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. Some recent research examines whether these trends are creating new vulnerabilities for workers.

Some of the vulnerabilities for workers are underlined by changing employment patterns caused by increased foreign competition, a declining wage share of national income, and rising earnings 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 increases in the U.S. living standard.

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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.[1] 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.[2] 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 workers than domestic.[3] 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.[4]

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 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.[5] 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.[6]

At the same time, greater global economic integration 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

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[1] Exports and imports of goods and services accounted for 30% of U.S. GDP in 2008, up from 9% in 1960. CRS calculations based on U.S. Department of Commerce, Bureau of Economic Analysis data.

[2] By some estimates (a 2004 survey by central banks) *daily* trading of foreign currencies totals more than $1.9 trillion. This compares to global trade in goods and services of about $12 trillion *per year* (2005 data). See CRS Report RL33944, *Trade Primer: Qs and As on Trade Concepts, Performance, and Policy*, coordinated by Raymond J. Ahearn.

[3] Holstein, William J., "Have and Have-Nots of Globalization," *New York Times*, July 8, 2007, p. 4.

[4] 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 Raymond J. Ahearn, and Freiden, Jeffrey, A., *Global Capitalism: Its Rise and Fall In the Twentieth Century*, WW Norton &Co., 2006.

[5] 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.

[6] See Remarks by Treasury Secretary Henry M. Paulson on the International Economy, September 13, 2006. http://www.ustreas.gov/press/releases/hp95.htm

world economy.[7] Increased economic 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.[8]

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.[9] Moreover, popular insecurity may be raising concerns that the process of economic integration will be interrupted or reversed.[10]

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, the House Democratic leadership stated in 2007 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.[11] Similar concerns may explain, in part, why the 111th Congress has not yet taken up consideration of free trade agreements with Panama, Colombia, and South Korea that had been negotiated by the Bush Administration.[12]

To bolster public support for an open world economy, conventional wisdom suggests that the legitimate concerns of those who are losing in the contemporary economic environment need to be addressed. Yet, compared to the benefits of globalization, U.S. programs geared towards compensating the losers have been quite modest.[13] To what extent the losers should be compensated and how, however, is a matter of considerable congressional and public debate. Currently, approaches affecting adjustment assistance, education, tax, and trade policies are most

[7] 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-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.

[8] 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.

[9] For discussion of trade agreements and legislation in the 111th Congress, see CRS Report RL33743, *Trade Promotion Authority (TPA): Issues, Options, and Prospects for Renewal*, by J. F. Hornbeck and William H. Cooper and CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck.

[10] 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

[11] Goodman, Peter S. "President Set to Lose Trade-Negotiating Power," *Washington Post*, June 30, 2007, D1.

[12] See CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper.

[13] 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.

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.[14]

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.[15]

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.[16]

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 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 90% less, yet are still highly educated.[17] Not only does this

[14] See chapter 3 of *OECD Employment Outlook*, 2007, "OECD Workers in the Global Economy: Increasingly Vulnerable? ISBN 978-92-64-033303-0, pp. 105-154.

[15] 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.

[16] Bernanke, Ben S. op. cit. (2006 Jackson Hole Speech) p. 5.

[17] If unit labor costs or productivity are also 90% lower in low-wage countries, then U.S. workers are not at a disadvantage.

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.[18]

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.[19]

Sources of Worker Insecurity

There is little question that by some measures—economic growth, productivity growth, and low inflation - the U.S. economy has been strong over the past decade. For most Americans, this has translated into absolute increases in living standards as measured by gains in real consumption and real disposable incomes.[20] A growing engagement with the world economy has been an important factor facilitating a robust overall economic performance. However, these positive developments have coincided with changing employment patterns caused by increased foreign competition, a declining wage share of national income, and rising earnings inequality. These trends, in turn, have become a source of economic insecurity for many Americans and may be contributing to declining public support for U.S. engagement with the world economy and for additional trade agreements.[21]

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[18] The actual impact of trade from low-wage countries on U.S. wages is controversial. Some analysts point to the fact that high wage and high standards developed countries still account for over 50% of U.S. imports. Others point to the fact that the share of U.S. imports accounted for by the two most populous low-wage countries—China and India—have risen from 1.8% 1985 to 16.7% in 2006. For more on trends on U.S. trade with developing countries, see CRS Report RL33945, *U.S. Trade with Developing Countries: Trends, Prospects, and Policy Implications*, by William H. Cooper.

