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The Political Economy of State-Level Legislative Response to Services Offshoring in the United States, 2003-2004

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L'économie politique de la réponse législative aux délocalisations outre frontières de l'emploi dans les services aux États-Unis, 2003-2004

English abstract: page 10.

Les délocalisations sont le plus récent champ de bataille de la résistance à la mondialisation. Cette note de recherche cherche à expliquer le niveau de l'activité législative pour contrer les délocalisations dans les 50 États américains. Nous résumons d'abord les débats sur le thème des délocalisations et les comparons aux débats sur le protectionnisme. Ensuite, nous présentons quelques modèles d'explication du protectionnisme et évaluons leur utilité pour nos fins. Nous observons que la réponse législative aux délocalisations correspond peu à l'image habituelle des déterminants du protectionnisme. La dépendance envers les exportations, souvent associée au libre-échangisme, est reliée à la résistance aux délocalisations. Les forces qui s'alignent dans cette bataille sont liées aux classes sociales plutôt qu'aux secteurs. L'éducation, conçue ici comme un indicateur de la capacité d'adaptation à la mondialisation, a des effets significatifs mais mixtes.

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In recent years, the phenomenon of offshoring of service-related jobs, fuelled by the falling cost of worldwide information transmission, has achieved prominence as the latest battleground of resistance to economic globalization. Although the issue has been very salient in public debates, it has not led—to date—to the adoption of major protectionist policies. It has, however, led to a good deal of political activity by labor groups and the introduction of a few pieces of legislation in Congress. At another level, this issue also has opened the door to protectionist demands directed at state governments. American state legislatures have a long history of protectionist interventions even if their range of available policy instruments is limited. Within that limited range, however, they are able to use state procurement contracts and other regulatory interventions

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to grant preferences to local or national firms or, in the case of offshore outsourcing, to curtail their ability to shift parts of their activities abroad. Indeed, over the last two years, in response to this increasingly salient dimension of globalization, state legislators have been led to propose measures that seek to limit the flow of service jobs overseas.

Although the economic effect of these new measures may not be very large, in the context of growing liberalization of markets every hurdle left holds the potential of impeding the further progress of globalization in ways that would have been unimaginable even only two decades ago. Also, since we are faced with a relatively new phenomenon that has not led, for example, to roll-call votes in the U.S. Congress, activity at the state level is the best available indicator of variations in the sources of political resistance to offshoring. Thus it is important to assess the political responses to these new issues raised by globalization, to identify their determinants, and to compare these determinants to those of the more traditional forms of trade protectionism. This is what this paper attempts to do, using data on levels of legislative activity in response to service-jobs offshoring as indicators of state-level protectionist legislative activity.

First, we summarize recent debates over offshoring, and compare them with previous and ongoing debates over trade-related manufacturing job losses. Second, various theoretical models of the politics of trade protectionism are discussed with regards to their usefulness in the explanation of levels of policy restrictions toward offshore outsourcing. The following sections present the model selected for analysis, the methodology and the empirical results. We find that the politics of response to offshoring is not trade politics as usual, as export orientation is actually positively related to our measures of legislative activity. The forces behind the first legislative salvos in the fight against offshoring are primarily aligned along class rather than sectoral lines, and education, which is often used as an indicator of capacity to adapt to the uncertainties generated by the forces of globalization, has significant but mixed effects.

The Services Offshoring Debate

Offshoring[1] is hard to define with precision. The simplest definition of the term is also the most politically expedient for opponents: It is the migration of jobs overseas. Vast improvements in communications technologies, along with the dramatic reduction in their costs, have transformed the way in which many firms operate in the services sector (or in manufacturing services). Basically, the notion involves shifting parts of the production process to foreign locations, most often to take advantage of labor-cost differentials.

On the face of it, this is not new: this has been going on for decades in the case of low-skill, labor-intensive manufacturing. What makes it relatively new is the fact that it affects a broad

[1] The term "outsourcing" is often used to describe the phenomenon, but "offshoring" is more precise. Outsourcing means acquiring parts or services from an unaffiliated company (domestic or foreign). Offshoring refers either to parts or services supplied by a foreign affiliate of the home company (offshore in-house sourcing) or by an unaffiliated foreign-based company (offshore outsourcing) (U.S. General Accounting Office 2004, 58).

range of jobs that used to be considered off-limits to international market forces. Now, thanks to new technologies, service jobs such as data processing, call centers and software programming have become virtually rootless and can be massively shifted to low-cost countries. Significantly, also, offshoring is creeping up the ladder from low-skill jobs to highly technical occupations, and even scientific work. To borrow a quote from former Hewlett-Packard CEO Carly Fiorina: "There is no job that is America's God-given right anymore" (cited in Drezner 2004).

Because it generates insecurity in large portions of the American workforce, offshoring has become a highly salient political issue and has fuelled anti-globalization sentiments. In the media, offshoring is typically painted as the exportation of high-paying jobs to developing countries. An oft-quoted private report has estimated job losses due to offshoring in the coming decade at about 3.3 millions (McCarthy 2002). For the white-collar workers, the increase in the resort to offshoring in services signaled the beginning of a new era when they too would have to face direct international competition.

Economists, on the other hand, find benefits in offshoring in the form of lower prices and new possibilities, as some service firms might not be able to sustain competitive pressures without the economies generated by shifting parts of their activities to lower-cost areas. They also correctly point out that mainstream media are essentially looking at only one side of the coin, as "insourcing" is also an important phenomenon (Slaughter 2004). Many foreign firms import services from the United States or establish parts of their service-oriented facilities there, notably in specialized high-skilled services jobs. Indeed, the U.S. still has a net surplus in business services trade. Also, on the whole, even an annual loss of 300,000 jobs—which would be the worst-case predictions from current studies—still only represents about 0.2 percent of the country's total of about 130 million jobs (Drezner 2004a).

