A Special Report by the
Chamber of Commerce of the United States

Jobs, Trade, Sourcing, and the Future of the American Workforce

April 2004

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April 2004

Dear Reader:

As the debate over trade, jobs, and the sourcing of work overseas has unfolded, we are struck by how infrequently solid facts have been brought into the discussion. The result is a debate that has generated more heat than light.

To help change this, we offer this report, which attempts to lay out in a logical fashion what we know *and don't know* about the extent of and reasons for recent U.S. job losses, as well as the links between employment, trade, and worldwide sourcing.

What did we discover, and what can we conclude?

First, increases in productivity, the recent economic downturn, domestic business impediments, and continued uncertainty are the primary reasons for recent job losses and the slow pace of hiring—not the movement of work offshore.

Second, even with job losses in manufacturing and some service occupations, more Americans are working today than at any time in history. More than a half million payroll jobs have been created so far this year. The nation's employment machine is fundamentally strong, and trade is generating tremendous net benefits for the American people.

Third, even the experts don't know precisely how many U.S. jobs have been or will be sourced overseas. Yet under any estimate or forecast, these jobs amount to a small fraction of our nation's 138 million workforce.

Fourth, more white-collar office work is shipped *from* other countries *to* the United States than our country ships overseas. When it comes to trade in services, "insourcing" beats "outsourcing" by nearly $60 billion annually.

Fifth, media reports and political rhetoric aside, the nation's knowledge workers have not lost significant job opportunities to foreign competitors. The unemployment rate among Americans with a four-year college degree is just 2.9%.

Sixth, the recent extension of worldwide sourcing from manufacturing to white-collar IT jobs does not threaten America's technological leadership—yet our serious slippage in education and broadband application does.

Seventh, by the year 2010, we will not have a shortage of *jobs*, but rather a shortage of *workers.* We must expand the pool of available workers through education, training, immigration, and flexible workplaces in order to generate sufficient economic growth and the necessary tax base to support the coming avalanche of retirees.

Eighth, to create jobs, it is critical that America remains open to the worldwide economy—where 95% of our potential customers live. Isolationist measures designed to restrict trade and punish companies for sourcing must be defeated. We should, instead, open markets and enforce trade agreements; improve the skills of our workforce and expand the labor pool; modernize our transportation, energy, and technology infrastructure; and reduce legal, regulatory, tax, and health care costs.

In this report, you will see us visit the issues of demographics, education, immigration, entitlements, and legal, tax, and regulatory reform. What do these issues have to do with trade, jobs, and worldwide sourcing? Everything! All of these issues are connected.

As you review this report, you will see us visit the issues of demographics, education, immigration, entitlements, and legal, tax, and regulatory reform. What do these issues have to do with concerns over trade, jobs, and worldwide sourcing? Everything! In our view, a key shortcoming in the current policymaking process is the hastiness to make judgments and decisions in isolation. In fact, all of these issues are connected. They are part of the same equation and must be addressed on that basis.

From the continued threat of terrorism to the growth of global competition, our nation faces many external challenges. Yet America's greatest tests will come not from the outside world but from within. Will we preserve our economic freedom and our spirit of risk taking and enterprise, which set us apart from all other nations? Or will we build walls around our country and put bureaucrats in charge of our economy because we are afraid to compete?

The Chamber of Commerce of the United States is prepared to work with every business, worker, policymaker, and citizen who believes as we do that Americans are not afraid to compete, and that with the right policies we can outproduce any country in the world. The naysayers who wrote off the American economy in the 1970s and 1980s are at it again. They were wrong then—and they are wrong now.

Thomas J. Donohue
President and CEO

What's Inside

American Workers and the "Jobless Recovery"

Despite an improving economy, many Americans are concerned that we are in a "jobless recovery." Every day there seems to be new reports of layoffs and the movement of work overseas.

What are the facts?

The federal Bureau of Labor Statistics (BLS) measures total employment in two ways: (1) by surveying households and (2) by surveying companies and making a calculation according to their payrolls.

Looking at U.S. households:

- **More Americans are on the job today than ever before in history**—138.3 million. 978,000 more are working than were employed in August 2003.

Looking at payrolls:

- Approximately 1.8 million payroll jobs have been lost since January 2001, mostly in manufacturing and telecommunications. These losses continued even after the recession ended in November 2001, triggering talk of a "jobless recovery." Thanks to strong levels of consumer and business spending driven by recently enacted tax cuts, the picture has begun to brighten. **759,000 payroll jobs have been created since August 2003.**[1]

What accounts for the differences between BLS's two employment surveys? **Temporary workers have become the fastest-growing segment of the workforce.** These workers, along with consultants, independent contractors, and home-based business owners who would not show up in payroll surveys may explain some differences. However, Harvard Economics Professor Robert Barro concludes, "The main differences between the two surveys cannot be explained." Therefore, he reasons, "It seems best to weigh both when evaluating the recent performance of the labor market."[2]

More Americans are on the job today than ever before in history.

Other economists point out that even in the best years, the U.S. economy eliminates lots of jobs. For example, in the boom year of 1999, 33 million jobs were wiped out, while 35.7 million new jobs were created. Federal Reserve Board Chairman Alan Greenspan has indicated that **it is not unusual for 1 million workers to quit or be fired in a single week**, while another 1 million are hired.[3]

The government's official figures show a record level of employment in one survey and steady job growth in its other survey.

There has clearly been a **longer than expected lag** in payroll job expansion. Compared to previous downturns, business experts have discerned some differences in corporate hiring patterns following the most recent recession. They cite rapid productivity growth, rising health care and pension costs, the regulatory aftermath of recent corporate scandals, and continued uncertainties about the future as factors in either delaying or changing the nature of new hiring.

