

Trade under Attack

And Necessary Remedies for Dislocation from Economic Change

*A Policy Brief by the Committee for Economic Development of
The Conference Board*

Table of Contents

3	Executive Summary
4	Introduction: The Need for Trade
6	Trade under Attack
6	Remedies to Make Trade Work
7	Trade and Technology in the United States Today
11	Policy Implications
11	Different Workers, Different Policy Needs
12	Job placement and search
12	Job relocation
13	Assessing worker competencies and skills
13	Developing skills for workers with limited basic competencies
15	Building basic, generic competencies
15	Income support for displaced workers
16	Conclusion

Executive Summary

Key Takeaways

- Trade has been an important contributor to US economic growth and will continue to be so to an even greater degree over the foreseeable future. As such, the United States must continue to engage in world trade, including new negotiations to remove trade barriers.
- But even though trade helps the US overall, trade does not help every individual American worker. Trade provides consumers with lower prices, but previous domestic suppliers can lose business in the face of greater competition.
- Although many believe trade to be the source of every economic problem, many forces—notable among them, technological change—have devalued skills and disrupted careers. For example, manufacturing employment is falling worldwide—including in many US trading-partner nations that are thought to be the cause of US manufacturing job loss.
- To maintain world leadership—including in geopolitics and security—the United States must engage in global trade. It must participate fully and expose itself and its people to competition. If the US withdraws or retreats, other nations will advance to fill the vacuum, and the US will lose its leadership and thus its ability to set international standards of behavior.

Policy Recommendations

Instead of protecting individual jobs, US policy should seek to help individual workers. Policy should:

1. Support the highest standards of education over the entire age continuum, including mid-career training and retraining.
2. Aim to reequip displaced workers to find new jobs, including through job search assistance, specific skill training, creative skills assessments and certification, basic aptitude training, and relocation assistance, as appropriate. US policy makers must treat with respect the complaints of those who have endured work displacement and job loss. The nation can no longer assume that robust economic growth will effortlessly move workers dislocated because of trade or other forces to new high-paying jobs.
3. Create incentives for workers to stay in the workforce rather than withdrawing and letting their skills erode—including through payment of additional unemployment compensation if workers accept an early job offer, and wage insurance, which compensates workers for some portion of wage loss if only lower-paying jobs are available. Rising skill demands will require new efforts, some experimental, to improve old skills and develop new ones. Some experiments will succeed, but some will fail, and the United States must be willing to experiment and to learn as it proceeds.

Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

Introduction: The Need for Trade

The US economy has grown, and the nation broadly has benefited, through trade.

- US consumers have benefited through higher living standards, including access to a wider variety of less-expensive goods.¹
- US workers have gained access to higher-paying jobs in exporting firms.²
- And US firms, engaged in competition around the world, have increased their productivity to the benefit of their owners, employees, and US consumers alike.³

Competitive pressure, as painful as it may be at times, has kept the United States a world leader. For all of our nation's modern history, our national economy has advanced the technological frontier, and it remains on the cutting edge of high-value production. And predictably, as we have moved that high-tech frontier forward, other nations have filled the lower ground, advancing their productivity and living standards in doing so, catching up toward and challenging our standards, but mostly at lower levels of sophistication and value than ours. They have by and large supplied our lower-value needs, while we have remained on the higher ground. This process has raised US living standards enormously—creating productive and high-paying jobs, while providing lower-priced, simpler imported goods that have made the spendable incomes of American workers go much further.

Furthermore, advancing technology and naturally widening avenues of trade have made US businesses stronger and, as a result, created jobs. About half of all US imports are used as inputs by US producers who then sell the resulting product.⁴ Complicated high-value products are subdivided into multiple components that can be produced in different nations according to each nation's relative skill levels and sophistication. These arrangements

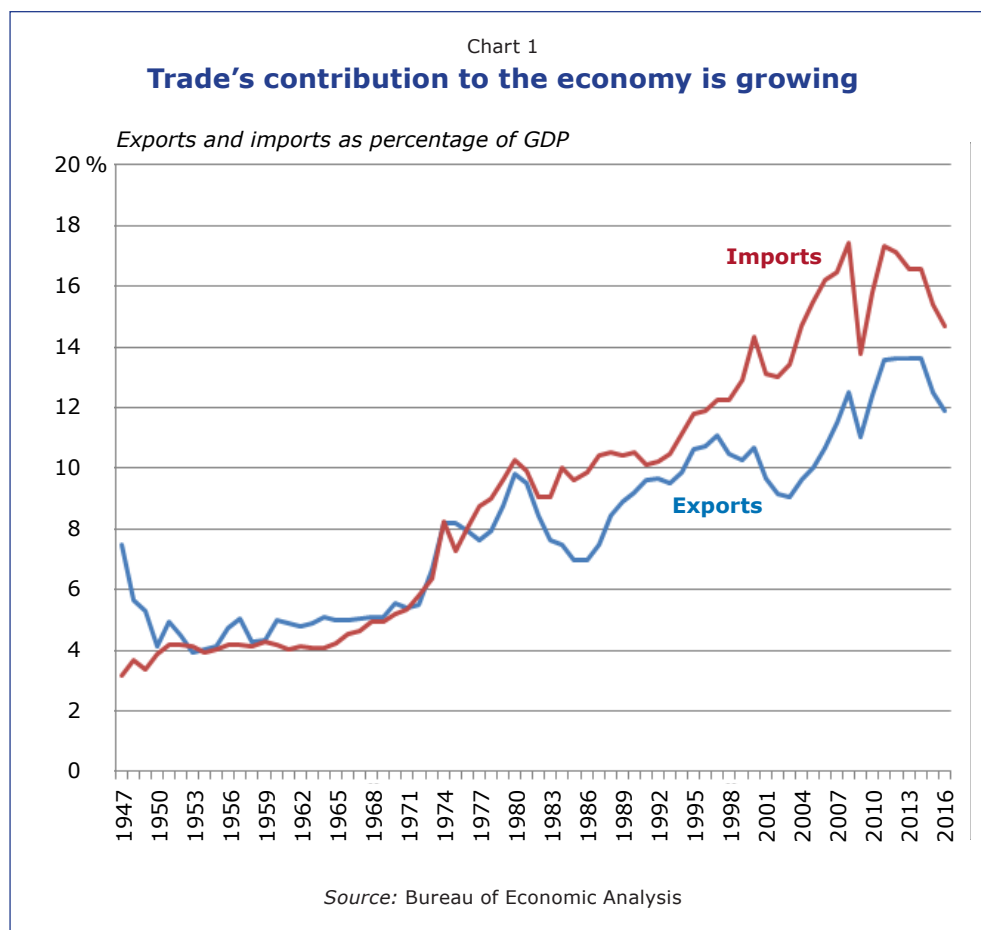
yield the most competitive products and keep our nation in the lead in the global marketplace. Cooperating nations share in the production, employment, and incomes and become stronger customers and suppliers for the long run.⁵ Because the United States is at the technological frontier across most high-value industries, however, our economy enjoys large numbers of productive jobs at high wages. And trade (both imports and exports) has roughly tripled over the last half century, compounding these benefits (see **Chart 1**, page 5).

