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Outsourcing, Offshoring, and L1 Visas – The Flip Side by Ernie Nounou, Founding Partner, Catalytic Group

Introduction

In early May I coauthored an article “The Challenge to America of Business Process Outsourcing” of which the salient points were:

1. The “jobless recovery” of the past three years and loss of close to two million jobs in the US economy is more than casually linked with the growth of jobs in low cost centers offshore, and the increasing use of L1 visas to bring foreign workers to take US jobs.
2. This trend is an unstoppable outgrowth of globalization and will only increase. It has benefits and consequences that must be realistically addressed.
3. Response to it should not be the erection of barriers, but rather sensible policies emanating from reasoned dialogue. The article called for that dialogue, especially among government policy makers.

Reactions were on the whole very positive, with the exception of those from economists, who were (to put it charitably) skeptical:

“ Since all kinds of numbers do this or that for the first time, you'll have a very busy career wondering about implications. On the other hand, if you have some kind of conceptual analysis showing that the number is the beginning of a trend, then you might be worth listening to. Forgive me, but what you have to say conceptually is just another repetition of an old economic cliché.” *Economist at weekly business publication*

“I cannot agree that outsourcing is a zero sum game. If outsourcing leads to higher specialization and moves factors of production into the most efficient use, then total output and production will increase. I do not think there is that much difference between the white-collar jobs that are being exported and the blue-collar jobs that were exported in the past.” *Bank Economist*

“You may have a point, but I am sympathetic to the raising of the economy and standard of living these jobs create in various third world countries. This benefits us in the long run.” *Economist and editorialist for major daily publication*

On Further Reflection

What if these economists are actually right, and yours truly is a latter day Chicken Little? Maybe this is a good thing, a current example of creative destruction that impacts an economy from time to time, making it more efficient and productive. If so, it stands to reason that more of it will be even better, and this paper will show how increased use of offshoring and L1 visas can achieve these positive results.

Let's assume the US economy is one giant corporation, currently lacking pricing power for its products – sales/the economy is not growing fast enough – while some components of its cost structure are rising – healthcare and education in particular. What to do? You do what companies are doing, cut cost and hold spending, with the savings resulting in greater profits.

Healthcare Industry

Fact: few US hospital systems can function without nurses from the Philippines, India, and other countries producing wonderfully trained nurses. They enter via L1 or H1b visas and contribute significantly to our healthcare delivery. Building on the success with nurses, let's expand the L1 visa program to bring in one million doctors to start. Even a cursory look at average salary differentials of comparable US and Indian doctors reveals the scope of available opportunities:

Medical Cost Comparisons in US\$ *

Doctors – Avg. Salary	US	India	Difference
Family Practice	145,121	90,000	55,121
Pediatric	141,676	65,000	76,676
Cardiology	300,073	65,000	235,073
Urology	301,772	65,000	236,772
Ave. Salary	222,161	71,250	150,911
Procedures			
MRI	326	148 – 170	156
Chest X-Ray	40	2 – 3	37
Vaginal Birth (Doctor Only)	3,000 – 7,000	200 - 300	2,700

Insurance companies with medical networks (HMOs, PPOs etc.) already outsource business processes, so this will pose no great challenges. If they haven't already, they can easily incorporate a subsidiary in India, hire well-trained and already English speaking doctors, and bring them to work in their US network at 40% - 50% cost of their American equivalent. Certification and accreditation is a largely academic procedure, and easily administered; so these doctors, from primary care to specialists, would have no problem qualifying.

Given the salary and cost differentials between Indian and American doctors, along with outsourcing various procedures such as X-Ray and MRI interpretations offshore, greater productivity and efficiency at lower cost will permeate the healthcare system. **Based on the average salary difference per doctor of \$150,911 alone, one million doctors on L1 visas would achieve a savings for the economy of at least \$150 billion (give or take).**

Benefits include:

- Significant dent, if not elimination, of rise in medical costs for the general population
- Medicare/Medicaid projected deficits shrink, if not eliminated completely
- A sounder footing for Social Security with influx of productive workers to shore up the ratio of retirees to workforce.
- The increased demand for middle-income housing by incoming doctors will underpin the housing market and assuage concerns of a real estate bubble.

To be sure there will be some temporary dislocations as displaced American doctors retrain and move to more productive work, but the combined net benefits to the economy of great savings and productivity increases mentioned above are clearly worth it.