While no one should minimize the pain of those who have lost work, reports of massive job losses and flight are exaggerated. The government's official figures show a record level of employment in one survey and steady job growth in its other survey.

The Link Between Trade and Jobs

In a recent poll cited by the Office of the U.S. Trade Representative, 53% of the public believe that foreign trade has done more to hurt Americans than help. Just 39% believe that trade has done more to help. Many blame U.S. trade policies for recent job losses and the movement of work offshore.

What are the facts?

Ninety-five percent of the world's consumers live outside the United States. Just 5% live here. While we import more than any other nation, **we sell more goods and services abroad than any other nation.**

U.S. exports directly support an estimated 10 million jobs, including one in every five manufacturing jobs. Foreign direct investment in our country directly supports another 6.4 million jobs.[4]

Tens of millions of additional jobs are indirectly supported by two-way trade and America's participation in the worldwide economy.

Trade is big business for small business. **Ninety-seven percent of firms that trade are small or medium-size firms,** enterprises that historically create most of the new jobs in our economy.[5]

The nation's openness to the world economy creates jobs and wealth in other ways:

- **41 million foreign visitors** annually bring an estimated $82 billion to our communities and to one of our most vital industries, travel and tourism.

- **More than 500,000 foreign students** attend classes at colleges and universities across the nation, paying top tuition and infusing our higher education system with billions of dollars per year.

Working with the World
• Exports create 10 million U.S. jobs.
• 41 million foreign visitors spend $82 billion annually.
• Foreign investment directly supports 6.4 million jobs and millions more indirectly.

- Over the past decade, **the NAFTA and the Uruguay Round agreements have raised the standard of living** of the average American family of four by up to $2,000 a year, according to the Office of the U.S. Trade Representative.

The role global commerce plays in the livelihoods of Americans is so immense and pervasive that the total positive impact on employment is incalculable.

Some jobs are lost to trade. There are programs to help workers and communities that are hurt by trade and economic change. Last year, $1.3 billion was spent on the Trade Adjustment Assistance program to aid 200,000 workers. The American business community spends more than $60 billion annually on training and retraining.

According to the McKinsey Global Institute, **the vast majority of displaced workers are reemployed within six months.** Among the nations in the Organization for Economic Co-operation and Development (OECD), the United States has fewer employment protections enshrined in law—yet our rate of reemployment is twice that of our OECD counterparts.[6]

America has the most open markets in the world. While this has cost some jobs, it has created a vastly greater number of new jobs and many other benefits for consumers and society at large. Recent job losses, including the movement of some work overseas, have little to do with trade.

The Economy, Trade, and Main Street America

While they may acknowledge that overseas markets create some jobs, critics nonetheless argue that the emergence of a worldwide economy is causing a "race to the bottom" in pay and benefits that threatens the American middle class. They believe that global competition will continue to eat away at the living standards of average Americans in the future.

What are the facts?

Incomes are rising. Over the past year, real national income has grown 4.9%. Real income from wages and salaries has risen 2.1%.[7]

Household wealth is at a record level. Home ownership is at an all-time high—nearly 70% of Americans own their homes.

More than 50% of American households own stocks, which have **regained $3 trillion in value** since January 2003. Household wealth is at a record level. ***Home ownership is at an all-time high***—nearly 70% of Americans own their homes.

At 5.7%, the nation's unemployment rate is lower than the average rate during the seventies, eighties, and nineties. It is virtually the same rate as in 1996, when the nation's politicians and commentators were uniformly praising the state of our economy.

Despite rising costs, employers provide health insurance for 136 million Americans, retirement benefits for 83.5 million, and spend an average of $18,000 per employee for benefits.[8]

Among workers with a four-year college degree, the unemployment rate is just 2.9 percent.

America's knowledge workers continue to do well. The number of people in managerial and professional positions has risen by 1.5 million since 2000 to more than 47 million today. **Among workers with a four-year college degree, the unemployment rate is just 2.9%,** belying the notion that there is a mass exodus of white-collar jobs overseas.[9]

The outlook for near and long-term job and compensation growth looks good, with some fields—including information technology and health care services—forecast to expand payrolls significantly. According to the BLS, from 2000 to 2010 a net **22 million new jobs will be created** in the U.S. economy.[10]

While changing demographics will challenge our economy and society, **those in or soon to enter the workforce will be in an advantageous position.** The U.S. labor pool will age and narrow by 2010, with the number of jobs ***exceeding*** the number of available workers by an estimated 10 million.[11]

The latest economic indicators show that the American economy is fundamentally strong and growing stronger. The facts fail to support the notion that the American middle class is disappearing or that, due to trade, good-paying jobs are being replaced with lower-paid jobs. The cost and availability of health insurance are genuine concerns that must be addressed. However, most families persevered during difficult economic times and are now steadily building household wealth.

By 2010, the number of jobs will exceed the number of available workers by an estimated 10 million.

Worldwide Sourcing

For many years, companies have reduced overhead and increased efficiency through sourcing—across town, across state lines, and more recently across international borders. It is nothing new, but it is different and more widespread. The movement of some jobs, traditionally in manufacturing and more recently in services, has attracted the spotlight of the media and the focus of politicians.

Much of the ensuing debate has been conducted on the basis of emotions and confused definitions of what sourcing really is, rather than on hard facts and clear analysis. This has led many Americans to conclude that large numbers of both blue- and white-collar jobs in the United States are fleeing to other countries.

What are the facts?

