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Hearing on Exports' Place on the Path of Economic Recovery

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Good morning Chairman Wyden, Ranking Member Crapo and other Members of the Subcommittee. I appreciate the opportunity to testify on behalf of the Department of Labor about exports' place on the path of economic recovery.

Exports and Economic Recovery

The U.S. economy is beginning to climb out of the recession. Nonetheless, GDP is still 3 percent below its peak and employment is more than 5 percent below its peak. With 15.4 million unemployed and a 10.0 percent unemployment rate, the United States must have steady, strong economic growth to get people back to work. Although personal consumption and homebuilding contributed decisively to growth in the third quarter, expectations are that consumers will not be as much a motor of economic growth as they were in the past. The personal savings rate was 4.5 percent in the third quarter, or triple the rate at the start of the recession. An increased propensity to save is desirable, despite reducing consumers' past role as a source of economic growth. The adjustments that households, businesses, and financial institutions are making in order to reduce debts and rebuild their balance sheets will lay the foundation for future growth. With domestic demand unlikely to turn upward significantly, exports must be part of our growth strategy.

As President Obama has emphasized, increasing our exports is an essential part of restoring balanced growth. The United States has not had a trade surplus since 1975 on an annual basis. The trade deficit rose in the 1980's and then fell in the 1990's, but then increased from 1 percent of GDP in mid 1997 to over 6 percent of GDP at the end of 2005. Even before the crisis broke, it was slowly shrinking, but was still quite large.

But the United States cannot reverse global imbalances only through efforts to increase exports. At the same time that we work to increase exports, we also must work toward a sustainable budget that reduces our need for foreign borrowing. Recovery Act spending, which is necessary to bring us out of recession and set the stage for sustainable growth, by design will scale back as an essential part of the Administration's commitment to long-term fiscal stability.

Other countries will also need to act to reverse these imbalances. Countries with large current account surpluses need to reduce their high savings rates. This will increase demand for imports and reduce their large surpluses. Increased government spending in these countries on health care, education, and pension systems would induce greater consumption as well by reducing the need for people to save for potentially large medical, educational, or retirement expenses. By increasing their consumption, workers in these countries will be able to enjoy higher standards of living, made possible by the remarkable advances in the productivity of their labor in recent decades.

Having said this, we have witnessed a reduction in these imbalances during the recession. A shrinking of the trade balance coincided with the decline in real GDP—and, in fact, prevented the decline in GDP from being even more severe than it was. Although both exports and imports declined from the third quarter of 2008 through the second quarter of this year, the decline in imports easily outpaced that of exports as our country's appetite for imports weakened. Our appetite regained strength in the third quarter, however, with real imports rising at a (25.0 real goods) percent annual rate. Exports also rose quickly at a 17 percent annual rate.

As we have seen during the recession, a major obstacle to export growth has been depressed demand in foreign markets, which triggered a sharp cutback in U.S. goods exports to essentially all regions of the world through the second quarter of this year. There are, however, signs that the global economy may be on the rebound. Asian economies are doing particularly well, and exports to those countries are on the rebound. After a period of contractions in most major Asian economies, with the exception of China, India, and Indonesia, the region grew at a rate of 9 percent in the second quarter of 2009. China, Hong Kong, Korea, Malaysia, Singapore, and Taiwan all had double-digit growth rates. Goods exported to Singapore actually declined from the 1st to 2nd quarter $5.2 billion to $4.8 billion (-7.8 percent), but saw an increase from 2nd to 3rd quarter $4.8 billion to $6.0 billion (24.1 percent).

As the global economy recovers, exports have the potential to contribute even more to economic growth and to create more jobs domestically. Exports contributed notably to the third quarter rebound in GDP, adding 1.71 points to growth in the quarter, with the highest contribution from goods exports since 1996.

Jobs in the Export Sector are Good Jobs

An expansion of exports has the potential to create hundreds of thousands of new, good paying jobs. In 2007, several million American workers were employed in the over one-quarter million identified exporting firms. In addition to their positive effect on economic growth, export jobs fit in with Secretary Solis' vision for the Department of "good jobs for everyone." To support this vision, the Secretary has developed a series of outcome goals and is working to ensure that each DOL program is linked to this overarching vision.

Several of these outcome goals are pertinent to today's discussion of the role exports play in the economic recovery and how a robust export strategy creates and sustains good jobs. These include:

- Increasing workers' income and narrowing wage and income inequality;

- Assuring that workers have the skills and knowledge to succeed in a knowledge-based economy, including in high-growth and emerging industry sectors like green jobs;
- Helping workers who are in low-wage jobs or out of the labor market find a path into middle-class jobs; and
- Helping middle-class families remain in the middle class.

