



# Globalization, Worker Insecurity, and Policy Approaches

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## Summary

Today's global economy, or what many call globalization, has a growing impact on the economic futures of American companies, workers, and families. Increasing integration with the world economy makes the U.S. and other economies more productive. For most Americans, this has translated into absolute increases in living standards and real disposable incomes. However, while the U.S. economy as a whole benefits from globalization, it is not always a win-win situation for all Americans. Rising trade with low-wage developing countries not only increases concerns of job loss, but it also leads U.S. workers to fear that employers will lower their wages and benefits in order to compete. Globalization facilitated by the information technology revolution expands international trade in a wider range of services, but also subjects an increasing number of U.S. white collar jobs to outsourcing and international competition. Also, globalization may benefit some groups more than others, leading some to wonder whether the global economy is structured to help the few or the many.

The current wave of globalization is supported by three broad trends. The first is technology, which has sharply reduced the cost of communication and transportation that previously divided markets. The second is a dramatic increase in the world supply of labor engaged in international trade. The third is government policies that have reduced barriers to trade and investment. Whether these trends are creating new vulnerabilities for workers is the subject of increasing research and debate.

Some of the vulnerabilities for workers are underlined by changing employment patterns caused by increased foreign competition, weak wage growth, and rising income inequality. These trends, in turn, have become a source of economic insecurity for many Americans and may be weakening public support for U.S. engagement with the world economy.

To bolster public support for an open world economy, the conventional wisdom is that the legitimate concerns of those who are losing in the contemporary economic environment need to be addressed. To what extent the losers should be compensated and how is a matter of considerable congressional and public debate. Because the relationship between globalization and worker insecurity is complicated and uncertain, a number of different approaches may be considered if the goal is to bolster public support for U.S. trade policies, globalization, and an open world economy. Policies involving adjustment assistance, education, tax, and trade are most commonly proposed.

There appears to be a range of views on the merits of each of these policy approaches and the extent to which they can be designed and implemented in a way that would reduce worker insecurity without undermining the benefits of globalization. In the view of many economists, policies that inhibit the dynamism of labor and capital markets or erect barriers to international trade and investment would not be helpful because technology and trade are critical sources of overall economic growth and increase U.S. living standards. At the same time, identifying the most effective policy approach is made difficult by the variety of factors – trade with developing countries, increases in foreign investment flows, trade and financial liberalization, immigration, and skill-based technological change – that may be generating job and income trends that are increasing worker insecurity.

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## Introduction

The U.S. economy is becoming increasingly open to the world economy. Much of what Americans consume or buy is produced in other countries. Similarly, much of what Americans produce is exported abroad.<sup>1</sup> Huge quantities of capital or money flow into and out of the United States every day, swamping the value of goods and services that are exchanged.<sup>2</sup> New technologies and business practices accompany the flows of investment capital. A growing number of the largest U.S. companies rely on international markets for over 50% of their sales and employ more foreign than domestic workers. In the process, today's global economy, or what many call globalization, is having a growing impact on the economic futures of American companies, workers, and families.<sup>3</sup>

Economic theory holds that a more open and integrated world economy provides large scale economic benefits. By providing for specialization in production across countries, trade enhances the economic output here and abroad, and in so doing, boost living standards. Competition from economic integration is seen as making the U.S. economy more efficient and more productive. Global markets give consumers more choices and help reduce the costs of goods and services, thereby keeping inflation in check. The Peterson Institute for International Economics has estimated that the integration of the global economy generates an economic gain of between \$500 billion and \$1 trillion dollars to the U.S. economy each year.<sup>4</sup> Similarly, gains from globalization have been large for many developing countries, lifting hundreds of millions of people out of poverty in countries such as China and India.

At the same time, greater global economic integration accompanied by rapid technological change does not always benefit everyone within a country. It can be accompanied by stress and anxiety, as new competitors arise and compete for market share. Shifts in the structure of production impose costs on workers and business owners in declining sectors, and thus, create a constituency that opposes the process of economic integration. Opposition may be intensified by perceptions that foreign competitors benefit from unfair trade practices. Furthermore, rising trade with low-wage developing countries may drive down the wages of domestic low-skilled workers—even as they benefit from cheap imports—and prompt them to wonder whether the United States can continue to compete in a vastly changed world economy.<sup>5</sup> Increased economic

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<sup>1</sup> Exports and imports of goods and services accounted for 29% of U.S. GDP in 2010, up from 9% in 1960. Calculations based on U.S. Department of Commerce, Bureau of Economic Analysis data.

<sup>2</sup> By some estimates (a 2010 survey by central banks) *daily* trading of foreign currencies totals more than \$4.1 trillion. This compares to global trade in goods and services of about \$20 trillion *per year* (2010 World Trade Organization data).