Still, some economists have expressed concerns recently about potential damages to the economy resulting from offshoring, mainly through lower wages and a possible deterioration of the terms of trade (Samuelson 2004; Bhagwati, Panagariya and Srinivasan 2004). The problem becomes more important if wealth cannot be redistributed from shareholders to workers, as the latter group loses from offshoring, while the former stands to win most. While American industry should, on the whole, be able to gain high-paying jobs to compensate the ones lost, it does not mean that people losing jobs easily find new employment. Adjustment costs may be considerable, and that new reality puts more pressure on the workers, who must be flexible enough to adapt to the job market, which evolves now more quickly.

Recent research on public opinion (Mayda and Rodrik 2001; Scheve and Slaughter 2001) confirm that most people attribute benefits to globalization in general, but they also fear its potential impact on job security, including their own. The classic case of diffuse benefits and concentrated, highly publicized, losses is in effect here, and it shows in opinion polls. In May 2004, an Associated Press poll found that 69 percent of Americans believe offshore outsourcing hurts the U.S. economy.[2] In its 2004 poll on American attitudes about international affairs (July 6-12), the Chicago Council on Foreign Relations found that, while 64 percent of the public had a favorable view of globalization, 72 percent thought that offshore outsourcing was "mostly a bad thing" while 22 percent saw it as a good thing. This result is in sharp contrast with their poll of "opinion leaders", where these proportions were, respectively, 87, 31, and 56 percent.[3] Empirically, there is no compelling evidence that offshoring has had severe adverse

[2] The poll was conducted for the Associated Press by Ipsos-Public Affairs, May 17-19 2004 (www.ipsos-na.com/news/pdf/media/mr040607-1tbzzz.pdf); cited in Drezner 2004b.

[3] See Bouton et al. (2004, 40-42). The report also shows that, although most people have a favorable view of globalization, they mostly perceive the impact of trade on American jobs as negative.

consequences. Exports of services are growing at a lower rate than imports, but this has had little effect on the job market. Comparing the services and manufacturing offshoring waves, we can see many similarities. White-collar workers have replaced blue-collar workers as the potential victims of globalization, and India has replaced Japan as the main destination for offshored jobs, but the differences between mainstream and academic opinions remain much the same. What distinguishes the two contexts is that, while in the 1970s and 1980s many American firms were facing direct import competition and joined the workers in their pleas for protection, now firm managers often find that shifting jobs overseas may be essential to maintaining a competitive edge. Consequently, while trade politics remained until recently a battle across sectorally defined lines of cleavage, pitting import-sensitive industries against export-oriented or import-dependent industries, the ongoing debates over offshoring mainly pits factors of production against each other. It is primarily a battle between labor and capital.

In hindsight, studies have assessed the long-term effect of manufacturing offshoring, showing the capacity of most workers to adapt to the shifting fortunes of their sectors of employment. For example, Kletzer (2001), in a study of manufacturing job losses in import-sensitive industries, finds that between 1979 and 1999, 63 % of those who had lost their job were employed when contacted by the Census Bureau, at a date which could be anywhere between one month and three years after the initial job loss. Among them, 39% had earnings that were at least as high as before, but one quarter took pay cuts of more than 30%. The median loss of earnings was about five percent.

It is still too early to have similar studies for services offshoring, but those results are the best approximation of the impact. While the effects are not as dramatic as anti-globalization activists might claim, the costs (or at least the potential costs) of offshoring cannot be dismissed as trivial. In this context, with more workers facing greater pressure, uncertainty, and the possibility of significant adjustment costs, it is not altogether unsurprising that calls for policy responses to this emerging issue on the globalization agenda are increasingly heard. Since there has so far been little legislative activity in Congress, and no roll-call votes that would allow us to apply standard political economy models of trade politics to legislative behavior at the federal level, we turn to the level of state legislatures, where a sizable number of bills addressing the issue of services offshoring have been introduced in 2003 and 2004 (Lee 2004). Thus, in addition to addressing the relatively new issue of services offshoring, this paper also covers the relatively uncharted territory of trade politics at the state level. We seek to assess and explain variations across states in the number and intensity of legislative proposals to use the state governments' limited arsenal of policy instruments to curtail the practice of offshore outsourcing and offshore in-house sourcing of services.

The following section summarizes the different theory explaining political actions with respect to international trade. First, however, we present the dependent variable, which measures levels of legislative response to offshoring in the 50 states.

Assessing State-Level Legislative Activity on Offshoring: 2003-2004

In 2003 and 2004, state legislators in 35 states have introduced 130 bills that included a total of 176 different measures. Offshore outsourcing was a major theme for several of the Democratic candidates in the 2004 presidential election campaign, and this partisan emphasis is reflected in the fact that most of these bills were introduced by Democratic state legislators. Indeed. Of the 130 bills, 83 were introduced by Democrats, 23 came from Republicans (14 were bipartisan and 10 were prepared jointly by the relevant committees). The data were compiled by the National Foundation for American Policy (2004) in the last two years following the mid-term

elections. After removing the few double entries (twin bills introduced both in the State Senate and in the State House), each bill was segmented into the different measures it proposed. Some bills contain only one measure while others might include three or four different measures. Extreme examples are Ohio, with 10 measures on 3 bills and New York, with 7 measures on 7 bills. Those measures were then classified according to their eventual impact if adopted. The classification used is reproduced in appendix, ranging from limitations on private information leaving the state or country to studies on the impact of offshoring of services.

