Senate Democratic Policy Committee Hearing

"Shipping American Jobs Overseas: A Hearing on the Bush Administration's Claim That Outsourcing is Good for the U.S. Economy"

Harris Miller

Information Technology Association of America

March 5, 2004

Good morning. I am Harris Miller, President of the Information Technology Association of America (ITAA), representing 400 companies involved in every aspect of the IT industry. I am delighted to participate in this important and timely discussion of offshore outsourcing and commend you for reaching out to multiple points of view and helping to bring some facts and rational analysis to what is often a very emotional issue.

I have five overall messages I want to leave with you today:

1. The global sourcing challenge (sometimes referred to as "offshoring" or "globalization") to US IT software and services companies is real.
2. However, the current situation and responsible future projections are not as dire as many of the inflammatory headlines indicate
3. The US IT industry has a large trade surplus with the rest of the world in IT services and a trade war in this area would be extremely harmful
4. Running faster and jumping higher is the path to success, not trying to throw artificial obstacles in the lanes of our opponents
5. We—including industry, academia, government, and IT workers—need to collaborate on a New Competitive Reality Program to identify and implement the best programs and policies to meet the global challenge to making US companies and workers more competitive

The multinational members of my organization know that fair competition opens incredible growth opportunities, many of them in developing economies. They also know what it means to have their way barred by unfair trade restrictions in foreign markets. To small IT companies, however, and to many IT workers, the meaning of global competition is not so obvious to business success and it may instead be quite alarming. That is why ITAA has been an "early and often" advocate for a better understanding of the offshore outsourcing phenomenon, including educational seminars we conducted across the country last fall. In fact, I made my first speech on this subject in 1997.

My members believe outsourcing—rather than trying to build and retain a substantial in-house capability-- remains the most effective strategy for conducting a wide variety of IT operations. "Outsourcing" is not necessarily "offshoring." Rather, offshore development and maintenance is a subset of outsourcing. The outsourcing provider may perform

services on shore, offshore, or in some combination of the two. The decision is based on a variety of factors, not the least of which is customer preference.

Outsourcing reduces cost, which in turn reduces prices. Reduced prices mean that more customers can enjoy the benefits of IT, including small and mid-sized companies that might not otherwise afford the capital investment. The move of computer manufacturing to global markets accounts for between 10 and 30 percent in the decline of computer prices.[1] This cycle of cost savings and price declines creates a wave of additional benefits for the economy, including lower inflation, higher productivity, enhanced GDP, more trade and, in the final analysis, more jobs at higher wages. We have seen the "tip of the iceberg" in terms of what IT can do for small businesses in America--and what it can mean for the creation of still more small businesses in America. And the U.S. is in some ways considered a "saturated" marketplace. When we talk about the opening of IT markets in the developing world, the possibilities are truly staggering. Perhaps this explains why the Bureau of Labor Statistics forecasts the need for those with computer-related skills outpacing overall job growth in the economy by a factor of three to one. And seven of ten fastest growing jobs between 2000 and 2010 are IT specific.[2]

Global sourcing is creating a new competitive reality for employers, employees, government agencies and academia in the IT services industry, just as it has in the manufacturing industry for decades. This phenomenon draws together numerous public policy threads, including trade and trade barriers, business immigration, education and training, global tax policy, employment, health care cost containment and stock options. As a growing number of countries create the resources to compete for global IT business, particularly the business located in this country, the U.S. information technology industry finds itself in the difficult position of responding to pricing pressure from abroad while assuring that the domestic talent pool--from which it has built a world class presence over 50 years--does not shrink to levels dangerous for its own technical and economic viability over the long term.

The challenge is economic and requires economic, not political, solutions. The U.S. cannot pass a law that assures economic prosperity for all. At the same time, however, to do nothing—as Bobby McFerrin sang, "Don't Worry, Be Happy"--is to risk U.S. competitiveness at home and overseas.

To retain preeminence in global markets, ITAA advocates a New Competitive Reality Program for the US IT industry that involves all key stakeholders—IT companies, customers, government officials, the education community, and workers. Such a Program requires 1) detailed analysis of the situation, 2) examination of various policy and programmatic approaches to address identified challenges, and 3) a plan of action to implement critical policies and programs. Such a Program, rather than legislative or regulatory solutions that would bar the outsourcing of state business to overseas companies or the use of foreign workers, is the way to preserve global competitiveness.

