Statement of William E. Spriggs

"Addressing Equity by understanding the broad cost of trade's impacts"

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Thank you, Chair Blumenaeur and Ranking Member Buchanan, for this invitation to give testimony before your sub-committee today on the issue of our trade adjustment assistance. I am happy to offer this testimony on behalf of the AFL-CIO, America's house of labor, representing the working people of the United States; and based on my expertise as a professor in Howard University's Department of Economics.

My testimony today will reflect on a growing body of literature among economists showing a deeper appreciation of the displacement that can result in local labor markets because of trade. I think there is also an appreciation of the displacement that can take place for industries and occupations at the national level. The effects are larger than previously understood. Hopefully, the broader effects will inform reauthorization of Trade Adjustment Assistance to include a broader array of help to American workers, beyond the workers immediately effected. The assistance must consider younger workers in the commute zone catchment facing a tougher labor market for several years. It must consider a public sector that has fixed investments for a larger school system, transit system, sewer system and other public investments that will have diminished population to support them. A just transition from the impact of trade that is not encompassing will exacerbate racial equity issues by exacerbating competition for a smaller set of jobs and public investments.

At the dawn of this century, in March 2000, we had 17.3 million manufacturing workers in the United States. In February of last year, we had 12.8 million. In March 2000 we had 8.2 million Americans working in food service and drinking establishments. And, in February of

last year, we had 12.3 million. In twenty years, we had lost almost as many positions in manufacturing as we gained in food service, so we were almost equally a nation of food service workers compared to manufacturing workers. From 1966 through 2000, America averaged 17.7 million workers on manufacturing payrolls each month; sometimes with a high in the 18 million range during the late 1970s, peaking at 19.5 million in 1979. Sometimes, during economic slowdowns falling into the range of 16.7 million during the recessions of 1983 and 1992. By 2001 manufacturing payrolls had plummeted to 15.7 million, a 35-year low, and the number fell to 14.9 million at the end of 2002, almost a 50-year low. The decline in the number of jobs did not coincide with a spike in investment or a surge in productivity, so the jobs did not disappear to robots. (Autor, Dorn and Hanson, Untangling Trade and Technology from Local Labour Markets 2015) This rapid decline took place in the United States, especially in those industries most exposed to the new policy openness to China trade, but did not take place in Europe, which was slower to open to China trade. (Pierce and Schott, The Surprisingly Swift Decline of US Manufacturing Employment 2016)

Careful analysis by economists, comparing the differences in location of American industries and showing the extent to which, those locations were exposed to rapid integration of China into the American market, found that those job markets with greater exposure experienced greater job loss than the ones less exposed. Further, that the net job loss was from a gross job loss in the industries in direct competition with Chinese imports, though with small job gains in other industries, just not large enough to offset the job losses. (Autor, Dorn and Hanson 2013) The key implication is that employment in the areas impacted by trade fall. Some of the workers who were directly affected shift to other industries, but on net, the community has fewer jobs. My own work, done with my graduate students, shows the loss of employment in the community is greater for Black workers.

The cascading effect of workers in search of fewer jobs, akin to a game of musical chairs with chairs removed, turns the labor market into a zero-sum game, because in the scramble, a job gain for one worker is a lost opportunity for another. Clearly, in that scenario there are equity issues, some because of race, some because of a shift in intergenerational job opportunities, some because of education, some because of gender. Marriage rates fall for young men, as their access to greater job stability in manufacturing falls, and the share of unwed mothers goes up. (Autor,

Dorn and Hanson 2019) Others have found increases in "deaths of despair," especially greater drug overdoses among whites. (Pierce and Schott 2020)

The dislocating effects can go to occupations, as the cascading of workers scrambling out of manufacturing jobs is often workers trying to retain their skills by keeping their occupation but applying for jobs in other industries. Office support workers, who can do accounting functions in other industries, or craftsmen who can ply their trade in construction, or fork-lift operators who can shift to warehouses are examples. Looking only at workers within manufacturing can mask the effects as experienced by workers who shift industry. From that perspective, individuals experience trade effects through downward pressure on their wages. This is especially true for those workers who fall out of manufacturing into the service sector. (Ebenstein, et al. 2014)

The effects of the job loss have lasting equity effects. Again, my work shows that the recovery from the Great Recession was less robust for Black workers living in those commute zones with greater exposure to the shock of China trade. This is especially true in getting employment in the industries with higher wages, that did not lose jobs because of China trade. Beyond the Black community, the shock of job losses can linger, creating persistently of low employment commute zone areas. (Amior and Manning 2018)