No one really knows how much offshore sourcing of manufacturing and service jobs has occurred, though virtually all analysts agree that it is a relatively small portion of recent job losses and a minute fraction of total U.S. employment.

The manufacturing sector has been sourcing around the world for some 30 years, during which time our manufacturing output has doubled and the U.S. economy has created tens of millions of new jobs to easily compensate for any job losses. As for services, Forrester Research, the most widely cited source, estimates that about 300,000 jobs have been moved offshore over the last three years—a small percentage of recent job losses. Other studies "cluster around 300,000–500,000," according to economist and author Robert J. Samuelson.[12]

Along with sketchy statistical data, there is confusion over what constitutes worldwide sourcing.

The 2004 *Economic Report of the President* defines the practice of "offshore outsourcing" as the process by which "a company relocates labor-intensive service industry functions to another country."

This practice should not be confused with "domestic outsourcing"—the moving of jobs from either one domestic location to another or from in-house to a subcontractor. The report also suggests that **domestic outsourcing may cause much of the job displacement currently attributed to offshore outsourcing.**

This finding is echoed by Catherine Mann, a senior fellow at the Institute for International Economics: "When someone loses their job in California, it may appear in Bangalore or Wisconsin. ***Lots of jobs are moving within the U.S. economy."***[13]

Worldwide sourcing should also not be confused with investments and jobs American firms place overseas in order to sell products or serve customers in international markets. The objectives of these investments are different from those normally associated with sourcing.

The lack of firm data and definitions has been exploited by business adversaries to charge that U.S. corporations are "selling out" their employees and their country in order to access cheap foreign labor. In addition to the relatively small number of jobs moved offshore, this charge is refuted by the fact that **two-thirds of all the investments American companies make abroad go to the "high-wage" economies** of the European Union and Japan, indicating that wage differentials are not the primary consideration in most investment decisions.

The American business community's top investment priority continues to be America itself. **In 2002, U.S. companies invested $1.1 trillion in the U.S. economy compared to $120 billion abroad—nine times as much.**[14]

In 2002, U.S. companies invested $1.1 trillion in the U.S. economy compared to $120 billion abroad—nine times as much.

Sourcing has been going on for years as part of the normal maturation process of industry. Most occurs in the United States and therefore produces no net job losses for the nation. Most U.S. investments overseas are not for the purpose of sourcing but rather to enter lucrative foreign markets that create jobs back home. A growing number of foreign companies are sending jobs to the United States. Worldwide sourcing appears to have been wrongly blamed for recent job losses.

Sourcing and Manufacturing

Many Americans in service jobs fear the growth of global sourcing in their sector because they believe that the practice has "hollowed out" manufacturing and worry that history will repeat itself. U.S. manufacturing has indeed been shedding jobs for decades. Where have all these jobs gone, and does the United States still have a strong manufacturing base?

What are the facts?

Today, **American manufacturing is the most productive in the world,** doubling its output from $800 billion to $1.5 trillion in the past two decades. Still, this sector has posted these gains while cutting millions of jobs.

Where did these jobs go? Some blame the movement of jobs to countries like China and Mexico. Yet while sourcing has changed the manufacturing process, making it more efficient and productive, it is not the most significant factor in recent job losses. Dartmouth economics professor Douglas Irwin explains that the practice has "transformed manufacturing from vertically integrated production structures to highly fragmented ones. Fifty years ago, Detroit's River Rouge plant sucked in iron and coal at one end and spat out an automobile at the other. Now auto firms outsource component parts from a vast array of domestic and foreign suppliers."[15]

In fact, it is the intensive application of new processes and technologies, resulting in high rates of productivity growth, which explains much of the reduction in jobs. According to the Congressional Budget Office (CBO), **since 1979 the productivity of manufacturing workers has grown at an average annual rate of 3.3%,** significantly faster than the 2% productivity growth achieved in the economy overall.[16]

The United States is not alone. **During the period since 1995 when the United States shed 11% of its factory jobs, China lost 15% of its manufacturing jobs.** Japan, Brazil, and the European Union have also lost more of these jobs than the United States.

In one striking example of the impact of rising productivity on the workforce, a quarter of a century ago it took General Motors 454,000 workers to build 5 million cars and trucks. Today it takes 118,000 workers to make the same number of vehicles.[17]

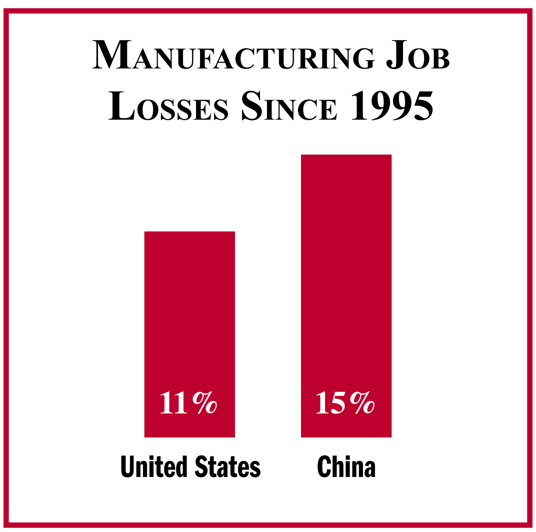
The recent domestic and global economic downturn has exacerbated job losses. The government reports a loss of 2.6 million manufacturing jobs between March 2001 and January 2004. However, the CBO cautions that this figure may overstate actual job losses because "manufacturers are increasingly using contract and temporary labor, which provides jobs that, in the past, would have shown up in the statistics as manufacturing employment but now do not."[18]

Government policies also bear some responsibility. According to a Manufacturers Alliance study, **American firms are at an 18% competitive disadvantage compared to our nine largest trading partners**—based on cost factors such as:

American firms are at an 18% competitive disadvantage compared to our nine largest trading partners.

