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Offshore Outsourcing: the Implications for Ireland

"This should not be a tool used by firms to lead to the downgrading of pay and working conditions in base countries nor to the systemic exploitation of workers in poorer countries.

The best way to manage the jobs which are offshored is to ensure that there are alternative jobs for those who lose out, preferably within the same employment with re-training provided in advance of the expected job losses."

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Glossary

Outsourcing is where jobs in an employment are contracted out to another firm, usually in the same country, which usually specialises in the area, eg catering, contract cleaning or IT work.

Offshore outsourcing or **Offshoring** is where jobs are moved to different countries by companies, usually to lower labour cost economies and generally, though not always, the outsourcing may be undertaken by different companies. "Outsourcing" is where functions are not longer carried out within a company, but are contracted out to another firm which usually specialises in the function.

Displacement is where existing employees are displaced by new lower paid employees or contract workers. They are offered "voluntary" redundancy and/or the choice of continuing to work in their own jobs, but on much lower wages and poorer conditions. Those who are forced to leave are replaced by new workers - usually immigrants - on much lower wages, very poor conditions and are generally not represented by trade unions.

Introduction

Ross Perot, the US Presidential candidate in 1992 warned of a "giant sucking sound as jobs go south" to Mexico because of the NAFTA¹ trade agreement. Perot's opposition to the free trade agreement was ironic because he had made his huge fortune establishing EDS, possibly the largest outsourcing firm in the world. There are great fears about outsourcing from many, including even liberals like Perot, many American 'free marketer' politicians and even France's ultra neo-liberal, Nicolas Sarkozy, who promised to "help those that do not outsource." It will be seen that even in the home of so-called 'free trade', the USA, one state is spending billions in attempting to block outsourcing by a major employer.

There are two opposing views on Offshore Outsourcing. Mainstream economists argue that it will lead to higher economic growth and even to more jobs in the wealthier, offshoring country. The opposing view is that offshoring/outsourcing is new and it will lead to rapid economic decline and massive job losses.

The answer is in between, but probably closer to the first view because jobs have been offshored and outsourcing for decades, with new jobs in time replacing those lost. The newer jobs are usually higher skilled and better paid, but not always and there are redistributive effects. Ireland benefited from outsourcing in the 1960s when foreign firms established plants to avail of plentiful cheap labour and were welcomed by Irish

trade unions. Ireland has moved up the value chain and now concentrates on higher skilled jobs. The difference between the earlier offshoring and today's are three: a) the speed of change with globalisation, b) many ancillary jobs within a firm are now outsourced to more specialist firms and c) it is no longer just manufacturing which is shifting jobs offshore, but also white collar jobs.

Jobs have always been outsourced and offshored. The problem now is that it is existing jobs held by real people in Ireland, which are being offshored and the new jobs will be for different, younger and more skilled people. And some of these jobs may not be in Ireland. There is a positive difference from the past and that was that whole factories would close down, whereas today, sectoral decline can be better anticipated and planned for, with re-deployment within larger firms and provided for with re-training etc. especially in a high employment era.

Paul Sameulson, Noble Economics Laureate, said, "Yes good jobs may be lost here in the short run. Correct economic law recognises that some American groups can be hurt by dynamic free trade. But correct economic law vindicated the word 'creative' destruction by its proof that the gains of American winners are big enough to more than compensate the losers."² While Sameulson recognises that there are losers from free trade (and it follows, from offshoring), there is no proof

¹ North American Free Trade Agreement (NAFTA).

² Economist, "Nagging Doubts about the benefits of globalisation and a look at the evidence", Economic Focus, 16 September 2004.

that the winner compensates the losers. In modern capitalism, the mechanisms for redistribution rest with the state, which is slow to effect redistributive change and often does so unevenly. Much redistribution in the modern state benefits the better off, who can be bitter opponents of progressive change. Trade and offshoring do generate greater gains than losses, though the gains from the latter depend on how it is executed. Losses there are, nonetheless, *and the losers are too often trade union members.*

What is new is that there is now a threat to offshore – outside the country or even the continent of Europe – many jobs, including white collar jobs. It is likely that many more manufacturing jobs in the developed countries will be offshored than in the past (e.g. textiles, clothing and footwear). Furthermore, it is foreseen that a great number of white collar – middle class jobs may be shipped abroad. The quality of low-cost production is very rapidly catching up with that in Europe, US and Japan. The white-collar jobs include HR functions such as employee benefits, pensions, employee helplines and payroll and stock administration. The technology, communications links have improved greatly and transport costs have fallen – facilitating effective offshoring and allowing the far away employer to keep in close contact with the offshored. Offshore

Machine Smashing Luddites

Since the Luddites at the beginning of the 19th Century, rapid technological change has been feared by workers, especially those directly and adversely affected. The Luddites, led by Ned Ludd, were a social movement which began in 1811 in Nottingham. These poorly paid workers destroyed textile machines which they believed were destroying their jobs and in the ensuing social unrest, some were killed. Since then, we know that the ensuing productivity changes generate lower prices, greater output and, in time, more and higher paying jobs – but for others! Rapid technological change does displace jobs and offshoring and outsourcing is a part of such change.

outsourcing is now impacting on services jobs, that is, skilled white collar jobs, including senior and technical positions.

For some employers, outsourcing is nicknamed ‘Fire and Forget’ or ‘Run my mess for less’. This is the kind of approach which has given outsourcing a bad name, according to some.³ A PA Consultants survey found 66 percent of businesses which outsourced felt that the benefits expected were only partially met or not met at all. Another survey by Bain consultants found that large companies in Europe, Asia and North America, where 82 percent used outsourcers and 51 used offshore outsourcers, almost half said outsourcing failed to meet expectations, even judged by the narrow measure of cost improvement. Only 6 percent said that were “extremely satisfied”. Others, such as the financial director of the BBC, Zarin Patel, which outsources a huge amount of its product, including even 30 percent of its programme-making, found outsourcing “very satisfactory”.⁴

Offshoring and Outsourcing do not always make economic sense. The wise business manager will hasten slowly to outsource and will research it deeply. A quote to undertake the job cheaper than in-house may lead to immediate savings which will be eroded in two ways. First, the later cost may rise and secondly, quality may fall. This is the experience of many outsourcing companies, which is detailed elsewhere in this Briefing. However, in many areas, the specialist and expert outsourcer can and does generate saving and can improve quality simultaneously, if managed properly.

The motto “do what you do best and outsource the rest” sounds easy, but companies’ management often do not know what they do best, nor do they even know what their core competencies are. Further, they often overestimate the cost reduction of outsourcing and underestimate the cost in lost quality. Still, trade unionists must take little comfort from case histories where outsourcing has gone wrong. Outsourcing and offshoring will continue and it will grow.

³ Michael Skapinker, “Reinventing Outsourcing”, Supplement in Financial Times, 2 June 2005.

⁴ Ibid.

The goals of the European Commission on achieving the agenda set out in Lisbon strategy are broadly supported by Congress. These objectives include developing Europe and its member states into a knowledge society; to ensure environmental sustainability; to complete the internal market and to facilitate business with a more benign regulation and administrative environment etc. However, this is not, under any circumstances, to be achieved by the exploitation of labour. Indeed, a key objective of Lisbon is to develop the labour force in many ways, including developing strategies for Life Long Learning, skill enhancement and active aging.

Captive Outsourcing.

'Captive Outsourcing' is where the outsourcing company is one within the same group of companies. Perhaps the biggest is GECIS or General Electric Capital International Services. Formed in 1997, its revenue grew from \$26m in 1999 to over \$500m in 2005 and it employs 23,000 workers, mainly in India, but also in America, China and Hungary and Mexico. It sells services in accounting, insurance claim processing, supply chain and IT management and call centres, mainly to companies within GE, one of the world's largest companies. GE sold it in late 2004 because, as it is captive, other companies are reluctant to buy its services and it was seen as non-core to GE's technology base. There are many other companies which were once part of a larger company which have been hived off and eventually sold off as the world becomes even more specialised. Captive business process operations have been the most common vehicles for moving work offshore, with banks like American Express, Citigroup, Standard Chartered and HSCB, all of which have Indian captive operations. But even these captive outsource subsidiaries are under threat because it is estimated that captive operations' costs are up to 30 percent higher than those of independent companies.

How Big is the Market?

It is very difficult to quantify the size of outsourcing, but that does not stop some from trying to do so. The view is that it is not as big as people think but that it will grow. Forester, a US research firm, estimate that by 2015, 74,642 legal

The Losers from Offshoring have Names

Outsourcing and offshoring of work has been taking place for many years. It is a part of globalisation. It is accepted that overall, it does generate gains for an economy. But there are losers. *The losers have names, families and responsibilities.*

The winners do not have names - they are not yet known. But they are younger, more educated, and confident. The losers are generally more vulnerable than the winners - they are more often female, older, less skilled and less educated. Therefore, steps have to be taken by the state to redistribute the gains, to prepare for offshoring and to ensure that labour law is adequate to avoid exploitation and the displacement of Irish workers.

jobs, (yes 74,642 exactly and in nine years!) will be lost from the US to poorer countries and Europe will have 118,712 less computer professionals!⁵ IBM's Bruce Herreld estimate that outsourcing only accounts for \$1.4 trillion of the total of \$19 trillion spent by companies on sales, general and admin expenses.⁶

Around 16 percent of IT services is done remotely – i.e. away from where services are consumed, according to McKinsey.⁷ There is no doubt that the lower end of the IT market has been commodified where there are common standards. A large number of middle range services are becoming commodified as shared standards spread and this includes basic accounting functions. IDC surveyed 500 European firms and found that only 11 percent were sourcing IT from low wage countries and that 80 percent would not even consider doing it, with hard attitudes to outsourcing in Italy, followed by Germany and France. The *Economist*, which favours the Anglo-American form of capitalism and is hostile to the European social model, cites Forrester and IDC, asserting that social

⁵ *Economist* "A Survey of Outsourcing," 13th November 2004.

⁶ *Ibid.*

⁷ *Ibid.*

legislation in Europe makes it more difficult to offshore and so US and UK, with more flexible hire and fire laws, will steal ahead and edge out old Europe by developing stronger links with India and low wage economies. It concludes that "European financial firms could be so badly damaged by this loss of competitiveness that they may fall into the arms of fitter American and British rivals!"⁸

A Mr. McCarthy of Forester forecasts that 3.4 million white collar jobs in the US will be offshored by 2015, while a Mr. Parker estimates that 1.2 million IT and service jobs will be outsourced from 16 European countries over that period.⁹ With the annual turnover in jobs or the

Women are harder hit by Outsourcing

Women are more vulnerable than men to the threat of outsourcing. This is because women tend to have more atypical and often lower paid jobs. This makes them particularly vulnerable when a company decides to sub-contract out work. Those who are part time and not well paid are too often the ones who find their jobs have been outsourced.

"churn in employment", this is not significant for either the US or those European countries. Over 7.7 million jobs are destroyed in the US each year and this is only equivalent to 55,000 a year lost to offshoring in the white collar sector.

