

# OUTSOURCED



## **Sending Jobs Overseas: The Cost to America's Economy and Working Families**

Report by Working America and the AFL-CIO



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## EXECUTIVE SUMMARY

**“The most important thing we can do is to bring both the money and the jobs back from overseas.”** —Kyle, Sandy, Ore.

**“We need taxation on companies that export jobs and incentives for those that keep them here.”** —Sarah, Milford, Ohio

**O**utsourcing of jobs to foreign countries is one of the great hidden economic issues of recent years. It is big business, with multinational corporations actively shifting jobs out of the United States and around the globe in search of the cheapest possible labor. But, following popular outcry against the practice in 2004, corporations have done their best to hide the details even as they expand their offshoring activities. As a result, outsourcing has by and large fallen out of the headlines.

But it has not escaped the public’s attention—when field organizers asked Working America members for their ideas about how to solve the jobs crisis, putting an end to outsourcing and bringing jobs back to the U.S. was the most frequently cited specific solution. Working people see jobs leaving their own communities and have no doubt that outsourcing is destroying lives and local economies; it’s putting together the big picture that’s difficult.

This report was created by Working America and the AFL-CIO as a companion piece to Working America’s Job Tracker, a ZIP code–searchable database of jobs exported (as well as Occupational Safety and Health Act violations and other workplace issues). Users can search their area for companies that have sent jobs overseas. Though Job Tracker is one of the largest publicly available, fully searchable records of the extent and specifics of outsourcing, it only reveals the tip of the iceberg. This report and Job Tracker contextualize each other—Job Tracker by mapping specific job losses

due to outsourcing, the report by taking a broad view of the national-level numbers that are available and offering case studies of key industries.

The problem of outsourcing is a global one. American policy solutions should not protect America’s workers at the expense of others. Instead, policy responses to outsourcing should create good jobs for all who want them, as well as job rights for workers around the globe, so that corporations cannot drag down labor standards for all workers by exploiting a few.

### The Problem

The annual almanac of the outsourcing and offshoring industry, *Plunkett’s Outsourcing & Offshoring Industry Almanac 2010*, estimates that this was a \$500 billion global industry in 2009 that involved more than 350 prominent organizations operating in 61 distinct industry groups.<sup>1</sup> Study after study—many of them by consulting firms that specialize in outsourcing—finds that up to half of corporations have already sent or are planning to send jobs overseas. Hundreds of thousands of American jobs are lost each year as a result, and working conditions and pay for workers around the world are driven down by corporations’ relentless drive for cheaper labor.

- Outsourcing has accelerated since 2004, affecting a wider swath of industries and occupations. Duke University and the Conference Board surveyed 1,600 service companies in 2008 about their future investments and

discovered that 53 percent had formulated a corporationwide offshoring strategy—more than twice the number that had done so in 2005. Moreover, 60 percent of the firms that engaged in outsourcing in 2008 intended to expand those activities over the next three years. Few expected to shift jobs back to the U.S. Ominously, all of the industries tracked in the study between 2005 and 2008 had increased their use of offshoring, with the practice growing most rapidly in the sectors that had *not* previously engaged in the practice in a significant way.

- The continued outsourcing of American jobs to foreign countries is part of a pattern of corporate policies toward international trade that have eroded the country's manufacturing industrial base to the point that industry specialists, military leaders and policymakers question whether national security is at risk. The existence of large, chronic U.S. trade deficits across the board—even in many of the most capital- and knowledge-intensive sectors—indicates that, whatever the fortunes of its multinational companies and their global production networks, the United States is losing competitiveness as a site for manufacturing.<sup>2</sup>
- Even as other nations implement strategic industrial policies to strengthen their technological capacities and build a strong, modern manufacturing base, U.S. policies have encouraged U.S. manufacturers to move offshore more and more of their operations. Only a comprehensive strategy aimed at reversing the erosion in the nation's overall manufacturing base will be sufficient for preserving and revitalizing the nation's industrial base in the coming decades.

## The Remedies

The U.S. Congress has, at times, taken action to limit offshoring by adjusting the nation's international trade policies, though more needs to be done. President Obama has championed the cre-

ation of more jobs in the United States, calling for greater investments in infrastructure and rapid action to move toward a clean energy economy. State chief elected officials, such as Ohio Governor Ted Strickland and state representatives, have become involved as well, implementing policies and passing laws to limit the flow of public funds to foreign firms. Finally, some corporate executives and entrepreneurs have begun to question the wisdom of wholesale offshoring, deciding to construct new facilities in the United States, expand their operations here or establish new firms that use the skills, knowledge and capabilities of the American workforce. The nation needs immediate action by the federal government and private-sector employers to spur economic growth and job creation, as well as to establish policies and programs that are part of a long-term economic strategy to rebuild the middle class and rebalance the American economy.

Two specific measures already before Congress would check some of the worst offenses:

- Manipulation by the Chinese government keeps Chinese currency undervalued by 40 percent with respect to the U.S. dollar, costing the U.S. economy as many as 3 million jobs.<sup>3</sup> The Chinese government has violated its international obligations with respect to workers' rights, human rights, currency manipulation, illegal subsidies and intellectual property rights, among other things. The AFL-CIO has urged Congress to introduce and pass a comprehensive trade bill giving our government the tools it needs to address the Chinese government's currency manipulation and illegal subsidies, strengthening our trade laws and their enforcement.
- Under current tax rules, U.S. multinational corporations are permitted to postpone their payment of U.S. taxes on most of their foreign earnings until those earnings are repatriated to the United States. These provisions encourage corporations to continue investing in their overseas operations—especially in developing countries with low tax rates—rather than creating jobs in the U.S. The Creating American

Jobs and Ending Offshoring Act (S. 3816) would close two tax loopholes and encourage companies to move their overseas jobs back to the U.S. The bill would end the practice of tax deferral of overseas earnings and eliminate the deductions that companies now receive when they close down American plants and move production to foreign locations. It would also provide businesses with a two-year break from paying their share of Social Security payroll taxes on wages of employees, as long as those wages were paid to workers performing services that were previously done in foreign locations.

Outsourcing is enormously destructive to American jobs; despite the clear concern working people exhibit about the issue, it receives too little attention in the media and from policymakers (despite some recent advances). Corporations know that outsourcing is unpopular and that their ends are best served by keeping the practice hidden in the dark. The Job Tracker and this report are intended to shine a light, exposing the extent of outsourcing, the harm it causes and the need for greater transparency.

“I didn’t think the day would ever come,” a Harrisburg, Pa., newspaper headlined in June 2010. The story carried the disheartening news that Hershey Foods Corporation was abandoning its hometown. The small-town manufacturer of Hershey Kisses, Reese’s Peanut Butter Cups, York Peppermint Patties and other iconic items in the pantheon of America’s sugary sweets would close down its historic East plant at 19 Chocolate Avenue in Hershey and eliminate as many as 600 jobs. After repeatedly chopping away at its U.S. workforce for years, the finality of moving production to Mexico was becoming apparent and unbearable. “I think it’s horrible. I didn’t think the day would ever come that they would close down this plant. This building has its own aura.... There was pride working here,” said one worker.<sup>4</sup> “I really don’t know what the rationale is other than cheap labour,” Chocolate Workers Local 464 Business Manager Dennis

Bomberger told a British publication. “They want to outsource, build plants in Mexico, shut down American factories and move stuff around.”<sup>5</sup>

Hershey is not alone: The offshoring or outsourcing of American jobs (*see box 1 for a definition*) has become a common feature of the global economy, led by American-based corporations that have placed gaining market share and making money in front of their concerns for the jobs and livelihoods of working families. As far back as the 1980s, the motivation of corporate executives was clear. As one manufacturing manager told *Metalworking News* in 1989: “If you buy on the outside cheaper than you can make it yourself, why not? It comes down to money: You’ll go where the price is right.”<sup>6</sup>

Leaders of many of America’s largest and most profitable corporations have vastly increased their use of outsourcing at the same time as millions of manufacturing and service jobs have disappeared,

### BOX 1

#### How do we define offshoring or outsourcing?

For the purposes of this report, the business practice of outsourcing American jobs to foreign countries—also known as offshoring or offshore outsourcing—is the process by which a company or government agency moves jobs from its home country to a foreign location, or chooses to increase the production of goods or services by using a foreign third-party company rather than provide employment to U.S. workers who are capable of producing such goods or services. Simply put, offshoring entails substituting foreign for domestic labor. Outsourcing can also refer to jobs transferred to third-party contractors within the United States; because it is in wide use referring to offshore outsourcing, we use it interchangeably with offshoring.