- An out-of-control legal system costing $233 billion per year
- More than $850 billion in annual regulatory costs
- The highest corporate tax rates among our major competitors
- Spiraling costs for natural gas and uncertainty about future energy supplies
- Double-digit price increases for health insurance and other employee benefits.[19]

Explains the *U.S. News & World Report's* Mortimer Zuckerman: "The fuss over outsourcing must not be allowed to obscure the real reason for our disappointing job and wage numbers. It's productivity … Companies will simply not hire new staff until they have confidence that sales will increase faster than gains in productivity."[20]



Yet productivity gains have helped the economy and families overall. *Business Week* economists have calculated that rapid productivity growth over the past three years has added $220 billion to the nation's gross domestic product, holding down inflation and interest rates while boosting stock prices and home values, helping to bring household wealth to an all-time high.

Sourcing—and more specifically worldwide sourcing—accounts for only part of recent and longer-term job losses in American manufacturing. Where have the bulk of these jobs gone? Not to China or Mexico but to a "nation" called "Productivity."

Sourcing, Services, and Technology

Vast improvements in global telecommunications, the application of Internet technology, and the rising skill levels of workers in emerging economies have made worldwide sourcing in the service sector a practical option for many companies. With services accounting for more than 80% of our private sector economy and workforce, this has led to fears that white-collar workers will lose their jobs in magnitudes compared to manufacturing and that the nation will lose its technological edge.

What are the facts?

After its own review, *The Wall Street Journal* recently concluded: **"The truth is nobody knows how widespread the outsourcing phenomenon is or will become."**[21]

A widely cited study by Forrester Research estimates that about 300,000 jobs have moved since 2000. **Forrester projects the movement of 3.3 million jobs by 2015, which would amount to a yearly average from 2000 to 2015 of approximately 220,000 jobs out of a workforce of 138.3 million.**[22]

At-risk functions include telephone call centers, computer operator/data entry, business and financial support, paralegal and legal assistants, diagnostic support services, and accounting, bookkeeping, and payroll. Only 14% of the total will be in computer services.

In an estimated 70% of service jobs, sourcing is not even a factor due to the face-to-face contact or specialization of the work. In general, it is lower-paying jobs that have the greatest potential for movement.

Even with sourcing, domestic demand in certain fields requiring the use of technology will grow substantially by 2012, according to BLS. For example, the number of computer programmers is expected to grow by 15% and computer systems analysts by 39%. **Business leaders are concerned about where they will find qualified workers to fill these jobs.**[23]

India is in the spotlight because a majority of the recently moved service jobs have gone to that country. Yet the American job market for such jobs still dwarfs that of India. According to the Direct Marketing Association, the American telemarketing industry employs 6 million people. In India, the industry employs about 65,000. **The United States employs 10.2 million Americans in technology jobs (and millions more in jobs requiring the use of technology). India employs 650,000, about 6% of the U.S. industry.**

Technology-based jobs are slated to increase in the coming decade.

Experts also agree that sourcing itself will change and mature. The practice will find its own limits. India's current cost advantages will not last forever. Competitors from Vietnam to Ghana to Romania have already emerged. **The sourcing deals of the future will become smaller and more specialized**. Smaller vendors will have opportunities to compete in specialized niches, opening new lines of business for many U.S. firms.

Worldwide sourcing in the technology and service sectors is increasing, though its impact on American jobs is overstated. While some workers not previously vulnerable to global competition have reason to be apprehensive, technology-based jobs in the United States are slated to increase in the coming decade. There is little evidence of any significant "hollowing out" of "knowledge" occupations.

Can Americans Benefit from Worldwide Sourcing?

Growing as a business option, can worldwide sourcing in services benefit Americans? As a vigorous debate has erupted in politics and the media, there is an emerging body of analysis suggesting economywide benefits.

What are the facts?

Business leaders believe, and most economists acknowledge, that sourcing allows firms to focus on inventing new products and services, making them more successful, competitive, and profitable. Companies pass these benefits on to consumers, employees, investors, and government tax coffers.

An analysis by the Institute for International Economics' Catherine Mann calculates that worldwide sourcing in the information technology sector—first in hardware and later in software and services—has reduced the cost of IT, hastening the infusion of its productivity-enhancing benefits throughout our economy and generating an additional $230 billion in U.S. GDP growth from 1995 to 2002. She explains:

"In the 1990s, some IT hardware production was offshored, taking jobs abroad. But when the components—disc drives, modems—came back to the U.S., they were 10%–30% cheaper. **That meant that many more U.S. businesses could afford to buy computers and use them to produce more of their products better, leading to more jobs in the U.S., especially for workers with IT skills who knew how to use computers."**[24]

> THE MOVEMENT OF SOME SERVICE JOBS "IS PROBABLY A PLUS FOR THE ECONOMY IN THE LONG RUN ... OUTSOURCING IS JUST A NEW WAY OF DOING INTERNATIONAL TRADE."
>
> Gregory Mankiw, chief economist to President George W. Bush
>
> "BASICALLY I AGREE WITH GREG'S THRUST. IN THE LONG RUN, OUTSOURCING IS ANOTHER FORM OF TRADE THAT BENEFITS THE U.S. ECONOMY BY GIVING US CHEAPER WAYS TO DO THINGS."
>
> Janet Yellen, chief economist to President Bill Clinton
>
> *Source:* The Wall Street Journal, *February 12, 2004*

