



## TAA Says Offshoring Good for U.S. Economy, Workers

By [Jennifer deJong](#)

May 15, 2004 — The worldwide sourcing of computer software and services actually will increase the number of U.S. jobs, improve real wages for American workers and benefit the U.S. economy overall, according to a study by the Information Technology Association of America (ITAA), a trade association based in Arlington, VA.

Funded by the ITAA and conducted by Waltham, Mass.-based economic research firm Global Insight Inc., "The Impact of Offshore IT Software and Services Outsourcing on the U.S. Economy and the IT Industry" determined that from 2003 to 2008, total savings from the use of offshore resources are estimated to grow from US\$6.7 billion to \$20.9 billion, spurring investment in new IT projects and services and creating new jobs.

"The U.S. IT work force will continue to grow," said ITAA president Harris Miller. But some of the study's own data appears to contradict Global Insight's conclusion that offshoring benefits U.S. IT workers. For instance, the study found that in the software and services area, the economy will create 516,000 jobs over the next five years in an environment with global sourcing, but only 490,000 without it. But of these 516,000 new jobs, 272,000 will go offshore and only 244,000 will remain onshore.

The study, released at the end of March, cites those numbers as evidence that global sourcing will create more U.S. IT jobs. But given that all 490,000 jobs created without global sourcing would be in the U.S., the net gain for the U.S. appears to be greater without offshoring. Asked to clarify the apparent contradiction, ITAA senior vice president Bob Cohen did not. He said in a statement: "The study shows that off-shore IT software and services outsourcing yields benefits to the U.S. economy—lower costs, higher productivity, lower inflation, more consumer spending, more business investment, more exports, more jobs, and higher real wages—than in an environment without offshore IT software and services outsourcing."

According to an April 12 article in The Wall Street Journal, the statistics available on global outsourcing are sketchy. The article did not specifically refer to the March 30 ITAA study, but it said among global outsourcing studies, "there is a great deal of partial

telling of the story," particularly given the current U.S. political season. It also noted that because most economists were reared on the theory that free trade is the basis of all economic growth, they may be biased toward the long-term view that global sourcing benefits U.S. IT workers.

The ITAA study said that by lowering inflation and raising productivity, offshore IT software and services outsourcing increased the wages of U.S. workers by less than two-tenths of 1 percent in 2003. Wages are expected to be higher in 2008 by less than half a percent. It also reported that from 2000 to 2003, only 104,000 jobs were lost to offshoring, which represents only 2.8 percent of the total U.S. IT software and services jobs. "But there is so much hype [surrounding this issue]," said Miller. "If you watch Lou Dobbs every night, of course you think [the number is much higher than that]," he said, referring to the CNN anchor of "Lou Dobbs Tonight," which includes a nightly segment called "Exporting America."

From 2000 to 2003, 372,000 U.S. IT software and services jobs were lost overall, the study found. "Most of those had nothing to do with offshoring," Harris said. "The dot-com bubble burst. There was a general recession."

#### 'SHOCKING TO ME AT FIRST'

When former development manager Joseph Blank worked for the long-term care insurance division of General Electric Financial, in San Rafael, Calif., he was asked in 1999 to farm out 75 percent of the company's application development projects to outsourcing firms in India, including Satyam Computer Services Ltd., in Secunderabad, and Patni Computer Systems Ltd., in Mumbai. "It was shocking to me at first," recalled Blank, now president and chief operating officer of software marketing firm Virsalent Inc., in San Francisco. "But we could get people for a third of the cost," he said.

While the ITAA study touts "the ability to efficiently stage 24x7 operations" as a benefit of offshoring, Blank said it's difficult to take advantage of the round-the-clock work force.

"I've been managing software development since 1984. I'm used to having a close-knit relationship between the business unit and the development team," said Blank, whose company is developing PerTerra, a software product designed to help manage offshore development projects. It's not easy to communicate when there is only a one- or two-hour window each day when both sides of the hemisphere are at work, he said.

The business analysis and requirements phases of development do not lend themselves to international outsourcing, acknowledged Patni's senior vice president of sales and marketing, Mrinal Sattawala. "But the coding and testing phases can be effectively managed offshore," he said.

Blank noted that there are cultural differences to contend with as well. The Indian developers he worked with were dedicated and committed. "But they wouldn't say 'no' to me. They would go ahead and code the way I suggested, even if it was inefficient," he

said. By contrast, the coders who worked for him at GE were vocal and uninhibited.  
"They would say, 'Joe, that's a stupid way to do it. I'm not coding it that way,'" said Blank.