A great deal of offshoring or outsourcing is conducted by multinational corporations that are headquartered in the U.S. or other highly industrialized countries but have numerous facilities in other nations (IBM, for example, has plants in 167 countries and employs 320,000 persons worldwide). Such multinational corporations may choose to offshore their work by contracting with a firm that is owned by foreign nationals in the targeted country, or sending the work to one of its own operations located there (in which case, the practice is known as captive offshoring.) Outsourcing or offshoring was a \$500 billion global business in 2009.

the wages and salaries of American employees have stagnated, and wealth has become more concentrated than any time since the 1920s. While 26.1 million Americans were unemployed, underemployed, marginally attached to the labor market or involuntarily working at part-time jobs as of Labor Day 2010, according to the Economic Policy Institute, corporate profits increased (at an annualized rate) to \$1.64 trillion dollars during the second quarter of this year.<sup>7</sup>

The failure to invest in domestic job creation and the outsourcing of American jobs to foreign countries with low wages and lax workplace protections has undoubtedly contributed to soaring corporate profits. But, as Hershey's move to Mexico makes clear, these profits come at a cost. That cost is not only incurred by workers in the U.S. who have lost or are at risk of losing their jobs but by workers around the globe exploited by corporations in search of lower labor costs and less stringent safety and health conditions.

This Working America and AFL-CIO report illuminates the dimensions of offshoring and how the phenomenon has affected the jobs of American workers, the strength of our country's manufacturing base, and public policy debates at federal and state government levels. It is intended to provide background information for those using the

Working America Job Tracker database, available online at <http://www.workingamerica.org/jobtracker/> in October 2010. The report begins by examining the extent of offshoring, a difficult task because of the lack of systematic government data. It then reviews how this practice has contributed to the erosion of the country's manufacturing base, which economists and policymakers have found to be a threat to our national security. Next, it provides information about the research process involved in creating the Job Tracker and highlights some key findings. The final section reviews how America's political leaders have tackled the issue through legislation, executive orders and government spending to create jobs in America's clean energy economy. In addition, some corporations are beginning to engage in backshoring, returning jobs to the United States to maintain

quality production, limit transportation costs, and foster greater innovation and intra-company communication.

## **The Hershey Corp. and Hershey, Pa.: A Sweet Story Turns Sour**

In 2002, the Hershey Corp. controlled 35 percent of the entire confectionary market and employed 6,200 of the 12,000 residents of the town of Hershey. That year, the company's trustees shocked the town by proposing a diversification plan that included selling the food maker to an outside buyer. The proposal sparked a united front of opposition by small business owners, the union, school alumni and former Hershey executives, all of whom balked at the threat to their traditional way of life. "If we lose Hershey Foods, we're going to lose value, integrity and just about everything in the community," argued a local real estate agent.<sup>8</sup> Though the proposed sale was eventually abandoned, the town was put on notice that times had changed. Old-time Hershey was adopting global ambitions.

The herald of those ambitions was Richard H. Lenny, a new Hershey Foods Corp. CEO hired in 2001 to cut costs, expand market share and increase profits. In his first 18 months on the job, Lenny shut down three production facilities, closed a warehouse, laid off 700 workers and provoked a strike over health care premiums—all while the company's net income rose 14 percent, the stock price soared and Lenny's annual salary reached \$4.7 million (without his stock options, which could be worth another \$10 million).<sup>9</sup>

Hershey plants across the U.S. and Canada were shuttered during Lenny's tenure, culminating in a February 2007 announcement that the company would save up to \$190 million a year by shifting production to Mexico, where labor costs were 90 percent cheaper and sugar prices were low.<sup>10</sup> Thousands of workers across the country lost their jobs in this vast restructuring.

Hershey's chosen spot for a new production facility was Mexico's third most populous city, Monterrey, center of the country's steel industry

and an economic powerhouse with transnational corporations in cement manufacturing, petrochemicals, telecommunications, glass, financial services and brewing, among others. Hershey purchased a 200,000-square-foot building there in 2007 and planned to establish a production operation that would employ as many as 500 workers.<sup>11</sup> According to an analysis by the Boyd Co., a consultant firm that specializes in the candy industry, a Mexican production facility in Monterrey would have access to workers for about \$2.77 per hour.<sup>12</sup>

## Stopped at the Border

Shipping food products back to the U.S. from Monterrey and other parts of northern Mexico, however, has not proven to be a smooth journey. First the company has to move the products out of the city by truck. That process is frequently interrupted by cargo theft, including the kidnapping of drivers and the outright theft of truck trailers, which is causing the food industry to “suffer tremendous losses,” according to a FreightWatch report.<sup>13</sup> Violence escalated during the summer of 2010, leading many corporations to pause or suspend their operations. “Supply chain operations throughout Mexico continue to face significant challenges from both cargo theft and other security risks... most notably the increasingly violent war between drug cartels and Mexican officials along the U.S.-Mexico border, [which] has caused significant supply chain disruption this year,” warned one e-mail alert.<sup>14</sup> Hostilities culminated in August 2010 when drug cartels blocked all inbound and outbound traffic around Monterrey by setting up

14 roadblocks on the eastern side of the city. When police officers tried to remove the trucks blocking traffic, a grenade was lobbed at their police car.<sup>15</sup> Commerce in three other cities was affected by the location of the barriers, which are designed to disrupt police travel throughout the city and demonstrate the cartel’s power. “U.S. companies see Monterrey as high risk now,” declared the director of Altegrity Risk International.<sup>16</sup> In late August, because of the “high incidence of kidnapping in the Monterrey area,” the U.S. State Department instructed embassy personnel to send their children back to the U.S. for their safety and security.<sup>17</sup>

When Hershey Food Corp. trucks are able to leave the city, they have to pass through border stations, where a sample of food products—about 1.5 percent of all imports—is inspected by U.S. Food and Drug Administration (FDA) personnel. In January 2007, a shipment of Hershey’s Kisses was blocked due to salmonella contamination. A few months later, five more shipments of Hershey candies were halted, again because of salmonella, a leading cause of death from food-borne illnesses. The Coalition for a Prosperous America (CPA) found that nearly 9,000 cases of candy treats were stopped at the border by the FDA.<sup>18</sup> As Fred Stokes, president of the CPA, summarized the problem: “In the rush to close American plants and eliminate American jobs in favor of offshoring, many large food companies are playing fast and loose with our lives.”<sup>19</sup>

No information is available about what happened to the salmonella-riddled Hershey chocolates after they were blocked at the U.S. border. But the lesson is clear—outsourcing does not only endanger the workers and communities that lose jobs.



## Outsourcing to Foreign Countries: A Continuing Threat to U.S. Jobs

It's not just Hershey: Outsourcing is big business. The annual almanac of the outsourcing and offshoring industry, *Plunkett's Outsourcing & Offshoring Industry Almanac 2010*, estimates that this was a \$500 billion global industry in 2009 that involved more than 350 prominent organizations operating in 61 distinct industry groups.<sup>20</sup> Study after study—many of them by consulting firms that specialize in outsourcing—finds that up to half of corporations have already sent or are planning to send jobs overseas. Hundreds of thousands of American jobs are lost each year as a result, and working conditions and pay for workers around the world are driven down by corporations' relentless drive for cheaper labor.

Outsourcing American jobs to foreign countries involves a diverse range of products, including manufactured goods (such as automobile parts, garments and electronic components), low-wage and routinized service jobs (notably, the operation of call centers in countries such as India and the Philippines), and high-skill professional services (such as computer programming, engineering and architectural tasks). The process of offshore outsourcing may be mediated—and often concealed—when a company or agency first *outsources* services to a domestic firm, which then *offshores* the labor to workers in a foreign country. But whatever machinations are used to manage this process, the global market for such services is enormous.