The look at the effect of China trade has spurred economists to look at other recent periods that did not create as dramatic effects on aggregate manufacturing employment, but still found effects on local labor markets. A look back to the period of the 1970's and 1980's when the United States market faced a rapid increase in imports in autos and steel from Japan showed very dramatic effects for Black employment, especially in the Great Lakes region. Shifts in employment patterns within American manufacturing slowed job hiring particularly for younger Black male production workers, and a shift in hiring within manufacturing toward college educated workers, especially engineers. (Batistich and Bond 2019)

We should not presume that skill up-grading necessarily mitigates trade induced job losses. The loss of jobs in an industry is also a source of loss of patent activity, since patents tied to process technology are also lost. Firms facing low-wage technology may engage in a race to the bottom, rather than the risks of investment in capital intensive high-wage responses. In the

United States, patents slow in those sectors facing greatest import competition. (D. Autor, D. Dorn, et al., Foreign Competition and Domestic Innovation: Evidence from U.S. Patents 2020)

Though the 1990s were a boom for employment, wages lagged for manufacturing production workers most affected by the rise of imports from Mexico after the NAFTA agreement. This was true within the industries most affected, and was true in work commute zone areas for all wages, including those service workers in non-traded work. (Hakobyan and McLaren 2016)

The data and the research have improved economists' modelling and so, one step is to improve what is shared with Congress in terms of modelling the effects of trade agreements. Economist can now devise general equilibrium models that can capture local labor market differences, and the real-world frictions that keep workers from magically moving to new job opportunities, leading to job losses in some commute zone areas. (Caliendo, Dvorkin and Parro 2019) While still not the best, Congress should not accept models that cannot replicate real world local labor market job loss.

Because the impact of job loss is for the commute zone, there needs to be better integration of a response with the local Workforce Investment Boards for the effected commute zone, but with the understanding that there will be fewer jobs in the area. So, this means there will be a need for many years to have summer youth job programs to hire young people under 25 including summer jobs. This is to ensure that young people in the area will be able to establish work histories and resumes with meaningful skills. The youth jobs should include union apprenticeship programs especially targeted to diversify opportunity in the area and help address equity issues.

There is strong evidence that areas with better commuting infrastructure are better able to withstand shocks like trade induced job losses. (Monte, Redding and Rossi-Hansberg 2018) As Congress thinks through infrastructure investments, it should help target improving bus and rail intra-metropolitan area commutes. And, as a component of trade adjustment assistance to a community, consider helping invest in improvements of commuting options to improve the community's public transit options: grants to metropolitan transit authorities for extra buses to help change bus routes and improve service to areas with remaining jobs, for instance.

Because of the net loss of jobs within a commute zone, and the fragmentation of individual job networks because of the loss of jobs, it is vital that Trade Adjustment Assistance continue to operate through the state Employment Service. It is necessary to provide the best job opening information to workers in the community when jobs become scarce. Disparities in job market information are a key to creating racial disparities in job finding rates. The act needs to ensure merit staff use in this key function so that the local Workforce Investment Boards can also have the best information to direct services and recommend training.

There is sufficient economic evidence showing the impact of trade broadly affects certain industries, Congress should consider streamlining the application process for workers who are within identified industries. To ensure as close to real-time analysis as possible, this might be achieved if there are more than three applications in different Census Divisions but in the same industry, as an example.

To provide a smoother transition for workers, Congress should consider supporting companies effected by trade to apply for one year of shared work benefits, letting them reduce hours, but keep a maximum of workers on payroll while accessing a federal shared work benefit to compensate lost income from lost hours for their workers. Giving workers longer to search for a job while they are employed will greatly improve the success of their search. And, the longer work history will help those that do need, in the end, to apply for Trade Adjustment Assistance training benefits and income support.

The growing evidence from economist is that the need for Trade Adjustment Assistance is real. It must be designed to meet a bigger challenge than originally envisioned: assumptions that the total number of jobs would remain the same and workers would just need training to move into new opportunities. Instead, trade impacts diminish job opportunities for whole commute zones. And, so more tools, not fewer are needed to make the program work for the displaced workers and the displaced opportunities. The effects on a community are long lasting, and so at least for those in the Black community, explain some of the fragility we saw despite a lengthy recovery from the Great Recession.

Displaced workers will need continued help with accessing health insurance. They will need more, not less, support while being trained, because the evaluation of Trade Adjustment Assistance's performance revealed the low lack of return for participants came from bigger

losses during training, or put another way, the program under compensates for the opportunity cost of going through the training. As is clear the job opportunities in the community will be diminished for long periods, the length of training needs to be long enough to get the skills for new job opportunities to appear.

In sum, we have aimed the program too low, with too few resources. We have created levels of inequality by not addressing the needs of those who face diminished opportunities. And, we have left communities with fewer resources to provide the support for real transition. But, we can plan bigger and meet the challenge to create an economy that is more resilient with workers who can be more adaptive. With proper investments we can end the zero-sum game and move to make win-win situations for communities adjusting to trade.

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