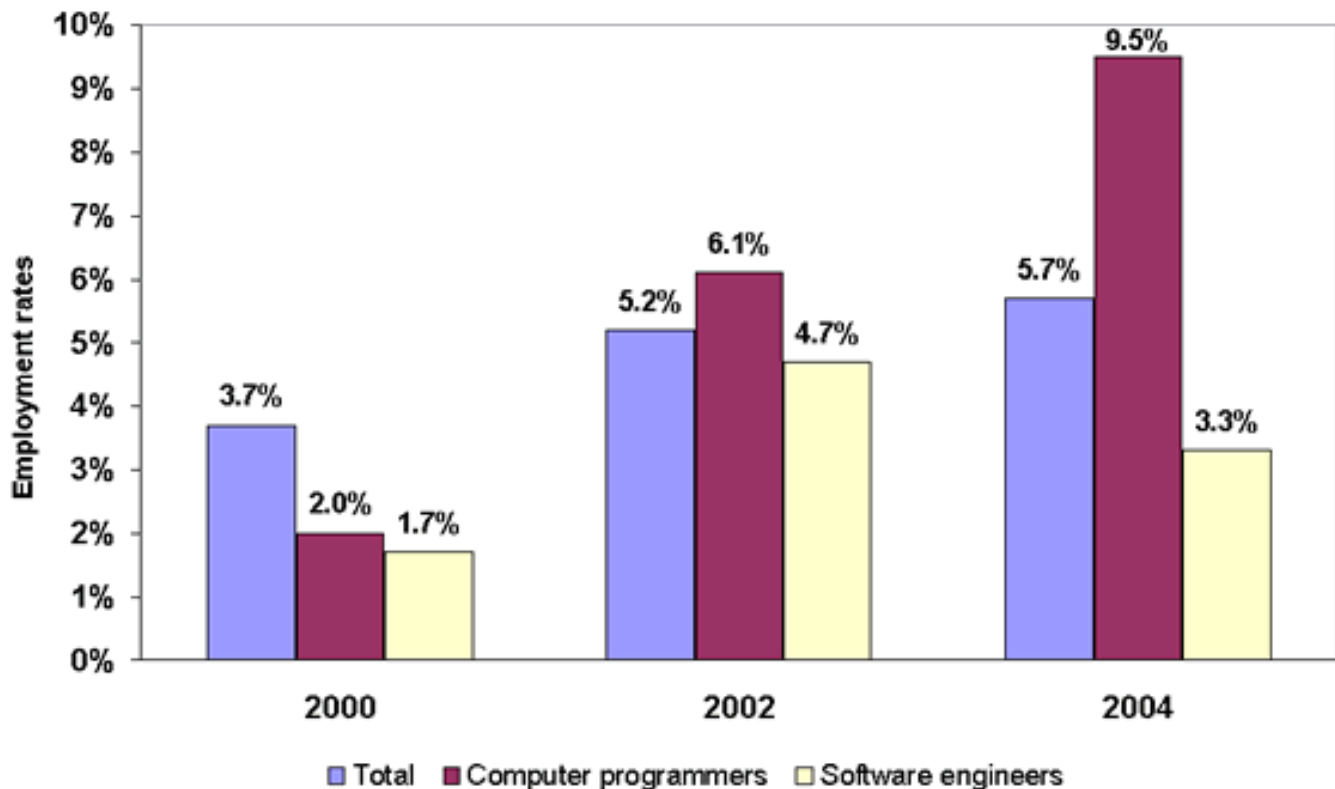


## An Offshore Wind

Every time I happen to catch Lou Dobbs on CNN, he seems to be railing about the “exporting of America.” The headlines in my local business paper frequently are bemoaning the fact that our “job loss recovery” is due to our jobs being outsourced or off-shored to other countries. Invariably, this situation is being portrayed as incontrovertible fact, with only negative consequences, and no end in sight. That, of course, makes me a bit suspicious. So I tried to dig around and find out for myself what is happening. I found that indeed there is a trend to offshore outsourcing. But job loss is much more complex than simply that one trend. Here is what I’ve found out after many months of reading and searching.

