ORIGINAL

HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA
COMMERCE COMMITTEE HEARING

HB 2639

MAIN CAPITOL BUILDING
ROOM 140
HARRISBURG, PENNSYLVANIA

AUGUST 3, 2004, 1:02 P.M.

BEFORE:

HON. GEORGE HASAY, CHAIRMAN
HON. BOB ALLEN
HON. KEITH GILLESPIE
HON. MATTHEW GOOD
HON. ADAM HARRIS
HON. DAVID MILLARD
HON. JERRY NAILOR
HON. STEVEN NICKOL
HON. MARIO SCAVELLO
HON. MATTHEW WRIGHT
HON. THOMAS CALTAGIRONE
HON. HAROLD JAMES
HON. PHYLLIS MUNDY
HON. THOMAS TANGRETTI
HON. JAMES WANSACZ
HON. THOMAS YEWCIC

ALSO PRESENT:

HON. TIMOTHY HENNESSEY

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1 CHAIRMAN HASAY: The House Commerce
2 Committee will now come to order. The House Commerce
3 Committee has scheduled a hearing on the Outsourcing
4 Bill introduced by Representative McGeehan. This is
5 House Bill 2639.
6 And I think the issue needs to be aired.
7 And it will be interesting to hear the number of
8 people that are testifying today so that the public is
9 made more aware of outsourcing and what Representative
10 McGeehan's Bill does.
11 So the first person to testify is a Mr.
12 Matthew Page. Hi, Mr. Page. Thank you for coming
13 here. He is the director of procurement and workforce
14 policy, AeA Advancing Business Technology. I
15 appreciate you coming here. You can start at your
16 convenience. Thank you.
17 MR. PAGE: Good afternoon. Thanks, Mr.
18 Chairman and members of the Committee. I appreciate
19 you allowing me to come here today and testify on this
20 important issue. My name again is Matthew Page. I'm
21 the director of procurement and workforce policy for
22 AeA, formerly the American Electronics Association.
23 For those unfamiliar with AeA, we are the nation's
24 largest trade association representing the high-tech
25 industry.

1 We have more than 3,000 member companies
2 with 1.8 million employees that represent the
3 high-tech spectrum from semiconductors and software to
4 mainframe computers and telecommunication systems.
5 The reason I'm here today is to talk about
6 offshore outsourcing from the high-tech perspective
7 and in the process hopefully leave the committee with
8 an understanding of why anti-outsourcing legislation
9 like House Bill 2639 is bad public policy.
10 There is considerable anxiety and perhaps
11 an equal amount of demagoguery regarding the offshore
12 outsourcing of American jobs.
13 The dialogue, indeed the debate, about
14 offshore outsourcing is prompted bereft of any
15 understanding of the larger context in which it's
16 taking place.
17 Many of those forces and trends affecting
18 world commerce are creating a whole host of new
19 challenges for American companies, indeed for the
20 entire American polity.
21 In most instances, these forces are beyond
22 the control of any given nation-state. Rather, the
23 challenge is to deal with these forces and trends so
24 as not to compete better -- so as not only to compete
25 better but to create higher paying jobs that also

1 result in a higher quality of life.

2 Based on US history and the history of high

3 tech, we know that although we cannot control the many

4 changes in the world, we can meet the challenges and

5 thrive as an economic nation-state. In our analysis

6 of this changing globalized world, we have found

7 certain ironies.

8 For example, India and China have now posed

9 significant commercial challenges. This is so

10 primarily because they have adopted economic policies

11 that the United States has encouraged them to do so

12 for many, many years.

13 No industry in the United States is more

14 globalized or more involved in international commerce

15 than high tech. High tech is the largest exporter of

16 products totaling $171 billion in 2003. And over 60

17 percent of all high tech companies receive more than

18 half of their revenues from markets other than the

19 United States.

20 This is an industry that some time -- some

21 time ago realized a company had to be a player in the

22 world -- in a marketplace -- in a world marketplace if

23 it is going to succeed.

24 We, therefore, have much at stake in

25 ensuring that the debate and the dialogue about

1 offshore outsourcing includes an understanding of the
2 larger context in which it is taking place.
3 Today I'm going to be discussing seven
4 major topics or seven main themes here that I want to
5 go over just briefly at the start here, and then I'll
6 go into a little bit further detail in my testimony.
7 First off, although the magnitude of
8 offshore outsourcing is unknown, we do know that some
9 workers are being hurt. Most of the data on this
10 trend are anecdotal or are future projections. No
11 systematic data on the actual numbers are being
12 gathered by disinterested observers or by the federal
13 government.
14 Job loss over the last three years is less
15 from offshore outsourcing than from a weak
16 international and domestic economy and from
17 productivity improvements.
18 Many jobs lost over the past several years
19 are more attributed to a much weaker domestic and
20 international economic -- international economy and
21 dramatic increases in productivity than to offshore
22 outsourcing.
23 Increases in productivity have allowed
24 companies to do more with less. And historically high
25 productivity has been key to rising wages and higher

1 standards of living. But in today's hysteria over
2 offshore outsourcing, productivity has become a
3 four-letter word.
4 Changes in the international marketplace
5 are posing significant new competitive challenges for
6 US companies and other countries that have certainly
7 caught up.
8 In terms of education, skills, and
9 infrastructure including broadband, some countries
10 have caught up with the United States and perhaps have
11 even exceeded us. Offshore outsourcing is not just a
12 function of cheap labor.
13 Also offshoring is a global trend. The
14 United States is not the only country faced with
15 offshore outsourcing. It is a worldwide phenomenon
16 that is especially affecting the developed countries
17 of the world such as the European Union, Japan, and
18 others.
19 And demographic factors will continue to
20 alter the international competition as well as the
21 internet facilitates the flow of worker -- of work
22 between countries.
23 The proliferation and low prices of the
24 internet and broadband have enabled workforces all
25 over the world to become mobile without moving.

1 Furthermore, demographics of the world's labor force
2 are challenging them -- changing dramatically and will
3 affect how many -- how and where companies do business
4 over the next 25 years.
5 Given today's angst over offshore
6 outsourcing, we need to recall the similar angst the
7 United States felt during the late 1980s and 1990s
8 when Japan was perceived as taking over the world.
9 The concern about offshore outsourcing is
10 very similar to those times in that as you probably
11 know it didn't really happen.
12 Ironically, also the United States remains
13 an immensely attractive location for foreign direct
14 investment and insourcing, employing many millions of
15 Americans. For over 30 years the United States has
16 been a major benefactor of the converse of offshore
17 outsourcing, the creation of US jobs by foreign-owned
18 companies.
19 Number 6 on our slide here, offshore
20 outsourcing is also likely to be a long-term
21 competitive benefit. As in free trade, offshore
22 outsourcing is in the long-term competitive interest
23 of the United States as it leads to both lower prices
24 and higher productivity rates but also no doubt in the
25 short term some will be hurt by this trend.

1 Over the last ten years there have been --
2 there has been a reluctant acceptance that some
3 lower-end manufacturing jobs ultimately would go
4 offshore. But higher level jobs with higher skills
5 and higher education on the services side are now
6 being offshored as a new trend.
7 And lastly, high tech stands to lose the
8 most. Should the US federal, state, or local
9 governments promulgate protectionist measures to deal
10 with offshore outsourcing or other issues, no industry
11 is more likely to be hurt or affected more so than
12 high tech.
13 Going back to my number one point in terms
14 of magnitude. As I mentioned, there is no systematic
15 data that actually has been able to show how many jobs
16 have been offshored. However, some recent studies
17 have indicated that the negative impact of offshoring
18 has been exaggerated. Clearly there has been a
19 decline of high-tech jobs in the United States.
20 However, these jobs have been lost because
21 of several factors including weak domestic economy,
22 weak international economy, productivity improvements,
23 and in cases offshore outsourcing.
24 When it comes to the decline of jobs, press
25 reports would have you believe that offshore

1 outsourcing is the only factor. We believe that
2 offshore outsourcing is the least important variable
3 in the decline of high-tech jobs. The decline of the
4 world's economy, the end of the high-tech bubble and
5 dramatically improving productivity rates are the
6 largest factors.
7 Most of the data on offshore outsourcing
8 are anecdotal or are projections well into the future.
9 The Forrester report on service jobs going offshore is
10 so commonly cited that it has been accepted as fact.
11 Forrester estimates that 3.3 million US service jobs
12 will be moved offshore by the year 2015.
13 However, these projections were based on
14 US Bureau of Labor and Statistics projections that
15 were made at the height of the tech bubble and since
16 have been revised downward.
17 The Forrester study used a number of quite
18 subjective assumptions, making extrapolations to 2015
19 very tentative.
20 Despite the job losses, the US government
21 projects job creation in high tech. BLS recently has
22 revised its US revised growth projections from two
23 years ago as it recognized that these projections were
24 based on the continuation of the bubble.
25 These projections are more conservative,

1 yet still show an extraordinary increase in high-tech
2 employment. Computer programmers are expected to grow
3 from 499,000 in 2002 to 571,000 in 2012, a 15 percent
4 increase.
5 Computer systems analysts are projected to
6 add 184,000 jobs over the next decade growing by 39
7 percent. Electrical engineers are projected to grow
8 by 3 percent between 2002 and 2012.
9 Every year there is a tremendous amount of
10 job churn in the US economy. And recent data released
11 by the BLS show that between 25 and 30 million jobs
12 are destroyed and created each year.
13 As a recent *Washington Post* editorial
14 stated, The loss of a few hundred thousand jobs per
15 year to offshoring is a small part of the churning
16 that goes on in the US labor market.
17 And if the Forrester data are accurate,
18 offshoring only accounts for 1 percent of the jobs
19 being destroyed in a given year.
20 Yet in the short term, we do realize some
21 workers are being hurt. AeA recognizes offshore
22 outsourcing is occurring. And while the magnitude is
23 unknown, some are indeed being hurt.
24 This is driving today's concerns that
25 offshoring is moving up the labor ladder and is taking

1 some away some of the high skilled, high paying jobs.
2 However, these assertions likely are overstated.
3 Meanwhile, higher skilled service workers,
4 particularly software programmers, are not eligible
5 for worker retraining programs which currently are
6 available for displaced manufacturing workers.
7 Offshore outsourcing forces labor markets to become
8 more competitive as US workers are now competing with
9 India and China for some of the same jobs.
10 Over the last ten years, there have been a
11 reluctant acceptance that lower-end manufacturing jobs
12 would ultimately go offshore. But higher level jobs
13 with higher skills and higher education on the
14 services side being offshored are a new trend.
15 We conclude that the trend of offshore
16 outsourcing is occurring. And the question is not
17 whether it is occurring but its magnitude.
18 Currently, no government data exists to
19 isolate the number of jobs that are being lost due to
20 offshoring. And despite the lack of information
21 available, anecdotal evidence shows clearly that some
22 people are losing their jobs and are being hurt by
23 offshoring.
24 Our analysis indicates the number of people
25 being hurt by offshore outsourcing is exaggerated.

1 However, there are some indications that the -- and
2 there are some indications that the lower-end
3 technology jobs are being lost to offshoring while
4 most higher-end technology jobs are remaining in the
5 United States.
6 This next slide here basically shows you a
7 list of jobs that were lost over the last couple of
8 years between 2000 and 2002. And you can see the
9 negative trend during that same time period.
10 And the next slide, there are -- there is
11 an indication that even during that down period when
12 the bubble burst, there was some jobs -- high-tech
13 jobs that were actually created over that same time
14 frame.
15 And then the third slide here. There
16 are -- these are the projections for a number of the
17 high-tech jobs that we see some potential increases
18 over the next ten years in particular growth and
19 network systems analysis and computer software
20 engineers.
21 We contend that the job loss has been more
22 attributed to the high-tech bubble burst, a weak
23 domestic economy, an international economy and
24 dramatic increases in productivity.
25 Just a few data points to start the

1 discussion on the economies. Next slide, please. For
2 three consecutive quarters in 2001, the US GDB
3 declined as the US economy fell into recession. The
4 GDP growth rate of the European Union averaged just
5 over 1 percent between 2000 and 2003. And Japan's GDP
6 fell by .6 percent in 2001 followed by two years of
7 anemic growth below 1 percent.
8 The US domestic economic downturn has begun
9 a significant factor -- has been a significant factor
10 in the loss of jobs. For three consecutive quarters
11 in 2001 as I stated, the US GDP declined as the US
12 economy fell into a recession. Venture capital
13 investments experienced a dramatic decline from $106
14 billion to $21 billion in 2002, a decline of near 80
15 percent.
16 And in mid-2000, the high-tech bubble burst
17 as the market for high-tech goods and services dried
18 up. High tech lost over 1 million jobs between 2001
19 and 2002 including a loss of 146,000 software services
20 jobs.
21 Technology job losses continued into 2003
22 as an additional 234,000 net jobs were lost. However,
23 this was less than half the previous year's loss
24 indicating perhaps the hemorrhaging of high-tech jobs
25 has diminished.

1 In additional good news, we're seeing gains
2 in employment with the US economy producing over a
3 million new jobs since the start of 2004.
4 In discussing productivity rates, you can
5 see sharp increases in productivity in recent years
6 have held down the need to hire some workers or more
7 workers.
8 Historically it is interesting to note from
9 1948 to 1973 productivity grew to close to 3 percent
10 annually doubling the economic standard in that
11 period. From 1974 to 1994 it averaged only 1.4
12 percent per year. And from 1995 to 2000, productivity
13 grew at more than 2.5 percent. In 2002 to 2003,
14 productivity actually grew by over 4 percent.
15 With significant investments in technology,
16 companies continue to increase the efficiency and
17 productivity of employees, resulting in permanent
18 productivity gains that allow fewer workers to meet
19 the rising demand.
20 For example, the retail industry has been
21 able to move 35 percent more business services per
22 year than it did five years ago.
23 Increases in productivity increase the real
24 wages for workers and profits for companies while
25 productivity is an overall benefit for the economy in

1 that it lifts the standard of living. It also allows
2 for companies to do more with fewer workers.
3 Currently, productivity is allowing US companies to
4 increase their output without hiring new workers.
5 Historically and correctly, productivity has always
6 been seen as a positive for the economy in general and
7 for workers in particular.
8 In the current hysteria over offshore
9 outsourcing, productivity unfortunately is seen in
10 some circles as a four-letter word.
11 I'd like to take a look at some of the
12 manufacturing jobs and the effect that it has had in a
13 global perspective. In addition to a weak US economy,
14 we have experienced a weaker global economy. And weak
15 international economies means less demand for US goods
16 and services.
17 Following an average-world growth domestic
18 product rate of more than 3 percent between 1998 and
19 2000, the average annual world GDP growth rate fell to
20 less than 2 percent between 2001 and 2003.
21 And US high-tech jobs, the world dropped
22 from a high of $223 billion in 2000 to $166 billion in
23 2002, a 26 percent decline. Perhaps as an indication
24 that the world economy is slowly coming back, US
25 high-tech exports increased slightly to $171 billion

1 in 2003.

2 Another indicator of a weak economy has

3 been the loss of manufacturing jobs. And this is what

4 this slide presents.

5 The US and the world lost a large number of

6 manufacturing jobs fundamentally changing the

7 landscape in recent years.

8 The 20 largest world economies lost -- all

9 experienced losses in manufacturing jobs. China alone

10 lost 15 million manufacturing jobs between 1995 and

11 2002, a decline by 15 percent.

12 During the same time, manufacturing

13 employment fell by -- in Japan by 16 percent, in

14 Russia by 12 percent, in the United Kingdom by 12

15 percent, and in the United States by 11 percent.

16 As the data indicate, there are a number of

17 reasons for job losses over the past three years.

18 Major productivity gains are occurring at the same

19 time as significant downturns in the US and world

20 economies.

21 These factors have had a dramatic effect on

22 US employment and are more responsible for job loss

23 than offshore outsourcing.

24 The rapidly changing global marketplace and

25 resulting competition pose significant challenges for

1 US companies. The view exists that America's economic
2 preeminence is a given. I'm here to tell you that it
3 is not necessarily the case.
4 We're facing some real challenges in the US
5 economy. And some of them I will go into in detail
6 here.
7 It is rarely discussed or noted in
8 editorials or news articles that other countries have
9 adopted -- or opened their economies, and thus
10 opportunities for their people.
11 Before the early 1990s, India and China
12 essentially were closed economies. India has
13 undergone a series of reforms opening itself to
14 globalization and investment, leading to innovation,
15 opportunities, and jobs for its indigenous population
16 that therefore -- heretofore never existed.
17 Before these reforms, India did not welcome
18 foreign investment, had strong protection in its trade
19 policies, and questionable intellectual protections.
20 India still has a long way to go in opening
21 its markets to foreign investors. Indeed, there are a
22 number of trade frictions with US companies stemming
23 from India's reluctance to open its markets further.
24 Meanwhile, China's economy is going through
25 a transformation that is historically unprecedented.

1 China has accelerated its conscious integration into
2 the global economy enormously since 2001 -- its 2001
3 accession in the World Trade Organization.
4 This transformation is providing tremendous
5 job opportunities for people in China. But as with
6 India, China has a long way to go before it is a true
7 open market. And that comports with its WTO
8 obligations.
9 The high-tech industry is particularly
10 concerned about China's insistence on the use of
11 Chinese standards for particular technologies and for
12 the imposition of a VAT tax on imports of
13 semiconductors.
14 As an example of one of India's major
15 reforms resulting from an increase in opportunities
16 that has been the providing of intellectual property
17 protection for foreign-owned manufacturing. This was
18 a factor for the four major US pharmaceutical
19 companies that recently announced plans to open or to
20 relocate in India.
21 Another topic I want to touch on today is
22 on education. You can hit the down button on the
23 front of the -- on the laptop, just hit the down
24 arrow. Hit escape. One more click, please. Thanks.
25 Education in some other countries is just

1 as competitive, if not more competitive, than in the
2 United States.
3 US lags behind many other countries in
4 engineering degrees granted. The US percentage of
5 engineering degrees granted worldwide will continue to
6 decline.
7 China, the European Union, Japan, Russia,
8 and India all award more engineering bachelor degrees
9 than the United States as this slide would indicate.
10 The latest data from the US National
11 Science Foundation show that the United States
12 graduates 6.6 percent of the worldwide engineering
13 bachelor degrees. As China and India are rapidly
14 expanding these programs and US engineering degrees
15 are not increasing, the US percentage of worldwide
16 engineering bachelor degrees will continue to fall.
17 There is a considerable lag in getting
18 up-to-date data on degrees. But anecdotal evidence
19 suggests that that US share of engineering degrees has
20 declined and is now lower than 6 percent.
21 Math, science, and engineering education at
22 colleges and universities outside of the United States
23 have become increasingly competitive with the US
24 universities.
25 India's premiere technology university, the

1 Indian Institute of Technology, is wildly considered
2 to be one of the most selective technology
3 universities in the world accepting only 3500 out of
4 178,000 applicants.
5 Engineering degrees conferred in the United
6 States dropped from a high of 76,000 in 1985 to 60,000
7 in 2002, declining by 20 percent.
8 Meanwhile, engineer degrees awarded to
9 China and the European Union have grown by 37 percent
10 and 27 percent between 1995 and 1999 respectively
11 while the United States has dropped by more than 4
12 percent.
13 Next slide, please. Until recently the
14 United States experienced what is called a reverse
15 brain drain with the rest of the world as -- with the
16 rest of the world as leading scientists, engineers
17 came to the United States to study and work.
18 With changes in policies and other factors
19 abroad, more and more foreign nationals are returning
20 home to their countries to explore opportunities there
21 and fewer are coming and staying in the United States.
22 We see a couple trends that are emerging.
23 US engineering doctoral recipients from China, Taiwan,
24 and India are less likely to stay in the United
25 States.

