

Testimony Prepared for

United States Senate
Committee on Finance

July 20, 2001

Lori G. Kletzer

The author is a visiting fellow at the Institute for International Economics, Washington DC and an associate professor of economics at the University of California, Santa Cruz. The views expressed here are solely those of the author and should not be ascribed to the trustees or staff of the Institute for International Economics or of the University of California.

My testimony here today addresses what we know about the costs of job displacement, specifically trade-related job displacement. My focus is on workers: who gets displaced and the consequences of that job loss.

Summary

For most displaced workers, what matters is the kind of job lost and the kind of job regained. Why the job was lost does not matter much at all. If workers and consequences are alike, across differing causes of job loss such as increasing foreign competition, technological change, downsizing, then policymakers should consider adjustment policy for all displaced workers, and broaden program eligibility beyond “trade-displaced workers.”

Trade and jobs: asking the right questions

I will offer one general comment before I turn to the specifics. Lost in the debate over the number of jobs created or destroyed by increased economic integration is the really important question: what kind of work will Americans do, as the dynamic American economy continues to change, with more trade and technological advance? In a dynamic economy, jobs are lost and created and workers are displaced and re-employed continuously. Rather than focus on how many jobs will be affected, we need to understand workers, who they are and *how* they will be affected. Specifically, who are the workers displaced from import-competing industries? What are their basic individual characteristics? Are they different from other workers who lose their jobs? What happens to them after displacement? How do workers adjust to economic change? What can we learn from the pattern of reemployment and earnings that will aid in the (re) design of government programs to assist workers?

Defining import-competing job loss

Studies reveal that there is a set of industries facing sustained import competition, those with both high levels of import share and increasing import share, where the rate of job loss is high. Beyond these industries, the rising import share-high rate of job loss relationship is considerably weaker. This means that increasing imports play a small role in aggregate economy job loss, but a larger role in traditional import-competing industries.¹

From this base, in my recently completed study of job loss and import competition in

¹See Kletzer, Lori G. 2001. *Imports, Exports, and Jobs: What does trade mean for employment and job loss?* W.E. Upjohn Institute for Employment Research, forthcoming.

manufacturing,² I define high import-competition industries as those in the top 25 percent in a ranking by changes in import share over the period 1979-94. This top quartile contains industries with an increase in import share exceeding 13 percentage points.³ Applying this definition to a nationally representative sample of displaced workers drawn from the Displaced Worker Surveys yields a sample of import-competing displaced workers.

Let me be clear that the labeling, import-competing (or import-sensitive) job loss, is by association. Although I make no strong claims about the precise cause of each worker's job loss, I am confident that the sample captures most of the kinds of jobs Americans feel to be "at risk" to increasing economic integration.

The set of high import-competing industries includes: Apparel, Footwear, Motor Vehicles, Knitting Mills, Leather Products, Textiles, Blast Furnaces, Other Primary Metals, Tires and Inner Tubes, Cycles and Miscellaneous Transport, Radio and Television, Toys and Sporting Goods. These are the traditional import-competing industries. Import-competing job loss is concentrated in a few large employment industries: Electrical machinery, Apparel, Motor Vehicles, Non-electrical Machinery, Blast furnaces.

Over the 21-year period from 1979-99:

- 6.4 million workers were displaced from an import-competing industry; these workers represented about 38 percent of manufacturing displacement. These industries accounted for just under 30 percent of manufacturing employment.
- 17 million workers displaced from the manufacturing sector; these workers accounted for about 37 percent of total nonagricultural displacement, when manufacturing's average share of total nonagricultural employment was about 18 percent.

These numbers reveal that manufacturing workers are over-represented among displaced workers, as compared to their employment share and high import-competing workers are over-represented among manufacturing displacement, relative to their employment share.

Basic worker characteristics

Compared to workers displaced from other sectors of the economy, such as wholesale and retail trade, utilities, or services, manufacturing workers are slightly older, notably less educated, with longer job tenures, somewhat more likely to be minority, and far more likely to

²Kletzer, Lori G. 2001. *Job Loss and competition from imports: measuring the costs*. Washington, DC: Institute for International Economics, forthcoming.

