

**A Testimony Against Technology Offshore Outsourcing and Foreign
Worker Programs:**

The Economic and Military Fallacy of Offshore Outsourcing and Foreign Worker
Programs

William A. Gregory, Jr.
March 15, 2004

Key Issues

Offshore Outsourcing

Offshore Outsourcing and Foreign Worker programs are having a negative effect on the U.S. – primarily our technologically oriented workforce. You may have read that “Jobs moved offshore return benefits to U.S. companies and, by extension, U.S. workers” (1) ... but that is indeed fallacy. It is false reporting of the most serious kind. This is a common misconception, and it directly impacts our IT workforce’s unemployment rate. Because much of this technology and research and development initiatives are taking place offshore, our technological viability is at stake. In the worst of scenarios, the physical security of this nation is at risk. If we as a nation, including Voters, Investors, Workers, and Policymakers, could examine all of the drawbacks to allowing proliferated offshoring and unchecked immigration, we might be called to action, and drive our elected and business leaders to return those lost jobs to Americans, and halt the offshoring process – even slow immigration in its current numbers to a trickle. The voting public is still largely unaware. Investors are very aware (as we will see, they are driving much of this), American Workers are up close and personal with it, and Policy Makers either justify it, or profit from it. Our goal is to show the already drastic impact, and give a look into the future if offshore outsourcing and unchecked foreign worker programs are not addressed. The first step is to explore: indeed, what are offshore outsourcing and foreign worker programs?

Our labor market consists of thousands of different styles of workers, from Manual Labor, Manufacturing / Assembly workers, Trade workers, Blue Collar workers, white collar workers, and their respective manager workers. With the advent and explosion of technology and associated trends, and of course the Internet, there has been a boom in the number and variety of technically oriented jobs created. Some of these types of jobs are hardware and peripheral technicians, network analysts, database administrators, and programmer / developers. These jobs are at the core of the Information Technology field, and are key (at the infrastructure level) to many businesses in the U.S. today. American companies pay these information technology professionals very well to keep their critical and routine processes running smoothly, such as accounting, HR functions, manufacturing lines, order taking, and so many others.

Because of several factors, profits have taken a plunge in recent years, in part due to the attack on the World Trade Centers on 9/11, the Internet Dot Com crash, and also, just some bad planning on the part of businesses worldwide. This plunge in profit has made business leaders and shareholders to look for ways to save overhead and operating costs. “...American companies can save large amounts of money by building and/or documenting products in low-wage countries even if those products are destined for sale in the United States...” (2). Not only are those products for sale in the United States, but they are software programs, web sites, and other goods and services that are used by thousands of businesses for their customers, and the goods and services that they provide. We’re no longer talking about rubber dog toys from Taiwan. We are talking about software / programs that control KEY business processes in the U.S. – form manufacturing lines, insurance company underwriting, and, as we’ll discuss later, even defense related technologies.

Foreign Worker / Immigration

Additionally, businesses in the U.S. have been taking advantage of another 'alternative'. H1-B and L-1 Worker programs. "The H-1B visa program allows American companies and universities to import foreign scientists, engineers and programmers" (3). This is known as "sponsoring", where a company or educational institution can appeal on the foreign workers behalf to the U.S. government for legal rights to work here for a specific period. "The L-1 Visa is available to Intra-company Transferees who have been employed outside of the United States for at least one of the prior three years." (4) . L-1 Visas as of late have received a great deal more negative press because, applied in the correct fashion, it poses no limits for immigrant workers to come to the U.S. and replace American Workers. The financial advantage to companies is in undermining the need to pay the foreign worker the prevailing U.S. wage... but instead, a lower salary or hourly rate. Oftentimes, it will be written in their 'sponsorship' agreement.

Cause and Effect

Employment

Over the past few years, due to the attacks on the World Trade Centers, in tandem with the "Dot Com" collapse, and the natural sine-wave pattern of the U.S. Economy, American companies have been faced with challenges – largely financial. The need to curb budgets, save money in every respect possible, and still maintain shareholder's expectation of return on investment, has forced many companies to adopt an Offshore and/or Immigrant Worker philosophy. In simple terms, a company can save thousands of dollars per employee by either sending their work offshore, and laying off the American counterpart or laying off the American counterpart, and then replacing that employee with an immigrant/sponsored foreign worker. Although the latter is supposed to be illegal, meaning companies are not supposed to do that, there is little to keep it from occurring, and often these incidents go unchecked and uninvestigated, leaving the U.S. Worker unemployed. In an already tough market, this puts the employee in a "double jeopardy" scenario – they are out of work, and they have a really tough time finding suitable employment afterwards.