Jobs in exporting firms, which are in sectors with above-average compensation, are more likely to contribute to narrowing wage inequality and helping families get and stay in the middle class. Exporting firms largely employ people in the manufacturing, professional services, and wholesale trade sectors. Average hourly total compensation in the manufacturing sector, at about $32, is about 22 percent higher than average compensation in service industries.[1] About 40 percent of the difference comes from higher wages and another 20 percent from greater health benefits. Some of the difference in wages is due to longer tenure and better training of manufacturing workers. However, even after controlling for these factors, manufacturing workers still make an estimated 9 percent more than comparable workers in other sectors. Likewise, the average hourly compensation of workers in professional and technical services surpasses $44 per hour. Exports of business, professional, and technical services totaled more than $27 billion in the second quarter alone. Wholesalers represent about one-third of exporting firms, and total compensation in wholesale, at over $29 per hour, also is above the average for service-providing firms.[2,3]

Furthermore, within specific industries, there is evidence that export-related firms pay more. Census research on the manufacturing industry between 1976 and 1987 found that plants that produced products for export paid more than plants that were not exporting, even after accounting for size, productivity, and capital intensity.[4] These findings are confirmed by more recent research, which finds that wages of workers are 10 to 11 percent higher at plants that export their products.[5] Analysis of employment growth at firms from 1993 to 2000 also found that the greatest employment growth was among firms that began to export. At such newly exporting firms, employment increased by 94.3 percent, compared to 24.5 percent employment growth among firms that were not exporters.[6]

Opportunities for Export Growth – Advanced Manufacturing and Green Jobs

An export promotion strategy that creates and sustains good-paying jobs and supports both economic recovery and long-term economic stability would require a range of policy initiatives across the government including assistance to companies trying to expand to foreign markets and enhanced investment in research and development. The Department of Labor plays a pivotal role in the broader Federal strategy to promote exports and rebuild the manufacturing sector by providing workers with training and employment services that will help advance their careers while meeting the needs of U.S. employers. These efforts are especially important in emerging industries, particularly in areas of the green, clean energy economy, and high-growth industries, such as health care, that we believe will help drive and sustain our economic recovery.

The Department's Employment and Training Administration (ETA) received approximately $4 billion from the American Recovery and Reinvestment Act of 2009 to support training and employment programs. General funds for training and especially funding for placement in high growth and emerging industries will help us train workers in sectors where there is export potential.

Advanced Manufacturing

Even during the recession, there have remained some areas of export growth, and these are likely to be among the sectors with large export potential in the coming years. Two-thirds of exports in the third quarter were manufactured goods and over 40 percent of factory jobs are in industries that the Bureau of Labor Statistics (BLS) identifies as export-sensitive.[7] The sharp slowdown in factory job losses in recent months is due in part to the stabilization and turnaround in exports across manufacturing industries.

Among exports of advanced technology products, biotechnology has stood out. Exports over the first 9 months of 2009 total $8.5 billion, up 26 percent over the same period in 2008. Exports of life science products have remained fairly stable, at $18.3 billion so far this year. Our country's relative strength in these areas translates into good paying jobs. In contrast to generalized employment declines throughout manufacturing and most other industries during the recession, employment has remained steady in electromedical apparatus manufacturing as well as in scientific research and development services, just to name two examples.

A recent Council of Economic Advisors report on "Preparing the Workers of Today for the Jobs of Tomorrow" notes that employment is projected to grow in the coming years in aerospace and pharmaceuticals, along with other similarly-advanced manufacturing industries. Exports are critical to these industries. While down from 2008, aerospace exports over the first 9 months of 2009 total $61.3 billion. Exports of medicinal chemicals total $31.4 billion so far this year, up over 14 percent from the same period last year.

Green Jobs

As we know, oil accounts for a significant part of our trade deficit. Based on January – September 2009, petroleum accounted for 40 percent of the goods deficit and 52.1 percent percent of the goods and services deficit. The annual 2008 percentages are larger. One way to reduce this deficit is to reduce oil imports by making investments in clean and renewable energy sources. President Obama and Secretary Solis believe that the green economy will be a key driver behind America's economic revitalization and sustained economic stability. Green jobs offer good wages, pathways to long-term career advancement, and prosperity for American workers. Continued efforts by the public and private sectors to reduce energy consumption and other environmental impacts will maintain the demand for green products and services, resulting in increased workforce needs within manufacturing and other industries. As recently acknowledged by the President and others at the Jobs Forum, investments in clean energy will not have as large an impact as they potentially could without mechanisms to price carbon or cap carbon emissions, thereby increasing demand for clean energy products. At the Department of Labor, we are making critical investments in training the workforce for these growing sectors.

DOL's Efforts

To provide a common framework to understand the skills required to work in the manufacturing sector, ETA and its advanced manufacturing industry partners developed a dynamic, industry-driven model of the foundation and technical competencies that are necessary for workers to enter into and progress in these careers. The model helps to identify employer needs and provides a framework for developing competency-based curriculum and training models. Given the recent advances in skill requirements of many manufacturing sectors, including sustainable and green manufacturing, ETA is collaborating with our industry partners—including the National Council for Advanced Manufacturing, the National Association of Manufacturers, the Society of Manufacturing Engineers, and others—to update the advanced manufacturing competency model to reflect new skill requirements in the industry.