To reflect the various levels of political reaction across states, we use three closely related variables (see Table 1, p. 12). The first is the number of bills introduced in each state legislature to address the offshoring issue. The second disaggregates each bill and reports the total number of anti-offshoring measures embodied in these bills. The third adjusts for the severity of these measures and consists of a summation, for all measures, of an index of severity ranging from 0.2 (least severe measure) to 1.0 (most severe measure).[4]

Figure 1 (see p. 14) presents the geographical distribution of the first of these three variables, the number of bills introduced, across the 50 states. At first sight, this map shows that patterns of political reactions to the offshoring issue do not correspond to the usual patterns of support for protectionist legislation in the U.S. Congress (for example, Wade and Gates 1990; Martin 1995). The presence of states such as Washington, Idaho or Connecticut alongside more traditionally protectionist areas such as Ohio or Michigan at the upper end of the response scale suggests that the politics of response to offshoring does not follow the same patterns as the politics of more conventional forms of protectionism. We turn next to explanations for the levels of political response to offshoring.

[4] These measures are closely but not perfectly correlated (correlations of 0.935 between the first and the second; 0.891 between the first and the third, and 0.986 between the second and the third).

The Explanatory Variables

In this section, we introduce the variables of our explanatory model in relation to the various theoretical frameworks that seek to explain the politics of response to economic globalization. We start with the simple sector-based attributes, most commonly associated with the Ricardo-Viner model of the political economy of trade (presence of import-sensitive industries; export-oriented employment). Then, we introduce factor-based variables, associated with the Stolper-Samuelson view of trade politics (labor union strength; firm concentration and education). The remaining variables are linked, respectively, to: the general economic context prevailing in each state (job growth); partisanship (percentage of Democrats in the lower chamber of the state legislature); and control variables for state size (Gross state product in services) and for the foreseeable effects of offshore outsourcing on each state's economy.

The Sectoral Approach: Is Offshoring a Case of Trade Politics as Usual?

The two main approaches differ on a crucial assumption: factor mobility. In the sectoral approach (Ricardo-Viner), it is assumed that factors are not mobile between industries or sectors, at least in the short run. Factor specificity implies that, while international trade makes certain sectors better-off than others—since capital and/or labor is immobile—there will be winners and losers from trade. The winners will be in the favored sectors, where rate of returns and wages will rise, since sector-specificity implies that factors in other sectors are imperfect substitutes and cannot move freely to favored sectors. Accordingly, sectors made worse off by trade will see their sector-specific factors suffer through lower wages and lower rates of return. Thus the resulting conflict opposes import-sensitive and export-dependent sectors.

Empirical work on the political economy of trade policy in the U.S. Congress generally shows that sector-specific attributes weigh

heavily in the balance of legislative decision making. Two variables commonly associated with this model at the state level are import sensitivity (proportion of the workforce employed in import-competing manufacturing industries) and export dependence (proportion of jobs depending on manufacturing exports) (e.g.: Baldwin 1985; Marks and McArthur 1990; Martin 1995). Although the offshoring issue is conceptually different from trade protectionism, critics of anti-offshoring measures commonly claim that they are just another form of protectionism and involve the same political forces. We include these variables in our model to ascertain whether or not anti-offshoring politics fits this pattern. In short, if offshoring politics is trade politics as usual, then import sensitivity should be positively related to the level of legislative response, while the effect of export dependence should be negative.

Import sensitivity is measured as employment in selected import-sensitive industries (according to Griswold 1999) as a proportion of total state non-farm employment. Export dependence is measured as the proportion of total state non-farm employment directly or indirectly attributable to manufacturing exports (1997 data; see appendix for details).

The sectoral model of the political economy of trade has limits when it comes to interpreting the politics of offshoring, however, because, in contrast with what is most commonly the case in the politics of trade, the interests of service workers that are vulnerable to offshoring and those of their employers are diametrically opposed. Thus there is a strong presumption that cleavages in the politics of offshoring should be primarily drawn along factoral lines.

Labor, Capital, and "Human Capital" in the Political Economy of Offshoring

The factoral model of the political economy of trade assumes some degree of mobility across sectors. As trade modifies the returns on sector-specific assets, factors move freely from sectors made worse off to sectors that gain from trade, until rate of returns and wages converge. However, there is a good chance that some factors will be affected more than others. The result is a conflict between factors, which could be between labor and capital or low-skilled and high-skilled workers. This, in a nutshell, is the Stolper-Samuelson model. When factors are relatively mobile and interests do not clearly align along sectoral lines, as ought to be the case for offshoring, class-based cleavages should prevail.

We identify three relevant indicators of factor-based interests at the state level. First, as a proxy for the political strength of labor, we use the proportion of the state's civilian labor force that is represented by unions (Bureau of Labor Statistics 2002). This also is consistent with the very vocal position taken by unions nationwide against the practice of offshore outsourcing. Consequently, higher unionization rates should be associated with higher levels of anti-offshoring legislative activity.

On the other side of this ledger, we use average firm size (in number of employees) as a proxy for the political strength of capital. This simple measure is adequate as larger firms tend to be more highly capitalized, but also because larger firms are better able to overcome the collective-action problem in lobbying for their political interest (Bureau of Labor Statistics 2002).

The third factor-based dimension of interest to our model is education, as an indicator of "human capital." As recent work on the determinants of opinion formation on trade issues has aptly demonstrated, higher levels of education, or higher levels of specialized skills, lead to a greater propensity to support freer trade for two interrelated reasons. First, since the U.S. is globally more competitive in sectors that require higher skills and more specialized training, more educated workers are more likely to find themselves employed in Industries that benefit from open markets. Second, as more educated workers tend to acquire skills that are more readily transferable from one occupation to another, they tend to be less vulnerable to the adjustment costs associated with trade liberalization. On the

whole, if offshoring politics conforms to a standard factor-based model of trade politics, there is no *a priori* reason to assume that the same logic should not apply.