Many businesses and think tanks who offshore or sponsor immigrant employees contest that "The workers released from (outsourced jobs) will go on to develop the next big thing," (5) , it is hotly debated by opposition to the outsourcing and immigrant worker philosophy - "The argument that offshore outsourcing 'frees up labor that can be redeployed' may not make sense to a U.S. worker who's just been laid off, said Ron Blackwell, chief economist for the AFL-CIO. 'That's not exactly how I'd phrase it,' he said of outsourcing freeing up labor." (5)

There are always two sides to an argument, but there are elements to each side... the original stance holders, and their "expert" or "authorities" that they appeal to, in order to more effectively announce their angle on the issue at hand. Those that speak on behalf of, and for offshore outsourcing and immigrant worker programs take the form of consultants – "experts" in their field, but can oftentimes be little more than paid vocal mercenaries.

The fact of the matter is that elements of U.S. Industry are moving out of the country – previously, it was manufacturing. Many products that used to be made in the U.S. have

now been moved offshore, to places like Taiwan, Korea, China, Singapore, and several other nations whose labor is significantly more cheap. I wish to remind the reader that these are American companies doing this. All of this is done in the name of saving some money per employee, only to have their product shipped back to the U.S. to be bought by U.S. consumers – even the unemployed ones. Things go full circle. As aforementioned, previously it was manufacturing. Now, it is IT processes like programming and development. Each of these points are affecting the economy, negatively, but no pro-outsourcing or pro-immigrant worker ‘experts’ will tell you this... Essentially, more and more companies are abusing the H-1B legislation.(6)

Economic Validity

In a nutshell, companies in the U.S. produce goods to be consumed by consumers, businesses, and other entities in the U.S. – mostly. When we send work or jobs offshore, it forces people into unemployment (a drain on the economy – after all, the government pays for this with unemployment fees and taxes to individuals and companies). While unemployed, these workers cannot maintain their standard of living, and cannot BUY the goods and services that they could prior to being laid off. So... while the company that is outsourcing technology work, or otherwise enabling a U.S. Tech Worker to be laid off... they are not only hurting the worker themselves, but are directly impacting Non-Tech companies’ sales to consumers. It is for this reason that sending our work offshore, or giving it to sponsored low wage immigrants is not a smart, long term decision.

If the unemployment of IT workers (or, really, ANY U.S. Workers) are being effected by other nation’s offshore business alliances, or immigrant laborers, then the employment gain, pound for pound, is transferred to non-U.S. workers. Again, a giant circle of loss. Americans lose their jobs. They collect unemployment compensation, thereby reducing their household income significantly. They can not buy as many goods and services, making businesses suffer. In turn, both wage-earner and businesses pay less in taxes, in turn making less for federal, state, and municipal programs.

It is easy to visualize the macroeconomic impact that this will cause. “Will the movement of high-paying technology jobs gut the U.S. tax base?... The total tax loss [over the next five years] comes to \$13.4 billion-- \$7.5 billion in lost Social Security and Medicare revenue, \$4.4 billion in federal revenue and \$1.5 billion in state and local government taxes.” (7). We already have politicians and special interests going after our Social Security and Medicare revenue... how can we allow any further deterioration of some retiree’s only source of income after age 60?

Additionally, because our government spends more per year, and not less, the funds lost to outsourcing will NOT be written off, but will be recouped by hikes in taxes of all kinds, such as excise, income, property, and other financial burdens, making any financial gains by Americans to be further decimated. Ultimately, after as little as 15 years, our overall economic and technological prowess may have slipped offshore. This is not a healthy direction to take – neither from an economic livelihood perspective, and as well see soon, from a national security perspective. The uninformed or unimaginative reader is asking ‘How can having a team of Indian programmers impact our national security?’. That is a good question.

Military Threat

Much of our progress in the world of technology was driven by military applications – for example, communications equipment and radar. Even the Internet itself sprung from a defense project. For years, the U.S. had near-global dominance in military systems, and the technology that drove them. IN countries like Russia and China, where military and defense work is performed by civilian companies, there is a very heavy governmental chaperone agency watching over. In the U.S., no real watchdog exists. Sure, we have the CIA, the FBI, and in certain applications, the NSA. But those agencies are very under funded, understaffed, and are working with real-time, operational intelligence initiatives. They rarely have the time or resource to dedicate a team to watch over a super-charged intercept bomber contract with Boeing, for example.