The Threat from China

There is a great fear of China in the US and to a lesser extent in Europe. It is similar to the fear of Japan that gripped America in the late 1980s, especially when a great number of Americans bought Japanese cars. It got hysterical when Japanese companies bought up real estate including the Rockefeller Centre in New York and a number of major Hollywood studios. The fervour was unfounded as Japan was shortly after to enter a recession for much of the 1990s and it is only now recovering, sixteen years later. The Japanese economy has needed structural reform for many years but Japanese politicians shy away from reform, such as letting some big banks go bust. Nonetheless, Japanese manufacturers are just as

good as ever in cars and consumer electronics, in spite of the negative growth of the Japanese economy in 1998, 1999 and again in 2002. The threat, unspecified, never materialised.

China is potentially far bigger than the Japanese economy and it has two other differences which make its potential impact greater than Japan ever was. First, it is more open to trade and investment than Japan was and, secondly, it has a vast supply, almost unlimited, of cheap labour (including slave labour). Yet it is likely that even with the massive size of China and its rapid growth rates, it will not pose a threat to the US or other Western countries. It will provide a vast stimulus to demand as the world's fastest growing market. As it grows, it will raise demand for imports. Already it is propping up the US dollar. Ironically, the Communist government could cause the dollar to plummet if it sold off its vast dollar holdings. Yet the cheap imports from China are causing prices for many consumer goods to fall.

In Ireland the price of clothing is now only 60 percent of what it was back in 1996, compared to an overall rise of 32 percent in consumer prices. This is partly due to imports from China. Of course, Ireland's clothing industry has virtually disappeared, but the jobs have been replaced by higher value added employment in pharmaceuticals, ITC, financial services etc. Major UK retailers have moved production from China to Eastern Europe and Turkey in response to demand in what is called "fast fashion". Next, Zara, Primark and New Look and others have not suffered with the downturn in UK retailing, partly because they have responded to the speed in fashion changes. Phillip Green, the UK retail billionaire said that China was best on price and good on quality, but it is too "far away" for what the market is demanding.¹⁰ AT Kearney a consultancy, found that a typical blouse cost stg.£6.50 to manufacture in China compared to £7 in Eastern Europe, £8 in Turkey and £10 in the UK.¹¹ But retailers believe that there can be a bigger cost in lost revenues if they are not selling what the market demands.

⁸ Ibid.

⁹ OECD, *Employment Outlook*, 2005, p. 33, Paris. McCarthy and Parker are both from Forester Research.

¹⁰ Financial Times XX August, 2005.

¹¹ Ibid.

Irish Ferries

The attempt by Irish Ferries to sack its Irish workers and replace them with vulnerable, low paid workers from other countries has been highlighted in the media as a particularly bad case of Offshoring and Outsourcing. Irish Ferries is a subsidiary of Irish Continental Group, a profitable, quoted company, originally a state-owned company. While the company is under some pressure from low-cost airlines for its passenger traffic, this is no way to respond to market pressures. The company is profitable, pays its executives huge remuneration and car ferries and passenger traffic makes up just over half its total revenue (but is, as yet, more profitable than freight).

It offered its employees so called 'voluntary' redundancy or the choice of working for less and under worse conditions than those built up by the unions over the years. It planned to hire foreign workers at low wages and poor conditions and it would circumvent Irish law by flying under flags of convenience. The profitable company enjoys low taxes including a refund of employers PRSI contributions.

Its employees on the Rosslare route, work at less than half the minimum wage in Ireland which is €7.65. This loophole in Irish law was achieved by flying under a flag of convenience. On the Rosslare route, a Ms Orge, a Filipino worker, was paid only €1.08 an hour, by an Irish Ferries' outsourced sub-contractor when the minimum wage was €7. She was working as a beautician on MV Isle of Inishmore. She had to work 12 hours a day and only had 3 days off a month, where other workers had one week on and one week off. She was recruited from an overseas agency, FCF Sharp Crew management, clearly a sharp operator. Her plight came to the attention of SIPTU who took up her case and organised that she was awarded €25,000 by the company in compensation for loss of her job, which was her preferred option. She returned to the Philippines where she hoped to set up a beauty salon. Despite being found out, Irish Ferries still decided later to outsource its own workers on the French route and then on the Dublin route.

Fortunately, tough negotiations, supported by massive public demonstrations in nine centres around Ireland, resulted in a reasonable settlement of the dispute. The minimum wage is to be paid, unions recognised and the ships officers will retain their jobs on prevailing conditions and pay. This is not the only case of the 'displacement' of Irish workers by lower cost, insecure foreign workers, as it is also occurring in the building industry, catering and other sectors.

The huge December 9 demonstrations – with up to 100,000 marching in Dublin and some 60,000 in other centres nationwide - demonstrated the widespread and strong concern on the issue of outsourcing in Ireland.

In many ways, China's growth poses a bigger threat to other emerging countries than to developed Western ones because they find it difficult to compete with it. More importantly, its soaring demand for commodities, such as iron and steel for its industries, its demand for oil and its massive pollution of the world's environment will pose perhaps more serious problems than outsourcing ever does. Outsourcing of lower skilled jobs therefore may be a minor problem, compared to China's contribution to global warming and its impact on oil prices.

There is some comfort in 'fast fashion' needing to be nearer the market and the fact that price is not everything. Ireland has strong state interventionist policies in supporting the private sector, a proven ability to pick winning industrial sectors, investment in education, in re-training and positive attitudes which means that Ireland can continue to gain. And in the long-run, we can gain from the growth of China. The road will, however, be paved with many obstacles, including job losses especially of lower skilled jobs. With planning, these obstacles can be overcome.

Outsourcing in Ireland

There is an increasing number of firms specialising in outsourcing functions. This is not new. There has long been the growth of cleaning, catering and security specialist firms. Many of these are unionised and all are now also protected by the minimum wage and by changes in labour laws which Congress has won over time. Other sectors, especially the Information and Computer Technology (ICT) sector have seen an explosive growth in specialist outsourcing firms providing new job opportunities (with also the offshoring of skilled white collar jobs, particularly to India). For those who have provided security, catering or whatever function in firms which decided to outsource the function to a specialist firm, there is a loss of livelihood. Sometimes the person may not be unhappy to leave if they are compensated well for the loss of employment, but for others it can be a personal tragedy. However, there is a major churn in employment and while the rhetoric on the demise of life-time employment is overstated, younger people are more accepting of rapid employment change than older persons. It is

the older and longer-term employees who are most adversely impacted by offshoring, as will be seen.

The state is the major purchaser of outsourced services. While the Irish public service is the largest employer in the state (as it is in every country, though in Ireland it is small, being proportionately the same size as that of the US), it buys vast amounts of goods and services from the private sector. Huge areas of the private sector are almost wholly dependent on the public sector for their revenue. There is a strong interdependence between the two.

The size of public procurement by the state in Ireland must not be underestimated. In 2005, the state spent €42,779 million in total. Much of this went on wages and salaries to public servants, but it also bought in vast amounts of services from the private sector. The Dept. of Environment and local government spent €1,680 million on day-to-day spending in 2005 and a high proportion of it was on buying-in services. The Irish state also spent €6,397 million on capital expenditure/investment this year - on roads, rail, housing, hospital and school buildings etc. built by the private sector, including notorious employers like Gama Construction. The power of the state to set rules and regulations on how this money is spent is very considerable, within Ireland. This is an area of some interest to the trade union movement. Taxes, mainly paid by employees, must be spent carefully in the best public interest.

It will be seen that in the US, Congress has been very concerned with offshoring of US jobs and has sought to impose some limits on it. Yet it is large US corporations which are most keen to exploit outsourcing for their own advantage and have even sought to enter the public services area in other countries. Indeed, many of them are already providing services once provided only by the public service in the UK and in other countries. These firms see themselves as major beneficiaries of EU's Service Directive. They are big lobbyists behind the scenes in Brussels and in the EU's 25 capital cities. The trade union movement is deeply concerned that the EU's Services Directive could exacerbate the shift to offshoring of such jobs. It is hoped that "services of common interest," such as hospitals, infrastructure and most public services, will be exempt from the

Commission's move to open up services within the Union.

"Onshore offshoring," where workers from low cost economies work for far less than the prevailing wage in the host country, must not be tolerated. The former Irish Minister for Finance, EU Commissioner Charlie McCreevy, has strongly supported social partnership and collective agreements in Europe, but at the same time, he has thrown his support behind companies from low wage member states which operate in higher wage or higher cost economies but which circumvent the wages agreed nationally or sectorally in the higher wage country. If the Services Directive, which he is in charge of, is implemented in a way which allows companies, established in low wage states, to pay those employees which they employ in a higher wage state, and not at the same rate as those prevailing in the higher wage economy, then the all workers are at risk. So too are many employers based in the higher wage economy who will not be able to compete with those from low wage economies. And so too is the European project, which will be opposed by growing numbers of workers.¹²

The evolution of the Irish labour market over the past ten years has been constructed on two pillars, light-touch regulation and minimal enforcement capacity. An example of the thinking informing this policy, which is relevant to the case of Irish Ferries, was the refusal of the Irish government to support the draft EU Directive on Seafarers Rights in 1999. Had that Directive been passed, the Irish Ferries case would not have emerged. Nor was the regulatory regime capable of dealing with the GAMA debacle when it emerged.

When the decision was taken to open our labour market to the ten new accession countries of the

¹² Interview with Commissioner McCreevy, This Week, RTE, 6th November 2005. Also comments made by Mr McCreevy in Stockholm, Sweden on 5th October on the Vaxholm case. The Swedish Minister for Industry and Trade, Mr Thomas Ostros, wrote a strongly worded letter to Mr McCreevy the following day. He said that Sweden welcomes all companies but "we demand competition on equal terms." He said that "I found it remarkable that you, with such a clear voice, stated that the Commission is going to intervene against Sweden in the ongoing court proceedings concerning a foreign construction company." He said that preserving the Swedish model of industrial relations "was a prerequisite when we joined the EU in 1995 and where we got assurances that it did not constitute any problem." Mr Ostros said that he hoped Mr McCreevy's views were personal and not the view of the Commission but that if the Commission stands against Sweden on this issue then it is "truly unacceptable."

EU, Ireland, Sweden and the UK were the only countries not to avail of the seven year phasing in period for labour mobility. In effect this meant that a labour market of two million people is open to one of potentially two hundred million. Congress was not consulted about this decision. The government acted at the behest of business and the decision was predicated on everyone behaving themselves. This did not happen. Thus stronger labour laws are now required and enforcement, such as it exists, must be greatly stepped up.