In his article "Outsourcing—Stains on the White Collar?" Jacob Kirkegaard echoes Mann's findings, calculating that **a loss of 70,000 computer programmers since 1999 was more than offset by a gain of 115,000 higher-paid computer software engineering jobs during the same period.**[25]

A recent report from the McKinsey Global Institute estimates that **every dollar of costs the United States moves offshore brings America a net benefit of $1.12 to $1.14** (in addition to the benefit to the country receiving the investment). Projecting a net savings to the American economy of $390 billion by 2010 due to sourcing, McKinsey reasons that as low value-added jobs go abroad, labor and investment can switch to jobs that generate more economic value.[26]

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Sourcing also creates export markets for U.S. firms. After visiting an Indian customer call center, *The New York Times* columnist Thomas Friedman writes: "Look around the office. All the computers are from Compaq. The basic software is from Microsoft. The phones are from Lucent. The air-conditioning is by Carrier, and even the bottled water is by Coke ... This explains why, although the U.S. has lost some service jobs to India, total exports from U.S. companies have grown from $2.5 billion in 1990 to $4.1 billion in 2002. What goes around comes around, and also benefits Americans."[27]

The evidence is mounting that worldwide sourcing, while painful to affected employees, will produce net benefits to Americans in terms of higher productivity, lower prices, better jobs, new export markets, stronger companies, and higher stock prices.

Insourcing—The Best-Kept Secret in the Outsourcing Debate

One of the best-kept secrets in the outsourcing debate is insourcing—all the services work that foreign companies and countries hire Americans to do. In addition, tens of millions of jobs are directly and indirectly created by foreign investment, illustrating the enormous stake Americans have in keeping our markets open and free.

What are the facts?

In 2003, the United States enjoyed a surplus in services trade of nearly $60 billion. This suggests that our nation gains more from open trade in services than other countries, and we have more to lose if worldwide sourcing were to be restricted.[28]

Foreign investors have pumped hundreds of billions of dollars into our capital markets, keeping interest rates low and fueling our economy with needed investment capital.

Foreign direct investment in the United States doubled in 2003 over 2002. It now exceeds $487 billion and supports 6.4 million jobs in the United States. This does not include tens of millions of people who work at companies that supply parts, materials, marketing, and sales services to foreign-owned firms.

> "Despite the political outcry over the outsourcing of white-collar jobs to such places as India and Ghana, the latest U.S. government data suggest that foreigners outsource far more office work to the U.S. than American companies send abroad."
>
> *The Wall Street Journal*, March 15, 2004

Examples of jobs created in the United States by foreign companies include:

- ***Honda***—24,000 American jobs
- ***Nestle***—43,000 American jobs
- ***Siemens AG***—65,000 American jobs
- ***Sony***—22,000 American jobs
- ***Nissan Motor Co.***—15,000 American jobs

- ***Robert Bosch GMBG***—25,000 American jobs

- ***BASG AG***—13,700 American jobs

- ***170 Indian IT companies***—60,000 American jobs.[29]

The benefits extend far beyond direct employment. Consider the example of Toyota:

Case Study—Toyota and American Jobs

- Toyota Motors directly employs more than 30,000 Americans. Its direct payroll in the United States is $2.1 billion annually.
- With dealers and suppliers added, the company is responsible for 189,000 American jobs.
- Dealers have invested $10.1 billion in the United States to support sales and service of Toyota products.
- Purchases of parts and materials for production is $15.2 billion annually from 35 states, plus another $4 billion overall in U.S. goods and services.
- This adds up to more billions than our nation spends on the NASA space program.

Source: Toyota Motors Corporation

All told, U.S. subsidiaries of foreign firms have a total U.S. payroll of $350 billion and pay $28 billion annually in federal taxes.

Foreign direct investment accounts for a significant share of private sector jobs in many states: 9.1% in Hawaii, 8.8% in South Carolina, 8.3% in Connecticut, 8.1% in New Hampshire and Delaware, and more than 5% in many others.[30]

In 2003, the United States enjoyed a surplus in services trade of nearly $60 billion.

"I know they [TATA—the Indian consulting firm] outsource jobs, but they've brought jobs to Buffalo. You know, outsourcing works both ways …"

Sen. Hillary Clinton (D-NY) in debate with* Moneyline's *Lou Dobbs, CNN 3/3/04

Will Restrictive Measures Save Jobs?

Opponents of outsourcing argue that if we prevent sourcing, we will have more jobs and more purchasing power to support our domestic economy. They are proposing state and federal laws to discourage the practice. Sourcing supporters say that this approach will raise taxpayer and consumer costs, trigger retaliation, and deny companies and workers the opportunity to remake themselves in order to compete in a worldwide economy.

> "Outsourcing does not reduce jobs in America. If other countries can do something cheaper, we ought to let them do it, and concentrate on what we do best."
>
> Former Clinton Labor Secretary Robert Reich
>
> *Source:* The New York Times, *February 15, 2004*

What are the facts?

About 80 bills have been introduced in some 30 states and in Congress. Measures include stringent notification periods for jobs that are moved, restrictions in the government contracting process, and requirements that call center operators identify their location.

An amendment by Sen. Chris Dodd (D-CT) was successfully attached to the Senate version of a tax bill designed to correct WTO-illegal provisions in the U.S. tax code. It would ban, with some exceptions, the use of federal funds for work performed offshore. It would also withhold funds from states if they were to be used for offshore work.