<sup>3</sup> Globalization can be defined in various ways, but economic globalization refers to the increasing integration of national economies into a world trading system. Globalization involves trade in goods and services, sales of assets (i.e. currency, stocks, bonds, and real property), as well as the transfer of technology, and the international flows (migration) of labor. See CRS Report RL33944, *Trade Primer: Qs and As on Trade Concepts, Performance, and Policy*, coordinated by (name redacted), and Freiden, Jeffrey, A., *Global Capitalism: Its Rise and Fall In the Twentieth Century*, WW Norton & Co., 2006.

<sup>4</sup> Bradford, Scott C., Paul L. E. Grieco, and Gary Clyde Hufbauer, "The Payoff to America from Global Integration," In *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, C. Fred Bergsten, ed., Institute for International Economics, Washington, D.C. 2005.

<sup>5</sup> Since the United States tends to export goods that use skilled labor intensively and to import goods that use less-skilled labor intensively, increased trade, on balance, raises the demand for skilled labor and reduces the demand for less-skilled labor. Thus, it is reasonable to expect that as the United States increases its trade with low-wage and low- (continued...)

openness and interdependence may also engender opposition as some groups benefit more than others from globalization, leading some to question whether the global economy is structured to help the few or the many. In addition, these changes often bring high-skilled workers greater wage and income rewards than low-skilled ones.<sup>6</sup>

On balance, today's integrated global economy provides substantial net benefits, but it also creates substantial economic losses that are borne by specific groups. While the U.S. economy as a whole benefits, some workers, firms, and communities are made worse off. Even as new technologies create new jobs and lead to greater productivity and output overall, many Americans worry that their losses will outweigh their gains, and, as a consequence, they and their children will face a stagnant or declining standard of living. Widespread insecurity, in turn, may affect how Members of Congress view globalization generally and specifically, its most visible manifestation—new trade agreements.<sup>7</sup> Moreover, popular insecurity has in the past raised concerns that the process of economic integration will be interrupted or reversed.<sup>8</sup>

Some congressional opposition to selective efforts to expand world commerce has been linked, in part, to public unease over globalization's impact on U.S. economic security and prosperity. For example, in 2007 the House Democratic leadership stated that the benefits of globalization must be expanded to all Americans first before Congress would consider President Bush's request to extend his authority to negotiate new trade agreements that would receive expedited consideration, that is trade promotion or fast-track authority.<sup>9</sup> Similar concerns may also partially explain why it took four years before Congress took up consideration of free trade agreements with Panama, Colombia, and South Korea that had been negotiated by the Bush Administration.<sup>10</sup>

To bolster public support for an open world economy, conventional wisdom suggests that the legitimate concerns of those who are adversely affected by the contemporary economic environment need to be addressed. Yet, compared to the benefits of globalization, U.S. programs geared towards helping those workers displaced by globalizing trends have been quite modest.<sup>11</sup> To what extent adversely affected workers should be helped to adjust to the changes associated with globalization and how, however, is a matter of considerable congressional and public debate.

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skilled developing countries, wages of low-skilled U.S. workers will face downward pressure. An influx of immigrants with less than a high-school education, by increasing the relative supply of low-skilled labor, may further intensify pressures on wages at the bottom end, as does technological change.

<sup>6</sup> Bernanke, Ben S. Remarks at the Federal Reserve Bank of Kansas City's Thirtieth Annual Economic Symposium, Jackson Hole Wyoming, "Global Integration: What's New and What's Not? At <http://www.federalreserve.gov/boarddocs/speeches/2006/20060825/default.htm>.

<sup>7</sup> For discussion of trade agreements and legislation in the 112<sup>th</sup> Congress, see CRS Report R41553, *International Trade and Finance: Key Policy Issues for the 112th Congress, Second Session*, coordinated by (name redacted)

<sup>8</sup> See remarks of Timothy F. Geithner, President and Chief Executive Officer, New York Fed, "Developments in the Global Economy and Implications for the United States, January 11, 2007. Found at <http://www.newyorkfed.org/newsevents/speeches/2007/gei070111.htm>

<sup>9</sup> See CRS Report RL33743, *Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy*, by (name redacted) and (name redacted), and CRS Report R41145, *The Future of U.S. Trade Policy: An Analysis of Issues and Options for the 112th Congress*, by (name redacted).

<sup>10</sup> See CRS Report R41145, *The Future of U.S. Trade Policy: An Analysis of Issues and Options for the 112th Congress*, by (name redacted).

<sup>11</sup> The Peterson Institute for International Economics, for example, estimates that the lifetime costs of worker displacement to be roughly \$50 billion per year, but calculates that the United States spends about \$2 billion per year to address the costs connected to displacement.

Currently, approaches affecting adjustment assistance, education, tax, and trade policies are most commonly being put forth to address these concerns. The costs and whether the programs will directly address economic insecurities are some of the questions being raised.

