

Outsourcing California Government Jobs:  
What Responsibility does the Government have towards its Citizens?

Anamarie Farr  
Wellesley College  
afarr@wellesley.edu

If you called the California food-stamps office, your call was directed to India, where a person living in that country, whose salary was paid with money out of the treasury of the state of California, would have assisted you with any questions you had regarding your food stamps (also funded for by American and California taxpayers).<sup>1</sup> If you had a question regarding California Work Opportunity and Responsibility to Kids benefits (CALWORKs, California's welfare), and could only speak Spanish, then your call would be redirected to an operator in Tijuana. Sound unusual? Some legislators and residents of California thought so too.

Outsourcing, the practice of transferring certain job functions to companies whose employees perform them for less money overseas, is not something that only happens in the corporate world.<sup>2</sup> Following in the footsteps of corporate outsourcing, some state governments, including the state of California, are also beginning to outsource state-funded projects, departments, and services.<sup>3</sup>

This paper shows how California is facing an aggressive policy battle to determine how best to address outsourcing and state government contracts/jobs. The legislators of the state question whether outsourcing is the best choice to sustain and improve California's economy, while considering the core values of their respective political parties and the influences from partisan politics and special interests. Partisan politics have led to a deadly misstep for legislators because of the need to appease the agenda of their respective parties (which could possibly override the considerations that need to be made in regards to what is best for the constituents of California). The legislators are also confronted by residents who have lost their government jobs due to outsourcing; these are the same California residents who are paying taxes, and while unemployed, their employment and financial prospects are diminishing.

Outsourcing may save the state money, but conversely outsourcing is taking away jobs from unemployed residents who have dutifully paid their taxes. The policy issue of outsourcing reflects the polarizing debate of how a government should operate. Is it more beneficial if the government's primary responsibility is to ensure the immediate well-being of its residents through whatever means necessary, including job creation? Or should the government attempt to benefit its residents in the long-term, while facing certain confounding variables such as partisan politics and short-term economic and political costs? Basically, what immediate responsibility does the government have towards its citizens?

The state of California currently outsources over four billion dollars worth of goods and services annually from its Social Services and Health and Human Services state departments to private companies who offshore.<sup>4</sup> The four billion dollars is out of the approximately \$100

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<sup>1</sup> Lindquist, Diane. "Calls to state agencies go global." *Copley News Service*. 22 August 2004, Online. Lexis Nexis Academic. 23 September 2004.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> Lindquist, Diane. "Calls to state agencies go global." *Copley News Service*. 22 August 2004, Online. Lexis Nexis Academic. 23 September 2004.

billion 2003-2004 California state budget.<sup>5</sup> While there are no studies being conducted searching for how many governmental jobs are being outsourced directly from California, figures have estimated that around three million governmental jobs have been outsourced to private or offshore companies. As a result, a direct 15% job increase has been observed overseas.<sup>6</sup> What is frustrating is that while the Californian economy is facing an economic downturn and as many as 20,200 residents<sup>7</sup> are jobless, Californian resources (for example, taxes paid by residents) are being used to directly promote the economic growth of the contracted outsourcing overseas countries.<sup>8</sup>

Recently, in a study conducted at U.C Berkeley's Fisher Center for Real Estate and Urban Economics, by Ashok Deo Bardhan and Cynthia Kroll, titled "The Second Wave of Outsourcing," using information provided by the United States Bureau of Labor Statistics and a report by Forrester Research, Bardhan and Kroll discovered astounding numbers that could indicate that California might be facing a more lengthy depressed economy than expected solely due to state outsourcing. If the current outsourcing of white collar jobs follows expected trends, then over the next ten years, Bardham and Kroll predict that over 14 million Californian governmental jobs (a significant impact to the state economy) are likely to be outsourced.<sup>9</sup>

In the past few years, over thirty-five states in the United States have already proposed legislation that would enable all state contracts to remain in the state, with these services being provided "in-house".<sup>10</sup> This indicates that while outsourcing has become a tool to help government become more effective, thirty five state governments are wary of utilizing outsourcing as a tool that could harm the very people that they are trying to help.