First, how significant is the “off-shoring” of our work? And why is it a problem now? Conventional wisdom would have us believe that the off-shoring movement is new, critical, and is the cause of no new jobs in our country. But in fact, when we look at the numbers, things are not nearly that clear cut. Here is some of the data:

**Figure 1: Unemployment rates by selected occupations**



Source: Bureau of Labor Statistics (BLS).

It would seem that as long as job loss was centered around the “blue-collar”

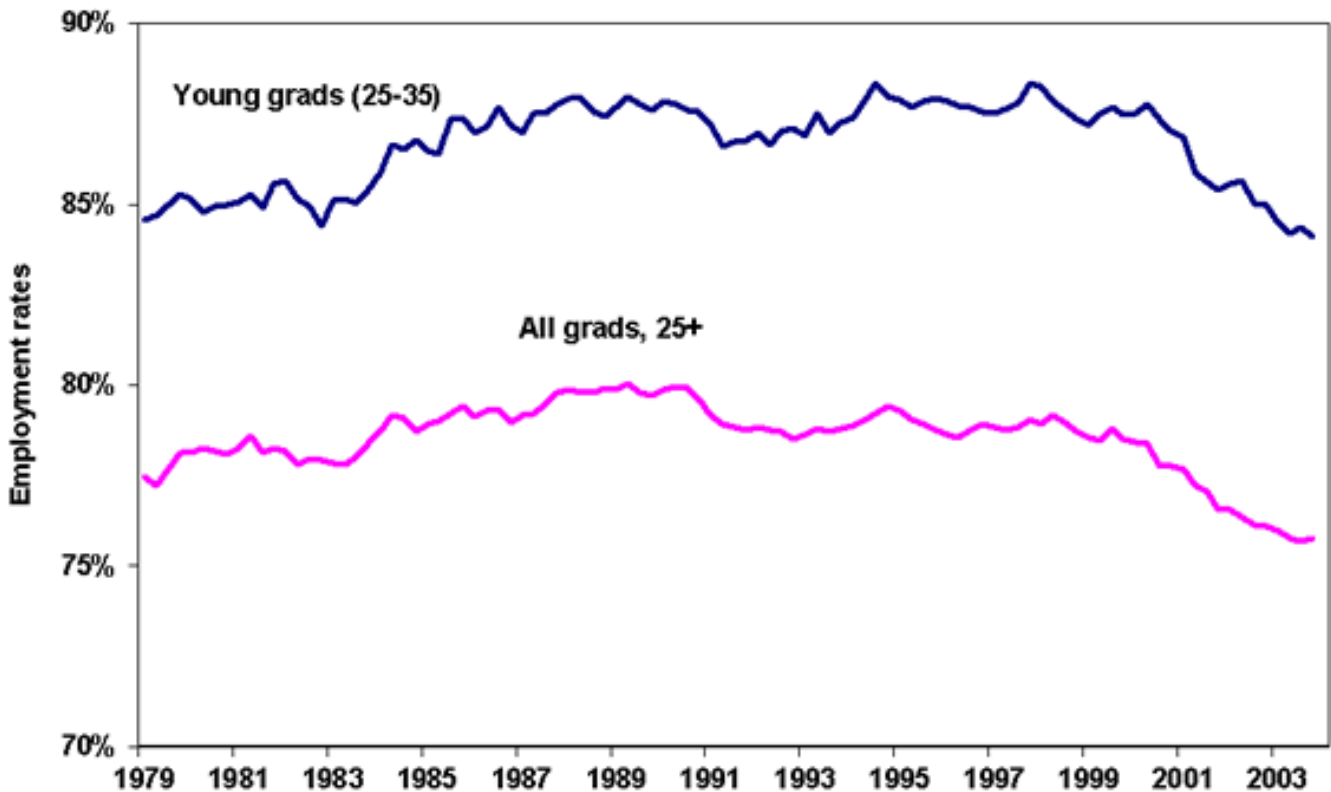
workers, we explained it away as simply a cost of unskilled labor and we needed to stay competitive with manufacturing in a global market.<sup>1</sup> While labor unions certainly raised the issue, society as a whole tended to accept the fact that this displacement and re-training was necessary and desirable overall. But now we recognize that the loss of jobs is affecting workers equally, and the phenomenon is getting more attention for perhaps being not quite so desirable.