Trade under Attack

To continue to prosper, our nation needs trade. But now, the entire successful pattern of growth through trade is under attack. Some worry at the growth in the living standards of our trading partners resulting from our mutual trade, believing that if other nations have gained, our nation must have lost. But trade is a positive-sum, not a zero-sum, exchange. If our trading partners were poorer, that would not make our nation richer; in fact, the opposite is true. We need strong customers and suppliers so that we ourselves can prosper.

We believe the case for trade has been proved strong by the test of time. But many of the American people believe that trade is working against them and that the “Washington system” doesn't care. That sentiment corrodes our national life and makes it harder to achieve a constructive consensus on economic policy. For the good of our economy as well as our entire society, we must turn that conviction around, and we must restore the public trust.

And we must not ignore or dismiss out of hand the concerns of many Americans who have suffered stagnant or even declining standards of living over years or decades. We must face a fact that our nation's economic policy apparatus has forgotten from the age-old findings of economics: Trade has been good for the nation as a whole, but it has not helped every individual American.



Trade has rewarded cutting-edge skills but devalued and replaced some other human skills, in the process known as “creative destruction.”⁶ Throughout our history, the economy has provided new work for those who were displaced by trade. During the early post-World War II years, robust economic growth did the job for us with little effort on the part of policy makers. But since the early 1970s, and especially since the financial crisis, economic policy has not ameliorated the destructive results of economic creation. This process has become sluggish and slow to the point where some have questioned whether the new jobs would come at all.⁷

The debate over trade has recently reached a fever pitch. Our nation would seem to face two fundamental choices. On the one hand, we can protect our market from competition and trade.

If you don't compete, you can't lose. But you also can't win. If we go protectionist, existing supply chains will be disrupted, rendering many US producers uncompetitive or even nonviable. Even if higher-priced, purely domestic substitutes are found for those missing components to allow US production to resume, the more-expensive US products will lose sales overseas and at home—unless trade policy raises the landed prices of imports even more. Either way, the standard of living of US consumers will be hurt. US employment might or might not decline—depending on whether the United States loses more in export sales and in falling standards of living than it does through uncompetitive domestic production.

Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

Furthermore, and most fundamentally, for a nation to export, it must import—for both economic and global political reasons. If we discriminate against other nations, they quite likely will respond in kind, potentially leading to a downward spiral for the entire world economy, given that the United States is one of the world's largest importers. It would also lead to the worst of all worlds for the United States, with less access to other markets and less competition to push US firms to increase their productivity and remain competitive. And our nation needs competition, as painful as it may be at times. Businesses that are shielded from competition, and that therefore do not adopt better practices and advance their productivity, are quickly left behind in the ever-advancing marketplace.

Once lost, a competitive position is very hard to recover because more-competitive firms seldom wait for others to catch up—on the contrary, the nature of successful competition dictates that these firms exploit any perceived weakness. And given the connection between US technology (particularly but not limited to weapons technology) and US geopolitical primacy, the stakes are measured in more than dollars.

And here it is important to understand the similarities, differences, and interactions between trade and technological change. When economic times are bad, it is almost a reflex to look for a villain. And an easy target can be another country to which manufacturing jobs are believed to be moving. But those appearances of late have been misleading. In fact, manufacturing employment has been declining all over the world for years.⁸ Jobs have not so much been moving as they have been automated out of existence. It is not that manufacturing output has been falling; quite the contrary (apart from temporary and purely cyclical influences of the financial crisis).⁹ But manufacturers everywhere have found ways to produce more with less—including less labor.

That is the very definition of advancing prosperity because then society can use its extra labor to produce still more in other fields. Fighting technological progress may be even harder than fighting trade, but fighting either will cost our nation growth and prosperity.

Which leaves us with our second fundamental choice: We can accept the challenge of competition through trade and technological change. Competition entails risk. Protection is far more comfortable—for a while. But eventually, protection yields lower standards of living, and the pain that comes from a back-in-the-pack position in the world. We in the United States want our national security, and we want to set the world standards for geopolitical behavior. We at CED believe, and surely most Americans (and many others) believe, that the world is a better and a safer place with the United States in the lead. But we will not remain in that leading position, and we will not maintain our geopolitical authority, if we allow ourselves to disengage and to fall behind world standards in production and commerce.

In our stressed political environment, it is harder and harder to make trade and technology work for all Americans and to ask American workers to accept competition through trade. We need to turn the tide on both the politics and the policy of trade.

In short, there really is no choice at all. The United States must engage, must compete, and must maintain its world leadership through world trade.

Remedies to Make Trade Work

A clear finding of economics is that the winners from trade and technological progress can and should compensate the losers because doing so can facilitate change that can make all members of society better off.¹⁰ We have come to assume, over decades of economic growth, that the economy by itself will generate enough new opportunity to keep everyone fully employed at good jobs.

In the new environment, with ever-increasing skill demands on the workforce, greater numbers of displaced workers have encountered difficulty in finding new work and have faced significant pay cuts when they did. This policy brief includes several lessons from experience here and abroad about how to spread the benefits of trade to ease the pain of economic change:

- We must reequip displaced workers so they can find new jobs in a new economic environment—including through job search assistance, specific skill training, creative skills assessments and certification, basic aptitude training, and relocation assistance, as appropriate; and
- We must create incentives for those workers to stay in the workforce rather than withdrawing and letting their skills erode. Incentives include payment of additional unemployment compensation if workers search vigorously and accept an early job offer, and making up some portion of wage loss if only lower-paying jobs are available.

Trade and Technology in the United States Today

While job dislocation can be caused by many factors, much of today's public discontent is focused on trade. International trade occurs when two private parties **both** conclude that a voluntary exchange of goods or services and money across a national border is in their interest. This happens when **each** party has a comparative advantage—when one party can profitably trade a good that it can produce relatively better for another product that its trading partner can produce relatively better. When those comparative advantages are complementary from one country to the other, both parties can gain from the exchange.