We use two complementary measures of education. The proportion of high-school graduates as a percentage of the state's working-age population measures skill acquisition at a more basic level. The second measure, which refers to college or university graduates, refers to higher levels of skills.[5] Both measures are hypothesized to be negatively correlated to levels of anti-offshoring legislative activity.

The Partisan Context

The central role of the labor-capital dimension in the political economy of offshoring increases the saliency of partisan considerations in a political context where organized labor is closely allied with one of the two major parties. As discussed above, the Democrats clearly have been the most vocal critics of the practice of offshore outsourcing, but a significant number of conservative Republicans have joined their voices to the chorus. In all, more than a third of the 130 bills under study were introduced by a Republican or were bipartisan in nature. Anecdotally, the reasons invoked by Republicans to support anti-offshoring legislation were very similar to those invoked by Democrats.[6] Thus, we include a variable in our equations to reflect the partisan mix of the state legislatures. We use the proportion of Democrats in the State House (state representatives) in 2002 (National Conference of State Legislatures 2002). We expect the effect of this variable to be positive.

The Overall Employment Context

The debate over offshoring is primarily about jobs. In the worst-case scenario mentioned above (McCarthy 2002), a total of about 300,000 jobs might be lost annually as a consequence of offshoring. This is not an insignificant figure, but this number is dwarfed by the total number of workers who change jobs every year in the United States. In 2004, for example, the totals of job terminations and hired workers each were more than 4 million every month (Bureau of Labor Statistics data). Still, other things being equal, in states where job creation does not follow the rate of job losses, the incentive should be higher for workers to demand (and politicians supply) restrictions on offshoring. To measure this overall employment context variable, we use a simple measure of the percentage of jobs lost of gained in the state over the previous five-year period (Total state employment in 2004 as a percentage of the same figure for 1999). This variable should be negatively related to legislative activity on offshoring.

Control Variables

Two variables are added to our explanatory model as controls. The first is the size of the state's service economy, which of course closely correlates with the size of the state economy and population. Size matters for three distinct reasons that push in the same direction. First, the larger the state's service economy, the larger and more diversified the size of the constituency that might benefit from various regulatory restrictions on

[5] Interestingly, the proportion of college and university graduate in the working-age population is closely related (r = 0.79) to a measure of employment in occupations commonly identified as exposed to offshoring, including the following: Computer and Mathematical Sciences, Telemarketers, Computer Operators, Data Entry Keyers, Word Processors and Typists and Desktop Publishers. (Bureau of Labor Statistics, May 2003). Entering this variable in the equations reported below only affects the university education parameters. Other parameters become slightly less significant but remain similar.

[6] See this article about two very different legislators who both took on the cause of opposing offshoring practices: "Roughly 180 degrees separate their political philosophies. But when it comes to offshore outsourcing, all partisan, cultural and geographical bets are off – State Senators Shirley Turner (Democrat) of New Jersey's 15th District and Jeff Drozda (Republican) of Indiana's 21st District are on the same page" (Parry 2004).

offshoring. Other things being equal, a larger and more diversified service economy would generate demands for a greater variety of legislative responses, and thus a larger number of bills or measures. Second, since a larger service economy might be assumed to be more self-sufficient, the cost for the state government of imposing restrictions on out-of-state procurement should be higher in smaller states than in larger states. Third, it is well known that legislatures in larger states tend to be more professionalized than their counterparts in small states, and thus prone to introduce a larger number of legislative measures, other things being equal. For these reasons, we expect the size of the service economy to be positively related to offshoring legislative activity.

The other control variable is a measure of the projected impact of the balance of offshoring and "inshoring" in all states. Not all states are similarly affected, as jobs in the sectors affected by the phenomenon are not evenly distributed across states. Presumably, in states where objective conditions allow economic agents and policy makers to be more optimistic about the effects of offshoring, there should be less demand and supply for legislation to curtail it. To measure expected effects on the state economy, we use a recent study that estimates state-by-state net employment effects of offshoring in the services sector in 2004 from offshoring of service jobs related to information technologies (Global Insight 2004). While the authors are particularly optimistic (only Kansas, Colorado and Washington have net job losses), they identify well the sectors affected by the phenomenon. More pessimistic assumptions would lead to a rescaling of the numbers, but there is no *a priori* reason to assume that the distribution would be markedly different. Here we use the projected gain in proportion of total employment, which gives an estimate of the impact on the economy as a whole. The effect is expected to be negative. Because of the conceptual proximity of this variable to the dependent variables and because this particular study may not reflect a consensus on the estimated effects of offshoring on state economies, we test estimate our models alternatively with and without this variable.

Empirical Results and Discussion

We assess the effects of our ten independent variables on three different but closely related indicators of legislative activity on offshoring. For each variable, four different equations are estimated (see Table 2, pp. 13-14). Taken as a whole, these regressions show that some variables have a consistent pattern of effect on the various representations of the dependent variable, while others have effects that are at best sporadic, at worst consistently flat.

Among the questions raised above, one can be confidently answered. These results show that the politics of offshoring is not trade politics as usual. Indeed, our indicator of import sensitivity, generally associated with protectionist regions, has no effect. Export dependence, which has been shown to relate with support for freer trade in recent studies, is positively related to anti-offshoring legislative activity in ten of our twelve specifications. In sum, if free traders may be right in calling offshoring "just another form of trade" and opposition to it "just another form of protectionism," the political coalitions that are likely to form on either side of the issue are unlikely to precisely match those active over trade policy.