There is little disagreement about *why* white-collar offshoring has become a hot **political** topic. The U.S. economy experienced an acute job creation crisis: from March 2001 to March 2004 private-sector jobs declined by 2.6 million, including 560,000 jobs lost even *after* the official recession ended in November 2001.<sup>2</sup>

It is well known that the manufacturing sector lost 15% of its jobs from March 2001 to March 2004. What is lesser known, however, is that software-producing industries have lost an even-higher 16% share of their jobs.<sup>2</sup>

And now, we are seeing the effects of the global market for ALL labor in our statistics for highly educated knowledge workers.

**Figure 2: Employment rates of college graduates, 1979-2003**



Source: EPI analysis of Bureau of Labor Statistics data.

<sup>1</sup> Bureau of Labor Statistics

<sup>2</sup> The Economic Policy Institutes

As we can see from figure 2 above, there has been a sharp decline in the demand for knowledge workers starting in about 1998, indicating that fewer positions are required and of course we experience the commensurate downward wage rates.

White-collar offshoring alone cannot explain the current jobless recovery. In fact, it probably cannot account for more than 10% of the job gaps of more than five million that has developed since the last recession began in March 2001.<sup>3</sup>

The poor job performance in the current recovery reflects a combination of relatively slow output growth since the recession ended in November 2001 and relatively strong growth in measured productivity. The widespread diffusion of information technology accounts for much of the measured gain in productivity, but increased offshoring could contribute to other factors that might be boosting the productivity measures: increased intensity of work, longer salaried work hours that have escaped measurement and overstatement of gains in net U.S. output due to understatement of the value of imports.<sup>3</sup>

The anxieties felt by American workers over offshoring are rational. This has been a particularly tough recession and recovery for college-educated workers, especially for those in occupations and industries newly considered vulnerable to offshoring. **Furthermore, corporate threats of offshoring have probably played a role in the rapid deceleration of wages and the quick acceleration in measured productivity over the course of this recession and recovery.**<sup>3</sup>

Many defenders of white-collar offshoring have pointed to the fact that the United States runs a trade surplus in services, that is, it exports more services than it imports. In 2003, the United States ran a **\$63 billion trade surplus in services.**<sup>3</sup>

*“The dominance of the U.S. is already over. What is emerging is a world economy of blocs represented by NAFTA, the European Union, and ASEAN. There’s no one center in this world economy. India is becoming a powerhouse very fast. The medical school in New Delhi is now perhaps the best in the world. And the technical graduates of the Institute of Technology in Bangalore are as good as any in the world. Also, India has 150 million people for whom English is their main language. So India is indeed becoming a knowledge center.”*