The European Union should set clear guidelines or rules for any outsourcing of jobs within the Union after the Directive is implemented, following its amendment. Furthermore, the European Union could set the rules for European companies to adhere to in their foreign direct investment in China and other emerging countries, similar to the OECD guidelines for governance for Multinationals. Of course, the US would not set such social rules under the present Administration. However, the US may change in the longer term, under a more enlightened regime, when international corporate governance receives the attention it properly deserves. Of course, international corporate governance does set new rules and regulations, it can ensure the playing field is more level and it can impose the rule of law on those corporations who prefer to operate without international laws. Markets do not operate well – or at all - without the rule of law. Even the main ideologues of the far-right, Milton Friedman and ‘philosopher’ Francis Fukuyama, the latter who prematurely proposed the ‘End of History’ with the triumph of capitalism and the end of ideology with the collapse of the Berlin Wall, have dramatically changed their views. Both admitted that the rule of law and the role of the state are very important and much more than their conservative ideology was.¹³

Outsourcing to Ireland

While this paper began by pointing out that Ireland gained many industrial jobs in the 1960s that were outsourced from the UK, Europe and the US to our lower cost economy, it is not generally realised that outsourcing to Ireland is continuing, while jobs are also being outsourced from here to lower cost countries. Even with the decline of manufacturing, new plants are still setting up in

Ireland, even though our labour costs (and very many other costs too) are now on a par with many countries in Europe. This is because our overall competitiveness is higher, due to higher productivity, high embedded knowledge and the many other factors which underlie competitiveness. Further, many jobs are being outsourced to Ireland in the higher end services sector too.

The IDA’s 2004 Annual Report cites the “highlights of the year included Intel’s announcement of its new Fab 24-2 investment, Guidant’s 1,000 person expansion in Clonmel, breakthrough R&D investments from Bell Labs, IBM and HP, biopharmaceutical investments from Centocor and Pfizer, major European business services centres from Merrill Lynch, Kelloggs, Business Objects and McAfee and upgrading and expansion in Dell’s Irish services operations.” Companies like Yahoo set up an Irish base to support its products & services across Europe. The facility includes a European data centre, a multilingual web service and a call centre.

It is of interest to note that IDA Ireland is reporting a number of new performance indicators or measures of success, in addition to those reported in the past. “These indicators are more qualitative and less focused on the single dimension of job numbers. In our view, they are more attuned to the nature of an advanced economy.” In the 1990s, Ireland’s share of world exports actually doubled, which is some achievement, especially as earnings were also rising substantially.¹⁴

A number of large financial services companies have major support operations in Ireland, employing highly skilled persons in managing the more technical aspects of their operations. The

¹³ Friedman admitted that he was wrong to call for the former Soviet states to “privatise, privatise, privatise” and that the rule of law was far more important and should have been the priority. “I was wrong. It turns out that the rule of laws is probably more basic than privatisation”. Fukuyama the toast of the Right and of Washington reversed his position totally and has admitted that “the idea of state building, as opposed to limiting or cutting back the state, should be at the top of our agenda”. Both quoted in “*The Collapse of Globalism*” by John Ralston Saul (2005) Atlantic Books, London. P 251.

¹⁴ Cassidy, Mark and Derry O’Brien, 2005, “*Export Performance and Competitiveness of the Irish Economy*,” Central Bank of Ireland, Quarterly, No 3. However, most of the growth was from the foreign owned sectors and it has slowed since 2000. The authors place a remarkable emphasis on labour costs as the key to competitiveness, like IBEC.

less technical ones will, in time, be moved offshore to India and China, but as long as Ireland stays ahead, especially in skills, it should continue to gain such jobs. They can lead to spin-off indigenous services too.

A number of trade unions have had positive experience of outsourcing to Ireland though some US firms oppose their employees joining trade unions, pleading that their parent company would object if they agreed to union recognition at local level. This is not a sustainable position. A number of companies which argued this initially, have agreed to union recognition later. If the parent chose Ireland to outsource to, then it must be aware that a contributing factor to the economic success is social partnership, that is, agreement between unions, employers and government on strategic issues and wages. Such progress cannot be maintained with a weak social partner. The IDA and government agencies, funded by taxpayers' euros, must inform foreign direct investors into to Ireland that, if they seek to benefit from our economy and our workers, they should play by all our rules and our social and economic mores.

Offshoring - More Jobs gained than lost

"Economic Theory," says the OECD, (the conservative think-tank with 30 rich country members, including Ireland), demonstrates that trade liberalisation (of which offshoring is a part) may "reduce the welfare of certain individuals as it improves productivity and incomes. In particular the real wages of certain workforce groups may fall." It continues, "the winners can afford to compensate the losers and still enjoy net gains". It admits - surprisingly for a free market think tank, that "in fact, however, a comprehensive compensation scheme is rarely if ever implemented". The drive to foster international integration must be expected to generate losers as well as winners. And even more explicitly for the OECD, it continues - "this raises the possibility that trade may have distributional effects that violate equity norms or create political opposition to trade liberalisation, even when it would increase aggregate income."¹⁵ It does, therefore, appear that the OECD may finally be appreciating that there are distributional effects of free market economics and that these have to be dealt by policy

interventions in the marketplace by the state. This is a step forward.

After an analysis of wage comparisons, the OECD paper goes on to state that "it may be natural to conclude that workers in high wage countries cannot compete successfully with workers in low wage countries." But data shows that employment in those countries which are most open to trade or where it has increased most rapidly, did not suffer and it demonstrates this in a chart that has Ireland topping the long list of countries for FDI relative to domestic production and it is second in another chart on trade flows. It is well known that earnings and wages have risen rapidly in Ireland in the Celtic Tiger era and this indicates that our open economy has not disadvantaged Ireland as a whole. A key issue is that those who are adversely effected must be compensated by the winners. This is done in many ways, including redistribution through taxation, investment in life-long learning, education etc, as outlined below.

The OECD examines outsourcing specifically and concludes that in the industries where there is the most offshoring, there are trade surpluses and more jobs created and it concludes that it leads to "more 'insourcing' of service jobs than are outsourced." It finds that the limited studies undertaken so far indicate that the offshoring of service jobs is quite modest - so far. Looking ahead to the future, it estimates that "15 to 20 percent of total employment in Australia, Canada, EU15 and the US correspond to services activities that potentially could be subject to international sourcing." It quotes an ILO study which used more stringent criteria than the other studies and it found that between 1 and 5 percent of service sector jobs were "contestable" by low wage countries, that is are seriously threatened by outsourcing. Thus a 3 percent outsourcing of service jobs would mean that 38,000 jobs are likely to be outsourced from here.

While the studies on the impact of offshoring of service jobs are in their infancy, there is a considerable bed of knowledge on the impact of offshoring of manufacturing jobs. It has been seen that economic theory demonstrates clearly that the economy gains from trade specialisation, but its

¹⁵ OECD, Employment Outlook, 2005,p 27/8, Paris.

spread is uneven and there are winners and losers. Some workers' earnings in manufacturing do rise as a result of this specialisation relative to others. One study has shown that skilled workers in the US have seen a 25 percent rise in relative wages compared to low skilled workers in these industries (in the US) and another in the UK found a 12 percent increase in relative earnings.¹⁶ This means that it is the low wage or unskilled jobs in tradable areas (i.e. areas which can be offshored) are most at risk. It has been seen that while the numbers of manual workers in the economy has fallen with the shift to services, the absolute numbers are up by 20 percent in the past twenty years. Manufacturing employment which peaked in 2001 at just over a quarter of a million, has declined to 20,00 in early 2005. Internationally, there is a trend decline in manufacturing numbers, which Ireland has largely bucked in recent years. Upskilling of the workers in these areas must be therefore a priority.

An Irish Central Bank study (Konings & Murphy, 2005) of 1,000 multinationals in the EU and CEEC, found that the threat to jobs from eastern Europe was low because the types of firms locating in Eastern Europe are different than those investing in Ireland and in the older EU member states. They found no evidence for moving jobs to low wage economies in Eastern Europe. The main threat is the familiar one, between Northern EU states. It is also known that most FDI in Eastern Europe is not greenfield operations as in Ireland, but are usually takeovers.

The incidence and cost of jobs displaced

It is extremely difficult to estimate the incidence and cost of jobs displaced by offshoring. Yet some studies and the OECD have attempted to do so. We generally do not know if a group of workers lose their jobs because of a) offshoring or b) for some other reason. On incidence, there are re-allocations of workers within industry all the time as demand changes and it is impossible to say if the job losses are due to jobs being offshored or lost to domestic or other competitors.

Worker turnover rates are even higher than job turnover rates. Various studies have shown that the gains outweigh the losses. In manufacturing in the US, a pioneering study¹⁷ showed that while the

was a decline of 1.1 percent in employment each year during 1973 -1988, there was a gross job destruction of over 10 percent, but a gross job creation of over 9 percent at the same time, on average. Thus the decline in jobs in US manufacturing was small compared to the churn or turnover in jobs.

On the issue of reduced costs, it is clear that the economy gains overall, but it is also accepted by most economists and policy makers that it is the displaced worker who bears the brunt of the change. They end up having longer periods of unemployment than average workers and the new job, if there is one, often pays less. The OECD, in a study of nine countries,¹⁸ found that

- a) even a year after the job loss, "substantial fractions of workers remain jobless;"
- b) "wages on the new jobs tend to average a little below prior wages, but,
- c) average wage losses rise significantly with tenure on the prior job in most countries" (i.e. the longer the prior job was held, the bigger the drop in wages in the next job); and, worse,
- d) "higher wage losses for older workers appear to be a universal pattern."

Further, an important point in designing policy responses is that the duration of unemployment and the loss of earnings differ greatly across displaced workers, even when individual characteristics are controlled (e.g. job tenure, age, education), with a significant minority experiencing long periods of unemployment or a very large loss of earnings "while others appear to fare very well."

The OECD says that correct estimates of the cost of offshoring should not alone include the loss of earnings borne by displaced workers with periods of unemployment, but also their lower earnings in subsequent employment, when it occurs, as it does, for those who held jobs for a long time, or are older, or are less skilled. This is an important point.

¹⁶ Feenstra and Hanson (2003) quoted in OECD Employment Outlook 2005a.

¹⁷ Davis, S., J Haliwaner and S. Schuh (1996), *Job Creation and Destruction*, MIT Press, Cambridge, Mass.

¹⁸ OECD *ibid*, page 36/7, based on PJ Kuhn, *Losing Work, Moving On*, 2002.

US Protectionism Tries to Block Outsourcing

The US government and the US establishment, its press corporations and many, though not all, US economists, are the main advocates of 'free markets' worldwide. However, many are, of course, not slow to *interfere* in 'free' markets when it suits them. The US has heavy protection of its civil aviation sector, its agriculture and it grants massive subsidies to private firms through the military-industrial complex. Its Chapter 11 is a form of market intervention (usually used to 'protect' firms from legitimate claims by trade union members) for ailing US companies.

