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## **Off-Shore Outsourcing Rising Rapidly Up The Income and Skill Ladder**

Nike CEO Phil Knight famously argued that the decline of U.S. manufacturing is a result of “Americans simply not wanting to make shoes for a living.”<sup>1</sup> But job loss and wage stagnation are increasingly affecting workers in those sectors where the United States is understood to have a comparative advantage, such as professional services and high technology. The future economic security of middle class families is being undermined by our current trade policy. This is not only the public’s view – as news about opinion polls are showing – but also a finding of job projection studies by those with a political interest in advancing the trend.

### **Not just around the corner, off-shoring is already here**

- Studies commissioned and then buried by the U.S. government show that as many as 48,417 U.S. jobs – including many in high-tech – were off-shored *in the first three months of 2004 alone.*<sup>2</sup>
- Economy.com estimates that nearly 1 million U.S. jobs have been lost to off-shoring since early 2001, with 1 in 6 of those in IT, financial services and other business services.<sup>3</sup>
- Goldman Sachs estimates that about half a million U.S. service jobs were off-shored from 2002 to 2005. The firm reports that 15,000 to 30,000 jobs monthly (manufacturing-services combined) are subject to off-shoring going forward.<sup>4</sup>

### **Without trade policy changes, tech and service workers doomed to low-salary future and unemployment**

- The average worker displaced from a manufacturing job goes from having annual wages of \$40,154 before being laid off to \$32,123 after being laid off and then re-employed. For the service sector, the comparable figure is \$45,479 to \$39,567. For those workers employed in the service sectors most targeted for off-shore outsourcing, the figures are from \$60,535 to \$52,060.<sup>5</sup> Government data shows that such workers on average lose up to 24 percent of their earnings in such shifts.<sup>6</sup>
- Average U.S. salaries for application developers, database engineers and system administrators – positions identified by *Business Week* as vulnerable to off-shoring – fell by 17.5 percent, 14.7 percent and 5.4 percent between 2002 and 2004.<sup>7</sup> The engineering sector (also generally identified as at risk for increased off-shoring) faces unusually high levels of unemployment, with electrical engineers facing 7 percent and software engineers facing 7.5 percent unemployment in 2003<sup>8</sup> – over 30 percent higher than the national average.

### **Even corporate think-tanks and PR groups project sharp increases in future off-shoring**

- McKinsey: 11 percent of U.S. jobs (14 million) could be off-shored in the medium-term.<sup>9</sup>
- The Progressive Policy Institute, a think-tank associated with the pro-WTO/pro-NAFTA faction of the Democratic Party: 12 million information-based U.S. jobs – 54 percent paying better than the median wage – are highly susceptible to off-shoring in the foreseeable future.<sup>10</sup>
- The Gartner Group, an IT consultancy: 10 percent of U.S. technology jobs were moved offshore by 2005. Up to 25 percent of traditional IT jobs will be relocated to developing nations by 2010.<sup>11</sup>

- Forrester Research: 3.3 million high-end service sector jobs – including physicians, computer programmers, engineers, accountants and architects – could be off-shored in just the next eight years.<sup>12</sup> They recently updated the projections to 3.4 million such jobs by 2015.<sup>13</sup>
- Deloitte Research: A survey of 100 of the largest financial services firms found that they expected to shift \$356 billion of operations and about 2 million jobs to developing nations by 2008.<sup>14</sup>
- AT Kearney: 500,000 financial services jobs (8 percent of all U.S. jobs in banking, brokerage and insurance) will be shipped overseas by 2008.<sup>15</sup>

### **Independent academic studies find huge number of quality, U.S. jobs susceptible to off-shoring**

- Alan S. Blinder, a former Federal Reserve vice-chairman and Princeton economics professor, says that 28 to 42 million service sector jobs (or about 2 to 3 times the total number of current U.S. manufacturing jobs) could be off-shored in the foreseeable future.<sup>16</sup>
- A widely-cited 2003 University of California-Berkeley study concluded that 14 million jobs with an average annual salary of almost \$40,000 are vulnerable to being sent overseas.<sup>17</sup>