1 And the percentage of students who plan to
2 stay in the United States fell for all of these
3 countries by over 30 percent in the last five years.
4 Moreover because of 9/11, US laws and
5 regulations have become more stringent and have
6 continued -- have contributed to the brain drain.
7 Because of the tightening of an export
8 program and other changes in Visa rules, companies are
9 finding it more and more difficult to hire and
10 transfer foreign nationals.
11 Background checks now take months to
12 perform and have stymied the hiring of foreign
13 nationals by US companies.
14 In the United States, almost 55 percent of
15 math and engineering Ph.D.s were awarded to foreign
16 nationals. In the United States, nearly 50 percent of
17 engineering and computer science master's degrees were
18 awarded to foreign nationals.
19 According to a survey by the World Economic
20 Forum, the United States ranked first in the quality
21 of its scientific research institutions. However, it
22 only ranked 8th in availability of scientists and
23 engineers. And in quality of math and science
24 education, the United States ranked an abysmal 37.
25 Despite the attention and clamoring, fewer

1 kids are going into math, science, and engineering
2 fields in United States. And some argue K through 12
3 education in the United States is inadequate and we
4 are foregoing our future as a leader in advanced
5 technology and innovation as a result of that.
6 In a recent international assessment of
7 math and science, US 8th graders ranked 19th in math;
8 18th in science among 38 nations in the survey.
9 Between 1995 and 1999 there were no change in 8th
10 grade math and science in the United States.
11 I'm also here to tell you that offshoring
12 outsourcing is a global phenomenon. It is not
13 something that is just happening in the United States.
14 The United States is not the only country
15 that is faced with this issue. And we are seeing
16 increasingly that countries in the European Union and
17 Japan are going through the same phenomenon.
18 Deloitte Research estimates that Western
19 Europe will also offshore 730,000 financial service/IT
20 jobs by 2008. And Japan will offshore 400,000. For
21 Japan, this has been a surprising development. They
22 did not expect to be offshoring; however, they have
23 continued to do so.
24 Conventional wisdom has been that Japan is
25 cautious of offshore outsourcing, especially the

1 manufacturing of its most advanced technologies. This
2 is no longer the case as Japan must compete and
3 operate a global marketplace.
4 It is the oldest workforce in the developed
5 world and is very restrictive in immigration policies.
6 We project over time that Japan will outsource more
7 jobs than the United States as a percent of its
8 workforce.
9 Western Europe is confronted by the newly
10 emerging economies of the former Soviet Block with
11 their well-educated workers. Eastern Europe is the
12 first location -- is the first location in offshore
13 outsourcing in Western Europe.
14 And this may come as a shock, but India is
15 offshoring as well. Tata Consultancy Service, TCS,
16 one of India's four largest exporters of software, has
17 begun to offshore its staff. By 2005, TCS plans to
18 have 3,000 software engineers in China or 15 percent
19 of their global workforce.
20 In another example, the Giga Information
21 Group reports Indian vendors are developing facilities
22 in other low cost countries such as China and Eastern
23 Europe.
24 So as you can see, offshore outsourcing is
25 not only an American phenomenon. It is a global one.

1 As a result, US companies are facing an intensive
2 competitive world including international competitors
3 that are offshore outsourcing.
4 The fact that other companies are doing so
5 well on occasion give US companies no choice but to
6 offshore in order to reduce costs or improve their
7 competitive position.
8 Failure to do so will likely result in the
9 loss of more jobs in the United States because of
10 companies diminished competitiveness.
11 Before the 1990s, the populations of China
12 and India were not significant players in the global
13 workforce. Since that time, both countries have
14 liberalized their economies and opened their markets
15 to globalization releasing hundreds of millions of
16 people into the global workforce. These workers are
17 often more educated than their predecessors and even
18 more -- in some cases more than their American
19 counterparts.
20 These people now are competing for more of
21 the same jobs that we are. These trends will affect
22 how and where companies do business in the next 25
23 years.
24 For example, China's population is expected
25 to add nearly 200 million people between 2000 and

1 2030. India's population is expected to add over 400
2 million people between 2000 and 2030.
3 These two countries will increase
4 dramatically. And a large percent of the increases
5 will be well-educated, particularly in math and
6 sciences. In some cases especially with the Indian
7 workers, well-educated in English.
8 Meanwhile, the US workforce is aging.
9 Trends indicate that we may be looking at a potential
10 worker shortage in 10 to 15 years when baby boomers
11 begin to retire. And if we do not fill the gap with
12 qualified mathematicians and scientists and engineers,
13 that shortage will be exacerbated.
14 Between 2000 and 2025, the 65 and older
15 population is expected to nearly double. All the
16 prime working age population between the ages of 25
17 and 54 will grow by only 6 percent.
18 In 2002, there were 4.4 people in the
19 working age population for every retired person. By
20 2025, this ratio is predicted to drop by 2.7 percent.
21 The next slide is a -- shows a little bit
22 in better detail the percentages of workers per
23 retirees.
24 Next slide, please. One more, please. As
25 with free trade, offshoring is in the long-term

1 competitive interest of the United States. McKinsey &
2 Company states that the net value of US offshoring is
3 greater than if jobs were kept in the United States
4 thus increasing the negative competitiveness of US
5 companies.
6 McKinsey estimates that every dollar spent
7 on outsourcing creates a $1.45 to $1.47 in the global
8 economy, with $1.12 to $1.14 returning to the US
9 economy.
10 The Institute for International Economics
11 found that offshoring increases productivity profits
12 and ultimately GDP. The United States benefits from
13 providing -- and the United States benefits from
14 providing high-tech services for foreign markets.
15 Even with offshore outsourcing, BLS
16 projects that employment in the US tech industry will
17 grow over the next ten years.
18 Recent BLS projections estimate that the US
19 tech industry will add 1 million net jobs to the US
20 economy by 2012. These jobs will be concentrated
21 mainly in the service sectors such as communications
22 and software services.
23 Let us not forget that the United States is
24 a preferred destination for foreign direct investment
25 from other countries. This is due to the large size

1 and value of the US market. This is also due to the
2 large size and value of the US market. It is also
3 attributed to economic -- to economic and other
4 policies that make the United States attractive.
5 And indeed, 6.4 million Americans were
6 employed by US affiliates of foreign companies in
7 2001. US direct investment abroad in high-tech
8 manufacturing totaled 69 billion in 2002 while foreign
9 direct investments in the United States for the same
10 sector was 54 billion.
11 Contrary to conventional wisdom, more
12 manufacturing foreign direct investment flows into the
13 United States than US manufacturing investments flows
14 abroad. Foreign direct investment in the United
15 States for all manufacturing totaled 471 billion in
16 2002 compared with 390 billion in US direct investment
17 abroad.
18 We must remember that the US itself is a
19 prime destination for foreign companies to operate
20 whether they are investing here for market access,
21 outsourcing because of cheaper wages, higher
22 productivity, or favorable economic policies, or both.
23 Not too many years ago, foreign ownership
24 was a controversial issue. It's rarely raised today.
25 What matters is not who owns it, but the quality and

1 level of jobs that are being created by that foreign
2 company. We should not promulgate laws or policies
3 that discourage the creation of high paying jobs in
4 the United States.
5 Next slide, please. It is also worth
6 noting and remember what this country went through in
7 the 1980s and 1990s particularly at the federal level
8 with regards to competing with Japan.
9 The concern over offshoring is very similar
10 to those concerns that were raised in the 1980s and
11 1990s in the United States that Japan was going to
12 become a dominant economic and high-technology power
13 of the world. It didn't happen.
14 Very established business publications,
15 renowned economists, and elites from different
16 economic institutions were predicting that Japan's
17 GDP, in absolute dollars, would exceed that of the
18 United States by 1996. It didn't come close to
19 happening.
20 The hysteria about Japan was fanned by the
21 Japanese purchase of trophy real estate such as
22 Rockefeller Center, Pebble Beach, and others.
23 In 1991 Congress was under tremendous
24 pressure to adopt protectionist legislation against
25 Japan. Fortunately, they didn't do it.

1 Congress and many companies were also under
2 pressure to adopt Japanese industrial policy and they
3 didn't do it. By the early 1990s, US companies were
4 well poised to compete in the world marketplace
5 because of tough and painful economic adjustments that
6 they had been making since the late 1980s.
7 While the US economy and job growth took
8 off in the second half of the 1990s, Japan failed to
9 undertake painful adjustments; and its economy
10 spiraled downward in a recession and has been in a
11 slump until very recently.
12 This situation is very similar today. US
13 companies have undergone adjustments the past three
14 years and are poised to take advantage of the world
15 market opportunities if European and Asian economies
16 continue to turn around.
17 US high-tech companies are better poised
18 today than they were after the recession of 1991 and
19 1992 which brings me to the reason we're here today
20 which is to discuss House Bill 2639.
21 And having given you some context on the
22 issue of offshore outsourcing and where we see it in
23 terms of the big picture of what is going on, we see
24 bills such as this that we have to sort of come here
25 today and say, well, take a second, pause, and look at

1 what else is going on as opposed to just some of the
2 anecdotal evidence that are out there.
3 With regard to HB 2639 which we believe may
4 not necessarily prohibit, we see that it discourages
5 services provided by those outside of the US or by
6 statute or -- by restricting services provided by
7 those outside of the US or by statute, precluding
8 contractors have taken advantage of cost saving
9 measures in economies of scale.
10 Businesses that have multi-national
11 presence are often able to lower their costs upwards
12 of 10 percent passing the savings off to the end user,
13 in this case the state's taxpayers.
14 As a side note, businesses that are able to
15 offshore some jobs often means the difference between
16 staying open and hiring more employees and paying more
17 in taxes to the state coffers or shutting down.
18 Because these businesses cannot bid further
19 contracts or are being discouraged from bidding these
20 contracts, the state is forced to entertain much
21 higher bids. The net result, taxpayers are forced to
22 pay a premium for services that can be had for much
23 less.
24 There are also international trade
25 repercussions to these Bills. At a time when the

1 Office of the US Trade Representative is attempting to
2 liberalize world trade policies, especially in opening
3 up foreign government procurement to US businesses,
4 Bills like HB 2639 can only be seen as contradictory
5 to US trade policy and hostile to our international
6 trade partners.
7 In the end, US workers will suffer as their
8 employees lose foreign contracts to similar
9 retaliatory legislation abroad. Anti-offshore
10 outsourcing -- anti-offshoring legislation is unlikely
11 to put an end to the issue of offshoring.
12 As I hope I conveyed, the issue is much
13 more complex than just saying the state needs a
14 contract with US-based companies only. In fact,
15 legislation under Keep the Jobs at Home Act may have
16 just the opposite effect in that it may ultimately
17 result in the reduction of US jobs.
18 And it's worth noting that Governor
19 Ehrlich, the governor of Maryland, recently had a Bill
20 before him that was passed by the Maryland legislature
21 that is similar to HB 2639; and he ended up vetoing
22 this legislation based on many of the same arguments
23 I've just given.
24 So how do we end up fixing the problem?
25 Well, AeA suggests that we conduct a national summit

1 on worker training, retraining, and education. It is
2 not just about manufacturing jobs anymore. It's
3 impacting service workers too like software
4 programmers.
5 Government can offer tax credits to
6 businesses that offer worker retraining programs.
7 Community colleges and other educational institutions
8 can play a vital role in helping the workforce obtain
9 skills to perform in the newly created jobs in the US
10 economy. We also need to acknowledge that our K
11 through 12 education system is failing and that the
12 future of US competitiveness hinges on fixing it.
13 Right after the launch of Sputnik in 1957,
14 President Eisenhower mandated a national program to
15 improve math and science education. We need a "son of
16 Sputnik" today.
17 Business isn't off the hook. Business
18 needs not only to help support at both the federal and
19 state level -- the level of math and science funding
20 but needs to also help in providing direct support to
21 schools by allowing its employees to teach in K
22 through 12 classrooms on a part-time basis.
23 High-tech companies already do it. But all
24 industries need to pitch in. And we need to preserve
25 the full funding of the No Child Left Behind Act,

1 particularly the math and science partnership program
2 that is contained in that a landmark legislation.
3 We also need to increase the federally
4 sponsored basic research in physical sciences. We
5 need to make the R&D tax credit permanent.
6 We also need to think about what we're
7 doing with regard to foreign nationals who get a
8 master's degree or Ph.D. in the United States.
9 Keeping their jobs here will create jobs -- keeping
10 them here will help create more jobs here.
11 Fifty percent of all master's and Ph.D.s
12 are awarded to foreign nationals. We need an
13 incentive to keep them here and a Green Card is the
14 first step.
15 We also need to support open markets here
16 and abroad. By doing so, we should do -- or we should
17 not do anything to discourage foreign investment in
18 United States. As the nation's highest exporter -- as
19 high tech -- excuse me. The nation's largest
20 exporter, protectionist legislation is likely to hit
21 high tech the most.
22 Lastly, we need to reduce the cost of doing
23 business in the United States. Rising litigation and
24 regulatory costs hurt US companies' competitiveness
25 both at the federal and state level.

1 The dramatic level in health care costs
2 particularly over the last three years have
3 increased -- have these costs at a new spotlight. The
4 future of health care and health care debate will have
5 to be incorporated. The reality of these health care
6 costs for US companies could greatly undermine their
7 international competitiveness.
8 So with that, I'd like to conclude my
9 testimony and am open to any questions from the
10 Committee. Thank you very much.
11 CHAIRMAN HASAY: Thank you, Mr. Page. That
12 was certainly well-prepared testimony that you gave
13 today. It has taken you some time to prepare for
14 that. And the Chair thanks you in all of your
15 efforts. I am sure there are some members that are
16 going to have some questions.
17 It appears that outsourcing is a lot more
18 complex than I think the members of this commerce
19 committee realize. And you've enlightened the members
20 of the committee.
21 Representative Caltagirone is the
22 Democratic Chair. The Chair recognizes the gentleman
23 from Berks, Mr. Caltagirone.
24 REPRESENTATIVE CALTAGIRONE: Thank you, Mr.
25 Chairman. It really sounded sugar coating with what

1 you said and made it look pretty damn bright. But
2 let's look at the truth of the matter of what's really
3 been going on in our Commonwealth and this country.
4 We've been spending a very large portion of
5 this state budget -- very, very large portion for
6 education, job training, other things, colleges and
7 universities.
8 I don't want to hear the nonsense that
9 we're not doing enough. I think we've been doing a
10 lot. We could do a lot better. But we're spending a
11 very large portion of our resources in this
12 Commonwealth to do those things that you said we
13 should be doing.
14 Could we do more? Yes. Are we doing a
15 lot? I think so. But let's look. A few years ago
16 they used to say about a level playing field. It is
17 not level.
18 You know just in the paper yesterday in
19 Reading I saw Zippo lighters which I think are still
20 manufactured in Pennsylvania, they are being
21 copycatted in China.
22 There is an encroachment infringement on
23 that patent. And that company, our company, has to
24 fight them in court to stop that nonsense from going
25 on. That's only one of many products by the way that

1 that is happening to American companies, one of which
2 is based in Pennsylvania.
3 We're exporting our technology. My
4 opinion, we're exporting our technology. On 60
5 Minutes just about a month ago, they showed that
6 computer programmers that were working in this country
7 that were earning between $30- and $40,000, their jobs
8 were being exported to India where they were making
9 15,000.
10 Now let's make a comparison. Our people
11 were making living wages, living standards. Over
12 there in India and China, all you have to do is look
13 at the documentaries, look at the news shows just
14 about any night of the week somebody is showing
15 something about what is going on over there.
16 They have no environmental concerns. They
17 are polluting the hell out of their atmosphere, their
18 water, their soil. They have no protection whatsoever
19 for their workers, no benefits. Pay them skimpy low
20 wages. Not our standards of living, not by any
21 stretch of the imagination.
22 And then they have the unmitigated gall to
23 send those products over here to our stores. Look at
24 any of the major department stores and see what
25 products are being made and where they are coming

1 from, most of them from China.

2 Oh, that's great. They have the most

3 favored nation status, don't they? Yeah, uh-huh. But

4 they won't let our products in over there -- will

5 they? -- from Pennsylvania. They put the walls up;

6 Japan, China, even India.

7 We have a higher quality of life in this

8 country, something which we've enjoyed for many, many,

9 many years. We're not going to lower our standards to

10 theirs.

11 In my district in my county, we've lost

12 several thousands of jobs; Agere, Dana, Valloz was a

13 French firm that bought our mask-making company that

14 we had in my district at Second and Washington. They

15 used to have 500 employees making decent salaries.

16 They bought them and they transferred them. Except

17 after 9/11, they kept them there. They kept a few

18 shifts on to make extra masks because of what happened

19 in New York and then they closed it down.

20 What I -- what boggles my mind is that we

21 want to be good neighbors in the world with all of

22 these different countries. And you presented some

23 nice information, but there is another side to that

24 coin.

25 We have been losing in this state a lot of

1 good manufacturing jobs. We had Dana Corporation. We
2 had what still is left is Cartech Specialty Steel.
3 But unfair competition because of steel dumping that
4 is going on and continues to go on.
5 And they have to go to court. They have to
6 get their attorneys. They have to fight them, both
7 union and non-union. It doesn't really matter because
8 both are being hit over the head by these foreign
9 imports that are being dumped in this country. You
10 know, our workers being hurt both --
11 MR. PAGE: Absolutely.
12 REPRESENTATIVE CALTAGIRONE: -- union and
13 non-union. It is not that they are not skilled. The
14 bottom line to all of this is profits.
15 If I own a company and I can transfer that
16 company to China to do the same thing that we're doing
17 here and my wages over there are maybe a tenth of what
18 the wages are over here with no benefits, I'm making a
19 lot more profits.
20 It is inviting to me to transfer those
21 companies and those jobs overseas because I can then
22 put those products back in the market, back into the
23 United States, and make a hell of a profit. A lot of
24 that is really going on.
25 How do you compete with that?

1 MR. PAGE: You raise a great question. And
2 as I've tried to suggest in my presentation here, it
3 is not an easy answer. This is a complex issue. And
4 I will readily admit some workers are being hurt. We
5 don't take the position that this isn't going on.
6 We're certainly not putting our heads in
7 the sand and saying that some people have lost their
8 jobs. And we sympathize with those individuals. What
9 I'm trying to do today is talk about from high tech --
10 I can't speak for all manufacturers. I certainly
11 can't speak to agriculture.
12 But in general, we see that in a global
13 economy there are trends that are going on. And there
14 are things that are going on that are just not about
15 sending jobs overseas to reduce the costs.
16 Yes, there are people whose jobs are going
17 offshore that are high tech, maybe software based.
18 Some of those workers over in India albeit being paid
19 a lower wage, it is not because they are inferior to
20 the US workers. In many cases some of these people,
21 you know, exceed some of our workers here. I'm just
22 trying to suggest that there's -- in an economy where
23 we are seeing things transition, the US has to
24 continue to maintain an openness in terms of its trade
25 and continue to evolve. We have done it before and we

1 will continue to do it again.

2 REPRESENTATIVE CALTAGIRONE: All I'm saying

3 is they should be fair. They are not letting a lot of

4 our products into their countries. They have tariffs

5 and walls prohibiting certain of our products from

6 going into those countries. You know that and I know

7 that.

8 MR. PAGE: Sure. And that's something for

9 the US Congress to continue to deal with in terms of

10 how we work with our trading partners to make sure

11 that we -- our companies are being able to have the

12 same access to market.

13 You know, we would certainly love -- there

14 are certain things as I stated I mean that China and

15 India are doing with regards to their participation in

16 sort of world government authorities. They are by no

17 means perfect partners and by no means perfect

18 countries in those regards. They are adopting more

19 US-based policies and we will continue to hope that

20 they adopt those. In doing so, they are going to

21 compete with us.

22 They can't necessarily consider them and

23 hope that -- you know, keep them down from competing

24 with us. Because as we said, you need to be more US

25 based in terms of environmental policies, the policies

1 that they may have towards their workers.
2 They are going to -- you know, they are
3 going to continue to grow and compete with us on some
4 level.
5 REPRESENTATIVE CALTAGIRONE: But the irony
6 of all of this is they are using our technology which
7 we've developed at a great expense, sometimes state or
8 US government subsidized R&D and development of good
9 services and products that then are exporting that
10 technology over there to be used against us again to
11 compete with us to force our companies out of business
12 or to transport those companies overseas. How is this
13 state or this country going to survive if that cycle
14 continues?
15 MR. PAGE: Well, as I noted, $171 billion
16 were -- US high-tech companies experience $171 billion
17 of sales outside of the United States. Over 60
18 percent of US high-tech companies' revenue comes from
19 outside our borders.
20 So we are indeed a global industry. And
21 without those countries purchasing those kinds of
22 products and services, the industry wouldn't be as
23 strong as it is.
24 I mean granted as I have shown you in terms
25 of job loss, the last few years have been bad. But

1 sales of our technology and sales of our products
2 overseas is a good thing for our company. It
3 continues to grow.
4 REPRESENTATIVE CALTAGIRONE: I agree.
5 But the problem is it is lopsided. The balance of
6 trade -- and I think you know those figures and I'm
7 sure there are going to be some speakers who are going
8 to point that out -- between what we ship out and what
9 they ship in, I don't think there is any comparison.
10 Because we owe China a tremendous amount of money.
11 That balance is like this. And I think you would
12 agree with that. Isn't it?
13 MR. PAGE: I don't know the exact figures
14 for the trade inbalance or trade difference. But I
15 know that it is not in our favor.
16 REPRESENTATIVE CALTAGIRONE: Well, Mr.
17 Chairman, thank you for the opportunity. The only
18 thing that I can conclude with is, you know, it is all
19 well and good. We're international. I have no
20 problems with that. But we should play by the same
21 rules. They are not.
22 We are at a disadvantage. Our workers in
23 this state are being hurt. We're losing jobs. Our
24 companies are being hurt. This isn't Democrat or
25 Republican. This isn't union or non-union. We're

1 losing good jobs. We're losing a lot of good
2 industries and businesses. And this is one way to
3 take a look at it. Maybe it is firing a shot across
4 the bow. Maybe something should be done, not just at
5 the state level but maybe at the federal level. Thank
6 you, Mr. Chairman.
7 CHAIRMAN HASAY: Some of the other members
8 have questions or comments as well, Mr. Page.
9 MR. PAGE: Sure.
10 CHAIRMAN HASAY: The Chair recognizes the
11 gentleman from Monroe, Mr. Scavello.
12 REPRESENTATIVE SCAVELLO: Thank you, Mr.
13 Page, for your testimony. Some of my comments
14 Representative Caltagirone covered. Just a -- page 3
15 of the Bill it talks about -- on line 7 it talks about
16 the estimated job loss to India and it also predicts
17 that 2 million white collar jobs in the United States
18 will be affected. You disagree with those numbers.
19 What are your numbers? You had thrown a tremendous
20 amount of numbers out there.
21 MR. PAGE: Yeah. I realize it was a very
22 data intensive presentation and testimony. I would
23 suggest and as I mentioned in my testimony, that those
24 numbers we believe are flawed and they were based on
25 erroneous underlying data from DLS. That's my point.

