

**TESTIMONY OF
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COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES
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Chairman Miller, Congressman McKeon, members of the Committee, I appreciate the opportunity to testify before your committee today.

Today's Economic Realities

American workers today face a very different employment outlook than their parents encountered back in the 1960s – when Trade Adjustment Assistance was enacted under President John F. Kennedy.

Today's workers are much more likely to transition several times between different employers over the course of their working lifetimes. According to Princeton scholar Henry Farber, men currently in the age range of 35 to 64 are almost 20 percentage points less likely to be in ten-year jobs as were males in this age range roughly 45 years ago.²

Today, a much larger expanse of occupations and sectors are exposed to the bracing winds of global competition – with trade now exceeding 25 percent of national income compared with less than 10 percent back in the 1960s.

With increased turnover and increased competition come increased uncertainty and, for some workers, increased economic insecurity. For permanently displaced workers who suffer earnings losses, average earnings in the new job are 16 percent lower than earnings in the previous job, while displaced manufacturing workers moving into lower paying jobs face an average 20 percent drop in earnings. The consequences of job loss are particularly damaging in import-competing industries, where displaced workers face longer spells of unemployment and greater permanent wage declines than do workers in other industries.

¹ This draws from analysis in Lael Brainard, Robert Litan, and Nicholas Warren, “Insuring American Workers in a New Era of Offshoring” Brookings Policy Brief 143, July 2005 <http://www.brookings.edu/comm/policybriefs/pb143.htm> and “A Fairer Deal for American Workers in a New Era of Offshoring,” in Susan Collins and Lael Brainard (eds.) *Offshoring White Collar Work* (Brookings Press, 2006) http://www.brookings.edu/es/commentary/journals/tradeforum/2005btf_brainard.pdf.

² “Is the Company Man an Anachronism? Trends in Long Term Employment in the U.S., 1973-2005” forthcoming in *The Price of Independence: The Economics of Early Adulthood*, edited by Sheldon Danziger and Cecilia Rouse (New York: Russell Sage Foundation, 2007).

The causes for increased insecurity faced by American middle class households are complex, but almost certainly include globalization and changes in technology among the primary drivers. The current episode of global integration dwarfs previous expansions: the entry of India and China into the global labor force amounts to an expansion of roughly 70 percent – concentrated at the lower end of the wage scale. Textbook economics would predict a squeeze on wage earners until capital and technology investments adjust. And the data suggest inequality is once again on the rise in many of the world’s richer economies.

Because China is successfully pursuing at a scale never seen before a growth strategy that is export-led and foreign direct investment fed, its rise is sending waves to the farthest reaches of the global economy. China is already deeply embedded in global manufacturing supply chains, confronting higher wage manufacturers with the difficult choice of moving up the value chain or lowering costs.

India’s concurrent economic emergence has complicated the challenge. While India is pursuing a growth strategy more reliant on domestic consumption and investment than China, nonetheless its success in exporting higher skilled “knowledge” services such as software programming has expanded the scope of globalization. Many Americans in white collar occupations are confronting the reality of low wage foreign competition for the first time.

How Effective Are Existing Programs?

Today’s hearing addresses the question, "How Effective are Existing Programs in Helping Workers Impacted by International Trade?" The answer is simple: existing programs are not nearly as effective as they must be in helping workers who may face the prospect of large earnings declines as well as loss of health insurance when their jobs are displaced through no fault of their own. In the face of accelerated job losses in manufacturing and white-collar offshoring in services, an ever-broader pool of American workers is finding that the nation’s safety net has more holes than netting.

Despite the fact that the U.S. labor market ranks second to none when it comes to job turnover, the nation’s safety net for easing job transitions remains one of the weakest among the wealthy economies. In comparison with other high income countries, not only do U.S. unemployment benefits have a shorter duration, but displaced workers in America face the prospect of losing health benefits along with income. The main federally mandated unemployment insurance (UI) program contains so many restrictions that today only about 40 percent of all jobless workers receive benefits.

The last serious overhaul of the nation’s employment safety net was in 1962, when President John F. Kennedy established the TAA program to compensate workers who suffer job loss as a result of trade liberalization. But workers have long found it difficult, time-consuming, and expensive to prove that they are entitled to extended unemployment benefits under the nation’s Trade Adjustment Assistance (TAA) program.

In 2002 Congress overhauled and expanded TAA, adding a health care tax credit, doubling the training budget, and substantially raising budget outlays for income support. But the TAA program continues to disappoint. Participation has remained surprisingly low, thanks in part to confusing Department of Labor interpretations and practices that ultimately deny benefits to roughly three-quarters of workers who are certified as eligible for them. TAA has helped fewer than 75,000 new workers per year, while denying more than 40 percent of all employers' petitions. And remarkably, the Department of Labor has interpreted the TAA statute as excluding the growing number of services workers displaced by trade.

