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Sending Jobs Overseas: A Growing Policy Debate in the Public Sector

by Karen Imas, CSG/ERC Publications Manager

As state governments grapple with budget shortfalls, public-sector information technology (IT) jobs have increasingly been outsourced to private companies in order to lower costs and maximize efficiency. In turn, those companies are outsourcing jobs offshore to countries like India, China, and the Philippines. Legislators, aware of this emerging trend and the apparent positive and negative economic effects, are responding using a variety of creative strategies.

Offshore Outsourcing: An Overview

Some corporations contend that developing efficient, low-cost offshore delivery models, is one of the ways U.S. companies can remain competitive in the global marketplace. India, for example, has a wealth of skilled, college educated labor willing to work for \$2 to \$3 an hour. In addition, offshore labor can supply corporations with highly specialized skills on a part-time basis and with fewer people to manage after outsourcing.

While various companies and government agencies reap the benefits of outsourcing, a recent report by Forrester Research predicts that outsourcing to countries like India, China, and the Philippines would cost 3.3 million American jobs and result in \$136 billion in lost wages by 2015. Some elected officials are concerned with the potential effects this might have on the economy.

The Northeast is home to many high-tech companies that use offshore outsourcing. New Jersey based Cognizant Technology Solutions has offices in five Indian cities. About 70 percent of the typical Cognizant team is located offshore with 30 percent kept at the customer site.

Connecticut, home to several insurance and high-tech companies, lost more than 30,000 jobs to globalization, including 5,000 service jobs and 2,000 jobs in the finance, insurance and real estate sectors, according to the Economic Policy Institute (EPI) in Washington, D.C.

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While outsourcing U.S. jobs has a direct impact on employment, it also puts downward pressure on salaries and wages in those job sectors affected by the trend. According to EPI, wage rate growth in 2002 for high skilled workers was below the national rate of inflation (2.2%).

Other experts believe the negative effects of outsourcing are exaggerated. "The collapse of NASDAQ, corporate scandals, 9/11, the recession put workers out of jobs, not Indian based IT companies. Take away the outsourcing option and many businesses would not have survived," says Daniel Griswold, economist at the CATO institute.

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Number of U.S. Jobs Moving Offshore				
Job Category	2000	2005	2010	2015
Management	0	37,477	117,835	288,281
Business	10,787	61,252	161,722	348,028
Computer	27,171	108,991	276,954	472,632
Architecture	3,498	32,302	83,237	184,347
Life Sciences	0	3,677	14,478	36,770
Legal	1,793	14,220	34,673	74,642
Art, Design	818	5,576	13,846	29,639
Sales	4,619	29,064	97,321	226,564
Office	53,987	295,034	791,034	1,659,310
Total	102,674	587,592	1,591,101	3,320,213

Source: U.S. Dept. of Labor and Forrester Research, Inc. Numbers have been rounded.

A Growing Policy Debate in the States

The merits and shortcomings of outsourcing are highly debatable and legislators have opposing views on the issue. Some view outsourcing as an inevitable trend and efficient way to cut costs in difficult fiscal times. Citing concerns about the growing number of unemployed skilled American workers and the impact on economic growth, other legislators are grappling with how to make effective policy curbing outsourcing and keeping jobs close to home.

The use of external service providers by state and local governments grows as governments implement major technology upgrades in an extremely difficult fiscal climate. Historically, external service providers have utilized onshore resources to deliver their services. However, over the past 2 years, there has been an emerging trend to utilize offshore resources to handle parts of the project requirements. According to Rishi Sood of Gartner, Inc., “the greatest areas where states currently use offshore outsourcing include state retirement services, unemployment insurance, and management for health and human services call centers.”

Gartner, Inc. estimates that total state and local government external services spending in 2003 will be around \$16.30 billion. State and local governments will spend \$200 million of that on IT services provided in an offshore model. The value gained by using external service providers (domestic and foreign) is evident.

As a matter of cost cutting strategy, the centralization of specific technology functions is particularly important to state government. Pennsylvania, for example, has a contract with Unisys for IT services. According to Unisys, when Tom Ridge went into office as Governor in 1995, there were 17 independent data centers around Harrisburg run by different state agencies. Unisys was hired in 1999 and helped create one consolidated data center.