1 There isn't a really good understanding or
2 data on the issue. There is anecdotal evidence. And
3 obviously we talked about certain particular companies
4 that have decided to move parts of their operations
5 offshore. And we have no doubt that this is going on.
6 But to the level to say that definitively
7 by year 2012 or 2010 2 million jobs are going to be
8 lost, I would suggest to you that data is not as
9 accurate as it is being presented there.
10 REPRESENTATIVE SCAVELLO: Would you say a
11 million?
12 MR. PAGE: I don't think it's fair to say.
13 I don't have a number to give you. I'm just saying
14 right now currently there is no unbiased independent
15 analysis on the figures to say by this year. And
16 besides, in ten years the dynamic could change
17 completely. It could be greater or it could be even
18 less.
19 The US economy could be that much stronger
20 and we're not even thinking about offshore outsourcing
21 because in terms of the overall churn of jobs on a
22 yearly basis, it becomes such a minuscule percentage
23 of the overall job creation and loss in any given year
24 that it is not that significant.
25 REPRESENTATIVE SCAVELLO: I know of a

1 company just outside of my district that laid off 25
2 employees and sent all of the work to India. Now they
3 didn't reduce their prices. So, you know, when you --
4 you made a comment earlier that it keeps our costs and
5 the service much cheaper, but it didn't happen.
6 What we did was we had 25 employees that
7 were laid off and quality people. I knew some of
8 them. And the jobs went to India.
9 MR. PAGE: What was the company?
10 REPRESENTATIVE SCAVELLO: I'm not going to
11 mention the name because I got to tell you I don't
12 agree with number 9 on that same page where we list
13 some companies. And I'm a co-sponsor of the Bill. If
14 I had known that was going to be there, we should not
15 list any companies unless we're going to list them
16 all. You know, we've listed a half dozen here. And
17 if you're going to list the company, put them all
18 down. You know what I'm saying?
19 MR. PAGE: Sure.
20 REPRESENTATIVE SCAVELLO: That did occur.
21 I'm not going to mention the company. But 25 jobs
22 were shipped over. We need to do something to protect
23 some of our jobs here. Otherwise, the way the -- the
24 technology jobs are going to go the way the
25 manufacturing jobs went in Pennsylvania.

1 And I think the only way that -- we have to
2 be a leader. And we have to show the federal
3 government that maybe other states should be following
4 the same way as we have to protect our workforce.
5 Thank you.
6 CHAIRMAN HASAY: The gentleman from
7 Lackawanna, Mr. Wansacz, has a question.
8 REPRESENTATIVE WANSACZ: Thank you, Mr.
9 Chairman. Thank you, Matt, for your testimony.
10 MR. PAGE: Sure. Thank you.
11 REPRESENTATIVE WANSACZ: I have a couple
12 questions. Obviously your association represents some
13 of the big name technology companies, China companies.
14 How many would you say jobs that your organization
15 represents today outsourced to other countries that
16 used to be here in the United States?
17 MR. PAGE: I couldn't give you a number. I
18 mean I could look into it, but I don't have something
19 like that at my disposal. We have not surveyed our
20 members and said, can you tell us how many jobs have
21 you decided to offshore.
22 Keep in mind a lot of our companies do have
23 operations in other countries, and it is not just
24 because they are opening up to reduce labor costs. I
25 mean they look at these markets as opportunities to

1 get in and develop and expand their presence in there.
2 So, therefore, they do -- I mean there is
3 sort of a fine line in terms of, well, is an operation
4 overseas in India, is that considered an offshore job
5 or is that an operation; an element of that company in
6 India in order to develop market gain or market share
7 in that country.
8 Ultimately those revenues or company will
9 continue to grow. But there are reasons for going
10 into other countries beyond just offshore outsourcing.
11 I mean --
12 REPRESENTATIVE WANSACZ: I understand that.
13 I understand the need to open up overseas. What I'm
14 saying also is that it is obvious that our quality of
15 life I think in the United States is different than
16 other countries.
17 And it is much cheaper. I come from
18 Northeastern Pennsylvania where we lost manufacturing
19 jobs which went from the Scranton area down to the
20 Carolinas. And then all of a sudden they said, well,
21 you know what, we can go to Mexico even cheaper and
22 now they are doing the same thing with technology
23 jobs.
24 What is going to happen is -- and I'll tell
25 you this as a business owner coming from a background

1 in business is you have to compete.

2 What you're going to see is we already lost

3 about 360,000 jobs compared to the jobs that were

4 created. And one of the biggest job creations was in

5 the business and financial services which I believe is

6 they created about is 140,000 according to your chart.

7 What will start happening is we will start looking for

8 these businesses to say, hey, we're going to have to

9 start outsourcing as well to bring down costs.

10 What you're seeing already is the

11 companies, their profit is growing. But as my

12 colleague from Monroe County stated, maybe the cost

13 isn't coming down but the profits are growing.

14 And yes, that is helping a few wealthier

15 individuals. But it is hurting our middle class which

16 is also hurting our small businesses --

17 MR. PAGE: Sure.

18 REPRESENTATIVE WANSACZ: -- when you look at

19 that. So my question is to you -- and I know you're

20 saying it is going to keep costs maybe -- you know,

21 the cost of a computer would be double the amount if

22 we don't do this.

23 What do you think is going to happen if we

24 continue to go on with our jobs -- you mention Japan

25 never happened. And I believe the gentleman later on

1 will testify that I don't believe we're making that
2 much steel in the United States now when you look at
3 them, what happened with Japan. So they did corner
4 the market. Now we're stuck with our contractors and
5 everybody else dealing with higher steel prices.
6 Which I don't know if you talked with
7 anybody building a business lately, but it is very
8 difficult, very difficult.
9 MR. PAGE: Well, again I want to make sure
10 the committee understands that I can only speak on
11 behalf of the high-tech industry. When it comes to
12 steel imports, it is not something that -- I mean I
13 understand and recognize that is a problem. It is an
14 issue. But it is not something that I can feel like I
15 can address.
16 What I've tried to do today is given in the
17 context of offshore outsourcing. And it seems like
18 much of the discussion on this issue has been centered
19 around information technology jobs which happens to
20 fall into the high-tech industry by in large.
21 And I just simply ask that this -- it's --
22 there is a lot more at play than just simply jobs
23 going overseas.
24 And even though we are seeing some
25 projections by BLS that jobs are going to increase and

1 we believe that it is going to, I just don't -- I
2 can't believe that all of these jobs are going to go
3 overseas.
4 I mean eventually the paradigm is going to
5 shift. We are already seeing it in India. India
6 itself is doing some of this. And so, you know, you
7 just simply cannot and will not continue to -- all of
8 these types of jobs are not going overseas.
9 It is just not going to -- I mean I can't
10 tell you what percentage it is going to be, what the
11 figures are. You know, you asked for -- somebody
12 asked for what the number is. I can't tell you. But
13 it's not -- as in the 1980s and 1990s, recent history
14 would suggest as our industry has retooled itself, it
15 has come out stronger for it and has been the world
16 leader and will continue to be the world leader. We
17 see some disturbing trends. I mean the education
18 stuff I mentioned is disturbing.
19 The fact that we are looking at
20 restrictions in Visa applications is disturbing -
21 because we've seen excellent examples of these people
22 who have gone to the US universities and received
23 master's and Ph.D.s, and gotten their degrees and
24 stayed in the United States and have created
25 businesses and created new opportunities for job

1 growth.

2 Right now we're encouraging a policy that

3 prevents people from staying or extending beyond their

4 initial Visa stay. And in some cases, they are going

5 back home.

6 And even though you may say why would we

7 want to keep a foreign worker in the United States,

8 well, in some cases -- and I think there are some

9 pretty good examples -- Intel is one where the CEO is

10 not from the United States. Global is another example

11 and Ebay. Three tech companies that, you know, had

12 these people not been allowed in the United States and

13 gone to school in the United States or had been able

14 to set up their operations, we're not -- we wouldn't

15 be talking about the jobs that those companies have

16 created.

17 So it's not -- there is no simple silver

18 bullet, simple answer to this. We have given some

19 recommendations that we see will be more helpful and

20 beneficial to the economy and continue to grow the US

21 economy when it comes to high tech.

22 REPRESENTATIVE WANSACZ: Thank you.

23 CHAIRMAN HASAY: Thank you. We're kind of

24 running behind schedule. We don't want to hold up the

25 other people that are going to testify. They have

1 tight schedules as well. But we have one final
2 comments, questions from the lady from Luzerne.
3 MR. PAGE: Sure.
4 CHAIRMAN HASAY: Mrs. Mundy.
5 REPRESENTATIVE MUNDY: Thank you. Thank
6 you, Mr. Chairman. This hopefully could be a pretty
7 quick question and answer if you could just -- I don't
8 understand and I come from manufacturing. That's my
9 background. Ten years before I was elected I was in
10 manufacturing.
11 We told our workers that not to be
12 concerned about losing manufacturing jobs because we
13 would retrain them, reeducate them, and they would
14 find other better kinds of jobs. I don't think that
15 happened, but that was the rationale. And that's why
16 it is okay for us to lose our manufacturing jobs.
17 And now you're telling us that it is okay
18 to lose our service jobs because we're going to
19 retrain and reeducate you for even better jobs.
20 And I guess my quick question is, what kind
21 of jobs are those?
22 MR. PAGE: Well, if I could see into the
23 future and tell you exactly what those jobs are going
24 to be, I think I'd probably be a lot richer than I am.
25 But our economy has continued to grow even

1 through you're saying the loss of manufacturing jobs
2 and now perceived in terms of service jobs. As I've
3 repeated and I'll say it again, I understand people
4 are being hurt. I'm not trying to suggest to you that
5 people are not losing their jobs and that we're
6 unsympathetic.
7 What I'm trying to express to you guys
8 today -- I should say the committee and not you guys
9 but to the committee is that there are several issues
10 that factor into the job loss that occurred.
11 You saw the numbers with regard to
12 manufacturing losses. We lost 15 million jobs over
13 not quite -- not even a ten year period of time. And
14 a lot of that has been not just because of offshore
15 outsourcing but it's been because the world economy
16 has been depressed, the US economy has weakened. As a
17 result, people lost their jobs.
18 So I can't predict the future in that
19 regard. I think that perhaps a broadband strategy or
20 something -- you know, if you're asking me to give an
21 example, we could see potential growth in terms of
22 jobs relating to broadband policy and expanding that.
23 I continue --
24 REPRESENTATIVE MUNDY: Again, I'm asking a
25 very specific question. What kinds of jobs are going

1 to be left if we continue this trend allowing all of
2 our jobs to go overseas? Specifically, can you just
3 give me an example?
4 MR. PAGE: Well, not all of our jobs are
5 going overseas. I mean the overall percentage is not
6 as great as being -- as being presented. That's what
7 I'm trying to say here today is that the overall
8 percentage of jobs that have gone offshore or overseas
9 is not as great or as large as being talked up in the
10 media and being discussed.
11 REPRESENTATIVE MUNDY: But you can't even
12 tell us how many jobs your own companies that you're
13 representing are outsourcing.
14 So how can you give me information that
15 says that it is not as bad as we think?
16 MR. PAGE: Granted as I stated, we don't
17 have -- we haven't asked every one of our companies to
18 provide us with that information.
19 At the same time I think that there needs
20 to be again a very distinct line drawn as to what is
21 an offshore outsource job. And that goes into
22 defining what that is.
23 An offshore outsource job is a job that may
24 go outside of the borders -- or outsource is obviously
25 outside of a -- a company decides to provide work to

1 somebody else whether it be, you know, contracting
2 language to a subcontractor or something. I mean
3 that's an outsource job.
4 Going overseas into India or China doesn't
5 necessarily make it an outsource job in the sense that
6 there may be a transfer of jobs in terms of opening up
7 market share in those countries.
8 You know, I wish I had better statistics
9 for you in that regard. But that's why at this stage
10 it is a little bit unknown the degree to which this is
11 going on.
12 And as we are continuing to collect more
13 information as the US government is doing so, as other
14 states are doing so, I would just ask that you don't
15 be hasteful in terms of passing legislation that may
16 in turn not necessarily protect the jobs that you are
17 seeking to protect but may ultimately end up hurting
18 them even further down the road because of some of the
19 reasons that we expressed concerns with the
20 legislation that we're discussing today.
21 REPRESENTATIVE MUNDY: Again, I mean this
22 was to be a quick question, and I don't think I really
23 got an answer to my question. I hope that in the
24 future you could -- your association could maybe come
25 back to us with the answer to the question. We lose

1 manufacturing. We reeducate and retrain for service.
2 Now we're losing service.
3 What kinds of jobs are we going to be
4 reeducating and retraining American workers trying to
5 support their families? What kinds of jobs are they?
6 I'm not -- I don't want --
7 MR. PAGE: I'm convinced the tech industry
8 is going to continue to grow.
9 REPRESENTATIVE MUNDY: I don't doubt that
10 they are going to continue to grow. I guess what I'm
11 worried about is that the owners and the shareholders
12 are going to be very wealthy but the workers and their
13 families in the Commonwealth and in the country are
14 not going to be the beneficiaries of that growth.
15 MR. PAGE: I would politely disagree with
16 that perspective. I still from what we have seen in
17 terms of high-tech related jobs, we see growth on the
18 horizon between now and 2012. They are projections.
19 Things can change. But right now --
20 REPRESENTATIVE MUNDY: Growth in
21 employment, is that what you are talking about?
22 MR. PAGE: Growth in employment, not just
23 growth in the companies. If you look at -- well, I
24 don't necessarily want to go back in the slides.
25 But for example, I listed several

1 occupations that are projected to grow through the
2 next decade. And they include network service
3 analyst, computer software engineers, computer
4 applications, computer software engineers, computer
5 systems analyst, computer programmers.
6 And those are just a sampling of the
7 professions that we see positive job growth, not just
8 company growth but job growth, job creation.
9 REPRESENTATIVE MUNDY: They are not
10 necessarily US jobs.
11 MR. PAGE: No. These are jobs inside of
12 the United States is what I'm trying to explain to
13 you.
14 REPRESENTATIVE MUNDY: Well, we'll see,
15 won't we?
16 MR. PAGE: We will, definitely will.
17 REPRESENTATIVE MUNDY: Thank you. Thank
18 you, Mr. Chairman.
19 CHAIRMAN HASAY: Thank you, Mr. Page, for
20 your prepared testimony and for coming to confront the
21 committee.
22 MR. PAGE: Thank you very much for allowing
23 me the opportunity to be here.
24 CHAIRMAN HASAY: We appreciate the
25 information. Thank you. We are running behind. Next

1 we have Mr. Mark Bohannon. Mr. Bohannon is General
2 Counsel and Senior Vice President of Public Policy,
3 Software & Information Industry Association.
4 Mr. Bohannon, you may start at your
5 convenience. Go right ahead. Thank you for coming.
6 MR. BOHANNON: It is a pleasure to be here.
7 As you know, I drove up from Washington this morning
8 and even with what I expect to be tough questions, it
9 is a pleasure to be out of Washington where we had
10 orange alert over the weekend. So it is nice to be
11 here in safe Harrisburg. Thank you.
12 Chairman Hasay, members of the committee, I
13 appreciate the opportunity to appear before you today
14 to discuss the issues around outsourcing. Its myths,
15 the dynamics of what it means to compete in the global
16 marketplace, and why solutions that attempt to
17 legislate jobs to stay within our borders will simply
18 not address the challenges that our nation faces. And
19 in fact, it provides little more than false comfort
20 for us.
21 I offer the following views based on two
22 vantage points. First, in my current role in the
23 technology industry I serve as a senior official of
24 the principal trade association of the software and
25 digital industry. I work with many of the leading

1 software and information service companies that are
2 providing innovative products and services both here
3 in the US and markets around the world.
4 Our members are software companies,
5 ebusinesses, and information service companies as well
6 as many electronic commerce companies located in
7 Pennsylvania and throughout the US.
8 A significant number of our members are
9 small to medium sized software and information service
10 companies many of who have revenues that are less than
11 50 percent generated out of the United States.
12 They are well aware of what it means to not
13 only make sure that they respond to the US market but
14 respond to what is clearly now a global market even
15 for small or medium sized companies.
16 The second vantage point that I bring to
17 the hearing was prior to joining SIIA, I was a senior
18 official at the US Department of Commerce during the
19 Clinton Administration working on a variety of
20 technology, innovation, and competitiveness agendas.
21 During the 1990s when the clear focus was
22 on technology as a key factor to our nation's economic
23 prosperity, it was effective trade policy, strong,
24 intellectual property protection both here and abroad,
25 and the encouragement of investment that meant the

1 difference in both the number and quality of jobs that
2 we created.
3 For Pennsylvania, the challenges today are
4 even greater to maintain as well as expand the level
5 of innovation, market access, and job creation.
6 Those challenges are both continental from
7 states like Texas, California, and, Massachusetts,
8 Utah, and Virginia and intercontinental from places
9 like India and China.
10 And unfortunately, the response by many
11 policymakers as we work with in Washington and
12 throughout the country has been to try to find one
13 silver bullet to change the situation.
14 As I'll discuss in my testimony, there is
15 simply no one-shot silver bullet that we can rely on.
16 And in fact, some of the proposed solutions -- and in
17 fact the Bill being focused on today is an example --
18 we believe will make the situation worse and have the
19 opposite, unintended effect of stifling economic
20 development and job creation.
21 At the outset, I'd like to address some of
22 the myths associated with the so-called outsourcing
23 debate. It's a little bit different perspective than
24 my prior colleague, but I think it builds on some of
25 his information.

