



September 13, 2004

The Honorable Arnold Schwarzenegger
Governor, State of California
California State Capitol
Sacramento, CA 95814

RE: Request for Veto - AB 1829 (Liu)

Dear Governor Schwarzenegger:

On behalf of the Securities Industry Association (SIA), I am writing to strongly encourage you to veto AB 1829. This legislation mandates that state agencies and local governments can only enter into service contracts with those contractors and subcontractors that certify that all contract work will be performed by workers located within the U.S.

SIA, which was established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of nearly 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs 790,600 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003, the industry generated \$213 billion in domestic revenue and an estimated \$283 billion in global revenues.

Like many other organizations, SIA has serious concerns about this legislation. Under this bill, location of the worker becomes of primary importance in the awarding of a contract, with factors such as cost, efficiency, and ability to effectively service the contract taking a back seat. Such a requirement will increase both business costs and the costs to the state of contract work.

Two frequently pointed to examples illustrate this point. In New Jersey, a call center contract ultimately kept 12 call center jobs in Camden but apparently did so at a cost to the state of an extra \$900,000 over the life of the contract. Likewise in Indiana, a bid that kept 50 computer programming jobs in the state reportedly cost the state an additional \$8 million. Some argue that in situations such as these the additional money would have been better spent on essential services.

Furthermore, SIA is concerned that AB 1829 places U.S. firms at substantial risk of retaliation by U.S. trading partners. An August 2004 study by the nonpartisan Public Policy Institute of California (PPI) entitled "Services Offshoring: Background and Implications for California" argues that this is a very real possibility. The study states:

[t]he possibility of foreign retaliation resulting from these policies is quite real and could take a number of different forms. In particular, countries can hamper their own companies from hiring U.S. or California workers to provide services, a phenomenon known as inshoring. One way to do this is by implementing similar bans on foreign hiring in their government contracting, potentially reducing U.S. exports of business services and putting at risk the inshoring of jobs in California. Another is by making it more difficult for their multinational enterprises to invest in the United States.¹

The threat of retaliation is particularly problematic in a state such as California in which one in four jobs is dependent on international trade.

Finally, SIA would encourage you to closely examine the conclusions of the PPI report. Written at the request of the California Assembly, it concluded among other things that:

- The data are insufficient to provide a comprehensive understanding of the issue.
- What data are available suggest that the number of jobs being offshored is small relative both to the overall labor market and to the number of people working in the relevant, at-risk occupations....
- Despite the pain caused to those who lose their jobs, offshoring has the potential to provide net benefits to the economy, including employment expansion....
- A variety of policy alternatives exist, some of which may be costly and help few people. In particular, bans on offshoring are unlikely to stop the activity or benefit the state. . . .²

SIA has read with interest the numerous California editorials expressing serious concerns about this outsourcing legislation. We join them as well as our many business colleagues in urging you to veto this bill.

Please feel free to contact me at 212 -720-0611 if you have any questions.

Sincerely,

Kim Chamberlain
Vice President & Counsel
State Government Affairs

cc: Pat Clarey, Chief of Staff
Richard Costigan, Legislative Secretary
Cynthia Bryant, Deputy Legislative Secretary
Kimberly Yee, Deputy Cabinet Secretary
Yolanda Benson, Legislative Deputy

¹ Haveman and Shatz, "Services Offshoring: Background and Implications for California," Public Policy Institute of California, August 2004 at 32 (emphasis added).

² *Id* at 35.