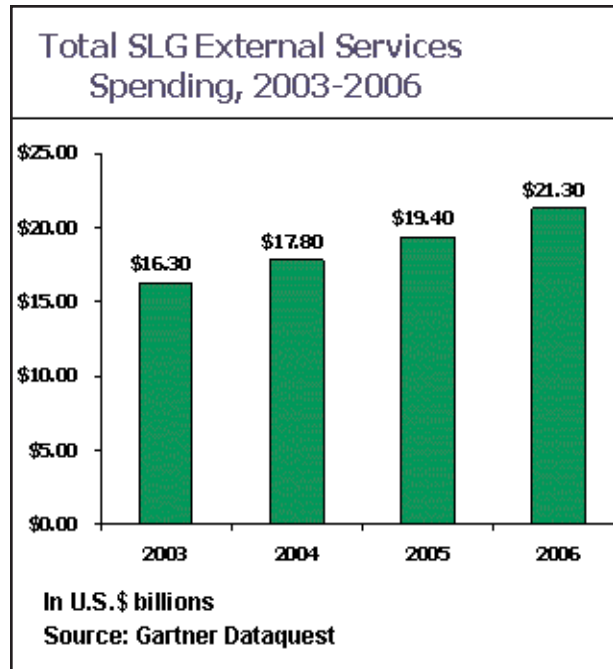
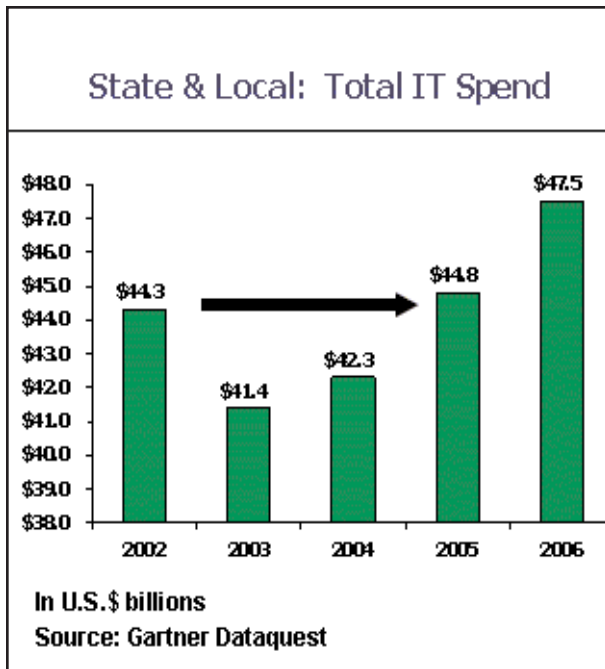
Gov. Mark Schweiker completed a three-year contract extension in 2002 to continue the partnership. According to the Pennsylvania Bureau of Consolidated Computer Services, the contract extension is estimated to produce additional cost savings of \$31 million.

In New York and New Jersey, ACS, Inc. operates the EZ Pass System for tunnels, highways and bridges. ACS helped manage and streamline the system that spans several states and collects toll revenue annually for New York, New Jersey, Maryland, Delaware, South Carolina, and California. ACS, Inc. not only has employees throughout the U.S. but employs more than 1,300 workers at a data entry site in Ghana.

Some legislators are attempting to prevent offshore outsourcing from going mainstream in their states. State Senator Shirley K. Turner (D-NJ) recently proposed legislation (S. 1349) that would affect outsourcing of state

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contracts. Her legislation originated after she learned that telephone inquiries by welfare and food stamp clients under New Jersey's Families First Program were being handled by operators in Bombay, India after the contractor, eFunds, moved its operations outside of the U.S. as a cost-cutting measure. The bill is intended to ensure that state funds are used to employ people residing in the U.S. and to prevent the loss of jobs to foreign countries.

The call center relocated back to the U.S. settling in Camden, N.J. after the state renegotiated the contract paying for eFunds' increased costs. The center provides nine equivalent call center jobs, but as a result of changes in the contract, costs incurred by the state will increase about 20%, according to the Human Services Department.

The bill provides that only citizens or persons authorized to work in the U.S. pursuant to federal law may be employed in performing certain State contracts. The State Senate passed the bill unanimously, but it is now in the Assembly State Government Committee until November.

Some believe outsourcing is not an area where state government should intervene. "It's too much of a global economy. To punish someone (for offshore outsourcing) could make us lose more jobs," said Bruce Holbein, Vice President of Public Policy at the Massachusetts Software and Internet Council.

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While Senator Turner's legislation cannot dictate how private companies conduct their business, some believe it can impact hiring practices. Ron Hira, professor at the Rochester Institute of Technology, believes that "because states procure significant tech services, they can have a major impact." Hira recently testified on behalf of the Institute of Electrical and Electronics Engineers at the Committee on Small Business at the U.S. House of Representatives.

The decade old Pacheco Law in Massachusetts virtually prohibits outsourcing services currently provided by state employees to the private sector. The law says that a state agency must compare the cost of using a private vendor not to actual current costs, but to the cost if state employees were to work "in the most cost-efficient manner." Massachusetts unions are lobbying to keep the law intact as the Romney administration, faced with fiscal deficits, considers privatizing some services.

Pauline Menes (D), a Maryland delegate, proposed her own version of a Pacheco Law. Her bill (HB 176) "prohibits a procurement unit from awarding a contract for services to be rendered by a contractor or subcontractor from a site that is located outside of the United States; providing exceptions to the prohibition."

Her bill was not passed, but she feels that "subcontracting in times of high unemployment is inappropriate" and will propose it again in January.

Other legislators believe that such legislation is counterproductive because it creates obstacles to using the lowest bidder. Assemblyman Upendra Chivukula believes there are more productive ways that states and corporations can work together to retain jobs. "One of the ideas I am promoting is to encourage companies that are offshoring jobs and achieving savings to reinvest those savings to create or retain more jobs within the state," he said.