In the last few decades, more and more critical Command, Control, Communications, Computers, Information, and Intelligence (C4I2) systems are driven not only by their specialized hardware, but also by software. This software is written in modern structured languages like C, C++, Java, and others. Although there are meager safeguards in place to prevent it, the U.S. has implemented export laws, foreign national clearance levels, and possession legislation that prohibit any foreign person to view, acquire, work on, or further relay to other foreign nationals, military or defense-based software.

The best part (and worst) about the Internet and its capabilities, is that it allows a U.S. based defense contractor to “sub-out” work to companies in offshore nations. There is no way to track this kind of electronic activity. Herein lies the main enabling factor for offshore outsourcing. If I am a business owner, who wants a web site designed, for example – I can have a U.S. business build it for the average cost of \$50.00 per hour, or ship the work to an Indian firm, where the cost per hour is \$6.00 . That is a significant savings. This analysis is at the root of the appeal to send work offshore.

Some of this work could very well be of a sensitive nature, and descript details about a combat system can quite possibly be sent “in the clear” (unencrypted) and can fall in to the wrong hands. There is a small collection of analysts across the U.S. and abroad that believe that there is a potential military alliance in the works between India, China, and Russia (8) that could be positively fueled by military technology leaks or information captures from one of America’s most popular outsourcing nations – India. Currently, there is no reason to suspect that India has, or intends on doing such a thing. But, then again, no one thought that the Rosenberg’s would be convicted of delivering U.S. Atomic Bomb technology that would ultimately help establish the Soviet Union as a Nuclear power, either. In the world of national defense, leaders must plan for possibilities, not just realities. Our elected leaders are not pursuing the appropriate preventative measures to protect us from this threat. Recent U.S. Operations in Iraq have tied up some of our military forces, but even to this day, the U.S. is a strong military presence in the world – which for many nations who would attack the U.S., leaves another alternative – attack of economy.

A final note on security - Forrester Research of Cambridge, Mass, predicted in a recent report that the acceleration in outsourcing would result in 3.3 million American jobs moving offshore by 2015...". The Forrester report estimated that "70 percent of these jobs will move to India, 20 percent to the Philippines and 10% to China." (11). Remember our note on the India-China-Russian Triangle?

Business Intelligence

To be brief, American power and influence are described as hard powers (33). To be a true superpower, a nation needs to have the military and economic means to enforce its will on other powerful nations. For much of this past century, the United States has remained both an economic and military power, if not a fortress. In an effort to show more profit, companies are not only sending their programming and other IT work offshore – they are sending large call centers offshore. In addition, many companies are sending their financial / accounting business functions offshore – many to India.

The goal here is not to attack India – they are a hard-working people, looking only to make wages, to earn a living. The fact of the matter is that more than just IT has been outsourced to India. A prime example is Accounting and Tax Returns. According to U.S. Sen. Dianne Feinstein, there is an inherent danger in having U.S. citizen's tax returns and its attached sensitive data being sent overseas. There is a potential for privacy violation, identity fraud, and a host of other information-related issues.

The main issue that needs to be brought to bear, is that when large corporations decide to send their corporate accounting and tax preparation departments overseas, the information has left our hands, and is physically in the hands of those that could use it to do harm. Using tax records and other financial data (easily derived from database queries) malevolent groups in, for instance, India, can utilize this information to reverse-engineer the economic architecture of the company, extol business intelligence from it, and pass this information to like Indian companies, that would allow them to further compete with their U.S. counterparts. In the long run, American companies would suffer, pay less taxes, employ less people, and make less dividends for their shareholders. This would significantly weaken the economic prowess that the U.S. has enjoyed for much of the past century.

Case Studies

As we discussed in the above section entitled 'Military Threat', those same countries, China, Russia, and India make the top of the list, followed by up and comers Philippines and Panama. Despite the reasons that one would outsource to an offshore anyway, there are pros and cons pertaining to outsourcing offshore, and which countries would be best utilized in that fashion.

Although China, India, and Russia all have the same capacity to make the same software and information products that American resources do, there are barriers to the same level of success, such as language, effective and consistent power systems, and an overt eagerness to please, which often prompts the offshore developer to agree to projects which they may or may not be able to deliver. The same applies to the Philippines and Panama, just on much smaller scale.

So who are the culprits? Who is sending their work offshore? Companies like (11):

- IBM
- Standard Chartered Bank
- GE Capital [a unit of General Electric]

- ❑ Accenture
- ❑ Deutsche Bank
- ❑ HCA
- ❑ Deloitte Touche
- ❑ WNS UK
- ❑ McKinsey & Company
- ❑ Citigroup
- ❑ Wipro Technologies
- ❑ BT Group Plc.

