

COMMENTARY

'Bestshoring' Beats Outsourcing

By HILLARY RODHAM CLINTON
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You can't turn on the news without hearing about offshore outsourcing -- the shipping of jobs overseas to take advantage of lower wages. This trend has spread widespread fear among working families around the country. Although these fears are legitimate, I believe that the savings from such outsourcing are exaggerated and that America is more competitive than most realize.

That's why New Jobs for New York, a non-profit corporation

focused on economic development, commissioned a study by Howard Rubin to explore the real facts on outsourcing. He found that next year, nine out of the 10 largest firms in New York are predicted to perform IT or business process work offshore. The primary reason given by 90% of these firms is "cost savings." So he analyzed these savings by category.

It turns out that the savings from outsourcing were not as large as many employers believe. While they cited average savings of 44% per outsourced job, Prof. Rubin demonstrates that the actual figure approximates 20%. Lower wages are only one part of the offshore equation. When you tabulate *all* the costs, our nation is more competitive than employers think.

You're probably asking, "How can we compete against countries where a computer programmer's wages are \$10,000 per year while the equivalent U.S. wage is \$100,000?" The explanation is that additional costs must be added to the offshore wages themselves to get the complete picture on costs. Companies have to spend money for planning, offshore transition, vendor selection, technology, communications, offshore management, travel and security. Many employers do not take every one of these costs into consideration. Add up all the costs and suddenly a call-center worker with a raw wage of \$5 an hour offshore has a true cost of \$17. And that's why we have the potential to be competitive.

But to realize that potential we need a strategy that focuses on critical areas -- innovation, new job creation, workforce development, connectivity expansion,

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and collaboration between industry, academia, labor and government. We have to equip businesses and workers to become even more competitive, further develop the digital economy, and work to end trade and tax practices which undermine competitiveness.

First, what helps us most against offshoring is our leadership in innovation. To maintain our advantage, we need a national agenda that promotes research through tax credits and further direct investments in science. We should provide new tax incentives for jobs, and eliminate perverse ones which actually reward businesses for sending jobs offshore. That's why I have co-sponsored legislation to create a 10% tax cut for manufacturers, and to close loopholes for companies that move HQs abroad solely to avoid taxes. And John Kerry has proposed an overhaul of the corporate tax system to eliminate the so-called deferral advantage which rewards foreign profits at the expense of domestic profits.

We also must help our workers to adapt. This means attracting more people into the science, math, engineering and tech disciplines through grants to universities and special loan programs to students. We cannot afford to fall behind India and China, who graduate far larger numbers of scientists and engineers. The Trade Adjustment Assistance Program, which provides wage assistance and retraining only to manufacturing workers who have lost jobs due to trade, should be expanded to include computer programmers, call-center workers, and other service jobs.

We also need a national broadband policy. It is inexcusable that the U.S. ranks 11th globally in broadband penetration per household. I have introduced legislation to enhance access for rural and underserved areas that would accelerate the transformation to a digital economy.

Finally, we need the kind of collaborations that have helped make India, Ireland and others magnets for offshoring. Those countries have partnerships with their businesses that help new industries get necessary support. Such programs have proven effective regionally in the U.S. and are already underway in New York through the creation of business incubators. At the national level, we should support critical new industries like alternative energy, which hold the promise of millions of new jobs.

Where do we have the talent, resources, and cost structure coming together to enable us to compete? The answer is regions like Upstate New York, with unmatched educational and research institutions; proximity to the financial center of the world; and a talented, educated workforce. It also has a high quality of life, and with the recent expansion of discount carriers, it's a lot cheaper to fly inside America than any flight you'd find from New York to New Delhi.

With a smarter national strategy and better information on *real* costs, many companies would rethink offshore sourcing. The choice they would make might be described as "bestshoring." It would keep more good paying jobs in America and replace the ones we have lost with even better ones.

Ms. Clinton is a Democratic senator from New York.