

# Political Appointees Re-Write Commerce Department Report On Offshore Outsourcing; Original Analysis Is Missing From Final Version

---

BY RICHARD McCORMACK richard@manufacturingnews.com  
October 12, 2005

---

The Commerce Department has responded to a half-year-old request by Manufacturing and Technology News for the release a long-awaited study on the issue of "offshore outsourcing" of IT service-sector jobs and high-tech industries. But the 12-page document represented by the agency as its final report is not what was written by its analysts. Rather, it was crafted by political appointees at Commerce and at the White House, according to those familiar with it.

At an estimated cost of \$335,000 -- or \$28,000 per page -- the document MTN received from the Commerce Department's Technology Administration contains no original research and forsakes its initial intent of providing a balanced view of outsourcing, according to those inside and outside the agency.

The report was requested by Congress in an appropriations bill in December 2003, with a six-month deadline of June 2004. A 12-page version, entitled "Six-Month Assessment of Workforce Globalization In Certain Knowledge-Based Industries," was released on September 8, 2005, as the result of a Freedom of Information Act request that MTN had filed on March 17, 2005. The report, which carries a July 2004 date, has not been posted on the Technology Administration's Web site and is not available to the public.

According to those who have tracked the report's whereabouts, it was completed well before the November 2004 presidential election but was delayed for clearance by the White House and the Republican-controlled Congress due to the controversial nature of the subject. Outsourcing had become a contentious campaign issue, particularly in the swing states.

After the November election, a draft of the report prepared by a "braintrust" of Technology Administration analysts went into a vetting process among political appointees at the Commerce Department and White House. It never resurfaced. The analysts never received any feedback on their work, which is unusual, say those who have written similar reports.

The 12-page version that was released focuses on the allegedly positive impacts for the U.S. economy of the offshore outsourcing -- and "insourcing" -- of jobs in the IT, semiconductor and pharmaceutical industries, argue those who have read it. The report quotes research conducted by organizations and individuals that have been funded by multinationals that benefit from shifting jobs overseas. No mention is made of the conflict of interest inherent in the studies cited by the Commerce report.

Manufacturing & Technology News requested an interview with Ben Wu, the Commerce Department's assistant secretary for Technology Policy, seeking information on why the published version bears little resemblance to the one prepared by his agency's analysts. The interview request was not fulfilled. The following questions were submitted to the Technology Administration via e-mail by MTN:

- Why did it take so long to release the report, given that the date upon it is July 2004?
- Why is the final version so different from earlier versions of the report?
- Why is it so short? What happened to the bulk of the report?
- Can you talk about the internal vetting process both within the agency and the administration that the report went through?
- Is offshore outsourcing a problem or an opportunity?

Responding to the questions was Dan Nelson, deputy director of media affairs for Commerce Secretary Carlos Gutierrez, in the following e-mail, dated October 6: "Here's the Commerce Department statement responding to all of your questions: Fostering innovation and competitiveness that leads to job creation in America is a top priority of the Administration. We remain committed to making sure every American who wants to work finds a good-paying job. In carefully developing the report, we sought to ensure that it was thorough, objective and that the competitive environment was properly assessed and supported by hard data."

The final report says that government data "can offer only very limited insight into the extent and impact of workforce globalization," and that "it was not possible to determine whether the shift of U.S. work to non-U.S. locations resulted in jobs losses for U.S. workers..." The report then spends one of its 12 pages describing research conducted by McKinsey Global Institute highlighting "opportunities" for U.S. firms and workers.

But two Technology Administration analysts involved in writing the IT services and software section of the report made a public presentation to the Association for Computing Machinery (ACM) in December 2004 describing their findings. The 43-page PowerPoint presentation, provided to MTN by those attending a meeting of ACM's Job Migration Task Force, offers a detailed analysis of the trend, including charts on the growth of Indian outsourcing firms and strategies adopted by IBM, Hewlett Packard, Microsoft, Google and Yahoo. It also describes the IT jobs that will likely remain in the United States and notes that most overseas IT companies are not doing research. It states that "knowledge work can move offshore more quickly and cheaply than manufacturing," and notes that "companies are moving up the off-shoring learning curve."

The analysts say that there is a "surplus of low-cost, technically skilled labor in other countries" that is taking advantage of the "digitization of work" and standardization of software platforms such as Oracle, Peoplesoft and SAP. Foreign workers have benefited from the "development and adoption of standard IT training programs and skill certification." A large Indian-American IT business community is "tapping [the] low-wage Indian workforce...Offshoring destination nations [are] expanding technical workforce skills training." They noted that venture capitalists are encouraging IT start-ups to use offshore software developers to reduce their cash burn rates. And that there is "growing pressure in corporate America to offshore IT work." There is also "political pressure to stem the flow of jobs."

Little of that work made it into the final report.

"There is nothing in here that is original research," says outsourcing expert Professor Ronil Hira of the Rochester Institute of Technology, who chairs the Career & Workforce Policy Committee of IEEE-USA. "It's not a balanced or an objective study of what's happening and what the implications are," he adds. "It is missing a lot of the information that was available at the time. It's equivalent of the work of a sophomore at the college where I teach."

Martin Kenney, a professor at University of California-Davis and a member of the ACM panel investigating the issue, concurs. "It's a little bit shocking that that level of work could come out of anybody with a college education," he says. "I mean, I wouldn't accept that from my students in a class."

The report states that the Commerce Department was not able "to perform detailed empirical estimation" of the trend, and was thus forced to "summarize information gathered from a variety of sources in order to provide a snapshot of current trends in workforce globalization."

The report said its sources of information included "industry surveys, annual reports, Securities and Exchange Commission 10 K and 20-F filings, government data on employment, direct investment and trade and published articles and reports." Additional information was gathered through interviews conducted by Technology Administration analysts with companies and with academic and industry experts. No SEC filings or experts were cited in the released version of the study.

"The U.S. government is different from most other countries because most other countries are taking this very seriously and are trying to think through where this global shift of call centers and rather sophisticated service types of activities and mental labor is going to be located in the next 20 years," says Kenney. "How does one position one's economy and one's educational system, particularly at the university level, to make sure that you can continue to add value at a sufficient level to keep you as an advanced developed country? The United States seems to be treating this even more cavalierly than it treated the relocation of manufacturing, which has been very important for the rise of China as a new global superpower."

Services are expected to generate even more value than manufacturing "and are the basis of another major global shift," says Kenney, author of the 2003 book "Locating Global Advantage: Industry Dynamics in the International Economy." "To ignore what's happening won't mean it won't happen -- but, on the other hand, it will prevent you from having to do anything. It's pretty amazing that the government would put out something like that report."

