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The ground is shifting for the American globalization debate. Although still in the earliest of stages, virtually all evidence suggests that services outsourcing and job loss is the “next big thing.”

To date, manufacturing dominates the research perspective on the impact of globalization on workers. Trade in goods long predates trade in services, so much of this manufacturing focus is justified (at least historically).

My recent research summarizes and extends the manufacturing trade and job loss research. In Kletzer (2002), where industry as the functional unit of observation, there is a set of industries facing sustained import competition (industries with both high levels of import share and increasing import share) where the rate of job loss is high. Beyond this set of 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 manufacturing industries.

In Kletzer (2001), I defined a set of highly “import-competing” industries as those industries in the top 25 percent of a ranking of industries by their percentage change in import share over the 1979-94 period (from largest positive to smallest). Industries in this top quartile include most of the ones we would call traditional import-competing industries: electrical machinery, radio and television, apparel, motor vehicles, footwear, blast furnaces, knitting mills, toys and sporting goods. This industry definition, applied to the worker-based Displaced Worker Surveys, yielded a sample of highly import-competing displaced workers, based on a worker’s industry of displacement.

Using a somewhat conservative count of displaced workers, I estimate that 18.6 million workers lost jobs in all of manufacturing during the period 1979-2001, about 37 percent of the total nonagricultural job loss of 49.8 million.² During this period, manufacturing represented, typically, just under 18 percent of total nonagricultural employment. The high import-competing group accounted for about 40 percent of manufacturing displacement, at 7.45 million workers. During the 1979-2001 period, these industries accounted for just under 30 percent of manufacturing employment.³

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² This number will be different from the often-cited declines in employment in manufacturing. Manufacturing employment decline is a net loss in employment, the difference between employment gains (through new hires, rehires and recalls) and reductions in employment (through quits, layoffs, displacements, retirements, and deaths). See details in Kletzer (2002b).

³ In Kletzer (2002a), I reported estimates of the extent of job loss related to NAFTA and imports, and concluded that NAFTA-import related job loss accounted for 24-27 percent of manufacturing job loss over the 1993-99 period. For the economy overall, NAFTA-import related job losses are more modest, accounting for 10.7 percent of total job loss.

Just from these estimates, we see that import-related job loss is a sizeable share of U.S. manufacturing job loss, and a much smaller share of economy-wide job loss. Some will find these numbers compelling, and others not. Regardless of the view, a focus on the numbers of jobs lost misses an important point. Total employment is essentially determined by macroeconomic conditions and policies, both in the U.S. and worldwide. To understand adjustment costs and design policy responses, it is important to understand workers – who they are and how they will be affected. Very briefly, I will summarize what is known, reported largely in Kletzer (2001), about the characteristics of displaced workers and basic post-displacement outcomes. Call these the stylized facts of trade-related job loss:

1. Similar to manufacturing workers displaced for other reasons, import-competing displaced workers are older, less formally educated, and more tenured than displaced non-manufacturing workers. Generally, these are not the characteristics of workers who succeed in training programs.
2. For many workers, import-competing job loss is very costly, due to difficulties finding new employment at a level of pay similar to the old job. Two-thirds of re-employed workers earn less on their new job than they did on their old job, and one-quarter experience earnings losses in excess of 30 percent. The average earnings loss is more modest, but still sizeable at 13 percent. The distribution of earnings losses is very similar to that found for all workers displaced from manufacturing jobs for other reasons.
3. 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. The characteristics that limit the reemployment of import-competing displaced workers are the same characteristics that limit the re-employment of all displaced workers: low educational attainment; advancing age, high tenure, minority status; marital status. Workers with high tenure and/or low skill may confront serious skill-related adjustment problems, along with having rusty job search skills. Facing the loss of a wage premium, UI benefits will be relatively generous, allowing slower job search.
4. For most workers, the costs of job loss occur as re-employment earnings losses. Less formally educated workers experience the greatest difficulty maintaining earnings. More generally, re-employment earnings losses rise with age, fall with education, rise with job tenure. Workers with these characteristics appear to need the most help. Wage insurance could be considered (partial) compensation for lost specific skills.
5. Re-employment in manufacturing minimizes earnings losses (on average). An advantageous outcome for production workers with manufacturing-specific skills is to stay employed in manufacturing. Earnings losses are reduced by re-employment within the narrow set of “old” industries, and even more so by reemployment in the old detailed industry. Re-employment in services is associated with the largest earnings losses. There may be little retraining associated with these moves. Wage insurance has potential for reducing these losses.

