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Offshoring jobs could drain public coffers, critics warn

By Rachel Konrad, AP, 4/7/2004

SAN JOSE, Calif. (AP) -- As U.S. companies shift jobs to low-paid workers in developing nations, a growing number of economists and politicians worry that offshore outsourcing could damage the nation's fiscal health by draining tax coffers.

Although proponents of offshoring dismiss such concerns as far-fetched or naive, some tax experts say the migration of lucrative technology jobs to India and China is shrinking U.S. employee tax contributions and could exacerbate state budget shortfalls. Others say offshoring could erode already-strapped Social Security, Medicare, workers compensation and other payroll-deduction funds more quickly than anticipated.

Few researchers have studied offshoring's potential drain on public coffers.

But up to one-quarter of lost wages translate to lost tax revenues, by conventional accounting methods. So if 3.3 million white-collar jobs and \$136 billion in wages move overseas by 2015 as Forrester Research predicts, that means federal, state and local tax receipts could decline as much as \$34 billion.

"Here's the big reason why tax revenues are declining: All these jobs are leaving the country," said John McGowan, professor of accounting at Saint Louis University. "We need to start talking about this problem and not just blithely saying, 'Free trade is the solution' just because it boosts corporate profits and Wall Street likes it."

Cynthia Kroll, senior regional economist at the University of California, Berkeley, said offshoring could jeopardize U.S. dominance in emerging fields such as genetics and nanotechnology. She estimates that about one in nine jobs nationwide -- one in six in Silicon Valley -- could be vulnerable.

"If (research and development) is coming out of India, will the next wave of growth bypass us entirely?" Kroll said. "We need to pay attention to what India and China and these other countries are doing to get these new rounds of investment."

Democratic presidential candidate John Kerry is calling for a 5 percent corporate tax cut and changes to federal funding eligibility so software engineers could get retraining grants that are now reserved for blue-collar workers. Roger Altman, Kerry's senior economic adviser, said a national health care program would trim business costs, and tax credits for new jobs would keep positions from emigrating.

"The idea that we can't compete against India because of India's low wages -- that's a myth," Altman said. "We need to make this country more competitive. That comes down to making employers more competitive so they're not under the same pressure to move jobs offshore."

President Bush signed a February economic report stating that offshoring jobs "makes sense." N. Gregory Mankiw, chairman of the president's Council of Economic Advisers, and Treasury Secretary John Snow have drawn criticism from outsourced workers for similar comments.

Steve Schmidt, spokesman for the Bush-Cheney re-election campaign, said the president favors creating jobs by lowering corporate taxes and energy costs, opening foreign markets to American products, and reducing litigation costs for businesses. He called Kerry's proposals to stem offshoring "obstructionist."

Although outsourcing has become campaign fodder, it's unclear whether legislation or tax changes could stem the job exodus.

Indian computer programmers earn roughly one-sixth the \$61,000 U.S. average, and Chinese programmers earn even less. Given the disproportionately low labor costs abroad, tinkering with tax codes won't save many jobs, said Timothy McCormally, executive director of the Tax Executives Institute, a trade group for tax experts.

"All the people who are now in Bombay or Bangalore instead of Berkeley or Boston are not paying taxes to Uncle Sam, and they're not buying items here so there's a cascading effect," McCormally said. "But if you're looking for a magic bullet for keeping jobs in the U.S., history teaches you that it's not going to be easy."

Proponents of offshoring say the 35 percent tax on corporate profits -- fattened by outsourcing work to low-paid foreigners -- would compensate for lower payroll deductions, though taxes on profits don't get siphoned into Social Security.

They insist outsourced workers will find new jobs. They also say that even if salaries are lower, tax receipt shortfalls wouldn't come close to the \$34 billion worst-case scenario, based on standard payroll deductions and Forrester Research estimates, which some economists argue overstates the extent of offshoring.

"It's pretty clear that even when people are temporarily dislocated by outsourcing, they find employment elsewhere, get back on the payroll and pay taxes again," said Scott Hodge, president of the Tax Foundation, a research group. "On the individual level, outsourcing causes extreme, painful events. At the macroeconomic level -- it sounds cold, but the economy churns all the time this way."

More than two dozen states are considering proposals to ban offshoring of government contracts. Silicon Valley executives are urging politicians to avoid such legislation.

But even staunch defenders of offshoring acknowledge that white-collar workers are hurting. The Information Technology Association of America, which represents 500 companies, reported in a study last month that offshoring has eliminated 104,000 U.S. tech jobs.

ITAA president Harris Miller wants to expand Trade Adjustment Assistance programs, which began in 1962 for laid-off factory workers, to include financial services, call center and other white-collar workers -- similar to Kerry's proposal. Computer programmers, administrative assistants and other service employees account for two-thirds of U.S. workers.

"We've lost track of the 35- to 40-year-old white-collar person who needs to broaden his or her skill set," Miller said. "They've become the forgotten middle, and they need some help."

Charles Burch, 51, who has been a computer programmer for AT&T Corp. and Bell Labs, said he'd be quick to sign up a refresher course, though he's unsure it would help. He's been burning through retirement savings and has sent out more than 1,000 resumes since 2002, when an Atlanta consulting firm terminated his \$83,500-per-year position.

His wife, who works for life sciences giant MDS Laboratories Inc., recently received notice that her position would be terminated within two months. His son got a pink slip from General Motors Corp. six months ago.

"We're going back to the 1930s, when we had multiple families living together because times were so tight," said the resident of Lawrenceville, Ga. "I'm not sure these corporate executives understand the true costs of outsourcing -- no one's thinking about that, just the bottom line."

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