## Making Headlines, Causing Controversy

Public and mass media attention to the offshoring phenomenon has ebbed and flowed since the late 1970s, when U.S. manufacturing employment peaked

and multinational corporations intensified their concerted expansion into international markets, the process commonly known as globalization. The prospect of American jobs being lost to outsourcing particularly resonated with working families in 2004, when the effects of international trade became a hot-button issue during the presidential contest. That year, President George W. Bush's chief economic advisor raised a furor when he declared that offshoring was “just a new way of doing international trade,” a sentiment that the president echoed when he asserted, “When a good or service is produced more cheaply abroad, it makes more sense to import it than make or provide it domestically.”<sup>21</sup> Democratic presidential candidate John Kerry responded by condemning the “Benedict Arnold CEOs” that relocated jobs across national borders, and his U.S. Senate colleagues voted to stop federal contractors from shifting jobs overseas using U.S. tax dollars. Some 30 bills to restrict outsourcing were introduced into state legislatures.<sup>22</sup> Dislocated information technology workers—many of whom had trained their replacements as employers shifted their jobs to India—started a grassroots national movement to expose the trend.<sup>23</sup> More than 550 articles on offshoring jobs appeared in English-language publications that year. “This outsourcing stuff is huge, and it's upsetting everybody,” Republican operative Frank Luntz declared.<sup>24</sup>

Labor and corporate leaders faced off against one another throughout the year. Speaking at a California event, the CEO of the U.S. Chamber of Commerce praised the benefits of job offshoring and advised American workers to “let's not whine” about the practice.<sup>25</sup> Carly Fiorina, then CEO of Hewlett-Packard, chimed in: “There is no job that is America's God-given right anymore.”<sup>26</sup> Decrying the loss of middle-class jobs in services and professional occupations, the AFL-CIO Executive Council pointed out that the “corporate drive to take advantage of workers with few rights and limited opportunities

not only harms American workers, it drags workers everywhere into a race to the bottom.”<sup>27</sup>

The continued loss of manufacturing jobs was highlighted as one company after another decided to close down its factories and move work abroad. Maytag Corporation, for example, announced that it would close its Galesburg, Ill., refrigerator plant in late 2004, laying off some 1,600 workers and transferring most of its work to Reynosa, Mexico, where workers were paid about one-sixth of the wages earned in the U.S.<sup>28</sup>

Although the federal government fails to collect detailed statistics that enable policymakers to determine how many American jobs are lost to outsourcing, independent research studies reveal the scale of the problem. By collecting and analyzing press reports, Cornell University researchers compared documented offshoring cases during the first quarter of 2004 with the same period in 2001 and found a huge increase: Between January and March 2004, more than 48,000 jobs were shifted to Mexico, China, India, Latin America and Asia. “Based on our estimates that media tracking captures approximately two-thirds of production shifts to Mexico and about a third of production estimates to other countries, these data suggest that in 2004, as many as 406,000 jobs will be shifted from the U.S. to other countries compared to 204,000 in 2001,” the report concluded.<sup>29</sup> Across the U.S., 8 million manufacturing jobs were eliminated between June 1979 and December 2009, according to Bureau of Labor Statistics information analyzed by High Road Strategies consulting firm.<sup>30</sup>

## Outsourcing Goes Underground

In the wake of the huge 2004 controversy regarding outsourcing and increased public scrutiny, corporations have become more secretive about their investment plans. “The public debate over offshoring has probably made corporate executives much more careful about how they communicate their consideration of offshoring,” an official with A.T. Kearney, an offshoring consulting group, told *The Wall Street Journal*.<sup>31</sup> “US corporations that use offshore service providers often prefer to keep it quiet,” confirms

the Plunkett industry almanac.<sup>32</sup> Corporate policy has shifted to obscure the dimensions of offshoring whenever possible. Internal documents from IBM, for example, indicate that the company was very aware of the sensitive nature of its investment decisions. One memorandum advised managers to “not be transparent regarding the purpose/intent” of plans to eliminate jobs and to never use terms such as “onshore” and “offshore.” Any written communications with displaced employees must be “sanitized” by the human resources staff before being released.<sup>33</sup>

Although the public controversy over job loss due to offshoring subsided after the 2004 presidential race, the practice itself accelerated, affecting a wider swath of industries and occupations. Duke University and the Conference Board surveyed 1,600 service companies in 2008 about their future investments and discovered that 53 percent had formulated a corporationwide offshoring strategy—more than twice the number that had done so in 2005. Moreover, 60 percent of the firms that engaged in outsourcing in 2008 intended to expand those activities over the next three years. Few expected to shift jobs back to the U.S. Ominously, all of the industries tracked in the study between 2005 and 2008 had increased their use of offshoring, with the practice growing most rapidly in the sectors that had *not* previously engaged in the practice in a significant way. The information technology industry had the highest proportion (57 percent) of firms with an offshoring strategy, followed by software development, engineering, marketing and sales, call centers, and finance and accounting companies.<sup>34</sup>

When the Wharton School at the University of Pennsylvania and CareerBuilder.com, a job-hunting website, commissioned a study of companies and employees in multiple industries, they found that 13 percent had sent jobs overseas. Older workers, the survey found, were more vulnerable to displacement than younger employees. What happened to those who were dismissed? Seventy-one percent were fired, while the others were moved to other positions in the company. Calculating how much money their IT companies would save by offshoring, 85 percent of the companies estimated they would save from \$5,000 to \$50,000 per head. The survey, conducted by Harris Interactive, contacted 3,016 hiring managers and 6,704 individual employees.<sup>35</sup>

As the Great Recession has worn on, outsourcing American jobs to foreign locations has generated enormous corporate revenues. Between 2007 and 2009, offshoring yielded \$30 billion in revenues worldwide and grew by 25 percent, according to data compiled by IDC, a market intelligence firm.<sup>36</sup>

Many large multinational corporations remain committed to shifting production overseas. A 2008 survey of 66 large multinationals by Watson Wyatt, a human resources consulting firm, found that 42 percent were likely to offshore their production to low-cost countries, in addition to reducing their human resources head count in their headquarters (26 percent) and chopping the cost of administering employee benefits through outsourcing (22 percent).<sup>37</sup> Like many such consulting operations, Watson Wyatt derives revenues from providing services related to “outsourcing solutions” and devising “call center strategy.”<sup>38</sup>

Corporate “back-office” jobs in finance, information technology (IT), human resources and procurement are increasingly popular targets for offshoring by global companies. After surveying the largest Global 1000 corporations, the Hackett Group predicted in 2009 that companies would shift more than 350,000 back-office positions overseas at the same time as those firms acted to limit new employment and dismiss domestic workers. By 2010, this acceleration in offshoring would bring the total number of such back-office jobs to 800,000 and allow companies to save nearly \$30 million per year. By 2010, Hackett expected one in four IT jobs in global corporations to be located offshore.<sup>39</sup>

Lowering the cost structure by moving to low-cost countries has become part of the mainstream of global business models, a Hackett manager asserted, with U.S. workers losing jobs accordingly. “Companies are clearly taking aggressive action, accelerating the pace of their globalization efforts, particularly in finance and IT, while at the same time implementing hiring freezes and/or staff cuts for their other back-office staff positions,” affirmed Chief Research Officer Michael Janssen.<sup>40</sup>

According to another Hackett Group survey of 4,000 global companies with \$1 billion in revenues, corporate outsourcing trends will continue and accelerate as the global economy pulls out of the

Great Recession. Corporations expect to eliminate nearly 3.6 million general and administrative jobs by 2014 as they execute their activities in low-cost regions where high-skill workers are available. With remarkable candor, Hackett’s top research officer summarized the implications: “Hackett believes that for most companies, if and when they do start to restaff in IT, finance and other functions coming out of this recession, the large majority of the jobs they create will be in India and other low-cost labor markets.”<sup>41</sup> The Everest Research Institute agreed with this assessment of the post-recession environment, predicting that 90 percent of large adopters (those companies with more than 2,500 full-time equivalent [FTE] positions already offshore) would expand their offshoring profile by more than 500 additional FTEs.<sup>42</sup>

