

National Foundation for American Policy

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STUDY ON “CREEPING PROTECTIONISM” WARNS: NEW RESTRICTIONS ON GLOBAL SOURCING WILL HARM U.S. ECONOMY AND AMERICAN TAXPAYERS

Arlington, VA – The National Foundation for American Policy (NFAP) today released the first comprehensive study to analyze state and federal legislation aimed at restricting U.S. companies and government agencies from outsourcing work overseas. *Creeping Protectionism: An Analysis of State and Federal Global Sourcing Legislation* warns that “The bills introduced to date share the same false assumptions: free trade in services is bad and protectionism is good and without cost. In fact, restrictive global sourcing legislation stifles innovation, reduces the competitiveness of U.S. firms, and cost American taxpayers money.” The report’s author Stuart Anderson, Executive Director of the National Foundation for American Policy, said, “Putting an end to the type of protectionism these measures represent would benefit Americans and the U.S. economy overall.” (*The complete study is available at www.nfap.net.*)

The study notes that state and federal legislation to restrict global sourcing is a growing threat to American competitiveness and U.S. taxpayers. A state government effort to prevent a call center for unemployment services from re-locating to India resulted in New Jersey taxpayers paying, on top of the original contract cost, an additional \$900,000 for 12 jobs. “Saving” 1,400 such jobs in the future, the study notes, would cost the state an extra \$100 million. A similar cancellation of a state contract by Indiana Governor Joe Kernan will likely cost Indiana taxpayers more than \$8 million and result in fewer services provided for the unemployed.

Global sourcing allows U.S. companies to remain competitive by concentrating on core functions, innovating and developing new products, lowering costs, and limiting risks. In addition, outsourcing globally enables an American company in information technology or financial services to operate 24 hours a day to meet the needs of a worldwide customer base, something that wage rates and work practices generally make prohibitive with U.S.-based employees alone.

Legislation against global sourcing (also known as overseas outsourcing or offshoring) has taken three forms.

First, restrictive state legislation has emerged in North Carolina, Indiana, New Jersey, and Michigan. In North Carolina and New Jersey, state legislators have sought to restrict overseas call centers by regulating calls that involve residents of their states. A patchwork of state laws would make employing overseas call centers prohibitively burdensome and expensive, which appears to be the aim of the legislators. Claiming it will save American jobs, Democratic Presidential candidate John Kerry has introduced federal call center legislation. Surprisingly, the bill’s premise appears to be that American jobs would be saved when intolerance results in Americans hanging up or protesting if an operator at an international call center discloses he or she is a foreigner. Such disclosure is required under the bill. Ironically, the study points out, the “Do Not Call” legislation passed by a near unanimous vote of the U.S. Congress may eliminate up to two million U.S. call center jobs, according to the telemarketing industry.

Another avenue of restriction at the state level in Indiana and Michigan is to allow only U.S.-based employees to work on any outside contract from a state agency, effectively preventing an American company from fulfilling a contract even in part with work done overseas.

Second, at the federal level, legislation has sought to require that federal contractors perform work exclusively, or almost exclusively, in the United States. For example, the Thomas-Voinovich amendment to H.R. 2673 would prohibit any private company awarded a federal contract under the revised Office of Management and Budget Circular A-76 to perform any of the work outside the United States.

Third, bills have emerged in Congress to restrict U.S. companies from using L-1 (intracompany transfer) visas under the belief that some L visa holders have been involved in outsourcing that affected U.S. jobs.

“This protectionism threatens to interfere with the technological revolution and international division of labor that have led to new products and services to improve the lives of Americans and others around the world,” said Stuart Anderson. “The more we try to protect certain jobs, the more we stifle job creation and make U.S. businesses less competitive and less able to be sufficiently profitable to employ individuals throughout their companies.”

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About the National Foundation for American Policy

Started in 2003, the National Foundation for American Policy (NFAP) is a non-profit, non-partisan organization dedicated to public policy research on trade, immigration, education, and other issues of national importance. Its Advisory Board members include Columbia University economist Jagdish Bhagwati, Ohio University economist Richard Vedder, Rep. Guy Vander Jagt (ret.), Cesar Conda, until recently Vice President Dick Cheney’s chief domestic policy adviser, and other prominent individuals.

About Stuart Anderson

Stuart Anderson, Executive Director of the National Foundation for American Policy, served as Executive Associate Commissioner for Policy and Planning and Counselor to the Commissioner at the Immigration and Naturalization Service from August 2001 to January 2003. He spent four and a half years on Capitol Hill on the Senate Immigration Subcommittee, first for Senator Spencer Abraham and then as Staff Director of the subcommittee for Senator Sam Brownback. He has published articles in the *Wall Street Journal*, *New York Times*, *Los Angeles Times*, and other publications.

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