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# 'Offshoring' Trend Casting a Wider Net

## The outsourcing movement is defying conventional wisdom about what positions are immune from export

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Recent economic data show the technology sector is perking up, with U.S. firms posting their first profits in years. Vicki Nelson wishes she could say the same of her finances.

The Sacramento-area software engineer has drained her daughter's college fund and sold off furniture to pay bills since she was sacked in 2001. Still unemployed, she doubts her fortunes will rebound along with those of high-tech companies, which through the years dumped tens of thousands of U.S. workers in favor of cheaper hands overseas.

"The jobs have gone to Bangalore," said Nelson, 46, speaking of the city in south India hailed as the new Silicon Valley. American companies "are selling us out to save a couple of bucks. I'm worried about the future of our economy."

As the U.S. struggles with the longest jobless recovery in recent memory, white-collar workers are facing a harsh reality. Just as highways paved the way for migration from America's cities, the information superhighway has given rise to a new set of economic road rules: If it can be digitized, it can be moved.

Retailers, banks, airlines, hotels and hospitals are sending work offshore, from back-office accounting to front-desk customer service. Ditto for government agencies. Today, a laid-off Californian with questions about food stamps can get answers from a telephone hot line staffed in part by workers in India. The state of California two years ago outsourced the delivery of some welfare benefits to **Citicorp Electronic Financial Services Inc.**, which uses English-speaking workers in Bangalore and Pune to assist the down-and-out in Bakersfield and Pacoima.

Powered by high-speed global communications and educated foreign workers, the so-called offshoring trend is rapidly moving beyond call centers and data processing. And it's defying conventional wisdom about what jobs are immune from export.

Indian radiologists contracted by Massachusetts General Hospital in Boston are processing X-ray images



of U.S. patients. Foreign legal eagles are writing patents for U.S. firms. Tax clients of Newport Beach-based **SurePrep** can thank Indian accountants for that fat refund from Uncle Sam. And far from Wall Street, equity analysts from developing nations are crunching numbers once reserved for six-figure American MBAs. Even foreign economists are willing to prognosticate on the cheap.

"There's a guy in India who has been contacting me" about a job, said Mark Zandi, chief economist at Economy.com in West Chester, Pa. "My immediate reaction is that he couldn't possibly do it from there. But when you start to think about it, why not?"

Economy.com in October estimated that nearly 1 million U.S. jobs had been lost to offshoring since early 2001, with 1 in 6 of those in information technology, financial services or business and professional services — the bedrock of the "new economy." Forrester Research Inc. projects that 3.3 million service and professional jobs will flee the country by 2015. Researchers at UC Berkeley figure that at least 14 million U.S. service jobs are vulnerable.

Despite all the angst about foreign defections, economists say the collapse in business spending is the principal culprit behind U.S. employment declines. And the focus has been on the manufacturing sector, which has shed nearly 2.7 million net jobs in the last three years. Still, analysts say offshoring has been a factor and will continue to be a drag on U.S. job creation and wages.

"There is no shortage of smart, qualified people overseas who are willing to do this work for a lot less," said Kim Berry, 45, a programmer who develops software for a small firm in Citrus Heights, Calif., and makes \$42,000 a year. That's only about half what he made working for **Hewlett-Packard** Co. at the peak of the economic boom, but he figures he's lucky considering that so many of his former colleagues aren't working at all and foreign programmers are lined up just waiting for their chance.

Offshoring has touched a chord with middle-class Americans who thought workers in coveralls, not cubicles, were the ones at risk. Jobless white-collar workers have picketed outsourcing conferences and created websites, organized petition drives and sent e-mails to lawmakers. A Florida tech worker outraged at having to train his foreign replacement is running for Congress.

Indiana Gov. Joseph Kernan in November ordered a state agency to cancel a \$15.2-million contract with an outsourcing firm after citizens went ballistic at the notion of workers in India upgrading their state's computers to, of all things, process unemployment claims of laid-off Hoosiers.

Bills introduced in Congress and at least four state legislatures would preserve U.S. service jobs by slapping restrictions on foreign call centers or giving Americans preference in government contracts. The issue could figure prominently in the 2004 presidential election if the nation's job engine continues to sputter.

