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Remarks by Mr. Cohen
Communications Workers of America

Impact of Outsourcing on Development Restoring Global Balance Together

June 28, 2004 - World Bank Conference

I appreciate the opportunity to speak to you today on the important topic of outsourcing and its impact on development. I am particularly pleased that you have included the viewpoint of labor in your discussion. To borrow from the title of your conference, we must all work together -- labor organizations, the private sector, NGOs, national governments, and multilateral development agencies -- to promote balanced development policies that lead to democratic participation and rising living standards for people wherever they may live.

I speak to you today representing Union Network International, or UNI, as we call ourselves. UNI is a global network of more than 900 unions with 15 million members in 150 countries. The overwhelming majority of UNI members work in information technology, telecommunications, finance, and other service jobs. Our members are directly affected by the decision of companies in these fields to outsource jobs.

My own union, the Communications Workers of America, is an affiliate of UNI. CWA represents 700,000 workers in the United States and Canada. The majority of our members work in telecommunications, information technology, media, manufacturing, and the public sector. CWA members face the challenge of outsourcing on a daily basis.

I use the term "outsourcing" and not "offshoring." Our focus is on the growing trend of companies to contract out core functions, what many call the hollowing out of the firm. From our point of view, the location of the outsourced work is not the issue. We do not care whether the work is sent to a third party firm located down the street or across the globe. Rather, we are concerned about the forces that are driving companies to shed core business functions, to contract out work to the lowest cost bidder, and to sever the relationship between the worker and the employer.

This business strategy is not good for workers, it undermines quality service to consumers, and it does not lead to sustainable economic growth in the developed or in the developing world. Rather, it leads to a relentless global race to the bottom. Absent public policies to block the low-road, no worker, no firm, and no national economy is secure. For as soon as living standards rise in one workplace, one community, or one country, the footloose firm has packed its bags in search of the next low-

cost location.

Since individual firms may not be able to resist the global race to the bottom, national governments, multinational organizations, and international development agencies, such as the World Bank, must adopt policies that support an alternative path to development -- one that seeks to build sustainable economies by linking the defense of good, secure jobs in one country to the fight for good, secure jobs globally. This is UNI's vision.

There are three areas of public policy that are essential to support this development strategy. First, we must adopt policies for sustainable development that foster democracy, grow internal demand, and sustain a vibrant middle class. Second, we must support policies that encourage businesses to invest in quality service and technological innovation delivered by their own career workers who have deep relations with their customers. Third, we must strengthen worker and human rights in all countries to protect good jobs where they exist and to raise living standards through more equitable distribution in poorer countries. Let me discuss each in a little more detail.

Reciprocal and Sustainable Trade and Development Policies

The current system of global trade and investment rules has failed to deliver equitable, democratic, and sustainable growth in rich or poor countries. Working together with the international trade union movement, we must intensify our support for the development of workers' rights, including voting rights and collective bargaining. This model of economic development is good for workers in the United States and in other developed countries, as well as for workers in developing countries.

We need new, more reciprocal rules for development, rules that balance export-oriented growth in developing countries with development of internal markets. At the same time, we must adopt more reciprocal rules for global trade that support good jobs in the developed countries while fostering democracy and more equitable distribution of the benefits of development in poorer countries.

The current export-driven model for development -- of which offshore outsourcing is one component -- is inherently unstable. The United States today has a half-trillion-dollar current account deficit, which amounts to five percent of our GDP. This is historically unprecedented, and is a crisis waiting to happen. Eventually, to restore balance, the U.S. must either raise exports substantially or sharply reduce consumption. Failure to close this gap in a concerted and timely way could result in a precipitous crash in the value of the dollar, which could lead to a global recession or depression.

We need to look to a different model for development, one that also grows internal markets and middle class jobs. Providing products and services to in-country customers is inherently more stable than developing a dependence on exports, whether of goods or services. For example, poor regions of developed countries have lured call centers with tax breaks and subsidies in order to create jobs in these depressed regions. Now, they are discovering that the public purse has gone to naught, as the call centers move operations to even lower wage developing countries. One

recent study of this practice in rural areas of the Canadian provinces of New Brunswick and Nova Scotia concluded that these low-wage call centers swallowed public funds and delivered few public benefits in return.