The green economy provides an opportunity for firms to move from struggling industries to expanding ones, or for industries to revive themselves by investing in cutting edge technologies. We saw a great example of this recently in Fisker Automotive Company's purchase of the now closed General Motors Assembly plant in Wilmington, Delaware. The plant was closed as part of the GM restructuring. As a result of the Department of Energy's Advanced Technology Vehicle Manufacturing Program, it will reopen soon and remain an auto manufacturing facility. With a $528.7 million conditional loan from the DOE, Fisker will soon introduce the world's first plug-in hybrid vehicles—cars that can travel up to 50 miles on electricity before they switch to a traditional gasoline engine. Recovery Act grants are also supporting a domestic battery industry that will allow Fisker to sell affordable plug-in hybrids. Not only are these great examples of how the green economy can create jobs, but they also highlight the value of the federal/state/private sector partnerships fostered by the White House Council on Automotive Communities and Workers to support positive economic transformations in auto communities.

In preparation for job growth in emerging industries, the Department of Labor is positioning itself to provide labor market information and to work with core constituencies of labor, industry, and education to indentify relevant green jobs skills and develop competency models leading to employment with meaningful career ladders. The Department is carrying out these activities through (1) investments made possible by the Recovery Act, (2) new initiatives, and (3) modifications to current programs.

As a key Recovery Act investment, on June 24, 2009, Secretary Solis announced grant competitions totaling $500 million directed to support green jobs initiatives. These grants will be used to prepare workers to enter the energy efficiency and renewable energy industries, as well as green occupations within other industries. They will also build the capacity of service providers to train workers for green jobs. On November 18, 2009, the Department announced nearly $55 million in green jobs grants that will support job training and labor market information programs to help workers find jobs in expanding green industries and related occupations. The Department expects to release funding for the remaining grant competitions over the next several months.

The Department is also supporting green job training, skill development, and capacity building through the development of new initiatives. As part of the Fiscal Year 2010 budget, the

Administration has proposed the creation of a Green Jobs Innovation Fund, which would utilize $50 million to help workers access green training and green career pathways.

Beyond Recovery Act investments and new initiatives, the Department has worked to modify current programs to ensure the demand for workers to fill green jobs will be met. Such changes include:

- Encouraging and providing grantees technical assistance to incorporate green construction into the YouthBuild program;
- Expanding efforts to use the Women in Apprenticeship and Non-Traditional Occupations Act program to promote placement and retention of women in registered apprenticeship programs in industries critical to the green economy, and;
- Developing green jobs training to be implemented as part of the curricula at Job Corps centers.

The Department also conducted a study entitled "The Greening of Registered Apprenticeship: An Environmental Scan of the Impact of Green Jobs on Registered Apprenticeship and Implications for Workforce Development." This study identifies steps currently being taken by national organizations primarily within the National Apprenticeship System to prepare the U.S. workforce for the demands of a green economy and will be used to help shape future policy and program development.

Finally, a broader understanding of the number and types of jobs tied to the green, clean energy economy is fundamental to all these initiatives. BLS has begun a multi-year initiative to measure green jobs by industry and occupation. The effort includes the development of a new survey, which will measure green employment across industries.

Conclusion

The economic growth that we witnessed in the third quarter is due in no small part to growth in exports. As our economy continues to become more export oriented, we must ensure that companies can readily access a prepared workforce that will support their growth. Exploring the potential to export can be daunting, especially for smaller novice companies, but we hope the departmental initiatives that I have outlined will remove some of the uncertainty involved. Preparing our workforce for jobs tied to exports and the green economy is critical to extending our economic recovery and setting the stage of sustained and sustainable economic growth.

Thank you again for holding this important hearing this morning. I would be happy to answer any questions from Members of the Subcommittee.

[1] Bureau of Labor Statistics, Employer Costs for Employee Compensation, June 2009.
[2] Census Bureau, 2006-07 Profile of U.S. Exporting Companies.
[3] Bureau of Labor Statistics, Employer Costs for Employee Compensation, June 2009.
[4] Bureau of Census. "Export Manufacturers Compete Successfully in Pay, Productivity, and Presence." Statistical Brief. January 1995.
[5] Richardson, J. David. "Uneven Gains and Unbalanced Burdens? Three Decades of American Globalization," in *The United States and the World Economy*, ed Fred C. Bergsten. January 2005.
[6] Bernard, Andrew B., J. Bradford Jensen, and Peter K. Schott. "Importers, Exporters, and Multinationals: A Portrait of Firms in the U.S. that Trade Goods." Working Paper 05-10. September 2005.
[7] Bureau of Labor Statistics, Current Employment Statistics program, unofficial research series on employment in export-sensitive manufacturing industries.