In a recent telephone poll done by *Newsweek*, over 68% of Americans surveyed did not agree that outsourcing jobs is generally "good for the economy."<sup>11</sup> Outsourcing state funded projects, services, and jobs has evolved into a thread of discontent among a growing number of residents, as well, who pay their taxes dutifully to the state, but are then having their tax money used for growth and development of another country's economy. As Steve Trossman, long-time California resident and an official of the California State Employee's Association stated, "What about the people getting these services? Many of them are getting food stamps or welfare payments because they can't find jobs. Does it make sense to send this work overseas?"<sup>12</sup>

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<sup>5</sup> "Homepage". California Department of Finance. Webpage. 8 November 2004.  
<http://www.dof.ca.gov/>

<sup>6</sup> *California State Senatorial Record*. 2003-2004 Session. Senate Bill 1452.

<sup>7</sup> *California State Senatorial Record*. 2003-2004 Session. Senate Bill 1452.

<sup>9</sup> Maclay, Kathleen. "UC Berkeley Study Assesses 'second wave' of Outsourcing US Jobs" Press Release. 23 October 2003. Online. 5 December 2004.

<sup>10</sup> Lindquist, Diane. "Calls to state agencies go global." *Copley News Service*. 22 August 2004, Online. Lexis Nexis Academic. 23 September 2004.

<sup>11</sup> "Poll on Outsourcing". Polling the Nations Database. Online. 19 September 2004.  
<http://0-poll.orspub.com.luna.wellesley.edu/poll/lpext.dll?f=templates&fn=main-h.htm>

<sup>12</sup> *Ibid.*

While California residents are wondering about the fate of their jobs, the legislature is having to do a fine balancing act between appeasing residents like Trossman and managing the State's budget. Presently, the California State Legislature, in both the senate and assembly, is controlled by a 60% democratic majority. State Republicans have not taken a clear public stance on whether to support outsourcing as most Republicans want to help their constituency, yet appear pro-business at the same time.

California Assemblyman John Campbell (R-70) contends that offshore-outsourcing will have positive, long-term benefits for the state. In an interview this past May with the Associated Press, he stated, "What you call outsourcing is capital going to its most efficient place. And when capital goes to its most efficient place, we all benefit."<sup>13</sup> Campbell establishes that in the long-term it is essential to benefit California's citizens to the best of the state's ability regardless of the short-term costs.

Republican Governor Arnold Schwarzenegger fiercely believes that it is not the government's position to dictate how businesses should best provide goods and services to consumers; however, he is running a campaign to encourage their businesses to move to California, in a "California Wants Your Business" national advertising campaign. The Governor stated in a veto of SB 1452 (Figueroa's legislation) that, "The wrong approach is to implement measures that restrict trade, invite retaliation or violate the United States *Constitution* and our foreign trade agreements. In order to improve their competitiveness in a global market, California businesses cannot be penalized with punitive policies restricting their ability to make decisions on how to best perform and provide goods or services for state government and our consumers. These restrictions will drive businesses out of California."<sup>14</sup> It appears as if the Governor's politics are in a fine dance of trying to appease the party that supported him (the state Republican leadership) and attempting to placate the people who elected him.<sup>15</sup>

Governor Schwarzenegger also has voiced his strong dissatisfaction with limiting California's financial responsibilities to a "state-only" attitude because he also contends that by limiting trade, "...restricting state contracting will not necessarily help workers in California, but could instead result in contracts being awarded to out-of-state bidders."<sup>16</sup> Assembly Speaker Fabien Nunez (D-46) advocates that outsourcing is contrary to California's long term health and growth. In a recent interview Speaker Nunez commented, "The governor had a choice: protect hardworking Californians or protect multinational corporations. He chose wrongly. Now the

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<sup>13</sup> Schoenberger, Karl. "California Lawmakers Face Daunting Task in Restricting Offshore Outsourcing." *The San Jose Mercury News*. 16 February 2004, Online. Lexis Nexis Academic. 23 September 2004.

<sup>14</sup> *California State Assembly Record*. 2003-2004 Session. Assembly Bill 1829.

<sup>15</sup> "Biographical and Voting Information" California State Governor Arnold Schwarzenegger Homepage. Webpage. 6 November 2004.