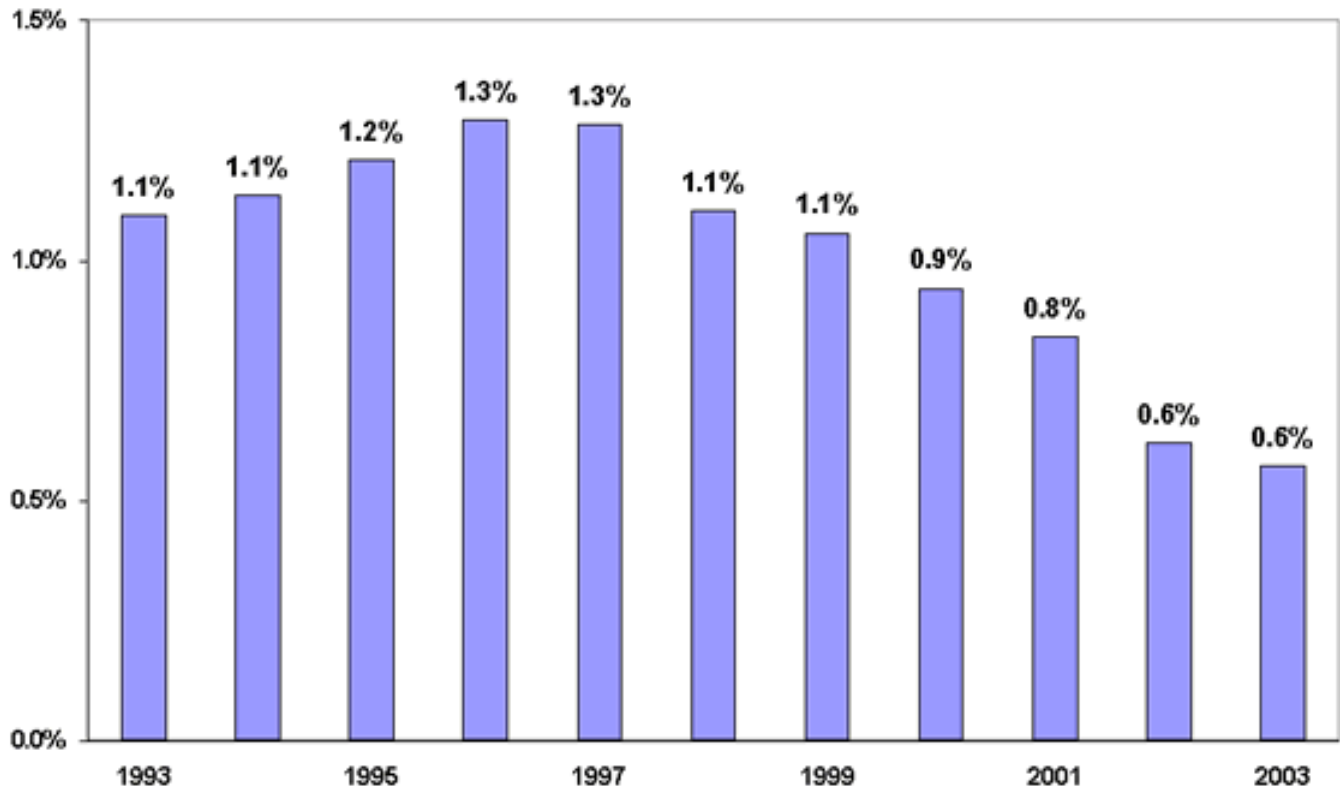
—Peter Drucker, Interview with *Fortune*, January 12, 2004

However, as we can see in the figure below (Figure 8) the service trade surplus is shrinking over time for the United States. In 1997, this surplus was 1.3% of gross domestic product (GDP), in 1999 it was 1.1%, while in 2003 it had fallen to 0.6%.<sup>3</sup>

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<sup>3</sup> The Economic Policy Institutes

**Figure 8: Service trade surplus as a percentage of U.S. gross domestic product**



Source: Bureau of Economic Analysis.