And hundreds more, of varying size. Reference (11) leads us to believe more and more corporations are moving their work to India because their government is corrupt. This can provide easier 'false accounting' making reported expenditures much more inflated, thus allowing more financial breaks to companies who are already 'getting a great deal on their dollars'.

And what about those companies that refuse to outsource offshore? I have spent a few hours looking up information on this specific resource, but no representatives of any particular company have come forth to say that they indeed refuse to send their work offshore. This is because the outsourcing has been on the executive boardroom agenda at least once in the past few years. It is always an alternative, and no one commits to 'never doing that'. I welcome challenge on this finding, and will be happy to document it.

Because companies must compete with their American colleague companies, they must make the same efforts to save money and turn profit. This often involves saving money in the same way, and outsourcing offshore is one of the preferred methods used. If you cannot compete, because of the hypersonic speed of business nowadays, strategic leverage can be destroyed in a single decision, or the lack there of. IN order to lessen the impact of offshore outsourcing, it must be impacted by legislation in a unilateral manner. This is where government steps in.

Its not that there has been next to no legislation to control H-1B immigration and Offshore Outsourcing. In fact, there has been somewhat suitable legislation passed (12) that only needs enforcement. The fallacy in this legislation is that those whose responsibility to enforce it has no authority to do so. The Department of Labor naturally would be the Cabinet Item of choice to manage this topic, but they have no means or authority to do this. In order to level the playing field between like U.S. companies, they must have to play by the same rules – no outsourcing, or all outsourcing.... And we have already seen that offshore outsourcing is bad. The only way to force our Congress and state assemblies to listen and act is through numbers and elections. When petitions are signed, the power of that petition is based on the number of signatures on it.

Insofar as H-1B Immigration is concerned, no one is safe. This paper focuses more on the Information Technology fields, but as Mike Emmons, an IT Worker laid off by Siemens (replaced by immigrant labor and offshore labor; He is now running for Congress) says "Listed below are some of the jobs that H-1B visas are being issued for: Accountants and Administrators, Executives, Managers, Administrators, Software programmers and computer scientists, All engineers and Technicians, Research Associates and Scientists, Lawyers and Tax Analysts, Teachers and college professors, Postdocs and Fellows, Sports Instructors and Physiologists, Doctors, Nurses, Med-Techs, Therapists, Pharmacists, Surgical and Dental Assistants, Fashion models,

Secretaries, Clerks, Architects, Musicians, and Artists, Youth Counselors, Day Care, and Cashiers, The List Goes ON and ON and ON and ON.” He further offers that The big companies are following a new business model: Pay third world wages, but charge U.S. prices. (18). I believe this to be true.

Political and Popular Response

It is clear that many of those serving in Congress are lawyers. The current laws that exist, in word, are made to secure our livelihood as workers in the U.S. Unfortunately, there are so many loopholes written in to this legislation that it can essentially enforce nothing. This is how Congress and other politicians write laws that serve both those against something, and those for. It is a legitimate way of fooling “All of the people, ALL of the time”, as Abraham Lincoln would have said.

As previously mentioned, there are two camps in U.S. Government, as there are in the industry – pro and con. To get a rough idea of how many are FOR outsourcing, largely to India, visit reference (13) at <http://www.outsourcecongress.org/rep/indiapac/index108.html> .

This is a listing of the U.S. House of Representatives and Senate members that are part of the India Caucus. This is the influential organization that convinces U.S. Congress people to produce the appropriate legislation to allow the desired number of H-1B immigrants in, and also facilitates offshore outsourcing. Perhaps it is time to write them a letter? Maybe a Thousand? Our plight here is in dire need of appeal to authority.

The above India Caucus is a PAC (Political Action Committee), a special interest entity whose goal is to take as much business away from American Workers as possible. The wish to capture as much business and technology intelligence that they can. I suppose that the Indian lobby is paying them much more than the taxpayers are.

Next Steps

Awareness is key. We must reach out to our elected officials, either in an appeal to garner their assistance, or we must make clear that we intend on voting with these key issues in mind. We must implore them to create legislation that will prohibit offshoring work, and importing more H-1Bs because they are cheaper. We must only import workers when American employees can not be found to fill the need.


In order to make this an election issue, Grassroots Campaigning is necessary. We must make posters, we must make letters and flyers. We must knock on doors and tell the voting citizens of this country about what is happening beneath their noses, and that only a unified front can deal with this menace and potential threat to National security.