Taxpayer "watchdogs" believe that such measures will lead to **less competitive bidding and higher costs for taxpayers.** For example:

- In Indiana, a bid that was $8.1 million *less* than the next competitive bid was rejected because TATA, the Indian consulting firm, would have used some Indian workers on the project. ***Taxpayers spent an estimated $162,000 per local job saved.***

- ***North Carolina lawmakers agreed to spend $1.2 million to hire 34 call center workers in state to replace contracted workers in India*** to answer questions about the food stamp program. The workers will be paid $27,000 a year, and the state will have to keep paying its India contract for another year and a half.[31]

Meanwhile, the recently enacted **national "do not call" legislation**, which severely restricts telemarketing, could eliminate ***2 million U.S. telemarketing jobs***—**suggesting that the restrictive policies of government, not our companies' participation in the worldwide economy, pose the real threat to American workers.**

> **BUSINESS OR GOVERNMENT—**
> **WHO'S PUTTING JOBS AT RISK?**
>
> **250,000**
>
> **Estimated call center jobs outsourced worldwide by U.S. corporations** *(source: CBS News)*
>
> **2,000,000**
>
> **Estimated telemarketing jobs to be eliminated due to federal "Do Not Call" legislation** *(source: Direct Marketing Association)*

Denying contracts to firms that source worldwide could prompt many to drop out of the bidding process, creating a special class of companies who don't source so that they can do business with government—leading to less competition, higher prices, and lower standards of performance.

The risk of retaliation is a serious concern. While Congress and the states have been considering service trade barriers, Hewlett-Packard was awarded a $150 million contract by a state-run Indian bank. India's largest private telecommunications company recently announced that it would outsource $750 million of services to IBM. These deals add to our large surplus in services trade—sales that could be put at risk if countries were to impose barriers similar to those under discussion in the United States today.

Sourcing opponents also seek to discourage the practice through means beyond contracting. Sen. Tom Daschle (D-SD) has a bill to expand the required 90-day advance notice for plant closings and layoffs to the transferring of work offshore that involves 15 or more employees. This would discourage the hiring of permanent workers and move us closer to the highly regulated employment systems of France (9.3% unemployment) and Germany (9% unemployment).

Such measures would also impair the competitiveness and attractiveness of the American economy. "Consider what would happen if Congress restricted companies from shifting overseas. Because rivals in Europe, Japan, and Korea could employ cheaper workers in developing nations, they'd have a leg up on U.S. firms. Foreign investors would recognize that rising U.S. protectionism makes U.S. companies less competitive and would choose to take their yens and euros elsewhere …" explains technology writer Declan McCullagh.[32]

Perhaps in recognition of such serious consequences, state legislatures in Colorado, Virginia, Indiana, Nebraska, South Dakota, and New Mexico have recently deferred consideration of punitive bills.

Less sourcing could mean less efficient, less productive, and less profitable companies.

There is ample evidence that regulatory efforts to stop worldwide sourcing represent a retreat to economic isolationism that would raise prices for consumers and taxpayers, trigger retaliation from trading partners, and allow competitors to steal our markets and global opportunities. Less sourcing could also mean less efficient, less productive, and less profitable companies, robbing the nation of seed capital for innovation and job creation.

The Coming Worker Shortage and Entitlement Crisis

While politicians and the media are focused on the unemployed and the loss of some U.S. jobs, which are legitimate concerns, most are ignoring a far greater threat to our prosperity—the aging of our population and the decline of our education system, which together will produce a serious worker shortage in the United States.

These demographic changes raise the specter of the financial collapse of entitlement programs. Efforts to address these challenges through better education and training, more immigration, and entitlement reform have been met with fierce political resistance and a lack of urgency.

The aging of our population and the decline of our education system will create a serious workforce ***shortage***.

What are the facts?

Between 2000 and 2010, the U.S. labor force will grow 12%, while the number of jobs will grow 17%. This calculates to a 10 million worker shortage.[33]

We already have worker shortages in some categories, including health care providers (especially nurses and medical technicians), auto mechanics, and truck drivers. Construction firms, home remodelers, and security firms are also looking for workers. More than 2 million teachers will be needed by 2010.

The nation's population is aging rapidly and the number of retirees will soon explode. Commentator George Will reminds us that 77 million baby boomers will begin retiring in 2008. By 2020, America's population will be older than Florida's is today. Our population will go up 18%, while retirees will increase by 100%.[34]

The United States is not alone. The Population Division at the United Nations estimates that by 2050 the number of people worldwide over the age of 60 will reach 2 billion, triple the level of 2000.[35]

The Emerging Worker Shortage in the United States

167,754,000	**Job openings by 2010**
-157,721,000	**People to fill those jobs***
10,033,000	**Worker shortfall**

*** Note: Many available workers are not qualified to perform the duties required by those jobs available now, let alone what those jobs will become in the future.**

Source: BLS Research, 2001

Given these demographics, two responses assume prime importance—***better education and training*** to boost the productivity of each employee and **more immigration** to enlarge the pool of workers. We must also create flexible workplaces to convince older Americans, the disabled, and others to join and remain in the workforce.

In 1950, 80% of jobs were classified as *unskilled*; today about 85% are classified as *skilled.* Almost 80% of today's jobs require some postsecondary education and training, and 80% of the top 50 fastest-growing occupations will require education beyond high school.