## An Elusive Topic

Though these consultant reports provide a glimpse of the extent of offshoring in service industries, the full impact of offshoring on domestic employment remains an elusive topic. This is due, in part, to severe deficiencies in how the federal government collects statistics that could be used to adequately identify the scale of the job loss involved. A special report by the Bureau of National Affairs reviewed studies of the data collection problem by the U.S. General Accounting Office, the Massachusetts Institute of Technology (MIT) and the National Academy of Public Administration; it found that all three groups “concluded that data collection structures maintained by BEA, the Census Bureau and the Bureau of Labor Statistics prevent any meaningful understanding of the scope of offshoring, the scale of U.S. job losses, the business and occupations being affected, and the economy’s potential responses to unabated offshoring.”<sup>43</sup> Although a series of congressional hearings were held during the Bush administration to examine the data collection problem, no improvements were forthcoming. What was the reason for this inaction? The senior researcher who wrote the MIT report attributed the lack of concern to “the Bush administration’s general opinion that additional data on globalization would only lead to protectionist political responses.”<sup>44</sup>

In the absence of comprehensive government-collected data, estimating the impact of offshoring often relies upon the sort of painstaking compilation of media announcements undertaken by Cornell University and Working America, as well as information from another reliable source: figures compiled by the foreign governments that are promoting the movement of jobs into their countries. This source is especially fruitful with regard to India. In the business process outsourcing (BPO) field, India and the Philippines account for 50 percent of the market.<sup>45</sup>

India's major service offshoring trade group, the National Association of Software and Service Companies (NASSCOM), expects that in fiscal year 2010, direct employment in Indian companies focused on outsourced work will reach 2.3 million workers, a dramatic increase from 830,000 in 2004. Aggregate revenues that year are expected to rise to 73.1 billion in U.S. dollars. The export of services and software development employs 1.8 million workers and accounts for more than 99 percent of exports, according to NASSCOM; overall, they report, India controls 51 percent of the offshored services market.<sup>46</sup>

Although American corporations have made a concerted effort to conceal their outsourcing of jobs to foreign, often low-cost, countries, it is clear that offshoring has continued and accelerated in recent years—at the same time the wages of American workers have stagnated and mass layoffs and job cuts continue to ravage many communities. Recent public opinion polls show that American voters recognize the connection between offshored jobs and their own diminished employment opportunities. An August 2010 Heartland Monitor survey sponsored by Allstate and the *National Journal* asked Americans what actions government and business might take to help the U.S. economy recover from the recession. According to 66 percent of respondents, an extremely or very important action business could take was to shift more of their operations back from foreign countries into the U.S. In order to help the economy move out of the recession, nearly three out of four Americans (70 percent) agreed that it was extremely or very important to reduce the “number of jobs that are outsourced to workers in foreign countries.”<sup>47</sup>

## **IBM: Outsourcing Out of Sight**

**International Business Machines (IBM) has been a global leader in technology for decades. More recently, it has become a leader in the twin practices of outsourcing jobs and of hiding that activity. In 2005, IBM and its wholly owned subsidiaries reported 329,000 employees worldwide. Almost 134,000 of those workers—more than 40 percent—were located in the United States. At the end of 2009, though IBM's workforce had expanded to include almost 400,000 employees worldwide, only 105,000—just over a quarter of its entire workforce—were located in the United States. IBM is reported to now be the second largest employer in India, with 120,000 to 130,000 workers.**

**The movement of IBM jobs overseas is difficult to track due to the corporation's focus on secrecy in this area. Though IBM's domestic operations have shed a net total of nearly 30,000 employees since 2005, the company simply reports its nationwide total cuts, trimming smaller numbers from scattered sites to avoid triggering mass-layoff notification laws. The company no longer reports its employment numbers in geographical terms, making it difficult to discover where the company is hiring or where U.S. jobs go when taken offshore.**

**IBM workers whose jobs have stayed in the country have seen reduced benefits and lower pay—new facilities opening in the U.S. are paying up to \$20,000 a year less than older centers paid. Meanwhile, CEO Sam Palmisano made over \$21 million in 2009 while cutting 10,000 U.S. jobs during the deepest recession since the Great Depression.**

### Effects of Offshoring: Erosion of America's Manufacturing Base

The continued outsourcing of American jobs to foreign countries is part of a pattern of corporate policies toward international trade that have eroded the country's manufacturing industrial base to the point that industry specialists, military leaders and policymakers question whether national security is at risk. Manufacturing's share of U.S. Gross Domestic Product (GDP) has fallen steadily since the late 1960s. The utilization of manufacturing capacity dropped to 67 percent in 2009, the lowest point in four decades. The U.S. trade deficit has ballooned in recent years as more imports flow into the country than American producers export abroad. The trade deficit with China, for example, far exceeds that with any other country, reaching \$268 billion in 2008, more than triple the level in 2001 (when the U.S. Congress granted China permanent normal trade relations and China joined the World Trade Organization). The existence of large, chronic U.S. trade deficits across the board—even in many of the most capital- and knowledge-intensive sectors—indicates that, whatever the fortunes of its multinational companies and their global production networks, the United States is losing competitiveness as a site for manufacturing.<sup>48</sup>

Manufacturing is vital for fostering a strong domestic economy, generating good jobs at family-sustaining wages and salaries, and guaranteeing a decent standard of living for America's working families. Manufacturing firms large and small are mainstays of state and local economies, providing jobs and tax revenues to finance essential public services. Manufacturing generates greater economic activity in other sectors that supply intermediate goods and services and stimulates the creation of numerous jobs in high-end services (such as professional and engineering

services and software) in local economies. It also drives productivity, innovations in new technology and overall economic growth.

### Declining Manufacturing, Rising Trade Deficit

Manufacturing employment fluctuates with the business cycle, dropping during recessionary periods, and then increasing as the economy recovers. But the peaks have been lower from one recovery to another since the late 1970s. The overall trend is dramatically down: Manufacturing employment collapsed from a high of 19.5 million workers in June 1979 to 11.5 workers in December 2009, a drop of 8 million workers over 30 years. Between August 2000 and February 2004, manufacturing jobs were lost for a stunning 43 consecutive months—the longest such stretch since the Great Depression.

The number of manufacturing establishments has declined sharply since 1999, after growing steadily earlier in the decade. The total number of manufacturing establishments of all sizes grew by nearly 26,000 between 1990 and 1998 but shrank by more than 51,000 (12.5 percent) between 1998 and 2008. An additional 5,730 establishments disappeared in 2009, bringing the **total net decline to more than 57,000 since 1998**. Every major manufacturing sector experienced a net loss of large establishments with 500 or more workers in this period. These trends are notable because of the large numbers of workers affected, as well as the disproportionate economic impacts on communities when production facilities close. The data show that every single major manufacturing sector experienced a loss of such large establishments after 1998.<sup>49</sup>

One of the chief indicators of declining global competitiveness is the extent to which imports from facilities located abroad have penetrated a country's domestic markets. As U.S.-based

corporations have intensified their practice of offshoring, closing production plants here and opening up new facilities overseas or “nearshoring” in Mexico and Latin America, imports of thousands of products have flooded American consumer markets and steadily pushed out domestic alternatives. The import penetration rate (IPR) measures this dynamic, showing how imports have substituted for domestically produced goods. A large IPR indicates that a large share of U.S. consumption of a good is being met by foreign sources. The U.S. Business Industry Council (USBIC) Education Foundation has calculated IPRs for 115 high-tech, capital-intensive industries, including every manufacturing sector judged to be a major contributor to the nation’s economic health.<sup>50</sup>

The figures on this head-to-head competition between U.S.- and foreign-based producers in the same U.S. market reveal that American producers have lost significant ground. The data show an across-the-board aggregate increase for 114 high-tech and capital-intensive sectors of 61 percent—from 21.4 percent of domestic consumption to 34.3 percent—between 1997 and 2007. That is, imports grew from one-fifth to more than one-third of the total value of this large, diverse group of items consumed domestically. This deterioration occurred in only one decade.