1 One very common myth is that outsourcing is
2 a one-way flow of jobs all leaving the United States.
3 In fact, US subsidiaries are an important insource of
4 high-quality, high-paying US jobs -- a perspective
5 often lost in the current media coverage.
6 New foreign direct investment increased
7 2003 by $82 billion, over twice the amount from the
8 previous year according to the Department of Commerce
9 numbers released in March.
10 The increased capital investment associated
11 with this inward flow, approximately it's about
12 400,000 new jobs supported by US subsidiaries.
13 Pennsylvania is a significant beneficiary
14 of this insourcing of jobs. It ranks seventh in the
15 nation in terms of the number of US workers employed
16 by US subsidiaries totaling more than 267,000. Of
17 these, over 100,000 workers were insourced
18 manufacturing jobs.
19 Pennsylvania's total insource jobs grew by
20 38,000 over the last five years, a 12 percent growth
21 rate. A period that was otherwise characterized by
22 layoffs and economic uncertainty.
23 But this is only a small part of the
24 insourcing picture. Many companies located in the US
25 carry out work here for customers abroad and that

1 includes many of my association members.
2 The numbers are significant but not well
3 understood by the media or policymakers but continue
4 to be a major source of economic growth for our
5 country.
6 The result is that the US trade surplus in
7 IT services has grown every year since 1996. At a
8 time when US trade deficits are at an all-time high --
9 and we do need to address them.
10 Last year in 2003 the US ran a $60 billion
11 surplus in services trade generally. In short, for
12 every story of work being outsourced out of the US,
13 the real picture is that work is in fact being
14 insourced to real companies creating real jobs and
15 paying real wages for employees here at home.
16 Another common myth is that companies hire
17 globally simply to pay lower wages and save money.
18 While this may be true in some cases -- and I'm not
19 going to fight some of the anecdotes that have been
20 suggested today. But the decision by any one company
21 to grow their workforce abroad varies by individual
22 business and industry sector.
23 Generalizations across sectors are,
24 therefore, very difficult to make. But it is clear
25 that in the technology industry that cost reduction

1 is only one of several factors that companies make in
2 their hiring decisions worldwide.
3 If the cost-savings argument were true,
4 every company would be trying to do it. And that is
5 simply not the case based on concrete evidence. There
6 is ample evidence also, by the way, to show that many
7 efforts to establish worldwide outsourcing operations
8 do not produce significant savings.
9 Among the factors that companies take into
10 account deciding to expand abroad are to increase
11 access to large, growing, or critical markets, provide
12 support and technical services to non-US customers,
13 engage in international collaborative ventures, enable
14 24-7 operations to their customers around the world,
15 and obtain access to world-class scientific
16 engineering and technical talent wherever it is found.
17 A third myth is that outsourcing is a new
18 development. Certainly there is very little doubt
19 that the last three years of unprecedented business
20 cycle shocks have led to uncertainty, layoffs, and
21 lackluster new hiring.
22 But worldwide sourcing is the result of
23 both business cycle challenges and real, structural
24 changes in the global economy. Changes that are
25 affecting all countries and economies, not just

1 Pennsylvania and not just the United States.
2 In fact, sourcing among both the 50 states
3 and internationally has been taking place for decades.
4 What is different today is that sourcing is occurring
5 in the context of significant geopolitical change
6 where major global players like China, India, and the
7 former Soviet Block nations are not only competing
8 against us economically where they once competed
9 against us militarily -- and this is significant --
10 they are also potential customers of our nation's
11 products and services.
12 This landscape of new competitive players
13 is also taking place when many, if not most, of the
14 customer base of American IT products and services is
15 outside of the United States.
16 It is also taking place in the context of
17 technological changes where advanced communications
18 enable workers and companies around the world to
19 provide services and responses as if they are next
20 door.
21 There is real pressure to increase
22 productivity and provide realtime customer service or
23 product adaptation. These changes rather than being
24 seen as threats or as a basis of retreat offer
25 Pennsylvania and in fact I believe every state in our

1 nation the opportunity to grow and prosper in the
2 coming decade.
3 There is one other myth that has been
4 touched on today already at the hearing that I would
5 like to address.
6 And that is the myth that a majority of
7 American jobs are at risk of being exported abroad.
8 It is understandable that amidst the continued
9 economic anxiety -- certainly Pennsylvania has
10 experienced more than any other state or as much as
11 any other state -- blaming a foreign export of jobs is
12 the natural response.
13 But a close look at the numbers points to a
14 clearer picture of US workers that have lost or will
15 lose their jobs to foreign competition. Even at
16 their peak in 2001, the number of all trade-related
17 layoffs -- which, by the way, is a category larger
18 than outsourcing -- represented just .5 percent of all
19 unemployment.
20 But as we are well aware, there are
21 certainly individual workers who do not always benefit
22 from this dynamic. The concept of an adaptable,
23 evolving economy capable of sustained growth does not
24 provide immediate comfort to someone who has lost his
25 or her job. But in the long run, we have to face it

1 and deal with it.

2 Economists on very different sides of the

3 political spectrum reach the same conclusion. For

4 example, current Federal Reserve Board Member

5 Bernanke appointed by current President Bush points

6 out that the jobs that have shifted abroad in each of

7 the last three years represent less than 1 percent of

8 the estimated 15 million jobs that turnover in the US

9 in a typical year.

10 And Laura Tyson, President Clinton's Chair

11 of the National Economic Counsel, and certainly an

12 early strategist for very strong global trade

13 competitiveness policies wrote in March that "...all

14 the economic evidence suggests to date that offshoring

15 has been a relatively small fraction of the job loss."

16 It is, therefore, important that we be

17 careful about assertions that job loss in particular

18 companies diminish the aggregate number or direction

19 of US job growth.

20 In reality, these anecdotal claims of

21 offshoring distort the fact that the US labor market

22 both creates and eliminates over 30 million jobs,

23 private sector jobs, alone every year.

24 In response to the news coverage about the

25 outsourcing, lawmakers in Washington and state

1 capitols like Harrisburg have been actively
2 considering and debating measures that attempt to stop
3 or regulate worldwide sourcing of products and service
4 bought by governments.
5 I want to emphasize in my comments that the
6 reaction of policymakers at all levels has been very
7 genuine and rises out of concern about Americans who
8 have lost their jobs.
9 There is no question that the economic
10 shocks of the last few years raise legitimate policy
11 questions about how government at all levels can
12 respond best to these shocks. The real question that
13 policymakers face is not whether to respond but how to
14 respond.
15 Unfortunately with very few exceptions, the
16 generalized policy response has been to propose new
17 government restrictions on worldwide sourcing --
18 essentially an approach that legislates the location
19 of jobs.
20 A careful examination of these proposals
21 including Bills like HB 2639 however well-intentioned
22 points to a number of serious consequences about this
23 approach.
24 First, the proposals will not create any
25 new jobs nor in fact in my humble opinion preserve any

1 jobs that exist or stop the worldwide sourcing of
2 talent, products, and services. It is important to
3 keep in mind that government agencies are one segment
4 of a broad, diverse, and global customer base.
5 The overwhelming majority of customers in
6 the technology sector insist on quality,
7 state-of-the-art products and services at the lowest
8 possible cost.
9 Given that reality, what businesses would
10 be most adversely impacted by a mandatory job location
11 requirement for government contracts? The very
12 businesses that Pennsylvania and our nation need to
13 innovate and create jobs.
14 Instead, restriction on inputs into
15 products and services provided to government will, in
16 all likelihood, increase the cost and reduce the
17 available options to government in a time of tight
18 budgets and growing demands by citizens for services
19 that are delivered electronically.
20 Government agencies and ultimately the
21 taxpayers benefit when contractors find the lowest
22 price, best available solution to meet the particular
23 need of customers including the public sector based on
24 what is commercially available in the market.
25 In short, geographic restrictions will

1 impose higher costs generally on businesses and give a
2 competitive edge to foreign-based competitors in the
3 global market. These additional costs would further
4 eat at US-based companies' investments in research and
5 development, training, and other things that are the
6 foundation for our innovative strength.
7 Second, many of the proposals that have
8 emerged from state legislatures as I detail more fully
9 in my testimony may be inconsistent with US
10 Constitutional law and raise questions about whether
11 efforts to prohibit or severely restrict performance
12 of public contracts overseas may create unnecessary
13 litigation under the foreign commerce laws.
14 I will not go into detail on that right
15 now. But I think it is an important area for the
16 committee to study if legislation does move forward in
17 any way that it do so in a way that it avoids
18 unnecessary litigation.
19 Third, the legislative proposals like I
20 described above also pose significant risks to
21 Pennsylvania's important reliance on international
22 trade as an engine of economic growth.
23 As I previously mentioned, Pennsylvania is
24 a major beneficiary of foreign direct investment. It
25 has benefited from the insourcing of jobs here.

1 Pennsylvania is also one of a strong
2 majority of states that has signed on to the WTO's
3 Government Procurement Agreement which essentially
4 means it must give suppliers regardless of the source
5 no less favorable treatment than those same goods and
6 services would be given domestically. It also
7 requires that there be non-discrimination.
8 This agreement is extremely important. Our
9 US technology companies today are fighting to make
10 sure they have access to foreign markets abroad. As
11 was previously discussed in the hearing, it is
12 important that we do have a level playing field.
13 What I am concerned about is that there --
14 and I hope the members of the committee. We
15 communicate clearly today there should be no doubt
16 that other countries, many of whom are our strongest
17 competitors in our economic marketplace, are watching
18 the outsourcing debate taking place in state capitols
19 like Harrisburg, in Washington, and around our
20 country.
21 They know that with our strong tradition of
22 open and transparent investment rules, if the US turns
23 to antiquated protectionist measures in response to
24 the current economic challenges, they will effectively
25 be given a green light to restrict those opportunities

1 for US companies to offer their products and services,
2 thereby hurting American workers, investors, and our
3 economy as a whole and exacerbating the problems that
4 we are all trying to struggle together to resolve.
5 Instead of taking measures that in our view
6 will not really stop worldwide sourcing, the question
7 is how to find effective solutions that are based on a
8 balanced assessment of the facts and a correct
9 diagnosis of the problems.
10 On both sides of the political aisle,
11 thoughtful leaders are beginning to articulate a
12 meaningful response and have recently expressed
13 frustration with the limited debate currently
14 underway.
15 An example is a few months ago US Senator
16 Max Baucus, the ranking Democrat of the Finance
17 Committee, outlined what we believe is a very
18 constructive approach to reshape the ability of
19 government institutions to more ably assist workers
20 with retraining and job placement.
21 Last May US Senator Joe Lieberman put
22 forward his own reaction to the response in Washington
23 which he found to be predictable, simply politicians
24 and policymakers jumping to predetermined conclusions
25 and fingering the usual suspects.

1 To respond to the economic challenges,
2 Senator Lieberman called on America to rise to the
3 international competition and grow again through
4 innovation. There is no other way. Leaving it all to
5 the markets won't work. Hiding behind a wall won't
6 work. Attempting to rig the game won't work. Only
7 education, innovation, investment, trade, training,
8 and hard work will give us the strength and the growth
9 and the jobs that we want and need.
10 Senator Lieberman's thoughtful challenge to
11 business, to labor, and to government is to focus on
12 maintaining robust economic growth and fueling
13 innovation rather than relying on misplaced efforts to
14 find a silver bullet that attempts to legislate the
15 location of jobs within our borders.
16 This competitiveness debate is not new, but
17 it is still very relevant. One has only to recall the
18 economic situation of the '80s when the fear of Japan
19 replacing the US as the world's technological leader
20 sparked debate on whether to limit inward and outward
21 foreign investment and on possible restrictions on the
22 trading of goods and services.
23 The response by Congress was to resist such
24 restrictions. And time proved to be a solid basis for
25 what we saw as growth in the 1990s. Instead, Congress

1 enacted and President Reagan signed the Omnibus Trade
2 and Competitive Act of 1988 to authorize not only new
3 trade negotiations but to promote more education,
4 training, technology development, and protection of
5 intellectual property rights. Every administration
6 since then has built on this foundation over the
7 following two decades. And this bipartisan effort
8 offers useful lessons for today's debate.
9 I've gone over Senator Lieberman's remarks
10 and in other efforts put forward by the private sector
11 in the business community, there are a number of
12 elements in this agenda. These are not exclusive. We
13 just offer these as an initial set.
14 We first need to foster investment and
15 innovation. Our nation's spending on research and
16 development is central to maintaining US technological
17 leadership with both the public and private sectors
18 having key roles to play.
19 Federal investment in basic research has
20 been the foundation for many important commercial
21 advances and many universities in Pennsylvania have
22 been catalysts for this.
23 But since 1970, the federal share of total
24 research and development spending has declined from 57
25 percent to 28 percent, that percentage particularly

1 for basic, high risk, enabling research, must be
2 boosted.
3 The second element is promoting worldwide
4 trade, enforcing our current trade agreements, and
5 stimulating international economic growth.
6 Our nation prospers when our companies and
7 workers sell high value goods and services to
8 customers around the world, not by shutting ourselves
9 off to competition and markets. That is why the next
10 round of multi-lateral negotiations on services of
11 which we had some significant announcements over the
12 weekend in the so-called Doha Round is so important.
13 Because of the importance of IT services to
14 our nation and the fact that it has contributed
15 greatly to our trade situation, it is critical that
16 these negotiations promote full implementation of
17 existing commitments and seek liberalization for all
18 basic telecommunications, value-added and
19 computer-related services.
20 But it is not enough to get a solid
21 agreement. We must have meaningful enforcements of
22 these agreements. And our industry will take a
23 backseat to no one when it comes to the importance of
24 enforcing these agreements particularly in markets
25 like China.

1 There must also be a high priority working
2 with business and labor to ensure that trade rules are
3 followed and loopholes are not excluded.
4 We also must improve education and
5 training. To ensure a world-class talent base, the
6 United States should be steadfast in its emphasis on
7 improving the skills of today's US workers through
8 better education and training and the skills of
9 tomorrow's workers through dramatic improvements of
10 our US students.
11 US companies invest more than 70 billion a
12 year in job training. But frankly, we need a more
13 comprehensive and committed effort by companies, our
14 trade union movement, and all levels of government to
15 seriously examine the role of job training
16 particularly in a more service driven and intensive
17 economy.
18 This requires new thinking on how to
19 promote life-long learning, and we must look at how to
20 improve federal programs like trade adjustment
21 assistance to adapt it to this new reality.
22 As Senator Lieberman pointed out in his
23 remarks, 60 percent of the new jobs will require
24 skills held by only 20 percent of today's workforce.
25 That is a huge skills gap. And yes, we have done a

1 lot; but we have got to do more to make sure this gap
2 is filled.
3 Finally, we need to get our own house in
4 order. One of the most important steps is economic
5 policymakers at all levels make sure that they avoid
6 unintended harm to US economy are resisting
7 counterproductive ideas such as proposals that would
8 impose new tax, regulatory or procurement restrictions
9 on how US companies invest and trade worldwide.
10 Mr. Chairman, members of the committee, for
11 businesses generally, and our industry in particular,
12 we are keenly aware that we must work together both
13 here in Pennsylvania and across the United States to
14 continue to work to turn the tide of our economic
15 outlook, not just for the next quarter or through the
16 end of the next year but for the foreseeable future.
17 The risk to renewed growth imposing
18 restrictions on trade and services and turning our
19 backs on the international marketplace where we need
20 to compete and not withdraw is real. While genuine,
21 measures to restrict inputs into government services
22 will not only fail to produce new jobs, they will put
23 our nation off course.
24 I appreciate this opportunity to appear
25 before you today and look forward to any questions

1 that you may have. Thank you, Mr. Chairman.
2 CHAIRMAN HASAY: Thank you, Mr. Bohannon.
3 For the record, Representative McGeehan couldn't be
4 here today and his Bill -- he's prime sponsor for
5 House Bill 2639. He has submitted remarks for the
6 record at the hearing today. We have a few questions.
7 Thank you for your prepared testimony and your time.
8 MR. BOHANNON: Thank you.
9 CHAIRMAN HASAY: The gentleman from Berks,
10 Mr. Caltagirone.
11 REPRESENTATIVE CALTAGIRONE: Sir, on page 8
12 of your testimony, you indicated here in addition
13 Pennsylvania is one of the strong majority states in
14 addition to the federal government that has signed
15 onto the WTO's government procurement agreement. I
16 kind of find that interesting, especially under the
17 next sentence.
18 Under the GPA, a party, like Pennsylvania,
19 must give foreign suppliers goods and services no less
20 favorable treatment than those goods or services would
21 be given domestically. In addition, a party to the
22 GPA must not discriminate among or between foreign
23 suppliers, goods or services. I think maybe you
24 should tell that to China and Japan.
25 MR. BOHANNON: We are. Japan actually is a

1 member of the GPA. China is not. One of our big
2 concerns is that USGR is not following up yet on the
3 commitment to begin negotiations to have China become
4 part of the GPA. We are quite concerned about it.
5 We are actively -- our members are actively
6 engaged in the China market. There are a host of
7 problems in China of which government procurement is
8 one. You articulately mentioned the intellectual
9 property issues and that certainly those are ones that
10 we have great concern.
11 We are also seeing some progress too. I
12 want to be very clear that I think there are certainly
13 problems with rampant piracy of our products in China.
14 We are starting to see constructive steps
15 towards having judicial decisions that more reflect
16 international norms. So we want to stay firm with
17 China. But we also want to recognize that they are
18 making some steps, and we need to build on those.
19 REPRESENTATIVE CALTAGIRONE: I personally
20 find it incomprehensible that this state would issue a
21 contract for an agency using state taxpayers' dollars
22 and then to transport those jobs through a contract or
23 let through open bidding to have phone calls answered
24 in India to respond to questions that were concerning
25 health care or some other areas of state government.

1 That just blows my mind.

2 I'm not saying we should be isolationists.

3 Don't misunderstand me. But at times like we've been

4 going through, why should Pennsylvania tax dollars be

5 transported to a foreign country when we have a lot of

6 our people that are making below minimum wage,

7 substandard living, can't exist on jobs that have

8 disappeared?

9 You know, I don't care what you say. You

10 can come to any one of our districts and I think just

11 about every member here can point to businesses and

12 industries that have left their district. And many of

13 them, not just Pennsylvania, they have left and gone

14 to foreign countries.

15 I mean it is a fact. It's been happening.

16 We all suffered under that. And we're looking to say

17 maybe it's time we start taking care of ourself first

18 and our tax dollars because we are the stewards of

19 those tax dollars. You don't think that's a good

20 idea?

21 MR. BOHANNON: I think that every state

22 needs to get the best value and get what it wants in

23 spending its dollars. I think it needs to do so

24 recognizing that states do not have the biggest

25 budgets in the world. That if they are going to do a

1 project, they have to cost out what they want.
2 Clearly with regard to call centers -- and
3 I think they are, by the way, a very small part of
4 what this Bill would affect. I mean this Bill goes
5 way beyond call centers.
6 So I want to make sure we're really clear
7 here. This is not about call centers. It is about
8 any input, any work that is being done with regard to
9 a contract.
10 Let me just tell you when you're talking
11 about software code writing, I mean the way software
12 development is done is that our members have highly
13 skilled people around the world working on things.
14 And the notion we could certify, you know, where this
15 work is done I think would be not only impractical but
16 I think you'd be asking companies to commit fraud
17 because it is just an impossible thing to do.
18 I think with regard to call centers, you
19 know, clearly there are cost benefits to doing call
20 centers outside of the US. I'm not going to dispute
21 that.
22 So the question then becomes what is the
23 agency going to get for its buck and it's going to
24 evaluate that. And I think every agency has a
25 responsibility to evaluate that.

1 REPRESENTATIVE CALTAGIRONE: You hit it on
2 the head because I serve on the Ben Franklin
3 Technology and Development Authority.
4 And we literally vote millions of dollars,
5 millions and millions every year to help our
6 industries and businesses in Pennsylvania. A lot of
7 them are a lot of technology investment. And I, for
8 one, don't want to see those investments that we're
9 making then transported overseas. It doesn't make
10 sense.
11 It doesn't make rational sense whatsoever
12 that we develop the technology, we put the money in
13 there as taxpayers of this Commonwealth only to see it
14 end up in some foreign country for the manufacturing
15 process that would be developed. Would you not agree
16 to that?
17 MR. BOHANNON: Representative, when I was
18 in the administration, I dealt with a number of very
19 serious industrialists -- I am very sensitive to the
20 point that you're making.
21 The question then is -- I think it is
22 important that we not assume that every time a country
23 develops technology, it is done so because it is
24 stolen from the United States or --
25 REPRESENTATIVE CALTAGIRONE: I didn't say

1 that.

2 MR. BOHANNON: I think that we certainly

3 need to make sure and we need to create an environment

4 in which our world -- I believe still world-class

5 technology base in this country can still be the basis

6 for innovation, new businesses, and new jobs here.

7 I don't think that's going to be about

8 restricting the job location. I think that there is a

9 number of factors that come into play here. I think

10 certainly we make sure we're very clear here, you

11 know, while we're certainly second to none in terms of

12 talking about the problems of China misappropriating

13 and stealing, we are also very aware that China's

14 universities are world-class universities now.

15 And we are seeing technology coming out of

16 their universities that rival things coming out of the

17 US universities. We have to make sure to understand

18 that our ability to compete is not just about making

19 sure we have an innovation base in this country

20 because then our companies have access to those

21 technologies abroad too. And I think that is also a

22 very serious issue we need to look at.

23 REPRESENTATIVE CALTAGIRONE: As I said

24 before, our standard of living if you travel over

25 there you know as well as I, it is like night and day.

1 They don't have the benefits. They don't have what we
2 enjoy as average Americans in Pennsylvania.
3 And our standard of living, you know, is
4 slipping simply because we are losing the jobs and the
5 pays and benefits that go with that. And at some
6 point that has got to be addressed. Thank you, Mr.
7 Chairman.
8 MR. BOHANNON: Thank you, Representative.
9 CHAIRMAN HASAY: The Chair recognizes the
10 lady from Luzerne, Mrs. Mundy.
11 REPRESENTATIVE MUNDY: Thank you, Mr.
12 Chairman. Thank you, Mr. Bohannon. I think your
13 testimony was kind of -- well, very well-balanced.
14 And if you worked with Robert Reich --
15 MR. BOHANNON: I worked for Ron Brown
16 across the street.
17 REPRESENTATIVE MUNDY: I wish I had the
18 opportunity to work with those two gentlemen. You
19 talked about improving education and training. And I
20 want to harp back to my question with the last
21 testifier. You say 60 percent of the new jobs will
22 require skills held by only 20 percent of today's
23 workforce.
24 MR. BOHANNON: That was a figure by Senator
25 Lieberman.

