

Does Offshoring benefit California?

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Though California elected its governor on a platform of “jobs, jobs, jobs,” high-paid jobs may be California's fastest growing export.¹ Offshoring – outsourcing of jobs overseas – has hit the Sacramento region: Hewlett-Packard's Roseville headcount has dropped by 1500 since year 2000, as their India headcount soars past 10,000.² “We're trying to move everything we can offshore,” affirms HP services chief Ann Livermore, citing substantially lower labor costs.³

Intel too, has hired a thousand new software engineers in India and China⁴ while shaving a thousand workers from its Folsom site.⁵ Oracle's 175 Rocklin employees had to train the workers from India who would replace them.

Alarmed by Hollywood's trend to offshore movie production, Gov. Arnold Schwarzenegger personally phoned house and senate members to support a tax credit of up to \$15 million per film to keep production in the state.⁶

But he is ambivalent about protecting other occupations. “The governor won't hesitate to look overseas [for goods and services] if the end result is saving money for California taxpayers,” states Schwarzenegger spokesman Vince Sollitto.⁷

The governor's administration has engaged Toronto-based CGI-AMS to guide the state's \$4 billion annual spending on goods and services. AMS made Lou Dobbs “exporting America” list, and is expanding its information technology unit in India to over 1000 workers this year. AMS spent \$239,000 lobbying the Capitol since the beginning of 2003, and received a \$223 million state subcontract to track “deadbeat dads.”⁸

Assembly member Carol Liu, D-Pasadena, sponsor of AB 1829 which would mandate that state funded contracts remain in the U.S., cautions that “offshoring may save money in the short run but it will cost us more in the long run as more and more Californians find themselves without jobs.”⁹

Who benefits from offshoring?

Wages in India and China can be one-tenth of U.S. wages.¹⁰ Thus corporations save millions in wages and benefits by transferring a few hundred jobs overseas. This saving is both passed on to consumers and makes corporations more competitive on the global market.

Offshoring benefits business owners and CEOs. As Oracle and Cisco purge their American workforce in favor cheaper overseas labor, the CEOs reward themselves with stock options worth tens of millions of dollars.¹¹ Dave Wyle, CEO of SurePrep, expects to make a fortune by hiring 300 accountants in India at tenth of U.S. wages to prepare 25,000 U.S. tax returns at 50% below the market rate.¹²

Offshoring may create jobs by stimulating the economy. U.S. Chamber of Commerce President and CEO Thomas Donohue advocates offshoring as a means of boosting the economy and increasing employment.¹³ Catherine Mann, Senior Fellow at The Institute for International Economics, finds that there is “no question” that shipping jobs overseas creates even more jobs in the long run, and that these new jobs will be higher skilled jobs.¹⁴

Who is harmed by offshoring?

Californians are not only "consumers," but are also producers and taxpayers, and California's economy is a synergy of the three. When SurePrep, for example, hires 300 workers in India to prepare taxes, those 300 jobs are no longer in California. SurePrep's offshoring results in, at least arguably, unfair competition with H&R Block. The competition is unfair because, according to a recent study by the Office of Advocacy of the U.S. Small Business Administration, the regulatory costs of just the ADA, EPA, OSHA, and such cost business between \$4400 to \$7000 per employee - exceeding the total cost of overseas labor.¹⁵ SurePrep evades minimum wage requirements, social security, and income taxes – yet retains the same free access to the California market as firms the employ Californians.

The downward pressure caused by offshoring forces other California employers, previously supporting producers and taxpayers, to offshore to remain competitive. The "race to the bottom" is complete when the State of California - which just five years was in the black - must offshore contracts to compensate for the lost tax revenue.

While the official unemployment rate of U.S. information technology workers is a record 6.7%, U.S Bureau of Labor Statistics data suggests an actual rate closer to 20%.¹⁶ A recent BLS report found that about 18% of IT job losses are due to the positions relocating overseas.¹⁷ Technology-consulting firm Gartner estimates that 10 percent of remaining computer services and software jobs will be moved overseas by the end of this year.¹⁸

Econ 101

Professor and syndicated columnist Walter E. Williams, Ph.D. states: "I don't think that I know anybody who would say that our nation is better off when we use more costly means of production as opposed to cheaper means of production."¹⁹ But does this oversimplify the issue?