High trade deficits and high IPRs are closely related. Generally speaking, increasing trade deficits in goods are a result of U.S. consumers becoming dependent on foreign-produced manufactured goods at the expense of domestically produced items. That is, foreign producers have captured greater and greater shares of domestic markets while U.S. manufacturers cut capacity and/or moved their operations offshore and dismissed workers. The Economic Policy Institute (EPI) has estimated that millions of U.S. jobs have been displaced (or job gains foregone) as a result of international trade, including the losses associated with specific trade agreements, such as the North American Free Trade Agreement (NAFTA).<sup>51</sup>

The broad domestic and global economic trends examined by High Road Strategies’ research provides strong evidence that the U.S. manufacturing base is experiencing a sustained and potentially dan-

gerous erosion across nearly all manufacturing industries. Short profiles of two critical industries, semiconductors and aerospace, reveal the impact of corporate decisions on America’s competitive position.

## Semiconductors

The manufacturing of semiconductors, the foundation of modern electronic devices, plays a prominent role in the U.S. economy as a source of high-value-added production, high-wage jobs, productivity gains and wage growth.<sup>52</sup> However, while the United States remains one of the world’s largest manufacturers of semiconductors, it has been losing capacity and its leadership in this industry for a number of years. William J. Spencer, chairman emeritus of International Sematech, summarized industry and government leaders’ concerns about this troubling trend: “A combination of market forces and foreign policies is creating powerful incentives to shift new chip production offshore. If this trend continues, the U.S. lead in chip manufacturing, equipment and design may well erode, with important and unpleasant consequences for U.S. productivity growth and, ultimately, the country’s economic and military security.”<sup>53</sup> These warnings were echoed in reports by the National Security Agency, as well as by independent bodies, such as the National Academies of Sciences<sup>54</sup> and the U.S. China Commission.<sup>55</sup> Industry groups, such as the Semiconductor Industry Association,<sup>56</sup> and congressional leaders agreed.<sup>57</sup>

Increasingly, the erosion predicted in the mid-2000s has become apparent. The semiconductor and other electronic component manufacturing sector lost a net of nearly 1,200 plants of all sizes between 1998 and 2008, a drop of 17 percent, including 83 large establishments with over 500 employees. The U.S. share of global semiconductor capacity has continued its descent, dropping to 17 percent in 2007 and 14 percent in 2009, falling to fourth place in the world behind Japan, Taiwan and Korea.<sup>58</sup> In December 2009, the BLS forecasted that U.S. semiconductor manufacturing will lose 146,000 jobs, a decline of 34 percent, over the coming decade.<sup>59</sup>

Driving these losses has been the growing migration (offshoring) of critical microelectronic

## Top 25 Products with Largest IPRs in 2007

Description	2007	1997	% Change 1997-2007
Household furnishings	93.5	23.2	303.3
Pulp mill products	92.7	45.2	105.0
Newsprint mill products	90.6	54.3	66.8
Medicinals and botanicals	85.8	49.5	73.3
Industrial valve manufacturing	78.2	34.4	127.3
Plastics and rubber industrial machinery	77.3	43.4	78.2
Metal-cutting machine tools	76.9	58.6	31.3
Metal-forming machine tools	76.6	62.7	22.1
Turbines and turbine generator sets	71.1	25.4	179.8
Speed changers, high-speed drives and gears	70.7	38.5	83.6
Electric computers	65.5	13.9	370.3
Computer storage devices	64.9	66.7	-2.7
Telephone switch apparatus	64.5	17.7	265.3
Radio and TV broadcasting and wireless equipment	63.0	16.1	291.0
Electric capacitors and parts	62.1	69.1	-10.0
Electronic resister manufacturing	61.8	47.5	30.0
Other electric components	58.2	56.9	2.2
Industrial process control instruments	58.1	45.7	27.1
Magnetic and optical recording media	57.1	38.6	47.8
Motors and generators	56.7	28.4	99.9
Relays and industrial controls	56.3	24.1	134.1
Autos	56.0	50.4	11.0
Heavy-duty trucks and chassis	55.8	62.5	-10.8
Motor vehicle parts	53.7	38.3	40.3
Aircraft engine and engine parts manufacturing	52.4	40.0	31.0
<b>Average Top 25 IPRs</b>	<b>68.0</b>	<b>42.0</b>	<b>61.7</b>

Source: USBIC High Road Strategies

manufacturing capabilities to low-cost foreign locations, which many observers warn will result in a loss of “trusted” and “assured” supplies of high-performance microchips used in critical military and commercial infrastructure applications. The primary beneficiaries of these movements are Taiwan, Singapore, China, Korea and Japan, which have been increasingly challenging U.S. technological leadership.

U.S. semiconductor manufacturers first moved

their assembly, testing and packaging to Asia in the 1960s and continued to the 1980s. Then, in the 1980s and 1990s, U.S. companies shifted their fabrication abroad, contracting with offshore fabrication plants—in Taiwan, China, Malaysia, Philippines—to produce semiconductor wafers from designs.<sup>60</sup> Firms outsourced virtually all manufacturing operations, including chip fabrication, assembly, testing and process development.

A U.S. Government Accountability Office (GAO) report noted two consequences of the shift in production and trade flow toward Asia. First, because “final production increasingly takes place in Asia, the United States is importing an increasing share of electronics and telecommunications products (that use semiconductors).” This is reflected in the growing U.S. trade deficit with Asia, and China in particular, including advanced technology products. Second, “as electronics and telecommunications production chains increasingly locate in Asia, there are benefits to U.S. producers of semiconductors to locate abroad near their customers and take advantage of the production clusters developing there.” As a result, there is a further incentive for U.S. firms to offshore their activities.<sup>61</sup>

The semiconductor industry exemplifies the problems created by the globalization of a key industrial sector for meeting critical U.S. national security needs. Natural disasters, for example, pose a threat to the U.S. supply. The earthquake measuring 7.6 on the Richter scale that hit Taiwan in 1999 shut down all factories in Hsinchu, the national wafer fabrication center; such an event could potentially disrupt supply.<sup>62</sup> In addition, a potential threat to the security of classified information embedded in chip designs can arise from the shift from U.S. to foreign integrated circuit (IC) manufacturing. It increases the possibility that “Trojan horses” and other unauthorized design inclusions, such as viruses and worms, may appear in unclassified ICs used in military applications.<sup>63</sup>

## Aerospace

Another core industrial sector fundamental to America’s economic and national security is aerospace. National security and space agencies constitute a major portion of the customer base for the aerospace sector, which depends on an extensive network of purchasers, subcontractors, suppliers and partners, comprising the sector’s supply chain, which provides parts and components to U.S. and overseas manufacturers.<sup>64</sup> The Aerospace Industries Association (AIA) estimates that there are more than 30,000 aerospace suppliers in the United

States.<sup>65</sup> These include many firms in the semiconductor and electronic products, printed circuit boards, machine tools, advanced materials and bearings industries.

Aerospace is a major source of high-skill, high-wage jobs in the U.S. economy. It employs 500,000 workers, accounting for 4 percent of the nation’s manufacturing workforce. The trends over the past decade, however, show substantial shrinkage of this workforce over the past two decades, due to a variety of factors affecting both the commercial and defense business sides of the sector.<sup>66</sup> Following the end of the Cold War, the large prime contractors—Lockheed Martin, Boeing, Raytheon, Northrop Grumman and General Dynamics—emerged as full-fledged multinational corporations whose interests now transcend the domestic industrial base. In order to grow and maintain profit margins, these firms have become more and more reliant on foreign sales. At the same time, the drive to lower costs in the face of increasingly fierce foreign competition, including offsets and other foreign trade practices, has led them to offshore large portions of their own production operations and to rely on an increasingly global supplier base.