But with that mutual gain, international trade—and the technological progress that so often accompanies it—simultaneously fuels both

economic growth and labor market dislocation. When a new comparative advantage allows one party to sell its production abroad, that trade can displace domestic production in the other country—production that is **not** to the comparative advantage of the second country. Thus, usually, and especially for an economically advanced country like the United States, either trade or technology will tend to reduce demand for workers in lower-value-added activities. These jobs are either moved to new locations or given over to machines. As a result, the workers who made those products must find new jobs and often even new locations in which to pursue work. Either is a real challenge. Both would be personally quite painful. Some workers are less adaptable than others. Some might live in regions where alternative work is difficult to find. And there may be no jobs available in particularly hard times. Historically, workers have protested trade and Luddites smashed automated looms out of a conviction that trade or technological advancement or both had permanently reduced wages and the quality of job opportunities for hand weavers.

Firms in manufacturing are uniquely suited to benefit from the twin influences of trade and automation. At the same time and for the same reasons, low- and middle-skilled workers in the manufacturing sector are uniquely exposed to the risk of economic dislocation. In many instances, production can be moved to one or many alternative locations to service particular national or global markets. Technological progress particularly advantages high-skilled workers engaged in nonroutine cognitive tasks that are difficult to replace with machines using limited algorithms. Middle-skilled workers who perform routine tasks can, however, more easily be replaced by technology.¹¹ As a result, the wage premium for college-educated workers—the gap between earning power for workers with and without degrees—has continued rising, in significant part because the wages of non-college-educated workers have been so sluggish.

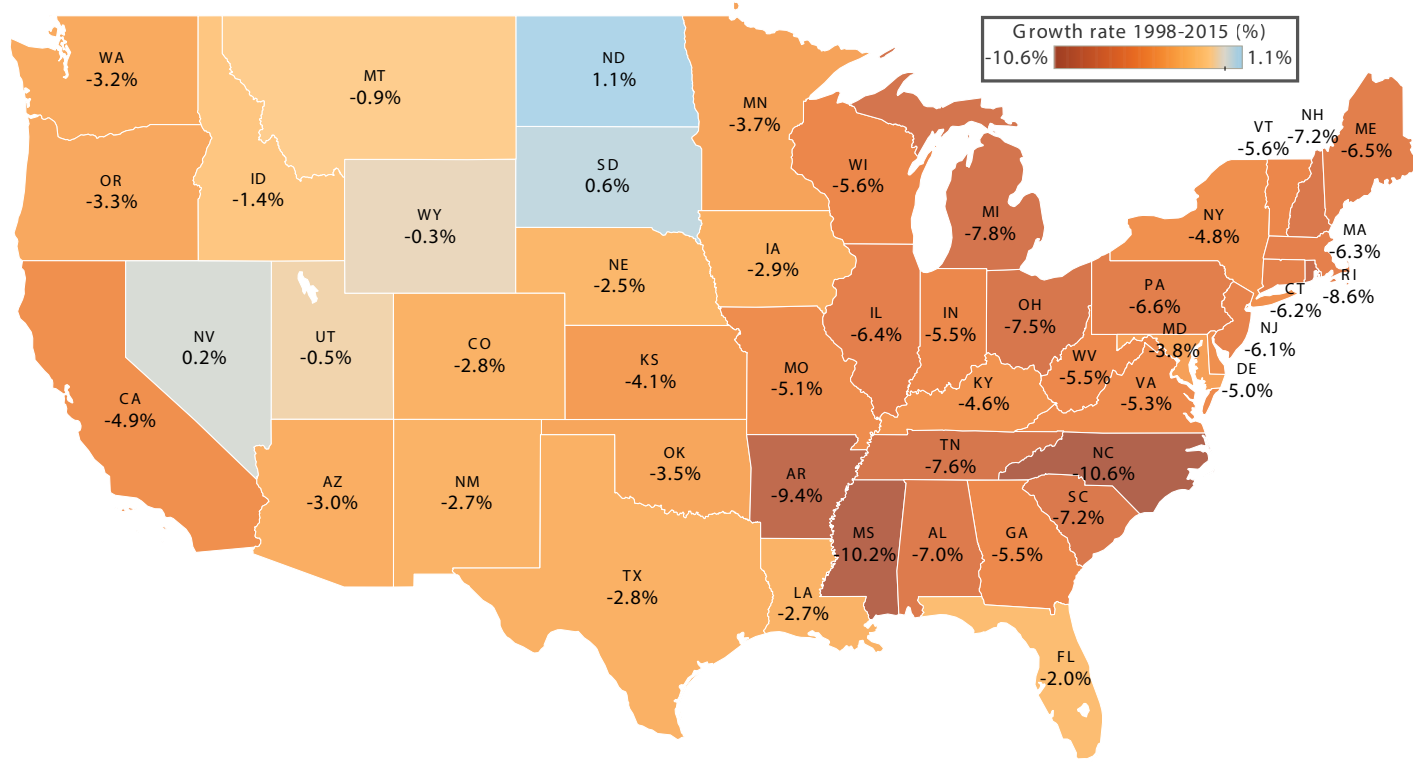
Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

Further, and most significantly, declines in manufacturing employment are not felt evenly across the economy. **Chart 2** illustrates that particular Southern and Midwestern states have suffered significantly more manufacturing jobs lost (as a share of total employment between 1996 and 2015) than have other states or the nation as a whole. More-intense job loss can hobble entire local economies—spreading the dislocation beyond the originally and directly affected industries.

Technological progress allows better-educated workers to be put to work using computers and other productivity-enhancing tools that generate high value in the marketplace.¹² Firms invest in

such technologies because they make those firms more competitive. Firms that are most successful at choosing the best advanced applications grow and therefore attract more high-skilled workers and garner the resources necessary to establish production and distribution facilities abroad. Trade then expands the demand for talent in both the United States and lower-wage countries where these firms choose to operate.¹³ In the United States, and also in lower-wage trading partners, demand for high-skilled workers relative to low-skilled ones grows across most tradeable-goods sectors, regardless of whether the sector initially started as relatively high or low in technology intensity.¹⁴

Chart 2
**Manufacturing jobs lost between 1998 and 2015
as a share of total state employment in 1998**



Source: Quarterly Census of Employment of the US Bureau of Labor Statistics

In theory, economists can measure the labor market effects of increased import penetration versus technological progress in a particular sector at a national level by disaggregating the effects of changes in domestic consumption, exports, imports, and labor productivity. Using this approach, an estimated 88 percent of job losses in the production of manufactured goods from 2000 through 2010 has been attributed to gains in productivity, compared with just 13 percent to changes in the trade balance in that sector. However, again, this is an aggregate result over the entire manufacturing sector, and trade effects vary dramatically from one type of manufacturing to another. More than 40 percent of job losses in apparel and furniture manufacturing can be attributed to shifts in trade, compared to less than 1 percent in machinery, 6 percent in transportation and motor vehicles, and 14 percent in all manufacturing.¹⁵