## **Trends Driving Global Economic Integration**

Economic integration of widely separated regions is hardly a new phenomenon. It has been going on for hundreds of years. The current wave of globalization, which may be unprecedented in terms of its scale and pace, is supported by three broad trends. The first is technology, which has sharply reduced the cost of communication and transportation that previously divided markets. The second is a dramatic increase in the world supply of labor engaged in international trade. The third is government policies which have reduced barriers to trade and investment. A growing body of research examines whether these trends are combining to create new vulnerabilities for workers.<sup>12</sup>

### **Technology**

In the current phase of globalization, economic distances have shrunk because of the increasing ability to communicate nearly instantaneously at costs that continue to decline. These advances in communication have allowed firms to break up the production process into discrete steps and to produce goods in whatever location allows them to minimize costs. As a result, modern products ranging from cell phones to chain saws are assembled from hundreds of components that are procured from many different countries around the world.<sup>13</sup>

The information technology revolution also facilitates international trade in a wider range of services, from call center operations to sophisticated financial, legal, medical, and engineering services. In the process, more jobs in the U.S. labor force become increasingly vulnerable to international competition.<sup>14</sup>

Technology originating in advanced countries now flows more easily across borders via foreign direct investment (FDI). The rapid absorption of technology in developing countries raises the opportunity for raising productivity. In turn, increased trade and competition from developing countries induces advanced countries to adopt new technologies that save on unskilled labor.<sup>15</sup>

### **Global Labor Supply**

The integration of Brazil, Russia, India, and China into the world economy over the past two decades means that the greater part of the earth's population is now engaged in the global economy. The addition of several billion new workers to the global supply of labor (an estimated

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<sup>12</sup>See *Divided We Stand: Why Inequality Keeps Rising*, Organisation for Economic Cooperation and Development (OECD), 2011; and chapter 3 of *OECD Employment Outlook*, 2007, "OECD Workers in the Global Economy: Increasingly Vulnerable?" ISBN 978-92-64-033303-0, pp. 105-154.

<sup>13</sup> As late as the 1980s, a telephone in Europe was constructed from components all built in one factory. Today a modern mobile phone is constructed from thousands of components, half of which have crossed international borders.

<sup>14</sup> Bernanke, Ben S. op. cit. (2006 Jackson Hole Speech) p. 5.

<sup>15</sup> Uri Dadush and William Shaw, "Is the Labor Market Global?" *Current History*, January 2012.

50% increase), combined with the lessening of time and distance by the information technology revolution, creates a more competitive environment for workers in the United States and other developed countries. Integrating the economies of poor and rich countries means that workers in rich countries are often now in direct competition with workers in emerging market economies who may on average be paid substantially less, yet are still highly educated. U.S. Bureau of Labor Statistics data show that in 2008 Chinese manufacturing worker earned on average one-twentieth the wages of a Chinese manufacturing worker and a Mexican one-sixth. Not only does this integration increase fears of job loss among workers in rich countries, but it leads to concerns that employers will have to lower their wages and benefits in order to compete.

## **Government Policy**

Government policy has played a critical role in supporting or at least permitting global economic integration to proceed. Over the past 60 years, government restrictions on trade and capital flows have gradually declined, making it easier for companies to act as global players. By providing an institution in which all members are on a roughly equal footing, the World Trade Organization (WTO) greatly facilitated the inclusion of several billion new workers in the global system. The WTO also has developed rules and disciplines that make it easier for companies to move production to low-wage countries with more business-friendly regulations. In addition, agreements such as NAFTA have provided an additional spur to economic integration between a low-wage (e.g. Mexican) economy and the high-wage U.S. economy.<sup>16</sup>

## **Sources of Worker Insecurity**

In the decade prior to the 2008-2009 recession and global financial crisis, there was little question that by some measures—economic growth, productivity growth, and low inflation - the U.S. economy had performed well. For most Americans, this translated into absolute increases in living standards as measured by gains in real consumption and real disposable incomes.<sup>17</sup> A growing engagement with the world economy was an important factor facilitating a robust overall economic performance. However, these positive developments coincided with changing employment patterns caused by increased foreign competition, a declining wage share of national income, and rising earnings inequality. Whether these trends may be contributing to declining public support for U.S. engagement with the world economy and for additional trade agreements remains to be seen.<sup>18</sup>

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<sup>16</sup> Prestowitz, Clyde, *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East*, Basic Books, 2005.

<sup>17</sup> Bernanke, Ben S. “The Level and Distribution of Economic Well-Being,” Remarks before the Greater Omaha Chamber of Commerce, February 6, 2007.

<sup>18</sup> Polling of public attitudes towards trade and trade agreements often yields mixed results. Some polls find that the American public are quite negative towards trade and free trade agreements (e.g. an NBC/Wall Street Journal poll found at <http://online.wsj.com/public/resources/documents/WSJNBCPoll09282010.pdf>) while other polls (e.g. Chicago Foreign Relations Council poll found at [http://www.thechicagocouncil.org/curr\\_pos.php](http://www.thechicagocouncil.org/curr_pos.php)) find a majority of the public favoring agreements to lower trade barriers. While the differences could be due to how the questions are worded, most polls do show that the American public is worried about the ability of the United States to compete in the global economy, particularly with large, lower-wage developing countries. Even some polls show that upper-income and well-educated Americans, those who are most likely to benefit from trade, have become increasingly skeptical of trade and globalization.

