



MAKING TRADE WORK

Straight Talk on Jobs, Trade, and Adjustment

**A Statement by the
Research and Policy
Committee of the
Committee for
Economic Development**



March 2005



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Making Trade Work: Straight Talk on Jobs, Trade, and Adjustment/ a policy statement
by the Research and Policy Committee of the Committee for Economic Development.

Library of Congress Cataloging-in-Publication Data can be found at the
Library of Congress.

First printing: 2005

Paperback: \$15.00

Printed in the United States of America

Design: Rowe Design Group

COMMITTEE FOR ECONOMIC DEVELOPMENT

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www.ced.org

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RESPONSIBILITY FOR CED STATEMENTS ON NATIONAL POLICY

The Committee for Economic Development is an independent research and policy organization of some 250 business leaders and educators. CED is non-profit, non-partisan, and non-political. Its purpose is to propose policies that bring about steady economic growth at high employment and reasonably stable prices, increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.

All CED policy recommendations must have the approval of trustees on the Research and Policy Committee. This committee is directed under the bylaws, which emphasize that “all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group.” The committee is aided by a Research Advisory Board of leading social scientists and by a small permanent professional staff.

The Research and Policy Committee does not attempt to pass judgment on any pending

specific legislative proposals; its purpose is to urge careful consideration of the objectives set forth in this statement and of the best means of accomplishing those objectives.

Each statement is preceded by extensive discussions, meetings, and exchange of memoranda. The research is undertaken by a subcommittee, assisted by advisors chosen for their competence in the field under study.

The full Research and Policy Committee participates in the drafting of recommendations. Likewise, the trustees on the drafting subcommittee vote to approve or disapprove a policy statement, and they share with the Research and Policy Committee the privilege of submitting individual comments for publication.

The recommendations presented herein are those of the trustee members of the Research and Policy Committee and the responsible subcommittee. They are not necessarily endorsed by other trustees or by non-trustee subcommittee members, advisors, contributors, staff members, or others associated with CED.

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*Voted to approve the policy statement but submitted memorandum of comment, reservation, or dissent, See page 34

PURPOSE OF THIS STATEMENT

This policy statement presents a clear vision of the need for a strong and open global trading system, and lays out the kinds of policies necessary to make trade work for all Americans. It explains how existing programs could be refined and extended to help those workers who are adversely affected by trade to take advantage of the new and expanded opportunities that come from open trade.

The body of the paper makes the case for a comprehensive agenda to achieve open trade, and to address the hardship of those who may lose their livelihoods as a result of economic change. It is short by CED standards in order to be a direct call for action for a comprehensive agenda. The first appendix provides greater detail on how such policies can be designed and implemented; the second appendix adds background information on key topics. The statement should be read in its entirety, including the appendices.

ACKNOWLEDGEMENTS

This policy statement was developed by the committed and knowledgeable group of business, academic, and policy leaders listed

on page vi. We are grateful for the time, efforts, and care that each put into the development of this report.

Special thanks go to the subcommittee chair, James D. Robinson, III, whose leadership and tireless efforts made this statement possible. Thanks are also due to Michel Orban for her work in shepherding the project from beginning to end. Everett Ehrlich, CED's Senior Vice President and Director of Research, served as project manager. Thanks are also due to Isaiah Frank, CED's Advisor on International Economic Policy, for his substantial contributions throughout this project, and to Tracy Kornblatt, who provided research assistance.

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SUMMARY:

THE NEED TO GET TO “YES” ON TRADE

The trade outlook in the United States is a cause of deep concern. The nation’s trade deficit has reached record levels, sending the current account deficit, and our accumulated international investment imbalance, to all-time highs. And in the meantime, ongoing trade liberalization efforts — the negotiation of the multilateral Doha Round, and attempts to finalize the CAFTA agreement in our own hemisphere — appear to have lost momentum.

Still, the significant long-term benefits of open trade and "outsourcing" to the American economy have been widely demonstrated. Trade gives our economy lower-cost goods and gives our companies the resources to be competitive. Trade is a substantial part of the exceptional dynamism that creates jobs and growth in America. This is no time to lose our resolve to enhance U.S. prosperity through trade.

Proponents of open trade must recognize that one of the greatest roadblocks to trade liberalization is the dislocation experienced by many workers who lose their livelihoods and whose skills may be made unmarketable by economic change. Their hardship is the price a growing economy pays for the benefits of trade in particular, and change in general. And just as it would be irresponsible to advocate that we limit trade — and therefore limit our standard of living — in a futile effort to "protect" these displaced workers, it is unacceptable to advocate open trade without addressing concretely the hardship imposed by these dislocations.

Open trade should and must be a cornerstone of America's economic policy. It builds our economy, enhances our security, and supports American diplomacy around the world. We need to forge a national consensus to sup-

port this goal, and adjustment policy must be a vital part of how we get to "yes" on trade.

Many sound analyses have shown that trade is not the cause of the economy's recent slow pace of job creation; CED cites these studies in an appendix attached to this statement. But while we concur, we realize that the fear of job loss is very real and makes it difficult for workers to embrace more open trade.

Getting to "yes" on trade, therefore, means establishing an aggressive and effective adjustment policy that helps workers in transition. But it is not yet clear what forms such policy should ultimately take. The purpose of this policy statement, therefore, is not to propose a specific program for adjustment. Rather, it is **to create greater momentum for a substantive dialogue among all interested parties to develop an effective and timely adjustment policy, and to discuss some highly promising ideas for such a policy.**

In its previous work, CED has expressed support for a wage-insurance program that would protect workers from income losses associated with job change, as well as help workers with job search, health coverage, and training. We recognize that there are some workers for whom job loss may present extremely difficult circumstances, in part because they may lack the skills or the training to reenter the workforce. Our adjustment policies must recognize the legitimacy of their needs, eschew a “one size fits all” approach, and make every possible effort to encourage and facilitate their reemployment.

Previous efforts to forge this kind of adjustment policy have been marked by half-heartedness and fragmentation. Differing political agendas through the years have created many incremental programs. The aggre-

gate cost of numerous adjustment and training programs is already large; the benefits of rationalizing and integrating these programs, and of eliminating various trade-distorting subsidy programs, would allow us readily to afford the cost of addressing more effectively the plight of displaced workers. **And in fact, we believe that adjustment programs, unlike the current Trade Adjustment Assistance (TAA) system, could and should be available to all workers experiencing involuntary unemployment, for reasons other than their own**

conduct, and should emphasize, whenever possible, getting back to work.

CED believes that business organizations such as our own must reach out to labor and to other groups to initiate the leadership to make the changes needed to form a consensus around trade policy, of which trade adjustment must be a central part. Only such a collective effort can address the prevailing misunderstanding and mistrust. In this policy statement, we present our case for doing so.

TRADE AND JOBS

Outsourcing has received much attention in recent months as a reason for slow job growth. But trade and outsourcing have had little effect on job growth — rather, a modest economic recovery coupled with high rates of productivity growth are the prime causes of the recent slow growth in employment.¹ (An accompanying box, *Slow Job Growth: Trade or Productivity*, presents this issue in greater detail.) Now that job growth has resumed at a stronger pace, these concerns might abate. But more industries will still be in the throes of structural change, often related to technological advances. Economists at the Federal Reserve have shown that a far higher share of the workforce is in such industries today than in previous periods.²

More structural change in the economy means that more workers will be forced to find new jobs and acquire new skills. This, in turn, has created concern among many working families. Stories of displacement and job loss are featured on the news and branched, often irresponsibly, by commentators. Workers in industries, firms, and occupations once thought immune to competitive pressure are now reacting with concern.

The alarm over services “outsourcing” perfectly captures these fears; the idea that some programming tasks or customer call centers can be moved outside the United States is a new and pressing challenge to workers’ perceptions of the economy and their role in it. Trade has become the lightning rod for this fear. It is easy to count the jobs lost through outsourcing, but difficult to count the many jobs created through the cost savings created by outsourcing, the productivity growth it allows, and direct foreign investment in the United States — they are “hidden in plain sight.” But, in a larger sense, the debate over the effect trade has on jobs misses the point — structural change, the result of trade and technological progress, is growing and is here to stay; the explosive growth of the Internet and the burgeoning power of information technology will be forces in our economy for decades to come. The upshot is that we must develop policies to accommodate these forces while letting them play their central role in delivering economic growth.

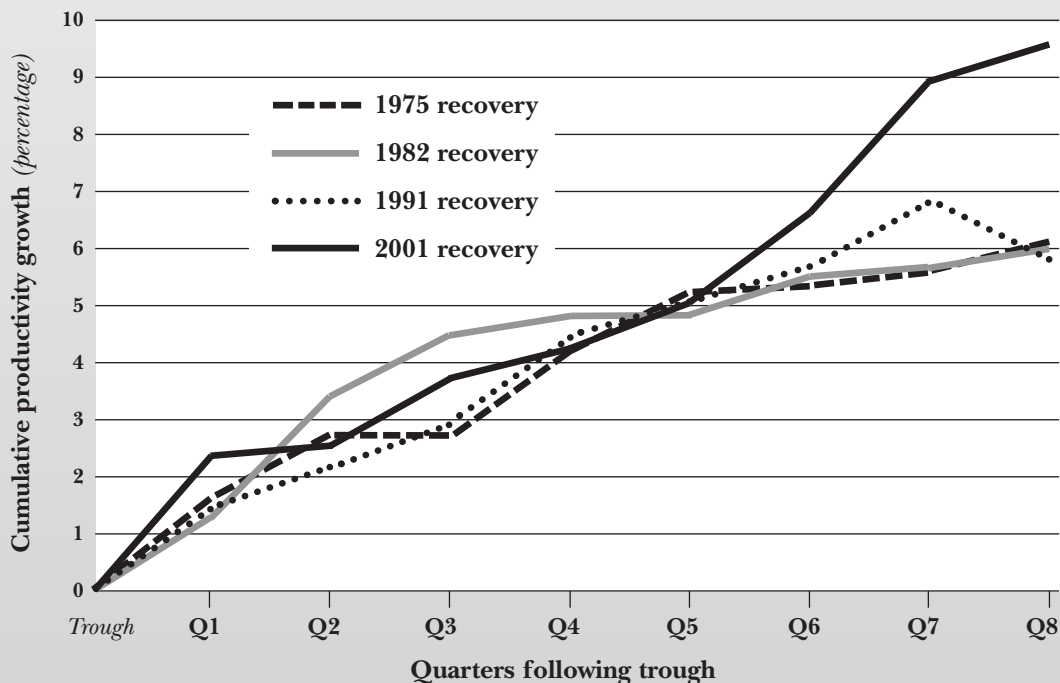
SLOW JOB GROWTH: TRADE OR PRODUCTIVITY?

Most economists believe that a sluggish economic recovery, coupled with rapid productivity growth — not trade — are responsible for recent slow job growth. The evidence supports their view. For example, trade growth in the 1990s coincided with rapid job growth. Furthermore, in the current cycle, *total* imports into the economy other than crude oil in 2003 were only \$50 billion higher than they were in 2000 — which is just under one-half of one percent of the size of the total economy. It is impossible to explain the loss of 2.7 million jobs — two percent of the labor force — with a change of imports of that magnitude. What, then, explains the problem?