Employment levels and the number of establishments in aerospace have shifted in recent years. In the aerospace products and parts sector, a net 47 plants of all sizes disappeared between 1999 and 2004; midsize facilities suffered the greatest losses, though 83 percent of all job losses were recorded in the large plants that dominated employment in the industry. Employment in the aircraft manufacturing and aircraft engine and engine parts manufacturing industries fell by 15 percent each between 1998 and 2008, mostly in large plants with 500 or more employees.<sup>67</sup> In 2002, foreign manufacturers captured 15 percent of the domestic aircraft manufacturing market, 40 percent of the aircraft and engine parts market, and 31 percent of the other aircraft part/auxiliary equipment market. By 2007, these shares grew to 33 percent, 14 percent and 45 percent, respectively.<sup>68</sup>

A key strategy of aerospace companies is to secure new foreign sales through offset agreements. Offset agreements and transactions require a domestic exporter of articles and services to foreign customers (government or commercial enterprises)



to produce parts of the exported items in the foreign location or agree to the purchase of goods and services unrelated to the exported goods. For example, the Indian government has made mandatory an offset clause for aerospace firms abroad, requiring that at least 30 percent of the total value of a deal be manufactured in their country.<sup>69</sup> American defense firms have entered into offset deals with foreign governments for decades, but these arrangements have grown increasingly prevalent in recent years.

The rise of offsets as part of foreign sales transactions has led industry experts to express concern that the arrangements could adversely affect the health of the American aerospace industrial base. Offsets have increased the pressure on U.S. firms to offshore more of their operations, leading to the loss of domestic manufacturing capacity and jobs, a trend that the United States-China Economic and Security Review Commission (USCC) warned could “undermine U.S. global leadership in aircraft manufacturing.”<sup>70</sup> Offsets can directly cost jobs in some companies that transfer work and manufacturing capacity to foreign producers, under these agreements, that otherwise would remain in domestic facilities. The increase in aerospace-related offsets also could lead to the rapid increase of imports of aerospace production, which also would adversely affect U.S. jobs.<sup>71</sup>

Moreover, the growing demand for offset arrangements by foreign countries is making U.S. aerospace firms more reliant on foreign companies. As the U.S. supplier base erodes, defense contractors are becoming increasingly reliant on foreign suppliers for critical products.<sup>72</sup> The outsourcing of the design and construction of wing and fuselage sections are at the root of Boeing’s recent production and delivery problems with its 787 *Dreamliner* jet liner.<sup>73</sup> Offsets also add to the financial pressures on U.S. firms that are increasingly reliant on foreign partners for financial support.<sup>74</sup>

The implications of these international trade arrangements are already becoming apparent in the aerospace industry’s workforce profile. The long-term employment trend has been downward since the 1980s. Total aerospace and parts employment

fell more than 40 percent since 1990, dropping from nearly 900,000 to less than 490,000 in 2010. Since the last employment peak in 1998, about 15 percent of jobs in this sector have been lost, probably permanently. The aerospace nonproduction and supervisory workforce, which is inclusive of the science and engineering (S&E) workforce, has suffered even greater losses, falling by more than half since 1990 and nearly 30 percent since its 1998 peak.<sup>75</sup>

Speaking before the U.S. House Armed Services Committee about the long-term decline in aerospace science and engineering employment, Stanley Sorscher, legislative director of the Society of Professional Engineering Employees in Aerospace<sup>76</sup> (the union representing over 20,000 engineers, scientists, technical and professional employees in the aerospace industry), testified that between 1986 and 2001, the number of U.S. aerospace S&Es fell by 83 percent, from 145,000 to 21,000, and by another 5,000 by 2005, paralleling the 18,000 machinists’ jobs lost over this same period at Boeing.<sup>77</sup> Sorscher partly attributes the losses in his workforce and in U.S. technological capacity to offset agreements, which enable foreign firms to “acquire the knowledge, skills and experience embodied in the work packages sent to their domestic firms.” These firms also “will inherit the competitive advantage of future learning curve benefits. They will learn certain institutional lessons while our body of retained knowledge erodes,” he warned.<sup>78</sup>

Sorscher also noted Boeing’s aging technical workforce and the “total elimination” of younger workers at the company as it has downsized. Thus, “lacking young people in the workplace, no one is present to capture and retain the body of knowledge accumulated from decades of experience. The next generation of supervisors, managers and system integrators cannot be cultivated if they are not present.” As a result, he concluded, “a 15-year period of experience has been forgone and cannot be recovered.”<sup>79</sup>

The implication of these trends in semiconductors and aerospace is that the U.S. industrial skill and knowledge central to maintaining cutting-edge leadership in technology development and innovation, in areas ultimately vital to maintaining the nation’s security and industrial base, have been

deteriorating, both absolutely and relatively. Other nations are challenging American technological leadership, which ultimately rests on having access to a broad, robust foundation of manufacturing and technological skills and knowledge. Many of these nations have implemented strategic industrial policies to strengthen their technological capabilities, innovation and competitiveness built around investments to attract and build a strong, modern manufacturing base. U.S. policies, in contrast, have

encouraged U.S. manufacturers to move offshore more and more of their operations, increasingly moving up the technological value chain, which has encouraged the migration of research and development (R&D) capacity and technological know-how to other nations. Only a comprehensive strategy aimed at reversing the erosion in the nation's overall manufacturing base will be sufficient for preserving and revitalizing the nation's industrial base in the coming decades.

## SECTION THREE

### Working America's Job Tracker

If you listen to policymakers and the media, outsourcing rarely comes up. Yet, as the preceding sections of this report demonstrate, offshoring of jobs has had and continues to have a major impact on the American economy, making it one of the great hidden economic issues of recent years. The details of how and where it is happening are not always easy to ascertain, with corporations actively avoiding public attention. But it has not escaped the public's attention: When field organizers asked Working America members for their ideas about how to solve the jobs crisis, putting an end to outsourcing and bringing jobs back to the U.S. was the most frequently cited specific solution. Working people see it happening in their own communities and have no doubt that outsourcing is destroying lives and local economies; it's putting together the big picture that's difficult.

And difficult it is—complete outsourcing data is not tracked and compiled by any government agency, and, as detailed in Section One, as public opinion has turned decisively against the practice, corporations have increasingly hidden their outsourcing activities. In the absence of increased reporting requirements, any attempt to track outsourcing will significantly understate its effect.

The data compiled in the Job Tracker, despite being the result of massive effort and one of the largest publicly available databases of its kind, therefore seriously understate the scope of outsourcing in the years covered. In 2004, Dr. Kate Bronfenbrenner of Cornell University and Dr. Stephanie Luce, then of the University of Massachusetts–Amherst, estimated that a media tracking study they conducted for the China Economic and Security Review Commission “captured only about one-third of actual jobs lost,” a decline since their 2001 study that they estimated captured about half of jobs lost.<sup>80</sup> Our own estimate is lower. While the Job Tracker is a significant new source



*A Job Tracker map of companies that have outsourced jobs in the Cleveland, Ohio, area.*

of information, then, it truly shows just the tip of the iceberg.

To compile the Job Tracker, Working America filed Freedom of Information Act requests for Trade Adjustment Assistance (TAA) and Worker Adjustment and Retraining Notification (WARN) data. Successful TAA petitions were automatically included in the Job Tracker database and are the largest outsourcing data set in the Job Tracker, accounting for more than 5,200 records. A team of researchers then cross-checked WARN notices and unsuccessful TAA petitions against media accounts, searching LexisNexis and Google for reports identifying job exporting or foreign competition as a cause of the layoffs. But for several reasons, such reports are difficult to find: Companies are actively trying to hide outsourcing; many layoffs and closings are only reported in small newspapers that do not maintain full online archives; smaller layoffs and closings are often not reported at all; and a few states, like Nevada, do not release WARN records.

As the case studies of Colorado, Minnesota

and Ohio reveal, though, the Job Tracker gives U.S. insight into thousands of stories of the kind that have made Working America members so focused on, and so angry about, outsourcing.

## Colorado

The 140 Colorado jobs lost when the auto accessory manufacturer Bestop moved its production to Mexico in 2009 would have been significant in themselves. But those 140 jobs were not an isolated event; instead, they represented the culmination of years of cuts. According to the *Boulder Daily Camera*, just a decade before, the company had employed nearly 700 people in the area.<sup>81</sup>

In 2007, after cutting 129 jobs (also the subject of a successful TAA petition), Bestop still employed 275 workers.<sup>82</sup> But two mass layoffs totaling 269 jobs don't take an employer from nearly 700 to the 60 workers remaining in Bestop's corporate office. WARN notices do not help us discover when the remaining jobs were cut or where they went—more testimony to the difficulty of tracking this phenomenon.