## **Job Losses and Fears**

Much of the public anxiety about the economy and globalization may be related to job losses in the manufacturing sector and fears that many service sector jobs, previously thought immune to the pressures of the global economy, are being outsourced to other countries.<sup>19</sup> Some critics of globalization maintain that America's manufacturing base is being eroded and the longstanding belief that America's economic future rests increasingly in the creation of high-paid service sector jobs is being jeopardized.<sup>20</sup> While some of these job fears rest on misconceptions, others reflect problems that may require new or different policy responses.

A main anxiety about the U.S. manufacturing base stems from a sharp drop in U.S. manufacturing employment. The total number of manufacturing jobs fell by 2.1 million, from 15.8 million in November 2001 (the trough of the latest recession) to 13.7 million in December 2007, just prior the onset of the 2008-2009 recession. As of mid-2011, another 1.9 million jobs had been lost, with total manufacturing employment standing at 11.7 million.<sup>21</sup> Despite a growing economy and near full-employment prior to the 2008 recession, many of those who lost jobs found it more difficult to secure new employment or had to accept lower paying jobs in order to become reemployed. And, most workers who permanently lost jobs in mass layoffs that involve outsourcing (offshore or domestic) had been employed by manufacturers.<sup>22</sup>

This has been combined with Internet-facilitated outsourcing of service jobs that were previously only tangentially involved in the global economy. The fact that the work of a wide range of U.S. knowledge workers in business services, medicine, accounting and computer programming can now be done much more cheaply by workers residing in lower-wage countries has led to rising anxiety among white-collar workers about international competition. At the same time, many businesses that are not shedding workers are pulling back or reneging on decades-old commitments to provide health insurance and traditional pensions as they search for ways to stay competitive in today's global economy. All of this may be a factor in the erosion of traditional sources of security for workers—not only job security, but the confidence of families in their own health and pension benefits and their children's college prospects.<sup>23</sup>

Other economists maintain that worker fears of de-industrialization and massive offshoring of high-paid jobs are vastly overblown. While rising foreign competition, together with technical change, will reduce employment in sectors of the economy most sensitive to foreign competition, they point out that U.S. manufacturing output has increased over the past two years and that the U.S. share of world manufacturing output has been stable over the past two decades, averaging around 21%. They also emphasize that much of this is being accomplished by heavy investment in robots and computers, which allow companies to produce more goods with fewer workers.

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<sup>19</sup> Outsourcing, also known as offshore outsourcing, involves the contracting out of service sector activities (e.g., call center operations) to businesses outside the United States. For background and analysis, see CRS Report RL32292, *Offshoring (or Offshore Outsourcing) and Job Loss Among U.S. Workers*, by (name redacted).

<sup>20</sup> Ibid. p. 6. For example, while U.S. workers have been encouraged to focus on obtaining information technology or IT skills to position themselves for high-paying jobs, some of these jobs now appear at risk of being exported.

<sup>21</sup> Bureau of Labor Statistics data.

<sup>22</sup> CRS Report RL32292, *Offshoring (or Offshore Outsourcing) and Job Loss Among U.S. Workers*, by (name redacted).

<sup>23</sup> See Edward Gresser, "Healthy Factories, Anxious Workers," *Progressive Policy Institute Policy Report*, February 2007. Found at <http://www.frbsf.org/news/speeches/2006/1106.html>



Domestic factors such as technological innovation, not trade, they argue have been the dominant factors in the loss of manufacturing jobs.<sup>24</sup>

While services offshoring may be growing rapidly, most studies find the extent of job losses from services offshoring to be relatively small in the aggregate, but concentrated in a few industries and occupations.<sup>25</sup> Most estimates do not take into this account the new jobs that offshoring may create as a result of making domestic firms more competitive or jobs that are off shored back to the United States. Nor do the estimates factor in the rising opportunities for the export of U.S. business services presented by the boom in infrastructure spending in developing countries.<sup>26</sup>

Offshoring, thus, appears not to be on scale so far that is a major source of job destruction, especially compared to the normal churning of jobs in the U.S. economy. Yet, anecdotes of higher skilled and higher-educated computer programmers or medical technicians being outsourced, combined with estimates by some reputable economists that one-quarter of all U.S. jobs could be potentially off shore, generates fears over the kind of jobs that will be available for American workers in the future. As a result, many more workers that have not been affected by foreign competition in the past may now feel concern that global competition is a potential threat to their job security and future earnings.<sup>27</sup>