But policy with respect to dislocated workers has often assumed that government can identify the cause of the loss of each individual job. Assigning job losses at a particular factory (rather than in the aggregate) to a single cause can be even more difficult because executives adjust the size and composition of their workforce all the time based on a host of interrelated factors. And at a very real level, assigning job losses to a particular cause is beside the point. Spells of unemployment, especially extended ones, have adverse effects on each worker's skill development and lifetime wages, whatever the cause of the job displacement.¹⁶ Our society would not want to assist those adversely affected by job loss from only one cause, while ignoring those similarly harmed by another—especially given that assigning a single cause is such an inexact science.

Though the best evidence is that the impact of trade on the labor market has been relatively small compared with the impact of automation, there are particular exceptions. The dramatic growth of Chinese imports to the United States is concentrated in particular industry subsectors, which has led to especially severe effects in the

towns and regions that most heavily rely on those subsectors. Autor et al. study the relationship between the level of competition particular industries in particular geographic areas face from imported goods from China and employment outcomes for workers in those areas; not surprisingly, they find that areas heavily exposed to Chinese competition in manufactured goods experienced the largest losses in manufacturing employment.¹⁷

Were workers able to move elsewhere or reallocate their labor to other industrial sectors in the region, this development might not be so worrisome. However, even over the course of a decade, employment rates remain lower in these areas than in the country as a whole. Rates of migration out are relatively low; few new jobs enter these areas to take advantage of lower wages brought on by worker displacement. Other upstream and downstream manufacturing industries also consequently suffer job losses. Nonmanufacturing industries also lose out, as former manufacturing workers reduce consumption. Many manufacturing workers who lose their jobs initially turn to other jobs in similar industries that their skill sets are best suited for, but those industries are also subject to heavy import competition, for the same reason. The result is that the initial shock of losing a job brings on a long period of failed labor market adjustment and reduced earnings for affected workers.

Chinese import growth during the past few decades placed special burdens on normal channels of labor market trade adjustment. Sectors like North Carolina's furniture industry were rapidly exposed to heavy import competition and declined quickly. Workers who lost jobs looked first to similar industries for new opportunities, and therefore remained subject to the same competitive threat, rather than migrating to more promising industries or locations. Although in total technological change has caused far more job loss, it usually has driven factories that reduce head count to do so gradually as workers became more adept at using the new technology.

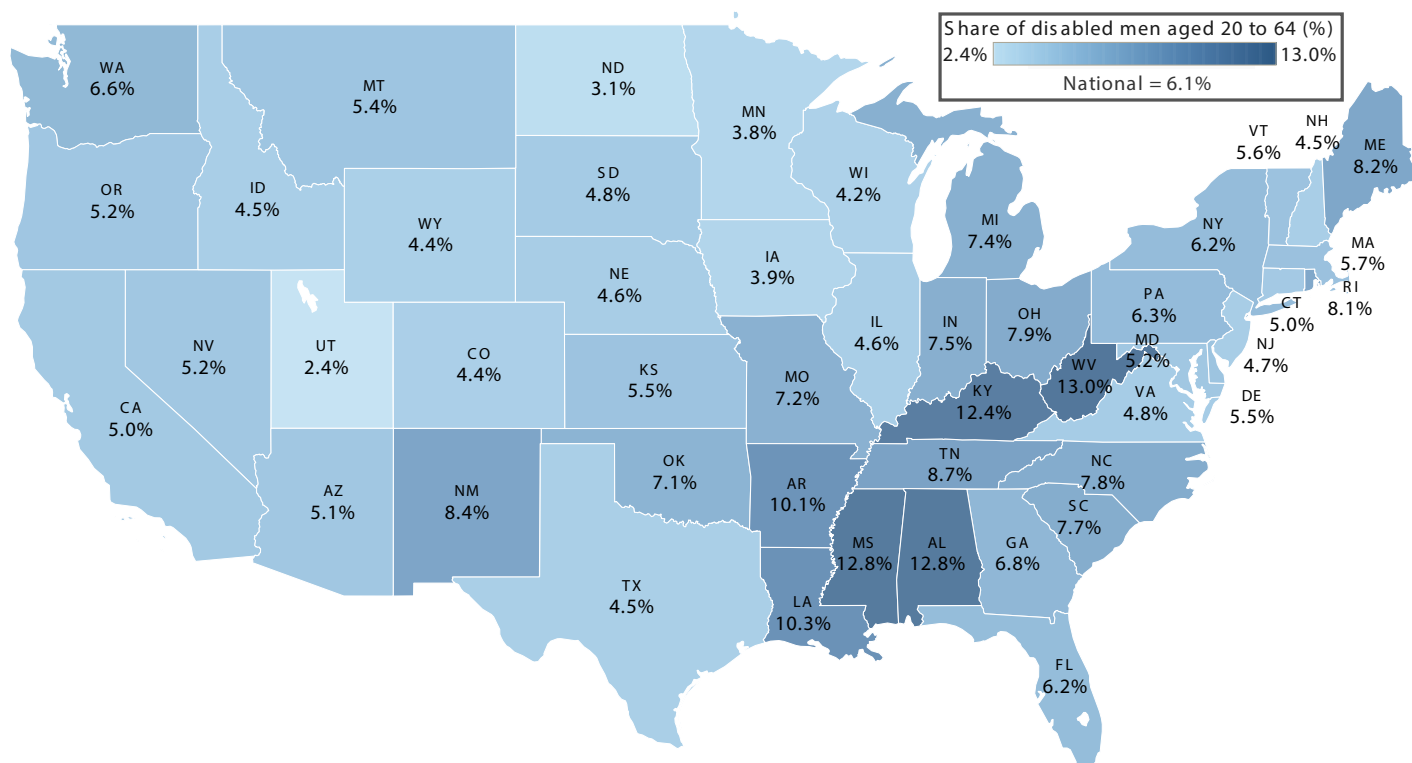
Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

In crucial contrast, trade exposure can cause one or several production facilities to disappear from a local economy quickly and nearly simultaneously, hobbling that entire local economy and making adjustment by workers more difficult. A trade shock, therefore, may cause a more difficult labor market adjustment process than a productivity and technology shock, simply because the speed and concentration of the impact of the former tend to be faster and stronger.