³With this cutoff as a primary guide, I made some subjective adjustments to the top group based on employment size and history of import competition. See my forthcoming Institute book for details.

be production oriented (just less than one-half of manufacturing displaced are lower-skilled blue collar workers- fabricators, laborers, etc.). Twenty-one percent of manufacturing displaced are high school dropouts, compared to 11.9 percent of non-manufacturing displaced. This difference widened in the 1990s as compared to the 1980s: the high school dropout share fell throughout the economy, but more so outside of manufacturing. Manufacturing workers are less likely to be college graduates: over 1979-99, workers with a college degree or higher comprised about 14 percent of manufacturing displaced and 22 percent of non-manufacturing displaced.

Import-competing workers are similar to other displaced manufacturing workers, with respect to age, educational attainment and job tenure. The most striking difference between import-competing displaced workers and other displaced manufacturing workers is the degree to which import-competing industries employ and displace women. Women account for 45 percent of import-sensitive displaced workers, compared to 37 percent of overall manufacturing displaced. Some industries stand out: women account for 80 percent of the displaced from apparel, 66 percent of footwear displaced, 76 percent of the displaced from Knitting Mills (part of the textiles industry). Women dominate the group of displaced workers from these import-competing industries as a result of their high representation in employment.

What happens to workers after job displacement?

The first outcome is re-employment. About 65 percent of manufacturing displaced workers were re-employed at their survey date, as compared to 69 percent of non-manufacturing displaced workers. This difference, 4.3 percentage points, is not large, but it is statistically significant. The likelihood of re-employment was markedly higher in the 1990s than in the 1980s. Import-competing displaced workers are a little less likely to be reemployed (63.4 percent were re-employed at their survey date) than other displaced manufacturing workers (65.8 percent re-employed). Particularly for the high import-competing group, re-employment was more difficult in the 1980s with a lower rate of 62.3 percent, than it was in the 1990s when 65.4 percent of workers were re-employed on average

To understand what kinds of workers face difficult labor market adjustments following job loss, we need to estimate statistical models. The first is a model of the likelihood of re-employment.⁴ Estimation of this model can tell us what characteristics of workers and industries explain the lower re-employment likelihood for high import-competing workers relative to other manufacturing displaced workers and similarly for manufacturing workers relative to non-manufacturing workers.

Consider some comparisons. A “representative” worker in our sample, a displaced

⁴Details are in my forthcoming monograph from the Institute for International Economics.

worker who is 38 years old, with 5.3 years job tenure, a high school graduate with less than one year of post-secondary schooling, male, married, non-minority, who lost a full-time job in Wholesale and Retail Trade and Services in 1989, has a 68.1 percent chance of being re-employed. Our representative worker, if displaced from nondurable goods manufacturing, faces a 62 percent chance of re-employment, if displaced from durable goods manufacturing, a 65.2 percent chance of re-employment. These differences are statistically significant.

When age at displacement, job tenure, educational attainment, racial and ethnic minority status, and full-time status before displacement are accounted for, these sectoral differences narrow. The narrowing of what we might call “the industry effect” is important; it means that individual demographic and labor market characteristics are importantly and systematically related to re-employment. If these factors are truly explaining differences in re-employment, then policy design, when looking for potential signals of labor market adjustment difficulties should turn first to these worker characteristics.

Certain characteristics stand out:

- Younger workers are more likely to be re-employed. Workers who are 25-34 years of age or 35-44 years of age are about 11 percentage points more likely to be re-employed than workers who were 45 years of age or older at the time of displacement.
- Education matters too. Compared to high school dropouts, workers with a college degree (or higher) are 25 percentage points more likely to be re-employed, high school graduates 9.4 percentage points more likely and workers with some college experience 11 percentage points more likely to be re-employed.
- The overall health of the economy and the labor market matters a great deal. A worker displaced from nondurable goods manufacturing in the strong economy of the mid-to-late 1990s (1993 to 1999), 45 years of age or older, a high school dropout, more than 10 years tenure on the old job, full-time at the time of displacement, non-minority and married has a predicted chance of re-employment of 53.7 percent. The same worker, displaced during the deep 1980s recession (1981-83), had a 34.5 percent chance of re-employment, more than one-third (35.7 percent) lower.

While it may not be enough (particularly for older, less educated and more tenured workers), a strong labor market clearly provides the necessary setting for displaced workers to find the next job.

I offer one final illustration of the strength of these effects. We can consider the worker to whom I just referred (displaced from nondurable goods manufacturing in the mid-to-late 1990s, 45 years of age or older, a high school dropout, more than 10 years tenure on the old job, full-time at the time of displacement, non-minority and married) a representative trade-displaced worker. Again, this worker has a predicted likelihood of re-employment of 54

percent. If that worker was younger, say 25 to 44 years old instead of 45 years or older, the chance of re-employment rises to nearly 66 percent. As a high school dropout, the chance of re-employment is about 65 percent. For a college graduate, re-employment jumps to 78.5 percent. These differences are a striking illustration of the importance of education (which can be changed) and age (which cannot) in getting the next job. And the effect of more formal schooling is stronger for younger workers than for older workers.