Despite its laudable goals, the TAA program has repeatedly failed to meet expectations. Between 2001 and 2004, an average of only 64 percent of participants found jobs while they participated in TAA. And earnings on the new job were more than 20 percent below those prior to displacement.

Expanding Training and Insurance while Unemployed and Insuring Wages once Reemployed

I believe we have a brief window of opportunity to align the nation's policies against the new economic realities facing American families. In the first instance, this means instituting a set of policies that support good jobs and good pay here in America. They range from investing in education and workforce training to infrastructure and competitiveness policies.

But we should also seize on this window of opportunity to strengthen the nation's safety net to better insure against the economic insecurity faced by too many American families. That means strengthening the income and health insurance available to workers during periods of unemployment, broadening access and improving the quality of retraining programs, and insuring against sharp earnings losses once reemployed. Let me be clear about this: I think all three elements are not only compatible with each other but essential.

Strengthening income and health insurance and retraining programs while workers are unemployed are absolutely essential – but not sufficient when workers too often face the prospect of much lower earnings even after they secure a job following permanent displacement. Let's take trade displaced workers as an example. For those displaced workers who qualify for TAA, even after taking advantage of the extended unemployment benefits and relatively expansive training benefits that are available under TAA, earnings in their new jobs are on average 20 percent below their old jobs.

The evidence on earnings losses following permanent displacement is sufficiently compelling to warrant a serious examination of additional policy instruments to help workers once they are reemployed – not just while they are unemployed. The time has come to augment existing programs by adopting a new insurance program that insures against sharp declines in wages, not just unemployment, for permanently displaced workers.

A chief goal of wage insurance is to smooth the incomes of workers who suffer permanent displacement and declines in their earnings. Wage insurance is most likely to have overall positive economic benefits if it targets workers whose earnings would otherwise fall dramatically as forces outside their control devalue their skills.

Evidence suggests that wage insurance encourages workers to consider different types of jobs and sectors of employment and, therefore, broadens the job search. This is particularly important for displaced workers whose firm-specific skills have declined in value. And wage insurance can facilitate valuable on-the-job training; the training that a displaced worker receives on a new job provides new skills that contribute directly to his or her performance in the new job.

By replacing some of the lost earnings, wage insurance could also encourage more rapid reemployment; a Canadian pilot wage insurance program reduced unemployment durations by 4.4 percent on average.

Because the goal is to provide partial insurance against extreme income fluctuations, wage insurance should be available to all permanently displaced workers, who have at least two years of tenure at the previous job. It might also make sense to restrict the program to workers displaced from full-time jobs and reemployed full-time, so as to avoid any possible incentive to reduce hours of work. Further, the compensation period would be limited to some transition period, perhaps 2 years, long enough to help strengthen the new employment relationship.

The wage loss replacement rate, the duration of benefits, and the annual cap on compensation determine the kinds of workers who would benefit most from the program. A high replacement rate (such as 70 percent) combined with a low annual compensation cap would provide the greatest cushion to lower-income workers suffering steep losses in earnings, while a lower replacement rate (such as 30 percent) combined with a high annual cap would tilt benefits toward higher income earners.

According to our estimates, a wage insurance program that replaces 50 percent of earnings losses for long tenure full-time displaced workers up to a maximum of \$10,000 per year for up to two years would cost roughly \$3.5 billion per year, assuming modest offsetting savings in other programs. On a per worker basis, this cost falls midway between the current unemployment and retraining benefits available under UI and Worker Investment Act (WIA) programs and the comprehensive cost of TAA benefits.

How do we think about the price tag? The net cost of \$3.5 billion per year amounts to an insurance premium of roughly \$25 per worker per year.

Under such a program, an average trade-displaced worker, who earned \$37,382 in 2004 and was reemployed with a 26 percent loss rate at \$27,662 would instead receive \$33,522 for the first two years after reemployment, thus enabling them to smooth their income while becoming more valuable in the new job.

Of course, the costs can be substantially reduced by offering more modest benefits. For a high-unemployment year such as 2003, costs could range from a low of \$1.6 billion for a one-year program with a 30 percent replacement rate and a \$10,000 cap to a high of \$7 billion for a two-year program with a 70 percent replacement rate and a \$20,000 annual cap.

Wage insurance could provide an important tool--in a broader set of policies--designed to help American middle class families insure against disruptive income fluctuations, while preserving the benefits of a dynamic economy. For the price of \$25 per worker per year, wage insurance could be an important policy tool to help make work pay following displacement. Faced with a unique window of opportunity to finally make progress in updating and strengthening America's fraying safety net, it would be a shame not to move forward boldly on all fronts to provide greater economic security to American families.