But the key adjustment obstacles in the aftermath of both trade and productivity shocks remain the same, and so the strategies to mitigate their effects should be similar as well. Learning high-level skills and moving to new locations is hard, but

these options represent the clearest path toward successful adjustment. The lack of sufficient successful active labor market policy measures in the United States apparently has caused many workers once employed in declining sectors to abandon the labor market entirely; some even suffer adverse health consequences directly related to their long unemployment spells. **Chart 3** shows that many states that experienced large job losses connected to declines in manufacturing have simultaneously seen the ranks of workers under 65 who are out of the labor force, ostensibly due to disability, grow. In this way, the consequences of poor labor market adjustment strategies and their administration can persist and lead to a pervasive degradation in quality of life.

Chart 3
**Share of men aged 20 to 64 who are
unable to work due to disability, 2016**



Source: Quarterly Census of Employment of the US Bureau of Labor Statistics

Policy Implications

The United States cannot maintain its world leadership without participating fully in world trade. Our nation must compete around the world if it is to maintain its technological superiority. We need access to all of the products and services on offer in the world's markets. In many instances, that will mean goods at lower levels of technological sophistication that complement our own cutting-edge attributes, as well as commodities and raw materials that we simply do not have. And it means maintaining access to all of our producers' potential customers around the world, so that US firms can maintain and grow employment.

Finally, it also means exposing our producers to the highest levels of competition, because if we retreat and hide, we will be overtaken as the world's technical leader. And if we are, we will not sit at the head of the table when the community of nations makes its collective geopolitical decisions.¹⁸

We must rise above the mentality that every trade agreement has one winner and one or more losers. Because of the benefits from the exercise of comparative advantage, trade is a positive-sum, not a zero-sum, game. Each party to a trade agreement must see some benefit, or—obviously—it will have no reason to sign.

And in the long run, the United States has much to gain. At the end of World War II, the United States, as befitted the strongest nation in a world largely devastated by war, offered preferential terms to struggling neighbors. Now, in a more generally prosperous world, those terms can move more toward balance. In 2014, almost 70 percent of US imports were duty-free, whereas US exports bore on average tariffs of 6.8 percent.¹⁹ Because other nations' tariffs are higher than those at the borders of the United States, we have much to gain and very little to lose by engaging in trade negotiations.

But all of that said, our leaders must face up to the reality that the trade process within each nation inevitably has individual losers as well as winners. In today's turgid political and tepid economic environments, literally millions of Americans believe that trade has held back or even reduced their standard of living. And experts should not blithely assert that those millions of Americans are simply wrong because—truth be told—policy makers and policy analysts have for too long failed to assist those disadvantaged by trade who are shut out of overall societal gains.

Our nation needs to direct policy to help people who have lost jobs adjust, for at least four reasons:

1. It is the right thing to do for our fellow citizens;
2. If adjustment programs are more effective, our political process can more easily act to facilitate trade;
3. Putting people who lose jobs from trade back to work helps our nation's economy; and
4. Adjustment tools that work for those suffering dislocation from trade will help in every instance of worker dislocation, including notably job loss that results from the inexorable and beneficial forward march of technological change.

Different Workers, Different Policy Needs

So if it is important tomorrow to create a national policy agenda to strengthen international agreements extending mutually beneficial trade, then it is important today to build a foundation for that agenda that will both reach out to and protect that segment of America's workforce that is vulnerable to experiencing the downside of trade and technological change.

Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

As discussed earlier, economic “dislocation” can be caused by a number of factors—often several that contribute at the same time. Disentangling how any particular worker became displaced, detached, or disengaged from the labor market is not only difficult, it is in many ways irrelevant to informing the most effective policy responses. What matters is not what brought a worker to his or her dislocated state—as economic developments cannot simply be rewound or reversed—but what will help the worker to become reattached to and reengaged with the labor market going forward, working within the current state and path of the economy. We must relieve both the painful reality and the unsettling perception of dislocation caused by trade and by technological change.

Therefore, the best policy responses to economic dislocation must be responsive to the rapidly moving parts of the economy and the labor market.²⁰ Below, we address these policy issues in terms of the needs of different groups of workers in different circumstances, starting with the most common and perhaps simplest needs, and then moving on to the most complex and difficult.

Job placement and search

Many displaced workers need some help to re-engage with the labor market and employers. Even the best-situated workers—those with strong education and skills, who happen to have been in the wrong place at the wrong time and were caught up in a business failure—may need job placement assistance. Other workers, once they have obtained training or have otherwise upgraded their skills, might need job search assistance even more than the best-situated workers.

We believe that an important function of government labor market policy should be to provide better information sharing, communication, and transparency between employers who need workers and the potential employees themselves—so that the supply and demand sides of labor markets in

various places, industries, and occupations can more effectively align.

Job search coaching and assistance might seem so basic as to be unnecessary. However, for workers with long attachment to a single job and no recent experience in job searching (and for others just entering the job market), they can be very helpful.²¹ Employment services and job search assistance have been found to speed finding a new job.²² Job search assistance can combine with search requirements in unemployment insurance to lead to faster reemployment, which saves on the cost of unemployment benefits.²³

Evidence from Europe suggests that it is possible that reemployment assistance for mature workers could merely vault those receiving such help ahead of those without it;²⁴ however, it is also possible that job search assistance helps the right candidate to find the right job faster. The OECD has noted that job search assistance, predictably, is less successful when labor markets are slack.²⁵ Other European evidence ranks job search assistance highly in general²⁶ and finds overwhelming positive effects in combatting youth unemployment.²⁷

Such services also are not costly, increasing the likelihood that they yield a net benefit.

Job relocation

Public and private entities can provide assistance to workers who wish to relocate to more dynamic labor markets. There might also be an urgent need to encourage employment growth in localities with large-scale job loss. The United States has done little in these regards.

Particularly in the kinds of circumstances described in the research by Autor and his colleagues, where firms implode quickly under pressures of rapid import growth that might decimate an entire local labor market, workers might well want to relocate to improve their chances of reemployment.²⁸

Relocation is, of course, complex and risky. In the wake of the financial crisis, displaced workers who own homes with underwater mortgages could find relocation impossible. Two-earner couples, one of whom has become displaced, would have to give up the remaining job to take the chance that both could find work in a new location. Learning precisely where work would be easier to find could be difficult, and relocating on any such assessment would be a high-risk wager.

