

Chapter 1 : Project MUSE - Tradable Services: Understanding the Scope and Impact of Services Offshoring

Comment on Desiree van Welsum and Xavier Reif, "We can work it out - The globalisation of ICT-enabled services," in Marshall Reinsdorf and Matthew Slaughter, eds., International Service Flows, Conference on Research on Income and Wealth (CRIW), National Bureau of Economic Research, University of Chicago Press,

University of Californiaâ€™Santa Cruz and Institute for International Economics [Comments and Discussion] Globalization, particularly globalized production, is evolving and broadening from manufacturing into services. Services activities now account for a larger share of global trade than in the past. Services trade has almost doubled over the past decade: These changes, and their implications for American firms and workers, have attracted widespread attention. Coincident with the broadening of global economic integration from manufacturing to services, the face of job displacement in the United States is changing. While manufacturing workers have historically accounted for more than half of displaced workers, over the period â€™03, nonmanufacturing workers accounted for 70 percent of displaced workers. The industrial and occupational shift [End Page 75] in job loss has been associated with a rise in the probability of job loss for more-educated workers. Currently, there is little clear understanding of the role of services globalization in domestic employment change and job loss. More fundamentally, there is little clear understanding of the size and extent of services offshoring, how large it is likely to become in the near-term future, or what impact it is having on the U. Fueled by the presidential race and continued slack in the labor market, the services offshoring debate became headline material. The literature on services offshoring is expanding rapidly. A nonexhaustive list of recent contributors includes: Despite the attention, relatively little is known about how many jobs may be at risk of relocation or how much job loss is associated with the business decisions to offshore and outsource. There are a few prominent projections, advanced mostly by consulting firms. What is unclear is how large these trends are likely to become, [End Page 76] the sectors and occupations affected to date and going forward, and the impact on workers of the resulting dislocations. Without understanding the nature and scope of the changes, it is difficult to formulate effective public policy to address emerging needs. This paper develops a new empirical approach to identifying, at a detailed level, service activities that are potentially exposed to international trade. We use the geographic concentration of service activities within the United States You are not currently authenticated. View freely available titles:

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Rather, the burden of economic adjustment should be borne in part by the federal government. There is an obligation to render assistance to those who suffer as a result of national trade policy. Kennedy in 1961, could have easily been made by any number of Democratic and Republican Presidents, Cabinet members, Senators, and Congressmen and women over the last 40 years. And yet, the US government continues to do very little toward meeting this objective. Manufacturing employment was 30 percent of total employment. Over the last 40 years, despite strong employment growth, millions of US workers have lost their jobs. Imports as a share of GDP have tripled. The trade surplus has turned into a huge trade deficit. The manufacturing share of total employment has fallen to 13 percent. The Issues International trade benefits an economy by lowering prices, encouraging higher productivity, and improving consumer choice. But these gains from trade are "net" gains. On the way to realizing these net gains, an increase in imports usually contributes to plant closings and worker layoffs. The gains from international trade tend to be very large and are widely distributed throughout an economy. By contrast, the costs associated with liberalizing trade tend to be smaller, relative to the benefits, but they are heavily concentrated by industry, location, and worker demographics. The fact that the gains from international trade almost always outweigh the costs does not mean that the costs are any less real. The costs can be very significant for individual workers and their families. In addition, the costs can potentially undermine efforts to further liberalize trade. Kletzer finds that about 17 million US workers lost their jobs from manufacturing industries between 1980 and 2000. Over this same period, total US employment increased by approximately 39 million. In other words, between 1980 and 2000, for every job lost in the manufacturing sector, more than 2 jobs were created in the economy. Some might argue that the ability of the US economy to create jobs suggests that it is not necessary to be overly concerned about workers who lose their jobs. This simplistic argument misses several important points: Job creation does not always take place at the same location where jobs are lost. This is particularly relevant with regard to trade-related dislocations, since they tend to be highly concentrated by location. For example, in the 1980s, large layoffs in the steel and auto industries occurred in the "rust belt" states—Pennsylvania, Ohio, Michigan, and West Virginia. The new jobs are in different industries than the jobs lost. The vast majority of trade-related job losses are in the manufacturing sector. Almost all the net new jobs created in the United States over the last 20 years have been in the service sector. The skills required by the new jobs are different from those employed in the lost jobs. The jobs lost associated with increased import competition and shifts to overseas production, in many cases, pay higher wages and provide better benefits than in the new jobs being created. Unfortunately, the burden of adjustment does not end when the worker gets a new job. Thirty-six percent of the workers found jobs, which paid the same or more than their previous jobs. Twenty-five percent of workers laid off from import-competing industries experienced earnings losses of 30 percent or more. In 1994, Congress eased the eligibility criteria and the program began to assist thousands of workers in every state throughout the country. See figure 1 The most frequently asked question about TAA is, do trade-related dislocated workers deserve to receive any more assistance than workers who lose their jobs for other reasons? At the time TAA was established, trade-related dislocated workers tended to be older, women and minorities with less education than other dislocated workers. It was argued that trade-related dislocated workers faced a greater adjustment burden than others and this warranted providing them more assistance. In addition, workers who lose their jobs from import-competing industries are still slightly older, less educated and more tenured than workers displaced from nonmanufacturing industries. These characteristics are still associated with costly job loss. Since the establishment of the program, the unions and others have also argued that TAA is a means of compensating workers who lose their jobs due to no fault of their own, but rather associated with a change in government policy. In that regard, TAA is similar to efforts to assist workers adversely affected by various environmental regulations, like the Clean Air Act and