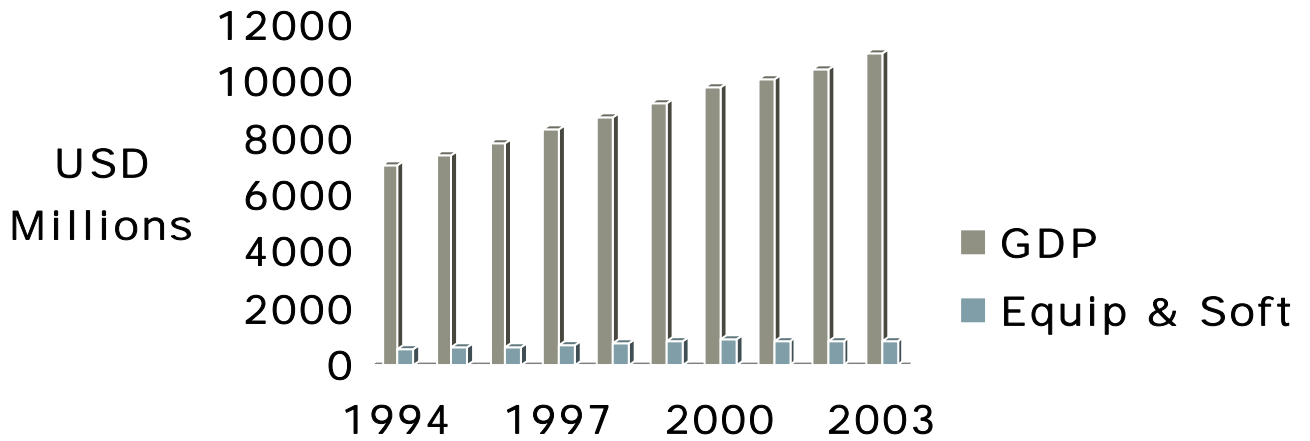
A closer look at the numbers shows that the U.S. runs relatively modest surpluses in the industries most vulnerable to offshoring. The professional, technical, and business services category of U.S. services (which includes accounting, computer programming, and research and development) ran a measured surplus of \$18 billion in 2002. This surplus is well below the 1999 peak surplus of \$19.6 billion, and it is trending downward. **As foreign companies have acquired or established more operations in the United States, they have purchased more services from abroad.**<sup>4</sup>

Well, what about GDP? Are we really better off because GDP is marching along in the right direction? As we can see in figure 9 below GDP has been growing at a pretty constant rate, so we would want the percent of Services Surplus to be constant or growing. We also see that the GDP in Equipment and Software, the closest number I could find to match import services, is fairly steady though declining a bit in the last couple of years – likely confirming the increase in import of services [decreasing surplus in services].

Because the official numbers on trade in services from the Commerce Department's Bureau of Economic Analysis (BEA, figure 10 below) appear to be missing substantial amounts of service imports, their data almost surely understate the degree to

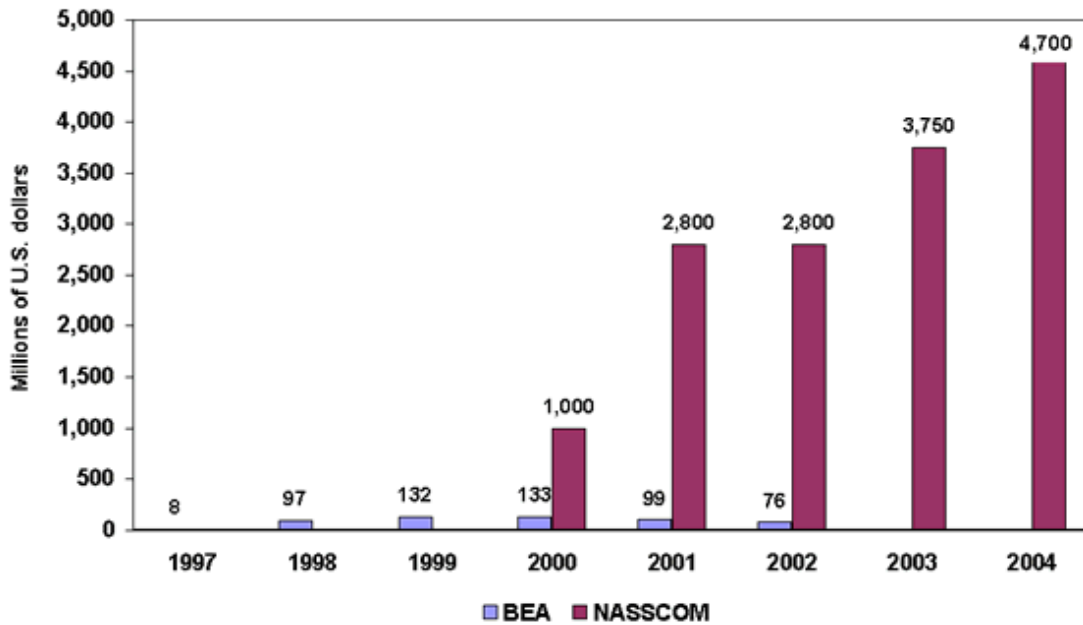
<sup>4</sup> The Economic Policy Institutes