[19] Prestowitz, Clyde, *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East*, Basic Books, 2005.

[20] Bernanke, Ben S. "The Level and Distribution of Economic Well-Being," Remarks before the Greater Omaha Chamber of Commerce, February 6, 2007.

[21] For example, an NBC News Wall Street Journal poll found that from December 1999 to March 2007, the share of American public opinion that believes trade agreements have hurt the United States increased by 16 percentage points (to 46%) while the share of those who thought trade agreements have helped the United States fell by 11 points (to just 28%). A 2000 Gallup poll found that 56% of respondents saw trade as an opportunity and 36% saw it as a threat. By 2005, the percentages had shifted to 44% and 49% respectively. Especially noteworthy is the decline in support from Americans with college educations. [Cited in Kenneth F. Scheme an Matthew J. Slaughter, "A New Deal for Globalization?," *Foreign Affairs*, July/August 2007] In addition, polls by Pew Charitable Trust , New York Times, and CBS indicate that growing shares of respondents feel that their children will experience a diminished quality of life in coming years [cited in Speech by Janet L. Yellen, President, Federal Reserve Bank Board of San Francisco, Center for the Study of Democracy, November 6, 2006].

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.[22] 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.[23] 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 4.0 million, from 15.8 million in November 2001 (the trough of the latest recession) to 11.8 million in 2009.[24] 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.[25]

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.[26]

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 increased competition has not been a barrier to creating near full-employment. They also maintain that U.S. manufacturing is healthy and strong as reflected by data showing that (1) manufacturing accounted for 11.5% of the U.S. economy in 2008 in real dollars—down from 14.5% in 2000 ; and (2) that the U.S. share of world manufacturing output has been stable over the past two decades, averaging around 21%.[27] They also emphasize that much of this is

[22] 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 (a.k.a. Offshore Outsourcing) and Job Insecurity Among U.S. Workers*, by Linda Levine.

[23] 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.

[24] Bureau of Labor Statistics' data from the Employment Situation: June 2008.

[25] CRS Report RL32292, *Offshoring (a.k.a. Offshore Outsourcing) and Job Insecurity Among U.S. Workers*, by Linda Levine; and CRS Report RL30799, *Unemployment Through Layoffs and Offshore Outsourcing*, by Linda Levine.

[26] 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

[27] National Association of Manufacturers, "Facts About Modern Manufacturing," Washington, D.C., 2009.

being accomplished by heavy investment in robots and computers, which allow companies to produce more goods with fewer workers. Domestic factors such as technological innovation, not trade, they argue have been the dominant factors in the loss of manufacturing jobs.

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.[28] Also 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. Thus, offshoring 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.[29] 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.[30]

Rising Income Inequality

A second source of anxiety or insecurity may stem from the impact that globalization, immigration, and automation are having on the bargaining power of workers. Under this view, while most workers have continued to stay employed, the pressures of the global marketplace and technological change have forced them to accept modest or no wage increases.[31] As a result, workers are seen as increasingly isolated in a competitive squeeze and not receiving their fair share of the benefits of globalization.[32] Alternatively, US companies as seen through the lens of corporate profitability are thriving as never before.

Support for this view may be found in data that indicates little or no wage and salary growth for all but the highest earners over the past six years.[33] One data set of real earnings growth by educational level shows that only 3.4% of workers (those with doctorates and professional graduate degrees in business, law and medicine) enjoyed any increases in average real money earnings from 2000-2006. Stated differently, more than 96% of U.S. workers are in educational groups (high school dropout, high school graduate, some college, college graduate, and

[28] See CRS Report RL32292, *Offshoring (a.k.a. Offshore Outsourcing) and Job Insecurity Among U.S. Workers*, op. cit., pp. 7-9, by Linda Levine; and CRS Report RL32484, *Foreign Outsourcing: Economic Implications and Policy Responses*, by Craig K. Elwell.

[29] The U.S. labor market reflects an economy that creates and destroys millions of jobs each year. In 2005, for example, 31.4 million jobs were created and 29.3 million were lost, for a net expansion of 2.1 million. More than half of the jobs losses were voluntary. See Financial Services Forum report, p. 29.

[30] 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.