legislation to protect the Redwood trees. With the growth in the importance of trade to the US economy, it has become increasingly difficult to disaggregate the causes of worker dislocation. As a result, from an economic perspective, the argument for a separate program to assist workers whose job loss can be attributed to increased imports has weakened. From the outset, the primary motivation behind a special program to assist workers who lose their jobs associated with increased imports was based on political considerations. It was also believed that TAA would make it easier for members of Congress to support efforts at trade liberalization. Recently, there has been a breakdown in bipartisan support for further trade liberalization. Congressional support has weakened, as the magnitude of trade-related dislocations has increased. At the same time, the unions have been pursuing other trade policy changes and have widened their concerns beyond domestic dislocations to include labor standards in other countries. A poll conducted by the Program on International Policy Attitudes suggests that Americans tend to be more willing to support "free trade," if the government assists workers who lose their jobs. Sixty-six percent of respondents agreed with the statement, "I favor free trade, and I believe that it is necessary for the government to have programs to help workers who lose their jobs. By contrast, 14 percent of respondents did not favor free trade. They argue that given the difficulties in attributing causality to dislocation, all workers should be afforded the kind of assistance provide under TAA. This group does not believe that TAA is too generous; on the contrary, they believe that assistance for non-trade related dislocations is inadequate and should be expanded along the lines of TAA. Assistance Under TAA Under the existing TAA program, workers can receive up to 52 weeks of income maintenance beyond the standard 26 weeks of unemployment insurance , training, and job search and relocation assistance. Income maintenance is an entitlement, i. Congress must appropriate sufficient funds to provide payments to any worker who is eligible and participates in the program. Training is a "capped entitlement," i. In , Congress greatly curtailed the provision of assistance under TAA. First, the program was changed to require workers to enroll in training in order to receive income maintenance. This constituted more than a 50 percent cut in assistance. Contrary to what some people believe, workers cannot become rich living on TAA income maintenance payments. In constant terms, the average weekly payment has been rather constant since In addition to covering workers who lose their jobs from import-competing industries, NAFTA-TAA provides assistance to workers who lose their jobs from plants that move overseas. Over the last few years, the Department of Labor has been assisting "secondary workers"-workers who lost their jobs because they worked for suppliers or downstream producers for firms that faced increased import competition from Canada or Mexico, on a discretionary basis. There are also several technical differences between the two programs. Those who believe that TAA was designed to reduce opposition toward trade liberalization argue that the program has failed. They point to the increasing difficulties in winning Congressional support for fast-track legislation as evidence that TAA is ineffective. Workers who actually receive assistance under the program do not share this view. For them, TAA may not erase all the economic pain caused by dislocation, but it has made the adjustment to a new job a little easier. The main handicap in evaluating TAA is that the Department of Labor does not collect the necessary data. Part of the problem lies in the fact that states were given the responsibility for data collection. Only 56 percent of them obtained jobs with earnings at least 80 percent of their previous earnings. Unfortunately, the lack of data makes it impossible to perform a sophisticated evaluation of the program. A proper evaluation would include a comparison between those workers who received assistance under TAA and a suitable control group. Recent Developments Pressure on the US manufacturing employment has intensified throughout much of the last 25 years. During that time, approximately 2 million workers have received assistance under TAA. More than half of these workers were laid off from the auto, textiles and apparel, and steel industries. The number of workers receiving assistance pales in comparison to the total number of workers who lose their jobs, and even by comparison with trade-related dislocations. Of those, only 30, workers, or less than 10 percent, received assistance under TAA. Efforts to reform and expand TAA have been debated since Interest in reforming the program is highly correlated with congressional consideration of trade liberalizing legislation. Trade Adjustment Assistance is often seen as a quid pro quo for support on trade liberalizing legislation. Significant weaknesses in the program have depreciated its value in "buying" that support. Despite periodic debate to expand and improve

the program, the only changes to TAA since were in , when TAA criteria were tightened income support was made conditional on enrollment in training , and in , when Congress created a separate program related to NAFTA. They also asked the GAO to study the program and make recommendations for improvements. Their intention was to reform the program when the short-term authorization expired. At the same time, there were a large number of plant closings around the country resulting in massive worker layoffs. In response to a number of plant closings in New Mexico, Senator Bingaman stepped up his efforts to find assistance for the unemployed workers and the financially troubled communities. Senator Bingaman assisted workers and communities to navigate the maze of Federal and state assistance programs. There was an effort to identify shortcomings in existing programs and try some things that were not part of the standard response to a plant closing. The Commission was unable to reach consensus on anything directly related to the trade deficit. The only thing all Commission members were able to agree on was the need to reform and improve assistance to workers who lose their jobs from import-competing industries. These studies identified the following problems with the programs: Inadequate training funds 3. Inconsistency between the time for income maintenance and training 4. Lack of effective performance measurements 5. The absence of any assistance to communities with large number of trade-related dislocations. Most of these proposals have been debated over the last 25 years. Extend TAA to secondary workers:

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The basic fact is that technology eliminates jobs, not work. It is the continuous obligation of economic policy to match increases in productive potential with increases in purchasing power and.