Perhaps the biggest subsidy to one firm *not* to shift jobs from one region to another was a massive \$3.2bn paid by the state of Washington to Boeing, not to move production of its 787 aircraft from its Seattle base, in recent times. This kind of state aid, a clear and blatant subsidy of enormous size, would be illegal in the European Union. The Boeing Company, one of the biggest US corporations, also gets hundreds of millions in other subsidies directly and indirectly from the Federal government, especially in military contracts. Further, as will be seen, it extracts huge subsidies from foreign governments too! Airbus, its European competitor, also gets state aids, which are explicitly allowed under specific EU rules. These rules are, albeit, probably more generous for Airbus, which is an *European Champion* than are allowed under its strict but *flexible* rules for other companies, state owned and private. However, from the perspective of outsourcing, it is estimated that Boeing will still source up to half of its components for the 787 aircraft from outside the US, including 35 percent from three Japanese contractors. But there is a sting in the tail!

Boeing is getting subsidies from the Japanese for these outsourced contracts. The state subsidy paid to Boeing by Washington state is dwarfed by the "massive infusion of funds by the Japanese government into Fuji Heavy Industries, Mitsubishi Heavy Industries and Kawasaki Heavy Industries, to enable them to meet the price point Boeing set for the wing assemblies these companies build."¹⁹

¹⁹ Financial Times, Barry Lynn, "The trade row over aircraft is missing the point", author of *End of the Line: The Rise and Coming Fall of the Global Corporation*, 13, June 2005.

Work - Changing for the Better

In recent times routine manual jobs have been increasingly eliminated. Tedious, repetitive jobs in mining, farming and in many factories have also been replaced by robots/machines. Networked computers are replacing simpler service jobs, but are being replaced by more sophisticated work in teaching, management, engineering, law and medicine etc. with some of the routine jobs being offshored. Some companies give employees more control over their own working environment and management has had to change from "command and control" to "coordinate and cultivate."

A 100 years ago 80 percent of the workforce was involved in the production of food. Today just a few percent of the workforce feeds all others. The productivity of agriculture has been astounding and would be even higher, had it not been subsidised by the rich governments in the EU, US and Japan. A hundred years ago, it took one American farmer to produce food for 2.5 people, whereas today, because of engineering, plant breeding and chemicals, one farmer can now feed over 130 people. In 1961, there were 379,000 or 36 percent of the workforce in Irish agriculture whereas only 113,000 or less than 6 per cent of the workforce, are now in agriculture and they produce far more output.

While the numbers of manual workers in the economy has grown by 20 percent in the twenty years to 2002, to a total of 485,000 (skilled and unskilled in all occupations), the proportion of these workers in the workforce has fallen. There has also been a massive shift from manual work to less onerous work and to clerical and knowledge working. Much manual working is now automated and where it continues, it is eased by machinery. This long time trend has come close to reducing most of the very hard manual work to a fraction of what it once was, and while much tedious work remains, it too is reducing.

Thirty four years ago, in 1971, 39 percent of people at work were in services in Ireland. Today the figure is 67 percent, or 1,294,000 and growing. There are 537,00 in industry, of which 220,000, are in manufacturing.

"Boeing was able to force offshore suppliers and their state backers (governments) to cover 45 percent of the total development cost of the 787. The take (in subsidies) from domestic sources was nearly as great."²⁰ Boeing, once the world's leading manufacturer, transformed itself in the 1990s when it closed its plants, fired workers, outsourced and became "a systems integrator." On the other side of the Atlantic, Airbus will source up to 45 percent of its A380 from US contractors.²¹

This illustrates the high level of hypocrisy emanating from the Free-Marketeers in the US and to a lesser extent in European capitals on the issues of state aid and of subsidies. It also illustrates that governments in the offshoring countries can, do and will subsidise indigenous firms in order to get offshored work. Thus there can be a level of state subsidy from poorer countries to the more developed in order to suck in work. Therefore, there is a proportion of work offshored which is not driven purely by free-market principles of lower labour costs, but it includes subsidised labour and other subsidised costs. "Boeing has secretly transferred much of the risk of producing commercial airliners to a motley collection of states."²² Far from free market principles, just like Walmart and Dell, Boeing and some other producers which are dominant in their markets, are extracting part of their profits from their suppliers. These sub-supply companies, in turn, wrangle subsidies and aids from their governments, but some go bust because of the abuse of dominance by the big players. Globalisation and outsourcing are driving a new brutalist form of capitalism, where competition is far from fair and where sub-suppliers are being partly cannibalised by dominant companies.

Free trade is very good for economies, argues Clyde Prestowitz, but he points out that it is seldom free.²⁴ Thus free markets do not operate in the way in which many economists appear to believe. He points out that many countries offer capital grants (Ireland), tax incentives (Ireland) and provide infrastructure to attract vital plants from "strategic industries" to their countries (Ireland). He points out that governments spend billions propping up sunset industries, propping up foreign exchange (for example, Japan spent \$300 billion to prop up the yen against the dollar in the

"Congress and the American people don't want any servicemen killed overseas, so it makes sense that if contractors want to risk their lives, they get the job."

- Myles Flechette, former US Ambassador to Columbia.²³ The US-led invasion of Iraq has provided great opportunities for outsourcing activities previously undertaken by the US military, for many firms connected to the White House.

previous year). He was criticising George Bush's main economic advisor, Greg Mankiw, who said that outsourcing is good for the US economy (during the election campaign), not for saying that it was, but because many politicians engage in protectionism. A strong free-market proponent, Prestowitz is unusual in admitting that most markets are seldom free.

In May 2004, the US Senate approved a bill that forbids the outsourcing of government contracts. Even Republican politicians of the far right - and there are many now in the US - baulk at the immediate impact of outsourcing of jobs from the US. The rhetoric of 'free markets' often shallow and self-seeking in the US, quickly gives way to crass and old-fashioned Protectionism, when it suits.

In response to the US Congress, the Government Accountability Office undertook a study under the Comptroller General's authority to help policy makers to better understand offshoring of services. The study found that most economists believed that offshoring will benefit US living standards in the long run. Some economists argued that under certain scenarios - e.g. where offshoring could undermine technological leadership - offshoring could harm living standards. It was found that while most economists believed that employment will not be very much affected, it was agreed that

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ Miami Herald, 22 May 2001.

²⁴ Financial Times, 26 April 2004, "Free trade and outsourcing are not the same". Presowitz is director of the Economic Strategy Institute (<http://www.econstrat.org/index.html>) and the author of "Rogue Nations: American Unilateralism and the Failure of Good Intentions".

some pockets of workers will lose jobs due to offshoring. Some economists argued that it will lead to increased income inequality in the US. Some others disagreed with this viewpoint. There was concern about the impact of services' offshoring on the security of US defence and critical infrastructure – utilities and communications networks - and on privacy and security of consumers' financial and medical information .

Another US study of offshoring by George Bush's former economic advisor Gregory Mankiw and Phillip L. Swagel and published by the conservative American Enterprise Institute is, as the authors put it, "a report from inside the eye of a storm", kicked off by Mankiw's remark that outsourcing is good for America. Mankiw sticks to his previous assessment. Interestingly, however, he and his co-author admit that Outsourcing will create winners and losers, and the pain of dislocation will be real for workers and their families.

The authors also admit that there is a lot we still do not know about outsourcing. Nevertheless, they do suggest the following conclusions:

- So far, the extent of outsourcing to date and in the foreseeable future is and will be modest relative to any meaningful labor market indicator.
- As technology develops and global economic integration deepens, more jobs and people will be affected by actual or potential offshore outsourcing. This could affect employment relationships and alter incentives for human capital accumulation. Further development of theoretical models will help foster better understanding of the associated welfare impacts.
- Outsourcing appears to be connected to increased U.S. employment and investment rather than to overall job loss. Some U.S. jobs are certainly lost to other countries. On the whole, however, firms involved with offshore outsourcing are not shifting net jobs overseas but instead are creating jobs both in the United States and in other countries.

Outsourcing will create winners and losers, and the pain of dislocation will be real for workers and their families. Taken together, however, these conclusions suggest that offshore outsourcing is likely to be beneficial for the United States as a

Everyone's a winner

Benefit per \$1 of US spending sent offshore, 2002 est

United States

Savings accruing to US investors/customers	0.58
Imports of US goods and services by providers in India	0.05
Transfer of profits by US-based providers in India back to US	0.04
Net direct benefit retained in US	0.67
Value from US labour re-employed	0.45-0.47
Potential net benefit to US	1.12-1.14

India

Labour	0.10
Profits retained in India	0.10
Suppliers	0.09
Central government taxes	0.03
State government taxes	0.01
Net benefit to India	0.33

Source: McKinsey Global Institute

Source: Economist 11 December, 2003.

whole. This presents a challenge of how to best assist people affected by offshore outsourcing without retreating from international engagement.

Offshoring is Not always Good Business

Not all offshoring has been good for business. Several firms, (Dell, JP Morgan Chase) have moved the offshored jobs back to the mainland, for reasons of quality. Nike, which is one of the major outsourcers, and which manufactures little, was hard hit when many of its contract factories were correctly accused of exploiting labour, using child labour and harassing women workers. It took the company many years to overcome the charges. It now works with the Fair Labor Association to improve working conditions in its contractors factories and even went so far as to publish the list of all its sub-contractors on its website, with their addresses. It was in effect, calling for exposure and criticism of any abuses. A number of case histories show that outsourcing is not always good for individual businesses, including some big firms, even if the aggregate impact on a developed country is positive.

McKinsey and PWC Surveys

One third of managers in one survey²⁵ said outsourcing delivered less than expected or had been a complete failure. "White label funds" - funds managed by one financial firm but distributed by another under the brand name of the other - can first lead to cost reductions, but can lead to "disaster" in the absence of strong controls according to PCW.²⁶ McKinsey, another consultancy, warns senior executives to apply the same rigorous approach to outsourcing as to mergers and acquisitions and divestitures.²⁷ However, McKinsey did find that for every dollar a US firm spends on services from India, the US economy gains €1.14.

The table on the previous page sets out the purported gains from offshoring. It is from the Economist, a staunch advocate of offshoring and a free-marketeer, and it sets out the gains from offshoring, as estimated by McKinsey, a consultancy which works mainly with large corporations and governments. While the basic premise is accepted, it is dubious that the actual gains can be quantified to this degree and the table is clearly reliant on many assumptions.

The Prudential

The Prudential, the UK life company, warned against unfettered outsourcing of asset management to third party providers. It said that investors should focus on asset class selection rather than manager selection,²⁸ Citibank was hit by a high tech scam at one of its Indian call centres, where two former employees transferred \$426,00 from customers to their own accounts.²⁹ There has been a big reaction against the depersonalisation of banking, according to Mr Lascelles of Centre for CSFI (Centre for the Study of Financial Innovation) a think-tank financed by the Bank of England and big UK banks.

No-one is Safe

With outsourcing, even the large and secure employment in utilities like power and water plants are no longer secure. For example, United Utilities in the UK has two growing subsidiaries, Contract Solutions, which manages utility assets for other owners and Vertex, which outsources

customer services. Contract runs the gas distribution for National Grid Transco and water for Welsh Water and also for Scottish Water and Southern Water. Vertex provides outsourcing such as call centres and HR services for utilities and for local authorities.