The benefits of free trade are rooted in David Ricardo's 200 year old theory of "comparative advantage." In the textbook case where Switzerland makes four pounds of cheese for the cost of one bottle of wine, and France can only make two pound of cheese for the cost of one bottle of wine, it's a win-win when Switzerland exchanges cheese for wine.²⁰ The comparative advantage is the difference in relative value between the two items within each country.

Nothing in this theory holds that Switzerland might not benefit further by placing a tariff on wine to boost its own economy, for example, by keeping its winemakers employed and limiting foreign dependence.

Trade theorist Roy J. Ruffin notes that "of the 973 words Ricardo devoted to explaining the law of comparative advantage, 485 emphasized the importance of factor immobility."²¹ In other words, if the factors of production, such as labor and capital, are mobile, the theory that free trade is mutually beneficial collapses.

Free trade economists are less likely to cite Ricardo's "iron law of wages," which holds that, when left to free market forces, wages tend toward a minimum subsistence level.²²

Rory L. Terry, associate professor of finance at Fort Hays State University explains that offshoring is an "externality" – such as when the costs saved by an upstream corporation by dumping toxics in the river are borne by the downstream entities²³ -- and that externalities require a legislative solution. Terry warns that "most of our best, high-paying jobs can be exported."

Economist Paul Craig Roberts -- acknowledging that offshoring can benefit individual companies -- distresses whether offshoring will reduce Californians to Wal-Mart workers selling foreign goods – whether America will be a Third World country in 20 years.²⁴

In the 21st century, where multinational corporations can shop the globe for the lowest wages – and the Internet makes labor virtually mobile instantaneously – California must reconsider whether the free trade of offshoring jobs is a win-win or zero-sum game.

Year of the Monkey

The U.S. is training a record 64,000 Chinese college students,²⁵ and our annual trade deficit with China is a staggering \$120 billion. The U.S. must attract \$1.6 billion each day from international investors to maintain the value of the dollar.²⁶

On October 30, 2003, Roger W. Robinson Jr. -- head of the U.S.-China Economic and Security Review Commission -- testified to the U.S. House of Representatives that China has devalued its currency by 15 to 40 percent, causing a "migration of world manufacturing capacity to China and to an erosion of the U.S. manufacturing base."²⁷

Citing China's use of tariffs, direct support for R&D, and a wide range of protectionist actions, Robinson warned that "China's continued maintenance of an undervalued exchange rate with the U.S. dollar will continue to promote major distortions in the flow of trade and investment, to the detriment of American companies and workers, and therefore requires decisive action by Washington."

Nam Nguyen of United Asian regards offshoring to China as very dangerous: "China learns everything, then creates their own companies to compete against ours, becoming the global economic power."²⁸

China has 200 million people to absorb into their economy²⁹ - exceeding the entire U.S. workforce.³⁰ Congressman Doug Ose contends that corporations have a fiduciary duty to transfer American jobs to China if it will benefit their bottom line.³¹ Nguyen retorts that U.S. corporations have a duty to the American workers and consumers that built them.

While mainstream economists condemn tariffs and protectionism based on 200 year old economic theory, protectionism is serving China well in the 21st century.

2004 is the Year of the Monkey. Is China making a monkey out of the U.S.?

Pay no attention to the workers behind the curtain

While visiting Infosys Technologies in India, Bill Gates marveled that the unsubsidized lunches cost only 40 cents.³² Is Gates oblivious that this "economic miracle" is because the workers who prepared his food live in squalor on 25 dollars per week? Is this the economic miracle that offshoring advocates envision for California?

Rich Heintz, editor of the Sacramento-based California Job Journal, advocates tax incentives and penalties to stem the export of high-skill jobs. In response to HP CEO Carly Fiorina's declaration that "There is no job that is America's God-given right anymore," Heintz reminds us that there is "no tax break that is corporate America's God-given right" either.³³

In May an Associated Press poll found that 69 percent of Americans believe that offshoring hurts the U.S economy.³⁴ Governor Schwarzenegger stars in a California Grown commercial, explaining that purchases within California “keep the farmers farming, the teachers teaching, and the whole state going strong.”³⁵ Why wouldn't retaining other occupations in California have this same positive effect?

The time has come to look beyond corporate-funded studies and analyze offshoring within the larger context of full employment, quality jobs, tax revenue, and trade balances.

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²¹ **Contact: Roy J Ruffin Contact: (713) 743-3827** <http://www.uh.edu/~rruffin/>

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²³ **Contact: Rory L. Terry - Fort Hays State University - 785-628-4000**

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²⁴ **Contact Paul Craig Roberts – via web email only:**

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