[31] Interestingly, Europe’s much higher minimum wage and greater labor protections against lay-offs may make the competitive pressures from developing country trade felt more through lower job creation (higher unemployment) rather than wages. See Jeffrey Freiden, op. cit., p. 465.

[32] Many economists maintain that total compensation, which has risen over the period under review, is a more appropriate measure.

[33] A growing unequal trend of earnings from work started many years ago. For example, according to IRS data, the average taxpayer in 1979 in the top 1/10th of one percent of all wage and salary earners earned about as much as 44 average taxpayers in the bottom half. This number had risen to almost 160 by 2001. Cited in Blinder, JEC testimony.

nonprofessional masters) for which mean average money earnings fell during this period. For college graduates, constituting 29% of the workforce, this was a new experience since real pay increase rose steadily between 1980 and 2000.[34]

Another indicator that the average worker may not be getting ahead is captured by data linking productivity growth to growth in average real hourly wages. While productivity growth or output per worker rose by 71% from 1980 to 2005, the real compensation of non-supervisory workers comprising 80% of the work force grew by 4%. The gap in the manufacturing sector was even greater: productivity rose 131%, while compensation of non-supervisors grew only 7%.[35] According to this view, the strong U.S. productivity growth of the past several years has not been reflected in wage and salary earnings for most American workers.

Whether the rest of the income generated by increased productivity is being captured by the top 1% of income earners, by corporate profits, or in non-wage compensation (such as health benefits) of non-production workers is a major unresolved question. One study found that 60% of the gap is mostly accounted for by rising non-age benefits such as health insurance. Using an alternative measurement, this study also found that the real incomes of hourly paid workers have not in fact been flat since the early 1980s, but have risen by 1.5 % per year.[36]

At the same time while the vast majority of American workers may not have received any boost in their real take-home pay, the richest Americans were doing quite well. The share of national income accounted for by the top 1% of earners (as reported on tax returns) reached 21.8 % in 2005—a level not seen since 1928. In addition to high labor earnings, income growth at the top is being driven by corporate profits which accrue mainly to those with high labor earnings. In 2006, corporate profits totaled 12.4% of national income, a level not reached in 50 years. The corporate profit share of national income is also at or near record levels in Japan and Europe.[37]

A variety of explanations—trade with developing countries, foreign investment, an increase in low-skilled immigration, the business cycle, and skill-based technological change—have been put forth to explain these income trends. But 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.[38]

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

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[34] Kenneth F. Scheve and Matthew J. Slaughter, "A New Deal for Globalization," *Foreign Affairs*, July/August 2007.

[35] Testimony of Dr. Lawrence Mishel, President, *Economic Policy Institute*, "Globalization That Works for Working Americans," Presented to the House Committee on Ways and Means, January 30, 2007.

[36] Research of Robert Z. Lawrence, Harvard University, as cited in Clive Crook, "Why Middle America Needs Free Trade,"*Financial Times*, June 28, 2007.

[37] Steven Greenhouse and David Leonhardt, "Real Wages Fail to Match a Rise in Productivity," *New York Times*, August 28, 2006, and *Morgan Stanley*, Special Economic Study -"The Politicization of the U.S.-China Trade Relationship." February 13, 2007, p. 6

[38] Alan Blinder, JEC Testimony, p. 2.

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 most 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 downward pressures on wages—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.

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.[39] 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.[40] 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.[41]

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

The primary government program to compensate U.S. workers who are disadvantaged by trade competition is the Trade Adjustment Assistance (TAA) program.[42] Established in 1962, the

[39] Galbraith, James K., "Why Populists Need to Re-think Trade," *The American Prospect*, May 10, 2007, web only.

[40] OECD study, p. 109.

[41] Bernanke, Ben S, "The Level and Distribution of Benefits," 2007, p. 6.

[42] 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 J. F. Hornbeck. Other forms of federal assistance available for workers displaced by offshoring include the Worker Adjustment and Retraining Notification Act (WARN, P.L. 100-379), and the Workforce Investment Act (WIA, P.L. 105-220). For more information on these programs, see CRS Report RL31250, *The Worker Adjustment and Retraining Notification Act (WARN)*, by Linda Levine, and CRS Report 97-536, *Job Training Under the Workforce Investment Act (WIA): An Overview*, by Ann Lordeman.

program aids workers in certain industries if they can show that increased imports have contributed importantly to a loss of jobs. Workers certified for TAA can access a variety of benefits including income support, job training, job search, and relocation allowances.[43] In 2002, the program was reformed and expanded. 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.[44] In FY2007, Congress appropriated $572 million for TAA income support payments, $6.6 million for job search and relocation expenses, and $23.5 million for Alternative Trade Adjustment Assistance (ATAA) for older workers.