The answer is in part that the economic recovery from the 2001 recession was tepid — which was understandable, given that the recession itself was shallow, and that the sectors that suffered most were not those that typically lead a rebound. In fact, cumulative growth in the first eight quarters of the 2001 recovery has lagged the rebounds of the 1975, 1982 and 1991 recoveries by almost 3 percent of GDP, the equivalent of about four million jobs.

In addition, labor productivity growth has been remarkably strong. As seen in the chart below, productivity growth always takes off in the initial quarters of an expansion due to the “bounce back” after a recession. But in this expansion, that initial surge has been sustained far longer than in previous recoveries. This figure implies that the cumulative level of productivity gain achieved in this expansion to date is about 3 percent higher than in all other recent expansions. This means that the demand for labor in the entire U.S. economy is 3 percent lower than it would have been in previous periods, due to higher productivity — which would account for a difference of four million jobs. Simply put, productivity growth, not trade, is the primary driver of recent slow job growth.

Cumulative Productivity Growth in Quarters Following Trough of Recession
(measured in output per hour)



SOURCE: CED, with data from the U.S. Department of Labor, Bureau of Labor Statistics.

WE ARE NOT IN A “NEW ERA”

Some observers have labeled the current challenge as a new era in the economy that requires a new response.³ But while the pace of change may be formidable, the *nature* of economic change is entirely familiar. Call centers, for example, may only now be migrating to South Asia, but earlier they migrated from the Northeast to the farm states. Textile production left New England for the South before it located elsewhere. Similarly, while computers are an epochal technology, the economy has been transformed by other epochal technologies in the past — from the cotton gin to interchangeable parts to the automobile and the airplane. Even foreign outsourcing is not new. Foreign outsourcing has been continuing for decades — twenty years ago, the fear was that America’s children would grow up to “clean up around Japanese computers” — but

stronger domestic job growth made such developments of little concern to American workers. Only a recent cycle of slow job growth has brought attention to foreign outsourcing as a threat.

The reality is this: Change and growth are inseparable. The economy grows and our standard of living rises because new and better activities replace old and less productive ones. If that were not true, we would still be a nation of artisans and mule drivers, with a comparable standard of living. We may face an era of greater, ongoing economic change, but historically change has characterized our economy. Trying to restrict this age-old process would be counterproductive — an economic disaster. Helping the American people manage change is the only tenable response.

THE REALITIES OF OUTSOURCING

A plant closing and job loss from outsourcing are easy to observe. But that is not the end of the story. In a broader context, outsourcing is a source of job *creation* as well as destruction, and this “net” effect is the one on which we should focus.

Some jobs are obviously lost to foreign outsourcing. Forrester, a leading information technology analyst, predicts that about 473,000 information technology jobs — eight percent of all such jobs today — will migrate overseas in the next twelve years, and 3.3 million *total* jobs will be outsourced over the

next fifteen years.⁴ But while the jobs lost are real, less than 0.2 percent of American workers would be affected if Forrester’s predictions were to hold.⁵

Moreover, if outsourcing were truly a force for job loss, we would be losing our technology employment base.* But on the contrary, the Bureau of Labor Statistics, among other authorities, predicts that job growth from the present to 2010 in occupations requiring information technology skills will rise more than three times faster than the rate of job growth in the overall economy. Jobs for such

*See memorandum by PAULA STERN (page 34).

skilled positions as medical assistants and network systems analysts are predicted to grow by over 55 percent during that period.

Outsourcing has a positive effect because it is part of a larger and more positive process in the economy — the process of competition, in which more efficient suppliers gain business and drive costs down for the users of their goods and services. It leads to some jobs being moved, to be sure. But what matters even more are the productivity gains that are achieved through foreign outsourcing. These gains mean cost savings and enhanced competitiveness for U.S. companies, which lead to follow-on growth and job gains.

Software and services are outsourced because it brings down their costs, thus making the use of information technology in business practices more affordable. Through re-engineered business processes, efficient databases, and instantaneous communication, businesses will be able to produce goods and services in a more efficient and cost-effective manner. Thus, the greater diffusion of information technology throughout the U.S. economy will increase the demand for workers with technology skills. As Catherine Mann has noted, the result will be a wave of productivity

growth analogous to the one we experienced as computer *hardware* became cheaper in recent decades.⁶ The same technological innovations and management practices that produced outsourcing enable America to produce such competitive successes as eBay, Amazon, and Google, and thousands of new jobs along with them. The upshot, therefore, is that while the immediate and gross effect of outsourcing is negative, in the longer term, the net effect is positive.

An additional aspect of the outsourcing process is that the United States is the recipient of outsourced jobs from other countries, recently termed "insourcing." In fact, the United States is said to insource many more jobs than we outsource. Honda increased its U.S. manufacturing in 2003 by 15 percent; Novartis is moving its world-wide research and development operation from Switzerland to Massachusetts.⁷ In total, the affiliates of foreign (non-bank) companies operating in the United States accounted for 6.4 million American jobs in 2001, and jobs created by foreign direct investment into the United States equal those created by U.S. affiliates abroad. Insourcing firms account for a rising share of U.S. payroll, capital investment, and

HOW MANY JOBS WILL "OUTSOURCING" CREATE?

Estimates of jobs lost or gained need to be treated with circumspection. The number of jobs in the economy and the wages they pay are determined, of course, by the supply and demand for labor. When workers lose jobs, those workers don't disappear — some (typically, most) find other jobs — meaning that job "losses" do not necessarily mean more long-term unemployed, but could mean downward pressure on the wages of those workers. Correspondingly, however, as outsourcing makes the economy more productive, other jobs will be created, and those wages will potentially rise.

For example, Catherine Mann of the Institute for International Economics estimates that, in a comparable situation, outsourcing of computer hardware manufacturing resulted in productivity gains of 0.3 percent a year.[†] If outsourcing of computer software and services production were to produce comparable gains (which is entirely credible, as more is spent in the economy on these categories than on hardware), then the added 0.3 percent of income created will put upward pressure on both the number of jobs and wages. This is 50 percent greater than the estimated 0.2 percent direct loss of income due to outsourcing, according to Forrester. Thus, more income — and therefore jobs and wages — is *created* by outsourcing than is destroyed.

[†] Catherine Mann, *Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth*, Paper No. PB03-11 (Washington, D.C.: Institute for International Economics, December 2003).

research and development.⁸ By keeping its economy open, the United States continues to be a magnet for companies seeking an environment with the legal structure, economic and political stability, and property rights that foster innovation, productivity, and growth.

Moreover, researchers who have studied the characteristics of production plants have shown that plants managed by multinational

firms were *less* likely to shut down than their counterparts, because they generally have better characteristics: they are newer, more productive, more capital-intensive, and their workers are more productive, as measured by their wages.⁹ Outsourcing, therefore, by strengthening a company's competitive position, has the ability to make the remaining jobs more secure.

WHAT SHOULD BE OUR RESPONSE TO THE NEGATIVE EFFECTS OF OUTSOURCING?

There are important things we should *not* do, starting with limiting trade or investment patterns in the expectation that we can preserve jobs in one part of the economy without losing them elsewhere.

As a wide spectrum of analysts has noted, this type of "protection" forces the economy at large to subsidize the livelihoods of a select group of workers at the added price of lower growth and living standards. But the robustness of this "protection" itself must be questioned. The examples of industries that have used "protection" to regain competitiveness are few, if any. Instead, protection usually blunts the competitive forces that motivate and accelerate the inevitable adjustments. (And as the accompanying box on steel industry employment shows, because protected firms gradually fall further behind world-class standards, workers may still lose jobs in the end.)

Instead of this counterproductive exercise, CED believes we should adopt an active policy to assist *worker adjustment*. There are several strong reasons for doing so. Our failure to offer workers a practical and effective alternative to protection boosts the demand

for trade restraints and ties our hands in trade negotiations. It is perhaps the single most formidable obstacle to **getting to "yes" on trade**. And in large part for this reason, economists have long understood that the benefits of trade should be shared with those individuals who are displaced by trade. Moreover, in an economy that understands the virtue of flexibility and adjustment, we should have a strong set of policies to promote such adjustment.

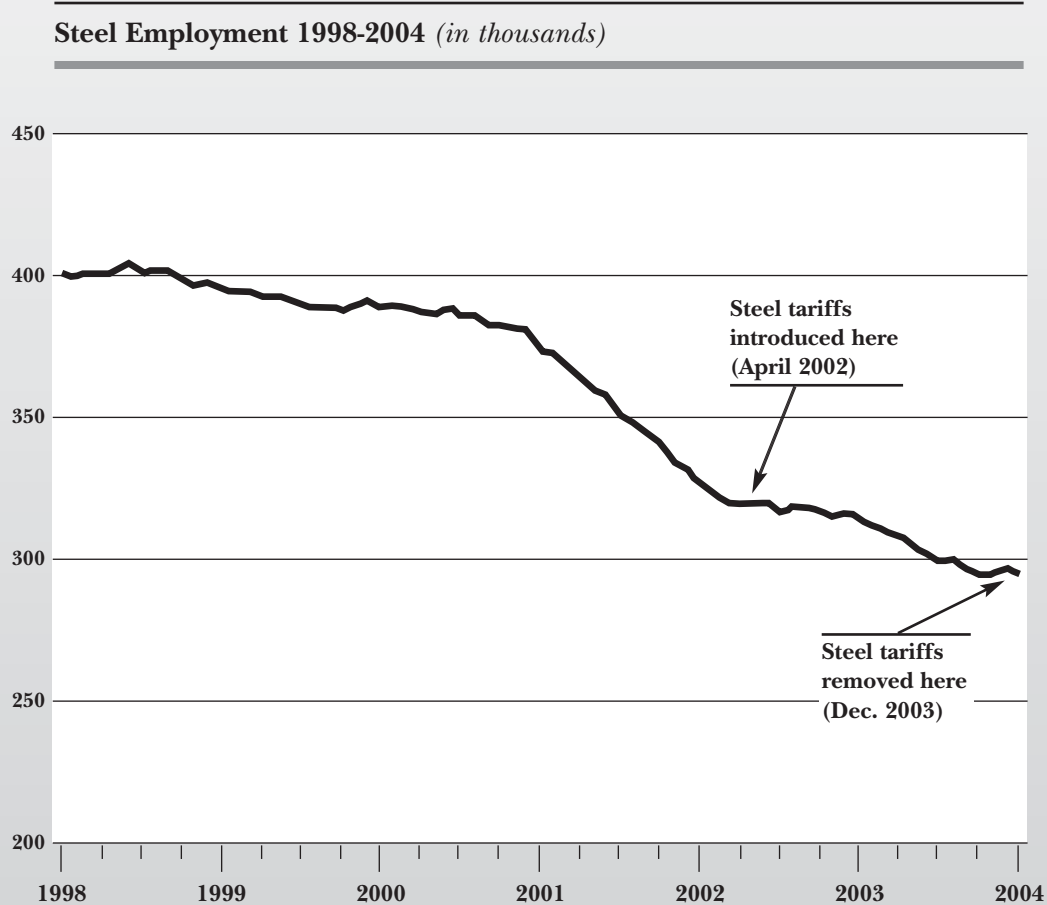
For that reason, CED strongly favors developing a national policy that explicitly supports workers and promotes adjustment in the face of trade. (In fact, we believe that this approach could, and should, be broadened to address economic change regardless of its source.) This effort will require a dialogue among groups that are now perceived to have diverging economic interests. We believe that American business leaders are especially well-positioned to take an active role in this effort and to generate support for policies that treat the economic losses of displaced workers as a serious economic problem that deserves a serious and thoughtful response.