[http://www.governor.ca.gov/state/govsite/gov\\_homepage.jsp](http://www.governor.ca.gov/state/govsite/gov_homepage.jsp)

<sup>16</sup> *Ibid*.

people's tax dollars will continue to support jobs in India and Mexico.”<sup>17</sup> While the Governor's and Speaker's points are equally compelling regarding the economic health of the state and its constituency, their opposing statements indicate that partisan politics are clouding the issue of the role of the government to its residents.

Additionally, the Silicon Valley Manufacturing Group (a more conservative political action group) argues that the basic principle for limiting state outsourcing is against fundamental business ideals including competition, and the anti-outsourcing policies are essentially prohibitionist.<sup>18</sup> Additionally, the United States Chamber of Commerce is a coalition of businesses that protects the interests of businesses around the globe.<sup>19</sup> The Commerce specifically protects businesses by funding lobbyists, lawyers, and funding campaigns of pro-business elected officials. While the CEO and President Thomas Donahue acknowledged the pain for people who have lost jobs to outsourcing he maintains though that the benefits out way the costs. Unless of course, “One job sent overseas, if it happens to be my job, is one too many.”<sup>20</sup>

March Vince, senior consultant for Senator Figueroa, believes that by sending these administrative jobs overseas, an improved and efficient government system will become a reality. However, this “efficiency” is and will be at the expense of someone or something because it is possible this “efficiency” is retarding the economic growth of California and resulting in an increase in unemployment.<sup>21</sup> He contends that is essential for the state to respond to these economic issues now so that the most citizens benefit in the long and short run.

California State Senator Figueroa (D-10), author of the 1999 Confidentiality of Medical Information Privacy Act (a law that protects residents' private medical record information), read about outsourced foreign workers in unemployment disputes who were threatening to release private patient information out of retaliation. She said, “I think if these [California residents] knew that their medical and welfare records were going overseas they'd be even more concerned.”<sup>22</sup>

Assemblywoman Carol Liu (D-44), member of the state assembly for 3 years, wrote the bill AB 1829 (Domestic Workers for Public Contracts and Services) regarding outsourcing state

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<sup>17</sup> Cooney, Michael. “Schwarzenegger terminates Calif. Outsourcing prohibitions.” 30 September 2004. *Network World Fusion Magazine*. Online.

<sup>18</sup> Folmar, Kate. “Assembly speaker pledges to work with businesses to keep jobs in California.” *The San Jose Mercury News*. 16 September 2004, Online. Lexis Nexis Academic. 3 October 2004.

<sup>19</sup> “About Us”. The United States Chamber of Commerce Homepage. Webpage. 8 November 2004.

<http://www.oracle.com/corporate/index.html>

<sup>20</sup> “US Chamber of Commerce Chief Endorses Offshoring”. InformationWeek Online Magazine. 5 December 2004.

<http://www.informationweek.com/story/showArticle.jhtml?articleID=22103240>

<sup>21</sup> *California State Senatorial Record*. 2003-2004 Session. Senate Bill 1452.

<sup>22</sup> Lindquist, Diane. “Calls to state agencies go global.” *Copley News Service*. 22 August 2004, Online. Lexis Nexis Academic. 23 September 2004.

contracts.<sup>23</sup> Assemblywoman Liu commented, “States and local governments should not use tax dollars to support the off-shoring of service and technology when so many Americans are out of work. The first, most sensible step is for Californians to say ‘not with our money’ and prohibit companies from filling California state and local contract services with overseas workers.”<sup>24</sup>

In addition to state partisan representatives, groups like the California Labor Federation (AFL-CIO) have taken political and legislative action in interests specific to benefiting working families. The AFL-CIO is attempting to influence legislative agendas in Sacramento by lobbying strongly for legislation that intends to keep jobs in the state.<sup>25</sup> Last March, the AFL-CIO testified in a joint Senate Business and Professions Committee and International Trade Policy Legislation Committee hearing. The AFL-CIO created and listed six concrete examples of ways to slow outsourcing in the state of California.<sup>26</sup> The six points entailed creating a study to examine data in California and other states regarding outsourcing, review current tax code, scrutinize current and existing state contracts, prohibit state taxpayer money from be used to give jobs to other states or countries, work to guarantee privacy implications for consumers, and encourage legislation for extended unemployment benefits.