## **Rising Income Inequality**

A second source of anxiety or insecurity may stem from the impact that globalization, immigration, and automation are having on the distribution of income in the United States. Under this view, the pressures of the global marketplace and technological change have contributed to a rising gap between the rich and the poor. For example, a recent report from the Congressional Budget Office found that from 1979 to 2007, the average after-tax household income for the one percent of the U.S. population with the highest incomes rose 275%. For the rest of the top 20% it rose 65%. But for the bottom 20% it rose just 18%.<sup>28</sup>

An OECD study also determined that wealthiest Americans have collected the bulk of the income gains over the past three decades. This analysis found that the share of national income of the richest one percent more than doubled between 1980 and 2008, rising from 8% percent to 18%. The richest one percent now make an average \$1.3 million of after-tax income compared to \$17,700 for the poorest 20% of U.S. citizens.<sup>29</sup>

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<sup>24</sup> National Association of Manufacturers, "Facts About Modern Manufacturing," Washington, D.C., 2010.

<sup>25</sup> See CRS Report RL32292, *Offshoring (or Offshore Outsourcing) and Job Loss Among U.S. Workers*, by (name redacted), pp. 7-9, and CRS Report RL32484, *Foreign Outsourcing: Economic Implications and Policy Responses*, by (name redacted).

<sup>26</sup> Recent research points out that the U.S. business service sector (including information, financial, scientific, and managerial services) accounts for 25 percent of U.S. employment, pays high wages, consistently runs a trade surplus, and has the potential to export substantially higher volumes. See J. Bradord Jensen, *Global Trade in Services: Fears, Facts, and Outsourcing*. Peterson Institute for International Economics, 2011.

<sup>27</sup> Testimony of Alan S. Blinder, Princeton University, to the Joint Economic Committee, "Will the Middle Class Hold? Two Problems of American Labor," January 31, 2007.

<sup>28</sup> Congressional Budget Office, *Trends in the Distribution of Household Income Between 1979 and 2007*, October, 2011.

<sup>29</sup> OECD, *Divided We Stand: Why Inequality Keeps Rising*, Country Note: United States, 2011.

The rising income gap may have been wider if lower-wage workers had not increased by more than 20% the number of hours they worked over the past decade. According to the OECD, this trend of increased hours worked has probably been linked to incentive policies such as the Earned Income Tax Credit (EITC) and a relatively low minimum wage.<sup>30</sup>

The top income recipients tend to be in educational groups such as those with doctorates and professional graduate degrees in business, law, and medicine. Workers with only high school degrees or less, some college graduates, and nonprofessionals with masters degrees tend to do less well.<sup>31</sup>

The trend of rising income inequality is not unique to the United States. Most advanced countries are also seeing the wages of low-skilled workers remain flat or declining over the past decade, with significant increases in wages of high-skilled workers. Advanced countries with the most unequal distribution of income include the United States, United Kingdom and Italy. Denmark, Netherlands, and Sweden tend to have less income inequality.<sup>32</sup> In addition, labor income as a share of GDP has fallen, while capital's share has risen. From the mid-1980s to 2006, income inequality in most advanced countries (as measured by Gini coefficients) has increased.<sup>33</sup>

A variety of explanations—trade with developing countries, increases in foreign investment flows, an increase in low-skilled immigration, trade and financial liberalization, skill-based technological change, and changes in regulations and institutions—have been put forth to explain these income trends where the relative returns to skilled labor and capital are increasing while the relative returns to unskilled labor are decreasing. However, there is no consensus on what weight each factor may have, thereby making it difficult to prescribe an approximate policy remedy. Nor is it known whether these wage trends will persist. But it is clear that the market, starting over two decades ago, turned strongly against less skilled and less educated workers.<sup>34</sup>

## Policy Approaches

The relationship between globalization and worker insecurity is complicated and uncertain. There are many different components of globalization and it is not easy to discern which components are most linked to rising worker insecurity. Most research indicates that trade plays only a limited role in generating the economic losses or concerns, but that it gets much of the blame because of its visibility, particularly in the guise of new trade agreements. While this report has identified three components of worker insecurity—job losses, outsourcing fears, and rising income inequality—there easily could be other material and psychological factors that are involved as well. As a result, a number of different approaches might be required if ones goal is to maximize American economic well being with the derivative need to bolster public support for globalization and an open global economy.

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<sup>30</sup> Ibid.

<sup>31</sup> Kenneth F. Scheve and Matthew J. Slaughter, "A New Deal for Globalization," *Foreign Affairs*, July/August 2007.

<sup>32</sup> CRS Report RL32639, *Income Inequality in the United States: Trends and International Comparisons*, by (name redacted).

<sup>33</sup> Dardush and Shaw, "Is the Labor Market Global," p. 5. According to International Labor Organization data, similar trends are occurring in many developing countries as well.

<sup>34</sup> Alan Blinder, JEC Testimony, p. 2.

