

# US: Outsourcing threatens one in six jobs in Silicon Valley

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A study published by the University of California Berkeley's Fisher Center for Real Estate and Urban Economics in Fall 2003 indicates that one in six jobs in all occupations are at risk to outsourcing in the San Jose metropolitan area's Silicon Valley. Nearly as many jobs are at risk in nearby San Francisco.

Located around the southern shores of the San Francisco Bay, Silicon Valley once consisted mainly of farmland. During the post-war period and since the invention of the first microprocessor at Intel in Santa Clara, California in 1971, this area has become known as the heartland of the American computer revolution. Some of the largest high-tech, computer-related multinational corporations in the world call the region home, including Apple Computer, Oracle, Hewlett-Packard, PeopleSoft and Cisco Systems.

Silicon Valley's chief vulnerability to outsourcing over the next decade lies in the fact that it has four times the national average share of high-skill computer and math jobs.

Sectors hit hard by outsourcing include computer and electronics product manufacturing, professional and business services, and information industries such as communications, software publishing and providers of Internet services. Employment in these sectors has plummeted by 15.5 percent nationally, with California experiencing a particularly acute 21 percent reduction in employment. In these sectors alone, between the first quarter of 2001 and the second quarter of 2003, more than 1 million jobs in the US as a whole and 200,000 jobs in California have been lost, according to the UC Berkeley report. In addition to outsourcing, major contributors to these job-loss figures include the recent technology downturn, the collapse of the dot-com bubble in 2000 and the cyclical downturn of the US economy.

According to the UC Berkeley report, "[O]utsourcing that began as a response to very tight labor markets in the US in 1999-2000 has continued, becoming a factor in the 'jobless' or 'job-loss' recovery of 2003. As in the last downturn in the early nineties, recession-based cost-cutting by firms may end up as the permanent loss of jobs that remain abroad even during the subsequent recovery."

Silicon Valley has already lost many low-wage jobs to other parts of the country or abroad. In 2002, the manufacturing industry experienced an overall loss of 37,000 jobs. Almost all the job loss (35,000) occurred in durable goods manufacturing, specifically the computer and electronic product manufacturing sector (26,800). In the same year, administrative and support services lost 13,200

jobs.

Corporations employ outsourcing largely as a means of cutting costs by replacing highly paid workers in one country with lower-paid workers who perform equivalent jobs in other countries. The availability of low-wage, educated, skilled and highly skilled workers in countries such as India, China and Russia provides a key motivation for US corporations to outsource jobs.

Since 2002, database company Oracle, the world's second largest software company, has moved several high-pay research and development (R&D) projects to India and has more than doubled the number of employees in India to 4,200 workers. PeopleSoft, maker of enterprise software applications, has about 400 workers in two software development centers in Bangalore, India, and the company anticipates increasing its Bangalore staff by another 1,000. Hewlett-Packard, widely known for its imaging and printing systems, has increased its staff in India to 8,000 as part of the company's cost-cutting strategy. Networking hardware and software company Cisco Systems employs 600 workers in India.

The researchers at UC Berkeley cite figures illustrating how much less a worker in India makes in base wages per hour compared with a worker in the US performing essentially the same job. For example, a worker earning around \$35 per hour as a financial analyst in the US, or a worker earning around \$23 per hour as an accountant in the US, would receive only from \$6 to \$15 per hour if working in India. Telephone operators and medical transcribers earning \$13 per hour in the US would receive less than \$2 per hour in India.

Jobs considered "at risk" from outsourcing include ones that don't require face-to-face interaction, or those that can be performed primarily over the phone or the Internet.

Outsourcing also affects high-wage, high-skill computer programming jobs, especially in Silicon Valley, due to the area's high concentration of high-tech corporations. A particularly large wage differential exists between computer programming jobs in San Jose and India. According to the Bureau of Labor Statistics (BLS), in 2002, the mean annual wage for a computer software engineer (applications) in San Jose was \$92,000. The equivalent job in India pays only \$6,104, according to PayScale, Inc.'s real-time salary survey information.

Corporations that outsource jobs have enjoyed massive benefits from paying reduced taxes. An article on the *Economic Times* web site dated April 6, 2004, stated, "[A]ccording to corporate tax rules

in the US, companies have to pay the standard rate of 35 percent on profits only if the money is in the US. When it comes to profits from overseas operations, the dollars that are kept abroad are taxed at zero percent.