* Note: Statistics for US doctors and procedures were obtained from "Compensation Monitor" in the December 2001 Edition of *Managed Care*. Indian expatriates provided a range of estimates for Indian equivalents. Where ranges were provided, I selected the highest value for India and the lowest for the US. Although the exactitude can be quibbled with, the general magnitude of the differential (hence opportunity) is a fair representation.

Education

For decades the cost of higher education, both at private and state universities has been growing faster than the rate of inflation (choose your index). A comparison of tenured and associate professor salaries and tuition at 4-year universities in the US with their counterparts in India reveals logical opportunities:

Education Cost Comparisons in US\$

Avg. Salary	US	India	Difference
Professors - Tenured	70,000	11,000	59,000
Professors – Non-Tenured	50,000	9,000	41,000
Ave. Salary	60,000	10,000	50,000
Avg. Tuition + Board			
Private College	35,000	2,000	33,000
State University – In State	12,000	2,000	10,000

American universities can take advantage of the differentials in professor salaries by using the L1 visa route to bring large numbers of professors from offshore to reduce their salary cost structure. In doing so, they will also arrest the escalation of tuition expenses.

Based on the considerable differential in tuition costs, American parents should seriously consider sending children abroad to attend college. From the perspective of the parents and students, the benefits are considerable:

- Lower tuition costs, with savings of \$40,000 - \$130,000 available for other purposes including retirement.
- Better cost/benefit returns of a foreign education, given there are few jobs available on graduating. Note the experience of graduates in the Class of 2003, as documented in the New York Times and elsewhere.
- Cultural experience and benefits to 4 years abroad – not just “junior year abroad.”
- Better positioning at graduation; graduating from a college in India positions American graduates closer to where job growth is occurring. Note also:
 - Lehman Brothers is opening an office in India for 1000 business analysts, at the same time as Smith Barney and other banks are laying off analysts in the US.
 - An AT Kearney survey of financial institutions states they plan to export over 500,000 jobs to offshore locations within the next five years.

The combined impact of large numbers of foreign professors and students attending 4-year universities in low cost centers will no doubt take some air out of the tuition inflation bubble of the last few decades. The economy will not only benefit from greater productivity as professors move up to higher value added work; but financial resources will be freed, increasing the national savings rate, and reducing the burdens on social security to provide for retirements.

And the US Military

An article in the June 2003 edition of “Wired” documents in fascinating detail examples of the technology’s transformation of military command and control, underpinning the swift capturing of Iraq. Tanks and other military vehicles download their daily orders via Internet technology on built-in computers. An officer responsible for technology proudly mentioned the Army’s “Premier” tech support contract with Microsoft for live technical assistance.

Logical industry questions:

- If Microsoft tech support were offshore (best rates in Pakistan), would Military Intelligence permit that? (Consider what havoc an unsympathetic local techie could wreak.) Note, Microsoft recently announced layoffs in the US, and is establishing operations offshore.
- Was the 1 ½ day delay in US troops drive to Baghdad really due to sandstorms, or was there a problem with Windows? Too much rebooting?

The military has experience with offshore outsourcing. In November 2002, a group of Russian technology companies were introduced to the New York business community, and one of them proudly referred to work performed for the US Airforce. (Amazingly, not one question regarding national security came up!) Of course not all forms of military outsourcing have happy endings. When they outsourced responsibility to local and Pakistani soldiers in Afghanistan to prevent enemy escape, it seems that among the hundreds that did escape was the 6'4" leader, his wives, children, entourage, and a dialysis machine.

Conclusions

- Outsourcing/Offshoring and L1 visa usage to date has been small potatoes; opportunities abound for more extensive usage.
- Significant savings will result with greater use of "offshoring" and L1 visas, producing a more productive and cost-effective US medical and education sectors. Displaced doctors and professors will move on to higher value added jobs, benefiting themselves and the US economy.
- Healthcare and education costs, to name a few areas hitting the middle class wallet, will actually go down, and the national savings rate will go up.
- Medicare/Medicaid and Social Security deficits will shrink dramatically, if not totally eliminated.
- Expanding the program to other areas will inexorably follow, such as outsourcing CEOs – which will bring sanity to compensation, if not performance as well.

Note to the reader: You are encouraged to think of other sectors of the economy where similar opportunities exist for these processes.

A graduate of the Wharton School at the University of Pennsylvania, Ernie is a Founding Partner of The Catalytic Group, Inc., a New York based Technology consulting and execution firm. Prior to that he was with the International Division of Manufacturers Hanover Trust (now JP Morgan Chase) and a member of the Board of Directors of UMB Bank and Trust in New York. He can be reached at ernie@catalyticgroup.com.