1 REPRESENTATIVE MUNDY: Well, can you be
2 more specific? I'm talking about jobs for middle
3 class workers who are now losing their jobs to loss of
4 manufacturing and service jobs to the overseas
5 markets.
6 MR. BOHANNON: That's a very good question.
7 I know Mr. Page tried to answer it. I'm not an expert
8 in workforce. I want to be very clear about this. I
9 will be glad to follow-up with the committee and get
10 the details from Senator Lieberman's report.
11 I think what we are talking about though
12 are jobs that do require a significant level of
13 technical training, that probably also involve being
14 able to work in international markets; that is, not
15 going abroad but being able to help companies,
16 particularly small and medium sized ones that are
17 trying to export. Obviously, some of these are in the
18 health area.
19 But I would be glad to make sure that the
20 committee and that you have the details of those
21 figures. I personally did not bring his report. But
22 I'd be glad to talk to the staff and/or get the
23 background of that report because I think it is an
24 important question. And I apologize that I can't
25 answer that.

1 REPRESENTATIVE MUNDY: I would appreciate
2 that information. Thank you.
3 MR. BOHANNON: Let me make that note.
4 CHAIRMAN HASAY: The gentleman from
5 Chester, Mr. Hennessey.
6 REPRESENTATIVE HENNESSEY: Thank you, Mr.
7 Chairman. Mr. Bohannon, thank you for your testimony.
8 Page 5, top of page 5 you're talking about China and
9 India and the former Soviet Block nations competing
10 against us but also being potential customers for our
11 nation's products and services.
12 MR. BOHANNON: Absolutely.
13 REPRESENTATIVE HENNESSEY: Later on you
14 testified -- and I think I got the quote right. I
15 jotted it down. Technology businesses are fighting to
16 obtain markets access abroad.
17 And it just seems to me there is a bit of a
18 tension between those two concepts. Because, you
19 know, in a level playing field we shouldn't have to
20 fight for access abroad if we are getting free access
21 to other foreign companies to the American economy and
22 yet we do. And yet it seems to me that we do. Our
23 steel industry, for example, has been desecrated in
24 the United States and in Pennsylvania while we try to
25 compete with foreign governments which subsidize their

1 steel industries. And as a result, we've -- you know,
2 we're not looking at a level playing field at all.
3 How do -- do we always have to be the good
4 guy and sit there and say our markets are going to be
5 open to you and we really hope that you make your
6 markets open to us? But we know that you have
7 protectionist barriers and please take them down and
8 we won't do anything if you don't.
9 Because quite frankly, what I'm hearing
10 from you and from others is that our response is that
11 we have to make a better and better product and
12 improve what we're putting out so that people will
13 simply want to buy our product.
14 And I'm wondering how long we can stay
15 ahead of that race and constantly improve -- and I
16 don't want to undercut our American workers, maybe we
17 have the technology and maybe we can do that.
18 But it seems to me that it is one thing to
19 stay ahead of the race, it is another thing to say,
20 you know, let's get rid of some of the trade barriers
21 and actually put some force into our request and not
22 just say we'd like you to play as fair a game as we're
23 playing.
24 MR. BOHANNON: I think it is a very good
25 question. Let me try to answer each of them. To

1 state the obvious, it is not either/or. We don't have
2 a choice.
3 We have to continue to not only make sure
4 that we -- we can't just live on our legacy of having
5 been the strongest technologically oriented country in
6 the world. We have got to make sure we continue to do
7 that.
8 If we don't, I think the challenge of in
9 fact getting other countries to play by the
10 international norms is going to be more difficult.
11 Having said that, I think that there are
12 ways in which we can do it. It is not directly our
13 industry. But for example after a great deal of work,
14 there was a major announcement by USTR that basically
15 made sure that our US semiconductor industry which was
16 still the world's leader was not discriminated against
17 in China. It does take focus by our trade rep. And I
18 think it did and quite frankly our entire federal
19 government.
20 We have to continue to press for the
21 removal of barriers which I do not necessarily mean
22 ultimately that we have to engage in retaliation. But
23 I'm not an expert in the steel industry. I don't
24 pretend to be an expert in the steel industry. And
25 our association took no view about some of the steps

1 that were taken in the last two years. I want to be
2 very clear about that.
3 But I also want you to know we also had to
4 spend a great deal of time in Brussels making sure our
5 industry was not put on the list to be disadvantaged
6 as a result of that.
7 And so we -- we have to continue to fight.
8 But we also have to recognize that retaliation is more
9 complicated and it may affect a variety of sectors.
10 In Pennsylvania you have a very diverse
11 export base. You have chemical processing. You
12 actually have manufacturing. You have transportation
13 materials.
14 All of those are potentially very open to
15 being put on retaliation lists depending on what kind
16 of action that country may take. And those are very
17 important sources of very well-paying jobs in
18 Pennsylvania. So I want to make sure it is not
19 either/or.
20 REPRESENTATIVE HENNESSEY: What I think
21 what I'm hearing you saying is we can't force them to
22 tear down the barriers that exist today because they
23 might put up other barriers tomorrow or in future
24 years.
25 So how do we ever get ahead? How does the

1 United States ever get ahead of that kind of argument
2 if in a sense we're reluctant to pressure them to get
3 rid of existing barriers because it may get worse in
4 the future if we do?
5 MR. BOHANNON: If I left you with that
6 impression, I apologize. That's not what I meant.
7 What I'm saying is that one can push for removal of
8 barriers and one can fight very rigorously.
9 My experience is that the United States
10 government is best able to do that when its
11 partnership between business, labor, and the
12 government is working together to send unified
13 messages.
14 And based on my own experience, it also
15 means that we have to get our allies to weigh in in
16 the same way. And I can't underemphasize that enough
17 given that -- and I give China as an example because
18 the market is so big. The policies that they are
19 doing there are not only affecting US IT companies,
20 they are affecting European IT companies as well.
21 So it is very important that we make sure
22 that we work together around the world to make sure
23 that there is consistent pressure from the
24 international community on this.
25 But I think it does take leadership by our

1 government to make sure that these agreements are
2 enforced. I am not of the view just because you
3 eliminate one barrier that it inevitably leads to
4 another barrier by the same country.
5 In fact, if that were the case, we'd throw
6 up our hands. I think there are different barriers
7 depending -- I think countries have different barriers
8 depending on what its own economic situation is like.
9 The China market is very complex. Let me
10 just tell you today that if we were to solve the
11 intellectual property issue, they have other issues in
12 the way they are using technical standards to give
13 preferences to certain products.
14 So there is not one silver bullet there
15 either, and I want to make that very clear. But I
16 think we -- it is not enough to -- as I said in my
17 testimony, it is not enough to get an agreement. We
18 have got to make sure that they are enforced and that
19 has got to be a high priority.
20 Some of that is a budget from Congress, but
21 it also means that we need all of the US team working
22 together; labor, business, and government working to
23 make sure that we are headed in the right direction
24 and to make sure that they are enforced. I hope that
25 answers your question.

1 REPRESENTATIVE HENNESSEY: Thank you.
2 Thank you, Mr. Chairman.
3 CHAIRMAN HASAY: The gentleman from
4 Lackawanna, Mr. Wansacz, has a final question.
5 REPRESENTATIVE WANSACZ: Thank you, Mr.
6 Chairman. I have a question. On page 7 you stated
7 that these proposals will not create any new jobs.
8 According to this specific question concerning this
9 Bill, Mr. McGeehan's Bill, how would his Bill not
10 create any new jobs? If for example if in his Bill it
11 pretty much the purpose is to state that all
12 contractors who were supposed to complete contract
13 work must provide a signed, written certification with
14 their proposals stating that all contracted work will
15 be performed within the geographic boundaries of the
16 United States of America.
17 These offerors or contractors who provide a
18 written certification shall receive specific
19 consideration for awarding the contracts as opposed to
20 all offerors or contractors who have not provided a
21 written certification. The way I look at it is if the
22 State of Pennsylvania, the taxpayers, you know, that's
23 how we get our budget.
24 If our government gives special
25 consideration for those that only keep the work in the

1 United States, how would that not create jobs in the
2 United States?
3 MR. BOHANNON: I am -- I go back to my
4 point. It is not clear to me that it would create any
5 new jobs. I think that you would have a reshuffling
6 at best. But I think even before you get to that
7 point, I think that most serious IT companies could
8 not make the certification even if it had all of its
9 employees here in the United States.
10 REPRESENTATIVE WANSACZ: Wouldn't that
11 create new start-up businesses then? If there is a
12 need -- and all times businesses are created through a
13 need. And we have a lot of talent not only in
14 Pennsylvania but throughout the United States of
15 qualified individuals that can perform the work that
16 this Commonwealth provides. Wouldn't that not create
17 a need for these businesses, for these jobs?
18 Yeah, maybe it creates some small
19 businesses, maybe it's not the big businesses that
20 we're handing out these contracts but maybe small
21 businesses emerge that can meet these qualifications.
22 MR. BOHANNON: With all due respect when
23 you're talking about IT systems, even small companies
24 getting into this market are rarely, if ever, using
25 the software that they develop themselves. Usually

1 they are integrators or redistributors or licensors of
2 software that is already out there.
3 The market for what everybody calls
4 enterprise government level systems unfortunately
5 requires a fairly level maintenance requirement.
6 I actually don't see how this will create
7 any new businesses to be honest with you. I think
8 what it will do is make lawyers and companies spend a
9 lot of time doing a lot of paperwork rather than
10 creating new jobs. I think that is what the bottom
11 line of this Bill is going to do.
12 REPRESENTATIVE WANSACZ: So you don't see
13 it as what we're seeing now is where our workers right
14 now are getting -- these companies are taking and
15 shipping it overseas. That's obviously losing jobs
16 rather than it is creating jobs or maintaining jobs.
17 MR. BOHANNON: Well, as I said, a decision
18 by a company on its worldwide hiring positions is
19 affected by a number of things. And there are plenty
20 of examples of companies that have announced a change
21 of location of jobs which have in fact increased
22 overall employment in the United States.
23 What you're getting at here is a different
24 question though which is whether a simple
25 certification that all contracted work will be

1 exclusively performed in the US.

2 I'll be honest with you, I think a company

3 would probably avoid doing business with the State of

4 Pennsylvania. Because I doubt given the way software

5 development occurs -- let me give you a hypothetical.

6 A company, for example, that built a major

7 system for a Canadian agency may in fact take some of

8 that software and try to use it for a contractor in

9 the State of Pennsylvania, very good software.

10 But what is it going to do? You can't

11 certify that all of the work was exclusively done in

12 the United States. The way software development

13 happens is that you build on projects that you've done

14 before.

15 They may be projects in the United States.

16 They may be projects you've done for other

17 governments. The projects may be in Germany. They

18 may be in France. They may be in Costa Rica.

19 It is not about outsourcing the work. It

20 is about where the project was focused and where what

21 inputs into that project were being done.

22 So my concern about this legislation is

23 that you're asking people to certify something that

24 even assuming they could audit it is a whole other

25 matter about the cost of compliance with this and

1 certainly the cost of any particular project.
2 From a practical point of view, I don't see
3 how you could have any company make these kinds of
4 certifications. And that's not about creating jobs.
5 It then becomes a regulatory paperwork problem.
6 REPRESENTATIVE WANSACZ: What you're saying
7 is a company would not -- maybe I'm off track here.
8 What you're saying is some companies wouldn't do
9 business with Pennsylvania?
10 MR. BOHANNON: No. What I'm saying --
11 REPRESENTATIVE WANSACZ: I'm saying that
12 creates then a need for somebody to start up a
13 business to be able to do business with
14 Pennsylvania --
15 MR. BOHANNON: Again, I can't --
16 REPRESENTATIVE WANSACZ: -- thus that would
17 create jobs.
18 MR. BOHANNON: I can't speak for every kind
19 of industry that may want to do business with the
20 Pennsylvania government. I'm here representing
21 software and information service folks.
22 All I'm saying is that in our industry
23 given the inputs into any particular project coming
24 from around the world -- and not just in the form of
25 offshore work. I want to be very clear. Inputs can

1 be done based on a research and development center in
2 Ireland, for example. I mean the inputs here are not
3 just about where work is offshored.
4 It is about what are the -- it's about the
5 worldwide process of development and putting
6 information together.
7 That's the concern I have here. And yes, I
8 think that would be -- if the result were that fewer
9 companies would bid and be interested in projects with
10 the Pennsylvania government, I think that would be a
11 detriment to the taxpayers and to the agencies because
12 it means that they are then not benefiting from the
13 best available technologies that are in the
14 marketplace.
15 And I think in the long run that will
16 increase costs and reduce satisfaction by the agencies
17 in terms of what they are getting. So I think that
18 would be a serious problem if the result were fewer
19 people -- few companies able and willing to bid on
20 these things. And I think that would be a real
21 detriment.
22 REPRESENTATIVE WANSACZ: Thank you, Mr.
23 Chairman.
24 CHAIRMAN HASAY: Mr. Bohannon, thank you
25 very much for your testimony and your time and coming

1 before the committee today. Thank you very much.
2 MR. BOHANNON: I appreciate it. Thank you.
3 CHAIRMAN HASAY: Trying to keep on
4 schedule, we now have the Pennsylvania Department of
5 General Services here. We have Deputy Yarkin and
6 Assistant Chief Counsel Gary Ankabrandt. Gentlemen,
7 if you would, take the table and proceed when you are
8 ready. Thank you for coming here today.
9 MR. YARKIN: Thank you, Mr. Chairman and
10 members of the committee. My name is David Yarkin.
11 I'm the Deputy Secretary for Procurement from the
12 Department of General Services. To my left is Gary
13 Ankabrandt, Assistant Chief Counsel for DGS who is
14 probably the foremost expert in procurement law in
15 Pennsylvania. And to my right is Jeff Marrazzo from
16 the Governor's Office of Management and Productivity.
17 Knowing that we are short on time, I'll
18 keep my remarks brief, and I'd be happy to take any
19 questions that you have.
20 I'm here to testify today on behalf of
21 House Bill 2639, a Bill that levels the playing field
22 for Pennsylvania and American workers.
23 We have all heard the stories about workers
24 all over the country and here in Pennsylvania who have
25 lost their jobs, good paying jobs, to foreign workers.

1 Why have they lost their jobs? Because
2 many companies employ foreign workers, pay them just a
3 fraction of what domestic companies pay American
4 workers. So of course when they compete for work,
5 whether in the public sector or private sector, they
6 often win contracts.
7 But Governor Rendell believes that those of
8 us in the public sector have an obligation to promote
9 social responsibility in our procurements. That is
10 what HB 2639 does.
11 It promotes the notion of not just free
12 trade but fair trade where our workers are on equal
13 footing with workers halfway across the globe. And
14 Here's how it will work.
15 As many of you may know, more than ever
16 before DGS is using requests for proposals or RFPs
17 instead of competitive sealed bids for our
18 procurements.
19 Competitive sealed bids can be an effective
20 procurement tool, but it limits us to making awards
21 solely on the basis of cost. As long as you meet the
22 general requirements of the solicitation, if you are
23 the lowest bidder, you win.
24 By using RFPs, however, we are able to take
25 more than simply low cost into account when making

1 awards. We factor in the quality of the goods or
2 services we will be using.
3 As anyone who has ever had work done on a
4 house knows, the lowest bidder doesn't necessarily
5 perform quality work and that will cost you more in
6 the long run. You can ask my wife who is leading some
7 projects on our house now. She will tell you that.
8 So quality is clearly important.
9 We also factor in minority women-owned
10 participation or MWBE participation. The governor has
11 set a goal which is ambitious -- but I think it is the
12 right thing to do -- to increase our MWBE
13 participation by 400 percent by the end of his first
14 term. We have already had a number of successes in
15 this area.
16 With the passage of this legislation, we'll
17 be using another criteria as a factor in our
18 evaluations of procurements, social responsibility.
19 When we publish our RFPs, we will be
20 using -- we will be asking our suppliers to commit
21 that they will not use non-US labor in fulfilling a
22 contract with the Commonwealth. Companies that make
23 this pledge will receive additional consideration by
24 DGS in our evaluations of their proposals.
25 Now we don't pretend for a minute that we

1 can build a big wall around America. Our world gets
2 smaller every day.
3 But Governor Rendell believes that we
4 should incentivize companies to do the right thing.
5 And HB 2639 does just that.
6 Thank you members of the committee, Mr.
7 Chairman, for your time and for your consideration of
8 this legislation. And now I'd be happy to take any
9 questions that you may have.
10 CHAIRMAN HASAY: Thank you very much,
11 Deputy Secretary Yarkin. Any members have any
12 questions? The gentleman from Westmoreland, Mr.
13 Tangretti.
14 REPRESENTATIVE TANGRETTI: Thank you, Mr.
15 Chairman. Good afternoon, Deputy Secretary. Would
16 you please respond to the previous testifier's
17 testimony about Pennsylvania being a signer of the WTO
18 government procurement?
19 MR. YARKIN: I don't know that I can speak
20 to all of it. I'm not a trade expert. But I can tell
21 you one thing -- and you'll probably hear about this
22 from the next panel -- the governor was asked by the
23 US trade representative to add Pennsylvania's
24 procurement power to his USTR's overall bargaining
25 power with foreign countries.

1 And he rescinded that. He originally said
2 he would give that approval. And he recently
3 rescinded it because the requirement was that we
4 basically would waive our ability to weigh in on
5 issues like this.
6 We would say Pennsylvania will go along
7 with what the USTR negotiates. And we won't be able
8 to give a preference at all to companies that use
9 American workers.
10 And for the governor, that was an
11 unattainable position. Beyond that, I'm not sure I
12 can answer your question.
13 REPRESENTATIVE TANGRETTI: So I understand
14 and we're clear, he stated unequivocally that we are a
15 signetur to this agreement. You're suggesting that we
16 are not.
17 MR. YARKIN: To --
18 REPRESENTATIVE TANGRETTI: The governor has
19 signed --
20 MR. YARKIN: To which agreement?
21 MR. ANKABRANDT: The World Trade
22 Organization.
23 MR. YARKIN: I believe we are a signetur to
24 the WTO. But in the USTR's interest of negotiating
25 some further trade agreements, I believe that was what

1 the governor's letter rescinded, his -- USTR's ability
2 to negotiate on behalf of Pennsylvania if we're barred
3 from creating a preference for American workers. I
4 don't know if that answers your question, but I'd be
5 happy to follow-up with you afterwards.
6 REPRESENTATIVE TANGRETTI: So it is
7 complicated to testify to. He also testified to the
8 effect that the IT industry has a huge problem
9 certifying the location of their employees because of
10 the nature of the business.
11 And he used the development of various
12 software and other IT products at various other
13 locations around the world.
14 How does -- how would the Department deal
15 with that issue as it relates to their procurement?
16 MR. YARKIN: First of all, I think that he
17 gave a very intelligent proposal and intelligent
18 testimony here. But I don't know that he necessarily
19 understood exactly what Representative McGeehan was
20 aiming at with this Bill, and I think it is probably
21 incumbent upon us to try to sit down and try to
22 educate him and his members on it.
23 First of all to be clear, this Bill,
24 Representative McGeehan's Bill, which I think is an
25 outstanding piece of legislation does not prohibit

1 companies from bidding on state work and using non-US
2 workers.
3 So a company that decided, you know, we
4 decided for whatever reason we're not going to use
5 domestic workers, they could still bid on work. Now
6 the company that does say I'm going to certify that my
7 workers are going to be domestic, they will have an
8 advantage over that company that doesn't make that
9 pledge.
10 So his point earlier -- and I caught some
11 of it -- about software development and the way it is
12 developed -- and again I'm not a software expert.
13 But his example where a software company
14 develops a product for say the Minnesota Department of
15 Transportation, and they want to come and do the work
16 here for PennDOT using the things they learned from
17 Minnesota. And let's say in that example they used
18 offshore labor to create the product for Minnesota.
19 What we're talking about here is fulfilling
20 our contract. So if the work was developed from
21 Minnesota or somewhere else using offshore labor,
22 that's not what this Bill aims to address.
23 We're saying if you're going to adapt it to
24 Pennsylvania, we want you to use American workers to
25 do that technology work.