These results also suggest that the politics of offshoring is most adequately defined by the factoral approach to the political economy of globalization. The strongest and most consistent predictor of legislative activity on offshoring is the proportion of union members in the state's workforce, which is significant in all the models and all other unreported trials as well. The indicator of capital intensity we use shows no effect across the models, but it may not be the best indicator for the task. Education has a mixed effect. In most specifications of the model, the proportion of high-school graduates in the state's adult workforce has a significant effect in the predicted direction. The effect of the other education variable, the proportion of college

and university graduates in the population over 25 years of age, has an effect opposite to expectations, which achieves statistical significance in a few cases. This result is better understood when one considers the high correlation between this indicator and an indicator of employment in selected services industries often associated with the practice of offshoring.

The close association between labor unions and the Democratic Party, whose members were responsible for nearly two-thirds of the legislative proposals under study reinforces the sectoral nature of the political cleavages involved in the politics of offshoring. The partisan composition of the state legislatures itself, however, does not have any measurable impact on their propensity to generate legislative proposals.

Our two control variables have significant—or nearly significant—effects in the expected direction in most specifications. The variable representing each state's balance of costs and benefits from outsourcing does not have as strong and consistent an effect as initially expected. This may be explainable if we account for the general tendency of U.S. legislators to respond more readily to losses or loss aversion then to gains or the prospect of gains (for a good explanation of this tendency as it applies to the U.S. Congress, see: Arnold 1992).

Not surprisingly, legislators in larger states were more likely to generate bills or measures to counter offshoring. Part of this effect, of course, depends on the presence of California, the largest state, which also generated the largest amount of legislative activity. Removing California from the sample (unreported results) affects our models somewhat. It makes the size indicator drop from significance, but the effects of unionization, education and export dependence remain qualitatively similar to the effects observed on the full sample.

Conclusion

When it comes to debates over globalization, offshoring may be, as some argue, nothing more than the flavor of the month, soon to be replaced by another ill-founded reason to panic about the unstoppable progress of global markets. Given the attention that this issue has attracted since the first reports of call-centers moving to India started coming out in the U.S. media, one might at first be surprised that there has not been more assertive policy responses. Yet, if the flurry of legislative activity that has occurred in most of the states is any indication, we most probably have not seen the end of the politics of offshoring. Therein lies the interest of this first attempt to identify the forces at play in this fast-evolving dimension of globalization.

In sum, we find that this new battleground of globalization does not look quite like the old familiar battlegrounds of trade protectionism. Most notably, the central opposition of import-sensitive areas against export-dependent areas finds no trace in the picture of the political economy of offshoring as it emerges from our analysis. Also, although we do not have adequate data on the political strength of business across states to fully endorse this argument, we find that the troops in this battle seem to be very clearly aligned along class lines. Thus, if class compromise arguably was an important characteristic of the rapid expansion of trade in manufactured products that occurred a half-century ago, the current rapid expansion of trade in services is unlikely to mirror this image.

Much, of course, remains to be done to better understand the politics of offshoring. First, the policies that we target in this paper are still in the making. As this paper is completed, most of the legislations that we discuss are still slowly making their way through the legislative process. Not all of them will become law, and of those that do, perhaps few will make a significant dent into the advance of globalization in the service sector. Indeed, many of these measures may turn out to be overruled by international trade agreement or

struck down on constitutional grounds. Still, they remain a telling indicator of the level of political resistance to offshoring in the United States. Other dimensions of this phenomenon will need to be addressed if political economists wish to understand it more fully. For example, what are the determinants of individual opinion formation on this new issue and how do they differ from the determinants of opinion on other dimensions of globalization, such as trade or immigration? When Congress enters into the fray and enacts legislation, a clearer picture also will emerge of the state of opposing forces on this new front and new data will be available to paint it. Finally, political economists will have to look at comparative patterns of policy making, as different countries confront the challenges of the new jobs migration.

The Political Economy of State-Level Legislative Response to Services Offshoring in the United States, 2003-2004

Offshoring is the latest battleground of resistance to globalization. It has led to political activity by labor groups and to the introduction of a few bills in Congress, but it also opened the door to protectionism at the state level. This paper seeks to explain variations in levels of legislative activity in response to offshoring. First, we summarize recent debates over offshoring, and compare them with debates over trade. Second, models of protectionist politics are discussed with regards to their usefulness in the explanation of levels of policy restrictions toward offshore outsourcing. We find that the politics of response to offshoring is not trade politics as usual, as export orientation is positively related to our measures of legislative activity. The forces behind the first legislative salvos in the fight against offshoring are primarily aligned along class rather than sectoral lines. Education, which is often used as an indicator of individual capacity to adapt to globalization, has mixed effects.

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For a comprehensive and up-to-date list of documents and resources on Offshoring and Outsourcing, see our links page:

Dossier : délocalisations

http://cepea.cerium.ca/article211.html

Table 1. Distribution of Legislative Responses to Offshoring across the 50 States, with Selected Independent Variables