DOES “PROTECTIONISM” PROTECT?

Opponents of open trade base their opposition, in large part, on the impact trade can have on jobs in affected industries. But it is unclear whether jobs can really be "protected" by erecting barriers to imports.

The imposition of steel tariffs in April 2002, for example, occurred in response to a surge of steel imports in the prior year. But as the chart below shows, the tariffs did little, if anything, to stop declining steel industry employment. This result is most likely the case because employers continued to pursue technological improvement and industry consolidation, which they well might have done even without protection. And this fact does not take into account employment losses in industries that use steel.

Workers are justified in fearing job loss, but implementing protectionist policies is not the solution. We need to combine the benefits of trade with efforts to create a conscientious *adjustment policy* that truly "protects" workers during times of dislocation.



SOURCE: CED with data from U.S. Bureau of Labor Statistics

OUR EXPERIENCE WITH TRADE ADJUSTMENT

Many displaced workers have access to unemployment insurance and to programs funded by the Workforce Investment Act.[†] More comprehensive and better-funded Trade Adjustment Assistance, or “TAA,” is available to the relatively small portion of the unemployed who have lost jobs due to trade (in 1999, 2.5 percent of the unemployed were certified TAA-eligible).¹⁰ These programs are accompanied by 150 different, and much smaller, federal training programs.¹¹

A variety of criticisms have been made of these efforts, the core of which is:

- they are discriminatory, in that service workers may not be covered by these programs, or that workers may be eligible for assistance if their plants move to Mexico, but not to China;
- they are fragmented, with 150 different programs supplying training alone;
- they are underfunded, which leads to meager benefits and leaves states running out of (federally appropriated) money before the end of the year, forcing them to ration program participation;
- their incentives are often inefficient. For example, they mandate training for all participants regardless of their status or the effectiveness of training, and provide minimal incentives for workers to get new jobs quickly; and

[†] Although 90 percent of the unemployed are covered by unemployment insurance, low take-up rates and high exhaustion rates mean a majority of the unemployed are not receiving benefits. Unemployment insurance has been updated only minimally since the 1950s and now offers questionable coverage to the growing portion of the population that is employed on a part-time or temporary basis, and, even if fully funded, providing lower generosity and length of benefits than is necessary to provide any real security for the unemployed. CED has already discussed recommendations to the UI program that would expand its coverage and allow it to work in conjunction with a program based on wage insurance. See *American Workers and Economic Change*, CED, 1996.

- TAA can entail a lengthy, inconsistent qualification process. Benefits are meant to pick up when unemployment insurance ends, but often do not transition as they should. Additionally, workers place their TAA applications at the time of job separation, and, therefore, cannot know until late in the process whether or not they will qualify. (The Labor Department, however, has recently been able to reduce the qualification period to 45 days. And, in theory, firms can petition for qualification prior to conducting a layoff.)

Moreover, expenditures on these programs are already significant. TAA in its various forms, coupled with existing adult training and education programs, accounts for about \$8 billion in the Administration’s 2004 budget request, before the \$46 billion cost of unemployment insurance. (Table 1, following this report, lists these programs.) Current expenditures for workers in transition, therefore, are already sizable, and programs with better incentives have the potential to get the same job done at lower cost. Moreover, worker adjustment programs could be financed substantially by subjecting programs that convey trade-distorting subsidies in areas such as agriculture to critical review. In sum, current resources should be deployed more efficiently and effectively; new resources should not be needed.

The economic costs from restraints on competitive trade are considerable. A recent U.S. International Trade Commission report estimated the direct economic losses due to trade restrictions at \$14 billion, with the losses centered in textiles and apparel.¹² Table 2 presents these losses, which are probably underestimates. They represent only the loss imposed directly on consumers that occurs

because of the higher prices created by trade restraints. For one, they do not include the costs of temporary steel tariffs, which were in place for part of the year. Moreover, they do not include the longer-term cost of lost dynamism and growth due to, for example, the misallocation of investment into protected sectors.

Table 3 shows another cost of protection — the cost of agricultural commodity programs. As a previous CED report discussed, these programs subsidize overproduction, which leads to dumping of farm products on world markets.¹³ As shown in Table 3, these commodity programs cost \$12 billion in 2003 and are estimated to cost \$11 billion in 2004. When all of these economic burdens — costs to consumers and costs to taxpayers — are put together, they displace resources adequate to fund an effective program for managing worker adjustment — that is, the economy would be far better off eliminating these obstacles to trade and funding adjustment directly.

There are signs of improvement in these programs that should be recognized. In 2002, Congress passed legislation that addressed many of these criticisms. It expanded TAA to include “secondary” workers; it provided a refundable tax credit for worker health insurance; it unified eligibility criteria for TAA and NAFTA-TAA; and it instituted a limited form of “wage insurance” (see Appendix 1). The appropriation for adjustment programs was increased as well. But these are only initial steps towards a comprehensive and workable program.

Adjustment policy should be focused on providing incentives to workers *to find new jobs as quickly as possible*. Currently, unemployment insurance (UI) provides a maximum of 26 weeks of cash benefits to workers who are laid off through no fault of their own, and a small fraction of workers may be entitled to addi-

tional income assistance through TAA.[†] These benefits are far from generous — they now provide \$250 a week to a family of four, an income below the poverty line — meaning they provide neither meaningful economic support nor any structural incentives (apart from the paltry level of benefits) for workers actively to seek reemployment.

Moreover, the adjustment program must begin with the reality that workers are continually displaced, even in a growing economy, and for reasons that often go beyond trade.¹⁴ Even as jobs grew plentifully in the 1990s, as many as eight million jobs a year were lost — though even more were created, and unemployment fell accordingly. As technology and structural change reshape the economy, there is the prospect of even more job “churn” in the future. A first principle of adjustment policy, therefore, is that it must shed the distinction between jobs lost to “trade” and to “other” influences. Similarly, as evidenced by the recent wave of service imports and outsourcing, it must address service workers as well as manufacturing workers. In short, **adjustment policy can, and should, address the broad workforce and not just any particular segment.**

In an appendix to this statement, we discuss several possible components of a national adjustment policy. Again, our purpose is not to advocate a specific and detailed plan that responds to each of the diverse circumstances of displaced workers. Rather, we hope to highlight some promising avenues for policy, and to generate support among business, labor, and civic leaders for an active and effective adjustment program.

[†] Most states provide a maximum of 26 weeks of UI benefits, though many workers never qualify for the maximum number of weeks. The NAFTA-TAA program was created as a result of the NAFTA Implementation Act of 1993. Workers are eligible for benefits provided there is certification of loss of job to Canada or Mexico. NAFTA-TAA is now a part of the TAA program.

CONCLUSION

This policy statement has considered many promising ideas regarding the design of a workable adjustment policy — one that provides *adequate coverage to an appropriately broad range of the unemployed while containing a balance of back-to-work incentives*. Such an approach must inherently involve some experimentation, because it is not possible to reach definitive conclusions about the efficacy of all of these programs. The most important next step is to recognize that adjustment policy is vital to achieving free trade — which, in turn, is vital to the nation’s economic future. Therefore, we need to develop the national will to devise and fund such a policy in order to reach a consensus to *get to “yes” on trade*. **CED, through its network of business and academic members, intends to generate national support for this agenda, which will include an active and effective adjustment program.** CED’s goal is to make effective and workable adjustment assistance a key national priority and an equally compelling aspect of the effort to promote free trade rather than protectionism.

The approach to the agenda discussed in this policy statement must be bipartisan and include collaboration among government, the private sector, and organized labor to ensure outcomes that address the needs of individuals adversely affected by economic competition. There are key elements in both Democratic and Republican agendas that point towards effective approaches. The Clinton administration stressed the theme of personal responsibility — the need for each individual to take responsibility for his or her actions and future. The George W. Bush administration has stressed the importance of government support for institutions such as community colleges that can provide the necessary training or retraining for those individuals who seek training or retraining in the wake of economic hardship. We hope that organized labor will participate actively and productively in this effort and that we can find additional support — community development programs, faith-based initiatives, and non-profit and charitable assistance — for those individuals who, for whatever reasons, are unable to benefit from or use adjustment policy.

SUPPLEMENTAL TABLES

TABLE 1: Expenditures on Training and Unemployment Programs

In millions of dollars

Category	2000	2001	2002	2003	2004 estimate	2005 estimate
Education						
Impact aid	875	1,021	1,116	1,103	1,331	1,224
Vocational and adult education	1,448	1,651	1,742	1,908	1,870	1,975
Health and Human Services						
Job opportunities and basic skills training program	15	4	23	0	0	0
Labor						
Training and employment services	2,957	3,132	4,206	4,291	3,656	3,623
Community service employment for older Americans	99	102	99	98	107	97
Welfare to work jobs	527	659	500	312	181	2
Unemployment Insurance						
State unemployment insurance and employment service operations	225	119	157	167	157	190
Federal unemployment benefits and allowances	133	141	142	212	233	253
Unemployment trust fund	961	1,100	1,040	1,071	1,071	394
Unemployment assistance payments to individuals	21,139	28,341	51,207	55,049	46,169	41,082
Total	28,379	36,270	60,232	64,211	54,775	48,840

SOURCE: Budget of the U.S. Government, FY 2005, Historical Tables

TABLE 2: Economic Costs of Import Restraints, by Sector

In millions of dollars, 2002

Sector	Change in economic welfare
Simultaneous liberalization of all significant restraints	14,133
Individual liberalization	
Textiles and apparel	11,759
Sugar	1,089
Footwear and leather products	720
Tobacco and tobacco products	145
Canned tuna	71
Beef	66
Watches, clocks, watch cases and parts	65
Ball and roller bearings	58
Ceramic wall and floor tile	50
Dairy	30
Table and kitchenware	22
Costume jewelry	22
Glass and glass products	8
Peanuts	6
Pens, mechanical pencils, and parts	3
Cutlery and handtools	1

SOURCE: USITC estimates

TABLE 3: Farm Service Agency, Commodity Program Outlays
In Millions of Dollars

Program	2003 Actual	2004 Estimate
Commodity:		
Feed Grains	1,572	3,778
Wheat	1,118	1,796
Rice	1,279	1,198
Upland Cotton	2,889	1,163
Tobacco	179	20
Dairy	2,494	1,919
Soybeans and Products	933	579
Minor Oilseeds	41	31
Peanuts	1,562	625
Sugar	-84	-25
Honey	1	6
Wool and Mohair	20	14
Other Crops	120	62
Subtotal	12,124	11,166
Disaster Assistance	2,119	504
Other (a)	304	760
Total, Commodity Programs	14,547	12,430

(a) Includes working capital, interest, operating expenses, reimbursement agreements, and an adjustment for Food and Progress commodity purchases.

SOURCE: Budget of the United States Government, FY 2005.

APPENDIX 1: WHAT IS AN ALTERNATIVE APPROACH?

