

Outsourcing Update

Are the U.S. government, state governments and other groups working for or against the offshoring of jobs to countries with low labor costs? Let's take a look at what's currently on the table.

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The fervor surrounding outsourcing for the past few years quickly shifted to an uproar when in February 2004, Gregory Mankiw, the U.S. president's chief economic advisor, called outsourcing "a new way of doing international trade." Since then, an influx of anti-outsourcing legislation has arisen on both the Federal and State level.

Background

Data shows that in 2000 the total number of U.S. jobs outsourced was 102,000, and in 2004 the number is approaching 300,000. By 2015, it is predicted that the number of jobs outsourced will grow to 3.3 million. This trend has been fueled in part by the large discrepancies in wages between the U.S. and other countries. For example, in the U.S. a telephone operator earns an average wage of \$12.57 per hour, while at the same job in India a person earns less than \$1 per hour.

These differences can even be seen in fields such as Financial Analysis/Research, where in the U.S. a person averages a wage of \$35 per hour, while in India the average is merely \$6 per hour. The same trends can be seen for salary workers as well. A computer programmer in the U.S. earns, on average, \$60,000 to \$80,000 a year. In countries such as Poland and Hungary, computer programmers are compensated, on average, \$4,800 to \$8,000 annually.

While the issue of outsourcing reaches far beyond low-wage wars, the following focus on wages and job loss arose due to the increasing effect outsourcing has on the U.S. manufacturing sector.

Effects occurring due to emerging markets and the relocation of supply chains do attribute to outsourcing; however, reliable data with the ability to quantify these effects is currently unavailable. The same lack of data is also true in the scope of the increasing cost of raw materials in the U.S., which is also cited as a reason for the increasing amount of outsourcing taking place.

Bush Administration

The Bush Administration's comments support outsourcing. Time and time again, President Bush and members of the Administration, such as Secretary of Treasury John Snow, Secretary of Commerce Don Evans and Gregory Mankiw, chairman of President Bush's Council of Economic Advisors, have championed outsourcing as a means for the

U.S. economy to become more competitive and efficient. The Administration is fearful of enacting anti-outsourcing measures that may bring U.S. economic isolationism and/or international backlash.

U.S. Congress

Both chambers of Congress have taken up the issue of outsourcing. Bills have been introduced that focus on call centers, federal contract requirements and federal grants/funding. However, no broad measures have passed in either the House of Representatives or the Senate to entirely ban outsourcing.

House of Representatives

- Rep. Jim Walsh (R-NY) has introduced legislation (HR 3134) that would require federal contractors to have at least 50 percent of their work force in the U.S.
- Rep. Maxine Waters (D-NY) has introduced legislation (HR 3911) that would prohibit companies that have outsourced jobs offshore during the past five years from receiving federal grants, federal contracts, federal loan guarantees and other Federal funding.
- Rep. Ted Strickland (D-OH) has introduced HR 3816, the "Call Center Consumer's Right to Know Act." This legislation would require each employee in the call center to disclose the physical location of such employee at the beginning of each telephone call. It would also subject companies to Federal Trade Commission civil fines for failure to comply.
- Rep. Rosa DeLauro (D-CT) has introduced legislation (HR 3820) to prohibit outsourced federal contracts from being performed outside the U.S.

Senate

In 2003, Sen. Craig Thomas (R-WY) and Sen. George Voinovich (R-OH), offered a provision adding to legislation funding the Department of Treasury and the Postal System, preventing these agencies from contracting out jobs performed by government employees to private sector companies that perform these services outside the U.S. This fairly limited provision was included in the Omnibus Spending bill passed by Congress and signed by the president.

Other legislation introduced, but not passed, by the Senate includes the following:

- Sen. Chris Dodd (D-CT) has introduced S 2094, which would prohibit outsourced federal contracts from being performed outside the U.S.
- Sen. John Kerry (D-MA) introduced S 1873, which would require each employee in the call center to disclose the physical location of such employee at the beginning of each telephone call.

State Level

On May 17, 2004, Tennessee became the first state to enact an anti-outsourcing law. The new law directs state procurement officials to give preference in bids for such services to contractors employing workers only in the United States. The bill (HB 2340) passed the state Senate overwhelmingly, 29-1.

There are currently 35 other states with proposed legislation to restrict outsourcing. The majority of these state-based bills focus on prohibiting the work performed on state contracts, coming from overseas and/or from non-U.S. citizens, and call center restrictions. A few examples include:

Michigan

- Legislation has been introduced in Michigan (HB 4940) to require that departments and all state agencies shall not enter into a contract for the purchase of services unless the contract shows that only citizens of the United States, legal resident aliens, and individuals with valid visas shall perform the services under that contract or any subcontract under thereof.

Indiana

- Legislation introduced in the state Senate (S. 0004) provides that a contract for services entered into by a state agency must specify that only citizens of the United States and individuals authorized to work in the U.S. may be employed in the performance of services under the contract or any subcontract.

- Another bill has been introduced in the state House (HR 1101) to require that contracts for services entered into by a state agency must specify that only citizens of the United States and individuals authorized to work in the United States may be employed in the performance of services under the contract or any subcontract.

Outside Players

Other groups and organizations have also begun to voice their position on outsourcing. The U.S. Chamber of Commerce has come out as an advocate in support of outsourcing. The Chamber believes that outsourcing will lead to a more competitive U.S. economy and, in the future, more jobs for U.S. workers. The National Federation of Independent Business (NFIB) follows the same line as The Chamber of Commerce. NFIB believes that outsourcing provides a way for small businesses

to survive, especially in a slow economy. Through outsourcing, these small businesses are able to benefit from low-cost IT services, which drastically reduce their total overhead costs.

The National Association of Manufacturers (NAM) and its members are split. While the larger multinational members of NAM wish to promote outsourcing as an efficient cost-cutting mechanism, the smaller companies believe that outsourcing is detrimental because it is forcing many of them out of business due to their inability to compete.

The same goes for many technology-based organizations, like the American Electronics Association (AEA). AEA is fighting against outsourcing since nearly all of its members are at risk. However, the AEA does not support restrictive trade legislation, which may trigger international economic backlash, as a means to offset outsourcing.

Editorials in publications such as the *Wall Street Journal*, *The Washington Post*, and *USA Today*, have taken a wide range of views. Most of them are against outsourcing, yet with one common thread: The U.S. cannot, as a reaction to outsourcing, become an isolationist economy. Though no editorial has offered any solution, they are all in fear as to the side effects of any anti-outsourcing measures.

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