"U.S. workers were told that the right thing to do was to become a professional and the winds of globalization wouldn't hurt you," said Jared Bernstein, senior economist with the Economic Policy Institute in Washington. "What we're learning is that virtually no occupation or skill level is insulated. That's causing a lot of rancor among those who thought this only happened in old and dirty industries."

Bernstein says the U.S. would do well to take a hard look at its trade agreements and craft public policy to keep jobs in crucial sectors such as technology at home. Others say protectionism will prove as futile as it did with manufacturing and will harm the U.S. economy in the process.

Stuart Anderson, author of a recent study critical of legislative attempts to restrict offshoring, noted that for the Indiana computer upgrade contract, the bid by an American subsidiary of Bombay-based **Tata**

**Consultancy Services** was \$8.2 million below the next lowest. Indiana taxpayers would be ill served, he said, if they end up paying more to upgrade state computers just to ensure that people who live in the United States get the work. It would be far better, he said, for Americans to grab the savings and use them to make purchases and investments that would create additional jobs and wealth elsewhere in the economy.

"There's this growing perception that somehow free trade in services is bad," Anderson said. "That if people in other countries land better jobs, that means we won't have good jobs here. But it's not a zero sum game."

Take call centers, for example. While many Americans are shocked that foreigners with nearly flawless English are the ones booking their flights and finding their lost welfare checks, few would swap places with them. In the United States, telemarketers rank somewhere near repo man in prestige, with lousy pay to match.

But in the developing world, a job with a headset is desirable, said Lance Rosenzweig, chief executive of Los Angeles-based **PeopleSupport**. Launched three years ago with 10 workers in the Philippines, the firm employs 2,000 there handling customer calls for firms such as **Expedia** Inc. and **Earthlink** Inc.

Business is so brisk, Rosenzweig said, that his workforce probably will double in 2004. He said the firm last year received more than 100,000 resumes from the Philippines, where many students are taught in English. Most of the company's hires are college graduates eager to chatter away in the middle of the night for starting pay of about \$4 an hour, good money in a country where the average family income is \$2,600 a year. Rosenzweig said turnover was one-fifth that of U.S. calls centers.

"It's a career in the Philippines," Rosenzweig said. "In the U.S., it's a little money until you find something else."

Call centers are one thing. What really has Americans spooked is the export of well-paying professional positions. Dave Wyle, founder of tax preparer SurePrep, said some potential customers had accused him of undermining the U.S. economy by hiring Indian accountants to process tax returns for \$400 a month, one-tenth what an accountant in the United States would command.

Wyle's response is that advances such as spreadsheets and software wiped out thousands of paper-pushing jobs in accounting offices while improving accuracy and efficiency, "and nobody thought that was a bad thing."

After processing 7,000 U.S. returns in its first tax season in 2003, SurePrep is projected to handle 35,000 next year and more than 85,000 in 2005.

"It's growing like crazy," Wyle said. "We do the work more efficiently. Companies make more profit. Everybody benefits."

A lot of people in California would disagree.

On a percentage basis, the Golden State's job losses have been on par with those nationwide, about 1.9% of nonfarm payroll since employment began sliding in March 2001. The state's outsize fiscal pain stems from the type of jobs it has lost — tens of thousands of lucrative high-tech positions and the fat bonuses and stock options that went with them.

When adjusted for inflation, personal income in California plunged 3.4% from January 2001 through

July 2003, compared with a decline of 0.1% nationwide, according to estimates from the state Department of Finance. By its count, no other state did worse.

A lot is riding on California's ability to regenerate similar high-paying positions. Optimists are banking on biotech, nanotechnology and other emerging fields over the long haul. In the meantime, the traditional technology sector has shown signs of life. But, so far, it hasn't translated into job growth in California, and some industry veterans are blaming offshoring.

Cici Mattiuzzi, director of the career services office for the College of Engineering & Computer Science at Cal State Sacramento, said she had never seen job prospects for tech grads so dismal in her 25-year career.

"The people I talk with at the huge companies here — **Intel**, Hewlett-Packard, **Oracle** — all indicate that they are hiring. But they are not hiring in the United States," said Mattiuzzi, who said small firms were telling her the same thing. "My hope has been that the market would turn around this spring, but with the amount of outsourcing, I'm not real optimistic."

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