Can state legislation work?

Trying to put the brakes on globalization through regulation presents challenges. Government guidelines on state procurement may have some effect, but some argue that such rules run counter to the idea of free markets and may actually damage the global economy. For developing countries such as Russia, Hungary, Mexico, and

Bangladesh, offshore outsourcing is a strategy for economic growth which brings desperately needed hard currency into struggling economies. Eventually, they will have the purchasing power to buy more U.S. goods and services.

In response to corporate and government cost cutting measures and overseas competition, various lobbying groups have come to the aid of U.S. IT workers. Some opponents of outsourcing contend that U.S. citizens should be the priority since foreign workers do not pay taxes or Social Security.

One vocal advocate of curbing outsourcing is the Communications Workers of America (CWA). They support Senator Turner's legislation and a new bill in New Jersey called the Consumers' Right-to-Know Bill (A 3529). Introduced by Assemblywoman Linda R. Greenstein (D), the bill would require customer call center employees to identify themselves, their location, and their actual employer. It would affect any company doing business in N.J. with 25 or more employees involved in customer service.

"We're hoping that this legislation will accomplish two things - letting the consumer know that the call center rep is not an employee of the company called...and frankly, we're hoping it will help preserve jobs in the U.S." said Don Rice, New Jersey Legislative and Policy Coordinator for the CWA.

Such sentiments have, in part, been fueled by the faltering U.S. economy. Similar attitudes were seen in the 1980's when manufacturing jobs left the U.S. But some experts believe that there is a difference between the manufacturing crisis of the 1980's and today's lag in the labor market - current outsourcing affects workers not companies. For example, the semiconductor industry lobbied the government heavily in the 1980s claiming that Japanese producers were guilty of charging illegally low prices. As a result, the government implemented stronger laws prohibiting dumping.

"The industry has the ear of policy makers far more than the individual," says Hira.

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CSG/ERC Criminal Justice Program Explores Prison Population Issues

CSG/ERC's Criminal Justice Board Meeting in August opened with a presentation from Dr. James Austin of the Institute on Crime, Justice and Corrections at George Washington University and Dr. Michael Jacobson, former commissioner for the New York City Department of Corrections under Mayor Giuliani. Drs. Austin and Jacobson discussed the potential for curbing state spending on corrections systems by managing the growth of prison populations, an especially timely topic as, for the first time in decades, corrections is proving not to be "recession proof."

The CSG/ERC Criminal Justice Program is extensively studying measures that states can take to manage the growth of the inmate population.

Justice Reinvestment Program

CSG is providing technical assistance to a limited number of states that demonstrate a bipartisan commitment to maintaining public safety and reducing the corrections budget through the design and implementation of

population management initiatives. The "Justice Reinvestment" model allows states to generate savings by moderating the growth of the prison population and reinvesting a portion of the savings realized in a particular neighborhood receiving a disproportionate number of people in the state released from prison. In addition, the program is encouraging Congress and the U.S. Department of Justice to make assistance available to states that are interested in managing the growth of their corrections budgets while maintaining public safety.

A bipartisan group of state leaders in Connecticut have commissioned a report, facilitated by CSG, to describe how the Justice Reinvestment concept can be applied to their state. The report, entitled "Building Bridges: From Conviction to Employment," was presented at a recent statewide conference in April, 2003.

For more information on Justice Reinvestment and other CSG/ERC Criminal Justice programs, please visit the website: <http://www.csgeast.org/justice.asp>

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State Government Initiatives to Stimulate Economic Growth

The current state of the high-tech sector in the U.S. presents an important question. How can skilled U.S. workers stay competitive in this environment? There are several possibilities.

One, some economists believe U.S. employees will have to accept lower pay - an unpopular sentiment among the labor force.

Two, government training and education assistance programs can help keep the work force competitive. Many government programs have traditionally helped low skilled workers. Now there is a growing trend of programs targeting more advanced workers.

Representative Nancy Johnson (R-CT) recognizes the role government can have in retraining. She recently won a nearly \$3 million workforce development federal grant for the Northwest Regional Workforce Investment Board to boost the skills of Connecticut IT workers and discourage the use of H-1B visas.

Various training programs such as Ohio's Thomas Edison Technology Centers and Pennsylvania's Ben Franklin Technology Partners (BFTP) also aim to make skilled workers more competitive. These programs are joint enterprises between industry, government, and the academic community to enhance the competitiveness of workers and businesses by increasing productivity, improving business practices, teaching entrepreneurship, and accelerating the implementation of technology. According to BFTP, the state garnered more than \$400 million in additional tax revenue as a direct result of the program, which more than covered the operating costs of the program over the same period.

While it will undoubtedly take a great investment into education to keep the competitive technological advantage, some believe U.S. companies can stay on top.

"U.S. companies remain very competitive in terms of IT services," says Griswold, "particularly the talent pool, universities, intellectual property, and infrastructure."

Additional Research by Veronique Cavallier, Director, Eastern Trade Council