There is troubling evidence that we are failing to meet these educational needs. **An estimated 25% of America's young people don't even complete high school.** According to the National Center for Education Statistics, U.S. eighth graders ranked 19th in math, behind top competitors like Singapore, South Korea, Taiwan, Hong Kong, and Japan. By the end of the 1990s, **more than one-third of job applicants lacked sufficient reading and math skills** to do the jobs they sought—up from 19% a few years earlier.[36]

Meanwhile, our competitors are moving fast to bolster the skill levels of their workers. In 2002, **60,000 engineers graduated from U.S. colleges, but China and India graduated five times that many.** Twenty-eight percent of our own Ph.D. graduates in science and engineering are foreign born.[37]

Immigrants already make up 14% of the American workforce, and we will need more of these workers in the future. Naturalized citizens and an estimated 10 million undocumented workers make substantial contributions to the U.S. economy and tax base. **Immigrants pay more than $70 billion in taxes per year,** while using an estimated $13.1 billion in federal welfare benefits. Undocumented workers pay an estimated $10 billion a year in income and in Social Security taxes annually.[38]

Immigration is needed to support the payroll tax base that underpins the nation's entitlement programs.

Immigration is also needed to support the payroll tax base that underpins the nation's two major public entitlement programs (Social Security and Medicare) as well as private pension and health plans.

In 1940, there were 42 workers for every Social Security recipient. Today there are 3.2 to 1. In 2030, the ratio will be just 2.2 to 1. Medical costs have been rising faster than our economy since 1963.

A new report by the trustees of the Medicare and Social Security programs concludes that the programs will eventually need twice as much money as previously estimated. By 2018, Social Security expenditures will start exceeding revenues. By 2044, there will not be enough money to pay promised benefits. The financial squeeze facing Medicare will come even sooner, according to its trustees. The program's expected insolvency date, which was 2030 just two years ago, has been moved up to 2019.

In 1950, 80% of jobs were classified as ***unskilled***; today about 85% are classified as ***skilled***.

The gap between the cost of promised benefits and anticipated revenues to pay for them could be as high as $50 trillion over the next 75 years.[39] Our major allies and business partners are in the same fix—or worse. By the year 2040, public benefits to the elderly 60 and over as a share of GDP will rise to 20% in the United Kingdom; between 20% and 25% in the United States, Canada, and Sweden; between 25% and 30% in Germany, Japan, and France; and between 30% and 35% in Italy.[40]

While workers dislocated by economic change deserve concern and help, the real challenges to our workforce and standard of living differ greatly from those under discussion today. We will soon have too few workers for too many jobs, an exploding retiree population without a viable plan to support them, an inadequate education system at a time when education is more critical than ever, and a resistance to solving part of these problems with more immigration, even though we are a nation of immigrants.

Conclusions

Based on the facts and analyses reviewed in the preceding pages, what conclusions should we draw, and what plan of action should we pursue to strengthen our economy and create jobs? Our key findings include the following:

The American economy is in a period of transition, not crisis.

Higher productivity, the rapid application of technology, and vast improvements in global telecommunications—producing what the *Economist* magazine calls "the death of distance"—are causing painful changes for some workers but will boost the wealth and living standards of Americans overall.

We are already seeing these benefits. Employment is growing, not shrinking. Compensation is rising, not falling. Consumer and household wealth are at record levels.

Americans still have the strongest economy in the world, the most productive manufacturing sector in the world, and retain leadership in innovation, high technology, and service industries.

As is true for trade overall, worldwide sourcing in services brings more business and jobs to the United States than it carries away from the United States.

This is evidenced by our nearly $60 billion surplus in services trade. The 6.4 million American jobs directly created by foreign investors, along with the tens of millions of jobs they indirectly support, further illustrate the benefits of a nation that is open to the world.

The use of worldwide sourcing in services and IT by U.S. companies is growing, but its impact on U.S. jobs now and in the future is overstated.

Definitive statistics currently do not exist, but the most widely accepted forecast that 3.3 million jobs will be sourced offshore by 2015—in an economy that employs 138.3 million—suggests there is no cause for panic.

Some Americans will lose their jobs to sourcing. Business and society have an obligation to help these workers. But left unfettered, sourcing will enable American companies to grow stronger and more competitive, remaking themselves in an economy that is worldwide in order to create better, higher-paying jobs here at home.

The growth of worldwide sourcing in both manufacturing and services should send the nation a wake-up call, but not the call being heard today by politicians and media commentators.

The real challenges facing American workers and companies rest not in the global application of a long-standing business process like sourcing, but rather in our own policy failures that are driving up the costs of job creation and dumbing down the skill levels of our workforce.

Domestic business costs have risen sharply. Education and training have slipped badly. Compared to our major competitors, we are producing more lawsuits against companies and fewer engineering graduates in our workforce. We must change this equation.

The emerging workforce challenge facing our nation is not too few jobs for too many workers, but rather too few workers for too many jobs.

In addition to better education and training, we need more immigration, not less; more visa programs for certain skill sets, not less; more flexibility in work rules, not more bureaucratic restrictions. These policies will be central in addressing a potential $50 trillion unfunded liability in entitlements facing our aging nation over the next 75 years. The greatest level of compassion we can show the workers and retirees of today and tomorrow is to reform these programs in a reasonable way now or face drastic tax increases and benefit cuts later.

The road to economic isolationism must be rejected.

Bureaucratic measures designed to shut markets and restrict sourcing will raise prices, damage our ability to compete, and trigger retaliation that will cost us valuable export markets and all the jobs they create. In the midst of economic change, we Americans have an opportunity to control our own destiny. We don't need to lock out reality or put the bureaucrats in charge.

The Chamber's Action Plan

The U.S. Chamber believes that the common interest of the American people is to create a prosperous economy with jobs, growth, and opportunities that are broadly distributed and can be sustained in the face of an aging society, a shrinking pool of workers, and an economy that is worldwide. To build and sustain such an economy, we recommend and will vigorously work for the following actions:

1. ***Remove domestic impediments to job creation.*** Instead of making it ***more*** expensive to source work overseas, policymakers should be making it ***less*** expensive to create and keep jobs here.

