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## Conclusions and Policy Implications: Addressing Costly Job Loss

The consequences of trade-related job loss for the domestic labor market are very likely the key political economy issue for the future of US international economic policy. Recent opinion surveys reveal that sizable majorities of Americans understand that the benefits of free trade are accompanied by costs, borne largely by workers who lose jobs (Scheve and Slaughter 2001). Considerable public opinion supports future trade agreements that address labor issues. In a recent poll, 78 percent of respondents answered that “protecting the jobs of American workers” should have top priority in deciding US policies about trading with other countries (see Pew Research Center for People and the Press 2000).

Trade liberalization is often a focal point for anxiety about job insecurity. That focus can be misplaced, in the sense that trade ranks behind technological change and immigration as a source of job loss and declining real wages for less educated workers. And there are also other sources of job loss: shifts in international investment, corporate restructuring, and changes in consumer demand. As the US economy slowed in late 2000 into 2001, announcements of job cutbacks were a regular feature in the business press. Yet even in good times there is a lot of job loss in the US economy. In 1999, when unemployment averaged 4.2 percent and 2.7 million new jobs were created, 2.5 million workers lost their jobs.

However unwelcome for some individuals, these changes bring clear, widespread benefits for the economy as a whole. And the relatively high job turnover in the United States brings benefits as well. Flexible labor markets facilitate the deployment of labor to growing sectors of the economy, where workers are much in demand and therefore highly valued.

Young workers particularly benefit from a flexible labor market, one where they can gain experience and skills, find ever better matches with employers, and realize higher earnings.

But the churning of labor markets—job losses and job gains—also has a downside. Losing a job can be a difficult and costly experience for an individual, and when large plants close, whole communities are affected adversely. Workers who retain their jobs through one stage of a plant closing or employment reduction may fear they will be next, with an attendant drop in morale.

In the midst of a rapidly changing labor market, Americans are wise to be anxious about losing jobs and wages. There is job loss associated with import competition, and this book has shown that job loss to be costly for the “average” (high) import-competing displaced manufacturing worker, with weekly earnings losses of about 13 percent.<sup>1</sup> These near-term earnings losses, though sizable, are exceeded by long-term losses. It is important to note that the large average earnings losses of import-competing workers are not significantly larger than those of manufacturing workers displaced for other reasons. This means that, with respect to the costs of job loss, “trade-displaced” manufacturing workers look little different from “otherwise-displaced” manufacturing workers. For all these workers, what matters is the kind of job lost and the kind of job regained, not why the job was lost.

## **Import-Competing Job Loss and Reemployment**

But some characteristics of import-competing job loss make it different. Working in an import-competing industry does expose workers to a somewhat higher risk of job loss. And these workers at risk, by their labor market and demographic characteristics, face real barriers to adjustment. Just 63 percent of import-competing displaced workers were reemployed when surveyed, and this percentage is consistently lower than that for manufacturing as a whole. We can understand and account for some of this difference when we take note of the characteristics of many import-competing manufacturing workers: slightly older, markedly less educated, with longer tenure. The evidence is clear: These individual characteristics are associated with a lower likelihood of reemployment.

The gender composition of import-competing employment and displacement also matters. The burden of import-competing displacement falls disproportionately on women, because they are heavily employed in many traditional import-competing industries. Women, particularly if

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1. These estimated earnings losses do not account for lower earnings before the job is lost, nor income lost during unemployment.

married, tend to be much less likely to be reemployed after losing a job. These periods of joblessness increase the lifetime costs of job loss.

Age, education, and job tenure emerge as strong predictors of difficult readjustment. A middle-aged (or older), long-tenured, less educated worker may be ill prepared to enter a changed labor market. Although in many cases highly skilled for production work, he or she may be less flexible in adapting to new production techniques or not have the educational background to transfer to a well-paid service-economy job.

Although reemployment is a hurdle, particularly for import-competing displaced workers, the difficulties of job loss do not end when the new job is found. The lasting cost of job loss can be lower pay on the new job. And this cost is high for import-competing displaced workers, as it is for “otherwise displaced” manufacturing workers. Displaced manufacturing workers experience large earnings losses, on average 13 percent, as compared with a loss of 3.8 percent for displaced nonmanufacturing workers. Some of this difference in earnings change is explained by nonmanufacturing workers having characteristics associated with smaller earnings losses (or earnings gains), in ways different from manufacturing workers. In comparison with manufacturing workers, nonmanufacturing workers are likely to be younger, less tenured, college graduates, and white collar.