1 REPRESENTATIVE TANGRETTI: Okay. Thanks
2 very much. Thank you, Mr. Chairman.
3 MR. YARKIN: Thank you.
4 CHAIRMAN HASAY: The gentleman from Monroe,
5 Mr. Scavello.
6 REPRESENTATIVE SCAVELLO: Thank you, Mr.
7 Chairman. And thank you, Deputy Secretary, for
8 testifying today. I'm a co-sponsor of the Bill. The
9 last testimony that we just received, the testifier
10 claimed we have 38,000 jobs that were created from
11 offshoring here in the state.
12 Do you have any idea of how many jobs we'd
13 be creating by adopting this Bill?
14 MR. YARKIN: I don't know the answer to
15 that question. Although I would say that I think
16 Representative Wansacz's point to the previous
17 testifier is right. I think -- let's say there is a
18 call center contract. Before this legislation, let's
19 say it went overseas.
20 In this legislation we're saying we're
21 going to give a company that pledges to have their
22 call center operations within the borders of the
23 country and we're going to give them additional
24 consideration. That could very well tip the
25 procurement and procurement could be won by the

1 company that pledges to keep that work here in the
2 states.
3 So that could create jobs for a domestic
4 company. So I'm -- I guess I'm a little more bullish
5 than the gentleman who spoke before me on the ability
6 to create jobs.
7 This is not a panacea. We obviously live
8 in a small world. But it is a step that we all feel
9 we should take, the governor feels we should take to
10 try to do the right thing to try and help companies
11 that want to do the right thing.
12 REPRESENTATIVE SCAVELLO: I agree.
13 Representative McGeehan stated in -- actually it is in
14 the Bill that there is approximately 2 million jobs
15 that would be lost as far out as 2012 I believe on
16 page 3, white collar jobs in the United States if we
17 don't take a step and do something.
18 Do you agree with those numbers?
19 MR. YARKIN: That is probably outside of my
20 expertise. I know there have been a number of reports
21 that have looked at this, but I couldn't speak to the
22 number.
23 REPRESENTATIVE SCAVELLO: Thank you very
24 much.
25 MR. YARKIN: Sure.

1 CHAIRMAN HASAY: I'd like to thank
2 Secretary Yarkin for coming here today and giving us a
3 briefing on how the Department feels and how the
4 Governor's office feels on it and we appreciate that
5 understanding. Thank you very much. Again, thank
6 you.
7 MR. YARKIN: Thank you.
8 CHAIRMAN HASAY: Next we have the
9 Pennsylvania Chamber of Business and Industry. Mr.
10 Gene Barr is here. He's the vice president of
11 Political and Regulatory Affairs.
12 MR. BARR: Mr. Chairman, good to see you.
13 CHAIRMAN HASAY: Mr. Barr, thank you for
14 coming.
15 MR. BARR: Thank you for the invitation.
16 CHAIRMAN HASAY: You can start when you are
17 ready.
18 MR. BARR: Thank you very much. Thank you
19 for the invitation to be here. Thank you to the
20 committee members as well.
21 As the Chairman has said, my name is Gene
22 Barr, vice president of Political and Regulatory
23 Affairs, Pennsylvania Chamber of Business and
24 Industry.
25 The chamber is the largest broad-based

1 business advocacy group in Pennsylvania with over
2 10,000 members throughout the Commonwealth that we
3 represent on public policy issues such as the one here
4 today.
5 You're obviously discussing 2639, House
6 Bill 2639. And again much of what we are going to
7 talk about has been touched on. So we're going to
8 touch a little bit on that as well as how the chamber
9 feels about this particular issue and some of the
10 information that has been out there.
11 First, let me say that Representative
12 McGeehan and the other members, co-sponsors and even
13 this committee, I think it is wholly appropriate that
14 these kinds of things be talked about.
15 It is completely appropriate that we need
16 to be talking about the kinds of things that state
17 government needs to be doing for its citizens.
18 Because one of the things obviously out
19 there is a human face on this. Much of what we talked
20 about today are numbers and percentages and dollar
21 figures. And no matter what we come down to, these
22 are -- there is still a human face here.
23 Human faces are the citizens of the
24 Commonwealth. They are our neighbors, in many cases
25 are people in our family and those are things that

1 clearly we have to keep in mind as we go forward.
2 So I think it is appropriate that we would
3 be talking about this. Unfortunately the proposal
4 that has been addressed to put forward some of what
5 have been called job losses in Pennsylvania.
6 Our concern is that the Chamber would have
7 unintended consequences that we discussed already in
8 terms of trade and in terms of particularly a
9 long-term impact on Pennsylvania's economic growth.
10 While the measure would seem to be
11 innocuous or perhaps beneficial to Pennsylvania, our
12 concern is that the passage of the Bill sends a strong
13 negative signal to foreign investors and other
14 investors in other companies who may be looking to put
15 money into Pennsylvania. And as we're going to talk
16 here very briefly in a minute, that there is a
17 significant amount.
18 A couple of other interesting figures that
19 I'm not sure have been talked about, at this point in
20 the US there are 139 million Americans employed which
21 is more than any time in our history which I think is
22 a significant number.
23 We've heard about 300,000 to 500,000 "jobs
24 outsourced" in that period and the impact that it has
25 created. And again when it is an individual and it's

1 your job, that clearly means everything to you and
2 your family.
3 One other important thing I think though to
4 mention is we talked about education here quite a bit
5 today, and we've talked about education a lot in this
6 building over the last couple of years as we ought to.
7 Among workers with a college degree in the
8 US, the unemployment rate is 2.9 percent. This speaks
9 most directly to the need for good education
10 opportunities for our people here in the United States
11 and in Pennsylvania.
12 Just to kind of clarify what we're talking
13 about relative to some of the jobs we're talking
14 about, it is important not to confuse jobs that have
15 been outsourced with jobs that are no longer here.
16 For example, the Do Not Call legislation
17 which we've talked about and this body has debated and
18 passed as well as gone on across the United States has
19 resulted in approximately 2 million jobs lost in that
20 industry.
21 Now while all of us probably appreciate not
22 putting down our dinner forks to pick up the phone to
23 talk to someone at 6:00, that has had a human impact.
24 And it is important to note those kinds of things and
25 not confuse the two.

1 Also, let's not confuse the issue with jobs
2 that might have moved to other states for various
3 reason. We have talked about issues here where jobs
4 have left various parts of Pennsylvania to go to the
5 Carolinas, to go to Texas, to go to other states. And
6 that is another important consideration.
7 We talked quite a bit about US companies
8 going elsewhere, putting their dollars elsewhere. And
9 it is interesting hearing some of the debate today.
10 For about 13 years I worked for a foreign
11 company. And it was interesting at that time -- this
12 has already been noted -- there was a huge concern
13 about how much foreign investment was coming into the
14 US and the concern that foreign investment was
15 potentially a problem for the United States.
16 At this point US companies have invested in
17 2002 invested $120 billion abroad. Those US companies
18 invested $1.1 trillion here. So clearly the money US
19 companies have by in large is going into the US
20 economy as well.
21 As it has already been mentioned, we have a
22 $60 billion surplus in the services trade. So I think
23 we have to think quite clearly and look very closely
24 at exactly where the outsourcing issue is and where
25 those jobs are going.

1 From a Pennsylvania perspective, it is
2 important to note that US subsidiaries of foreign
3 companies employ over 267,000 citizens here in our
4 Commonwealth.
5 I think, again, it shows there is
6 significant foreign investment here and that we have
7 to be very careful about what signals we send to those
8 foreign investors and the impact that those signals
9 might have on our economy here in Pennsylvania.
10 There was a citation earlier for a study
11 that was done by McKinsey. And again, there has been
12 a lot of talk about this and not a whole lot of real
13 substantive work has been done. You can't sit there
14 and say X jobs have gone and X jobs have come in and X
15 dollars. And it does get very difficult to do.
16 But there was a very interesting study that
17 was done by McKinsey which is a worldwide management
18 company. Interesting also to note that the author of
19 this study was a gentleman by the name of Martin Baily
20 who was chair of President Clinton's Council of
21 Economic Advisors.
22 And they looked at some of the reasons why
23 companies outsource. And we talked about them here
24 today; other opportunities elsewhere, access to
25 markets, access to some of the technical expertise

1 that they often need, and clearly the need in many
2 cases to cut costs.
3 I will tell you when talking to many of our
4 members -- and it is not always the large members, it
5 is many of the smaller companies. And all of you know
6 this as well because I know you talk to your employers
7 back home.
8 Many small companies are looking to
9 outsource. Why are they doing it? They need to
10 survive. What is the benefit of trying to cut these
11 costs? What's the benefit of having costs cut? One
12 of them is that the costs that we cut can be
13 reinvested in other areas. And we can argue for a
14 long time about who is taking the costs out. Is it
15 going to the owners of the company? Is it going to
16 the shareholders?
17 And arguably when you talk about the money
18 going to shareholders, who are the shareholders? The
19 shareholders in many cases are all of us with mutual
20 funds, those of us who are taking pensions, our
21 parents, grandparents, other people in the community.
22 So I think it is important to remember that that
23 oftentimes is where that money goes.
24 Oftentimes the money is taken to get a
25 better deal for consumers. Certainly sometimes there

1 are cost savings achieved by consumers because the
2 products don't cost as much.
3 One of the things mentioned earlier, some
4 of the medical work that is being outsourced now and
5 sent to other countries and there is a lot of truth in
6 that. There is some of that being sent.
7 One of the interesting things to us, I will
8 tell you the State Chamber's number one priority as
9 directed to us by our board this year was the rise in
10 health care costs. We realize there is not a lot that
11 this body can do about that. A lot of it needs to be
12 at a national level clearly.
13 But I think it is indicative of how many of
14 our boards feel and there are small, medium, and large
15 companies represented there. To the extent that we
16 can save costs on those health care costs, not only do
17 we save the costs and help drive them down, it makes
18 those services -- medical services accessible to more
19 people. So I think that is an important
20 consideration.
21 I think another thing to think about is
22 some of this is anecdotal in terms of reading about
23 it and we all have. Many publications across the US
24 have done this; Newsweek, Time, various newspapers.
25 Some of the people who have gone and

1 visited some of the shops in India and some other
2 places have remarked upon how many US goods they have
3 noticed in those plants and in those facilities. And
4 I think that the figures demonstrate that from 2002 to
5 2003 US exports to India rose 22 percent.
6 These are people, yes, in India who now are
7 experiencing hopefully a better standard of living who
8 are buying our products, our US-made products.
9 One of the other things that is noticed
10 that the McKinsey study found was that in many cases a
11 dollar sent also results in -- as much as $1.14 back
12 here in the United States.
13 There was an interesting column that I saw
14 and caused me to think -- and this was a number of
15 months back -- there is an individual with the
16 Philadelphia Inquirer who is their economic writer, an
17 individual named Andrew Cassel.
18 And in a column he wrote a few months back
19 entitled "Offshoring is a Two-way Street, Not an
20 Economic Dead End" he notes and looks with interest at
21 the computer industry and says at one time only
22 government and corporate interests could afford to buy
23 computers. And many of us in this room remember that.
24 His view is that outsourcing, offshoring
25 many of the production activities relative to

1 computers; chips, boards, screens, and so forth help
2 drive those costs down to make computers much more
3 accessible to people across the US.
4 And we all know what computers have done in
5 terms of productivity and what they have done for our
6 lives. Now all of us may not fully appreciate them
7 while we're on vacation or we're somewhere and the
8 cell phone rings, but that has made that particular
9 piece of technology much more accessible to people
10 across the United States.
11 The other thing that he noted that it does
12 is it frees -- when we do that, it frees US workers
13 who clearly are among some of the most productive in
14 the world to focus on other cutting edge technologies
15 to reinvest our dollars elsewhere.
16 A couple of other people who have had some
17 interesting comments -- and again a lot of these have
18 been in the paper and a lot of you have seen them --
19 a gentleman named Gregory Mankiw, chief economist to
20 President Bush, talked about some of the movement of
21 service jobs in the long run being a plus.
22 Now again, we're talking about putting a
23 human face on this. If it is your job, it is not a
24 plus. But he said outsourcing is kind of the new way
25 unfortunately in many cases of doing international

1 trade.

2 What I found interesting is that an

3 individual named Janet Yellen who was chief economist

4 to President Clinton agreed with Mankiw by saying

5 outsourcing is another form of trade that benefits the

6 US economy by giving us cheaper ways to do things.

7 Robert Reich whose name had been mentioned earlier, he

8 was quoted -- he was Secretary of Labor under

9 President Clinton -- was saying that outsourcing does

10 not reduce jobs in America.

11 And we've heard today about the fact that

12 how outsourcing can bring in other jobs and lead to

13 cutting edge and higher technology jobs. If other

14 countries can do things cheaper, we ought to let them

15 do it and concentrate on what we do best, we meaning

16 obviously the United States.

17 One of the other things talked about here

18 was the analogy between Japan -- and I can remember

19 when it was Japan and Germany and how they were going

20 to take over particularly the automotive side. And I

21 think anecdotally again looking at where we are today

22 looking at both Germany and Japan have significant

23 investment in the automotive technology in the United

24 States. Honda, Toyota, BMW over the years have built

25 plants here for various reasons.

1 I think it is important to remember why
2 people bring -- why people bring their dollars here.
3 We have a stable, open government. People know by in
4 large where things are. And we have an open market.
5 People know that when they come in they do
6 what they need to do, that by in large that hopefully
7 they can get a return on their investment.
8 One of the things that concerns us about
9 this particular piece of legislation again is what we
10 believe to be the cost to the taxpayer that is going
11 to result in this.
12 If we begin taking out bidders -- and again
13 particularly low bidders for whatever reason they are
14 not there, the taxpayer is going to pay that
15 difference. I don't think there is any doubt about
16 that if you take bidders out of the process.
17 Other states have found this. I believe it
18 was Indiana that found out that one particular bid it
19 cost them $8 million more because they lost out on
20 certain bidders.
21 So again, I think when you look at these,
22 there is clearly a cost -- an additional cost to the
23 taxpayer when you take bidders out of the process
24 which obviously leads us to the question of what ought
25 the role of state government be.

1 And a number of other speakers here today
2 touched on that relative to the job retraining, trying
3 to pair some of those citizens who need jobs to where
4 those jobs are today.
5 One of the other things -- and obviously I
6 talked to many of you. I've talked to many of you
7 about this. We still have work in Pennsylvania to do
8 in terms of reducing the cost of doing business here
9 be it on the tax side, be it on the regulatory side,
10 be it in a number of different ways. We have to
11 reduce our cost of doing business in Pennsylvania. We
12 have done that here in this building a number of times
13 over the last few years from a tax perspective. We
14 have made tax cuts there.
15 And the regulatory perspective on tort
16 reform, we have taken some very important steps
17 forward on the tort reform to bring some of what we
18 believe to be some real measures that needed to be
19 done here. So we have done some of that.
20 Again, hearing Mr. Bohannon, I think it is
21 critical that one of the things that is continually
22 cited is addressing some of these fraud issues on the
23 intellectual property copyright issues. Those are
24 from what we determine to be absolutely critical.
25 And again, it is a matter of keeping our

1 markets open. But at the same time going after if
2 there are fraud issues, there are ways of prosecuting
3 those or ways of going after those folks who don't
4 open their markets to us, who don't create a viable
5 two-way street without going down the proposal that we
6 are looking at here today.
7 Where is the chamber on this? What we
8 really believe is that open flexible markets -- open
9 flexible economic markets best serve our citizens long
10 term. They hold the promise of more productive
11 careers and lives for everyone who is involved.
12 One of the things that outsourcing has been
13 remarked to bring oftentimes can and does have the
14 possibility and likelihood in many cases of creating
15 better jobs by keeping these open flexible markets.
16 Those markets are best capable of adapting
17 to changes. We have rapid change as never before.
18 The world is speeding up. We all know that. But
19 adapting to the changes that the world economy is
20 going through.
21 95 percent of the US customers and
22 potential customers live abroad. One of the concerns
23 we have is we have got a lot of our members who do
24 international trade. We're concerned about anything
25 that would adversely impact the ability of our members

1 here in Pennsylvania to get at those international
2 customers.
3 The only thing I would mention is one of
4 the -- I guess two of the things that I believe
5 America has given the world, clearly one is our system
6 of democracy and the way our government operates is
7 certainly a clear signal to all.
8 But the other one really is our economic
9 system. We have got free open trade markets. People
10 come in. They know where things stand. We have the
11 ability and have lifted the standard of living for
12 people across the world which I think is very much a
13 positive. By doing so, that creates markets for our
14 people as well. It creates opportunities for our
15 businesses.
16 The more restrictions that we place on our
17 system of free enterprise, the less likely our system
18 can maintain the flexibility it needs to adapt to the
19 changes that we see going on in the world marketplace
20 today.
21 Federal Reserve Board Chair Alan Greenspan
22 had an interesting comment as well. He was talking
23 about the time when there was kind of this perceived
24 nostalgia back many years ago when he said, "Tariff
25 walls were perceived as providing job security from

1 imports." He went on to say, Shutting out imports
2 would mean that our overall standard of living would
3 fall. I remain optimistic that we and our global
4 trading partners will shun that path.
5 We, at the Chamber, remain optimistic as
6 well and trust the resourcefulness and ingenuity of
7 America and its workers. Thank you for your time.
8 And I'll be happy to answer any questions that any
9 members of the committee have. Thank you.
10 CHAIRMAN HASAY: Thank you, Mr. Barr, for
11 coming here today. I appreciate your testimony.
12 You're correct about the car industry. The Japanese
13 cars and the two Korean car makers have really outdone
14 the American car makers in sales as of last month.
15 We just -- what the committee is trying to
16 do is just trying to be fair I think in our own
17 respect here and maybe kind of look out after each
18 other in this country for once.
19 Medical services are now outsourced? Give
20 the committee an example of what they are outsourcing
21 in medical services.
22 MR. BARR: From my understanding some of
23 the research I have seen is for example there will be
24 some foreign technicians who might for example read an
25 x-ray or MRI or something along those lines.

1 If it can be done cheaper, again, you get
2 more people availing themself of that service helping
3 drive down our health care costs. Clearly that's --
4 you then bring up privacy issues.
5 Which again, I think this is an issue that
6 doesn't say let's shutdown outsourcing and let's
7 shutdown the ability of companies to decide where the
8 jobs best ought to be. But what it says is we need
9 to take particular concern to certain privacy issues
10 much as we need to do relative to intellectual
11 property issues.
12 CHAIRMAN HASAY: Thank you. The Democratic
13 Chair and the gentleman from Berks, Mr. Caltagirone,
14 has a couple of questions.
15 MR. CALTAGIRONE: Thank you, Mr. Chairman.
16 You mentioned democracies. I would think that Israel,
17 Great Britain, Germany, France, Italy their
18 democracies have improved pretty much in the long run
19 give or take differences, nuances. But, however, I
20 don't think that you can put China in that category.
21 You just have to think back to Tinanmen
22 Square and some other things that have gone on in that
23 country. They don't enjoy our freedoms. They don't
24 have the same rules, regulations that our corporations
25 and companies and businesses have to operate under.

1 And I think you know exactly what I mean.
2 They are not playing by our rules or our
3 standards. And, you know, we're talking today about
4 what ought to be the role. What ought to be the role
5 of the chamber, maybe to protect, defend, and enhance
6 the members' interest that belong to the chamber I
7 would think and protecting their rights in this state
8 so that they are not being encroached upon.
9 And I know that there are many of your
10 members that are in my legislative district that are
11 having to compete unfairly with a lot of foreign
12 imports. Saudi Arabia is an example. Most people
13 don't realize they own 7 percent of the total wealth
14 of this country. And we have a tremendous trade
15 inbalance with them because of the importation of
16 their oil.
17 They know at some future date they cannot
18 eat their sand. That's why they have been investing
19 so very, very heavily in our agricultural third party,
20 by the way, purchases of a lot of our agricultural
21 industries in this country as one example. And yet
22 they are charging us -- what? -- $41 per barrel on the
23 open market right now. It's kind of interesting, kind
24 of interesting.
25 At one time we had mentioned a bushel of

1 wheat for a barrel of oil. They can't sustain their
2 economy without food. Something interesting to
3 contemplate.
4 But getting back to what we're here about
5 today. It is all well and good that you're saying
6 some of your members may be benefitting by what is
7 going on. But I dare say a majority of your members
8 have not been benefiting with this lopsided kind of
9 situation that we've been dealing with in this state.
10 I think it is probably going to get a heck
11 of a lot worse before it gets better. And until we
12 weigh in on what we are all about as a state and as
13 people that can to some degree control our own destiny
14 especially for the taxpayers' dollars -- and that's
15 what we are talking about here -- who do you want to
16 help?
17 And, you know, I beg to question with you
18 and your organization. I dare to say that a lot of
19 your members have been hurt adversely by what has been
20 going on and we have no recourse.
21 We have absolutely no recourse because
22 you're saying take them to the world court. They are
23 infringing and encroaching on our patents and designs
24 and technology and whatnot.
25 How do we counter that? I mean it is all

1 well and good what you're saying. But you know that
2 the world stage is a lot different than what we'd like
3 it to be.
4 MR. BARR: Well, there is quite a bit
5 obviously in your question. They are all very good
6 questions. Let me just try and address a few of them.
7 First, China is not a democracy. We know that.
8 However, how do you make people into a democracy? My
9 view is you show them what the examples of that are
10 and have the people experience what a free enterprise
11 system can do and let that be a shining example for
12 other people. That's kind of more my own personal
13 view than the Chamber's. But I think that the Chamber
14 would share that philosophy as well.
15 Would this proposal save some jobs short
16 term? And I think some of that goes to Representative
17 Wansacz's questions to some of the previous speakers
18 as well.
19 Potentially our concern is as we have
20 mentioned in the long term by erecting barriers. When
21 you erect walls to keep something in, you do something
22 else which is you keep something else out.
23 And our concern is keeping out that foreign
24 investment that we now have in Pennsylvania, the jobs
25 that come into Pennsylvania. Either we have free and

1 open markets or we don't.
2 Your questions are good ones. How do we go
3 after these folks who aren't operating properly, who
4 aren't obeying the laws of fairness and equality?
5 There are ways of going after them which in our view
6 don't include trying to erect walls around what we've
7 got now. What we need to do is allow, put every
8 opportunity in play to have free flow back and forth.
9 Certainly our people -- we have people who
10 are hurting here in Pennsylvania. Our members are
11 hurting, hurting for various reasons. As we talked
12 about, there are more things we need to do relative to
13 tax structures.
14 Another interesting question that came up
15 today which I was actually glad to hear having done so
16 much work in the environmental field over the years
17 was the fact that other countries do nowhere near what
18 we do on the environmental side.
19 Unfortunately what you read about in many
20 of the publications across the world is people
21 blasting the US because they are not "doing their
22 share environmentally." I would strongly beg to
23 differ. When you look at what is spent
24 environmentally that US companies do versus foreign
25 companies, we are significantly more.