Figure 9 GDP



which offshoring and imports of white-collar work are affecting the U.S. economy. For example, Figure 10 shows the change in software and computer services exports from India to the United States from two data sources: the BEA and the Indian software

Figure 10: Imports of computer and data processing services from India, BEA versus NASSCOM data

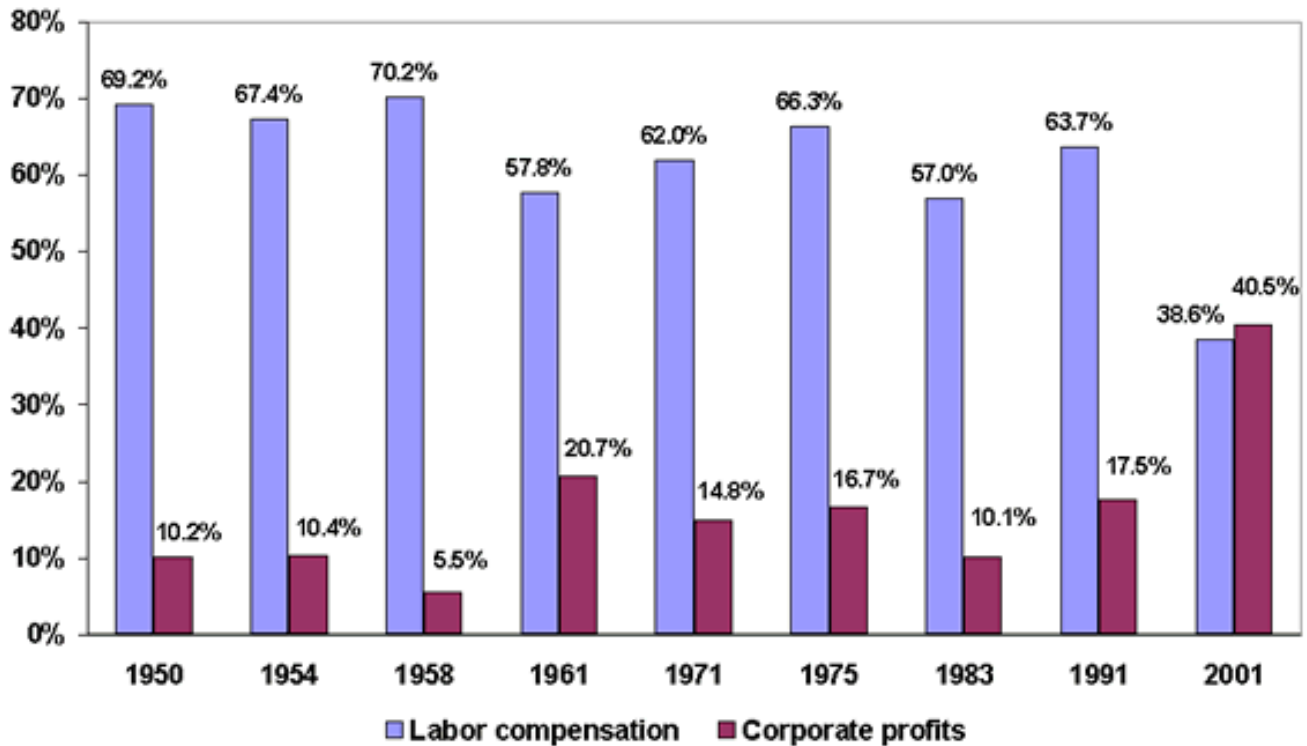


Source: Bureau of Economic Analysis and the Indian National Association of Software and Service Companies (NASSCOM).

industry association (NASSCOM). The BEA numbers are smaller by orders of

magnitude, and actually show a 42% *decline* in the amount of service imports from India from 1999 to 2002 (the most recent year of available data).<sup>5</sup>

**Figure 12: Labor compensation and corporate profits, share of income growth during economic recoveries**



Source: Bureau of Economic Analysis.