## Nevada

With construction and hospitality industry employment contracting dramatically in Nevada,<sup>83</sup> jobs lost to outsourcing there don't get much attention—and the state of Nevada is keeping it that way. The Job Tracker has WARN information from 45 states. But Nevada is one of the few states that will not release WARN notice information; the Nevada Department of Employment, Training and Rehabilitation declined our request for that information, citing “strict confidentiality laws.”

“Information required to be reported to the federal government,” it continued, “may be disclosed under certain circumstances.”<sup>84</sup> But not without a fight, it seems clear. In the meantime, corporations can engage in mass layoffs with even less oversight than is the case in most states.

## Minnesota

In January 2005, Minnesota had 345,900 jobs in manufacturing, according to the Bureau of Labor Statistics. In July 2010, the state had 299,900 manu-

facturing jobs, a loss of 46,000 jobs, or 13.3 percent of manufacturing sector jobs. A significant number of these jobs were lost during the recession, with a low of 289,100 manufacturing jobs in the state in late 2009.<sup>85</sup>

That's the backdrop against which more than 100 corporations—the vast majority of them manufacturers—outsourced jobs from Minnesota to foreign countries between 2005 and 2010.<sup>86</sup> Minnesota's technology manufacturing jobs were hit especially hard, with hard drive maker Seagate sending hundreds of jobs to Thailand, Singapore and China;<sup>87</sup> hundreds of jobs for semiconductor component producer Entegris going from Minnesota to Malaysia;<sup>88</sup> and other similar cases.

## Ohio

It comes as no surprise that Ohio is among the states hit hardest by outsourcing. In the past five years, the state has suffered from nearly 300 TAA certifications stemming from jobs sent overseas by nearly 250 companies.<sup>89</sup> The toll of outsourcing, ongoing in Ohio for so many years, has focused the attention of local newspapers on the issue; the stories speak for themselves.

*Nationwide will eliminate 30 financial-service jobs at its Grove City operation and shift the work, mostly in the accounting field, to a company based in India.*

—*The Columbus Dispatch*, January 6, 2010<sup>90</sup>

*The Autolite division of Honeywell International Inc. is moving assembly of standard spark plugs to Mexico, and the first of an eventual 350 workers here who will lose their jobs will be laid off next month.*

—*The Toledo Blade*, August 9, 2007<sup>91</sup>

*A company that makes plastic containers says it will close its central Ohio plant and consolidate operations in Mexico, leading to the loss of more than 300 jobs.*

—*Associated Press*, February 10, 2009<sup>92</sup>

### Public Policy Alternatives to Restrain Offshoring

**T**he systematic outsourcing of massive numbers of American jobs to foreign countries is not an inevitable and inalterable result of economic forces. Rather, offshoring is driven by the decisions of corporate leaders drawing upon particular strategies adopted to maximize profits and is affected by government policies and economic development programs at federal and state levels. Restraining offshoring will require political leaders and corporate executives to step forward and take concerted action to rebalance America's stance toward international trade and choose to create jobs in the United States.

To tackle the problem of offshoring, the fundamental imbalance between the United States and the global economy must first be addressed. This goal can be accomplished by investing in America and restoring the competitiveness of our economy while steps are also taken to reform our flawed trade, currency and tax policies to level the global playing field.

### Chinese Currency Manipulation

In particular, our imbalanced trade relationship with China needs urgent attention and action. In support of its export strategy, the Chinese government has engaged in systematic and one-sided intervention in currency markets to keep its currency, the renminbi, approximately 40 percent undervalued with respect to the U.S. dollar. The Economic Policy Institute (EPI) has estimated that China's currency manipulation cost the U.S. economy as many as 3 million jobs.<sup>93</sup> The Chinese government has violated its international obligations with respect to workers' rights, human rights, currency manipulation, illegal subsidies and intellectual property rights, among other things. **The AFL-CIO has urged Congress**

**to introduce and pass a comprehensive trade bill giving our government the tools it needs to address the Chinese government's currency manipulation and illegal subsidies, strengthening our trade laws and their enforcement.**

Taking action to end currency manipulation will generate jobs and investments in the U.S. economy. Nobel Laureate Paul Krugman estimates that an end to such manipulation would produce a favorable net export shock to the United States, Europe and Japan, amounting to about 1.5 percent of GDP, stimulating the U.S. economy by about \$220 billion.<sup>94</sup> The Peterson Institute calculates that a 25 to 40 percent revaluation of Chinese currency would reduce the U.S. trade deficit between \$100 billion and \$150 billion annually, adding as many as 1 million jobs to the level of American employment.<sup>95</sup>

On September 29, 2010, action was taken by the U.S. House of Representatives, which passed the Currency Reform for Fair Trade Act (H.R. 2378), as amended by Ways and Means Committee Chairman Sander Levin, by a bipartisan vote of 348 to 79, attracting support from 99 Republicans. The legislation would grant new powers to the U.S. Commerce Department to levy countervailing duties (tariffs) against exports from China and other countries that have "fundamentally undervalued" currencies. This move has the potential to affect \$300 billion in products in 2010.<sup>96</sup> Sen. Charles E. Schumer said that similar legislation pending in the Senate will be considered after the November 2010 election.<sup>97</sup>

### Deferred Taxation on Overseas Profits

With less immediate success, the U.S. Senate also tackled the offshoring issue by focusing on one of its most egregious incentives: the ability of U.S. corporations to defer taxation on part of their profits made overseas. Under current tax rule, U.S. multinational corporations are permitted to postpone

their payment of U.S. taxes on most of their foreign earnings until those earnings are repatriated to the United States. These provisions encourage companies to continue investing in their overseas operations—especially in developing countries with low tax rates—rather than creating jobs in the U.S. In a 2003 report, the Congressional Research Service (CRS) confirmed that economic theory “is relatively clear on the basic incentive impact of the system: It encourages U.S. firms to invest more capital than they otherwise would in overseas locations where local taxes are low. ...Deferral poses an incentive for U.S. firms to invest abroad in countries with low tax rates over investment in the United States.”<sup>98</sup> When congressional investigators questioned the wisdom of these practices, they were told the American corporations were following the advice of an accounting firm that argued that “patriotism just has to take a back seat to profits.”<sup>99</sup>

Corporations, which have been borrowing widely from the bond markets to take advantage of low interest rates, now control \$1.6 trillion dollars in cash, funds that could be used to invest in American jobs. Yet current law makes “borrowing new money on the debt markets...cheaper than bringing its own money back from overseas,” according to Moody’s analyst Richard J. Lane, referring to recent practices of Microsoft.<sup>100</sup>

The deferral issue arose again on September 27, 2010, when the U.S. Senate debated the Creating American Jobs and Ending Offshoring Act (S. 3816), a bill that would close two tax loopholes and encourage companies to move their overseas jobs back to the U.S. The bill would end the practice of tax deferral of overseas earnings and eliminate the deductions that companies now receive when they close down American plants and move production to foreign locations. It would also provide businesses with a two-year break from paying their share of Social Security payroll taxes on wages of employees, as long as those wages were paid to workers performing services that were previously done in foreign locations. “For too long, the tax code has rewarded companies that shift our jobs overseas,” Sen. Barbara Boxer told her Senate colleagues. “U.S. companies have taken great advantage of this tax benefit, slashing workers, moving

production abroad and receiving billions in tax credits as a result. ...We need to reward companies that stay in America, that stay in California, that employ our American workers.”<sup>101</sup>

After a vigorous debate, the Ending Offshoring Act died in the Senate, unable to win the 60 votes necessary to overcome a filibuster threatened by its opponents. “A big reason for our employment crisis is that big corporations are moving good American jobs to China and Mexico and other low-wage countries,” Teamsters President Jim Hoffa commented. “Congress had a chance to help middle-class Americans in their daily lives by enacting this bill. I don’t see how the Senate in good conscience could recess without passing it.”<sup>102</sup>