Also, if public policy were to encourage the most capable workers to relocate from a modest-sized town that had suffered badly from a plant closing, it would in effect cannibalize the remaining workforce, and therefore make recovery for the town as a whole that much harder. At the same time, however, many displaced workers will not want to relocate, and such programs should not detract from efforts to bring new jobs to areas with large displaced populations. It is worth noting that public policy has not been highly successful at that endeavor, either. In short, dealing with the geographic implications of worker dislocations is a largely unexplored area for public policy. Even with its larger aggregate expenditures on active labor market policies, relocation assistance does not receive much attention in Europe as a frontline weapon against job dislocation.²⁹

At the other end of the dislocated worker relocation process, public policy could encourage affordable housing construction and residential rezoning in labor markets experiencing worker shortages, to facilitate relocation by dislocated individuals seeking jobs.

Assessing worker competencies and skills

Offering assessments that allow workers to prove that they have skills and competencies, without having to make large redundant investments in education and certification to do so, could be particularly important. Verifying skills like ability to work in teams, for which there is high employer demand but where workers today possess few empirical tools

to prove their competency, could make dislocated workers more attractive to prospective employers. These tools could provide more workers with ways of standing out in the labor market and therefore commanding higher wages. Such a program could also administer “discovery assessments,” where potential workers are evaluated across a wide range of criteria to determine for themselves the occupations for which they might be well suited. Success in this policy effort could expand the effective labor force, putting to work qualified people who would otherwise be passed over.³⁰

Developing skills for workers with limited basic competencies

Some workers may have sound basic competencies but find that their job-specific skills have been overtaken by technological change. Their dislocation may have been occasioned by trade, or through domestic competition with more technically advanced firms, or possibly through other factors. A key challenge will be guiding employers, education and training institutions, and workforce development and job placement agencies to steer and prepare both currently displaced and future workers so that they have the skills that are and will be in high demand. Also helpful will be encouraging community-based partnerships to connect and engage people in their local economies, starting at a young age (such as through youth programs providing community-based job training, apprenticeships, and educational services).

Displaced workers who undertake job training obviously cannot engage in as much vigorous job searching during their training as can displaced workers who do not take the time out for training. And if workers need to complete a training program of significant duration to be able to claim a new and more valuable skill, that effort will extend the period during which trainees are less likely to find jobs. Accordingly, it is highly likely that displaced workers who undertake training will take longer to find work.

Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

If training is truly valuable, it will more than offset the delay in finding a job by eventually making workers more attractive to employers, making it more likely that they can hold a job longer, and making them more productive and therefore allowing them to earn more than their untrained displaced counterparts. Nevertheless, the reality is training may not fully restore their predisplacement earnings.

Some careful research has endeavored to ascertain whether there is a payoff to job training over time. The US Workforce Investment Act (WIA) has two programs for adult workers, both with job search assistance, but only one with training; however, the training is generally restricted to those who encounter the greatest difficulty finding work. A study by Heinrich et al. found that a group with training on average increased its earnings over 16 quarters relative to a control group without training, but that their earnings after the new training still were lower than before they were laid off—likely because the opportunities available after their dislocation were inferior. This study further found that WIA participants with training earned over \$400 per quarter more relative to WIA participants without training.³¹

But even though there is some evidence of success from job training programs, retraining for dislocated workers has a generally poor reputation in the United States. One concern is that government has a poor track record at identifying marketable skills and conveying them to potential workers. On the former point, government has no directly market-connected mechanism for identifying the skills the private sector needs. It is conceivable, for example, that government might identify one marketable skill and then train too many candidates—suited or not—in that skill. This is why evaluations of past efforts emphasize the importance of coordination between government, training institutions, and employers to anticipate (not simply to react to history) where needs for particular skills will be in excess of supply.³² And on the latter point, because government tends

to hire contractors to deliver training, it can be challenging to create sound performance criteria by which to judge and compensate those contractors. As just one example, if government's test of success is whether trainees obtain jobs, which might seem an appropriate standard, training firms may increase their earnings by selecting and training the best-equipped trainees—what has been called “cream skimming”—which could satisfy a payment formula better than the harder work by other trainers who help those with the greatest deficit in terms of employable skills and perhaps even deliver to them the greatest value-added in terms of skills.

Another potential trap could arise if government rewards firms with some kind of subsidy for hiring trainees. Any such system must guard against employer “churning,” in which firms might employ subsidized new trainees, and then when the subsidy runs out, lay off those workers and hire a new crop of subsidized trainees. Such manipulation of the government subsidy would defeat the purpose of training, which is to give displaced workers the skills they need to find new, long-term jobs in which they can grow their skills and advance.

Yet another danger of training programs is that trained workers will merely jump the line ahead of other similarly skilled workers, and in so doing will bid wages down. If training is aimed at occupations and skills that are in short supply, however, the result will be a matching of supply and demand, not supply overstepping demand. Yet another concern would be that some firms would successfully encourage government to train workers for them at public expense.³³ Again, however, if government can successfully identify skills in short supply, the training function would arguably be fully socially responsible. Our society already accepts enthusiastically subsidies for public postsecondary education that conveys marketable skills. It seems no less justified that taxpayer dollars should subsidize functionally equivalent public training for mid-career workers in what might be identical marketable skills.

We have found current examples of employers identifying skills they seek to hire in the marketplace, and then cooperating with other educational institutions, such as community colleges, to deliver those skills and thereby enrich the labor force.³⁴ We believe that the current economic environment—of skilled jobs unfilled alongside displaced workers who have left the labor force in frustration—would fully justify public-private-nonprofit partnerships in which employers identify needed skills and work with educational institutions to create curricula to deliver those skills, while the federal government provides some funding and links its unemployment-income support programs and training institutions. We recognize that there are some parts of the country that are intensely affected by worker displacement caused by trade and technological change, where there are no employers stepping forward to identify skills in short supply. That is why we believe that creative combinations of policies, possibly including relocation of workers or encouragement of employers to locate in regions that have fallen behind economically, may be needed to solve this massive economic problem.

Issues such as these have raised concerns in past US attempts at more aggressive worker retraining. They will need to be addressed if serious active labor market policies are to achieve political acceptance.

Building basic, generic competencies

Other workers who face displacement will need stronger basic competencies to be able to compete in the job market. Some new school dropouts and even graduates will need remedial skill-building.

The same study by Heinrich et al. found that although training is extremely useful in assisting dislocated workers to develop marketable skills, giving trainees work experience yields the highest positive effects. These programs include apprenticeships, on-the-job training, internships, and other mixes of classroom training and time at work.

Among younger (ages 16-24) unemployed people, such programs have been found to be most effective at the youngest ages because training programs for adults yield lower positive, and sometimes even negative, results. Thus, there is some positive experience, but the task of building basic skills and competencies in dislocated and other workers may prove to be an urgent need for today's economy.