One clear interpretation of this analysis is that import competition is associated with low re-employment rates because the workers vulnerable to rising import job loss experience difficulty gaining re-employment, based on their individual characteristics. It is not import competition *per se*; it is who gets displaced from (and is employed by) industries with rising import competition. What limits the re-employment of import-competing displaced workers? The same characteristics that limit the re-employment of all displaced workers: low educational attainment; advancing age, high tenure, minority status; marital status. Married women, even those displaced from full-time jobs, are much less likely to be re-employed.

Earnings losses upon re-employment

Earnings are measured in the Displaced Worker Surveys as weekly earnings, and the available comparison is between weekly earnings at the time of displacement and, if re-employed, weekly earnings at the time of the survey. Earnings losses can be measured by comparing earnings on the old job to those on the new job. This measure will “miss” earnings growth that would have occurred on the old job, in the absence of displacement.⁵

Manufacturing displaced workers experience large earnings losses on average, 12 percent at the mean, compared to a loss of just under 4 percent for non-manufacturing displaced workers.

Among the re-employed, import-competing displaced workers experience sizeable average weekly earnings losses of about 13 percent. This large average loss masks considerable variation: one-third of import-competing displaced workers report earning the same or more on their new job as they earned on the old job, and one-quarter reported earnings losses of 30 percent or more. This average and distribution is very similar to what I find for manufacturing workers as a group. Older, less educated, lower-skilled production workers, with established tenures on the old job, are more likely to experience earnings losses in excess of 30 percent.

When I analyze earnings losses with a statistical model, the emerging profile of workers

⁵For some groups of workers, earnings fall prior to displacement, and the DWSs also miss this aspect of displacement-related earnings change. See Jacobson, Louis, Robert LaLonde, and Daniel Sullivan, *The Costs of Worker Dislocation*, W.E. Upjohn Institute for Employment Research, 1993.

who experience costly job losses becomes clearer. Earnings losses rise with previous job tenure and age and are smaller for more educated workers. Among manufacturing workers, high import competing workers do not have significantly larger earnings losses than the less import competing group.

For most high import-competing workers, the time needed to find a new job is within the usual 26-week period of eligibility for unemployment compensation. Half of these workers had unemployment spells of 8 weeks or less.⁶ Yet a full quarter of workers were unemployed for more than 26 weeks (six months), the normal length of unemployment insurance benefits.

The importance of re-employment industry

The industry where workers are re-employed matters a great deal for understanding the variation in earnings losses. There are a few clear observations. Overall one-tenth of re-employed manufacturing workers are in Retail trade, and this percentage is similar for import-competing displaced workers. In contrast, 21 percent of non-manufacturing displaced workers are re-employed in Retail Trade.

Second, there is considerable re-employment within manufacturing. Among the re-employed, about one-half of workers displaced from high import competing industries are re-employed in manufacturing. Incorporating their 63 percent chance of re-employment, note that about one-third (32.9 percent) of all high import-competing displaced workers return to manufacturing after their job loss. Another one-third are re-employed in the non-manufacturing sectors and the remaining one-third are not re-employed.

For manufacturing workers, regaining employment in manufacturing greatly reduces earnings losses. Mean earnings losses are smallest for workers re-employed in durable goods (at 4.5 percent), and next smallest in nondurable goods (5.8 percent). Earnings losses are largest for manufacturing workers re-employed in Retail Trade (about 10 percent of the re-employed).

Displaced manufacturing workers who gain re-employment in manufacturing also experience the shortest median weeks of joblessness (6-8 weeks), as compared to workers re-employed elsewhere. This may be a result of searching first in familiar labor markets in manufacturing, and turning to less familiar markets and networks only after some period of unsuccessful search. These spells of joblessness are well-within the standard period of eligibility for unemployment compensation (26 weeks).

Regaining employment in the same detailed industry is associated with small or no

⁶Interestingly, 27 percent of workers were unemployed for less than one week (this group is included in the half with spells of less than one week).

earnings losses, on average.⁷ For the import-competing displaced group, half of workers who return to the same industry report no earnings losses or a gain. Mean earnings losses are around 2 percent, about \$8/week for the average import-competing displaced worker compared to pre-displacement earnings. Re-employment in the same detailed industry does not guarantee that earnings will not be reduced, but it greatly reduces the average loss (from nearly 20 percent to 2 percent) and it greatly reduces the percent of workers with very large earnings losses (from 34 percent to 15 percent).