When the NHS in the UK was ordered to outsource hospital cleaning to reduce costs, it was later found that hospitals were dirtier and it did not matter if the hospital was cleaned by contractors or in-house. Hospitals were still dirtier because of the over-arching need to bid low in order to win contracts in this labour intensive area (the pay is also low and low pay is used as a competitive tool by bidding companies) even when the hospitals were bidding for their own cleaning contracts. The drive for competitive tendering had reduced standards all over. The outsourcing had also greatly assisted in the spread of the hospital super bug, MRSA. The UK's National Audit Office said that 9 percent of hospital patients picked up an infection (like MRSA) during their stay and many die from such infections.³⁰

Outsourcing champions say that it is important to get the contract right and the rest will follow. But as the Financial Times argued³¹ "the problem is that contracts cannot take account of every eventuality. They are no replacement for a manager who can tell an employee: just do it. Anyone who doubts this should look at the UK governments new guidance for hospital cleaning contracts," Skapinker says.

In the past, companies used to like to deal with their own customers directly. It was once seen as "core business." That is no longer the case. For example, Capita, the biggest outsourcing company in the UK, runs many services including toll collection of London's congestion charge, Dixon's complaints, the BBC's programme complaints and

²⁵ Gallup/Proudfoot, FT 17th Nov 2004.

²⁶ PCW's Barry Benjamin, FT 15th August 2004.

²⁷ McKinsey Consultants, Craig and Wilmott.

²⁸ Financial Times, 14 March 2004.

²⁹ Business Week, 25 April 2005.

³⁰ Financial Times, 26th January, 2005, Michael Skapinker, "Outsourcing the essential is bad for your health," which also quoted UK government's "Revised Guidelines for Contracting for Cleaning."

³¹ Financial Times, 26th January, 2005, Michael Skapinker, "Outsourcing the essential is bad for your health".

even the collection of its licence fees. If such major companies have shifted the care of their hard-won customers to contract outsourcers, it is clear that they must be happy to lose their own direct contact with customers. Thus it appears that no matter how many consumers complain about the frustration and inhumanity of call centres, it may be the shape of things to come.

HBOS

Yet HBOS, one of the Europe's biggest banks, strongly holds that as the call centre is the main link between the bank and its customers, it is important that it works well. It has 6,000 support staff in lower cost regions of the UK, including the largest call centre in Northern Ireland. "The call centre operator is the voice of the company" HBOS said. Linda Jackson of Penna Meridan, a HR consultancy, warns companies about weakening their primary means of communicating with customers. "Organisations are keen to look at costs but they need to remember that customers are hard won". Lehman Bros, the investment bank, shifted some call centres back from Delhi to the US after customer complaints. In September 2005, British Prime Minister, Tony Blair, promised that an Indian technology company, HCL, would create 600 call centre jobs in Northern Ireland. HCL had just bought up another call centre firm in the North and has a joint venture there with BT, with 1,940 jobs in total, making it one of the largest private sector employers.

Call Centres

There are 800,000 people working in call centres in the UK, with only 6,000-8,000 in India, according to the UK Call Centre Association. 56,000 work in Scottish call centres, or 2.3 percent of the workforce. The sector added 10,000 new jobs in 2000-2003 and the number of call centres rose from 220 to 290 in the period, according to a study made in 2003.³² The research firm Datamonitor, says that the number of jobs in US call centres at 2.86 million in 2003 will rise, albeit slowly to 2.94m over five years. They face a bigger threat from voice recognition computers (poor consumers!) than off-shoring, Datamonitor estimates. Companies want to hang on to customers and attract new ones, it believes and so

quality is important. Clientlogic, a specialist outsourcing call centre firm in the US, expects to grow as it believes that American call centre workers have better communications skills with clients/customers than ones which are offshored.

A study by Contactable, a research firm, found Indian call centres provide inferior services compared to those in the UK. While labour costs are one-ninth those of the UK costs, UK staff answer 25 percent more calls in a hour on average and resolve 17 percent of those calls first time round. It surveyed 290 UK and 44 contact centres and generally found UK centres better in many ways. The study³³ was undertaken for the Department of Trade and Industry.

JP Morgan Chase

JP Morgan Chase scrapped its huge \$5bn information technology outsourcing contract with IBM after concluding that the operations would be better handled in-house in September 2004. The bank's decision to reverse the largest ever financial services outsourcing meant more than 4,000 IBM staff around the world would be transferred back to the JP Morgan payroll. The company took over Bank One and its chief executive, Jamie Dimon, became chief operating officer of the combined group. He and his chief information officer, Austin Adams, have been prominent opponents of the trend for banks to outsource technology. In 2002, they ended Bank One's large outsourcing contracts with IBM and AT&T, arguing that technology is of such strategic importance for banks that they should keep full control, in-house. "We believe managing our own technology infrastructure is best for the long-term growth and success of our company as well as our shareholders. Our new capabilities will give us competitive advantages, accelerate innovation, and enable us to become more streamlined and efficient," Mr Adams said.³⁴

The US Senate

The US Senate and Congress passed *draft* legislation preventing companies with Federal contracts from offshoring such work, in 2004. In the US, financial firms have felt it wise to warn

³² Financial Times, 3 December. 2003.

³³ Financial Times, Report deals blow to India call centres, 12 January, 2004.

³⁴ Financial Times, 15th Sept. 2004.

investors that they were offshoring and to file information with the regulator, the SEC (e.g. GE which insists that a job offshored is not a job lost to the US).

There is some comfort in the knowledge that it is not easy to offshore jobs and it may not be cost effective for firms to do so. A study by Konings (2003)³⁵ found that while wage rates in Eastern Europe are around five times lower than in high wage economies like Belgium (or Ireland), labour productivity is typically five times lower there, suggesting that there is no labour cost advantage to moving jobs offshore. However, this is in the short run and over time, unless developed, higher-cost countries continually move up the value chain, many functions will be offshored.

One of the dangers of outsourcing is that too many companies begin to do it because everyone else appears to be doing it, according to some experts. It has been seen that there are many dangers in offshoring for business, especially financial services and banking. Yet with the standardisation of many functions and the increased versatility of computer technology, the vast banks of unused broadband around the world, which is the legacy of the telecoms bubble, it would be unwise to take too much comfort from the tales of woe of outsourcing of some firms. It is clear that the lower end functions will continue to be offshored and that lower end jobs are rising all the time.

The Rules for Successful Outsourcing

As the representative of many people who lose with outsourcing, it is not the role of the Irish Congress of Trade Unions to outline how companies should outsource successfully. However, if union officials understand how outsourcing works and how it does not work, they can be better negotiators on behalf of their members and also assist companies in recognising where the 'panacea' as some in the media perceive outsourcing, may not work.³⁶ A little comfort can be taken by trade unionists and those worried about outsourcing, in the short run, from the examples above. Successful outsourcing requires the following:

- The Companies which outsource must seek to

gain more than simply cost reduction.

- They should have a service level agreement (SLA) which specifies everything from how long it takes to answer a letter, how many complaints are dealt with in one hour, etc. to ways to measure customer satisfaction with the outsourced service. The SLA is very difficult and negotiating it is long and difficult. It is the yardstick by which contractors are to be paid. It can make dealing with even the toughest union official relatively easy for many companies!
- Companies must manage the outsourced service with the provider, and at several levels.
- They must not micro-manage the provider.
- Confidentiality and data protection can be a big issue in many cases.
- Intellectual Property Rights are also important. Who owns them, especially as the agreement is further developed over time, can become a point of dispute.
- HR issues can loom large, just when the parent thought that by sacking and outsourcing, they had made their managers' lives easy and the SLA may have to cover the qualifications and the training of the services providers. It must also cover background and security checks on key managers, especially on countries where corruption may be common.
- Companies should be very aware that there may be a clash of corporate cultures.
- There may be a need to post an individual or team in the outsourcer's facility for some months initially to ensure delivery of quality and that the outsourcer's approach fits in with that of the company's.
- Termination clauses may be very important too! There are often lock-in periods - usually of 2

³⁵ Konings, J 2003, Are Wage Cost Differentials Driving Delocalisation? LICOS, University of Leuven, Belgium.

³⁶ For example, Ferghal O Connor in Business and Finance makes the following statement in an article on Aer Lingus (14 July, 2005). "When Willie Walsh (the former CEO) lowered the airlines fares, he did that on the understanding that he would achieve outsourcing in catering, cleaning, baggage handling and cargo. None of that has been achieved and some close to the airline believe that this should have happened before fares were lowered". While costs may require reduction, O'Connor (and many other commentators) appear to take as a given that outsourcing is the only way to achieve such cost reductions.

years. (The school meals contract in the UK is for 20 years).

A study by Gartner, an IT specialist, found that over half of companies re-negotiated the relations with the outsourcer during the contract.

Outsourcing will Continue

Just like trade, outsourcing is not new and it will continue to grow. The outsourcing of white collar jobs to India has suffered a little from a backlash in the UK and US, but it will still continue to grow for three reasons. First, the cost-savings are very large and can be translated into lower prices for consumers. McKinsey estimates that of every \$1 that is offshored, the company gains 58 cent in net cost reductions. In short, if they are correct, competitor companies will find it hard to compete with such cost savings. There are many graduates and skilled persons in India who can take up the work, especially in software development, customer support, IT systems integration, etc. Secondly, India is only beginning to be used by offshoring companies and it has great growth potential. Many US software companies have not started to outsource yet. Forrester found that in 2003 as many as 60 percent of Fortune 1,000 companies had not yet considered offshoring.³⁷

Thirdly, India's service sector productivity is rapidly rising. It is assisted by low wages and the flexibility of a young and almost non-unionised workforce in India where workers have to do what they are told without question. They have to work long, long hours without complaint or be sacked and replaced. With the dramatic reduction in communications costs (e.g. the cost of a phone call from India to the US fell by 80 percent between 2001 and 2004), the growth of the internet, etc. it is increasingly easier and cheaper to do business remotely.

Other studies³⁸ of outsourcing found "the efficiency gains can be enormous" and large US firms are gaining bigger than expected cost savings from offshoring white collar jobs and they plan to locate more operations offshore.

Most manufacturing still takes place close to where the goods are consumed, and 87 percent of foreign direct investment is made in search of local markets. While products and brands are now

global, production has not yet become so. However with the reduction in the cost of bandwidth, in transport costs, improvement in communications, the growth of the rule of law in China and Russia, manufacturing is shifting rapidly to low cost countries and white collar jobs will follow. Outsourcing will reduce costs as it has done over the years, but it will also create new markets in China, India and in countries we have hardly ever heard of, as they get richer, assisted with new outsourced jobs.

International Governance

There is a clear case for more concerted action between governments and by international agencies on the issue of international standards. A serious problem is that the economists in many of the international bodies - the IMF, World Bank and WTO - are strong believers in 'free markets'. They seem to be unaware that they are advocates of policies which benefit the major economic powers especially where they contravene the so-called 'free markets'.