Large, persistent earnings losses make job dislocation costly for the “average” import-competing displaced worker. An equally important finding of this book is the considerable variation in earnings losses around the average: 35 percent of displaced manufacturing workers report earning the same or more on the new job as on the old one, whereas 25 percent report earnings losses of 30 percent or more. The distribution of earnings losses is virtually the same for otherwise displaced workers from manufacturing.

The industrial sector in which workers are reemployed goes a long way toward explaining the size and distribution of earnings losses. Among the reemployed, half of manufacturing displaced workers are reemployed in manufacturing. This outcome produces considerably smaller earnings losses. By extension, reemployment in the old industry is associated with the smallest earnings losses.

This reemployment within manufacturing is perhaps surprising and certainly noteworthy. It may also have important implications for the current training-based focus of displaced-worker assistance. The best outcome for many manufacturing workers—particularly those who are middle-aged and have less formal schooling and longer tenure—is (clearly) to return to their old industry. Their earnings losses will be smaller. With some job search assistance, this outcome may be quite feasible. It is interesting that this “reemployment in the old industry” outcome may also be why job search assistance appears cost-effective, because it helps

workers look for jobs.<sup>2</sup> Tailoring that assistance in a way that helps workers seek reemployment where skills are most transferable is fully consistent with the patterns revealed in chapter 6.

There are other implications. One implicit premise of retraining efforts for displaced workers is the reallocation of workers to different jobs in various sectors of the economy. For this group of displaced workers, however, finding another job is very costly. Could training mitigate some of these reallocation earnings costs? Perhaps. The data used here offer no information that would allow an assessment of training. A substantial literature, however, reports the mixed results of training. There is ample evidence of the very high costs involved in retraining an adult unskilled laborer into a skilled worker (see Heckman 2000).

## Current Compensation for Displaced Workers

Currently, the primary US program of assistance for unemployed workers is unemployment insurance. Unemployment insurance, introduced in the 1935 Social Security Act, is an essential federal policy tool. It helps cushion the income losses suffered by workers who lose jobs through no fault of their own. It also serves as an automatic fiscal stabilizer by providing supplemental income during a worker's period of unemployment that can help sustain aggregate consumption in the economy during times of overall economic weakness. The unemployment insurance system is a joint federal-state effort; the federal government establishes basic conditions and programs, and the states administer benefits. Funding comes from a payroll tax levied on employers, which is rated from experience to reflect differences in layoff rates.

The federal role in assisting "trade-displaced" workers began with the Trade Expansion Act of 1962. This act established the program of Trade Adjustment Assistance (TAA). Eligible workers for whom it can be documented that increasing imports have contributed importantly to their job loss, additional assistance is available. The size and form of TAA has changed considerably in the four decades since the passage of the Trade Expansion Act. Under its current form, qualified workers may gain an additional 52 weeks of income support (called Trade Readjustment Allowances), which is provided after they exhaust their unemployment compensation (which lasts 26 weeks) if they are enrolled in an approved training program. The program also provides job search and relocation assistance. Income-support payments are set at the prevailing state unemployment insurance benefit level. Although income-support payments under TAA are an entitlement, the other benefits, including training, are

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2. See Leigh (1990).

limited by the availability of funds. The entire TAA program is funded out of general revenues.

Federal efforts to help trade-displaced workers were enhanced with the passage of the North American Free Trade Agreement Implementation Act of 1993, which created the North American Free Trade Agreement Transitional Adjustment Assistance (NAFTA-TAA) program. NAFTA-TAA is similar to TAA in general form, although it covers only workers who have lost jobs because of increased imports from—or shifts of production to—Canada or Mexico. Workers can be certified under both programs but must choose one from which to claim benefits. Benefits provided under NAFTA-TAA are identical to those provided under TAA. NAFTA-TAA also provides benefits to secondary workers, defined as those employed by upstream producers and/or suppliers. As with TAA, the federal government pays all NAFTA-TAA expenses. During the late 1990s, annual TAA and NAFTA-TAA service and benefit payments were less than \$300 million.<sup>3</sup>