States	Bills	Measures	Weighted Measures	Offshoring gains %	Export dep. %	% Union members	% H.S. Graduates
California	16	18	12.17	.0096	9.8	18.8	76.8
Connecticut	8	13	10.00	.0033	7.5	17.7	84.0
New York	7	7	4.33	.0140	4.5	26.5	79.1
Washington	6	10	8.17	.0113	11.7	20.0	87.1
Illinois	6	10	6.50	.0052	7.1	20.6	81.4
Missouri	6	9	6.17	-.0018	7.1	14.6	81.3
Alabama	6	6	3.83	.0168	7.3	10.6	75.3
Tennessee	5	7	4.83	.0208	6.8	10.5	75.9
New Jersey	5	6	4.67	.0186	4.8	20.6	82.1
Minnesota	5	6	4.33	.0034	7.0	18.3	74.6
Indiana	4	5	3.33	.0153	9.5	14.5	82.1
Louisiana	4	5	2.50	.0161	5.3	10.3	74.8
Mississippi	4	4	3.00	.0122	6.9	8.2	72.9
Georgia	4	4	2.83	.0139	5.9	7.0	78.6
Ohio	3	10	8.33	.0076	9.5	17.9	83.0
Kansas	3	5	3.83	-.0072	6.2	9.9	86.0
Michigan	3	5	2.33	.0121	9.5	21.8	83.4
Colorado	3	4	3.50	.0134	6.8	9.0	86.9
Virginia	3	3	2.00	.0178	5.2	7.8	81.5
Arizona	2	4	3.50	.0187	6.4	6.6	81.0
North Carolina	2	4	2.67	.0158	8.9	4.0	78.1
West Virginia	2	3	2.33	.0160	3.5	14.1	75.2
Wisconsin	2	2	1.67	.0112	8.1	16.4	85.1
Iowa	2	2	1.33	.0089	8.4	13.7	86.1
Kentucky	2	2	1.33	.0110	9.9	11.3	74.1
Rhode Island	2	2	1.33	.0125	5.5	17.9	78.0
Vermont	2	2	1.17	.0079	9.0	11.1	86.4
Maryland	2	2	1.00	.0177	3.1	16.7	83.8
Florida	2	2	0.83	.0151	2.8	7.5	79.9
Hawaii	1	3	2.67	.0139	1.4	25.3	84.6
South Carolina	1	3	2.50	.0113	9.3	6.1	76.3
Delaware	1	2	1.50	.0110	3.9	11.8	82.6
Massachusetts	1	1	0.67	.0105	6.9	15.5	84.8
Nebraska	1	1	0.67	.0069	7.1	11.2	86.6
New Mexico	1	1	0.67	.0163	17.3	8.5	78.9
South Dakota	1	1	0.67	.0085	7.0	6.9	84.6
Idaho	1	1	0.33	.0107	16.5	8.7	84.7
Pennsylvania	1	1	0.17	.0163	5.6	16.6	81.9
Nevada	1	1	0.00	.0170	1.4	16.7	80.7
Alaska	0	0	0.00	.0121	2.2	26.9	88.3
Arkansas	0	0	0.00	.0143	6.3	6.7	75.3
Maine	0	0	0.00	.0132	5.0	15.0	85.4
Montana	0	0	0.00	.0097	1.8	15.5	87.2
New Hampshire	0	0	0.00	.0057	10.5	11.2	87.4
North Dakota	0	0	0.00	.0127	2.4	9.8	83.9
Oklahoma	0	0	0.00	.0087	5.4	10.6	80.6
Oregon	0	0	0.00	-.0024	9.5	16.4	85.1
Texas	0	0	0.00	.0147	8.1	6.5	75.7
Utah	0	0	0.00	.0135	7.2	7.6	87.7
Wyoming	0	0	0.00	.0040	0.8	9.9	87.9
Means	**2.62**	**3.54**	**2.47**	**.0113**	**6.8**	**13.4**	**81.7**

Table 2. Regression Results for the Number of Bills Introduced in Each State, Number of Legislative Measures, and the Number of Legislative Measures Weighted by their Respective Levels of Restrictiveness (Tobit regression with robust standard errors)

Equation 1 (all variables included)

	Number of Bills				Number of Measures				Weighted Measures			
	Coefficient	S.E.	z-score		Coefficient	S.E.	z-score		Coefficient	S.E.	z-score	
Export dependence	0,20	0,10	2,04	**	0,34	0,14	2,39	**	0,87	0,44	1,95	*
Import sensitivity	0,10	0,26	0,39		-0,13	0,33	-0,40		-0,09	1,10	-0,08	
High-school education	-0,35	0,12	-2,85	***	-0,35	0,17	-2,04	**	-1,10	0,68	-1,63	
College education	0,19	0,11	1,74	*	0,17	0,17	1,04		0,67	0,67	1,00	
Union membership	0,22	0,08	2,86	***	0,29	0,11	2,69	***	1,05	0,48	2,20	**
Size of firms	-0,09	0,28	-0,33		0,18	0,37	0,48		-0,43	1,44	-0,30	
Job Growth	0,00	0,16	0,03		-0,20	0,21	-0,94		-0,74	0,79	-0,93	
Democrats	0,00	0,03	-0,14		-0,02	0,04	-0,49		-0,10	0,14	-0,74	
GSP in services (log.n.)	1,17	0,63	1,86	*	1,31	0,79	1,66	*	5,07	3,17	1,60	
Offshoring gains	-96,17	42,48	-2,26	**	-91,32	71,45	-1,28		-478,52	315,26	-1,52	
Constant	10,92	9,97	1,10		7,83	14,24	0,55		31,42	55,08	0,57	
Log pseudolikelihood	-93,48				-106,09				-188,43			
Prob > chi2	0,00				0,00				0,00			

Equation 2 (without offshoring gain variable)

	Number of Bills				Number of Measures				Weighted Measures			
	Coefficient	S.E.	z-score		Coefficient	S.E.	z-score		Coefficient	S.E.	z-score	
Export dependence	0,19	0,09	2,10	**	0,33	0,13	2,43	**	0,75	0,46	1,63	
Import sensitivity	0,07	0,26	0,26		-0,16	0,33	-0,50		-0,22	1,11	-0,20	
High-school education	-0,35	0,13	-2,71	***	-0,35	0,18	-1,96	**	-1,08	0,72	-1,50	
College education	0,19	0,11	1,64		0,17	0,17	1,00		0,61	0,69	0,88	
Union membership	0,19	0,07	2,67	***	0,27	0,10	2,64	***	0,91	0,43	2,12	**
Size of firms	-0,15	0,30	-0,49		0,13	0,40	0,32		-0,81	1,61	-0,51	
Job Growth	-0,05	0,16	-0,32		-0,25	0,20	-1,27		-0,98	0,73	-1,34	
Democrats	-0,01	0,03	-0,34		-0,02	0,04	-0,60		-0,13	0,15	-0,89	
GSP in services (log n.)	1,19	0,65	1,83	**	1,33	0,81	1,64		5,22	3,33	1,57	
Constant	11,69	10,37	1,13		8,58	14,72	0,58		34,96	58,87	0,59	
Log pseudolikelihood	-95,07				-106,84				-189,73			
Prob > chi2	0,00				0,00				0,00			