Approaches involving adjustment assistance, education, taxes, and trade are most commonly put forth in this context. Adjustment assistance is designed primarily to address job dislocation concerns; education is generally considered a means to foster skill-sets demanded by a globalizing economy, as well as a vehicle for promoting greater equality; tax policy is the primary means of affecting changes in income distribution; and trade policy tends to affect the kinds of jobs available in an economy, but not the overall level of employment.

Additional perspectives are offered at both ends of the political economy spectrum. At one end, there are those who call for setting higher standards at home—a higher minimum wage, a union friendly workplace, universal health care, stricter corporate governance laws, more research and development support for new industries—as a way to create high wage jobs.<sup>35</sup> At another end, there are those who call for primary reliance on market forces and de-regulation as the best way to promote robust economic growth and vibrant job creation.

A key question may be the extent to which any of these approaches can be designed and implemented in a way that would reduce worker insecurity without undermining the benefits of globalization. In the view of many economists, policies that inhibit the dynamism and flexibility of labor and capital markets or raise barriers to international trade and investment would not be helpful because technology and trade are critical sources of overall economic growth and increases in the U.S. standard of living.<sup>36</sup>

What follows is a short description of the main policy approaches. Each section discusses how each policy is intended to affect worker insecurity, as well as concerns and criticisms of the approach. None of the approaches alone may be an answer to the adjustment problems globalization is posing for workers.

## **Adjustment Assistance**

In a typical year, millions of private sector jobs in the U.S. labor market are created and lost. In 2007, for example, approximately 30 million jobs were created and 29 million were lost or displaced for a net increase of about 1 million jobs. However, the 2007-2009 recession reversed this situation with over 7 million more jobs being displaced than created. Job losses have decreased since the recovery began in 2010 as private sector employment began to rise.

Involuntary job losses often impose real costs on American workers. While a majority of displaced workers tend to find new full-time jobs, they often have to accept a loss of earnings. Moreover, in the recent recession, growing numbers of workers have been not able to find a job for a prolonged period of time.

Job losses traditionally are driven by a number of factors including technological change, business cycles, shifting consumer tastes, and international trade. Most economists believe that technological change (machines replacing workers) is the most important factor.

Two U.S. labor market programs are Unemployment Insurance (UI) and Trade Adjustment Assistance (TAA). UI benefits were designed to supplement a worker's salary until the person

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<sup>35</sup> Galbraith, James K., "Why Populists Need to Re-think Trade," *The American Prospect*, May 10, 2007.

<sup>36</sup> Bernanke, Ben S., "The Level and Distribution of Benefits," 2007, p. 6.

was rehired by his or her former employer. Today's unemployed, however, often have to look for a new employer, upgrade or learn new skills, and cope with lost benefits, including health care.<sup>37</sup>

The TAA program faces similar challenges. Established in 1962, the program was designed to aid workers adjust to job loss due to increases in import competition. Over the years it has been expanded to account for job losses due to shifts of productions overseas. In 2002, secondary workers became eligible for TAA benefits; a wage insurance or supplement was created for older workers; and a tax credit was instituted to help trade-affected workers pay for health insurance.<sup>38</sup>

Supporters of TAA argue that the program can speed the adjustment process by helping to return idle resources to work more quickly and compensate workers for lost income. To the extent the program achieves these objectives, supporters believe that opposition to globalization and trade liberalizing agreements can be reduced. TAA skeptics maintain that the program is poorly structured to help workers adjust to the new competition and shifting technologies they face today. Rather a unified training and safety net is said to be necessary to help workers cope in a much more competitive job market that requires more frequent transitions from job to job.<sup>39</sup>

## **Education**

While TAA focuses directly on those workers who appear to be visible losers from globalization, some analysts believe that priority needs to be placed on ensuring that all Americans are in a position to take advantage of globalization. Support for increasing the skill level of the labor force through more education is based on the notion that higher skilled workers generally earn more, have lower unemployment rates, and are more likely to be better able to adapt to changing demands of the workplace.<sup>40</sup> Some research also suggests that the higher rate of return to education and skill training is likely the single greatest source of the long-term increase in inequality. Thus, policies that boost national investment in education and training may also help reduce inequality while expanding economic opportunity.<sup>41</sup>

Beyond the view that the provision of more education is a way for more workers to benefit from globalization, there appears to be less consensus on what kind of education to emphasize. Does the best return on government expenditures come from spending on early childhood development and pre-school, primary school, high school or college? How much spending should be devoted to improving math and science skills? What is the role for career-education and on-the-job

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<sup>37</sup> Council on Foreign Relations, *U.S. Trade and Investment Policy*, Independent Task Force Report No. 67, 2011, p. 62.

<sup>38</sup> See CRS Report R42012, *Trade Adjustment Assistance (TAA) for Workers*, by (name redacted). TAA also has a firm and community component. For information of the firm program, see CRS Report RS20210, *Trade Adjustment Assistance for Firms: Economic, Program, and Policy Issues*, by (name redacted).

