

HOW SHOULD THE GOVERNMENT RESPOND TO THE OUTSOURCING OF IT JOBS TO INDIA AND CHINA

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ABSTRACT

While the United States has lost an estimated 774,000 high-tech jobs during the last two years, China and India are experiencing a high-technology boom reminiscent of the early days of Silicon Valley. Unemployed workers urge protectionism, while high-tech companies bemoan the shortage of skilled U.S. high-tech workers. Politicians promote their plans for keeping jobs in the country, while also proclaiming the collective benefits of globalization. Given the complexity of these issues, it is difficult to determine whether government policies are required or even desirable. Trade restrictions and protectionist legislation may preserve jobs, but at the cost of declining corporate profits and higher consumer prices. On the other hand, ignoring the situation may threaten U.S. technological superiority. This paper surveys the landscape of offshore outsourcing, analyze the past examples and give a set of recommendation to government agencies and global corporations.

INTRODUCTION

While the United States has lost an estimated 774,000 high-tech jobs during the last two years, China [1] and India [2] are experiencing a high-technology boom reminiscent of the early days of Silicon Valley [3]. Although it is impossible to claim that overseas competition is responsible for the loss of all of these jobs [4], it is a fact that outsourcing has grown tremendously during the last several years. Outsourcing, advocates claim, enables companies to reduce and control operating costs, resulting in higher productivity and lower prices to consumers. On the other hand, U.S. high-tech unemployment levels are rising as highly-skilled workers are displaced by outsourcers. India is the preferred offshore country, with more than 500,000 knowledge workers. However, China's cheaper labor force is growing by at least 20,000 highly skilled technical workers per year and may soon threaten India's dominance, according to the Asian Technology Information Program, a non-profit organization in Tokyo that conducts IT-related research.

Given the complexity of these issues, it is difficult to determine whether government policies are required or even desirable. Trade restrictions and protectionist legislation may preserve jobs, but at the cost of declining corporate profits and higher consumer prices. On the other hand, ignoring the situation may threaten U.S. technological superiority. It does seem clear that government, industry and academia need to work together to understand and address the implications of the outsourcing trend. We propose that U.S. policymakers avoid protectionist legislation, but implement policies aimed at enhancing the skills of American workers and rewarding the creativity of American companies [5]. Additionally, the government should review new policies in Great Britain and Germany which aim to attract the largest offshore outsourcers to set up operations in their countries, thus creating domestic high-tech jobs.

POSSIBLE GOVERNMENT ACTIONS

The flow of jobs overseas has become a hot political issue, and its profile will increase as the presidential election nears. This issue is complex for several reasons. First, there is disagreement over whether a problem really exists. During the last few decades, many U.S. manufacturing jobs have left the country, and yet the job market seems to have recovered from the loss. This situation is different, however, in that there is much less lead time. A technology job can be outsourced virtually overnight, leaving displaced workers with no adjustment time.

Second, since there is disagreement about cause-and-effect, there is no clear consensus among policymakers, employee representatives, business trade organizations and industry experts regarding effective policy solutions to the overseas loss of U.S. jobs. Many politicians, hounded by employee action groups, have proposed protectionist legislation that forbids the offshore outsourcing of government jobs and contracts.

Notwithstanding the lack of agreement surrounding the issue of offshore outsourcing, we have identified the following alternative policy actions and evaluation of their expected effects:

	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
Alternative Criteria	<i>Protectionist legislation and/or trade barriers</i>	<i>Subsidies for IT R&D</i>	<i>Education subsidies & job retraining programs</i>	<i>Temp corporate tax cuts for foreign income</i>	<i>Attract Indian & Chinese companies to U.S.</i>	<i>Stay the course; do nothing</i>
<i>Protect existing IT jobs</i>	Best (short-term); moderate (long-term)	Moderate	N/A	Moderate	N/A	Poor (short-term)
<i>Create new IT jobs</i>	Poor	Best	N/A	Moderate	Moderate	Poor (short-term)
<i>Help displaced IT workers</i>	Poor	Best	Best	Moderate	Moderate	Poor (short-term)
<i>Protect U.S. technology leadership</i>	Poor	Best	Poor	Poor	Moderate	Poor
<i>Strengthen U.S. economy</i>	Poor	Moderate	Best	Moderate	Good	Poor
<i>Grow global technology markets</i>	Poor	Moderate	Poor	Moderate	Good	Moderate
<i>Foster IT innovation</i>	Poor	Good	Poor	Poor	Good	Moderate
<i>Ease of implementation</i>	Moderate	Moderate	Moderate	Best	Difficult	Best
<i>Social cost</i>	Moderate (short term) Poor (long term)	Poor	Best	Poor	N/A	Poor

Table 1: CAM Diagram

- **RECOMMENDED: Increase funding for research and development of information technology.** Looking for cheaper labor and production cost is an unstoppable trend in our capitalist system. Increased corporate profits fund innovation, and sustained innovation is the only long-term competitive advantage.
- **RECOMMENDED: Education subsidies & job retraining programs.** While the offshore outsourcing increases, a substantial number of IT professionals have lost their jobs. However, Bureau of Labor Statistics predicts there will be a severe IT labor shortage as early as 2007. We recommend U.S. government investment and private investment in job retraining programs to focus on the IT-related areas where a shortage is projected such as database administration, network security, bio-informatics and system administration.

- **RECOMMENDED: Attract Indian and Chinese companies to U.S.** Globalization creates dramatic changes in business. We see opportunities for the U.S. to attract high paying jobs such as product design, marketing, education, research and development.
- **NOT RECOMMENDED: Protectionist legislation and/or trade barriers.** Protectionist moves have been part of the American scenario for the last 30 years. In the '70s there was the move against the Japanese auto industry, which was threatening American auto workers. Next came the fear of losing all jobs in the field of electronics.
- **NOT RECOMMENDED: Temporary corporate tax cuts for foreign income.** U.S. corporations with offshore subsidiaries state that they have little incentive to repatriate profits earned overseas, because of high corporate taxes. Consequently, they choose instead to reinvest profits locally. Reducing the corporate tax from the current 35% to 31.5% is reasonable, since 31.5% is the average tax rate for the major trading partners.
- **NOT RECOMMENDED: Do nothing.** Sometimes doing nothing is the best policy. This is not such a time. The pace of IT outsourcing and job loss in the IT industry is too fast for the government to stand back and watch. Furthermore, the stagnating market is causing a slowdown in innovation that may have long-term negative ramifications on America's technological eminence.

CONCLUSION

Offshore outsourcing is a complex issue. Unemployed workers urge protectionism, while high-tech companies bemoan the shortage of skilled U.S. high-tech workers. Politicians promote their plans for keeping jobs in the country, while also proclaiming the collective benefits of globalization. Given the complexity of these issues, it is difficult to determine whether government policies are required or even desirable. Trade restrictions and protectionist legislation may preserve jobs, but at the cost of declining corporate profits and higher consumer prices. On the other hand, ignoring the situation may threaten U.S. technological superiority.

While taking short-term actions to assist unemployed high-tech workers, the U.S. government must act now to plan for this upcoming crisis. Failure to act could mean a record number of jobs leaving the U.S. Government, industry and academia need to work together to implement policies aimed at enhancing the skills of American workers and expanding the country's science and technology education programs. If investments are not made now, the U.S. may suffer the loss of its technological edge, and our standard of living will decline accordingly.

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