



MICHIGAN REPORT

ECONOMIST CALLS FOR END TO RESIDENT PREFERENCE

Michigan and other states need to end any programs or policies the give preference to companies located within their borders in letting contracts, said Dan Griswald, director of the Center for Trade Policy Studies at the Cato Institute.

Speaking at the Mackinac Center for Public Policy's monthly Issues and Ideas Luncheon, Mr. Griswald said any policy that forces the state to take in-state bids over foreign bids on contracts for goods or services is costing the state extra money with arguably little benefit.

Though Mr. Griswald did not single out Michigan's policies as among the most egregious, he did note that Michigan had a preference policy for in-state contractors.

Bans on outsourcing, Mr. Griswald said, were much like the steel tariffs of the 1980s. "Those protections may have saved a few jobs in antiquated steel plants for awhile, but they jeopardized jobs in the steel using industry," he said.

A rule in New Jersey prohibiting outsourcing cost the state \$1 million to bring nine call center jobs back to the state that otherwise would have gone to an off-shore company. But he said the pay from those jobs would not likely add enough to the state's economy to offset the additional cost.

Rather than banning outsourcing, Mr. Griswald said outsourcing should be treated as any other trade: find the best product possible at the lowest cost.

Liz Boyd, press secretary to Governor Jennifer Granholm, said the governor

agrees with the need for trade in both goods and jobs. "What we have done is said all things being equal, we prefer to hire Michigan companies or companies that hire Michigan people," she said.

Michigan, Ms. Boyd said, has not banned contracts that include using foreign labor, but simply requires that the bid specify where the work will be done. "What we have done is taken steps to put transparency into the process so we know where the work is being done that we have contracted for or are considering doing," she said, noting that legislative Republicans in the state have adopted those policies into boilerplate for departmental budgets.

But Ms. Granholm is also calling for policies that, where possible, encourage companies to keep work in the state and in the United States. "We need national policies that encourage companies to do business here at home rather than encouraging companies to move jobs overseas," Ms. Boyd said.

While much of the media coverage and general discussion over outsourcing has concentrated on the jobs moving to China and India, Mr. Griswald said it has not often mentioned the services that American companies provide for companies overseas, particularly legal and economic services. Overall, he said, the country has a \$54 billion trade surplus in services.

Mr. Griswald admitted that the money coming into the country for services was likely going to fewer people than lost their jobs to work sent out of the country. "Trade does destroy some jobs," he said.

But he argued the jobs lost recently in the information technology to India were a small part of the jobs regularly lost around the country each year. He said the expected losses in the coming years amount to about 2 percent of the 15 million jobs annually eliminated from the U.S. economy.

Those losses should be expected and the state and business community should prepare for them, he said, adding, "We need to help people with wage insurance, unemployment insurance and worker retraining."

Though he said much of the burden should be on the private sector through purchase of unemployment insurance to help those who lost a job get through until a new one opens up, he said the state also needs to work to ensure that community colleges and other worker training programs are available to move those workers to portions of the economy that are growing.

For instance, he said many of the lesser skilled IT jobs have moved to India. But he said the higher-skilled, higher-wage programming jobs are actually expanding faster than the rest of the economy.

And he said some of the jobs losses, both in IT and in other sectors, have been from changes in technology, not from moving workers abroad. "We have a vibrant IT industry, it's just not employing as many people," he said, also noting that, while industrial employment has been down over the past year, output was up some 6 percent.