I want to contrast this with policies that foster investment in actual telecommunications infrastructure in a rural or urban area or in a developing country. Not only does investment in communications infrastructure foster economic growth in many sectors, with many spin-off effects, it also creates service and technical jobs in the telecommunications industry itself. These are jobs that will remain inside the country servicing the telecommunications company's own customers and network.

Similarly, the growth of the software industry in India is the result of investment in education and training of software engineers – a positive model for development. This offers tremendous potential for the development of internal markets. However, today, 70 percent of software development in a country such as India is provided to foreign companies under contract. These jobs are at risk of flight to other countries with educated workers but even lower wages, absent a focus on software development for domestic companies as well.

This development model, in turn, requires new rules for our trading system that strengthen democracy and grow the middle class. I am not talking here about protectionism, but rather about rules for balanced trade that block a race to the bottom and share the fruits of development more equitably. These rules must condition trade liberalization and development assistance on real, enforceable commitments to human and worker rights, minimum labor standards as articulated by the International Labor Organization (ILO), environmental protections, and other social standards.

Enforceable protections for ILO core workers' rights ensure that no country can gain a competitive advantage by violating the fundamental human rights of its workers. Many unions in developing countries (in Central America, in Swaziland, and in Bangladesh, for example) have found that the conditions on workers' rights in the U.S. generalized system of preferences program have given them additional leverage in bargaining with their governments for improved labor laws, better enforcement, and protection from anti-union violence.

Additionally, global trade agreements and multilateral institutions must recognize the right of national and sub-national governments to adopt laws that provide basic protections in a world of globalized service provision. These include privacy protections; consumer protections such as the right to know the location and identity of the individual who is answering a customer service call or e-mail; and the right of government entities to establish procurement rules that promotes domestic service providers. Similarly, provision of public subsidies and tax breaks should not pit one jurisdiction against another, but where appropriate, must be conditioned on the recipients' support for workers' rights, labor standards, and agreement to pay minimum wages, benefits, and provide long-term jobs. Finally, tax policies must not reward companies that relocate work overseas.

Quality Customer Service, Quality Jobs

Let me turn now to my second point, the need to develop policies that support quality customer service provided by career employees. This is an alternative business strategy to the low-road of hollowed-out companies and outsourcing that has become management mantra. Our vision sees value added through the deepening of relations between skilled, career employees and customers. In this system, employees use their knowledge and creativity to solve problems, to communicate customer needs back to management, thereby forming a virtuous circle of innovation and growth. For example, call center employees who actually listen to customers and solve problems add long-term value to the enterprise; contrast this with call center workers who simply read rote scripts and rush to get you off the phone to meet strict time quotas.

Some progressive employers have adopted the high-value strategy. In a recent interview published in the New York Times, Sidney Harman, chairman of Harman International Industries, a leading maker of sophisticated audio and electronic control systems for automakers, explained why he sees outsourcing of production and product development as a bad business strategy. "I don't think of many things as more intrinsic to the long-range thrust of a company... as a place of innovation and creativity and progress than the ability to design your own products and build your own products," he wrote. "You have to lovingly make (your own products) and care about their quality...If you turn the whole project over to another firm, you have in effect yielded that which provides you with the opportunity to distinguish yourself."

Recently, CWA negotiated a new five-year contract with SBC, the second largest telecommunications company in the United States. In the agreement, SBC made a commitment to not outsource customer service work. The agreement reads: "The Union and SBC share similar views about utilizing SBC service reps to interface with the customer. CWA-represented employees shall do all customer service work of SBC products." The agreement runs counter to the practice of most service providers today that are racing to outsource customer service to the lowest-cost provider.