TAA has had some notable successes over the past 30 years, particularly in the area of training. While a number of studies suggest workers trained through TAA have had much better success in finding jobs than workers who have not received training, many observers maintain that the current program is too narrow, too bureaucratic, and underfunded to alleviate worker anxiety by itself.[45]

Current options for reform being proposed range from small changes involving the processes of eligibility determination and assistance implementation to large changes involving a broadening and expansion of the program. In addition to funding increases for training, the most prominent proposals include extension of eligibility to service workers and to workers displaced by trade with non-trade agreement countries. A number of other proposals call for streamlining the program and integrating it with other programs for displaced workers.[46]

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.[47] 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.[48]

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[43] CRS Report RS22718, *Trade Adjustment Assistance for Workers (TAA) and Reemployment Trade Adjustment Assistance (RTAA)*, by John J. Topoleski.

[44] Statement of Dr. Sigurd R. Nilsen, Director for Education, Workforce and Income Security Issues, Government Accountability Office, Before the House Committee on Ways and Means, June 14, 2007.

[45] Ibid. According to the GAO, TAA data make it difficult to provide a complete and credible picture of the program's performance.

[46] For background and analysis of current congressional proposals, see CRS Report RL34383, *Trade Adjustment Assistance (TAA) for Workers: Current Issues and Legislation*, by John J. Topoleski; CRS Report RS22718, *Trade Adjustment Assistance for Workers (TAA) and Reemployment Trade Adjustment Assistance (RTAA)*, by John J. Topoleski; and CRS Report RS22761, *Extending Trade Adjustment Assistance (TAA) to Service Workers: How Many Workers Could Potentially Be Covered?*, by John J. Topoleski,

[47] 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.

[48] Ben Bernanke, 2007, p7.

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 training? Should more money be put into federally subsidized retraining programs, particularly for economically disadvantaged populations?[49]

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.[50]

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.[51]

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.[52]

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

[49] Yellen, Janet, p. 8.

[50] Yellen, Janet p.5.

[51] Shreve , Kenneth F., and Matthew J.Slaughter, p.5

[52] *Financial Services Forum Report*, p. 45.

redistribution. But the question whether government should move in this direction is controversial.[53]

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. 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.

Bilateral and regional FTAs and U.S. FTAs with countries such as Canada, Mexico, Chile, and Australia 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. As outlined in the "New Trade Policy for America," U.S. FTAs will begin incorporating enforceable labor standards.[54] Thus, countries that sign an FTA with the United States will have to allow collective bargaining and abolish forced labor, among other requirements. But it is uncertain how much relief this provision will provide for American workers. 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.[55]

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. 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

[53] Yellen, Janet, p.8.

[54] Released March 27, 2007 and available on the websites of the House Ways and Means Committee and the United States Trade Representative (USTR).

[55] Krugman, Paul, "Divided Over Trade, *New York Times*, May 14, 2007, p. 16.

measures that restrict trade are likely to be opposed by stakeholders who may be disadvantaged by higher import prices.[56]

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.[57]

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.[58]

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.”[59] 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 economic prosperity and security for all Americans. The basic idea of this approach is that

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[56] Drezner, Daniel W., *Council on Foreign Relations*, “U.S. Trade Strategy: Free Versus Fair, 2006.

[57] Galbraith, James, K. “Why Populists Need to Re-think Trade,” *American Prospect,* May 10, 2007 - web only version.

[58] Ibid., p.7.

[59] Ibid.

individuals are best helped not by government intervention, but by making their own choices in a free marketplace.[60]

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.[61]

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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[60] Griswold. Daniel, "Free Trade, Free Markets: Rating the 108th Congress," *CATO Institute,* Center for Trade Policy Studies, No. 28, March 16, 2005.

[61] Markheim, Daniella, "Why Free Trade Works for America," *Heritage Foundation*, Backgrounder No. 2024, April 16, 2007.