

Comments on Brainard et al.

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Before addressing the specifics of the paper it is important to address the wider context for their proposal and how the losses from globalization, including offshoring, are to be treated. This is the part of the conference where we address how to help those who are the losers in the offshoring/globalization process. It always comes after economists reaffirm that facilitating trade without any constraint is good, in fact yields large gains for the nation, for the world and for workers generally. Conference discussion usually, as in this one, is riddled with comments minimizing the role of trade in generating labor market problems or inequities as if it is possible for globalization to yield large gains with only minimal costs. By discussing policies that help dislocated workers, conferees are assured that they have appropriately addressed equity issues and, even more, have proposed policies that should remove any political obstacles to expanded trade. Any failure to win wide political acceptance for this approach is attributed to narrow self-interested special interests.

I think a broader view would suggest the following:

There's a Job Quality Problem

It is not unreasonable at all for American workers to be skeptical given the persistent erosion of good jobs for non-college educated workers, and even many college-

educated workers, over the last twenty five years or so. This is true whether trade has played a large or a small role. People rightly feel that good jobs are scarce, that if they lose their job they will likely obtain a far worse job, that it is hard for young people to find good jobs. In particular, there is only limited access to jobs with good pensions and health care plans. And yet, as people face more risks there seems to be a corresponding effort to remove government assistance and to increase, rather than ameliorate, inequalities. Even though there has been very fast productivity growth, wages and family incomes have not advanced since 2000. Those interested in trade liberalization, in my view, need to address these larger concerns.

These issues are easily illustrated by; (1) the ongoing growth of the wage gap between high wage (95th percentile) and middle wage (median) workers (Figure 1); (2) the fact that the real hourly wages of middle and low-wage men were no higher in 2004 than in 1973 (Figure 2), despite productivity growth of more than eighty percent; (3) the lower wages (Figure 3) and the diminution of employer-provided benefit coverage (Figure 4), particularly health-care, in jobs obtained by new high school graduates; and, (4) the modest growth in wage levels for new college graduates (Figure 5), with declining wages in the last few years and a steadily declining ability to find jobs with employer-provided health care coverage (Figure 6)¹.

The Downsides of Trade go Way beyond Dislocation

Workers dislocated by trade who experience downward mobility are the most visible and acute losers from expanded trade. But the impact is much larger and includes the

¹ [All of the data for these figures are drawn from Mishel, Lawrence, Jared Bernstein and Sylvia Allegretto, The State of Working America, 2004/2005, An Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2005](#)

remaining workers in trade-impacted industries and workers with comparable skills throughout the economy. It includes young people who lose access to particular types of jobs. And, it includes workers who take lower raises for fear of seeing their jobs moved overseas. Over the last ten years the impact has increasingly faced white-collar workers and young college students are well aware of this.

The data in Table 1 show that the consequence of the growing wage gap between the 95th and 50th percentiles among men over the 1979-2004 period yielded an \$11.82 greater wage differential. If 'trade' were responsible for 'just' 20% of this inequality then the median male lost about \$2.30 an hour or nearly \$5,000 per year for someone on a full-time annual schedule. It is hard to consider these losses non-consequential and they go way beyond those who experience the direct, acute losses from trade- downwardly mobile displaced workers.

3. Policies to Address Concerns are Limited

Any survey of policies to help the losers from trade would suggest that we are not interested in compensating the losers and we aren't even all that interested in helping people adjust. This is especially the case with the current Congressional majority, whose interests in expanded trade combines with a desire to weaken worker assistance and protections. After the Gingrich revolution, I would remind everyone, there was an effort to eliminate TAA.

This suggests that the policy choice has not been to have expanded trade with the winners compensating the losers. The choice has been whether to have expanded trade where

there is little, if any, compensation for the ‘losers’ and where the overall economy is not working for working people. This is why you can’t get votes for trade agreement just because there’s a modest adjustment or compensation plan, unless some politician would like to vote that way anyway and likes the ‘cover’, saying “I voted for ‘X’ treaty but I also voted to help the workers hurt by trade.”

What about wage insurance?

I think the efforts by the authors and by others (Kletzer, Rosen, Jacobson) to develop better policies to assist dislocated workers facing difficult circumstances is commendable. I appreciate and support the effort to broaden the scope of who will be assisted to include all dislocated workers and not just those displaced by trade. But this reasonable idea can be counterproductive if the proponents are not clear that wage insurance should be a supplement to the TAA (or, better, an improved TAA program). I think this is what the authors have in mind but they never state so. Moreover, the authors compare wage insurance costs to existing TAA costs and mention ‘savings’ to TAA, creating the sense of one replacing the others. This means that instead of adding to options that workers have for dealing with their transition trade-impacted workers will lose the option, as flawed as it is, to receive income support while undergoing retraining, or to obtain job search and relocation assistance. In this respect, wage insurance represents a way to cushion the fall but offers no prospect of changing trajectories to end up in a better place. The potential of TAA being replaced by wage insurance is not an abstract concern since the current wage insurance experiment is labeled Alternative Trade

Adjustment Assistance because important political actors want wage insurance to replace TAA!

It is also interesting to note that the push for wage insurance arises from a handful of economists and not by any group that represents or speaks for workers who face layoffs and difficult transitions. Those groups, primarily unions and some advocacy groups, tend to want to improve and extend unemployment insurance, expand training options and find ways to cover health insurance.

My last comments involve some quibbles about the numbers used to estimate the costs the program. There is one important way that these estimates clearly overstate the costs: the authors implicitly assume that 100% of those eligible will become beneficiaries of the program. There are also important ways that costs are understated. First, not all displaced workers are included in the counts because those displaced for 'other' reasons are excluded. Farber has shown that this category, which is excluded from the official BLS definition of displacement, rose sharply in the latter 1990s and comprises 30-40% of total displacement. Including this group would raise the costs by roughly 60%. The annual estimates of displacement are also too low for many of the years because of 'recall bias', reflected in less displacement being reported the longer the time lapse. Last, the estimates are based on re-employment rates even though many of the displacement spells are in progress when the surveys are done (especially since the most displacement reported is in the most recent twelve month period). My guess is that the costs the authors present may be in the ballpark, but only because these biases may be offsetting.