In 1999, the latest year for which information is available, 227,650 workers were certified as eligible for TAA and/or NAFTA-TAA.<sup>4</sup> Certifications include workers who lose jobs as well as those threatened with job loss. It is interesting to note that the number of 1999 certifications is close to a Displaced Worker Survey estimate of the number of workers displaced from high import-competing industries in 1999: 295,000. But only 36,910 workers received readjustment allowances, and only 32,120 received training. A US General Accounting Office report discussed reasons for low training enrollment, including training waivers (allowed under TAA but not under NAFTA-TAA), funding shortfalls, and a strong labor market that allowed displaced workers to become reemployed more readily on their own (US General Accounting Office 2000).

Evidence that TAA and NAFTA-TAA training programs are useful is weak, at best (see Decker and Corson 1995; US General Accounting Office 2000). Because workers typically enter training before getting a new job, there is a weak link between training and the skill needs of potential employers. This raises the possibility that workers may train for jobs that do not exist. But this is not to say that training has no value to anyone. Classroom training can be of real value to some dislocated workers, but the share who benefit is quite small.<sup>5</sup> Most workers acquire far more skill-enhancing knowledge on the job than in the classroom (see Jacobson 1998).

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3. See US General Accounting Office (2000). This report is the source for the information that follows on certified workers.

4. This number includes workers certified under both programs.

5. This point is echoed in one of the observations from chapter 4: The value of more schooling (or training), in helping reemployment, depends on a worker's other characteristics and therefore is not the same for all workers.

## Policy Implications

For policy, one of the most important conclusions of this book is that, for manufacturing, displaced workers and the consequences of their dislocations are more alike than different across the various reasons for job loss. If workers and consequences are alike, whatever the cause of job loss—including increasing foreign competition, technological change, shifts in international investment, and industrial restructuring—policymakers need to consider adjustment and assistance policies for all displaced workers, not just those displaced by trade.

A straightforward implication of the research reported here is that—because of the strong association between higher age, less formal education, long tenure, and difficult labor market adjustment—assistance programs need to target certain groups of workers, rather than provide the same services to all. This approach is in the spirit of the worker profiling used by states in providing reemployment services.<sup>6</sup>

The pattern of reemployment found in this study has implications for addressing some of the holes in the existing safety net for displaced workers. We know that job search assistance can be offered at low cost (see Leigh 1990). Enhanced, industry-specific search assistance could help (some) workers become reemployed in manufacturing, where their earnings losses would likely be minimized. This type of search assistance, focused on reemployment in the old industry, might make sense for the current generation of established workers in import-competing industries. For these workers, reemployment outside manufacturing produces large, persistent earnings losses—and (yet) the costs of retraining are high. The cost-effective approach may be to encourage reemployment where and for as long as job opportunities exist.

At the same time, reallocation to growing sectors of the economy can be costly for manufacturing workers. With society benefiting overall from the reallocation, these private costs deserve close consideration. The large, persistent earnings losses reported here and in other studies reveal the “real” costs of job loss: lower pay on the new job. These costs can be addressed directly by wage insurance (a program of financial assistance, upon reemployment) for workers who lose jobs, for any reason, through no fault of their own. The goal of wage insurance is to get workers back to work as soon as possible, while minimizing long-term earnings losses. A key aspect of this insurance—and the difference between it and other

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6. A first wave of states implemented the Worker Profiling and Reemployment Services system in 1994. This program, now operating in all states, usually employs a statistical model to identify those unemployment insurance recipients who are most likely to exhaust their benefits. The goal is to refer these workers to special reemployment services early in their benefit period.

kinds of adjustment assistance—is the employment incentive created by making benefits conditional on reemployment.<sup>7</sup>

The basics of a wage insurance program are described in Kletzer and Litan (2001). In brief, the program would be open to all workers who could provide documentation that they were “displaced” according to criteria similar to the operational definition of displacement used by the Bureau of Labor Statistics in its Displaced Worker Surveys. This definition (discussed in chapter 2) includes plant closing or relocation, elimination of position or shift, and insufficient work. Given the evidence in this book that long-tenured workers experience larger earnings losses, eligibility could be made contingent on a minimum period of service on the old job. (The Kletzer-Litan proposal suggests a minimum of 2 years’ tenure on the old job.) Workers reemployed in a new job that pays less than the old one (both old and new job earnings can be documented through employers’ quarterly earnings reports filed with the states) would have a substantial portion of their lost earnings replaced, for up to 2 years following the date of initial job loss. For example, a displaced worker who once earned \$40,000 a year, reemployed in a new job paying \$30,000, would receive \$5,000 a year, for a period from the time of reemployment to 2 years after the job loss. Annual payments could be capped, perhaps at \$10,000.