Income support for displaced workers

When all of the above fails to achieve the primary policy goal of helping dislocated or disengaged workers find a paying job that uses their full talents and skills, we must provide economic assistance to workers to maintain a decent standard of living—while continuing to encourage and support the building and development of their human capital to its fullest potential.

There has been concern that the terms of US income support programs, particularly unemployment compensation, have created disincentives for dislocated workers to find new jobs. Policy thinkers have put forward at least two ideas to address that concern. One is to convert the unemployment compensation benefit into, in effect, a lump sum. Benefits would be paid out on a periodic basis, as they are now, but once a worker accepted a new job, all or some significant fraction of the remaining benefits would be paid as well. This practice would address the concerns that unemployed workers tend to put less energy into their job search until they reach the end of their benefits, and that some workers hold out for jobs that pay fully as much as their old jobs, which may not be realistic in the post-dislocation local job market. A further concern is that the longer displaced workers remain unemployed, the more their skills and work orientations erode, and the more likely that they will eventually drop out of the labor force rather than return to work. Paying all or even part of the balance of unemployment compensation benefits when the worker accepts a job might encourage him or her to accept an earlier available offer and ultimately to rejoin the workforce.

Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

Note that one traditional objective of changes to the unemployment compensation program has been to save the program's money. This proposed change quite clearly would not do that. It reflects a different objective, which is to get workers back into jobs more quickly and to expand the size of the labor force. An early decision in any deliberation over this policy option would need to be what our nation's primary objectives are.

A second, related idea with respect to work incentives is sometimes called "wage insurance": the federal government would make up some part, for some period of time, of the reduction of wage rates if a displaced worker could not find a new job that paid the same (or more) as the old job. Here again, the objective is to encourage a displaced worker to go back to work sooner rather than holding out for what might in the post-dislocation labor market be an unrealistic wage expectation. Again, by going back to work, the displaced worker might avoid an erosion of skills and of the connection to the world of work. And once more, this policy idea would almost certainly increase rather than decrease public spending. So once more, making a choice on this kind of policy change requires a sober decision about our priorities between the amount of public spending and the size and quality of the labor force.

Conclusion

In the United States today, the Trade Adjustment Assistance program provides cash assistance and help developing new skills to workers whose unemployment can be tied to increased imports. But trade is but one force making it more difficult for people who have worked in routine-task jobs to maintain their living standards. Providing a suite of programs to deal with the synergistic effects of trade and technological progress on labor market outcomes for low- and middle-skilled workers in declining industries will be a crucial challenge.

We recommend an approach that aids all dislocated workers in need, regardless of whether we can label the worker's predicament as "caused by" a particular economic factor, be it trade policy (or globalization more broadly), automation or technological change, or recession.

Policy ideas that address some of the many facets of worker dislocation from trade and new technology already exist, both in the United States and in Europe. However, the US context is unique and evolving, and some problems have not yet been solved.

It is imperative that the United States address the issue of worker dislocation due to the twin causes of trade and technology. Action is in our collective interest. Dislocated workers need incomes and self-respect. US employers need workers who can fill the many jobs that currently go vacant for lack of appropriate skills. And our nation needs the civility and the sense of shared purpose that come from an economic system that generates public trust because it demonstrably works for all. If the nation fails to establish consensus on the need for trade, both our position as the world's leader and our prosperity are at risk.

Given the state of our knowledge and the complexity of the challenge of worker adjustment, public policy must experiment with new ideas. Experimentation necessarily entails some failure. Given the urgency of this issue, including the pain of many currently displaced workers who are losing touch with the job market, we believe that the nation must engage in aggressive experimentation and accept some failure in the pursuit of success.

One important consideration is the definition of "success," measured by a comparison of the costs of training versus the potential worker's earnings. It is typical to define the cost of training to include the opportunity cost of the time a potential worker spends in training rather than looking for work.

It is also typical to count as a benefit some measure of the increase in the potential worker's earnings over a limited period of time (typically three to five years). We believe that this combination of concepts could be problematic. Training does necessarily take a potential worker out of the job search and possibly employment for some period of time. But the three-to-five-year time horizon for calculating the cost-benefit of training is too short; it does not account for potential increased earnings in the long run. In addition, we believe that some consideration must be given to the positive community effects of encouraging displaced workers to reenter the labor force. Having prime-aged former workers idle, and their skills and connection to the workforce deteriorating, entails far more damage to the community than just the loss of their earnings. Idleness and despair erode the quality of life for all in that community. Assessments of the benefits of worker training should recognize the benefits of renewed work and confidence.

Another question of perspective relates to an often-presumed goal of minimizing the cost of, for example, the joint federal-state unemployment compensation program. We believe there are circumstances when reducing unemployment program costs might come at the cost of achieving realistically defined benefits. Therefore, we believe that the ultimate objective in this policy space is not simply to minimize public outlays in the near term. That objective, depending on the degree of its myopia, might be met by ignoring dislocated workers entirely. But instead, we believe that our society's long-term prosperity will be served best through a large, globally competitive workforce. Accepting some short-term cost can, we believe, yield long-term benefits—if public policy is well chosen. Achieving that objective will require both funding programs that have already been demonstrated to work and formulating approaches to policy problems that have not yet been solved. We urge our elected policy makers to put this crucial challenge at the top of their collective agenda at this time.