The cornerstone of an alternative approach is getting the unemployed back to work promptly. The 2002 legislation took the first steps towards improving incentives by implementing a proposal that has recently been popularized by economists Lori Kletzer and Robert Litan (2001) and that builds upon suggestions from Gary Hufbauer and Howard Rosen (1986).¹⁵ Under this proposal, displaced workers would be offered wage and health insurance in a way that encourages them to seek reemployment quickly.[†]

The Kletzer-Litan “wage insurance” proposal, which CED endorsed in 2001, would pay workers a fraction of the income loss associated with a new job for a two-year period following the initial date of their job loss, regardless of the reason for their displacement, upon reemployment.¹⁶ Furthermore, it would provide a health insurance subsidy for a six-month period upon reemployment. This support would not be paid until a new job is found, which would encourage individuals to seek reemployment promptly. But once they were reemployed, workers could preserve their existing skills and acquire new ones to make them more productive and more valuable in the long run, while receiving payments that would partially offset their income loss for a significant transition period. This program’s non-discriminatory nature is better suited for today’s economy than programs that single out trade alone as a cause for action. These programs recognize that prompt reemployment is the

best option for preserving skills and productivity, income, and workers’ families. And by replacing the scattered clutter of adjustment programs with a centralized and streamlined format, these programs give workers easier access to the assistance and confidence in its availability.

Both the wage insurance and complementary health insurance programs would be funded by general revenue and administered through state unemployment offices. To contain costs, wage insurance benefits would be provided only to formerly full-time workers who were at their old job for two years or more. Assuming a 50 percent reimbursement of wage losses and a sustained unemployment rate of about 5.6 percent, the program would cost about \$4.5 billion to \$5.0 billion annually.¹⁷ These costs could be substantially offset by substituting this program for some of the TAA programs, by getting workers to “opt out” of other TAA benefits.¹⁸

Updates to the TAA program in 2002 authorized wage insurance that covered 50 percent of the wage loss a worker experiences so long as she or he is TAA-eligible, over fifty, and has an income under \$50,000, up to a maximum benefit of \$10,000. Moreover, displaced workers can now receive a 65 percent advanceable, refundable tax credit on their health care premiums, meaning the government pays this portion of the premium directly to the provider out of the individual’s withholding. This is a commendable start towards a universal wage insurance program. Another program, similar to the Kletzer-Litan approach, would offer an account from which an unemployed worker could draw funds, and upon reemployment within a certain time frame, the worker could receive the rest

[†] Displaced workers are defined by the Bureau of Labor Statistics in its Displaced Workers Surveys as those “persons 20 years of age and older who [in the last 3 years] lost or left jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished.”

of (or a portion of) the account balance as a one-time bonus. Reemployment bonus programs have been implemented on an experimental basis in Illinois, New Jersey, Pennsylvania, and Washington. The characteristics of the programs vary, as do the results, but initial findings indicate that appropriately targeting such bonus programs may well lead to net social benefits.¹⁹

This type of wage insurance program is unlikely to work for some displaced workers. Many observers of the labor market express the concern that older workers, less-skilled workers, and workers in communities that lack economic diversity may have relatively few options if they lose existing jobs. This situation is particularly true as the age required to receive Social Security benefits begins to move back in the years ahead.

There is no clear-cut answer as to how to address this subset of the labor force. Our policies should have maximum incentives to find new employment, but for this segment of the workforce, employment opportunities simply may not exist in nearby communities. This problem is distinct from the re-employment problems that characterize most displaced workers.

THE ROLE OF EDUCATION AND TRAINING

Education and training are important parts of adjustment policy, but they are not a solution to the problem of adjustment. Too many workers are being “trained for nothing,” and the result is that many workers approach training with cynicism and mistrust. Classroom training for displaced workers, including community colleges, while laudable, consistently shows marginal if not negative returns.²⁰ That is, most unemployed workers who attend classroom training do not become employed more quickly nor immediately earn higher wages than a control group that received no such training. But the message of this result is unclear. It may well be

that those unemployed who can readily find new employment have relevant skills, or the aptitude to learn them, and do not participate in these programs, while those who do not have the skills to match themselves to existing jobs take training, perhaps to fill the time while seeking a new job with limited skill requirements. If this is true, then we may be asking the “retraining” institutions to do the job that our K-12 education system should be doing. And yet, current TAA programs require workers to receive training as a prerequisite for receiving other benefits.

In contrast to “classroom” training, there is widespread belief that on-the-job training yields substantial benefits, even if it often is informal and impossible to isolate and measure.²¹ But this idea makes intuitive sense; the most productive type of training prepares a worker in a hands-on manner for specific real-world tasks. This is an additional strength of the wage insurance proposal, which subsidizes workers’ finding new jobs promptly and allows them to upgrade their skills in the context of a specific job.

Training should not be a requirement or precondition. Moreover, it should, whenever possible, be tied directly to the needs of existing employers. But it should be made available to those who think they can benefit from it. Classroom training is now available to qualifying unemployed workers through the One-Stop job centers that the Workforce Investment Act requires states to manage. Unemployed workers who are considered most needy by their state may be given an Individual Training Account — capped at \$1,000 to \$10,000 by state law — to apply toward the training program of their choosing.

THE IMPORTANCE OF JOB-SEARCH ASSISTANCE

Job-search assistance, which uses workshops, counseling and other activities to teach job-search skills, is much less expensive

than classroom training but appears to produce net social benefits, including speedier reemployment and higher wages than control groups.²² Job-search assistance programs vary, and more research is needed to determine which programs and treatments yield the best results. Basic job-search assistance is available to all through the One-Stop centers, but the treatments available to all are not as extensive and individualized as those that have produced the best results in experimental conditions. There is some basis for believing that these centers can work if the staff is well trained in matching workers' situations to the resources offered by the centers. The presence of the Internet promises to improve dramatically the search abilities of workers seeking jobs. And improvements and expansion of such programming seem to offer the most promise for getting displaced workers back to work.

OTHER ADJUSTMENT POLICIES

Employee health care is a major concern. More employers are being forced to question whether they can afford to provide health care as costs mount, even though most analysts believe health-care costs are ultimately traded off against cash wages. The Consolidated Omnibus Budget Reconciliation Act of 1986, known as COBRA, allows severed workers to continue to purchase health care through an employer at full price (the employer need not make any cash contribution) for up to eighteen months. But only a small minority of workers uses this benefit, largely due to cost. The 2002 reforms of TAA included a Health Coverage Tax Credit (as discussed above), a refundable tax credit that pays 65 percent of a displaced worker's health-insurance premiums for up to two years. But program participation has been very low, as the remaining 35 percent of the premium is still a significant burden for many workers, especially for insurance purchased in the individual market.²³

But these programs do not capture the full importance of health care. The U.S. health-care system faces significant financing challenges in the years ahead, particularly in maintaining the high quality of services that workers expect. A strong health-care system must remain a key driver in future productivity gains for the U.S. economy. Fixing the system so that workers can change jobs with portable health insurance is one way.[†] A workable health-care program for displaced workers is a necessary part of a comprehensive adjustment program. But their problems only underscore the need for broader health-care-sector reform.

Martin Feldstein and Daniel Altman (1998) have proposed a system of Unemployment Insurance Savings Accounts (UISAs), in which individuals would be required to save up to four percent of wages annually.²⁴ The funds in these accounts could be drawn down in the event of unemployment. If such funds are exhausted, the government would then loan money to the account. Positive balances at retirement become retirement income and at death are bequeathed. Negative balances at retirement age, anticipated to be relatively rare, are forgiven. The taxpayer cost of forgiving negative balances is estimated to be less than half the taxpayer cost of the current UI system. With USIAs, individuals fully internalize the cost of unemployment compensation. Feldstein and Altman believe this system would provide the same protection to the unemployed as the current UI system but with fewer adverse incentives.

Joseph Stiglitz and Jungyoll Yun (2002) further the personal-account concept by combining it with personal pension savings.²⁵ Contributions to a combined unemployment insurance and retirement insurance account could be withdrawn by unemployed individu-

[†] In a 2002 report, CED presented a set of specific reforms that included enhancing patients rights, expanding coverage eligibility to part-time workers, and helping low-income workers utilize government funded health-care programs. For the full report see *A New Vision for Health Care: A Leadership Role For Businesses*, CED, 2002.

als to finance periods of unemployment. This approach would be optimal when the duration of unemployment is short compared to employment or retirement. A back-up, tax-funded lifetime unemployment insurance program could assist those with extraordinary loss from unemployment. The gains from this type of combined program are a result of integrating social insurance programs rather than having separate programs covering separate risks.

CED finds the idea of personal savings accounts that allow workers to save in anticipation of future dislocation attractive, but it poses difficulties in practice. There are many workers for whom such an account would not be a solution; a worker earning \$20,000 annually would be able to save only \$800 each year (at the four percent contribution rate), which would do little to provide a real cushion — leaving aside whether such saving was possible, given its drain on an already modest standard of living. Moreover, should a worker accumulate a sizable account, there would be temptations to manage job changes to draw down the funds after enjoying the tax advantages.

Relying primarily on these savings accounts also undermines the risk-pool nature of unemployment insurance. A national unemployment insurance pool allows workers in different sectors and regions to share risks beyond their control. Individual savings

accounts create millions of different pools with one participant each. It seems likely that many unemployed workers will find these accounts inadequate, while workers who are not displaced will find them superfluous. Nevertheless, this proposal could supplement usefully the wage-insurance approach discussed above.

An alternative model would be to use employers to deliver assistance to workers whose jobs are threatened. Government could provide tax credits to keep jobs in place, or training to prepare workers for new jobs in their own firms or elsewhere. This approach could prove administratively difficult, because it could be hard to determine which firms should be eligible, and which and how many employees should receive assistance. Assistance would have to be temporary, and carefully designed in other respects, to ensure that it not become an extended subsidy for uncompetitive enterprises. Still, this model should be considered as alternative approaches are discussed.

There are other policies that merit mention. Pension portability remains an issue for many workers. Bankruptcy proceedings often consume pension assets and subordinate the claims of workers to other creditors. Workers might, for example, be deemed to be vested when a company files for bankruptcy to elevate their claims against existing assets.

APPENDIX 2: SUMMARIES OF RELATED MATERIALS

INTRODUCTION

This appendix contains summaries of materials relevant to the discussion on outsourcing, trade, and adjustment policy. Some of the materials were referenced explicitly in the text; others were used to establish the background body of knowledge drawn from in this piece. The materials were selected to be a diverse, representative sample of the views and statements currently being publicized, whether in agreement with CED's views or not. Though we cannot include all of the detail of many of the longer pieces in this space, every attempt has been made to keep

the summaries true to the intent of the authors.

The summaries are presented alphabetically within the following topic headings:

- Current State of Domestic Jobs
- Foreign Outsourcing
- Trade Policy
- Adjustment Assistance/Unemployment Insurance Reform
- Education/Training for Displaced Workers

CURRENT STATE OF DOMESTIC JOBS

Andrew Stettner and Jeffrey Wenger, *The Broad Reach of Long-Term Unemployment*, Issue Brief # 194 (Washington, D.C.: Economic Policy Institute).

Recent long-term unemployment has unique characteristics. Many of the unemployed are skilled workers: college graduates, mid-career individuals (age 45+), or professionals and executives. The proportion of these groups among the long-term unemployed has been gradually increasing. The primary problem is that there is a lack of available jobs. The problem has to be fixed by creating enough jobs for all the workers who want one. Tax cuts impede the necessary reforms, which primarily entail expanding unemployment insurance.

Congressional Budget Office, "What Accounts for the Decline in Manufacturing Employment?" *Economic and Budget Issue Brief* (February 18, 2004), Available at <www.cbo.gov/

showdoc.cfm?index=5078&sequence=0&from=7> Accessed on February 19, 2004.