The experience of workers who change detailed industry is very different. For the import-competing displaced group, half of all workers who change industry have earnings losses greater than 10 percent, with the mean change a loss of 20 percent. Judged against old earnings, the loss is around \$81/week, or \$4200 per year. Thirty-four percent of these workers experience an earnings loss greater than 30 percent.

Policy Implications

The patterns of re-employment and labor market adjustment have implications for addressing some of the holes in the existing safety net for displaced workers. We can understand more clearly the consequences of job loss vary and how some discernible transitions are better than others. Age, education and job tenure emerge as strong predictors of difficult and readjustment. Middle-aged (or older), significantly tenured, less-educated worker may be ill-prepared to enter a changed labor market. While highly skilled for production work, in many cases they may be less equipped to adapt to new production techniques or lack the educational background to transfer to well-paid service economy jobs.

The strong association between advanced age, less formal education, long tenure and difficult labor market adjustment can be used to target assistance at certain groups of workers, rather than providing the same services, up front, to all program participants. This approach is in the spirit of the worker profiling used by states for the provision of reemployment services.⁸

We know that job search assistance can be offered at low cost. Enhanced, industry-

⁷Industries are defined here at the 3-digit Census of Population Industrial Classification level. Examples of “detailed” industries include those listed above as high import-competing industries.

⁸A first wave of states implemented the Worker Profiling and Reemployment Services (WPRS) system in 1994. This program, now operated in all states, usually employs a statistical model to identify those unemployment insurance recipients who are most likely to exhaust their entitlement to benefits. The goal is to refer these workers, early in their benefit period, to special reemployment services.

specific job search assistance could aid (some) workers in becoming re-employed in manufacturing, where their earnings losses will likely be minimized. This type of job search assistance, focused on re-employment in the old industry, might make sense for the current generation of established workers in import-competing industries. For these workers, re-employment outside of manufacturing produces large and persistent earnings losses and (yet) the costs of retraining are high. The cost-effective approach may be to encourage re-employment where and for as long as the job opportunities exist.

At the same time, reallocation to growing sectors of the economy can be costly for manufacturing workers. With society benefitting overall from the reallocation, these private costs deserve close consideration. These costs can be addressed directly by wage insurance, a program of financial assistance, upon re-employment, for workers who lose jobs, for any reason, through no fault of their own. The goal of a wage insurance program is to get workers back to work as soon as possible, while minimizing longer-term earnings losses. A key aspect of the program, and difference between it and other adjustment assistance programs, is the employment incentive created by making benefits conditional on re-employment.

The basics of such a program are described in Kletzer and Litan (2001).⁹ 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 (plant closing or relocation, elimination of position or shift, and insufficient work). Eligibility can be limited to a minimum period of service on the old job. The Kletzer and Litan proposal suggests a minimum of 2 years tenure on the old job. Workers re-employed in a new job that pays less than the old job (where both old and new job earnings can be documented through employer quarterly earnings reports that are filed with the states) would have a substantial portion of their lost earnings replaced, for up to two years following the date of initial job loss. For example, a displaced worker who once earned \$40,000 per year, re-employed in a new job paying \$30,000 per year would receive \$5,000 per year, for a period from the time of re-employment to two years after initial job loss. Annual payments could be capped, perhaps at \$10,000.

Wage insurance addresses some of the criticisms leveled at TAA and NAFTA-TAA. First, the structure of the program, with benefits available only upon re-employment, 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 to workers when the earnings gap is reduced. Third and relatedly, the program effectively subsidizes retraining on the job, where it

⁹Kletzer, Lori G. and Robert E. Litan. 2001. “A Prescription to Relieve Worker Anxiety,” International Economics Policy Brief, #PB01-2, Institute for International Economics, March.

is likely to be far more useful than in a training program where re-employment prospects are uncertain. Fourth, the program directly addresses the critical problem in evidence here: earnings losses upon re-employment.

Many American workers fear job loss and its consequences. There is a narrow, but significant band of workers for whom import-competing job loss is very costly. For other workers, realized costs are smaller. Wage insurance focuses precisely on these costs. It gets workers back to work and offers assistance to meet workers' real needs.

Thank you for the opportunity to speak today. I am available for questions.