Why has SBC taken a different approach? SBC CEO Ed Whitacre explained his reasoning to me this way. The only thing that differentiates SBC from any other telecommunications company, he said, is the quality of its service and the relationship it has with its customers. Developing these relationships adds value to the company, and therefore is worth the investment. Building on SBC's strategic partnership with CWA, together we make this investment work for the company and for employees.

Outsourcing interferes with the relationship between the service provider and the customer. Employees of outsourced companies have no possibility to build long-term relationships with customers, or to provide information feedback to the core service provider, who is not their employer.

Outsourced call center employees are not building careers like the ones our members have at a company like SBC. Further, employees at overseas outsourced call centers experience alienation and stress when they are forced to take on false identities and accents to pretend they are from the country of origin of the caller. We are now reading stories about

the high turnover rates in these overseas call centers as a result of these practices. There is something fundamentally wrong when workers must leave their identity at the workplace door, denying their very humanity. It's not good for workers, it's not good for quality service to customers, and it's ultimately not good as a development strategy.

Universal Worker and Human Rights

The defense of workers' and human rights is fundamental to this development strategy. In developed countries, union representation and collective bargaining historically have been the keys to the growth of a large and stable middle class. Collective bargaining has been the mechanism through which workers gain a more equitable share of the wealth that they create, improve working conditions, and win some measure of job security. Rising worker incomes stimulate domestic demand, in turn contributing to a more robust and stable economy. At the same time, social legislation -- largely championed by the labor movement -- sets minimum wage, hour, health, safety, and other workplace standards, thereby blocking the competitive race to the bottom within national economies and improving the quality of life.

This progress for working people in developed countries is now under challenge by employers and public policies that foster union avoidance at home and free flow of capital and jobs to low-cost locations. No sector of the economy is immune. What started in manufacturing has now hit the service sector, including such high-value services as software development. Domestic outsourcing to avoid unions and cut costs leads inexorably to the search for even cheaper sources of labor in countries with minimal or no social regulation. As a result, worker living standards are declining in the U.S., the gap between the rich and everyone else is growing, and job insecurity is at an all-time high.

Similarly, the right to form a union and bargain collectively promotes sustainable and equitable development in poor countries. Workers in the developing world must have the democratic right to join together to protect themselves against abusive conditions at work, to pressure employers to share productivity gains with employees, and to lobby national governments for legislation setting minimum workplace standards. The benefits of economic growth do not magically trickle down to working people, absent strong worker organization and public protections. Witness Brazil or South Korea, where strengthening democracy has gone hand in hand with rising living standards.

To ensure that working people in poorer countries benefit from economic growth, development agencies, multilateral organizations, and national governments must vigilantly ensure that basic worker and human rights are protected.

The ILO has recognized this in a recent paper on fair globalization, a topic I am told will be discussed here on Friday. Let me quote from the ILO report:

Core labour standards as defined by the ILO provide a minimum set of global rules for labour in the global economy and respect for them should be strengthened in all countries...All relevant international institutions should assume their part in promoting these standards and ensure that no

aspect of their policies and programmes impedes implementation of these rights.

This must be a global movement. Envision for a moment the global economy without worker and human rights in China. One out of every five people on this planet lives in China. The Chinese economy is growing at an annual rate of 9.1 percent. The United States has a \$125 billion trade deficit with China. The AFL-CIO developed an economic model that found that repression of worker rights in China depresses manufacturing wages as much as 86 percent.

Unless we join together to demand enforcement of basic worker and human rights in China, and elsewhere, as a precondition for liberalized trade relations or multilateral aid, the global standard will be repression and low wages. The big losers will be democracy and economic progress in Africa, the Caribbean, Central America, and Asia. Democratic and economic progress in these countries will simply result in job flight to those countries with no labor standards and fierce repression of democratic rights.

Outsourcing adds another dimension to the challenges we face in promoting global labor standards and worker rights. Outsourcing by its very nature removes accountability and responsibility from the service provider. The outsourcer can claim a lack of power to improve worker living standards, since competition is based on low costs and minimal social regulation.

Let me give an example to illustrate my point. Call center work is particularly vulnerable to outsourcing. Advances in digital transmission and cheap international telecommunications have created a global labor market for call center work, a growing sector in today's economy.