1 We have done much more relative to the
2 environment in terms of cleaning it up and improving
3 our quality of life and climate here than anyone else
4 has in the world, and I would strongly beg to differ.
5 The other interesting thing that I will
6 tell you from a personal experience relative to the
7 Saudis is having spent 20 years in the oil industry
8 and working much of that time to open up some of the
9 most promising areas of oil exploration in the US,
10 we've put the overwhelming majority of places where we
11 can find oil in the US off limits which there are
12 concerns over the environmental aspects of that.
13 Those concerns -- those decisions come with a price.
14 That price is reliance on foreign oil.
15 REPRESENTATIVE CALTAGIRONE: Or develop
16 alternative fuels.
17 MR. BARR: Or develop alternative fuels
18 which many are doing now. Absolutely. I would agree
19 with you.
20 REPRESENTATIVE CALTAGIRONE: Let me just
21 mention this. I did a little bit of research into
22 this. ConAgra, $31 million plant out in Missouri to
23 process turkey parts. They do 30,000 a year. Okay.
24 Out of the front end; blood, guts, feather,
25 bones. Out of the other end is grease from

1 restaurants comes grade A oil $15 a barrel. What is
2 wrong with this country? What is wrong with this
3 picture?
4 I mean they can do landfills -- and we're
5 going down to Philadelphia on the 16th with the
6 Secretary of our agriculture, Pennsylvania and DEP
7 Secretary McGinty to look at the operation of the
8 Philadelphia Navy base. It is a $6 million operation.
9 And what they did was they dumped in sewage sludge
10 from Philadelphia in the one end and out the other end
11 came oil and fertilizer.
12 I think we have -- it's called
13 depolymerization. They atomize. They break it down.
14 They have patents for it. We can do these things in
15 this country if we have the willpower.
16 MR. BARR: There are lots of promising
17 technologies. Absolutely. I agree with you. There
18 are lots of promising technologies. More work needs
19 to be done.
20 REPRESENTATIVE CALTAGIRONE: If it is not
21 exported overseas. Thank you, Mr. Chairman.
22 CHAIRMAN HASAY: Thank you. The gentleman
23 from Columbia, Mr. Millard.
24 REPRESENTATIVE MILLARD: Thank you, Mr.
25 Chairman. Mr. Barr, based on your testimony and those

1 before you, we're talking about outsourcing to create
2 savings. In your estimation, where do you think the
3 greatest savings is achieved?
4 Is it achieved in the initial product or
5 the service or the bottom line, Mr. Barr?
6 MR. BARR: Representative, I'd be
7 hard-pressed to do that. I think that varies with
8 individual companies. Some companies may go more out
9 of a savings standpoint, some companies may go because
10 the markets are there.
11 I think there is a number of different
12 reasons why a company would make the choice and needs
13 to keep the choice to place the jobs where it does the
14 most for their company and their other employees. So
15 I'd be hard-pressed to say this is why they do it and
16 this is who does it and where.
17 I think that is virtually impossible to do.
18 And to be honest, a lot of that is proprietary
19 information.
20 REPRESENTATIVE MILLARD: Thank you. Thank
21 you, Mr. Chairman.
22 CHAIRMAN HASAY: The gentleman from
23 Lackawanna, Mr. Wansacz.
24 REPRESENTATIVE WANSACZ: Thank you, Mr.
25 Chairman. I will answer that question. It is profit.

1 That's simple. Why else are you in business? To make
2 money. You're there for no other reason when you're a
3 for-profit business.
4 My question for you, Gene, and thank you
5 for your testimony. I appreciate it. The
6 Commonwealth of Pennsylvania awards more than $1
7 billion worth of service contracts annually.
8 Now, does the Pennsylvania Chamber of
9 Commerce support this legislation offered by Mr.
10 McGeehan that would give our people, our US
11 businesses, more of an advantage for keeping jobs
12 here? Again, not just giving them the advantage of a
13 point system. Do you support this legislation or do
14 you not support this legislation?
15 MR. BARR: We do not support this
16 legislation.
17 REPRESENTATIVE WANSACZ: Okay.
18 MR. BARR: Would you like me to go further
19 and explain the reason?
20 REPRESENTATIVE WANSACZ: No. That's fine.
21 MR. BARR: Okay.
22 REPRESENTATIVE WANSACZ: One of the things
23 I noticed that you were talking about earlier was you
24 talked about foreign investment, foreign jobs. You
25 pretty much said there was about 235,000 people

1 working here in Pennsylvania.
2 MR. BARR: I believe that was the number,
3 correct.
4 REPRESENTATIVE WANSACZ: See, what I see is
5 a big difference here. What happens is foreign
6 companies come into the United States to invest, to
7 create economic opportunity and to take advantage of
8 our market. They do not take the jobs let's say from
9 India and come over here to Pennsylvania, close their
10 plant in India and transfer their jobs. They create
11 new jobs here in the United States. They do not
12 transfer all of their jobs from India here.
13 What outsourcing is doing is we are going
14 overseas and we're investing and trying to take
15 advantage of the market and, yes, we are also hiring
16 some locals. But what we're also doing is having our
17 workers here train the workers over there and then
18 eliminating positions over here. You are not seeing
19 that in foreign companies.
20 They are not getting rid of their jobs over
21 in their home country and coming here to the United
22 States and saying, hey, we're giving it all to United
23 States. That's not what is happening. So you can't
24 compare that as an apple to apple. That is not
25 happening.

1 MR. BARR: I don't know that they are not.
2 I can't tell you for certainty that there has not been
3 an Indian company or Brazilian company or Mexican
4 company that said, hey, you know what, we're better
5 off in the US because of the market.
6 Employers in those countries make decisions
7 based on the same economic criteria that US employers
8 make. You're absolutely right. Why is someone in
9 business? They are in business to make money, period.
10 That's the way our system works. And to say otherwise
11 would be wrong. I'm not going to sit here and give
12 you something. People are there to make money.
13 Companies go where they can make money, period.
14 If you want to be in a climate that allows
15 you the opportunity to turn profit, if you're going to
16 take a risk with your capital or your investor's
17 capital, you're going to want a return on that dollar.
18 Otherwise, you might as well take that dollar and put
19 it in a savings account down at the bank.
20 REPRESENTATIVE WANSACZ: Correct.
21 MR. BARR: That's why those employers make
22 the same decisions on the same criteria the employers
23 in India and China and Japan and Brazil and everywhere
24 else that the US employer would.
25 REPRESENTATIVE WANSACZ: Exactly. But

1 we're talking about Pennsylvania tax dollars. We're
2 talking about people right now that pay taxes to our
3 government. We're not talking about the whole private
4 business doing whatever they want. We're talking
5 about taxpayers' dollars giving them a priority on a
6 contract awarded by Pennsylvania.
7 Without these tax dollars, without our
8 budget, these companies have no work. That's what
9 we're talking about. We're talking about priority.
10 We're talking about giving a priority. This happens
11 all over the place whether it's a school district
12 hiring or whatever else. They give local companies
13 priority. That's what we're talking about here with
14 this Bill. And that is why I support this Bill.
15 But going back, going back to the point I
16 believe one of the earlier testimoniers said that
17 India was starting to export jobs and going out.
18 Where were they going? I believe he said to China
19 because it is probably even lower wages there.
20 So they are not saying in India we're
21 closing up shops in India to bring them to the United
22 States. They are closing up shops in India to put
23 over to China.
24 What we're saying here is we have a good
25 quality of life. So you can't compare apples to

1 apples when you're doing that. People want to come to
2 the United States because we have a great market
3 share, because we have the money to be able to
4 purchase things. That's why they are coming here and
5 setting up jobs.
6 I believe the American workers have a great
7 work ethic. But they are not closing down other shops
8 in their country to come here to Pennsylvania.
9 MR. BARR: Except the one thing that was
10 mentioned was we do have a $60 billion trade surplus
11 on services. I think that does address the point.
12 Let me address two parts of the legislation too which
13 I think are important, and I'm glad that you brought
14 attention to that.
15 One of them says that US employers will be
16 given a preference. Not necessarily Pennsylvania, and
17 I'm not saying it should be. Because our view is it
18 should be open. So in the US conceivably none of my
19 members would benefit even if we go forward with this
20 anyway. I am not saying that we ought to. But again,
21 conceivably because it is the US.
22 The other thing is that we talked about
23 preference. As I read the Bill, it gives the ability
24 as a criteria to be all of the jobs located within the
25 US. My perspective the difference between the

1 criteria which is a piece of the bid that you must
2 meet versus being that -- having that part of the
3 evaluation process. So I think there are two distinct
4 pieces of that that I caution you to look at.
5 REPRESENTATIVE WANSACZ: And I appreciate
6 that. And as Representative McGeehan has put through
7 this Bill, as the administration has talked about,
8 this is really I think what comes down to priorities.
9 And I believe priority is given to the US worker
10 first, and that's what this Bill really does.
11 MR. BARR: I understand.
12 CHAIRMAN HASAY: We have two more members
13 that have questions. The gentleman from Cumberland,
14 Mr. Nailor.
15 REPRESENTATIVE NAILOR: Thank you, Mr.
16 Barr. I think you've offered some powerful testimony
17 right on the heels of Mr. Bohannon. I think his
18 testimony was very good as well. And it does touch on
19 some things that perhaps we haven't thought about as
20 it concerns this Bill.
21 Just a couple points. I had a visitor in
22 my office probably six or eight months ago. And they
23 had worked for a local firm for some time. It was
24 under state contract and they were a software computer
25 programmer analyst.

1 And their complaint was not so much the
2 outsourcing as the insourcing. That large contracts
3 were going to the Commonwealth. The Commonwealth was
4 giving large contracts for software programmers.
5 And apparently they, through the use of
6 Green Cards and Visas, were bringing people in from
7 other countries and they were performing the work here
8 in the United States. So this Bill wouldn't touch
9 them because it says all the contracted work would be
10 performed in the geographic boundaries of the United
11 States of America.
12 So what this person was complaining about,
13 why their business closed and why they were downsized
14 and lost their job would have happened anyhow even if
15 this Bill was enacted. Is that your understanding?
16 Have you heard from --
17 MR. BARR: That would be my understanding
18 as well. I believe that would be true.
19 REPRESENTATIVE NAILOR: Have you heard from
20 any of those companies?
21 MR. BARR: I have not recently I don't
22 believe.
23 REPRESENTATIVE NAILOR: This was six or
24 eight months ago when I heard. They actually called
25 for an investigation because they were into the

1 different types of Visas being extended and they were
2 concerned about the minimum wages being paid under the
3 standard and how that was being evaded.
4 And I just put them in touch with the right
5 folks and kind of backed out of it. But they were
6 concerned about people being brought into the United
7 States, not the jobs that were going elsewhere.
8 MR. BARR: What is interesting -- I think
9 you bring up a good point based on both what Mr. Page
10 and Mr. Bohannon said and other figures that I have
11 seen, we will need additional trained workers going
12 into the out years. So I think your question is a
13 good one and brings up another policy discussion about
14 are we going to have the kind of people we need to do
15 the technological jobs we have going forward.
16 REPRESENTATIVE NAILOR: And the second
17 point I was going to make you just touched on as well.
18 It is the US versus Pennsylvania employees. And I
19 believe Mr. Wansacz, maybe you touched on that as well
20 in your conversation.
21 But some of the other hearings -- and I
22 wasn't on the committee to hear them that held the
23 hearings. But I listened to them on PCN or read some
24 of the script afterwards that was presented.
25 It was interesting that some of the smaller

1 counties be it road repairs, office supplies, or
2 whatever, whether it is a major industry either a
3 state prison or maybe a road maintenance program for
4 PennDOT and you have a local office supply dealer that
5 is their business and people have worked there for
6 years where someone supplies road maintenance
7 materials, they don't really care if a big contract
8 whether it goes to Kentucky or North Carolina or
9 China. Them and their families, they are suffering
10 the same. So again, we're talking about US versus
11 Pennsylvania employees and employers, particularly
12 some of the smaller areas even though my district has
13 been directly affected by some of the high-tech
14 industry. So thank you very much for your testimony.
15 MR. BARR: Absolutely.
16 CHAIRMAN HASAY: The gentleman from
17 Westmoreland, Mr. Tangretti, has the final question.
18 REPRESENTATIVE TANGRETTI: Thank you, Mr.
19 Chairman. Hi, Gene.
20 MR. BARR: Hi, Tom.
21 REPRESENTATIVE TANGRETTI: I'm going to get
22 just a little bit philosophical because you did.
23 There have been companies that have made the decision
24 not to outsource and publicly they determine that
25 because of their commitments to their community and to

1 their workers and to the general welfare of the whole
2 country, they were not going to do this.
3 They were going to find other ways to cut
4 their costs or be competitive or whatever. And you
5 had indicated that, number one, the bottom line is
6 making money. That's the only decision that a company
7 makes.
8 I'm challenging you as an official of the
9 Chamber of Commerce to think about the responsibility
10 of the accountability of the corporation to the
11 companies in this state that maybe we ought to be
12 thinking just a little bit more about other
13 considerations besides the bottom line.
14 If some companies in this country could
15 make that decision and understand the implications of
16 outsourcing, that there is more important things than
17 making money, then maybe the Chamber of Commerce in
18 its wisdom can take a look at that viewpoint, that
19 perspective and maybe adopt some of those
20 considerations as well.
21 MR. BARR: Representative Tangretti, I
22 think that's a very important thing to talk about if I
23 gave the impression the only thing companies think
24 about is a profit. I think that would be incorrect.
25 What I meant to say was that any company

1 that says they are not in it for the profit would be
2 wrong. Everyone has to make a dollar. And I think
3 you're right.
4 And I think one of the beauties of our
5 system is that you have people who have made decisions
6 about that. I just read about -- in fact, I'm not
7 sure if someone here mentioned it or not. The folks
8 here in PA that make Zippo lighters are now having a
9 huge problem because there are now counterfeit Zippos
10 going around the US. They have made the decision they
11 are going to stay in Pennsylvania, and I think that is
12 tremendous.
13 However, if Zippo loses $40 million every
14 year that they are in business, they won't be in
15 business too much longer. What Zippo has to do and
16 many other companies have made a point of doing this
17 is appealing to people and saying, look, ours are
18 better than X. One, we're made in the US. You're
19 employing your neighbors. You're employing your
20 fellow citizens and quite a few people buy on that
21 perspective. You can sell on quality. Not everyone
22 buys on price.
23 So you're absolutely right. What companies
24 need to do and what I think our system gives people
25 the absolute freedom to do is to market the way that

1 they choose.

2 Clearly, companies have other

3 responsibilities in addition to making a profit for

4 their investors and shareholders. They need to make

5 sure they are there so their employees have a job

6 which means you got to be able to turn a profit. But

7 you clearly have responsibilities to your community

8 and so forth as well.

9 But again, I think one of the beauties of

10 our economic system is that people are given the

11 freedom to decide how they want to market their

12 products. Some people market on price, some people

13 market on service.

14 You can go into two different supermarkets.

15 One of them is cheaper than the other but you choose

16 the other because maybe the selection is better or the

17 service is better or whatever. That's from my

18 perspective one of the beauties of our economic

19 system.

20 REPRESENTATIVE TANGRETTI: Thank you. I

21 can see the Chairman made a great decision in hiring

22 you. Thank you, Mr. Chairman.

23 CHAIRMAN HASAY: Thank you for the

24 question, Mr. Tangretti. Mr. Barr, thank you. But,

25 you know, I think we need to look at this in a

1 different perspective. I think we need to look at
2 this as a whole, as a community, as a Commonwealth,
3 and as a country.
4 And I think we need to look more in that
5 direction. And I thank you very much for your time
6 and your testimony before the committee. Thank you
7 very much.
8 MR. BARR: Thank you.
9 CHAIRMAN HASAY: And our last group of
10 testifiers is Mr. Richard Bloomingdale, the American
11 Federation of Labor; Mr. David Wilderman, the
12 Legislative Director of the American Federation of
13 Labor; and Mr. James DeBord who is with the
14 Pennsylvania USWA; and Mr. Marty Berger, Unite Here;
15 and Alex Minishack, CWA; and finally, Wesley Johnson
16 who is with the SEIU Local 66.
17 Gentlemen, thank you for coming here today
18 and offering testimony -- and whenever you gentlemen
19 are ready -- on House Bill 2639, go right ahead at
20 your convenience.
21 MR. BLOOMINGDALE: Thank you, Mr. Chairman.
22 And just to relieve the committee's mind that all of
23 us might be testifying today, Dave is not testifying.
24 He's here as a support. And Alex Minishack is not
25 here right now but may come in later.

1 And everybody is going to try to be as
2 brief as possible. To point out, I'll probably be the
3 longest. And as you see, mine it looks like 80 pages
4 long or 50 pages but it isn't really. There are just
5 tables and stuff for folks' reference in there.
6 So let me get started and then, of course,
7 we'll be available for questions at the end of the
8 testimony.
9 Good afternoon, Chairman Hasay, Chairman
10 Caltagirone, and committee members and staff. My name
11 is Richard Bloomingdale and I am Secretary-Treasurer
12 for the Pennsylvania AFL-CIO. It is a pleasure for me
13 to testify today on behalf of over 900,000 affiliate
14 members in the Commonwealth in strong support of House
15 Bill 2639 addressing outsourcing of state-funded
16 purchasing.
17 I want to commend Representative McGeehan
18 and the co-sponsors of the House Bill for getting out
19 front and to make clear how Pennsylvania spends its
20 tax dollars is of primary concern to the Pennsylvania
21 workers and our economy.
22 To be clear, outsourcing in House Bill 2639
23 deals with the purchase of goods or services with
24 public tax revenue from foreign vendors. We strongly
25 oppose the use of tax dollars going overseas

1 undermining jobs and economic development at home.
2 Much of my testimony is based upon a report
3 just released in July of 2004 by Good Jobs First, a
4 national research and policy forum.
5 The full report, the first of its kind in
6 the nation, is entitled "Your Tax Dollars at
7 Work...Offshore: How Foreign Outsourcing Firms Are
8 Capturing State Government Contracts." And it is by
9 Phillip Mattera and can be found at their website
10 www.goodjobsfirst.org.
11 It is the position of the Pennsylvania
12 AFL-CIO that how the state spends tax dollars raised
13 from the citizens of the Commonwealth is totally
14 within the discretion of the General Assembly and the
15 Governor.
16 We find no conflict with the Commerce
17 Clause or any treaty that dictates or overrules how
18 the state spends its tax dollars. Governor Rendell's
19 recent action notifying the US Trade Representative
20 that the state is not to be bound by future trade
21 deals clarifies this point.
22 Equally important, the state and its
23 governmental bodies are the single largest economic
24 forces in the Commonwealth. How the state spends its
25 precious tax revenues has a direct and immediate

1 impact on economic development in the Commonwealth;
2 jobs, the quality of services and overall well-being
3 of our citizens.
4 Under the State's Constitution and the
5 Tenth Amendment to the Constitution of the United
6 States, all powers not explicitly given to the federal
7 government are reversed to the states.
8 We regularly impose limitations on the use
9 of tax dollars in current legislation such as the
10 Steel Procurement Act and Buy North American autos and
11 other motorized equipment.
12 Just this past March, the governor issued
13 an executive order restricting the purchase of
14 apparel -- uniforms, shirts, hats, and other
15 garments -- from providers who engage in exploitative
16 overseas garment manufacturing.
17 So we do have a history in the Commonwealth
18 of being prudent with the use of tax dollars. House
19 Bill 2639 builds on that proud history to face the new
20 and increasing threats from outsourcing in both
21 products and information technology.
22 At a time when the private sector is being
23 ravaged by outsourcing -- costing the Commonwealth
24 thousands of jobs -- poorer quality of services is the
25 direct and immediate impact of outsourcing.

