



The Programmers Guild
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October 6, 2004

Attention: Jon D. Haveman and Howard J. Shatz
PUBLIC POLICY INSTITUTE OF CALIFORNIA
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SUBJECT: Questions about veto of AB 1829 "Offshoring Bill"

Dear Mr. Haveman and Mr. Shatz,

Your study "Services Offshoring: Background and Implications for California"¹ was the sole authority that Governor Schwarzenegger cited in his veto letter of AB 1829. (See "Appendix A") The letter cites your study as finding that "placing the type of restrictions, as set forth in this bill, on businesses will have a negative impact on our economy." His entire letter appears to be an abstract of your study.

Your study considers the benefits of a lower cost of services, but does not consider the loss of income tax revenue - the key factor which has put California into the red. Page 11 states that "Offshoring, whether for goods or services, is generally considered by economists to be a simple extension of international trade." Your study concludes that a loss of jobs, a loss of tax revenue, and a one-way transfer of U.S. assets to foreign entities² is "beneficial trade." On page 30 you claim that it is more cost-effective to provide public assistance to displaced tech workers than to protect the jobs in the first place.

Page 13 of your report raises eyebrows with the claim "... *What offshoring specifically and trade in general will not do is lower the long-term employment level of the economy.*" Page 21 continues by claiming that workers whose jobs are offshored "may find themselves with a better job afterwards." Page 30 falsely presumes that new jobs are available, claiming, "It is inevitable that the cost of keeping a person employed in a job, as this policy does, is greater than the cost of assisting that person in finding a new job." Yet page 17 concedes that "job prospects for skilled technology workers are ... increasingly scarce."

DOES GOVERNOR SCHWARZENEGGER HAVE A DOUBLE STANDARD WHEN IT COMES TO JOBS IN HIS INDUSTRY?

The governor appears to be acting contrary to your study when it comes to jobs within his own industry. From the September 30, 2004 LA Times³ - one day after he vetoed protection for U.S. tech jobs:

Schwarzenegger has yet to come up with a way to dissuade production companies from filming outside California to save money.

The governor has cited that trend, called runaway production, as a threat to the state's economy. "For me, the entertainment business is very dear and close to my heart," Schwarzenegger said in April. "I would not be standing here if it were not for the entertainment business. But what we have experienced over the last few years is a huge exodus of production, which has been going outside the state and the country, and because of that, we have been losing jobs."

According to your study, far from being a "threat to the state's economy," jobs moving to cheaper locations is "beneficial trade" and "will not lower long-term employment levels." But the governor hopes to use tax money to subsidize the film industry to keep it in California:

Film California First was designed to reimburse production companies for the cost of hiring police, fire marshals and other public safety personnel during shooting.

Interestingly, the Governor accepted a huge contribution from the California Chamber of Commerce – a key opponent of this bill – just weeks before vetoing it. Key offshoring interests are represented by the Board – including WIPRO.⁴

Can you please explain this apparent double standard and conflict with your study? Do the same principles apply to film jobs as to tech jobs?

Sincerely,

Mr. Kim Berry
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⁵ ENDNOTES

¹ http://www.ppic.org/content/pubs/OP_804JHOP.pdf

PPIC Study: Services Offshoring: Background and Implications for California

² http://www.deepikaglobal.com/ENG5_sub.asp?ccode=ENG5&newscode=74323

Jobs worth \$ 210 billion to be outsourced to India in 2005: Study

New Delhi, Oct 3 (UNI) Top 100 global financial companies will offshore jobs worth over 200 billion dollars to India and other countries in 2005, says a new research by Deloitte and Touche.

Where is the "trade"? This is a one-way transfer.

³ <http://www.latimes.com/news/local/la-me-hollywood30sep30.story>

Runaway Filming a Challenge for Gov.

Schwarzenegger searches for ways to keep movie and TV production within state.

By Jordan Rau - Times Staff Writer - September 30, 2004

⁴ <http://www.mercurynews.com/mld/mercurynews/news/world/9571450.htm>

Schwarzenegger back on the job

SOME BILLS AFFECT CONVENTION HOSTS

By Laura Kurtzman and Ann E. Marimow - Mercury News

Fri, Sep. 03, 2004

But the parties, organized by the California Chamber of Commerce, are one more way the governor has become intertwined with special interests in Sacramento, undercutting his pledge in the recall to "clean house" in Sacramento. The chamber raised the money for the events through a separate committee.

Critics say they will be watching to see how the sponsors fare as Schwarzenegger makes his way through the bills.

"If he consistently stands by his corporate donors, it will be utterly clear that Schwarzenegger is no different from Gray Davis and is playing the same game of special-interest governing that frustrates Californians more than his celebrity can enliven us," said Doug Heller of the Foundation for Taxpayer and Consumer Rights, one of the governor's toughest critics.

The chamber of commerce raised at least \$300,000 from 19 businesses -- including pharmaceuticals, entertainment, telecommunications and oil -- to foot the bill for the parties.