Five explanations are presented. First, the loss of jobs in the recent recession and recovery has been significantly worse than in a typical recession. Second, the share of consumer spending devoted to manufactured goods has declined over time both in the United States and in other industrialized countries. Third, over recent decades, U.S. manufacturers have continually invested in more and better capital goods and manufacturing techniques in order to remain competitive in world markets. Fourth, the expansion of trade increased competition from foreign producers. Lastly, manufacturing employers increasingly have met short-term fluctuations in demand not by adding permanent staff but by hiring temporary workers through agencies and by contracting with outside firms to provide certain support functions (for example, cafeteria, janitorial, and payroll processing services).

Erica L. Groshen and Simon Potter, “Has Structural Change Contributed to a Jobless Recovery?” Federal Reserve Bank of New York, *Current Issues in Economics and Finance*, vol. 9, no. 8, (2003).

The recovery from the 2001 recession has, so far, consisted of growth in productivity and output but no growth in jobs. An analysis of layoff trends and industry job gains suggests that structural change — permanent relocation of workers from one industry to another — is a much larger component of the 2001 recession than in recessions before, slowing job growth.

Jon E. Hilsenrath and Rebecca Buckman, “Factory Employment Is Falling World-Wide,” *The Wall Street Journal*, October 20, 2003.

Manufacturing job loss is not a uniquely American problem — it is a global one. Contrary to labor-union complaints, Americans are not the biggest losers in terms of manufacturing jobs. The United States lost 11.3 percent of manufacturing jobs from 1995 to 2002, while South Korea, Russia, the U.K., China, Japan, and Brazil all lost higher percentages of manufacturing jobs. Labor unions complain that U.S. manufacturing jobs are fleeing to China and India, though China lost 15.3 percent of manufacturing jobs and India experienced no change in manufacturing employment over the same period.

Manufacturing productivity is picking up, more than making up for the losses in employment (manufacturing output rose more than 30 percent from 1995–2002). The scale of this change is reminiscent of the shift from agriculture to industry in the first half of the 20th century.

Josh Bivens, *Shifting Blame for Manufacturing Job loss: Effect of rising trade deficit shouldn’t be ignored*, (Washington, D.C., Economic Policy Institute, April 2004).

Bivens refutes the claims that either changing demand patterns or rapid productivity growth are the cause of manufacturing's decline. He cites three factors influencing the manufacturing industry. First, the demand for manufactured goods as a share of total demand in the United States has actually grown over the past ten years; second, the rising trade deficit has led to an unprecedented divergence between domestic manufacturing output and demand; lastly, the rising trade deficit in manufactured goods accounts for about 58 percent of the decline in manufacturing employment between 1998 and

2003, and 34 percent of the decline from 2000 to 2003. He proposes a balance of import and export flows by encouraging a “further (and wider) depreciation of the U.S. dollar to make domestically produced goods more competitive on global and domestic markets.”

“Smile, these are good times. Truly,” *The Economist*, March 13, 2004.

The Economist argues that the jobs lost have been cyclical, not structural. Lawrence Katz argues that “it is implausible now to think that outsourcing has profoundly changed the structure of the American economy over just the past three/four years. Outsourcing was in full swing in both the manufacturing and services sectors during the job-creating 1990s.”

“SPECIAL REPORT: Where Are The Jobs?” *BusinessWeek*, March 22, 2004.

The real culprit in this jobless recovery is productivity, not offshoring. Unlike most previous business cycles, productivity has continued to grow at a fast pace right through the downturn and into recovery. One percent of productivity growth can eliminate up to 1.3 million jobs a year. “With productivity growing at an annual rate of 3-3.5% rather than the expected 2-2.5% the reason for the jobs shortfall becomes clear: Companies are using information technology to cut costs — and that means less labor is needed.” For all the uncertainty about the future, an economy driven by productivity growth is far superior to the alternative. Even without job growth, Americans are collecting the benefit of higher productivity through rising wealth and lower prices.

“Speed Bumps on The Road to More Jobs,” *BusinessWeek*, April 5, 2004, pg. 41.

Companies identify and implement new efficiencies, allowing them to meet increasing demand without having to increase hiring. Businesses have rarely, if ever, faced such an overwhelming set of economic disincentives to hire U.S. workers. Capital has never been so cheap relative to the cost of labor; the price of new equipment is continuously decreasing and low interest rates make financing cheap. “Globalization is exerting an even greater drag on hiring in this recovery. Thanks to cheap communication lines and technological advances, U.S. companies can tap foreign workers to perform more jobs in the service sector, which had become the main engine of job growth in past recoveries.”

Stacey L. Schreft and Aarti Singh, "A Closer Look at Jobless Recoveries," *Federal Reserve Bank of Kansas City, Economic Review*, vol. 88, no. 2 (2003), pp. 45-67.

The first year of each of the post-1990 recoveries was jobless. Companies employed more part-time and temporary workers and expanded overtime, rather than adding permanent jobs amidst uncertainty. The increased use of flexible labor is favorable for the economy overall, providing more efficient use of resources and quicker adjustment to shocks. But this trend may be bad news for workers who are forced into part-time and temporary work with lower pay, less stability, and fewer benefits than permanent jobs.

Steven J. Davis, John C. Haltiwanger, and Scott Schuh, *Job Creation and Destruction* (Cambridge, MA: MIT Press, 1996).

Chapter 2:

In the United States, job creation and destruction is:

- **Large in magnitude:** Job creation and destruction rates are high, as evidenced by data from the manufacturing sector. On average, from 1973–1988, 10.3 percent of manufacturing jobs were destroyed each year, while job creation rates within the sector averaged about 9.1 percent. Thus, even in years where unemployment rates remained unchanged, a large portion of the labor force changed jobs.

- **Persistent:** Most jobs that are destroyed fail to re-open at the same location within two years.
- **Concentrated:** Two-thirds of all job creation and destruction in the manufacturing sector from 1973 to 1988 was the result of a dramatic event (the start-up or shut-down of a business or a large scale expansion or contraction), and one quarter of job destruction takes place at plants that shut down.
- **Cyclical:** Recessions are characterized by sharp increases in job destruction, and a mild slowdown in job creation.

U.S. Department of Labor, Bureau of Labor Statistics, "BLS Releases 2002–12 Employment Projections," (press release, Washington, D.C., February 11, 2004).

Total employment for the next decade is projected to increase by 21.3 million (15 percent). Growth will be concentrated in the service-providing sector of the economy. Education and health services and professional and business services represent the industry divisions with the strongest projected employment growth, twice as fast as the overall economy. Information, leisure and hospitality, and transportation and warehousing are other service-providing industries that are projected to grow faster than average.

FOREIGN OUTSOURCING

Catherine Mann, *Globalization of IT Services and White Collar Jobs: The Next Wave of Productivity Growth*, Paper No. PB03-11 (Washington, D.C.: Institute for International Economics, December 2003).

In the 1990s, the globalization of IT hardware led to lower hardware prices, increased IT usage, and higher productivity growth. As IT software and services are beginning to be produced globally, costs of these services will decrease, further diffusing technology and transforming the U.S. economy. Though some jobs will go overseas, demand for workers with IT skills and proficiency will increase and a second wave of productivity growth will follow.

Furthermore, Mann warns against the risks of being ill-prepared for this process: "In the end, globalization of software and services, enhanced IT use and transformation of activities in new sectors, and job creation are mutually dependent. Breaking the links, by limiting globalization of software and services or by restricting IT investment and transformation of activities or by having insufficient skilled workers at home, will put the entire prospect for robust and sustainable U.S. economic performance at risk."

Charles Schumer and Paul Craig Roberts, "Second Thoughts on Free Trade," *The New York Times*, January 6, 2004. (see also: *The Brookings*

Institution, Event Summary: Free Trade in the New Global Economy (Washington, D.C.: The Brookings Institution, January 2004) available at <www.brookings.edu/comm/op-ed/20040107trade.htm> Accessed on January 8, 2004).

A “seismic shift” in the world economy has been brought on by three major developments:

- Political stability allowing capital and technology to flow more freely;
- Stronger educational systems in the developing world; and
- IT communications allowing work forces to be situated almost anywhere.

These developments mean that multinational organizations are cutting costs by shifting operations — and factors of production — to low-wage countries. Because traditional Ricardian arguments in favor of free trade assume that factors of production are immobile, those arguments must be reexamined.

“When American companies replace domestic employees with lower-cost foreign workers in order to sell more cheaply in home markets, it seems hard to argue that this is the way free trade is supposed to work.” “...If the case for free trade is undermined by changes in the global economy, our policies should reflect the new realities.”

Daniel W. Drezner, “The Outsourcing Bogeyman,” *Foreign Affairs*, May/June, 2004.

Because of the economy’s slow job growth, commentators are drawing the conclusion that offshore outsourcing is causing unemployment. This assertion is compelling, but wrong. Much of the data that is being used to suggest that large numbers of jobs are moving overseas reflect gross, not net, job losses. The profits attained from outsourcing help create new jobs domestically. Furthermore, close to 90 percent of U.S. jobs require geographic proximity, and cannot be sent offshore. Forrester’s often-cited prediction that 3.3 million jobs will be lost to foreign outsourcing over the next fifteen years translates into an effect on 0.2 percent of all employed Americans. And outsourcing is not on the rise, rather, the value of business process outsourcing deals in the United States fell by 32 percent in 2003. Because outsourcing is not the source of America’s slow job growth, Drezner suggests that current pushes for protectionism should not be entertained, and that adjustment support, such as TAA and targeted insurance policies, should be strengthened.

Douglas A. Irwin, “‘Outsourcing’ Is Good For America,” (Washington D.C.: American Enterprise Institute for Public Policy Research, February 2004).

“Critics argue that ‘outsourcing’ of service sector employment to foreign countries will lead to a serious decline in U.S. white-collar jobs. In reality, outsourcing will reshape but not undermine U.S. service sector employment, making companies more efficient. It will also benefit consumers and export businesses.” Between 1995–2002, China, Japan, Brazil, and other countries lost more manufacturing jobs than did the United States, according to an Alliance Capital Management study. Just as low-wage China has not taken all of manufacturing jobs, low-wage India is not going to take all service sector jobs. Service producers will become even more specialized, and will have to seek new ways of improving their efficiency and productivity.

Jacob F. Kirkegaard, *Outsourcing — Stains on the White Collar?* (Washington, DC: Institute for International Economics, February 2004).

Kirkegaard uses data from the end of 2003 to define and distinguish between outsourcing, white-collar workers, services jobs, and offshoring. “Jobs have been lost non-uniformly across different states with some gaining and others losing jobs, suggesting that no singular nationwide trend other than the regular business cycle is occurring.” The U.S. economy every quarter generates many more jobs than are projected to be lost to foreign outsourcing over the next decades.

McKinsey Global Institute, *Offshoring: Is It a Win-Win Game?* (San Francisco: McKinsey Global Institute, August 2003).

Offshoring is likely to be a win-win game — creating benefits domestically as well as in emerging economies like India. The U.S. economy will be able to create jobs faster than offshoring eliminates them, and offshoring creates wealth in the United States, with a rate of return estimated to be \$1.12-\$1.14 for every dollar spent offshoring. Offshoring keeps U.S. companies competitive, and efforts to limit offshoring will adversely affect economic growth in the United States. Furthermore, offshoring provides needed access to workers as the U.S. population ages and a greater share of workers retires. Opposition to offshoring continues because the wealth created from offshoring does not effectively offset the hardships it creates for some of those who lose jobs in its wake. MGI suggests that with just four to

five percent of the savings from offshoring, companies could insure workers against wage loss. Their proposal would include compensating those unemployed by offshoring, once reemployed, with 70 percent of wages lost between their old and new jobs, for a period of two years.