Trade under Attack: And Necessary Remedies for Dislocation from Economic Change

Endnotes

- 1 Consumers have access to low-priced goods because of trade, with lower-income consumers, who purchase simpler products that are commonly imported, benefiting the most. Pablo D. Fajgelbaum and Amit K. Khandelwal, “Measuring the Unequal Gains from Trade,” National Bureau of Economic Research working paper no. 20331, July 2014.
- 2 Andrew B. Bernard and J. Bradford Jensen, “Exporters, Jobs, and Wages in U.S. Manufacturing: 1976-1987,” *Brookings Paper on Economic Activity: Microeconomics*, 1995, p. 67-112; Council of Economic Advisers, “The Economic Benefits of U.S. Trade,” May 2015, p. 14-17.
- 3 Bernard and Jensen, “Exporters, Jobs, and Wages in U.S. Manufacturing: 1976-1987.”
- 4 Scott C. Bradford, Paul L.E. Grieco, and Gary Clyde Hufbauer, “The Payoff to America from Global Integration,” in C. Fred Bergsten, ed., *The United States and the World Economy*, Institute for International Economics, Washington, DC, 2005.
- 5 Arvind Subramanian and Martin Kessler, “[The Hyperglobalization of Trade and Its Future](#),” Peterson Institute for International Economics working paper no. 13-6, July 2013.
- 6 Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (Harper & Brothers, 1942), provided an early description of how advancing economies both create new jobs and destroy old ones; Matthew J. Slaughter and Philip Swagel, “The Effect of Globalization on Wages in the Advanced Economies,” Staff Studies for the World Economic Outlook, International Monetary Fund, 1997, assess the arguments as to why trade and technology might affect low-skill and high-skill labor differently.
- 7 Slow post-crisis employment growth is [documented](#) by the US Department of Labor, Bureau of Labor Statistics; the term “new normal” has been used to describe the tepid economic growth following the financial crisis of the last decade and was possibly originated by Mohamed A. El-Erian as discussed in his “Navigating the New Normal in Industrial Countries,” Per Jacobsson Lecture, Per Jacobsson Foundation, October 10, 2010.
- 8 Charles Kenny, “[Why Factory Jobs Are Shrinking Everywhere](#),” *Bloomberg*, April 28, 2014; Claire Cain Miller, “[The Long-Term Jobs Killer Is Not China. It’s Automation](#),” *New York Times*, December 21, 2016.
- 9 McKinsey Global Institute, *Manufacturing the Future: The Next Era of Global Growth and Innovation*, November 2012, p. 2.
- 10 This finding dates back at least to the economist Vilfredo Pareto (1848-1923) and has been expanded upon by US Nobel Prize winner Kenneth Arrow.
- 11 David Autor, Lawrence Katz, and Melissa Kearney, “Trends in US Wage Inequality: Revising the Revisionists,” *Review of Economics and Statistics* 90, no. 2, May 2008.
- 12 Elhanan Helpman, “Globalization and Wage Inequality,” NBER working paper no. 22944, December 2016.
- 13 Helpman, “Globalization and Wage Inequality.”
- 14 Helpman, “Globalization and Wage Inequality.”
- 15 Michael Hicks and Srikanth Devaraj, [The Myth and the Reality of Manufacturing in America](#), Center for Business and Economic Research, Ball State University, June 2015, p. 6 (Table 4). Note: These numbers do not sum to 100 because jobs can be gained as a result of increased domestic demand.
- 16 Donna S. Rothstein, “Long-Term Unemployment over Men’s Careers,” *BLS Beyond the Numbers* 2, no. 21, August 2013.
- 17 David H. Autor, David Dorn, and Gordon H. Hanson, “The China Syndrome: Local Labor Market Effects of Import Competition in the United States,” *American Economic Review* 103, no. 6, 2013, pp. 2121-2168.
- 18 As just one small example, see James Kanter, “[The E.U.-Japan Trade Deal: What’s in It and Why It Matters](#),” *New York Times*, July 6, 2017.
- 19 “The Economic Benefits of US Trade,” Council of Economic Advisers, May 2015, p. 3.
- 20 “Active Labor Market Policies: Theory and Evidence for What Works,” Council of Economic Advisers Issue Brief, December 2016.
- 21 “Active Labor Market Policies,” Council of Economic Advisers.
- 22 Louis Jacobson and Ian Petta, “[Measuring the Effect of Public Labor Exchange \(PLX\) Referrals and Placements in Washington and Oregon](#),” prepared for: Washington State Employment Security Department, October 2000; Daniel H. Klepinger, Terry R. Johnson, and Jutta M. Joesch, “Effects of Unemployment Insurance Work-Search Requirements: The Maryland Experiment,” *Industrial & Labor Relations Review* 56, no. 1, October 2002, pp. 3-22.

- 23 Eileen Poe-Yamagata, Jacob Benus, Nicholas Bill, Marios Michaelides, and Ted Shen, “Impact of the Reemployment and Eligibility Assessment (REA) Initiative,” Impaq International, June 2011.
- 24 Bruno Crépon and Gerard J. van den Berg, “Active Labor Market Policies,” IZA discussion paper no. 10321, October 2016.
- 25 “OECD Employment Outlook 2009: Tackling the Jobs Crisis.”
- 26 Jochen Kluge, “The Effectiveness of European Active Labor Market Programs,” *Labour Economics* 17, no. 6, December 2010, pp. 904-918.
- 27 Marco Caliendo and Ricarda Schmidl, “Youth Unemployment and Active Labor Market Policies in Europe,” *IZA Journal of Labor Policy* 5, no. 1, 2016, pp. 1-30.
- 28 Autor, Dorn, and Hanson, “The China Syndrome.”
- 29 For example, neither European Union, “Assessment of the European Globalisation Adjustment Fund Programme till 2013 at the Local and Regional Level and Recommendations for the New Programming Perspective 2014 – 2020,” (2012) nor European Commission, “Proposal for a Decision of the European Parliament and of the Council on a common framework for the provision of better services for skills and qualifications (Europass) and repealing Decision No 2241/2004/EC,” Brussels, April 10, 2016, which review and propose revision of a highly flexible program vehicle for addressing worker dislocation, makes any mention of worker relocation as a remedy. It is worth noting, however, that individual European nations (as opposed to Europe as a whole) are much smaller than the United States, and so relocation likely is a greater challenge here.
- 30 Monica Herk, “[Essential Competencies: An Innovative Approach to Solving the Skills Gap](#),” Committee for Economic Development, April 11, 2016.
- 31 Carolyn J Heinrich, Peter R Mueser, Kenneth R Troske, Kyung-Seong Jeon, and Daver C Kahvecioglu, “[Do Public Employment and Training Programs Work?](#)” *IZA Journal of Labor Economics* 2, no. 6, October 2013.
- 32 For example, see Lauren Eyster, Teresa Derrick-Mills, John Trutko, Jessica Compton, Alexandra Stanczyk, and Demetra Smith Nightingale, “Implementation Evaluation of the Community-Based Job Training Grant (CBJTG) Program: Final Report,” The Urban Institute, December 2012.
- 33 Chris Edwards and Daniel J. Murphy, “[Employment and Training Programs: Ineffective and Unneeded](#),” Cato Institute, June 1, 2011.
- 34 “[The Role of Business in Promoting Educational Attainment](#),” Committee for Economic Development, April 2015.

Trade under Attack:
And Necessary Remedies for Dislocation
from Economic Change
Policy Brief

September 2017



**Committee For Economic Development
of The Conference Board**
1530 Wilson Blvd
Suite 400
Arlington, VA 22209
202.296.5860
www.ced.org

THE CONFERENCE BOARD 
Trusted Insights for Business Worldwide