My union represents employees at AT&T, a global telecommunication company. Customer service representatives earn about \$23 an hour and good benefits. These jobs have provided a path into the middle class and, until recently, careers for this largely female workforce. These customer service representatives are highly-skilled – they know their products and have been trained in quality customer service.

About five years ago, to cut costs, this company began outsourcing a significant portion of its customer service work to domestic third-party call centers. These call centers pay less than \$10 an hour with minimal benefits and no job guarantees. A joint union-management team documented a significant decline in quality in the outsourced centers. But since low-cost, not quality, was driving the decision, the company continues to outsource call center work.

About two years ago, several of the outsourcing companies approached AT&T with attractive offers. While the company was saving 15 percent through domestic outsourcing, they promised to double the savings to 30 percent if the company agreed to let these multinational call center companies send the work overseas to India, Canada, Mexico, and the Philippines. Again, with cost driving the decision, the company agreed. Today, about half of AT&T consumer customer service work is outsourced, with about half of those outsourced calls handled overseas.

CWA has tried to assist workers who want to organize at these domestic outsourced call centers. But as soon as employees in these centers begin to gain strength, the employer closes the center and with a flick of the switch moves the work to another location.

Call center employees working overseas face similar challenges. Let me tell one story from British Columbia, Canada – a country and a province with a long history of support for workers' democratic rights. But the race to the bottom is changing the face of labor relations even there. In recent years, British Columbia, along with other Canadian provinces, has offered tax breaks and public subsidies to attract call centers to rural areas with high unemployment rates. Employees at these centers earn about \$10 an hour, with average tenure of two to four months. In contrast, union employees at nearby call centers earn a top hourly wage of \$26 an hour.

Two years ago, employees at one of the call centers owned by a U.S. based firm approached a British Columbia union to help them organize. The employer immediately went to court to bar organizers from its parking lot, set up surveillance cameras outside the building to watch employees who stopped to talk to union organizers, and started shuttling employees to and from the public transportation terminal to keep them away from the union organizers. Inside the call center, the employer began meeting with employees, telling them that unionization would reduce the company's ability to hold on to its contracts. The message was clear: a union or your job.

No worker should be faced with this choice. But absent strong public policies that protect labor standards across the globe, individual employers have strong incentives to block efforts by their employees to improve working conditions and living standards, and to fight national legislation that would set minimum workplace standards. Outsourcing, which disrupts accountability, makes firm-based solutions even more challenging.

This problem must be addressed from a global framework. The ILO has decided to address offshore outsourcing with social partners in the finance sector. In the telecommunications sector at the European level, UNI-Europa has reached agreement with the telecommunications employers on a Customer Service Charter which includes workers' rights, union rights, the provision of minimum workplace conditions, training, work organization, and other quality standards. UNI affiliates have negotiated agreements with individual employers that protect labor standards at home, while supporting neutrality if workers in offshore workplaces choose to organize.

Multilateral institutions, such as the World Bank and the IMF, must premise development assistance on real, enforceable commitments by national governments to observe all the labor standards of the ILO. Similarly, trade agreements must be conditioned on protection of these same basic worker and human rights.

By raising global labor standards, we begin to block the race to the bottom that undermines good secure jobs in wealthy countries, while helping ensure that workers in poor countries will benefit more equitably from economic growth. Outsourcing decisions, then, are driven by the search for talent and quality, not lower labor costs and avoidance of social

obligations.

Conclusion

The international trade union movement looks forward to working together with international development agencies, national governments, NGOs, the private sector, and other multilateral organizations in support of the policies that I have outlined to restore global balance together. The policies that I have enunciated – reciprocal and sustainable trade and development policies; quality service provided by skilled, career employees; and enforcement of human and worker rights – will ensure that the benefits of globalization are extended to more people in both the developed and developing world.

Behavior has consequences. Policy has consequences for firms, workers and government. If we examine the real consequences, we can make a difference and together restore balance.

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