“Companies ranging from Intel to Hewlett-Packard have been keeping billions of dollars from their earnings outside the US so that they can lower their effective tax rates when computed as a percentage of their global profits.”

The Bureau of Labor Statistics reported that the San Jose metropolitan area—Santa Clara County, heart of Silicon Valley—lost 43,300 jobs between July 2002 and July 2003. San Jose’s percentage of workforce losing jobs over the year is the nation’s largest at 4.8 percent, the BLS says.

Over the course of the last year, various news outlets have carried stories about the impact of outsourcing on workers in Silicon Valley.

Kevin Flanagan, a computer programmer who worked at a Bank of America training center in Silicon Valley, shot himself in the bank’s parking lot just moments after his employer laid him off. Shortly before terminating Kevin’s employment, the bank brought in workers from New Delhi and required that Kevin and his co-workers train their replacements, who subsequently returned to India.

Julian Allen, a manager at defunct San Francisco Internet startup, Perks at Work, gave up his own job to save the job of a fellow worker, Krishna Venigandla. A month shy of obtaining permanent resident status, Krishna, working under a guest work visa, and his wife managed to avoid deportation to India because Julian resigned his job in favor of Krishna. For the last 2 years, Julian, who has 20 years’ software development experience, has been out of work.

According to the National Coalition for the Homeless, displaced workers nationwide have difficulty finding new jobs. For those who do find work, the average pay cut is 13 percent. One quarter of displaced workers who had employer-paid health coverage on their old jobs must pay for their own health care at their new jobs.

In March 2004, Silicon Valley’s unemployment rate was 7.5 percent, compared to 6.5 percent for the state and 5.7 percent for the nation, according to California’s Employment Development Department (EDD). The EDD reports that nearly 70 percent of California’s unemployed do not find work for five or more weeks. Nearly one quarter of California’s unemployed do not find work for at least half a year.

Victims of outsourcing must contend with Silicon Valley’s high cost of living, especially the rising costs of housing in recent years. For example, housing prices in Silicon Valley far exceed the national average. For 2003, the National Association of Realtors reports the median sales price for an existing single-family home in the San Francisco Bay Area was \$558,100, compared with \$169,900 nationally and \$234,100 in the western US. Similarly, renters face monthly payments starting from around \$1,200 for even a modest one-bedroom apartment.

The first wave of outsourcing in the United States saw the destruction of large numbers of blue-collar manufacturing jobs. Multinational corporations attempted to reduce manufacturing costs in advanced industrialized countries by scouring the planet in

search of cheap labor and low production costs. Computer manufacturers, for example, would outsource the production of computer components to parts of Asia and then import the finished components. Between 1987 and 1997, US manufacturers as a whole increased their use of these so-called “imported inputs to production” by more than 50 percent.

The second wave of outsourcing, which began in the 1990s, threatens white-collar service and information technology jobs.

According to an article on *AsiaOne*, a Singapore-based news web site, “Companies looking to outsource jobs—including Microsoft and Intel—have even organized job fairs in Silicon Valley for foreign-born, US-trained tech workers willing to go back to their homelands. India’s rediff.com estimates that 10 percent of Oracle’s India employees were formerly based in the US.”

Responses by both the Democratic and Republican parties to the drive by multinational corporations to outsource jobs overseas have consisted of demagoguery and deception.

Newly installed California Governor Arnold Schwarzenegger appeared on FOX’s “Your World with Neil Cavuto” on March 11. The show’s host asked, “You know, a high-tech CEO, governor, I was speaking to when he knew I was going to speak with you. He says, ‘Neil, if you talk to the governor, remind him of a couple of things. What’s to stop me from outsourcing jobs when I can hire workers to answer telephones in India for a tenth the price I pay them in the United States?’” Schwarzenegger evaded the question and replied with rhetoric about stripping down obstacles to creating a business-friendly climate, and went on to propose gutting workers’ compensation and lowering the cost of unemployment insurance to encourage business to keep jobs in-state.

To defend jobs and livelihoods, American workers must oppose nationalist campaigns directed against workers in other parts of the world. Similarly, workers must oppose policies that keep companies in the US by creating “third world” conditions for American workers. The only way to combat outsourcing—and ensure that globalization benefits the vast majority of the world’s population rather than a few corporate CEOs—is by raising the living standards of workers everywhere. This requires that the international working class carry out a united struggle against the conditions of exploitation that exist internationally.



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