses the internet to connect buyers and sellers of labor in a local market, but online outsourcing connects freelance workers and clients anywhere in the world. Although it is unlikely to completely change how work is done at the firm or local level, the growing use of online outsourcing means that online, remote workers will become a nontrivial part of many workplaces.

Online outsourcing has the greatest potential for change at a global level. Of the world’s 7.36 billion people, 4.2 billion do not have internet access that allows them to perform work online. This means there is potential for the expansion of internet infrastructure to bring billions more into the global market for freelance work.

As remote work grows in importance, the standard will change from input-based compensation to output- or performance-based compensation. Both buyers and sellers of labor will search for the best ways to price their services, and they will find one another using online tools like auctions or assignment algorithms and online marketplaces like Upwork and Amazon Mechanical Turk.

### KEY POLICY QUESTIONS

The growth of online outsourcing raises several policy questions for governments:

- *How should the government handle assistance to those hurt by online outsourcing?* Reactive programs like Trade Adjustment Assistance are inappropriate for dealing with the growth of online outsourcing. A better approach is proactive investment in the human capital that will help workers compete in a global online workforce.
- *Can the government invest in education for Americans that will make them competitive in global online labor markets?* Because markets are dynamic, it is impossible to know exactly which skills will be most useful. Education programs must strike the right balance between a broad base and targeted skills development.

- *Can the government help to develop labor markets?* The government can play an effective role as a disseminator of information and make online labor markets more transparent through uniform disclosure laws and forms of market-based certification that are easy to obtain.
- *How must government legislation change to help American workers compete?* American law ties benefits to employment. In response to the growth of freelancing, some advocate extending benefit mandates to independent contractors, but while these benefits may be important, mandates add a large fixed cost to hiring an American worker. The US government should instead update the law to allow private, worker-based benefit exchanges to better serve the needs of employees and contractors and to help American workers compete in a global online marketplace.