

Have Skills, Will Travel

By [Gary S. Becker](#)

*Rising high-tech wages in India may reverse some high-tech outsourcing. Talent emigrates in all directions. By **Gary S. Becker.***

Intangible capital, which is mainly skilled employees, constitutes an estimated 70 percent of the total capital of large American companies. Attracting and retaining skilled workers is the top priority of these companies. Great emphasis is placed on talent because production in modern economies is much more knowledge-intensive than in the past—modern technologies and capital require abundant supplies of skilled workers to be effective. The competition for that talent has raised the earnings of skilled workers relative to other workers and has led to an international search for the best and brightest.

When outsourcing jobs to India and other countries began in earnest in the early 1990s, many software engineers and other highly skilled workers in India were available at wages much below those in the United States and Western Europe. Before long, outsourcing absorbed all the available skilled workers in countries like India. As long as salaries of Indian workers benefiting from outsourcing were still far below those in the United States, the competition for those workers by American and Indian companies would be intense, pushing up the earnings of skilled Indian workers. Companies report that what they have to pay such skilled workers is rising rapidly: 10–15 percent a year and perhaps more. The easier it is to outsource skilled jobs, and the closer the substitution between work done in India and the United States, the larger would be the increase in salaries of skilled workers in India from the growth in outsourcing. If Indian and American highly skilled employees were considered close substitutes by American companies, the competition to employ the cheapest workers of a given quality would induce the salaries of such Indian workers to rise near parity with those of American workers with the same skills.

Of course, Indian and American workers are far from close substitutes because transportation and capital costs are cheaper for companies producing and selling in the American market. Hence outsourcing becomes uneconomical considerably before Indian and American salaries become equal. A recent article in the *Wall Street Journal* indicated that a few hightech companies in Silicon Valley were closing their operations in India and shifting them back to the United States. These companies lament that salaries of Indian technical employees are rising so rapidly that it has wiped out the advantage of staying in India.

Although outsourcing has certainly accelerated the international hunt for talent, it's not the only force at work. The migration of skilled workers is also part of a competition among nations. It has long been recognized that educated and skilled persons within a country move more easily than other workers to cities and regions that offer better-paying and more attractive work and living conditions. This explains, for example, why earnings of college-educated people in different parts of the United States are similar, much more so than the earnings of persons who did not go to college.

Some high-tech companies lament that rising salaries of Indian technical employees have wiped out the advantage of staying in India.

Educated and skilled people moving to places with better-paying jobs operates across borders as well. Of course, such international movement is blunted by the many immigration restrictions imposed by richer nations. Nonetheless, countries have been making it easier for doctors, professors, and others with high-tech and other skills to move legally between nations (although it may be easier for the less-skilled to migrate illegally because they can work underground more readily). An increasing number of countries,

including Canada, Australia, and to a lesser extent the United States, have adopted a point system favoring certain kinds of immigrants and have passed laws that offer skilled individuals work permits and permanent residency.

Because of transportation and capital costs, job outsourcing becomes uneconomical considerably before Indian and American salaries become equal.

Movement among nations has also greatly increased with the globalization of many companies. Global companies employ workers in different countries from different backgrounds and have little hesitation to choose a president from, say, Scotland, a vice-president from France, or a head of the research department from India or China. Companies actively recruit skilled workers through H-1B and other programs designed to attract skilled workers, and they lobby for more generous programs that favor the immigration of skilled workers.

Educated and skilled people within a country move more easily than other workers to places that offer better jobs and living conditions. Collegeeducated workers' earnings are much more similar around the United States than those of people who did not go to college.

The supply of educated people willing to move across countries has increased considerably. Television and the Internet have homogenized cultures to a greater extent than in the past, and the decline in the cost of international air travel makes it easier to return regularly to one's country of birth to visit family and friends. Moreover, as the number of skilled immigrants from a country grows, other skilled immigrants from that country become more willing to emigrate because the new immigrants can expect to find friends and neighbors with similar backgrounds.

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