“Offshoring: Stolen Jobs?” *The Economist*, December 13, 2003, p. 14.

Increasing trade in services is much like trade in goods. Politicians are fighting trade in services because the jobs lost to outsourcing are easy to spot, but the even greater gains are less visible. Like trade in goods, trade in services forces painful redistributions of labor. But fears that foreigners will take away America’s skilled jobs should be eased by two thoughts:

- Innovation requires the right culture to flourish, and America’s tradition of embracing new ideas and fostering innovation will continue to be an asset.
- Innovation abroad makes everyone richer. Trade in services will reap benefits as trade in goods has.

“Relocating the back office,” *The Economist*, December 13, 2003, p. 67.

The United States has reduced the number of H1-B visas (the type used by Indian computer programmers) to 65,000 from 195,000 to reduce the number of foreign workers that enter the country for training and employment. But this could backfire, as the real problem may be a lack of suitable engineering graduates, forcing U.S. companies to shift even more work abroad.

The advantages from offshoring are more than just lower labor costs. Offshoring allows companies to work round-the-clock shifts, offers new ways of thinking about IT problems, and may help ease the effects of the demographic crunch being felt by countries whose working population is falling relative to the total population. But there are limits to offshoring, as some jobs require local knowledge, and there are natural limits to the shifting of certain service jobs, such as in the hotel and restaurant industries. So far, only three to four percent of American companies’ outsourcing has gone to overseas markets.

Robert E. Litan, “Foreign Outsourcing: Bane or Boon? And What To Do About It” (draft, Ewing Marion Kauffman Foundation, Kansas City, MO).

Japan was seen as a threat to the U.S. economy in the 1980s, with its exports of automobiles and

electronics to the United States. Today, the villains are considered to be China, India, Russia and Southeast Asia, where American companies are “outsourcing” clerical jobs, software programming, and even research and analytical jobs to countries where labor costs are far lower than they are in the United States. Economic theory and past economic performance suggest that, on balance, outsourcing provides net benefits to the economy. The responsible course is not to prevent outsourcing or even slow it down, but instead to ease the inevitable dislocations that arise from it and all other productivity-enhancing improvements.

Robert Reich, “High Tech Jobs are Going Abroad!” *Washington Post*, November 2, 2003.

Former labor secretary Reich finds that the number of jobs going overseas is not a threat to the U.S. labor force because the number of high-tech jobs outsourced still accounts for a small proportion of the U.S.’s 10 million IT workers. Even if the number of jobs outsourced increases, the overall percentage of high-tech jobs going overseas is still relatively small. High-tech work will not shift entirely abroad because, unlike manufacturing and telecommunications, this industry entails a process of innovation.

Robert Scott, *Insourced Investments Lead To Imbalanced Trade*, (Washington, D.C.: Economic Policy Institute, April 2004).

Scott explains the U.S. trade deficits of foreign-owned firms by observing the Bureau of Economic Analysis (BEA) data on export, import and trade balances of foreign-owned companies operating in the United States. He concludes that the surging trade deficits of “foreign-owned companies in the United States are evidence that insourcing is worsening the U.S. trade deficit.”

“The Rise of India,” *BusinessWeek*, December 8, 2003.

The focus on India as the U.S.’s economic opponent is largely because Indian workers are penetrating America’s core — working their way up the economic food chain and performing tasks that require higher levels of skill, analysis, and creativity. While China specializes in performing manufacturing tasks (14 percent of U.S. output), India specializes in service tasks (60 percent of the U.S. economy), and is positioned to have a much greater impact on the U.S. economy. The adjustment in the U.S. economy has been particularly difficult, as only 36 percent of Americans dis-

placed in the previous twenty years have found jobs with equal or higher pay, contributing to recent backlashes against outsourcing. Indians are aware of the backlash in the United States, and they are investing in infrastructure and education to increase competitiveness.

United States Chamber of Commerce, *Jobs, Trade, Sourcing, and the Future of the American Workforce*, (Washington, DC: U.S. Chamber of Commerce, April 2004).

The U.S.'s openness to the world economy creates jobs in many ways. Beyond exporting to consumers abroad, foreign direct investment in the United States, tourists, and foreign students all support the U.S. economy. Maintaining open trade relations is crucial to the U.S. economy, and, in response to the perceived threat of outsourcing, the Chamber recommends a plan that includes:

- Removing domestic impediments to job creation;
- Providing greater assistance to Americans whose jobs have been lost to outsourcing;

- Reforming and expanding education and training;
- Spurring innovation and basic research;
- Opening markets and leveling the playing field;
- Reforming immigration rules; and
- Modernizing entitlement programs.

Walter B. Wriston, "Ever Heard Of Insourcing?" *The Wall Street Journal*, March 24, 2004.

Wriston identifies foreign companies that off-shore jobs into the United States. More jobs are imported than are exported due to the attractiveness of our stable political environment, relatively low corporate tax rate, and growth in productivity. "The latest figures show that as German and Japanese auto makers, foreign drug companies and banks outsource to the U.S., some 6.4 million American jobs were created in 2001, up from 4.9 million in 1991." Some 34 percent of these imported jobs are in the manufacturing sector.

TRADE POLICY

Andrew B. Bernard and J. Bradford Jensen, *Firm Structure, Multinationals, and Manufacturing Plant Deaths*, Working Paper No. 9026 (Cambridge, MA: National Bureau of Economic Research, June 2002).

Bernard and Jensen examine the role of firm structure in manufacturing plant closures. They find that plants belonging to multi-plant or multinational firms are less likely to exit over a five-year period. This fact is due to the quality of the plants, rather than the nature of the firms.

Bob Davis, "Wealth of Nations: Finding Lessons Of Outsourcing In 4 Historical Tales," *The Wall Street Journal*, March 29, 2004.

Observing historical trends of the introduction of new technology and its ramifications on the labor market from the Luddite rebellion against mechanization of the wool industry in 1811 to the Smoot-Hawley tariff in 1930, Davis shows that politics can arrest what seems like unstoppable technological progress.

Chairman Alan Greenspan, "Remarks on Economic Flexibility," Federal Reserve Board, Washington, D.C.: January 26, 2004.

Currently, high flexibility allows for the economy's ability to withstand and recover from shocks. However, there is an evident trade off between flexibility and job security. Producers compete to provide lower prices, and they look for lower input prices globally. This especially affects labor, as low-wage countries such as China attract U.S. firms to hire abroad. Therefore, retraining for new job skills that meet the evolving opportunities created by our economies has become an urgent priority. The process is difficult for those in the job-losing segment. Nevertheless, flexibility provides more benefits than costs, as it ameliorates the business cycle. If we give in to the whim of increasing trade barriers to protect jobs from imports, our standard of living will go down.

Christopher Swann, "Economists see NAFTA as being beneficial for US jobs," *Financial Times*, February 24, 2004.

The article cites the work of Gary Hufbauer, senior fellow at the Institute for International Economics. He notes, “the problem for advocates of the pact is that the losers from free trade are easy to identify and have faces, whereas those who have benefited are invisible and unaware they have been helped.” Between 1993–2003 trade within NAFTA doubled, while trade by NAFTA countries with the rest of the world has risen by 42 percent. Economists say some U.S. manufacturers would have shifted parts of their production to lower cost countries even without NAFTA.

Committee for Economic Development, *American Workers and Economic Change* (Washington, D.C.: Committee for Economic Development, 1996).

In the face of increased worker dislocation and sweeping economic change, CED recommends adjusting to and exploiting the opportunities of an increasingly technology-driven, fast-paced economy, rather than stifling development with protection, regulation, and subsidies. To ensure competitiveness and ease adjustment, CED recommends a strategy including:

- *Creating a growth environment*, including growth-oriented macroeconomic policies;
- *Investing in human capital*;
- *Broadening economic opportunity*, making special efforts not to leave the disadvantaged further and further behind;
- *Easing economic change*, including restructuring UI to reach more low-wage and nontraditional workers and to provide benefits for longer periods; and
- *Enhancing economic security*, including health care and retirement security.

Committee for Economic Development, *Promoting U.S. Economic Growth and Security Through Expanding World Trade: A Call for Bold American Leadership* (Washington, D.C.: Committee for Economic Development, September 2003).

On the brink of the collapse of the WTO’s Doha round of trade negotiations, CED issues a challenge for the United States to take the lead in eliminating trade barriers, beginning with agriculture, and then encourage other nations to do the same. Such a step is warranted as trade is both an important component of economic growth in the United States and an important means of alleviating poverty and promoting growth in developing

countries. This policy statement outlines a bold vision of what an open global trading system should be and offers recommendations for reaching that goal.

Fred Bergsten, “Foreign Economic Policy for the Next President,” *Foreign Affairs*, Vol. 83, No. 2 (2004), pp. 88-101.

The U.S.’s role as the world leader in trade liberalization has faded, and the next administration must place a high priority on reviving effective trade policy, because foreign economic policy is critical to the health of the domestic economy. Despite fears about outsourcing, the U.S.’s “comparative advantage in services and agriculture means that wholesale liberalization of those sectors, through aggressive U.S.–sponsored initiatives, would bring significant benefits.” “The case for globalization will have to be made persuasively, forcefully, and repeatedly,” and must be accompanied by increased safety nets, such as unemployment insurance and skill training, in order to garner domestic support.

Gary Clyde Hufbauer and Ben Goodrich, *More Pain, More Gain: Politics and Economics of Eliminating Tariffs*, Paper No. PB03-8 (Washington, D.C.: Institute for International Economics, June 2003).

“Everyone knows that larger exports are a political blessing. The tough political assignment is to sing the virtues of imports.” But imports are a key component of economic well-being; they supply cheaper goods to consumers and increase domestic competition, innovation, and productivity. In light of these benefits, policy makers should work to further trade liberalization, beginning with tariff elimination. In order to get such policies through the WTO, richer countries should offer generous concessions, reducing subsidies and nontariff barriers and allowing developing countries long durations for phasing in tariff elimination.

Greg Mastel and Howard Rosen, “Share the Benefits of Free Trade,” *The Christian Science Monitor*, August 12, 2003.

Mastel and Rosen report that the implementation of the assistance for workers who lose their jobs because of international trade has not been as swift as recent legislation giving the President fast-track authority to negotiate new trade agreements. The ineffectiveness of adjustment programs is further eroding public sentiments about

free trade. “Perhaps if the worker-adjustment programs received the same priority as new free-trade agreements, the workers who lose their jobs because of international trade would have a meaningful program in place to get them back to work earning paychecks.”

Lori G. Kletzer, “Imports, Exports, and American Jobs: Understanding The Links And What They Mean For U.S. Workers”, in *Trade Policy: Forging A New Consensus* (Washington, D.C.: Center for National Policy, June 2003).

Productivity is enhanced when goods and services are produced in countries with comparative advantage and then traded. However, the ramifications economy-wide are generally welfare-enhancing only if the winners compensate the losers.

Lori G. Kletzer, *Job Loss from Imports: Measuring the Costs* (Washington, D.C.: Institute for International Economics, 2001).