---

[1] Catherine L. Mann, Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth, International Economics Policy Briefs, December 2003.
[2] Bureau of Labor Statistics, *Occupation Outlook Handbook*

Lets talk about what this new competitive reality entails and how, as a nation, we must adjust our policy and business agenda to remain at the forefront.

First, understand that the trend towards offshore outsourcing is a cloud on the horizon, not a hurricane sweeping everything in its midst. We should keep our eye on how the weather pattern is changing over time, but we should not start boarding up our windows and stashing the patio furniture. The US IT industry is facing new challenges, but it is not disappearing.

Put the situation into perspective: Over 10 million Americans earn their living in the IT workforce. Nine out of ten these workers are employed by businesses outside of the IT industry—banks, law firms, factories, stores, and the like. Eight out of ten of these jobs are found in small businesses—the firms arguably least likely to seek a global solution or to attract a global solution provider. Even the most doom and gloom analysts predict that fewer than 500,000 computer-specific jobs will move offshore in the next ten years. That's five percent of the total, and such thinking wrongly assumes that cost savings will not be reinvested in new products, services, business expansion and, yes, jobs for Americans. Meanwhile, research that looks at white collar employment in IT intensive job categories like computer, mathematical, business and financial occupations finds the number of jobs between 1999 and October 2003 growing. [3]

Meanwhile, one need only look to the demographic census of the U.S. to understand that any current excess in availability of IT workers will quickly dissipate as baby boomers begin to retire. The U.S. workforce grew 54 percent between 1980 and 2000; during the next 20 years, growth in workers between the ages of 25 and 54 will be just 3 percent. [4] The likelihood that developing world countries will cultivate sufficient talent to do more than backfill unavoidable U.S. IT shortages seems remote.

If we have seen any storm at all, it has been the three year "perfect storm" of trends converging to depress the short-term demand for US IT workers: the dot.com bust, the telecom collapse, the recession and jobless recovery, and slow customer spending, domestically and globally, for new IT products and services. A mild depression in the need for IT workers has increased attention paid to the offshore outsourcing issue. Only a few years ago, we had virtually full employment in the IT industry. And if the economy improves and demand for domestic workers increases, we will see the super-charged emotional environment surrounding this issue begin to dissipate, too. Several data points put out by the US government and private sector analysts indicating that IT spending is increasing this year by several percentage points after two years of substantial declines. Precursor, a respected market research firm, pegs the up tick in 2004 corporate IT spending at 7 – 10 percent. [5]

---

[3] Catherine Mann
[4] Paul Kaihla, The Coming Job Boom, Business 2.0, September 2003.
[5] Precursor, Tech Demand Model, January 14, 2004

I do not mean to diminish or downplay the very real impacts of offshore competition to American IT workers or their families. Thousands of IT professionals have played by the rules: studied hard in school, worked long hours, made a sweat equity investment in the future of their companies…. only to find themselves now unemployed or underemployed. A more vibrant economy and greater capital spending by the private sector will greatly help these particular individuals. Not all of the current concerns, however, can be attributed to the economy, and we need to better understand this new competitive reality, using logic—not emotion—as our filter.

Lets look at the reality of the situation:

- Many large corporate customers in this country are demanding that offshore IT services be included in a competitive outsourcing bid.
- Some offshore service providers are delivering quality services at what many customers perceive to be a fraction of the cost.
- Offshore companies will compete for increasingly more sophisticated and complex IT work.
- While it may be emotionally satisfying to try to protect jobs by throwing up barriers, free trade and global markets spark new investment, trade and job creation.
- Productivity-enhancing technology innovations, products and services developed by American companies and workers are now being used by foreign firms to compete for American jobs.

We must respond to this new reality with a new spirit of competitiveness. To remain pre-eminent in global markets, U.S. IT companies must be the most globally competitive companies.

Competitiveness means education, training and retooling. The prominence of the U.S. IT industry in world markets is a testament to the technical prowess of U.S. IT workers. IT workers must have the skills and skill refreshment strategies necessary to generate value and compete successfully with global counterparts.

We must retain our commitment to free trade, open markets and liberalized trade in services. The fastest growing IT markets are not in the U.S. or Western Europe, but in the developing world. One of the few bright spots in the U.S. balance of trade is trade in IT services—currently a $7.9 billion surplus. To put it simply, we create many more jobs by selling abroad than we lose by buying from foreign markets. We must encourage countries to become not only sellers but also *buyers* of information and communications technology. Today, we have a surplus in services. By building bridges, not barriers, we will see, as Tom Friedman pointed out in a recent *New York Times article*, advances for trade in U.S. made computers, soft drinks, air conditioners and other products.