Would America might best be served by a period of Isolationism? Spend more time on increasing our service levels to those that buy most of our products. If we serve mostly Americans, we need to ensure that we are hiring and employing mostly Americans. If we reduce the amount of money and support to offshore business, eventually it will no longer be a threat.

In Summary

We have gone over several key points, but they boil down to a few major facts. Corporations across America are sending our jobs and work offshore. Our prices from these companies for their goods and services have not gone down, and eventually we will no longer afford them, because of lost jobs across the country. Although it is not 100% in keeping with free enterprise, the only way to guarantee economic and military prowess is to prompt our government to make appropriate legislation to stop sending our jobs offshore. In order to accomplish this monumental task, we must get informed, and inform the voting public.

Respectfully Submitted,



Aaron Gregory

Bibliography:

(1) Grant Gross. Tech CEOs Hiring Offshore Workers Helps U.S.
01/07/04

IDG News Service

<http://www.nwfusion.com/news/2004/0107techceos.html>

(2) William Hackos, Jr., PhD. Why Do Offshore Outsourcing?
February 2004:

Comtech Services, Inc.

<http://www.infomanagementcenter.com/enewsletter/200402/extra.htm>

(3) Author Not Discernable - H1Bs

No Date Available

H1B.Info – an Independent Information Site

<http://www.h1b.info/>

(4) Author Not Discernable - L1 Visa

No Date Available

Immihelp.com – From an Immigrant to Future Immigrants

<http://www.immihelp.com/visas/l1visa.html>

(5) Grant Gross. InfoWorld Offshore outsourcing Little effect on US jobs December 11, 2003

December 11, 2003

InfoWorld News

http://www.infoworld.com/article/03/12/11/HNoffshorejobs_1.html

(6) Dr. Norman Matloff. Balanced Trade H-1B Abuse

May 7, 2003

University of California, Davis

<http://heather.cs.ucdavis.edu/Summary.html>

(7) Larry Dignan - Depleting The U.S. Tax Base?

September 5, 2003

EWeek

<http://www.eweek.com/article2/0,4149,1265111,00.asp>

(8) Vladimir Radyuhin. India-Russia-China triangle has good prospects

February 21, 2004

The Hindu

<http://www.hindu.com/2004/02/22/stories/2004022203210900.htm>

(9) Doug Linder. Rosenberg's Trial: An Account of the Trial

2001

University of Missouri at Kansas City Law School

http://www.law.umkc.edu/faculty/projects/ftrials/rosenb/ROS_ACCT.HTM

(10) Rachel Conrad. More Tax Returns Done By Accountants Offshore

Feb. 23, 2004

Monterey County Herald

<http://www.montereyherald.com/mld/montereyherald/8019585.htm?template=contentModules/printstory.jsp>

(11) Edward S. Solomon, Esq . Off-Shoring and Outsourcing to India

Announcement on 1/3/03

Globalization News and Commentary

<http://www.gnp.org/india.htm>

(12) Site Authors. Snapshot of Some Current Legislation

Date Not Discernible

Balanced-Trade.Org

[http://www.balanced-trade.org/info/cwp/browse,c.43560,a.1166,BMDRN,2000,BCOB,0,infoNav,\[30228\].asp](http://www.balanced-trade.org/info/cwp/browse,c.43560,a.1166,BMDRN,2000,BCOB,0,infoNav,[30228].asp)

(13) Site Authors. Members of Congressional Caucus on India and Indian-Americans

November 23, 2003

Outsourcecongress.Org

<http://www.outsourcecongress.org/rep/indiapac/index108.html>

(14) Lisa Vaas. Offshore Outsourcing Should You be Worried Yet?

February 1, 2003

Eweek

<http://www.eweek.com/article2/0,4149,1238729,00.asp>

(15) By Patrick Thibodeau. U.S. Lawmakers Pushing to Hinder Offshore Outsourcing
15 December, 2003

ComputerWorld (IDG Company)

<http://www.computerworld.com/managementtopics/outsourcing/story/0,10801,88197,00.html>

(16) By Phil Codling. US Concerns Grow Over Offshore Outsourcing.

21 August, 2003

Ovum Media

<http://www.ovum.com/go/content/c.377,37528>

(17) Joseph Nye. The Paradox in American Power

2002

ISBN 0-19-515088-0

Page 8

(18) Mike Emmons. Emmons for Congress: Topic, Immigrant Labor and Offshoring Jobs

March 6, 2003

Emmons for Congress Campaign Site

<http://www.emmonsforcongress.com/frright.html>