Thus their world view is clouded in economic neo-liberal orthodoxy. They are not open to alternative views and rely on an economic model which is elegant, logical and works well in theory but it is based on markets working efficiently. The promotion of their theory has not worked well in practice, but they can easily find good reasons to justify why they were not implemented properly etc.³⁹ While it is the politicians who ultimately decide the policies to be implemented, they usually follow the advice of the experts in these bodies.

The trade unions attempt to influence one of the world economic bodies, the OECD, though an advisory body, TUAC. In regard to globalisation and structural adjustment, TUAC had called on Ministers to develop a range of government policy responses to the employment impact of offshoring by reinforcing core worker rights, strengthening the OECD Guidelines on multinationals, guaranteeing transparent corporate governance and developing best practice adjustment assistance. Their

³⁷ Economist, 1 December 2003, Relocating the Back Office.

³⁸ Duke and Conference Board of US, FT 26 Jan 2005.

³⁹ See Joe Stiglitz, Nobel Prize winning economist, advisor to President Clinton, former World Bank Chief Economist on this and especially his trenchant criticism of the IMF in "The Roaring Nineties" Penguin, 2003 and in Globalisation and its Discontents" Penguin/ Allen Lane, 2002.

conclusions state “that policies must be put in place to ensure that it (globalisation) benefits all” and it lists the components of structural adjustment as covering – a macroeconomic framework, social safety nets, regulation, open trade and investment, human resource development, active labour market policies, lifelong learning and innovation policies. TUAC focuses on national reactions to “externally driven” globalisation rather than attempting to shape globalisation, including its social dimension, through more international rules.

OECD's Views on Offshoring

The OECD, the Paris based think-tank of the world's richest countries, plays down the number of potential job losses from offshoring. While it admits to “significant uncertainty” on information on the issue it states that “international outsourcing will accelerate in most OECD countries in coming years.”⁴⁰ It believes that the number of jobs lost, “is however likely to be modest”. It argues that from the limited available information, service offshoring and its employment impacts are limited. It compares the jobs churn (or turnover) in the US to the expected number of service jobs offshored. In the US, 7 million jobs are, in its word, “destroyed,” each quarter of each year (the average over the past ten years) in the normal functioning of the economy. This compares to a quarterly job loss of only 55,000 expected jobs offshored, based on what it calls the oft-quoted estimate of 3.3 million white-collar jobs moving overseas by 2015.

OECD estimates that the UK is moving at the same pace but France and Germany are moving slower in the number of jobs offshored. This means that Ireland, as one of the world's most open economies, should expect a higher number of jobs offshored than the relatively closed US economy.

In Ireland it is estimated that labour force attrition is around 37,000 jobs a year according to a study by FAS/ESRI.⁴¹ This is where people die, emigrate or leave the labour force. It is not the same as the termination of jobs, or the jobs destroyed, a figure which is not known, but it is the closest figure we have. Another figure is the numbers who change jobs every year and it is considerably larger. The

FAS/ESRI study was concerned mainly with finding enough people to fill the job vacancies. The gross labour force inflow between 1997 and 2005 was estimated to be 621,000 compared to a gross attrition of 293,000 or the average of 37,000 a year. It is worth noting that the study found that the largest inflow of new jobs would be for professional workers, followed by clerical personnel. The wider professional and assistant professionals, together with sales and personal services workers, made up about half of the 621,00 additional workers which were needed in the period. This is of some comfort for those higher skilled workers, but for the vulnerable workers who are threatened by offshoring, who are mainly unskilled, it is cold comfort.

OECD holds that while there will be jobs “displaced,” the net impact on jobs and real wages “may even be positive, even in the short run”. It says evidence from “large financial firms in the US indicates that a majority of workers affected by international sourcing are repositioned within the firm.” It also asserts that “jobs are moving in both directions,” with firms based in developing countries investing in OECD countries. In spite of the growth in offshore services, it says the exposed services sectors have continued to grow in employment in most OECD countries. Finally, it argues that there is significant sourcing of services which takes place within the OECD area and so some OECD countries see a net inflow of service jobs.

The incidence of jobs displaced by trade, by offshoring, cannot be measured with any accuracy with current data and it is difficult to differentiate whether jobs are lost from natural churn or from trade or from offshoring. However, in the US, it can be concluded that:

- a) the jobs losses which can be identified with trade competition are a small share of the total job displacement, according to the OECD;⁴²
- b) trade competition could play a significant role in a much higher share of job lay-offs;
- c) a large number of workers are displaced every

⁴⁰ OECD, 2005, Trade and Structural Adjustment. Box 3. Paris.

⁴¹ Sexton et al, FAS ERSI, 2001 p28.

⁴² OECD, *Employment Outlook*, 2005, “Trade-Adjustment Costs on OECD Labour Markets: A Mountain or Molehill?” Paris.

year - with 5 percent being a reasonable estimate for the US; where,

- d) this represents a little more than one-third of total job destruction; suggesting,
- f) the high rate of voluntary labour mobility allows nearly two-thirds of all employment reductions to be achieved via voluntary attrition.

The OECD admits that "these magnitudes are subject to considerable uncertainty and differ for other OECD countries". Its point is that while there are many jobs lost due to trade and probably to offshoring, it is not significant in the normal churn of jobs in an economy and many people voluntarily (to varying degrees) change jobs annually. The OECD quotes a study⁴³ of its own of 14 European countries, which included Ireland, where the average annual job displacement rates at 2.8 percent are higher than an estimate for the US of 2.2 percent (and 2.8 percent would give 53,000 jobs 'displaced' in Ireland). In conclusion, the OECD's view of offshoring, on which it has done some studies, is that its effect is quite limited compared to the normal churn of jobs in the economy and even more so compared to the numbers of persons who change jobs each year in an economy. Its view of outsourcing is positive for developed and for many developing economies. It does, however, also recognise that there are losers.

The TUAC response to Offshoring

The Trade Union Advisory Committee to the OECD (TUAC), to which Congress is affiliated, argues that more effective international rules are needed to shape globalisation and ensure social progress. Governments must guarantee core workers' rights on a global basis and encourage agreements between trade unions and business. Corporations based in G8 countries are the drivers of globalisation. A specific focus is needed to stop the proliferation of labour rights abuses in export processing zones and to address the repression of workers' rights in China, given its role as a magnet for foreign investment. G8 governments must

⁴³ OECD secretariat study, based on data from the European Community Household Panel (ECHP) for 14 countries.

⁴⁴ This box has been largely based on a Special Issue of Transfer, the ETUI Quarterly, on Flexicurity: "Flexicurity: Conceptual issues and Political Implementation in Europe", Summer, 2004.

Flexicurity

Flexicurity, originating in Holland and developed in Denmark, brings a new balance between flexibility and job security for workers and for firms. It is an alternative to unbridled deregulation of labour markets and the dismantling of social security systems. With globalisation and greater competition a rising proportion of workers who are in non-standard employment such as part-time work temporary work and subcontracting. Flexicurity can contribute to the growing demand for labour markets, employment and work organisation which are more adaptable and flexible, on the one side, and also on the other, where there is a very strong demand from employees for security, especially for vulnerable groups of workers and for preserving, or even enhancing, the social cohesion of our societies.

While it is now known that the growth of atypical work is greatly exaggerated, with most employees being in permanent if not fully pensionable jobs, workers themselves have new needs and preferences. Many may prefer flexible jobs which allow them to adjust working life and working hours to their lifestyles and to childcare etc. Thus the needs of firms for more flexible working may be enabled by workers who wish such workstyles.

The flexibility-security nexus, is a major target of the European Employment Strategy, and a challenge to the European Social Model and the Lisbon agenda. Various models are considered in Denmark, Holland, Germany and Belgium, but the institutional and historic experiences of each country means that each has systems of Flexicurity which differ in many ways.

Some studies are pessimistic about the trade off between flexibility and security and one comprehensive study by Ozaki (1999) found "the flexibilisation of the labour market had led to a significant erosion of workers rights in fundamentally important areas which concern their employment and income security and the (relative) stability of their working and living conditions. Regarding the trade-offs arising from flexibility bargaining, there has not been an attempt to drastically change the present paradigms of economic and social policy." Thus a move towards Flexicurity in Ireland, which is an area which must be seriously explored, would have to comprehensively deal with these issues.⁴⁴

encourage dialogue and negotiations between trade unions and businesses, supported by targeted regional and industrial policies along with labour market policies to encourage employment in those sectors and communities affected by change.

The OECD Guidelines for Multinational Enterprises must be observed as a benchmark for good practice in managing change. They are highlighted in the UK Government's Africa Commission recommendations. However, a significant improvement needs to take place in government implementation of the Guidelines. A system of peer-group monitoring of National Contact Points responsible for the Guidelines should be introduced at the OECD to strengthen their effectiveness in dealing with cases. Trade unions and forward-looking employers are also negotiating these issues both at the national and international level, leading to the conclusion of global framework agreements. Appropriate use should be made of trade safeguards as set out in the WTO Agreement on Safeguards to allow this.

Such a 'whole of government' approach to the social responsibility of business also applies to the governance of corporations and the assurance of their integrity. The series of corporate scandals has not ended and so far national regulatory responses have come too little and too late. Corporate governance is a public good and should remain firmly in the hands of governments. Self-regulation and 'comply or explain' mechanisms are no substitutes for real public enforcement systems.

What is to be Done?

Congress recognises that globalisation and outsourcing have been around for a long time and that Ireland and Irish workers have benefited from offshoring of work in the past and continue to do so. However, the threat by firms to offshore work unless they get harsh changes in work practices and remuneration is increasing. Firms do offshore, but this should not be a tool used by firms to lead to the downgrading of pay and working conditions in base countries nor to the systemic exploitation of workers in poorer countries.

The best way to manage the jobs which are offshored is to ensure that there are alternative

jobs for those who lose out, preferably within the same employment with re-training provided in advance of the expected job losses. It is best if they are re-trained in advance, when it is clear that the jobs/functions are threatened by offshoring. Simultaneously, the government and its agencies should be active in ensuring that retraining is provided for those in jobs which they should also be identifying as threatened by offshoring.

Adults should be actively encouraged to take a different road, including a complete career change without a major loss in income. Career and educational opportunities should include entry to Third Level, at a high percentage of prior pay. Much more has to be done in this area in both encouraging universities in taking in more adults and in devising financial systems which allow this to occur, both for the colleges and for the displaced persons.

At the broader level, much is being done, especially by groups like the Expert Group on Future Skills Needs which attempts to forecast where employment will be in future years and it has been quite successful in preparing Ireland for such change. The current low level of unemployment is of course a great help, though jobs displaced may be in remote regions with few alternative opportunities. (see *Life Long Learning: Everybody Gains* Briefing No 6, May 2005).