   - Litigation costs our economy more than $233 billion and regulations cost our economy more than $850 billion per year.
   - We have an antiquated tax system that puts American companies at a global disadvantage.
   - Our electricity grid is inadequate. Our energy supply, particularly natural gas, is vulnerable to price spikes and disruption, which has already forced some manufacturing plants in chemicals and other industries out of the country.
   - Our transportation system is overburdened and in disrepair. We are falling dangerously behind in the application of broadband technology.
   - We need legal, regulatory, and tax reform. Our transportation, energy, and technology infrastructure must be expanded. Our health care delivery system must be modernized, with an emphasis on incentives and assistance for individuals to purchase their own coverage and carry it with them throughout their working lives. Public and private pension reform is needed as well.

2. ***Provide greater and more effective assistance to Americans whose jobs have been lost to trade and sourcing.***

   - Congress should utilize the reauthorization of the Workforce Investment Act as a vehicle to direct more funds to retraining and to strengthen local workforce investment boards so that they are better equipped to design programs that target impacted segments of the workforce.
   - Education and training tax credits for businesses should be enacted along with the permanent extension of Section 127, which excludes the cost of employer-provided training from employee taxable income.

- Personal reemployment accounts of up to $3,000 should be created with workers keeping the unused balance if they find jobs within 13 weeks.
- Possible gaps in the Trade Adjustment Assistance program should be addressed.

3. ***Reform and expand education and training.*** As some jobs are sourced worldwide, our economy will create even better jobs if we expand investments in education, training, and retraining. The lower unemployment rate and higher pay among the college-educated prove that education is the key to economic success, individually and as a nation.

    - The business community, which spends more than $60 billion per year on training, must be invited to play an integral part in government-funded job training programs at the local, state, and federal levels. The Workforce Investment Act must be improved to involve local businesses more directly in job training.
    - We should also provide world-class education by fully funding the No Child Left Behind Act; make math, science, engineering, and technology education a national priority; remove barriers that limit adult participation in higher education; strengthen vocational-technical education; and expand support for community colleges.

4. ***Spur Innovation and Basic Research.*** Americans have always come out on top following periods of economic transition because of our leadership in innovation.

    - We should make the R & D tax credit permanent, increase funding for basic research, and create streamlined visas that allow international students getting advanced degrees in the United States to work here.
    - Congress should support tax policies that enable our companies to repatriate overseas funds so that they can be put to productive use here and should end lawsuit abuse and regulatory excess.

5. ***Open Markets and Level the Playing Field.*** We have the most open markets in the world. We must continue to convince other nations to open theirs.

    - We should negotiate more free trade agreements while strictly enforcing existing ones. The United States is far behind in this regard. The European Union has 32 free trade agreements in force; we have just five.
    - Intellectual property rights must be protected, and a major worldwide effort to stop counterfeiting should be implemented.

6. ***Reform immigration rules.*** With a shrinking pool of available workers and impending workers shortages, legal immigration should be expanded.

    - Congress should pass immigration reform that creates guest worker programs, establishes an earned pathway to legalization for undocumented workers, and expands H1-B visas and other visa programs to meet specific skill shortages.

7. ***Modernize entitlement programs.*** The health and retirement security of Americans will continue to erode without reform. The price of inaction will be devastating to the U.S. economy and to the social fabric of our nation.

    - A private investment component for younger workers should be added to Social Security; more choice, flexibility, and private plan competition should be added to Medicare.
    - Tax credits and other incentives should be provided to individuals and small businesses to underpin and expand private pensions and health insurance.

Concluding Thoughts: Reject Economic Defeatism

Throughout our history, Americans have emerged from periods of economic transition stronger and more productive because our response has been to climb the next rung on the ladder of economic innovation and to invent new products, services, and industries.

Will this be our response today? Federal Reserve Board Chairman Alan Greenspan comments:

> Foreign competitors and trading partners cannot defeat the United States. Only the United States can defeat the United States.

"Disoriented by the quickened pace of today's competition, some in the United States look back with nostalgia to the seemingly more tranquil years of the early post-World War II period, when tariff walls were perceived as providing job security from imports. Were we to yield to such selective nostalgia and shut out a large part, or all, of imports of manufactured goods and produce those goods ourselves, our overall standards of living would fall ... I remain optimistic that we and our global trading partners will shun that path."[41]

As we probe our weaknesses, it's easy to overlook our unique strengths. In the words of *The New York Times* columnist Thomas Friedman: "America is the greatest engine of innovation that has ever existed, and it can't be duplicated anytime soon."[42] *The Wall Street Journal's* Alan Murray supports this view: "America has a genius for reinventing itself. We have the most flexible economy in the history of the world. Yes, we allow companies to freely outsource their payroll departments and software operations to Bangalore, India. But that frees American workers to concentrate on new, cutting-edge activities."[43]

As long as we maintain our economic freedom, remove impediments in our economy, and invest in the training and technologies we need to be more productive, we will climb the ladder again and emerge from the current change stronger than ever. The aging of our society and the shrinking of our workforce make it all the more imperative that we succeed.

Some individuals and communities will be adversely affected by this change. Government assistance must be extended and expanded where appropriate.

Isolationism won't work. Putting the bureaucrats in charge won't work. The better solution is job retraining to help people start a new career and to make sure that our companies have the incentives, the open markets, the level-playing field, and, most importantly, the freedom and flexibility to remake themselves and succeed in the worldwide economy.

Foreign competitors and trading partners cannot defeat the United States. Only the United States can defeat the United States—by making the wrong choices at this critical crossroads in history.

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