There is an emerging consensus that future trade liberalization is dependant on increases in support for domestic job losers. Kletzer cites a 2000 poll by Pew Research that indicates that 78 percent of respondents felt that “protecting the jobs of American workers” should have top priority in deciding U.S. trade policies. Though there are net benefits to increased trade, there are also winners and losers. Those who lose jobs because of increased trade face the “lasting cost of job loss,” which is lower pay in new jobs. Kletzer proposes that current policy should be adjusted so that similar workers with similar job loss — whether from increased trade, technological change, or industrial restructuring — are given similar assistance, rather than preferential treatment given to trade-related job loss through TAA. Furthermore, job-search assistance could be implemented for some workers, and wage insurance and health-care subsidies (see Kletzer and Litan, 2001) are recommended to help share the benefits of and gain public support for increased trade.

Paul Krugman, “The Trade Tightrope,” *The New York Times*, February 27, 2004.

Free trade is good for the economy, but it is not good for everyone all the time. Free trade is politically viable only if it is backed up with effective job creation measures and an adequate safety net. In order to continue free trade, the following changes in domestic policy should be considered:

- Boost domestic job creation;
- Do more to help those who lose jobs; and

- Implement universal health care.

Robert Scott, *Fast Track to Lost Jobs: Trade deficits and manufacturing decline are the legacies of NAFTA and the WTO* (Washington D.C., Economic Policy Institute, October 2001).

Scott empirically looks at job losses in the fifty states and the District of Columbia from 1994–2000. He concludes that the real costs of NAFTA and the WTO for workers, communities, and businesses were “...greatly underestimated in the debates over these agreements, and the promised benefits have failed to materialize. But the conclusion to be drawn is not that further trade liberalization should be stopped. There is no doubt that, in the long run, a system of both freer trade and fair trade which ensures that all participants play by a well-defined set of humane, market-based rules can maximize incomes for most, if not all, countries around the world. NAFTA and the WTO have failed to achieve these desirable outcomes because they were fatally flawed.”

“The New Protectionism,” *The Wall Street Journal*, March 24, 2004.

The AFL-CIO alleges that China’s “brutal repression” of workers’ rights gives its manufacturers a cost savings of 10 percent to 77 percent and has led to the loss of 727,000 American jobs. The author notes that “China’s economic reforms have created a freer market for labor. In one of the greatest migrations in history, millions of Chinese are leaving the land and moving of their own free will to the cities... And it is also moving toward a trade deficit by importing grain and machinery, areas where the US has a comparative advantage and could create American jobs by expanding sales.”

U.S. House Committee on Ways and Means, *The Chinese Exchange Rate and U.S. Manufacturing Employment, Testimony by CBO Director Douglas Holtz-Eakin, 108th Cong., 2004.*

Legislative proposals H.R. 3058 and S. 1586 propose increasing tariffs or other trade barriers against China if China does not agree either to float the Yuan or to revalue it relative to the dollar. The CBO reaches the following conclusions regarding such a policy’s likelihood in making progress toward its goals:

- *Increasing U.S. Manufacturing Employment.* At best, this legislation would have a small, short-term effect. It would not have a significant long-term effect.

- *Reducing the U.S. Bilateral Trade Deficit with China.* This legislation might diminish the bilateral trade deficit with China, but at the expense of increases in the U.S.'s bilateral deficits with other countries.
- *Reducing the Chinese Multilateral Trade Surplus.* Such legislation could shrink China's trade surplus.
- *Reducing the U.S.'s Multilateral Trade Deficit.* This legislation could reduce the U.S. trade deficit by a small amount. If China were to retaliate with corresponding trade barriers, the U.S. trade deficit may increase a small amount.

ADJUSTMENT ASSISTANCE/UNEMPLOYMENT INSURANCE REFORM

Bruce D. Meyer, "Lessons from the U.S. Unemployment Experiments," *Journal of Economic Literature*, vol. XXXIII (March 1995), pp. 91-131.

Meyer surveys the literature on four unemployment bonus experiments and five job search assistance experiments. The four unemployment bonus experiments, conducted in the 1980s, offered varying treatments of one-time bonuses to unemployed workers that found new jobs within a set period of time. Cost-benefit analyses indicate that the bonuses usually lead to a net loss for the UI system. The societal impact depends entirely on the earnings changes of bonus recipients, which is imprecisely measured, but has been estimated in some of the experiments to be small and positive. Meyer voices concerns that if bonus programs were implemented more broadly, unintended negative effects (e.g., inducing more claimants into the regular UI system) may lessen the benefits as suggested by the experiments.

The five job search experiments have more promising results. Nearly all applications resulted in net gains to the UI system, and societal impacts, as measured in three of the experiments, are estimated to be positive. However, most of these experiments contained a combination of services, and further work will be needed to determine which offerings and/or combinations of services are most effective.

Christopher J. O'Leary, Paul T. Decker, and Stephen A. Wandner, *Cost-Effectiveness of Targeted Reemployment Bonuses*, Working Paper No. 03-51 (Kalamazoo, MI: Upjohn Institute, January 2003).

The four major reemployment bonus experiments indicated potential modest net benefits to society, but net losses to the unemployment

compensation system, making them politically undesirable. This study revisits the data from the Pennsylvania and Washington experiments to estimate if net benefits to the UI system could be increased by targeting bonuses to individuals determined to be more likely to exhaust benefits by the Worker Profiling and Reemployment Services designations. The treatment determined to be the best candidate for cost-effectiveness is a program with a low bonus amount, long qualification period, and targeted to the one half of unemployed claimants determined to be more likely to exhaust benefits (narrower targeting is not optimal).

Committee for Economic Development, *Welfare Reform and Beyond: Making Work Work* (Washington, D.C.: Committee for Economic Development, 2000).

Written in the context of welfare reform, CED urges states to expand their unemployment insurance coverage and include more favorable conditions for part-time, seasonal, and temporary workers to collect benefits. CED recommends that such an expansion should be financed by general revenues rather than higher payroll taxes.

Greg Mastel and Howard Rosen, "Keeping our Commitments to American Workers on International Trade," *The Hill*, March 11, 2004.

TAA was first established forty years ago, and its record has been inconsistent largely because of limited resources. The Trade Act of 2002, however, expanded TAA eligibility and service provision, and introduced wage insurance for TAA-eligibles over fifty. Such workers can receive up to half the difference between their old and new wages once a new job is found.

Howard Rosen, *Designing a New Approach to Assist Workers and Communities Respond to Globalization* (Washington, D.C.: National Governors Association, revised version: 2003).

Trade yields benefits in the form of lower prices, increased efficiency in domestic industry, and greater consumer choice. However, the gains may not be equally distributed and there are costs in the form of unemployment and income loss to some individuals. The challenge to liberalizing trade is to secure the benefits while transferring some of them to minimize the burdens on workers and communities. Currently, assistance to dislocated workers is provided largely through unemployment insurance, the Workforce Investment Act, and Trade Adjustment Assistance. One hundred and fifty additional smaller programs for training and adjustment are spread throughout the federal government. These programs provide no comprehensive strategy for dislocated workers, nor do they receive adequate funding to be effective. The U.S. is spending far less on training and income support than any of the other industrialized countries.

Howard Rosen, "Trade Adjustment Assistance and Offshore Sourcing," (Washington, D.C.: TAA Coalition) < <http://www.newamerica.net/index.cfm?pg=article&pubID=1486> > Accessed on April 21, 2004.

Congress executed a major rewrite of TAA in 2002, including:

- Expanding TAA eligibility to secondary workers;
- A health insurance tax credit;
- Incentives to bring workers back into the workforce (including wage insurance for those over 50); and
- An expanded training budget.

To address the current challenge posed by outsourcing, several additional changes to TAA should be introduced:

- TAA should be expanded to service workers;
- All workers should be eligible for TAA, regardless of where their factory has moved (currently workers whose factories move to non-FTA countries have some restrictions to TAA);
- Expand wage insurance; and
- Undertake a thorough review of all 2002 TAA provisions.

Jonathen Gruber and Brigitte C. Madrian, *Health Insurance, Labor Supply, and Job Mobility: A Critical Review of the Literature*, Working Paper No. 4 (Ann Arbor, MI: Economic Research Initiative on the Uninsured, November 2001).

Surveying over fifty academic articles in the past ten years, the authors find evidence that health insurance plays an important role in job-mobility decisions. Our current employer-based system creates job-lock; furthermore, job-lock affects both job choice and labor-force participation. There is clear and unambiguous evidence that health insurance is a central determinant of retirement decisions. The evidence also suggests that health insurance is not a major determinant of the labor supply and welfare-exit decisions of low-income mothers. There is fairly compelling evidence that health insurance is an important factor in the labor-supply decisions of secondary earners. The survey concludes that health insurance has significant effects on labor-force participation and job choice, but does not cause a large loss to welfare or efficiency.

Joseph Stiglitz and Jungyoll Yun, *Integration of Unemployment Insurance with Retirement Insurance*, Working Paper No. 9199 (Cambridge, MA: National Bureau of Economic Research, September 2002).

Although compulsory pension programs help alleviate the tendency of individuals not to save enough for retirement, they tie up an individual's savings so that he or she cannot float through unemployment periods. A combined unemployment insurance and retirement insurance account makes it easier for unemployed individuals to borrow against future earnings to finance unemployment spells and is optimal when the duration of unemployment is short compared to employment or retirement. A back-up, tax-funded lifetime unemployment-insurance program could assist those with extraordinary loss from unemployment. The gains from this type of combined program are a result of integrating social-insurance programs rather than having separate programs covering separate risks.

Lori G. Kletzer and Robert E. Litan, *A Prescription to Relieve Worker Anxiety*, Policy Brief #73 (Washington, DC: The Brookings Institution, March 2001).

Continued worker anxiety inhibits public support for expanding trade. Therefore, programs that will promote reemployment and relieve worker anxiety are needed to pursue trade liberaliza-

tion. Kletzer and Litan propose two such programs: wage-insurance and health-insurance subsidies for displaced workers. The wage-insurance program would provide payments to displaced workers who are reemployed at lower wages. Such reemployed workers would receive a portion of the difference in wages, upon reemployment, for up to two years after initial separation. The health-insurance subsidies would provide health-care subsidies for displaced workers, again after reemployment.

Martin Feldstein and Daniel Altman, *Unemployment Insurance Savings Accounts, Working Paper No. 6860* (Cambridge, MA: National Bureau of Economic Research, December 1998).

Feldstein and Altman propose a system of Unemployment Insurance Savings Accounts (UISAs) where individuals are required to save up to four percent of wages in accounts from which funds are drawn in the event of unemployment. If such funds are exhausted, the government loans money to the account. Positive balances at retirement become retirement income, and positive balances at death are bequeathed. Negative balances at retirement age, thought to be relatively rare, are forgiven. The taxpayer cost of forgiving negative balances is estimated to be less than half the taxpayer cost of the current UI system. With USIAs, individuals fully internalize the cost of unemployment compensation. The authors believe this system would provide the same protection to the unemployed as the current UI system, but would have fewer adverse incentives.

National Employment Law Project, *Part-Time Workers and Unemployment Insurance: Expanding UI for Low-Wage & Part-Time Workers* (New York, NY: National Employment Law Project, February 2002); National Employment Law Project, *Unemployment Insurance Fact Sheet*, available at <<http://www.nelp.org/docUploads/pub189%2Epdf>> Accessed February 9, 2004; National Employment Law Project, *Unemployment Insurance Reform Agenda: Expanding UI Eligibility*, available at <<http://www.nelp.org/docUploads/pub188%2Epdf>> Accessed on February 9, 2004.

