



Is Schwarzenegger Outsourcing California?

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Gov. Schwarzenegger's new plan to save the state millions in purchasing goods and services gives unprecedented influence over the state's checkbook to a Canadian-owned company, and has mired the governor in the muck of the bitter outsourcing fight in Sacramento.

Schwarzenegger's latest cost-saving plan has put the state into business with one of the world's largest outsourcing companies, the Canadian-owned CGI-AMS. The deal puts the company at the forefront in the decision-making process over the \$4 billion the state spends annually in goods and services.

CGI-AMS is a \$3 billion company with 25,000 employees offering everything from software development to "outsourcing solutions" for its clients, according to the company's Web site. Before the Canadian-owned CGI Group Inc. acquired American Management Systems earlier this year, AMS made Lou Dobbs' hit list of companies that are "exporting America." Dobbs describes those companies as "U.S. companies either sending American jobs overseas, or choosing to employ cheap overseas labor, instead of American workers."

The new merger makes the company "well positioned to compete for mega-outsourcing deals," said Tom Davies, senior vice president at the market research firm Current Analysis Inc., Sterling, Va. Davies was quoted in Washington Technology, a national newspaper dedicated to information technology.

Last week, the administration said the state's deal with the company would "modernize" the way the state purchased goods and services through the use of "strategic sourcing tools," according to a release from the governor's office. The administration claims it will save the state up to \$600 million per year.

Fred Aguiar, secretary of the State and Consumer Services Agency, says CGI-AMS is currently conducting a complete analysis of the state's buying practices, and will come back with a series of recommendations of how the state could save money. And part of the "strategic sourcing tools" at the state's disposal may well be more state contracts that involve using overseas workers.

The deal with CGI-AMS is the clearest sign yet of where the governor stands on the controversial issue of "offshoring," or sending California service jobs overseas to save companies and governments money. In records filed with the Securities and Exchange Commission, CGI-AMS makes it clear that outsourcing is central to the services the company provides. And while it is still unclear what kinds of recommendations the company will make on how and where California should buy goods and services, the company has a long track record of looking overseas to save

its clients money.

At a May 2003 meeting of investors in New York, AMS CEO Alfred Mockett said outsourcing provided the greatest opportunity for growth for the company. Mockett announced the company was going to quadruple its software development center in Krakow, Poland, and expand contract relationships in India.

"We've been a little late to the game in offshore software development. Believe me, we are making up for lost time." Mockett told investors.

Aguiar says the details of how the new procurement process will work are still being worked out between the company and the Department of Governmental Services; it is possible that the way to save the state money may involve purchasing goods and services from overseas. But, he says, at least initially, the company's efforts will be focused on making bulk purchases to try to save the state money, something akin to the state doing its shopping at Costco instead of a local supermarket.

But, Aguiar says, the state must still abide by the myriad regulations in state statute involving government purchases of goods or services. And, he said, "if the quality of the product, and service and delivery of a good or service can be delivered by a California company, that's where we should be looking, all things being equal."

But if all things are not equal – if the state could save money by purchasing goods and services from overseas – then the state could well turn to that alternative.

Schwarzenegger spokesman Vince Sollitto says that the governor won't hesitate to look overseas if the end result is saving money for California taxpayers. "The governor's focus is more of a bottom-line focus," he said. "At the end of the day, the governor's focus is on the taxpayer."

Aguiar said that while CGI-AMS will be making recommendations to the department on various ways to save money, the Department of Governmental Services will have the final say over which goods and services the state purchases. "As I understand this process, DGS officials will have ample opportunity to change the shape of the proposal," Aguiar said. "Ultimately, the decision will be made by DGS."

But the deal can only turn up the heat on the outsourcing fight in Sacramento, and place the governor at the center of the firestorm. Until now, Schwarzenegger has mostly stayed out of the outsourcing fight, refusing to take a position on any of the bills moving through the Legislature.

By signing the state up with CGI-AMS, the governor seems to be preparing to veto a bill by Assemblywoman Carol Liu, D-La Cañada Flintridge, that would prohibit state agencies from using government funds to contract for services unless the work will be performed in the United States.

The bill passed the Senate Governmental Organization Committee on a 7-4 vote last week, with all the No votes coming from Republicans. The measure will be heard next in Senate Appropriations, but is expected to land on the governor's desk.

Schwarzenegger has not taken a position on the bill, but it has been at the center of a war between labor unions and the Chamber of Commerce.

Liu's bill was drafted after it was revealed that workers in India were being used to staff call centers that service welfare and food stamp recipients. There are no good statistics for how many state contractors employ service workers overseas. Assemblywoman Wilma Chan, D-Oakland, is ordering a state audit that would pinpoint just how many jobs state contractors are sending abroad.

Liu said she has not had any formal meetings with the governor or his staff on her bill, but she was not optimistic. "I don't know where the governor is, but I know where the Chamber is," Liu said. The Chamber has had a tremendous influence over the Schwarzenegger administration, and has vehemently opposed the anti-outsourcing bills in the Legislature.

Liu's bill is only part of a national debate over sending jobs overseas that cuts across party lines. Many business leaders who are Democrats, particularly those in high-tech industries, say sending service jobs to places like India is essential to American business' bottom line. Meanwhile, a more protectionist wing of the Republican Party has joined with labor unions and others on the left to oppose the exporting of those jobs.

While the fight has been mostly partisan here in California, Republican legislatures and governors in several states, including Indiana, Illinois and Minnesota, and some Republicans in Congress have moved to restrict state and federal "offshoring."

When the contract was announced, the administration said it had been awarded to American Management Systems. News reports described the company as being based in the Washington D.C.-area. But more than a month ago, AMS was acquired by a Canadian company, CGI Inc., which has its corporate headquarters in Montreal. A CGI spokeswoman said it has "chosen to co-brand" its U.S. operation, under the name CGI-AMS.

A spokeswoman for Gov. Schwarzenegger says the company's name change went through after the initial bid for the contract had been received, and failure to include the name change in the governor's press release was an oversight.

Though the merger is sure to make CGI-AMS a more powerful corporate and political force, the company's political activity predates the merger. AMS receives millions in government contracts, and has a history of political lobbying and donating to campaigns.

The company secured a piece of a contract awarded by Gov. Davis in 2003. Last year, the Department of Child Support Service awarded an \$801 million contract to IBM to build a computer network that would allow local officials to track deadbeat dads, and make collection and distribution of child support payments more effective. IBM subcontracted \$223.5 million of that contract to AMS.

AMS has also seen a rapid growth in its contracts with federal, state and local governments, and has dabbled in the political donation and lobbying game. The

company has a variety of contracts with state governments in New York, New Jersey and Texas and has recently signed a deal with Los Angeles County.

Records from the Center for Responsive Politics show AMS donated \$144,000 in soft money to the Republican National Committee from August 1999 through May 2002. The PAC also gave \$1,000 each to three Democratic Senators: Christopher Dodd, Tim Johnson and Richard Durbin.

In California, AMS has opened a major donor account, but there are no contribution records on file with the secretary of state's office. CGI also appears to have opened a major donor account, but there are no records yet on file with the secretary of state. The next round of campaign filings are due by July 31.

But AMS has been active in lobbying in Sacramento. In their efforts to secure the child support contract, the company has spent about \$239,000 lobbying the Capitol since the beginning of 2003. Among their lobbyists are The Flanigan Firm, which has close ties to the governor.

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