### **Polls show voters demand a trade policy change on off-shoring**

- University of Maryland's Project on International Policy Attitudes (PIPA), 2004: Nearly three-quarters of Americans making more than \$100,000 a year thought that that the trade status quo was a net negative. The result was in sharp contrast to the findings of the group's survey in 1999 (before the effects of the model were being fully felt), which found that the majority of wealthy Americans supported NAFTA-style trade deals.<sup>18</sup>
- Greenberg Quinlan Rosner Research, 2006: Off-shoring of jobs was the top concern of Americans – even above the Iraq War.<sup>19</sup>
- Public Agenda, 2006: 87 percent of voters are concerned about off-shoring and 81 percent gave the government a C, D, or F in its handling of the issue.<sup>20</sup>
- Campaign for America's Future, 2006: Tested voter responses to two generic candidates: one that espoused a "free trade" position and another that spoke critically about trade deficits, off-shoring and creating jobs in the United States. 71 percent of those polled would be more likely to vote for the latter candidate.<sup>21</sup>

<sup>1</sup> Claudia Puig, "'Big' In-Their-Face Documentarian's 'Random Thoughts,'" *USA Today*, April 16, 1998.

<sup>2</sup> Kate Bronfenbrenner and Stephanie Luce, "The Changing Nature of Corporate Global Restructuring: The Impact of Production Shifts on Jobs in the U.S., China, and Around the Globe," U.S.-China Economic and Security Review Commission Research Paper, at 26

<sup>3</sup> Marla Dickerson, "'Off-shoring' Trend Casting a Wider Net," *Los Angeles Times*, Jan. 4, 2004.

<sup>4</sup> Cited in J. Bradford Jensen and Lori G. Kletzer, "Tradable Services: Understanding the Scope and Impact of Services Outsourcing," Institute for International Economics Working Paper No. 05-9, September 2005, at 3.

<sup>5</sup> Lael Brainard, Robert E. Litan, and Nicholas Warren, "Insuring America's Workers in a New Era of Off-shoring," Brookings Institution Policy Brief No. 143, July 2005, at 2.

<sup>6</sup> Wage replacement rate for recipients of Department of Labor Trade Adjustment Assistance, 2005. Accessed Sept. 29, 2006.

<sup>7</sup> Stephen Baker and Manjeet Kripalani, "Will Outsourcing Hurt America's Supremacy?" *Business Week*, March 1, 2004.

<sup>8</sup> Amy Yee, "Indian-Americans in Two Minds Over Outsourcing of U.S. Jobs," *Financial Times*, March 4, 2004.

<sup>9</sup> Cited in Alan S. Blinder, "Off-shoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April 2006; number taken from Bureau of Labor Statistics Current Population Survey, accessed Sept. 29, 2006.

<sup>10</sup> Robert D. Atkinson, "Understanding the Offshore Challenge," Progressive Policy Institute Policy Report, May 24, 2004.

<sup>11</sup> Jonathan Krim, "Intel Chairman Says U.S. is Losing Edge," *Washington Post*, Oct. 10, 2003; Paul Taylor, "Developing Nations to Soak Up 25 percent of IT Jobs," *Financial Times*, March 17, 2004.

<sup>12</sup> John C. McCarthy, "3.3 Million US Services Jobs To Go Off-shore," Forrester Research Brief, Nov. 11, 2002.

<sup>13</sup> Cited in Jensen et al at 2.

<sup>14</sup> Karen Krebsback, "Outsourcing: Fighting a Giant Sucking Sound," *Bank Technology News*, August 2003.

<sup>15</sup> *Ibid.*

<sup>16</sup> Alan S. Blinder, "Off-shoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April 2006.

<sup>17</sup> Ashok D. Bardhan and Cynthia Kroll, "The New Wave of Outsourcing," *University of California-Berkeley*, 2003.

<sup>18</sup> Peronet Despeignes, "Poll: Enthusiasm for free trade fades Dip sharpest for \$100K set; loss of jobs cited," *USA Today*, Feb. 24, 2004.

<sup>19</sup> "Outsourcing of Jobs is Top Concern in U.S.," Posted on Angus Reid Global Scan, March 22, 2006.

<sup>20</sup> Ana Maria Arumi and Scott Bittle, "Confidence in U.S. Foreign Policy Index 2," Public Agenda, Winter 2006, at 15.

<sup>21</sup> Campaign for America's Future poll, June 2006.