Flexicurity is "Denmark's magic formula", as described by the Organisation for Economic Co-operation and Development. It is based on a robust social security system coupled with a flexible labour market (see panel p.19). The system seeks to prevent social unrest and poverty by paying high unemployment benefit. Insured workers qualify for benefits as high as 90 percent of their previous income from their first day of unemployment," according to the Financial Times.⁴⁵

Measures to Deal with Offshoring Job Losses

The OECD and most economists recognise that while Offshoring brings gains, they are not evenly distributed and there are losers. They are too often silent on how to help the losers. Unemployment

⁴⁵ Financial Times, Martin Arnold, Clare MacCarthy and John Thornhill.

benefits are the first bulwark in compensating the losers from offshoring, when the jobs are lost. Taxation of the winners, the big companies and individuals who gain, is transferred to those displaced by globalisation. But the tax system is not very equitable in Ireland (see Congress, Pre-Budget Submissions, 2006, 2005). Irish companies pay both low rates of corporation tax and make very low social contributions to society. There are low taxes on capital and there are also relatively low taxes on incomes but there are high taxes on spending, which are regressive. Most taxes are paid by ordinary workers on their incomes and on their spending. On top of that, unemployment benefits are not particularly generous, being a hangover from the era of mass unemployment. Thus the first bulwark in responding to the impact of offshoring, the transfer, is not very effective in Ireland. Tax reform, which is equitable, with a switch from the over-reliance of indirect taxes, can be more effective, enabling higher unemployment benefit, other payments and more active labour market measures to be undertaken.

Systems should be in place to keep displaced workers in touch with the labour market too. The 'activation' strategies such as job search assistance, counselling, training and other re-employment services are important too. The design of labour activation programmes have to be relevant for workers as well as firms. With low unemployment in Ireland and the forecast that it will continue to remain low for some years, this is a good time for policymakers to attempt to lift the overall quality of skills in the economy with a sustained drive in training, aimed particularly at the less skilled.

The US has had a scheme to assist workers displaced by trade for over 40 years, the Trade Adjustment Assistance Programme. It has been subject to much evaluation, though it has evolved over time, as it was evaluated. It is very modest in its support. More recent wage insurance programmes have been introduced in France, Germany and another one for older workers in the US. Since August 2003, older US workers, who have been certified as being displaced by trade, can receive a wage subsidy if they start a new job within 26 weeks and who are paid wages below those on the previous job. As long as they

do not earn over \$50,000 a year, a payment of 50 percent of the difference between the new wage and the old is paid, up to a max of \$10,000 over two years. Similarly in France, from 1999, workers displaced by mass layoffs, who get a lower paid job, can get a subsidy of up to 75 percent of the difference, with a monthly state contribution of up to €153. The previous employer makes a contribution, but if they cannot, the state can raise the contribution to €229 a month for a maximum of 2 years. In Germany, a job loser who is over 50 years of age may receive one of two types of supplements. First is a payment of up to 50 percent of the earnings gap and the second offers pension contributions up to 90 percent of the level of those on the prior job. There are no time limits on the German schemes. A similar scheme could be considered for Ireland, perhaps aimed at the over 50s who are, we have seen, are the worst effected by offshoring and job losses.

Ireland is close to full employment, yet the government is still offering many generous incentives to foreign companies to locate here, even though it can be argued that we do not need as many of the jobs as in the past. We can choose some of them, like ones which recognise workers' rights. We are simultaneously having to encourage immigration to fill many the new jobs. Between 1998 and 2006 structural unemployment contributed 0.5 percentage points to the growth in Irish output, but it is forecast that this will fall to only 0.1 per cent between 2007 and 2010 by OECD⁴⁶ and the contribution of unemployment has already fallen to a low rate. It is the taxpayer who is paying for the incentives to industry, which may belong to another day. Why should ordinary taxpayers pay high taxes on spending and endure poorer public services in order to encourage firms into Ireland, with low taxes and low social contributions and generous grants and other state assistance? The ensuing employment is adding to soaring house price inflation, massive traffic congestion, waste crises and potential problems of adaptation for immigrants around housing, schooling, language, etc..

It is recognised that the near full employment is

⁴⁶ OECD, 2005, Economic Outlook, T1.7, Paris.

an excellent economic and social situation, but it is clear that some policy instruments must be re-directed in tune with the new realities. While it is important that state intervention in attracting foreign direct investment is maintained and becomes more sophisticated, it may be time to take the foot off, or at least, to ease it from the economy's accelerator. 'Growth for growths sake' has major social and economic costs. While industrial and services policy has moved to a somewhat more sophisticated approach, this shift should have begun a decade ago with a more radical move, especially on issue of the contribution the corporate sector to society. Policy has to have a greater focus more on up-skilling workers etc. to fit in better with a fuller employment scenario and to make finer choices on the industry sectors which would best fit, along with a greater focus on improving the productivity of indigenous industry and services. The full list of Congress' recommendations to deal with the growing implications of outsourcing are given below.

Public Procurement and Outsourcing

The issue of contracting-out services by the state to the private sector is also a matter for consideration with the recently published public procurement directives. These legal instruments provide that member states may impose obligations on private sector entities wishing to provide goods and services to public authorities. The Irish Government can and should ensure that private sector bidders must have regard to conditions of employment established by collective bargaining and also to recognise unions, while carrying out public works.⁴⁷ This is not attempting to undermine any benefits of outsourcing of public procurement from the private sector, but it sets a level playing field for all bidders. Bidders must operate a modern, stable and adequately paid workplace with employee rights enforced if they are to gain contracts paid from taxpayers' money. This is one aspect of a civilised social economy, especially where social partnership is at the heart of business. There are discussions currently underway between Congress and Government concerning the transposition of these directives. There should be no repeat of the Gama operations, where a large Turkish company won a

series of multi-million Euro Irish government sponsored contracts, largely though the exploitation of its workforce. It is utterly unacceptable to virtually all taxpayers that the Government or its agencies make contracts with companies who deny employees the right to professional representation.

Lost Jobs and Lost Taxes

Most European countries prevent financial institutions from recovering VAT payments made on outsourced services. This means that they may set up their own operations in the offshore countries. Congress is strongly of the view that the tax code must not be changed to facilitate offshoring of domestic jobs AND the losses of VAT taxes for Ireland and other European countries.

Conclusion

There will be a more critical public view of globalisation and offshoring in the West now that the jobs being offshored are not just manual jobs in manufacturing but are also service jobs, affecting the middle classes. Congress recognises that outsourcing and offshoring will continue and grow. We expect that middle class people, many of who may have been indifferent to the effects of globalisation or probably felt impotent, are now taking a greater interest in its effects. This new interest by the voting classes will impact on the attitudes of politicians. Irish politicians can influence the international bodies. Thus, it is hoped that the governance of globalisation, which is poor if not downright negligent, will improve, assisted by Irish politicians who have demonstrated that they can punch above their weight on international fora, the EU, WTO, OECD, IMF and World Bank. There are a good number of actions which can be taken both at national level and internationally to improve the lives of those threatened by offshoring.

Actions at National Level

Services, which are produced and consumed locally, account for 70 percent of the modern economy and most of these jobs cannot be offshored. Many jobs in retail, restaurants and catering cannot be exported. However, the range

⁴⁷ See section in the Congress Pre-Budget Submission 2006 on this.

of jobs which can be offshored successfully is still substantial and it is widening all the time.

At national level, there are a many initiatives which the government, employers and trade unions can do to mitigate the worst effects of offshoring and outsourcing. They can focus on preventative measures to up-skill workers long before the threat of offshoring arrives at the door. Reform of the tax and social welfare system – which has focused on the requirements of business and competitiveness, must now shift to equity. The two systems must be reformed and made serve those who lose from offshoring and outsourcing.

Under the aegis of social partnership, a greater move to 'flexicurity' or 'protected mobility' where employees are less fearful of flexibility if their employment is protected from job losses and downgrading of pay and conditions is one way forward, combined with greater training especially for the less skilled, preferably on the job and long before the offshoring threat materialises. It is clear that trade related employment losses and the impact of offshore outsourcing is a major policy challenge. It is not new, but it is accelerating with more rapid globalisation. Therefore, simultaneously national and international policies must be activated on offshoring.

The ILO estimates between 1 and 5 percent of service jobs are contestable by low wage economies. Taking 3 percent, this is equivalent to 38,000 service jobs. As the jobs churn in Ireland is unknown, but the figure coincides with the annual attrition estimate by FAS/ESRI referred to above, it is probably the closest we can come to estimating the numbers of jobs threatened by offshoring. Redundancy figures, which of course, exclude many jobs losses (where service is under two years etc) averaged just over 18,000 a year over the last six years (with the figure at over 27,000 in 2003 and 23,000 in 2004) and so the possible figure for annual losses due to offshoring is difficult to estimate. It is probably in the range of 10,000 to 25,000 jobs a year. The range is large because information and the data is insufficient. In short, the range is a guesstimate.

While it is difficult to estimate the number of jobs threatened by offshoring, the state, through one of its agencies, should now attempt to monitor the

detailed reasons for factory closures and for all job losses in all sectors, including services.

It has been seen that outsourcing is not new. Ireland was a beneficiary of jobs outsourced from the US and Europe in the 1960s and 1970s because of our much lower wage rates. The 1980s were a lean period, with job losses especially in indigenous firms. The 1990s saw the Celtic Tiger era and today Ireland has 60 percent more jobs than it had for most of the 20th century and living standards have improved substantially. Earnings are no longer low, yet we still continue to attract many jobs created by Foreign Direct Investment in manufacturing and also in financial services. Simultaneously, Irish firms have expanded abroad and outward foreign investment by them (largely in developed western countries up until recently) means they are now employing almost as many as the foreign companies do here.

The great difficulty with outsourcing and offshoring for trade unionists is that it is real jobs of our members which are being destroyed. The best way around it is to have firms and policies which anticipate that in the globalised economy and with higher wages in Ireland, there must be a continuous improvement in productivity and in the skills of employees. On the workers' side, union officials and shop stewards have to be more adaptable and to seek re-training and up-skilling for members. Simultaneously, we must try to persuade management to invest in the firm and not to take profit, at the expense of the firm as some do.

In the first decade of the 21st century, a country like Ireland, with low unemployment and a shortage of labour and net immigration, offshoring should not be a problem. It is, however, a serious problem for those individuals and groups in existing jobs which are offshored. It is recognised that if unemployment grows, and in time, it is inevitable that it will increase, offshoring and outsourcing will become a bigger problem. This is a very good time to put policies in place which deal with it here in Ireland and internationally.

Congress must persuade policy makers, the state and its agencies that it must redouble its efforts in the areas – more attention to lifelong learning (for more detail, see Congress Briefing, *Lifelong*

Learning: Everybody Wins, 2005), more investment in and by firms in raising productivity, more R&D including the under-valued low tech innovations, (for more detail, see forthcoming Congress Briefing on Productivity), less tax breaks for property and more directed at productive investment etc.

The over-reliance on state aids for industry, which are not based on real competitive advantage but are artificial, such as low taxes on profits and on employers social security, have to be recognised by serious policy makers. Other economic policies which have been driven by ideology must be abandoned sooner. These include the wholesale privatisation of Irish telecoms, leading to a massive fall in investment and the consequent loss of competitiveness; the drive for 'competition' with artificially high prices in electricity (which has not emerged in the small island economy) (see Congress submission); the dismantling of integrated waste management by the local authorities in favour of piecemeal solutions which has contributed to the waste crisis and high waste prices etc. .