In a more economic-based perspective, Daniel Drezner, author of “The Outsourcing Bogeyman” points out that in the 1990’s, more jobs were created in the United States than outsourced, so no policy makers paid any attention because job creation was occurring at a faster rate than outsourced jobs. He believes that there is a strong likelihood that outsourcing levels will never reach the predictions and have really not been responsible for as many unemployed people as had been forecasted. Drezner cites that in a study conducted by the Federal Reserve, it found in that there is a structural transformation occurring and that, “the creation of new jobs lags behind the destruction of old ones.”<sup>27</sup> While he has a point, yes there is a creation of jobs, he fails to point out this job creation is not in the United States, but in India and Mexico. Drezner does also make the distinction that economic globalization is laudable during economic prosperity but is hard to defend when the economy is facing a downturn, yet does not address the important role that the government must take when the economy does face such a downturn. This gap focuses on the need for the state to create and maintain such services for its residents.

Ron Hira, however, author of “White Collar Jobs Move Overseas: Implications for the States”, maintains that more and more companies are electing to make use of offshore jobs and the states’ related troubles. In his article, Hira strongly warns all states to consider the negative

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<sup>23</sup> “Meet Carol”. Assemblymember Liu. Webpage. 8 November 2004.  
<http://democrats.assembly.ca.gov/members/a44/a44bio.htm>

<sup>24</sup> Weintraub, Daniel. “Outsourcing is Good for America...and California”. The Sacramento Bee. 13 July 2004.  
Google Search. 5 December 2004

<sup>25</sup> “About the Federation”. California Labor Federation, AFL-CIO. 5 December 2004.  
<http://www.calaborfed.org/about/index.html>

<sup>26</sup> “Senate Hold Joint Hearing on Outsourcing of Jobs”: This Week in Sacramento. Online Newsletter. 5 December 2004.  
[http://www.caiia.com/Norwood\\_3-12-04.htm](http://www.caiia.com/Norwood_3-12-04.htm)

<sup>27</sup> Drezner, Daniel W. “The Outsourcing Bogeyman.” Foreign Affairs 83 (2004) 7 pages.

impacts and possible policy responsibility of outsourcing. The reason outsourcing is so different than that of the 1980's is because the labor force is feeling the impact, not the businesses, according to Hira.<sup>28</sup> Hira's view of outsourcing summarizes that it is bad for the long-term growth of the United States, that it is hurting employees, and that it is the responsibility of the states' to implement public policy to counteract the effects.

While the concept sounds very simple in theory (no outsourcing of state jobs), the reality of the issue is much more complicated. For instance, California spends millions of dollars on products that are built overseas, which help create and maintain jobs overseas that could, in theory, be done here. Just think of all the computers and other electronic equipment made in Japan, yet no one is seriously considering prohibiting the state from purchasing computers or televisions that are made overseas. Conversely, in Senator Figueroa's district, there is an auto assembly plant that is jointly owned by Toyota, providing good jobs with benefits to Californians.

We clearly live in a global economy, and trying to regulate or control certain aspects of this economy can get complicated, and reasonable minds can disagree. As long as Governor Schwarzenegger is Governor, any effort to prohibit state jobs from going offshore will face a veto if passed by the Legislature.<sup>29</sup> The focus from political partisanship and interest groups regarding outsourcing reflects the confounding variables that make it so difficult to attempt to minister to Californians in the best way possible. While I am dutifully paying taxes, my money is fueling the growth of another economy, not California's. The government's primary responsibility is to its residents, yet partisanship and special interests overshadows this main obligation.

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<sup>28</sup> Hira, Ron. "White Collar Jobs Move Overseas: Implications for the States." *Spectrum: The Journal of State Government* Winter (2004): 12-18.

<sup>29</sup> Marchand, Vince, Senior Consultant of Senator Liz Figueroa's Capitol Office, E-mail Interview, November 15, 2004.

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