Although the administration of President Barack Obama did not take a position on either of these specific measures in front of Congress, the president has supported reform of the deferral rules and eliminating tax loopholes that enable corporations to conceal their foreign income by shifting it from one offshore subsidiary to another. Measures to limit offshoring are part of a comprehensive package of tax reform formulated early in his administration.<sup>103</sup> In addition, he has spoken out against the outsourcing of American jobs to low-wage nations while proposing programs that will help to rebuild American manufacturing and create new jobs through a \$50 billion investment in rebuilding roads, railway lines, airport runways, the nation’s air traffic control system and other infrastructure resources. *Business Week* greeted his infrastructure plan as a “welcome relief amid unrelenting economic gloom” and predicted that a number of major construction and equipment manufacturers would benefit.<sup>104</sup> (*See Box 2 for Obama’s views on creating American jobs.*)

## State Actions to Limit Outsourcing

While federal government efforts to limit offshoring tend to attract the most intense scrutiny, a number of states have taken action to discourage public funds from being used to ship jobs to foreign locations. A 2006 study by the U.S. Government Accountability Office (GAO) discovered that 43

## BOX 2

### President Obama on Creating Jobs in the United States

This week, I proposed some additional steps to grow the economy and help businesses spur hiring. One of the keys to job creation is to encourage companies to invest more in the United States. But for years, our tax code has actually given billions of dollars in tax breaks that encourage companies to create jobs and profits in other countries.

I want to change that. Instead of tax loopholes that incentivize investment in over-seas jobs, I'm proposing a more generous, permanent extension of the tax credit that goes to companies for all the research and innovation they do right here in Ohio, right here in the United States of America. And I'm proposing that all American businesses should be allowed to write off all the investment they do in 2011. And this will help small businesses upgrade their plants and equipment and will encourage large corporations to get off the sidelines and start putting their profits to work in places like Cleveland and Toledo and Dayton.

We see a future where we invest in American innovation and American ingenuity; where we export more goods so we create more jobs here at home; where we make it easier to start a business or patent an invention; where we build a homegrown, clean energy industry—because I don't want to see new solar panels or electric cars or advanced batteries manufactured in Europe or Asia. I want to see them made right here in the U.S. of A. by American workers.

out of 50 states (and the District of Columbia) offshored services in one or more state-administered social service programs. State services were commonly offshored to call centers in India.<sup>105</sup> An earlier survey of state government programs by Good Jobs First found that outsourcing to foreign locations occurs in nearly every state, with at least 18 specialized firms positioning themselves in 30 states to capture some share of the government market by delivering services related to call centers and developing software applications to track data on participant eligibility. Researchers found that offshoring firms had captured at least \$75 million in state service work, though state officials often were not aware of exactly where the actual work was being performed because a domestic firm had obtained a contract and then offshored the labor to a foreign operation.<sup>106</sup>

The one-two, outsource-offshore process that sparked intense controversy a few years ago popped into public view once again over the delivery of services under the American Recovery and

Reinvestment Act of 2009, with dramatic consequences in Ohio. As of July 2010, the Recovery Act had stimulated the economy to create or retain about 3 million jobs, many in transportation (nearly 14,000 building projects) and the clean energy economy.<sup>107</sup> Business leaders have affirmed that Recovery Act dollars played an important role in their decisions to open advanced battery production factories, for example, in the United States rather than offshoring them to Asia.<sup>108</sup>

As federal money cascaded through the states, however, some of it flowed to unexpected places. To implement their allocation of a \$300 million federal appliance rebate program, the state of Ohio evaluated a number of bids and selected a Texas-based firm, Parago Inc., to handle calls from consumers about their rebate checks for ENERGY STAR appliances. Parago subsequently “near-shored” the work to a call center in El Salvador, which was exposed when a consumer asked about the work location of the person on the other end of the line. Although the state already had a policy against offshoring using

state funds, officials had not inquired about all the facilities operated by Parago.<sup>109</sup>

Determined to redouble the state's commitment to keeping jobs in the U.S., Ohio Governor Ted Strickland issued a strongly worded executive order banning the use of public funds for offshore services and strengthening the controls on future procurements. "The expenditure of public funds for services provided offshore deprives Ohioans and other Americans of critical employment opportunities," his order stated, and "undermines efforts to attract businesses to Ohio and retain them in Ohio, initiatives in which the state has invested heavily." Echoing other critics of the quality of offshoring services, the governor declared that "offshore service providers could pose unacceptable data security, and thus privacy and identity theft risks. There are pervasive service delivery problems with offshore providers, including dissatisfaction with the quality of those services and with the fact that services are being provided offshore."<sup>110</sup> The order mandated that any future contractors or subcontractors must disclose where their services will be performed.

## Looking to the Future

With public officials stung by incidents such as Ohio's accidental allocation of public funds to offshoring and the continued slow "jobless" recovery from the Great Recession, controversy over offshoring may be expected to continue. While government action and tax policies will have some effect on the extent of offshoring in the future, the future of this business practice may ultimately depend on the strategies adopted by corporate leaders and their willingness to recommit themselves to retaining jobs in their U.S. facilities. In this regard, there are glimmers of hope, with some corporations announcing plans to maintain U.S. production.

Despite the rancor caused by its move to Mexico, for example, Hershey Food Corp. has declared that the company will invest \$200–225 million in its West Hershey plant and devote another \$50–75 million in upgrading its administration and distribution facilities in Hershey; a portion of the

workforce from the older East facility will be transferred to the modernized factory.<sup>111</sup> In 2009, the NCR Corporation, which for years relied on plants in Singapore to produce parts for its automated teller machines, announced a new strategy to move production of its most sophisticated machines to a Flextronics facility in Columbus, Ga., near the company's innovation center. The head of NCR's global operations commented that he had been contacted by many other companies that were contemplating similar actions. "You'll see a lot more people returning manufacturing to America," the NCR executive predicted.<sup>112</sup>

Some corporate leaders have become disenchanted with offshoring and are urging their colleagues to change direction. At a West Point leadership conference, General Electric Chief Executive Jeffrey Immelt called upon U.S. firms to make more products at home and announced that the company would build two new plants in the U.S. to make high-density batteries and manufacture hybrid electric water heaters that were previously made in China.<sup>113</sup>

In a *Business Week* issue on "How to Make an American Job," former Intel CEO Andy Grove pondered the state of high-tech manufacturing in the U.S. and recounted the dangers of massive offshoring, which has broken the "chain of experience" that enabled electronic start-up companies to invent and commercialize high-technology tools, scale up their companies and train their domestic staff to productively manufacture final products. He points out, for example, that 250,000 employees of China's Foxconn company manufacture Apple products, while only 25,000 Apple employees work in the U.S. The American job machine has broken down, he argues, presenting the danger of an unstable, unequal society that "consists of highly paid people doing high-value-added work" facing off against "masses of unemployed."<sup>114</sup> He calls upon the private sector to work with government to "rebuild the industrial commons" and adopt a "job-centric strategy" to put America to work—accompanied by a levy on offshored labor that is deposited in a scaling bank for those firms committed to creating jobs in the U.S.



## CONCLUSION

One of the most critical components of the jobs crisis has slipped from view through the intentional subterfuge of corporations, combined with inadequate monitoring and data collection and a diversion of attention in the public arena. Yet workers across the country, especially in the heartland, are eager to point out what's hidden in plain sight.

This report and Job Tracker attempt to address that issue by creating a more complete picture of offshore outsourcing—from specific instances of jobs being sent overseas to the macroeconomic impact on the United States—so that we can bring real solutions to bear on the real problems.

The solution is not to blame the workers of other countries for accepting lower wages but to hold governments and multinational corporations responsible for instituting and maintaining

fair rules, acceptable safety and health standards, and living wages for working people around the globe. The U.S. government bears responsibility for restoring our economy through good jobs and manufacturing policies. Taking action against Chinese currency manipulation, strengthening and enforcing trade laws, ending tax deferral of overseas earnings and eliminating corporate tax deductions for closing American plants, and instituting or strengthening Buy America provisions in public spending are important steps to take in this regard.

Whatever specific steps are taken, though, the problem of outsourcing must be brought back to widespread public attention and discussion. Corporations should no longer be allowed to disguise the havoc they wreak on individual lives, local communities and the national economy.

## Notes

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