Overall generosity of the UI system is low. Only 43 percent of unemployed workers received UI benefits in 2001. State UI benefits average \$231 per week and provide only a poverty-level standard of living.

The picture is even more dismal for part-time workers, now about 17 percent of the workforce.

Though part-timers have significant labor-force attachment, and often represent economically fragile populations (such as single parents, the disabled), in many states part-timers cannot claim UI benefits unless they are willing to accept full-time work. Nationally, only 12 percent of unemployed part-time workers receive unemployment benefits.

NELP recommends expanding UI eligibility to include allowing part-time workers to seek part-time work when good cause (e.g.: caring for children or ill family members, or disability) exists. NELP also suggests reforming the Extended Benefits (EB) trigger, which fails to kick in during periods of high unemployment, as designed.

Organisation for Economic Co-operation and Development, Working Party of the Trade Committee, *Structural Adjustment in Textiles and Clothing: Trade-Related Labour Adjustment Policies*, No. TD/TC/WP(2003)34 (Paris: OECD, November 25, 2003).

Workers who lose their jobs due to increased imports or shifts in production do not appear to be different, or face different adjustment processes, from other dislocated workers. Therefore, unemployment schemes in most OECD countries are designed to assist all unemployed, regardless of reason for separation from work. The United States is the exception, with TAA attempting (though not necessarily succeeding) to single out workers whose jobs are lost due to trade.

Unemployment programs in France, Germany, Japan, the U.K., and the United States are compared, and the United States is found to spend the least amount on its unemployed workers. The report asserts that all the countries examined will need to strengthen their adjustment programs to further trade liberalization.

Robert Pear, "Sluggish Start for Offer of Tax Credit for Insurance," *The New York Times*, January 25, 2004.

The Health Coverage Tax Credit was created in 2002 to help workers whose jobs were lost to trade (TAA eligibles) attain health-insurance coverage. The program provides a refundable tax credit for 65 percent of the premium for health insurance bought by the displaced worker. Unfortunately, the remaining 35 percent of premiums is proving to be an "insurmountable hurdle" for some workers, resulting in surprisingly low take-up rates. Only 8,374 workers were receiving the tax credits, which is only 5 percent of those expected to benefit.

Trade Adjustment Assistance (Washington, D.C., Trade Assistance Coalition, December 1, 2003), Available at: <http://www.newamerica.net/index.cfm?pg=article&pubID=1413> Accessed on April 14, 2004.

On July 27, 2003, Congress made a series of comprehensive reforms to the current TAA program. First, the eligibility criteria were liberalized. Second, the Workforce Investment Act (WIA) —

the program that provides assistance to all dislocated workers regardless of cause — is not an entitlement; workers receive training only if there are adequate funds available. Most states exhaust training funds under WIA well before the end of the year, denying workers the ability to enroll in training. In addition, states can deny training, if it is determined that a worker can find a job, that pays a subsistence wage.

EDUCATION/TRAINING FOR DISPLACED WORKERS

Andy Grove, *Business Software Alliance: The Coming Software X Curve*, Intel Corporation. Slides, 2003.

In the United States, the number of science and engineering graduates is down by five percent over the last ten years. More than 50 percent of graduate students are foreign nationals. Intel labor-cost rates in India average \$30,000; in the United States, labor-cost rates average around \$100,000. Academic research and development funding is down by 22 percent in engineering and 30 percent in the physical sciences.

Chairman Alan Greenspan, “The critical role of education in the nation’s economy,” remarks before the Greater Omaha Chamber of Commerce 2004 Annual Meeting, Omaha, Nebraska, February 20, 2004.

Apparent imbalances between supply and demand for labor hamper the U.S. economy’s flexibility and aggravate income inequality. Easing the shortage of highly skilled workers and the surplus of lesser-skilled workers by boosting educational opportunities promises to enhance growth in the U.S. economy.

Gordon Lafer, *The Job Training Charade* (Ithaca, NY: Cornell UP, 2002).

Lafer examines the history and current state of publicly funded job training programs, particularly those under the Job Training Partnership Act, and its successor, the Workforce Investment Act. He concludes that job training has been and will continue to be a miserable failure. Training programs that have failed to meet their goals continue to be reauthorized in Congress because of their political popularity, despite their apparent economic failure. Training programs are based on

three invalid assumptions:

- There is an ample supply of decently paying jobs, if only everyone were appropriately trained to fill them;
- Workers’ wages are primarily based on the skills they bring to the job;
- The cause and root of poverty are nonpolitical — income inequality is based in the impersonal process of technology.

Harry J. Holzer and Margy Waller, *The Workforce Investment Act: Reauthorization to Address the “Skills Gap,”* Research Brief (Washington, D.C.: The Brookings Institution, December 2003).

The authors first present a history of the WIA program, then assess the current state of the WIA program, and, finally, explore current proposals for reauthorization. Current levels of investment in worker skills are modest and insufficient. Holzer and Waller suggest that the returns to training are consistently positive for adult women and inconsistently positive for adult men, and that current WIA programs should be better studied and improved upon. Improvements that should be considered during the reauthorization process:

- Increasing overall funding;
- Enhancing youth programs;
- Improving access for those with limited English and other barriers;
- Improving reporting on costs, activities, and performance;
- Encouraging regional approaches; and
- Sponsoring a new evaluation of WIA.

James Heckman, *Policies to Foster Human Capital, Working Paper No. W7288 (Cambridge, MA: National Bureau of Economic Research, August 1999).*

Rising wage inequality is a global problem linked to trade and technology. To restore the United States to its previous degree of wage equality, the government would have to spend \$1.66 trillion. A good way to combat this problem is skill enhancement, as transfer policies are widely unpopular. It is costly to produce skill, so it is important to educate children early. Because older workers obtain poor returns to skill investment, wage subsidies are a more effective alternative for raising their incomes. Wage subsidies may also provide social benefits that extend beyond individual increases in earnings, because they encourage work rather than unemployment. The role of informal skill development is understated. As for formal education, evidence favors competition in the provision of education. Specifically, there is a large advantage of school-to-work programs.

Jim Barrett, *Worker Transition and Global Climate Change (Arlington, VA: Pew Center on Global Climate Change, December 2001).*

Substantial training is an essential element of a successful worker transition program, but it is not a guarantee of success. Lengthy training programs in TAA training projects have yielded disappointing results. Successful training programs must be accompanied by:

- Substantial income support;
- A bridge to retirement for older workers;
- Health and pension benefit maintenance;
- Rapid response systems to administer programs as quickly as possible;
- Advance notice of layoffs;
- Coordination with unions to increase awareness of services;
- Appropriate performance standards; and
- Adequate performance assessments.

Louis Jacobson, Robert LaLonde and Daniel G. Sullivan, *Estimating Returns to Community College Schooling for Displaced Workers, Paper No. WP 2002-31, Federal Reserve Bank of Chicago, December, 2002.*

The record of effectiveness and value of retraining displaced workers through community college courses is mixed. Technical or mathematical classes yield high returns, increasing long-term earnings by 14 percent for men and 29 percent for women, while less technically oriented classes have very low and possibly zero returns. Additionally, sample bias makes the effectiveness of training difficult to isolate.

Nell Henderson, "A Difficult Lesson," *The Washington Post*, April 16, 2004.

"Decades of efforts show that retraining, while politically appealing, is no cure-all for a workforce struggling through economic transition." The nature of retraining programs makes the results difficult to measure, and the lack of available jobs means that some persons are retraining only to find their new skills not in demand. There are many challenges to strengthening retraining schemes. For example, current subsidies are for individual workers, not training providers such as community colleges, and such institutions would likely need additional funding to enhance their offerings.

Paul T. Decker and Walter Corson, "International Trade and Worker Displacement: Evaluation of the Trade Adjustment Assistance Program," *Industrial and Labor Relations Review*. Vol. 48, No. 4 (July 1995).

Decker and Corson examine two groups of nationally representative TAA recipients, one before and one after the 1998 TAA amendments. The authors conclude that TAA is well targeted, reaching those permanently displaced from jobs due to trade. However, Decker and Corson found no evidence that TAA training had a substantial positive impact on earnings in the first three years after the initial unemployment claim.

Pedro Carneiro and James J. Heckman, *Human Capital Policy, Working Paper No. 9495 (Cambridge, MA: National Bureau of Economic Research, February 2003).*

"The evidence points to a high return to early interventions and a low return to remedial or compensatory interventions later in the life cycle. Skill and ability produce future skill and ability. At current levels of funding, traditional policies like tuition subsidies, improvements in school quality, job training and tax rebates are unlikely to be effective in closing gaps."

Robert J. LaLonde, “The Promise of Public Sector-Sponsored Training Programs,” *The Journal of Economic Perspectives*, Vol. 9, No. 2, 149-168.

Relatively little is known about the impact of training on the earnings of dislocated workers. Current programs that sponsor the training of disadvantaged workers may be effective but insufficient. Training may make workers less poor but more funding is needed to bring the workers into the economic mainstream. More-intensive and long-term programs are necessary, as short-term programs are not beneficial. Large gains are associated with inexpensive services, such as job search assistance, while classroom instruction or on-the-job training derive no additional benefit.

Robin Spence and Brendan Kiel, *Skilling the American Workforce “On The Cheap”: Ongoing Shortfalls in Federal Funding for Workforce Development* (Washington, D.C.: The Workforce Alliance, September 2003).

Demand for skilled workers is growing faster than supply, and if American industries are going to stay competitive, we need to enhance training opportunities to fill the skills shortage. Current funding for retraining activities, however, is insufficient and is largely directed toward “work first” activities rather than the more extensive training needed to prepare for future jobs. Between 1985 and 2003, the U.S. Department of Labor decreased its inflation-adjusted investments in worker training by 29 percent, a trend which must be reversed.

Yolanda K. Kodrzycki, “Training Programs for Displaced Workers: What Do They Accomplish?” *New England Economic Review* May/June 1997.

Displaced workers going through training generally have not been found to receive higher average pay upon reemployment than those who are otherwise similar but do not undergo training.

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MEMORANDUM OF COMMENT, RESERVATION, OR DISSENT

Page 4, PAULA STERN.

Not only do occupations requiring information technology skills account for 3 out of the top 10 fastest growing jobs, but there is also a predicted national shortage in skilled information technology workers. Information technology (IT) job growth far exceeds expected degree production through 2012, which predicts 145,000 annual job openings compared to about 75,000 degrees. In order to stay competitive globally and keep highly skilled jobs in the United States, we must have a workforce skilled in information technology.

This is both a quantitative problem and a qualitative problem. There is a deep and increasing gender gap in IT in the United States. Fewer women are graduating with IT degrees now than in 1984. In 2000, women accounted for only 28 percent of all degrees

in computer science and information sciences — down from 37 percent in 1984. At many prominent universities, the percentage of computer science degrees awarded to women ranges from 15-20 percent. In the workplace, women represent 20-25 percent of all IT professionals. By increasing women's participation in the IT workforce, we can help address the problem of the predicted national shortages in IT positions.

Increasing women's participation in IT will also improve diversity in our workforce and at the design table. Without female participation in IT, the input of half of our society is lost, undermining our ability to compete and lead in the global marketplace. The United States has always had the comparative advantage of innovation, and innovation is inspired by the creativity achieved by diversity, including gender diversity.

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