

**TESTIMONY OF
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COMMITTEE ON FINANCE
U.S. SENATE
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Chairman Baucus, Senator Grassley, members of the Committee, I appreciate the opportunity to testify before the Senate Finance Committee today on the subject of Trade and Globalization: Adjustment for a 21st Century Workforce. It could not be a more timely hearing and this committee could not be better placed to address this issue.

Globalization Today

Our economy is undergoing a profound transformation. Although the individual elements feel familiar, the combined contours are unprecedented – in scope, speed and scale.

China is successfully pursuing a growth strategy that is export-led and foreign direct investment fed – at a scale that has never been seen before. As a result, 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 producers with the difficult choice of moving up the value chain or lowering costs.

India's concurrent economic emergence has complicated the challenge. While India has pursued 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 led to a stark expansion of the scope of globalization. Many Americans in white collar occupations are confronting the reality of low wage foreign competition for the first time, and that number will grow substantially over the next decade.

The current episode of global integration dwarfs previous expansions. An economy with a labor force of 1.7 billion has been abruptly confronted with absorbing a labor force of 1.2 billion --with wages as much as 90 percent lower. The entry of India and China amounts to a 70 percent expansion of the global labor force. That is more than three times bigger than the globalization challenge of the 1970s and 80s associated with the sequential entry of Japan, South Korea, and the other Asian tigers.

Textbook economics would predict a squeeze on wage earners until capital and technology investments adjust. Indeed, the data suggests inequality is once again on the rise in many of the world’s richer economies. In the United States, profits are capturing a larger share of income and wages a lower share than at any time in the last 50 years.

Globalization: Bigger than a Trade Agreement

Many American corporations are thriving on the enormous new opportunities created by rapid growth in China and India. But other Americans are confronting the darker side of globalization – the

permanent loss of once secure jobs that provided a middle class lifestyle, health benefits, and the promise of a secure retirement.

We have grown accustomed to thinking about globalization as a choice –the terms of which can be negotiated. Consequently, the need for adjustment assistance traditionally has been viewed as directly tied to an incremental expansion of trade associated with a particular trade agreement.

Today, globalization is a dynamic process that is facilitated by trade agreements but in no way confined to them. The rise of services offshoring was facilitated by the digitization and transmissibility of services and India's investment in broadband; no international agreement was signed, no U.S. legislation was enacted. If we want to maintain support for an open and dynamic economy, our adjustment programs need to become as flexible and adaptable as the economy itself. It should not take 3 years following a profound shift towards globalization of the services sector to provide eligibility for dislocated workers in the affected occupations.

More broadly, maintaining America's preeminence in the global economy while supporting rising living standards and easing adjustment to the bracing winds of global commerce requires a seamless web of forward-looking policies –not a patchwork of uncoordinated policies that address yesterday's challenges. A more effective set of policies might include:

- Investments in 21st century education, innovation, and infrastructure that are critical to ensure that America remains the most attractive economy in the world to produce high value goods and services;
- Trade and exchange rate rules that are effectively enforced to safeguard America's comparative advantage and ensure the global playing field is fair; and
- Adjustment policies that are automatically triggered when a group of workers is adversely affected by globalization in any sector and that provide for:
 - affordable health insurance during transitions;
 - a flexible combination of income support during periods out of work;
 - wage insurance to cushion against significant wage losses during reemployment; and
 - training opportunities that are accessible, attuned to the marketplace, and can be sequenced in a flexible manner around work or between work.

The Need for Adjustment Assistance has Never been Greater

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.

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 full-time workers, average earnings in the new job are 14 percent lower than earnings in the previous job, while full-time displaced manufacturing workers face an average 19 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.

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. Not only do U.S. unemployment benefits have a short duration, but America's heavy reliance on employer-based insurance means that displaced workers face the prospect of losing health and pension benefits along with income.

Trade Adjustment Assistance is the core program for addressing dislocation associated with globalization. I put myself among those who

strongly support the need for Trade Adjustment Assistance and yet are saddened that its actual implementation falls short of the mark. Given the scope and scale of the challenges facing our workforce, it is critical that TAA be strengthened.

This Committee is considering a number of proposed changes to the scope and operation of TAA that I believe are vital. It is a poorly kept secret that the time-consuming and excessively restrictive eligibility determination process of TAA is one of its main flaws; automatic triggers need to be introduced into the eligibility determination to ensure adequate breadth and timeliness of coverage. Secondary workers, services workers, and agricultural workers dislocated due to globalization deserve access to adjustment assistance no less than manufacturing workers. The cost of the health care tax credit remains out of reach for most workers and should be reduced. Wage insurance should be a real option for a much larger group of workers – and made easily accessible in contrast to the current situation where even eligible workers are not informed of its availability. Training benefits should be fully funded – not rationed – and made more flexible so that those who must go back to work sooner are able to upgrade their skills at a later date or in parallel with work. Adjustment assistance for firms and for communities should be greatly strengthened.

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The bracing winds of global competition and technological advance are much bigger than the contours of any individual free trade agreement. No one would argue we should invest in 21st century skills for our workforce or a 21st century innovation infrastructure only in response to the signing of a new trade agreement. It is equally short sighted to believe that American workers should be given the critical tools to regain productive employment, health coverage, and a decent standard of living only if their dislocation can be traced to a trade agreement. American workers dislocated by globalization in every sector need transitional income support and health insurance, wage insurance, and flexible training in the face of the rapid advance of globalization. To do anything less puts at risk support for America's open, dynamic economy at a critical time.