1 In some of our plants, workers are
2 literally having to train their foreign, cheap labor
3 replacements and actively participate in the package
4 and shipping of the tools and equipment -- their
5 jobs -- to cheap labor countries.
6 Although the Commonwealth's ability to deal
7 with the private sector is limited, the reverse is
8 true with the state's tax dollars. House Bill 2639
9 would make keeping state funded programs a priority in
10 the bidding.
11 This measure is the right approach to make
12 sure that the state is using its tax dollars in the
13 best interest of its citizens in terms of jobs and
14 quality of services.
15 I would like to point out that a small
16 number of states actually give points in the process
17 of evaluating bids that will be performed in state.
18 West Virginia, for example, gives the state's
19 employers a five point advantage in the bidding
20 process if the work will be done by West Virginians.
21 These state preference tools have not been challenged
22 and we should consider such a move.
23 House Bill 2639 is much more
24 straightforward and it is aimed at the issue of made
25 in America to keep our economy strong, to create and

1 keep jobs, and to create and keep good paying jobs, to
2 assure high quality services and assure the privacy
3 rights that our citizens currently enjoy throughout
4 the state laws.
5 The converse is that outsourcing will cost
6 the Commonwealth citizens jobs, reduce the quality of
7 services and privacy the Commonwealth's citizens
8 deserve.
9 Briefly let me discuss what we know about
10 the state governments offshoring work and in
11 particular Pennsylvania.
12 Offshoring is going on to some degree in
13 just about every state government. At least 18 firms
14 that specialize in offshore outsourcing are
15 positioning themselves in no fewer than 20 states to
16 capture a larger share of the state government market,
17 especially in information technology services.
18 The 18 firms have already captured at least
19 $75 million worth of work and are seeking more by
20 gaining access to qualified-contractor lists, hiring
21 former government officials from the revolving door
22 and even making state electoral campaign
23 contributions.
24 The total amount or value of state contract
25 offshoring cannot be estimated because state

1 governments do not know where their contracted out
2 service work is performed.
3 State officials know whether work is done
4 onsite at the offices of the agency that commissioned
5 it or offsite. But offsite could mean the other side
6 of town or the other side of the world.
7 Because subcontracting is so common, states
8 are often unaware of the exact identity and location
9 of the company that is ultimately performing the work.
10 States award contracts to US firms and assume that the
11 work will be done domestically, but then the company
12 subcontracts to an offshore firm.
13 Companies that appear to be domestic
14 sometimes are not. States may think they are dealing
15 with a US firm because it has a domestic mailing
16 address, but sometimes that address is just a
17 marketing office for a company that is based offshore.
18 Other firms are technically headquartered in the
19 United States but do all or most of the their work in
20 offshore facilities.
21 In summary, foreign information-technology
22 contractors are aggressively poised to capture more
23 state government work. State policymakers are not
24 well-positioned to respond since they often lack the
25 most basic information necessary to determine who is

1 actually doing contracted work and where.
2 The amount of state tax dollars that are
3 being paid to companies providing services is not
4 known at this time. This is because state data is
5 simply not available. Contracting with an American
6 company does not mean that the work is being done
7 within the United States.
8 The only in-depth information that is
9 available has become due following the discovery that
10 parts of New Jersey's food stamp program, particularly
11 electronic benefit transfers or EBTs, a federally
12 mandated requirement for the food stamp program, was
13 revealed and the work was brought back to New Jersey.
14 Interviews conducted for Good Jobs First
15 electronic benefit transfers officials in every state
16 and the District of Columbia reveal that before the
17 offshoring controversy began, the call centers in 42
18 states and the District of Columbia were operating
19 offshore. In most cases, this occurred because the
20 states gave EBT contracts to City Bank Electronic
21 Financial Services which in turn subcontracted the
22 call center work to an Indian firm called MsourcE. In
23 2003, City Bank sold the business to JP Morgan Chase
24 which continued to use MsourcE.
25 A small number of states ended up with

1 offshore call centers through their EBT contracts with
2 eFunds Corporation or Affiliated Computer Services,
3 Inc.
4 As a result of this controversy as we said,
5 one state has brought its call center back to the
6 United States. And five states: Arizona, Kansas,
7 North Carolina, Oregon, and Wisconsin are planning to
8 do the same.
9 Eight other states: Illinois Iowa, Maine,
10 Mississippi, Montana, Ohio, Texas, and Wyoming avoided
11 the use of offshore call centers because they hired
12 EBT contractors that used domestic facilities.
13 They also found that there are mainly 18
14 companies that do the bulk of outsourcing. They are
15 listed there. I'm not going to read through all of
16 them in the interest of time. Eleven of these firms
17 are headquartered in India and two in Russia. The
18 other five claim to be based in the United States, but
19 most of their development facilities are based located
20 in India. They range from small, privately held
21 companies to $1 billion offshoring behemoths.
22 Good Jobs First found some of these 18
23 firms and others involved in offshore outsourcing are
24 being bankrolled by US venture capital firms whose
25 investors often include US pension funds. In other

1 words, the retirement funds of American workers as
2 well as their tax dollars are being used to help ship
3 jobs overseas.
4 The question that naturally arises is
5 whether the states realize they are doing business
6 with offshore operators. In the case of the larger
7 firms such as the Tata Group, state officials might be
8 expected to know that they are dealing with a foreign
9 company. Yet Tata and the rest of the 18 companies
10 present themselves as domestic firms by using the
11 address of US representatives' offices when
12 registering as a vendor or signing a contract.
13 Tata alone has more than 50 such offices in
14 North America. Most misleading are such companies as
15 HC Technologies and ICICI Infotech that say they are
16 headquartered in the United States but are actually
17 units of larger companies in India.
18 In between are companies such as
19 Intelligroup and Syntel which are somewhat more
20 American in character in the sense that they are not
21 units of foreign corporations but do most of their
22 work in India.
23 Given the rate at which many IT service
24 providers are moving work offshore, the category
25 represented by Syntel and Intelligroup is bound to

1 grow much larger.
2 Combining the list from all vendor state
3 lists -- the results from all vendor lists, Good Jobs
4 First found entries for 1 or more of the 18 offshore
5 firms in the registries of 30 states.
6 Some states had only one or two of the
7 offshore vendors on their list, but others have as
8 many as 11.
9 The following table displayed
10 alphabetically and in rank order shows how many of the
11 18 firms showed up on each state's list. And you can
12 see Pennsylvania had four.
13 Another indication that the offshorers are
14 serious about doing business with state governments is
15 that they are beginning to participate in political
16 process by making campaign contributions to
17 politicians in both of the major parties.
18 Those include direct contributions by the
19 corporation which are legal in many states, certainly
20 not in Pennsylvania, or corporate contributions by the
21 company executives.
22 Good Jobs First searched the database of
23 state campaign contributions maintained by the
24 Institute of Money and State Politics and came up with
25 the examples such as the following. And I certainly

1 am not going to read all of those.
2 Offshorers are also beginning to employ
3 another device for building relationships with the
4 public sector taking advantage of the revolving door
5 between government and the corporate world.
6 For example, Infosys Technologies brought
7 Larry Pressler, a former Republican Congressman and
8 Senator from South Dakota, on its board of directors.
9 In 2003, Tata Consultancy Services hired
10 Andres Keyser to be its director of government
11 business development. Keyser had previously been the
12 chief IT officer of the Pennsylvania Department of
13 Corrections at a time when Tata Consultancy was doing
14 work for the agency.
15 In Pennsylvania, Good Jobs First found that
16 various state agencies were outsourcing some or all
17 particular services.
18 The Pennsylvania Department of Treasury
19 reports a printout listing more than 200 purchase
20 orders that had been submitted by various states'
21 agencies for services rendered by Tata Consultancy
22 Services.
23 The total value of the work is about 12.8
24 million. Subtracting the ones that are described as
25 onsite work, the total is about $7.7 million. The

1 agency accounting for the largest portion of the
2 latter total is the Department of Corrections with
3 $2.5 million. The other agencies with the largest
4 totals are: Department of Education, $1.7 million;
5 Department of Labor and Industry, $643,000; the
6 Department of General Services, $600,000; and the
7 Department of State, $566,000.
8 One purchase order for the Department of
9 State refers explicitly to an offshore programmer used
10 for the conversion and enhancement of the uniform
11 commercial code database and application system and
12 the corporate records database.
13 In addition, Jeffrey Marrazzo of the
14 Governor's Office of Management and Productivity said
15 that a review of the current contracts by 31 state
16 agencies found only 5 that were being performed
17 offshore. One which was the food stamp call center
18 which by the way as you'll see in the table expires I
19 think next month or this year. Hopefully we'll bring
20 that work back home.
21 He declined to identify the current
22 contracts but noted that in 2001 the state contracted
23 with BearingPoint Inc. to do systems integration work.
24 BearingPoint subcontracted the work to IBM which in
25 turn subcontracted to Intelligroup which took the work

1 offshore.

2 Also in 2001, the State Police gave a

3 contract to Unisys which subcontracted to Caritor Inc.

4 which took $1 million of work offshore.

5 The most broad-reaching of the state's

6 outsourcing work deals with the Electronic Benefit

7 Transfers in food stamps. Pennsylvania contracted for

8 ongoing operations of the food stamp program with JP

9 Morgan Chase as mentioned earlier acquired the

10 business from City Bank Electronic Financial Services.

11 Several states have taken steps to bring

12 their call center functions back onshore. New Jersey

13 led the way in this regard paying $190,000 to

14 establish an in-state EBT call center plus about

15 $768,000 a year to operate the facility which is being

16 staffed by participants in the state's Welfare-to-Work

17 Program, and they are paid $12 an hour.

18 North Carolina will take over its call

19 center function of eFunds in August 2004. Arizona

20 will assume the responsibility from JP Morgan in

21 October 2004. Both states will combine the function

22 with existing service help desks to save on costs.

23 Complying with the legislative mandate, Kansas is

24 paying an additional $55,000 a year to eFunds to have

25 their state's call center brought back onshore.

1 Wisconsin amended its contract with JP
2 Morgan to have its call center brought back to the
3 United States, but relocation costs have not yet been
4 determined.
5 Oregon recently decided that it too will
6 bring its call center back to the United States
7 probably by mid-September, and it will pay eFunds an
8 additional $300,000 to bring this about.
9 Apart from these few states, it appears
10 that the call centers currently located offshore will
11 remain there.
12 Most EBT directors are betting that the
13 furor over offshoring is over. So they think there is
14 no compelling reason to make changes that would
15 increase costs. The table on the following pages
16 summarize the states of each state's EBT program and
17 attached you will find two appendices. Appendix A
18 profiles the identified outsourcing companies
19 targeting state contracts and Appendix B details the
20 offshore companies on state vendor lists.
21 And I certainly want to thank the committee
22 for its attention and will be glad to answer any
23 questions that folks may have.
24 I think it is up to the committee chair how
25 we want to do this. Let everyone testify and then

1 open it for questions or however you want to do it,
2 Mr. Chairman.
3 CHAIRMAN HASAY: What we'll do is the
4 members that are going to have questions, whichever
5 one of you want to respond that will be fine. And
6 thank you very much for the information that you've
7 given to the committee.
8 It is interesting to note that some of
9 those states are bringing back their call centers and
10 going in that direction. That was very interesting.
11 And I know the Democratic Chair, the gentleman from
12 Berks County, Mr. Caltagirone, has a couple of
13 questions for you. Thank you.
14 REPRESENTATIVE CALTAGIRONE: Thank you, Mr.
15 Chairman. Yes. I know that you would have figures
16 and you just touched on it briefly about the loss of
17 jobs that we've incurred in Pennsylvania. And I don't
18 know if you have any recent updates on -- I know you
19 track some of this on the manufacturing and
20 non-manufacturing both union and non-union.
21 MR. BLOOMINGDALE: Well, yeah. I think
22 this is over the last -- again, this isn't directly
23 due to outsourcing. I mean there are a whole lot of
24 other reasons why there aren't jobs. But it is well
25 over 200,000 jobs within the last few years that we

1 have lost in Pennsylvania.
2 Could some of those have been kept by
3 keeping our tax dollars, hiring people in the state to
4 do call centers and stuff? I'm sure they could have.
5 REPRESENTATIVE CALTAGIRONE: We keep
6 hearing that things are so rosy and that we're
7 increasing X number of jobs here and there.
8 I look at my district and some of the other
9 districts in some of the areas around the state. It
10 doesn't look that rosy. And we are trying. Don't
11 misunderstand me.
12 Be it under Republican or Democratic
13 Governors, nobody wants to see us devastated as a
14 state. We certainly will all try to promote as much
15 economic activity as possible.
16 But trying to turn the corner on this and
17 having to compete with foreign companies or
18 corporations in this country or state, exporting their
19 jobs and their operations overseas, I mean is it still
20 going on and to what extent?
21 MR. BLOOMINGDALE: It is absolutely still
22 going on. To what extent? I wish I could be more
23 specific. But if you'll indulge me for a minute, you
24 know, you look at the trend of jobs overseas and
25 companies have always -- certain types of companies

1 have always been willing to chase the low dollar.
2 We had a huge garment industry in this
3 state at one time. They moved, you know, to the
4 Carolinas for a cheaper wage. They then moved to
5 Mexico for a cheaper wage and then down to Costa Rica
6 and Indo-China and eventually to China itself, you
7 know, where it is slave labor or very close to slave
8 labor to make garments. So you're going to have those
9 businesses that will always chase the low dollar.
10 Then you're going to have businesses who
11 need to hire skilled workers and will not always chase
12 the low dollar. But, you know, to assume that we have
13 free markets is kind of a misnomer.
14 You know, if it were really a free market,
15 would the WTO need 900 pages of rules and regulations
16 to regulate how countries interact with one another in
17 terms of their markets?
18 So there really isn't -- you know, there
19 has always been this push and pull. And the reason
20 that it took manufacturing so long to go overseas when
21 they always -- you know, you read the economics books
22 and they say manufacturing is really a developing
23 country's big step up from being a developing country
24 into the industrialized world.
25 If you hadn't had the unions fighting to

1 keep those jobs here, they would have disappeared a
2 long time ago. And it is my belief, and people
3 certainly argue with me, that the reason the IT
4 industry moved from being one of those great
5 industries that we were all promised, oh, yeah, you're
6 a steelworker. You're going to get this great job in
7 IT and you're going to become a programmer or work on
8 data entry.
9 Those jobs moved so quickly overseas
10 because there was no -- there wasn't that push back
11 from an organized workforce, and I'll say unions, to
12 protect those folks. So the managers and the
13 employers were able to make those decisions without
14 any kind of social push from either the legislature --
15 and it is happening now which I'm very glad to see.
16 But they weren't organized.
17 So there was no push back so that they were
18 able to move those jobs so fast. And it has only been
19 what, since the '90s that IT was going to be the
20 future of this country. And now all of a sudden IT is
21 the future of India. And they are telling us that the
22 next step is even better jobs.
23 But, you know, so far the 68,000 jobs that
24 have been created this year, it certainly hasn't
25 offset the 200,000 jobs that we lost. They have been

1 low wage, no health benefit jobs. They are mostly --
2 I mean every study we saw at least 68,000 new jobs.
3 They are minimum wage and primarily
4 cleaning office buildings. I mean there is dignity in
5 all work. Don't get me wrong. But they are not the
6 $20 or $18 an hour jobs that were just shipped over to
7 India, to other places.
8 REPRESENTATIVE CALTAGIRONE: Do you think
9 the policy we're embarking upon with this piece of
10 legislation will help or hurt our economic base of
11 businesses in this Commonwealth?
12 MR. BLOOMINGDALE: I think it will help.
13 Like I said, there is always a push and a pull. You
14 have to remember what John Maynard Kane said. In the
15 long run we're all dead.
16 So, you know, it is up to us to
17 determine -- you know, I'd like to be able to think
18 for future generations. And I think we need to do
19 that to a certain extent.
20 But as people who represent folks that are
21 alive right now, we need to take measures that protect
22 them. And I think it is absolutely the right thing to
23 do. And, you know, somebody mentioned it, only
24 mentioned the United States workers. If you folks
25 want to put in an amendment that says Pennsylvania

1 workers first and then United States, you know, I
2 think that would certainly be appropriate. They did
3 it in West Virginia.
4 It certainly, you know, would be
5 appropriate for you folks to say Pennsylvania first
6 and then the United States. But, yeah, I think it is
7 absolutely the right thing to do. Because, you know,
8 somebody needing to make their mortgage right now
9 can't really be affording to look 30 years down the
10 road and will this be good -- you know, good for
11 America.
12 And some of the best regulations that we've
13 imposed where people said give us free markets, no
14 regulation, certainly the Anti-trust Act in 1912
15 really helped this country. I'm sure the folks on the
16 other side would argue with me. But it helped this
17 country build and become a stronger middle class
18 country. And certainly OSHA helped to make our
19 workplaces a lot safer. And those who would say we
20 don't need regulation, I would, you know, beg to
21 differ.
22 So, you know, that -- but yeah, I think it
23 is the right thing to do. And it will absolutely help
24 our state and country keep jobs here.
25 REPRESENTATIVE CALTAGIRONE: We certainly

1 did it with steel. We have that Steel Procurement Act
2 which I was very active and involved at that time when
3 we did that piece of legislation.
4 MR. BLOOMINGDALE: And what we found, you
5 know, in some areas there were certain types of steel
6 that we were no longer making here and we have been
7 able to bring some of that back to help put people
8 back to work. And that hasn't had an adverse effect
9 on, you know, somebody -- every country in the world
10 except us has tariffs and barriers to products not
11 made in their own country.
12 Take -- you know, I don't know if you all
13 heard the story of Harley Davidson. In Japan because
14 you have Yamaha and Suzuki are the big motorcycle
15 manufacturers, they don't have a tariff per se against
16 Harley. But they have an engine size limit that any
17 motorcycle with a certain engine size which Suzuki and
18 Yamaha don't make anything like the Fat Boy Harley
19 Davidson motorcycle. You have to have a special
20 license. It costs you a hundred dollars to get that
21 license. And you have to take a course that costs X
22 number of dollars to take the course before you can
23 buy that motorcycle with a certain engine size.
24 So they make it prohibitively expensive for
25 the consumer to be able to go out and buy that Harley.

1 There is no tariff on the Harley. But you can't --
2 nobody can afford to buy one because they can't afford
3 the licensing requirements.
4 So there is no -- it is very ingenious what
5 they do to protect their workers, and we don't do it
6 here. But, you know, they make -- there is no tariff
7 so they are not violating the WTO. But they found
8 another way to keep people from buying Harleys and
9 keeping them in the Suzuki and Yamaha markets.
10 REPRESENTATIVE CALTAGIRONE: I'm beginning
11 to wonder how many other products they are doing that
12 with.
13 MR. BLOOMINGDALE: It is everywhere. Like
14 I said, we're the only country that still naively
15 believes that there is some kind of unregulated free
16 market out there. In Europe they protect themself.
17 China we keep dreaming of this big market where we're
18 going to export all of our goods. I don't even know
19 what our trade deficit with China is now. It is in
20 the billions, probably close to a trillion dollars
21 with China.
22 And, you know, we keep hoping we're going
23 to sell all of these refrigerators over there. There
24 is a reason that the DuPont Corporation won't go to
25 China. That is they know within five years anything

1 they make in China, they would have reversed the
2 process and they will have violated every patent,
3 copyright rule that exists in the WTO and will be
4 making it themself and selling it to their people with
5 no benefit to American workers or American consumers.
6 That's a long answer to a short question. I hope it
7 helped.
8 REPRESENTATIVE CALTAGIRONE: Thank you. I
9 appreciate it. Thank you, Mr. Chairman.
10 CHAIRMAN HASAY: Thank you. I thank the
11 federation for coming here today and your input and
12 very much important information. And I think the
13 committee needs to go in the direction of this
14 legislation.
15 And I think we need -- I think we need to
16 take a better look at ourselves and our country and
17 our Commonwealth in going in a different direction.
18 So the Chair thanks you very much. I'm
19 sorry the schedule got behind. We did start almost on
20 time. But thank you again, Mr. Bloomingdale, Mr.
21 Wilderman, for your testimony.
22 And the Chair would also like to thank PCN
23 for broadcasting this today because I believe
24 outsourcing, the issue itself, needs to be aired and
25 needs to be heard by the public. It's important.

1 Thank you. This hearing is now adjourned.

2 (The hearing concluded at 4:07 p.m.)

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I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me in the proceedings of the above cause and that this copy is a correct transcript of the same.

Sherri A. Reitano
Notary Public

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Sherri A. Reitano, Notary Public
Springettsbury Twp., York County
My Commission Expires Aug. 28, 2007
Member, Pennsylvania Association Of Notaries