<sup>39</sup> CRS Report R41922, *Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy*, by (name redacted) and Laine Elise Rover.

<sup>40</sup> Janet L. Yellen, President and CEO, Federal Reserve Bank of San Francisco, Speech to the Center for the Study of Democracy, November 6, 2006, p. 7.

<sup>41</sup> OECD, *An Overview of Growing Income Inequalities in OECD Countries: Main Findings*, 2011.

training? Should more money be put into federally subsidized retraining programs, particularly for economically disadvantaged populations?

The OECD study emphasizes the important of two strands of education for preparing a workforce for life in an increasingly competitive global economy. First, the report maintains that better job-related training and education for the low-skilled via on-the-job training would help to boost their productivity and future earnings. The second strand relates to access to formal education throughout working life in order to acquire the skills needed in a dynamic economy.<sup>42</sup>

Nevertheless, given the increasing globalization of labor markets, the question also arises as to what kind of skills to promote. Those at the top end of today's income distribution have skills that enable them to perform non-routine kinds of problem solving, often within the context of large, complex, global operations. In contrast, an increasing share of domestic workers in the middle of the wage spectrum have experienced lower demand because companies can now look all over the world for workers able to perform computer programming tasks, communications tasks, and similar jobs whose tasks can be routine zed but do not require face-to-face contact with others. In this context, it is not self-evident what kind of education or training will foster labor skills that will be immune to outsourcing and global competitive pressures in the future, other than that they require face-to-face contact for work that does not involve codifiable information.<sup>43</sup>

Another consideration in evaluating education as a policy approach for dealing with worker insecurity about globalization may be the amount of time for educational changes to achieve the objective. One analyst maintains that education as a policy approach to worker insecurity could take more than a generation to make a difference. For example, it took 60 years to boost the share of college graduates in the work force from 6% at the end of WWII to 33% today, and that required major government programs, such as the GI bill.<sup>44</sup>

## **Tax Policy**

Calls for a more progressive form of taxation is one of the more recent policy approaches for lessening resistance to globalization. Based on a view that the current pattern in U.S. income distribution is the most pressing issue to address, a report funded by the country's top financial firms argues that some direct form of income redistribution is necessary for ensuring that globalization's benefits are shared more widely. Accordingly, the report calls for making the Federal Insurance Contribution (FICA) social security tax more progressive, either by integrating it into the income tax or by adding progressivity into FICA itself.<sup>45</sup>

A number of tax policies such as the earned income tax credit, which supplements the earnings of low-income workers, are already in place to diminish economic inequality. Most prominently, the individual income tax's graduated rate structure is progressive with higher income earners assessed higher tax rates. Unemployment insurance cushions family income in the face of job loss and illness. Of course, numerous other alternative tax changes are possible if the goal is income

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<sup>42</sup> Ibid.

<sup>43</sup> Yellen, Janet p.5.

<sup>44</sup> Shreve , Kenneth F., and Matthew J.Slaughter, p.5

<sup>45</sup> *Financial Services Forum Report*, "Succeeding in the Global Economy: A New Policy Agenda for the American Worker, 2007, p. 45.

redistribution. But the question whether government should move in this direction is controversial.<sup>46</sup>

On the one hand, most economists maintain that some market determined income differences are needed to create incentives to work, invest, and take risks. Without the incentives, economic growth would be less robust to the detriment of everyone. Moreover, redistribution strategies based on government transfers and tax changes alone would be unlikely to be effective or financially sustainable in the long run. On the other hand, there are signs that rising inequality is intensifying resistance to globalization and some observers maintain that it is important to act quickly if public support for global integration is to be maintained.

## **Trade Policy**

Trade policy can also play a role in reducing worker insecurity. Traditional U.S. policies toward free trade agreements (FTAs) and unfair foreign trade practices, in particular, have been pointed to by labor activists as contributing to job loss and job insecurity. If the United States adopted and successfully implemented more muscular policies in these areas, proponents of this view posit that some alleviation of job loss and worker anxiety could materialize.

U.S. FTAs with countries such as Mexico, Chile, and Colombia have played a role in accelerating the integration of global markets. Through a mutual reduction in trade barriers, countries entering into an FTA accelerate specialization in production and trade. By opening new opportunities for the export of U.S. goods and services, FTAs support jobs associated with increased exports. At the same time, some U.S. jobs and production shift to FTA partners who can offer lower costs of production, including labor cost. While most labor activists accept that lower labor costs are a legitimate source of comparative advantage that many developing countries can offer, they challenge any incremental cost advantage that these countries may gain from the suppression of workers' rights.