The NASSCOM numbers show a rapid increase in these exports and seem much more in line with the anecdotal and qualitative evidence on offshoring from India, one of many countries to which U.S. white-collar jobs have been offshored in recent years.<sup>5</sup>

Why do we have the pressure to engage in all this outsourcing and “offshoring” of our jobs? Who benefits from this activity?

The consistently big winners from trade (especially offshoring) are capital-owners—those who derive a significant portion of their income from profits. Profit rates rose in the 1990s relative to previous decades, and, as shown in figure 12 above, they recovered well before wage income did in the latest recovery. **In fact, the current recovery is the most profit-biased on record in terms of income growth that is accruing to corporate profits as opposed to labor income.**<sup>5</sup>

So why is this change so painful? What were the expectations? Well, we are still laboring under the misconception that our “jobs” are supposed to be there as long as “we want them.” But that is my father’s model and it no longer is applicable! And, we were

<sup>5</sup> The Economic Policy Institutes

told that the turn around in the economy would create new jobs quickly. But in fact, that has not happened to date, and is unlikely to happen. But as we can see from the numbers, although the trend is not positive for the long haul, off-shoring cannot account for the loss of jobs or the lack of creation of jobs. Instead, it would appear that the real culprit is our poor economy and the increase in productivity that we've all been waiting for from the investment we've made in technologies of all types.

This thought is reinforced when we look at some rather interesting numbers provided by AeA in their report *Offshore Outsourcing*<sup>6</sup> published earlier in 2004. In that report, the AeA notes that worldwide manufacturing jobs are on the decline for all the same countries we are complaining about "stealing" our jobs. Their data looks like this:

**Manufacturing Jobs Around the Globe (in millions of workers)**

	1995	2002	Percent Change	Numeric Change
China	98.0	83.1	-15%	-14.9
U.S.	17.2	15.3	-11%	-1.9
Russia	17.1	15.1	-12%	-2.0
Japan	14.5	12.2	-16%	-2.3
India	6.5	6.5	0%	0.0
United Kingdom	4.4	3.9	-11%	-0.5

Source: Haver Analytics, Alliance Bernstein

Everyone is loosing jobs? Yes, the conclusion is that productivity improvements, poor global economy, as well as outsourcing jobs between countries to take advantage of labor markets are all conspiring to keep job creation down during this anemic recovery. However, to quote the AeA conclusions of this latest report: "As the data indicate, there are a number of reasons for job losses over the past three years. Major productivity gains are occurring at the same time as significant downturns in the U.S. and world economies. These factors have had a dramatic effect on the U.S. employment and are more responsible for job loss than offshore outsourcing."

One thing we cannot do in this ever shrinking global economy is fall into the protectionist trap. "Protectionist legislation may result in retaliation, jeopardizing USD 171 Billion in high-tech exports and large surpluses of high-tech services sold overseas. Indeed, for many high-tech companies, the majority of their revenues are at risk."<sup>6</sup>

If Drucker is right (isn't he always?), then we have no choice but to pursue our financial security in ways that are less dependent on traditional jobs and more in line with spreading income over several different sources; perhaps working in foreign countries and catering to servicing the outsourcing of knowledge work. This is not your father's economy! The world has changed. Portfolio work, or multiple streams of income based on your core competencies seems to be the only way individuals can secure their income. One must build a network of peers in business so that when the time comes, and it will come, one will have the ability to quickly move on to the next opportunity.

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<sup>6</sup> AeA *Offshore Outsourcing* in an increasingly competitive and rapidly changing world. March 2004