Schwarzenegger's press secretary, Margita Thompson, said it was done that way to save taxpayers' money. She said the parties were innocent. "No political issues are discussed there," she said. "He's not lobbied at these events."

But the governor is fully aware of the chamber's priorities, especially the so-called "job-killer" bills it wants him to veto. They include a package of bills that would stop the state from sending government services and jobs overseas.

CHAMBER BOARD:

<http://www.calchamber.com/index.cfm?navID=458>

Vivek Paul - Vice Chairman - Wipro Ltd.

Philip R. Schimmel - Managing Partner - KPMG LLP

WIPRO OFFSHORING:

<http://www.wipro.com/aboutus/odc/index.htm>

KPMG OFFSHORING:

<http://www.martynemko.com/pub/articles/offshoringupdate.shtm>

<http://www.ecommercetimes.com/story/Job-Bills-Putting-Heat-on-Schwarzenegger-36563.html>

Job Bills Putting Heat on Schwarzenegger

By ECT News Syndication Desk - 09/13/04 11:10 AM PT

Of the five antioutsourcing bills that passed the Legislature, the most far-reaching is AB 1829, by Assemblywoman Carol Liu, D-South Pasadena. It would prohibit the movement of state work offshore.

California Gov. Arnold Schwarzenegger likes to promote a "Buy California" mentality and speaks enthusiastically about preserving jobs in the state. He also wants to streamline government and make California more business-friendly.

The California Chamber of Commerce, which says the legislation would harm the state's business climate, urged Schwarzenegger to veto the bills in a full-page ad in Thursday's Sacramento Bee. With less fanfare, a coalition led by the California Labor Federation has been lobbying the governor to sign the legislation.

APPENDIX A – VETO LETTER

http://www.leginfo.ca.gov/pub/bill/asm/ab_1801-1850/ab_1829_vt_20040929.html

BILL NUMBER: AB 1829
VETOED DATE: 09/29/2004

To the Members of the California State Assembly:

I am returning Assembly Bill 1829 without my signature.

California is a partner in the global marketplace. California businesses and its citizens are entrepreneurial, innovative and on the leading edge of new ideas and technologies. The rest of the world has received untold benefits exported from our state; yet at the same time our state and its citizens have also benefited from our neighbors around the world.

As California begins to emerge from the dark days of our fiscal crisis, our focus should not be on erecting artificial barriers that will thwart the spirit of our citizens and the businesses that help our economy grow, but rather on ideas and policies that will fuel the thriving spirit of businesses who look to be on the forefront of the challenges of tomorrow.

This bill prohibits state agencies from using funds from the state to contract for services with a contractor unless they can certify that the work will be performed in the United States.

Noticeably excluded from the provisions of this bill are the investment activities of the State of California. The state will continue to be able to invest its treasury bonds and state retirement funds without the need to comply with this bill, but these provisions apply to all other state and local contracts.

[Is the governor suggesting he would support a bill that restricts investment to within the U.S.? – KIM]

While this bill purports to be about saving jobs, **it would actually be detrimental to our economy and the creation of new jobs in this state.** It is also contrary to my administrations efforts to create a more efficient and effective purchasing system and to increase small business contracting participation. This bill adds additional restrictions on state contractors, thereby resulting in less competition at the state and local levels and ultimately result in higher prices paid by governmental entities for goods and services.

A recent report by the **Public Policy Institute of California (PPIC)** states that California has gained 713,000 jobs from direct foreign investment in California and additionally found that placing the type of restrictions, as set forth in this bill, on businesses will have a negative impact on our economy. The report further states that **restricting state contracting will not necessarily help workers in California**, but could instead result in contracts being awarded to out-of-state bidders.

There is a right way and a wrong way to expand economic opportunity in California. The wrong approach is to implement measures that restrict trade, invite retaliation or violate the United States Constitution and our foreign trade agreements. The United States Constitution clearly defines that the authority to regulate trade with foreign nations rests with the federal government. Article 1, Section 8 grants Congress the exclusive authority to regulate Commerce with foreign nations.

In todays global economy, the best approach to create and enhance job growth in California is to provide a competitive business environment. In order to improve their competitiveness in a global market, California businesses cannot be penalized with punitive policies restricting their ability to make decisions on how to best perform and provide goods or services for state government and our consumers. These restrictions will drive businesses out of California.

[How can California contractor who wish to hire Americans compete with the multi-national consulting firms that offshore the work to India, where wages are as low as \$130 per month?¹ - KIM]

California must continue to be an active participant in the worldwide economy in order to create new opportunities and better jobs for our citizens. This bill is contrary to those goals. Therefore, I cannot support this measure.

Sincerely,

Arnold Schwarzenegger

¹ <http://msnbc.msn.com/id/6038643/site/newsweek>

A Change Of Address

The outsourcing industry is moving to cheaper localesBy Ron Moreau and Sudip Mazumdar

Newsweek InternationalSept. 27 issue - ... Wipro studied several smaller towns before settling on Cochin. The starting salary for Web designers and software developers is about \$130 a month, half the pay for the same job in Bangalore.