The new competitive reality demands new research and development investments. The role of innovation in building our economy cannot be overstated. Successive waves of innovation produced the microelectronics, personal computer and Internet revolutions.

Global spending for information and communications technology (ICT) has risen over $1 trillion in the last ten years, and this figure does not include the value of goods and services customers produced using these ICT resources. Because high tech research is very high risk, industry cannot go it alone. Many companies have cut into R&D budgets as they go to cut costs and downsize operations. The federal government can help address this situation and assure that R&D investments continue by creating a permanent R&D tax credit, by increasing Federal funding of IT for R&D across the board, and by funding the Cyber Security R&D Act.

Other important policy steps this nation can take to sharpen its competitive edge include:

Extending Trade Adjustment Assistance to workers in the services industries. In particular, we need to be sure that the federal government is doing enough to assist mid career individuals who, through no fault of their own, have lost jobs in response to market pressures. We do a great job of helping the highest-level professionals gain grants and other educational assistance and those most economically disadvantaged join or rejoin the workforce. We must not lose sight of those in the middle.

Controlling health care costs so that employers can afford to keep jobs in this country. Companies and employees should be focused on getting the job done, not keeping a lid on health care expenses. Too often, the rising cost of health care enters into the hiring decision. Health care should be an affordable employment benefit, not a major factor in a company's strategic staffing calculations. Health care costs are especially important for companies in the IT services industry where labor costs are critically important to competitiveness.

Striking an appropriate balance on the use of stock options. We have seen information technology go through repeated waves of innovation, market introduction and acceptance, integration and maturation. Entrepreneurs are critical to this hugely successful process. Because most small businesses start with little capital, stock options spell the difference between the entrepreneur with great ideas and the entrepreneur with great products and people. ITAA supports the approach put forward by Senator Reid that would balance the need for responsible corporate governance with the requirement of fast growing companies to provide stock options as an employee recruitment and retention incentive.

Assuring that our children have the math and science foundation to compete for tomorrow's high technology jobs. Kids begin to view math and science education as too difficult, too boring, or too irrelevant as early as the elementary school years. We need to work through public/private partnerships and other means to assure that entire populations of children are not crippled intellectually in their efforts to compete globally. With diversity continuing to be a challenge in the IT industry, more attention needs to be paid to the delivery of math and science education to African American, Hispanic and Native American children. [6]

---

[6] ITAA, Report of the ITAA Blue Ribbon Panel on IT Diversity, May, 2003

No matter how difficult, we must lead by example in global markets. Several legislative attempts at the federal or state level have attempted to create procurement requirements for domestically produced content or place limitations on the location of unclassified government work. I am disappointed that several legislators on both sides of the aisle have introduced what we believe are really bad bills in this area. They may make everyone feel good for a few minutes, but they hurt American workers, American companies, and American competitiveness. If enacted, these bills would undercut the U.S. position in global trade, shrink markets, add to the cost of doing business, raise prices, detract from productivity, and eliminate jobs in the name of saving jobs. I contrast these bills with the effort of Senator Max Baucus to create an affirmative program to respond to global competitiveness.

The displacement of workers is never easy, nor is the confusion created when companies adjust to changing consumer demand, price pressure and evolving technology. The human reaction to such perturbations is to act out rather than stay the course. In concluding my testimony, I make the following observations: the demographic census of the U.S. indicates that at any current excess in availability of IT workers will quickly dissipate as baby boomers begin to retire. To understand the full import of this and other trends, government, industry and academia must work together, in a program such as I described earlier, to build solid, clear-eyed and actionable business and policy models.

Lastly, we will also catch a new, market redefining technology wave. I cannot tell you whether it will involve nanotechnology or grid networking, light waves or power lines. I can tell you that waves of innovation have changed conventional thinking and the market prominence of juggernaut industry players several times in the last 50 years. I am confident this will happen again and America will once again be the beneficiary.

Voices of doom say the offshore phenomenon spells the end of white collar IT employment, as we know it. The adherents of Adam Smith say, "Don't worry, be happy." The answers lie somewhere in between. We must work together to find them.