To deal with concerns raised by unfair worker rights practices, a bipartisan policy position was agreed to by congressional leadership and the Bush Administration to deal with four pending FTAs in 2007. As outlined in the 2007 "New Trade Policy for America," the principles contained in the agreement were used to alter the language of the FTAs with Peru, Colombia, Panama, and South Korea after they had been negotiated. The understanding required that the four pending FTAs adopt as fully enforceable commitments the five basic labor rights defined by the International Labor Organization (ILO) such as prohibitions against child labor and freedom of association. How much relief enforcement of these core labor rights, among other requirements, would provide American workers, however, remains uncertain. For example, according to one analyst, no matter how free developing and newly industrializing country workers are to organize, they are still going to be paid very little, (Mexican wages are only 11% of the U.S. level and Chinese wages 3% of the U.S. level) and trade is likely to continue to pressure U.S. wages.<sup>47</sup>

U.S. efforts to eliminate foreign country unfair trade practices could also serve to reduce pressures on workers. Foreign practices such as subsidies and predatory pricing strategies can encourage a shift in investment and employment to their markets, thereby displacing U.S.

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<sup>46</sup> Yellen, Janet, p.8.

<sup>47</sup> Krugman, Paul, "Divided Over Trade," *New York Times*, May 14, 2007, p. 16.

workers. From the perspective of U.S. workers whose jobs are displaced by these kinds of foreign government interventions, the financial and psychic costs of dislocation are not insignificant. Accordingly, some maintain that a forceful U.S. policy towards these practices may be justified in order to prevent unnecessary job displacement and churning in the domestic economy, although measures that restrict trade are likely to be opposed by stakeholders who may be disadvantaged by higher import prices.<sup>48</sup>

Nevertheless, as economists constantly point out, the role of trade policy in preserving or creating jobs in the overall economy is very limited. While trade policy measures to increase market access for U.S. exports and investments or to impose restrictions on U.S. imports can affect the composition of employment, the overall level of employment is determined primarily by fiscal and monetary policies and by business cycles. Dislocation, moreover, is an inevitable byproduct of capitalism, with or without trade.

## **Domestic Standards**

Finding ways to create more high-wage jobs in the United States is another approach that has been proposed for helping those who lose out to the global economy. A number of different elements are sometimes included in this approach, including a higher minimum wage, universal health care, a union-friendly workplace, and expanded funding for research and development for new industries, particularly in the area of alternative energy.<sup>49</sup>

This approach is based largely on the model of universal unions, high minimum wages, and strong welfare state benefits provided by Norway and Sweden. These two Scandinavian countries, which enjoy among the lowest unemployment rates in Europe, are highly open to international trade and to job churning (hiring and firing) in their economies. In the view of one proponent, the key to their success is high wages. Firms are not free to compete by undercutting the union rate, but must try to keep productivity high if they are to survive.<sup>50</sup>

The premise of this high standards job creation approach is that the foundation of a strong American middle class rests with laws, regulations, and standards developed at home. Instead of worrying about what impact trade with low-wage developing countries has on U.S. wages, this approach maintains that a high-wages domestic economy will have a favorable impact on trade. “The big problem is simply that unions, laws, regulations, and standards have been undercut by conservative policymakers, right here at home.”<sup>51</sup> A high-wage strategy, of course, depends on the ability of companies to invest in capital and technology to generate high labor productivity to pay for the wages.

## **Free Markets and Limited Government**

In stark contrast to the domestic standards job creation approach, this approach touts the principles of free enterprise, open markets, and limited government as the best way to achieve

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<sup>48</sup> Drezner, Daniel W., *Council on Foreign Relations*, “U.S. Trade Strategy: Free Versus Fair, 2006.

<sup>49</sup> Galbraith, James, K. “Why Populists Need to Re-think Trade,” *American Prospect*, May 10, 2007 - web only version.

<sup>50</sup> *Ibid.*, p.7.

<sup>51</sup> *Ibid.*

economic prosperity and security for all Americans. The basic idea of this approach is that individuals are best helped not by government intervention, but by making their own choices in a free marketplace.<sup>52</sup>

Under this view, today's global economy provides unprecedented opportunities for the United States to derive large-scale economic benefits. Free trade policies are seen as creating higher-paying jobs for a growing number of Americans working in export-oriented industries. High corporate tax rates, a relatively high minimum wage, domestic subsidies, and weak protections of property rights are viewed as the real threats to American jobs.<sup>53</sup>

When it comes to policies for alleviating worker anxiety, most supporters of this school of thought oppose government programs that redistribute income or protect workers from market forces. Rather, many supporters of this approach urge a focus on removing barriers to job creation, as well as various forms of retraining and relocation aids to help workers find new jobs in a growing economy.

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<sup>52</sup> Griswold, Daniel, "Free Trade, Free Markets: Rating the 108<sup>th</sup> Congress," *CATO Institute*, Center for Trade Policy Studies, No. 28, March 16, 2005.

<sup>53</sup> Markheim, Daniella, "Why Free Trade Works for America," *Heritage Foundation*, Backgrounder No. 2024, April 16, 2007.



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