Significant at 1% level	***
Significant at 5% level	**
Significant at 10% level	*

Table 2. Regression Results for the Number of Bills Introduced in Each State, Number of Legislative Measures, and the Number of Legislative Measures Weighted by their Respective Levels of Restrictiveness (Tobit regression with robust standard errors)

Equation 3 (without import sensitivity, size of firms and percentage of Democrats)

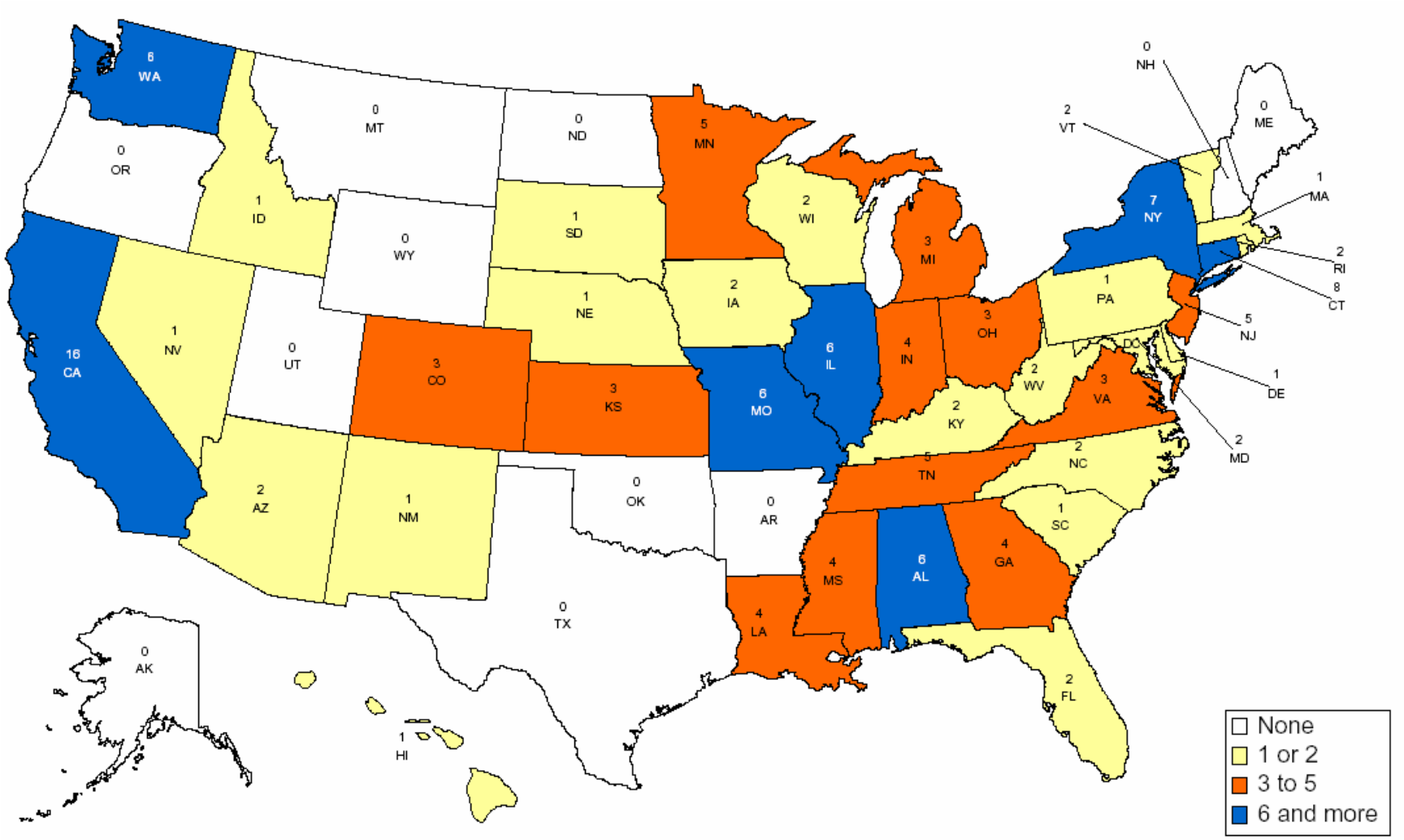
	Number of Bills				Number of Measures				Weighted Measures			
	Coefficient	S.E.	z-score		Coefficient	S.E.	z-score		Coefficient	S.E.	z-score	
Export dependence	0,22	0,12	1,86	*	0,31	0,13	2,30	**	0,91	0,50	1,84	*
High-school education	-0,34	0,10	-3,25	***	-0,29	0,13	-2,25	**	-0,81	0,56	-1,44	
College education	0,17	0,09	1,83	*	0,14	0,15	0,94		0,60	0,68	0,88	
Union membership	0,21	0,07	3,02	***	0,27	0,09	2,96	***	0,96	0,40	2,40	**
Job Growth	-0,03	0,10	-0,35		-0,13	0,13	-1,02		-0,61	0,56	-1,09	
GSP in services (log n.)	1,10	0,48	2,32	**	1,58	0,58	2,74	***	5,03	2,35	2,14	**
Offshoring gains	-98,16	45,58	-2,15	**	-90,84	75,59	-1,20		-527,59	337,35	-1,56	
Constant	10,43	6,66	1,57		1,78	9,72	0,18		-1,23	44,77	-0,03	
Log pseudolikelihood	-93,62				-106,35				-188,70			
Prob > chi2	0,00				0,00				0,00			