Kletzer and Litan provide cost estimates, based on DWS data, for a number of program scenarios. One scenario—with a replacement rate of 50 percent of lost earnings, a \$10,000 annual cap, and eligibility limited to workers whose previous and new jobs were full-time—would have cost about \$3 billion in 1997, when the unemployment rate averaged 4.9 percent.<sup>8</sup>

Wage insurance addresses some of the criticisms leveled at TAA and NAFTA-TAA. First, the structure of the program, with benefits available only upon reemployment, presents an incentive for workers to find new jobs quickly. Second, workers’ job search efforts may be broader, as entry-level jobs become more attractive when the earnings gap is reduced. Third, the program effectively subsidizes retraining on the job, where it is likely to be far more useful than in a separate program with uncertain reemployment prospects. Fourth, the program directly addresses the critical problem in evidence here: earnings losses upon reemployment.

In the policy arena, an additional cost of job displacement not addressed here is the loss of access to employer-subsidized health insurance. Kletzer

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7. In the research literature, other proponents of wage insurance include Burtless et al. (1998) and Jacobson (1998).

8. Some of the cost of a wage insurance program could be offset if it were incorporated into the TAA and NAFTA-TAA programs. One possibility would be to offer wage insurance to workers if they became reemployed within 26 weeks, the period before the extended income support from Trade Readjustment Allowances. Once receiving wage insurance, reemployed workers would be ineligible for income support and training allowances.

and Litan advance a proposal for subsidized health insurance premiums for displaced workers during a limited period of unemployment. Although all laid-off workers now have a right to purchase unsubsidized health insurance from their former employer if it was offered when they were employed, many jobless workers cannot take advantage of this guarantee, due to the high cost of premiums and the loss of income during unemployment. If all full-time displaced workers were offered a 50 percent subsidy of their health insurance premium costs for a period up to 6 months or until they found a new job (whichever came first), the projected costs would be \$750 million.<sup>9</sup>

Many American workers fear job loss and its consequences. This book reveals a small but significant group of workers for whom import-competing job loss is very costly. For other workers, realized costs are smaller. A knowledge of this range of outcomes should assist policymakers in targeting assistance to those who suffer the real costs of import-competing job loss.

Are import-competing displaced workers more deserving of assistance than other displaced manufacturing workers? The answer depends on the perspective used to define “deserving.” This book finds that, for the most part, import-competing displaced workers experience outcomes similar to other manufacturing workers with similar skills. The identity of the old industry plays virtually no part in explaining the pattern of postdisplacement outcomes. This answer of “no” is based somewhat narrowly on the economics of the question. A more realistic, politically aware answer is that any notion that trade-displaced workers are special or more deserving is likely to come from the sense that explicit policy decisions, such as trade liberalization, are linked to the job loss. If these policy decisions confer benefits on the whole and losses on a concentrated few, then it may be in the interests of the whole to compensate the few, out of fairness and to allow the process to move forward. From these perspectives of equity and politics, the few are “deserving.”

One reading of the globalization backlash is that the political process needs to better recognize the losers from free trade and the scope of their losses, and devise effective government mechanisms to ease the (necessary) labor market readjustments. There is an emerging consensus that future progress on trade liberalization may be conditioned on a more active domestic labor market policy agenda, including displaced worker adjustment policies. For example, members of the US Trade Deficit Review Commission (2000) were split in most of their findings and recommendations, largely on partisan lines. In their final report, their one area of unanimous agreement was advocating displaced worker adjustment policies (in particular wage insurance).

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9. As in the wage insurance proposal, this cost projection for subsidized health insurance is based on 1997 labor market and eligibility parameters.

The past three decades of trade liberalization and economic integration have proceeded without much government involvement. Ending the policy stalemate is likely to require more government initiative. In a democratic society, the winners may well need to compensate the losers so that the political process can continue to generate trade liberalization. In a compassionate society, the winners should compensate the losers.