Ireland must continue the substantial state intervention in industry and in the services sector, in kick-starting and maintaining growth in financial services, in tourism, in other areas like agriculture and fisheries etc.. The many state agencies are active, with their thousands of public sector employees, in the successful promotion of the private sector in Ireland. Continued success is not assured without continuing strong state intervention underwritten by the Irish taxpayer and there should be increasing contributions paid by the successful beneficiaries. It is feasible to envisage that eventually there will be greater privatisation of the multitude of state aids to the private sector, but it will be some time before that occurs in Ireland. The state will continue to have a role, not just in policy formulation and direction, but also in direct intervention in assisting private industry and private services in Ireland.

Improving International Governance

The free run of free-market ideology which has shaped the policies of the WTO, World Bank IMF and other international institutions has been strongly if ineffectually challenged by the anti-

globalisation movement, which does represent the views of many people about the way the world is governed or rather is not governed. These bodies, which should be the guardians of the public interest and not of that of multinational corporations, too strongly reflect and impose the ideology of the rich and powerful on developing states. Some, especially IMF, have wrought havoc on the countries in which they have intervened. They are driven by a righteous ideology which has been demonstrably inappropriate for many of the countries affected by these policies. Theirs is not just Western ideology, but one which reflects the views of a minority, albeit the powerful one, in the West.

International governance of 'free trade' and of multinational companies by the international bodies must insist on respect for people's fundamental rights at work. Core labour standards, also known as fundamental workers' rights, are the internationally-recognised fundamental human rights for all workers, irrespective of countries' level of development and negotiated at the ILO. They cover:

- freedom of association and the right to collective bargaining;
- the elimination of discrimination in respect of employment and occupation;
- the elimination of all forms of forced or compulsory labour;
- and the effective abolition of child labour, including its worst forms.

Working conditions and health and safety issues in developing countries must be governed by the international institutions, led by the ILO. It is not good enough that there is some self-governance by companies like NIKE, who may neglect standards once public pressure eases off. It is recognised that the emerging countries will compete on wages, but the hundreds of years of building up workers rights in the West must not be undermined by the rapid growth of offshoring and globalisation. Trade union rights, many of which are enshrined in the laws of Western democracies, are an integral part of our societies.

It is the clear desire of the people in democracies that not alone are union rights not diminished, but

that there is a level of solidarity with the workers in developing countries which should be enhanced, and not diminished by the international bodies. Decent wages and working conditions fought for and built-up over centuries by unions in the democratic countries for their own people must be part of the new emerging economies. International solidarity demands such outcomes. Many of the multinationals which have sought competitive advantage through exploitation in the past, have now come to recognise that it is far better marketing if their goods are not tainted by exploited labour. They also recognise that decent wages build consumer markets too. But self-governance is not as strong as the rule of law which levels the playing field for all companies.

More effective international rules and laws are needed to shape globalisation and to ensure social progress, internationally. Governments must guarantee core workers' rights on a global basis and encourage agreements between trade unions and business. Corporations based in G8 countries are the drivers of globalisation. The increases in labour rights abuses in emerging countries and the repression of workers' rights in China must no longer be ignored by western governments. They should encourage dialogue and negotiations between trade unions and businesses, supported by targeted regional and industrial policies along with labour market policies to encourage employment in those sectors and communities affected by change.

The OECD Guidelines for Multinational Enterprises should be the benchmark for good practice in managing change. TUAC, the trade union body which talks to OECD, has recommended that "a system of peer-group monitoring of National Contact Points responsible for the Guidelines should be introduced at the OECD to strengthen their effectiveness in dealing with cases". It says that "Trade unions and forward-looking employers are also negotiating these issues both at the national and international level, leading to the conclusion of global framework agreements."

Appropriate use should be made of trade safeguards as set out in the WTO Agreement on Safeguards to allow this. Such a "whole of government" approach to the social responsibility

of business also applies to the governance of corporations and the assurance of their integrity. The series of corporate scandals have not ended and so far national regulatory responses have been little and late. Corporate governance is a public good and should remain firmly in the hands of governments agenda. Self-regulation and 'comply or explain' mechanisms are no substitutes for real public enforcement systems.

Congress takes the view that globalisation can make a significant contribution to development if the benefits of globalisation are equitably spread. It is our view that a menu for a more just globalisation is contained in the report of the World Commission on the Social Dimension of Globalisation. The report was produced by an international panel of distinguished personalities from a wide range of backgrounds and points out that what is required is a better focus on people, a strategy of sustainable development, fair rules governing productive and equitable markets, greater accountability and solidarity, deeper partnerships and an effective United Nations. Such an approach was supported by the Taoiseach in his 2004 speech to the IMI, when he said:

"What is required to achieve this potential (of globalisation) was set out in the report of the World Commission on the Social Dimension of Globalisation."

The Taoiseach went on to say that: "These are all principles with which the Irish Government can identify." We would argue therefore that the Irish Government actively promote the recommendations contained in the document in all of their dealings with multilateral institutions. These include a call for more coherence between the various multilateral institutions in the world today, on the basis of decent work, respect for human and workers' rights and other social standards, higher and more equitable growth and an end to poverty.

It is vital that the global governance system, which gives undue power and importance to the WTO, the World Bank and the International Monetary Fund, be rebalanced so that social and environmental issues are given equal consideration to trade and the economy.

Congress recognises that outsourcing and offshoring will continue and grow. Therefore we urge that the following steps be taken to mitigate the impact on those who may lose out:

What can be done at National Level:

1. In the light of the Gama and Irish Ferries cases, it is clear that the open labour market within the 25 member states and the model of weak labour regulation and non-enforcement are mutually exclusive. Irish labour law and its enforcement must be considerably strengthened.
2. Congress is strongly of the view that all major public spending (both current and capital and whether contracted out or not) should require that the winning bid must be in full compliance with good practice in Ireland in areas including health, safety, equality, tax compliance, trade union recognition, etc.⁴⁸
3. Policies must anticipate the areas where the threat of offshoring is threatening in the globalised economy.
4. Government, employers and trade unions must focus on preventative measures to up-skill workers long before the threat of offshoring arrives at the door.
5. While unemployment benefits are the first bulwark in compensating the losers from offshoring, when the jobs are lost, the Irish tax system is not very equitable in Ireland, many rich people pay little or no tax and the welfare system is a residual from a time of mass unemployment. Both systems needed serious equitable reform.
6. Systems should be in place to keep displaced worker in touch with the labour market. The 'activation' strategies including job search assistance, counselling, training and other re-employment services are important.
7. A similar scheme to that in the US which has had a scheme to assist workers displaced by trade for over 40 years, or the French or German schemes, could be considered for Ireland, where, as in Germany, a job loser, who is over 50 years of age, may receive a payment of up to 50 percent of the earnings gap between the new wage and the old, or an offer of pension contributions up to 90 per net of the level of those on the prior job.
8. Under the aegis of social partnership a greater move to 'flexicurity' or
9. 'protected mobility' where employees are less fearful of flexibility.
10. There must be a continuous improvement in productivity and in the skills of employees. On the workers side, union officials and shop stewards have to be more adaptable and to seek re-training and up-skilling from members. Simultaneously, we must try to persuade management to invest in the firm and not to take profit, at the expense of the firm as some do.
11. Policy makers, the state and its agencies must redouble its efforts in the areas of education, in life long learning (for more detail, see Congress Briefing No 5, Life Long Learning: Everybody Wins, 2005), and there must be more investment in and by firms in raising productivity, more R&D, including the under-valued low tech innovations, (for more detail, see forthcoming Congress Briefing on Productivity), less tax breaks for property and more directed at productive investment etc. and more investment in infrastructure, especially public transport.
12. Ireland must continue the substantial state intervention in industry and in the services sector, in kick-starting and maintaining growth in financial services, in tourism, in other areas like agriculture and fisheries etc. with there increasing contributions paid by the successful beneficiaries.
13. The state, through one of its agencies, should now attempt to monitor the detailed reasons for factory closures and for all job losses in all sectors, including services.
14. The Department of Enterprise Trade and Employment should actively promote the OECD guidelines for multinationals among Irish businesses.

What can be done Internationally:

15. A global response with real movement on governance by the international agencies on

⁴⁸ Pre-Budget Submission, 2006.

labour standards is urgently required. More coherence is needed between the various multilateral institutions in the world today, on the basis of decent work, respect for human and workers' rights and other social standards, higher and more equitable growth and an end to poverty.

16. The governance of globalisation is poor and must be greatly improved, assisted by Irish politicians who can punch above their weight on international fora, the EU, WTO, OECD, IMF and World Bank. The Irish Government should now actively promote the recommendations contained in the World Commission on the Social Dimension of Globalisation in all of their dealings with multilateral institutions.
17. WTO, World Bank, IMF and other international institutions should represent the views of the world's citizens about the way the world is governed or not governed. These bodies must become the guardians of the public interest and no longer so strongly reflect the views of multinational corporations.
18. The level of solidarity with the workers in developing countries should be enhanced - not diminished by the international bodies. Decent wages and working conditions fought for and built-up over centuries by unions in the democratic countries for their own people must be part of the new emerging economies.
19. International governance of 'free trade' and of multinational companies by the international bodies must insist on a reasonable level of freedom for the peoples of the emerging economies, -
 - freedom of association and the right to collective bargaining;
 - the elimination of discrimination in respect of employment and occupation;
 - the elimination of all forms of forced or compulsory labour;
 - and the effective abolition of child labour, especially in its worst forms.
20. The increases in labour rights abuses in emerging countries and the repression of workers' rights in China must be addressed immediately by western governments and by multinational corporations. The EU should

promote the European social model (as opposed to the American business model) as the way in which China will be able to match economic development with social justice. In particular, the European social model offers the Chinese elite the opportunity of managing change without major social dislocation or upheaval (trends they are genuinely and sometimes openly concerned about). The European Union might provide resources for spreading awareness in China about the European social model

21. The OECD Guidelines for Multinational Enterprises should be the benchmark for good practice in managing change.
22. Corporate governance is a public good and should remain firmly in the hands of governments' agenda. Self-regulation and 'comply or explain' mechanisms are no substitutes for real public enforcement systems".
23. More information on offshoring and corporate restructuring is needed to inform policy.⁴⁹

⁴⁹ The Foundation for the Improvement of Living and Working Conditions publishes the European Restructuring Monitor *quarterly* (ERM quarterly) which offers an overview of the main findings and an interpretation of the data collected quarterly. It provides statistics comparing restructuring activities across the 25 EU Member States and two of the candidate countries, Bulgaria and Romania, identifying the countries and sectors most affected. Each issue of the ERM quarterly highlights developments in a specific country or sector, pointing to key facts behind the statistical data. In addition, background information on two major, recent restructuring cases will be presented. This is one useful document but it is based on media reports.

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