Equation 4 (same as equation 3 without offshoring gain variable)

	Number of Bills				Number of Measures				Weighted Measures			
	Coefficient	S.E.	z-score		Coefficient	S.E.	z-score		Coefficient	S.E.	z-score	
Export dependence	0,22	0,12	1,83	*	0,30	0,14	2,22	**	0,81	0,52	1,55	
High-school education	-0,33	0,11	-2,97	***	-0,28	0,13	-2,12	**	-0,70	0,57	-1,22	
College education	0,18	0,10	1,81	*	0,15	0,15	0,99		0,60	0,69	0,87	
Union membership	0,18	0,07	2,77	***	0,25	0,09	2,82	***	0,80	0,36	2,24	**
Job Growth	-0,07	0,09	-0,79		-0,17	0,12	-1,44		-0,79	0,49	-1,60	
GSP in services (log n.)	1,09	0,49	2,21	**	1,57	0,58	2,68	***	4,84	2,40	2,02	**
Constant	8,97	7,28	1,23		0,41	10,03	0,04		-10,69	46,15	-0,23	
Log pseudolikelihood	-95,31				-107,13				-190,35			
Prob > chi2	0,00				0,00				0,00			

Significant at 1% level	***
Significant at 5% level	**
Significant at 10% level	*

Figure 1. Geographic Distribution of Legislative Activity in Response to Offshoring: Number of Bills Introduced in State Legislatures in 2003 and 2004



Source: National Foundation for American Policy. 2004. *Global Sourcing Information: Table Tracking State and Federal Global Sourcing Legislation.* <http://nfap.net/researchactivities/globalsourcing/appendix.aspx>.

Appendix

Classification of Services Offshoring Measures : Restrictiveness Scale

1.00	Limitations on private information leaving the country or state
	Obligation of identification and divulgation of location for call centers
0.83	Limitations of access to public programs for offshoring private firms
	Repayment of benefits received from public programs for offshoring private firms
	Private firms offshoring must announce its intention to the state ahead of time
0.67	All public procurement contracts given to local company or company employing American citizens.
	General preferential treatment given to local or American firms on public procurement contracts
0.50	Public procurement contracts given to local company or company employing American citizens in specific sectors
	Preferential treatment given to local or American firms on public procurement contracts in specific sectors
	Public procurements must contain a minimum American content
0.33	Restrictions on public procurement contracts given to foreign firms
	Preferences to local or American firms for public procurement contracts
0.17	Tie-ins on similar bids for public procurement contracts given to local or American firms
	Transparency policy for public agencies giving public procurement contracts to foreign firms
	Commission studies on the impact of offshoring
	Pressure on Congress on offshoring-related matter
0	No measure was introduced in the state.

Definition of Independent Variables

Import-sensitive jobs : Jobs in selected sectors as proportion of total non-farm jobs. Annual Survey of Manufactures, 2001, Census Bureau. Selected sectors come from Griswold (1999). Import-sensible sectors and their NICS codes are: Textile Mills (313), Textile Product Mills (314), Apparel Manufacturing (315), Leather and allied product manufacturing (316), Sawmills and wood preservation (3211), Other wood product manufacturing (3219), Pulp, paper, and paperboard mills (3221), Pharmaceutical and medicine manufacturing (3254), Clay product and refractory manufacturing (3271), Iron and steel mills and ferroalloy manufacturing (3311), Alumina and aluminium production and processing (3313), Nonferrous metal (except aluminium) production and processing (3314), Industrial machinery manufacturing (3332), Commercial and service industry machinery manufacturing (3333), Ventilation, heating, air-conditioning, and commercial refrigeration equipment manufacturing (3334), Engine, turbine, and power transmission equipment manufacturing (3336), Computer and peripheral equipment manufacturing (3341), Audio and video equipment manufacturing (3343), Semiconductor and other electronic component manufacturing (3344), Navigational, measuring, medical and control instruments manufacturing (3345), Motor vehicle parts manufacturing (3363), Other transportation equipment manufacturing (3369), Miscellaneous manufacturing (339).

Exports-related jobs: proportion of total non-farm jobs due to manufacturing exports, 1997, Office of Trade and Economic Analysis, Department of Commerce.

Jobs Growth: Variation in total job level, 1999-2004, Bureau of Labor Statistics.

Size of firms: Average number of employees per private firm, first semester, 2002, from "Employment and Wages, Annual Averages, 2002", Bureau of Labor Statistics.

Unionization: Percentage of workforce represented by an union, 2002, Bureau of labor Statistics.

High School Education: Percentage of residents age 25 or older with a high school diploma or higher, 2000, Census Bureau.

College Education: Percentage of residents age 25 or older with a bachelor's degree or higher, 2000, Census Bureau.

Democrats in House: percentage of Democrats in office in state House, 2002, National Conference of State Legislatures

GSP in Services: Gross State Product in the Services sector, 2001, Bureau of Economic Analysis, Regional Economic Accounts.

Offshoring gains*: Estimated number of jobs in service sectors gained because of IT offshoring as percentage of total employment, 2003,* from The Impact of Offshore IT Software and Services Offshoring on the U.S. Economy and the IT Industry*, Global Insight Inc, for the Information Technology Association of America (ITAA).*

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3. Daniel Brisson, Alexandre Carette et Pasquale Salvaggio, *Élections présidentielles américaines. Comment se distinguent les candidats sur les principaux enjeux de politique étrangère ?* (Note), Octobre 2004.

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1. Linda Lee, *Délocalisation outre frontière de l'emploi : le point sur l'activité législative aux États-Unis* (Note), juin 2004.