The loss of good (well-paid, middle class) manufacturing jobs can be understood as the loss of routine, standardized low-to-moderate skill production work, the type of work done more competitively in low-wage countries. The required response seems clear: assist, through training and education, displaced manufacturing workers as they navigate the new computerized, globalized workplace. Often unstated, this approach clearly is founded on the belief in US comparative advantage in “high-skill” jobs.

The newly emerging trend of services outsourcing (and worries about job loss) challenges our current manufacturing focus. At the most preliminary level, analysis of the 1984-2002 Displaced Worker Surveys reveals the extent to which the face of job displacement has changed:

In 1979-82, non-manufacturing accounted for 46 percent of economy-wide (non agricultural, non mining, non-construction) job loss. For 2000-01, non-manufacturing accounted for 70 percent of displaced workers.

The services sector is heterogeneous. Looking within the sector reveals important differences in the risk and impact of job loss. Over the 23 year period from 1979-2001, the shares of job loss/displacement accounted for by Transportation, Utilities and Communication and Wholesale and Retail Trade held fairly steady at about 28-30 percent. In Finance, Insurance and Real Estate (FIRE), the share of job loss rose from 2.8% to 6.1%; in Business Services, the share rose from 7% to 16.7%; in Professional Services, the share rose from 5.9% to 11.7%.

Workers displaced from the services sector are more likely to be reemployed than workers from manufacturing (a difference of 5-10 percentage points), but the reemployment rates display the same cyclical pattern. Service sector reemployment rates fell more in the 2001 recession than they did in the early 1990s recession, with business and professional services reemployment rates displaying large declines in reemployment in the most recent recession.

This educational profile of displaced workers differs considerably by industrial sector. From manufacturing, one-half of workers displaced in 2000-01 had at least some college experience; in business services, the share was .67, in professional services, .86. In business services and professional services, the shares of displaced workers with a college degree or more ranged from .39 to .43, while in manufacturing, those shares were around .18. Rising educational attainment in the labor force is clearly evident. The share of displaced workers with at least some college experience was .35 in 1979-82, for 2000-01, the share was .58.

Adding wage insurance to the policy mix

Due in part to the success of the globalization backlash in highlighting American job loss, the leadership of the U.S. Senate tied legislation granted presidential trade-promotion authority to an amendment expanding and reauthorizing TAA. One of the TAA program expansions contained in the Trade Act of 2002 is a targeted program of wage insurance.

How would a wage insurance program work? Wage insurance is a supplemental benefit program designed to cover some of the earnings losses following displacement, in a way that stimulates re-employment. As proposed in Kletzer and Litan (2001), eligible workers would receive some fraction, perhaps half, of their weekly earnings loss. The fraction could vary by age and tenure of the worker. Payments begin only when a worker has a new (full-time) job and could continue for up to two years following the initial job loss, as long as the new job paid less than the old job. Annual payments could be capped at \$10,000/year. By “topping up” earnings if the new job pays less than the old, and only for a specified period, the program offers re-employment incentives, in contrast to the incentives introduced by UI and training subsidies. With the re-employment incentive, the program can also be seen from an active labor market policy perspective, in the spirit of re-employment bonuses.

For example, if an eligible high import competing worker made \$600 per week on the old full time job and found a new full time job paying \$520 (13% less), the supplemental payment would be \$40/week, for a total weekly earnings of \$560. At a 30% earnings loss, the new job would pay \$420/week, the payment would be \$90, for a weekly earnings of \$510. Here, the supplement could encourage a worker to take a job paying significantly less than the old job, yet with the supplement, the earnings loss is reduced by half.

Wage insurance raises the return to search, and more so for workers with greater re-employment losses. A higher wage insurance replacement rate further increases the return to job search, while it reduces the worker’s incentive to search for a (different) higher-paying job (but only during the eligibility period). If the supplement interval is fixed and limited, say to two years, the present value of the supplement declines with the duration of unemployment and poses an incentive for a quicker return to work. There is a “winners” theme here, as workers who have difficulty finding a job (particularly if required to be full-time) will receive a smaller supplement than workers with short unemployment spells.

High-tenure, lower-skill manufacturing workers will find wage insurance to have greatest value. These workers are visible and have clout. They are not high-wage workers; they are earning a wage premium over their alternative. Wage insurance is more valuable to these workers than it is to lower-wage workers. Lower-wage displaced workers will find it relatively easier to find an equivalent job and therefore will be less likely to experience large earnings losses. This introduces a potentially important distributional issue.

Restricting eligibility to full-time employment raises some questions. Earnings losses are a product of both changes in wages and changes in hours. Either wages or hours, or both,

could be lower on the new job. Particularly for lower-skill workers, most readily available jobs will be part-time, as well as at low wage rates. Limit benefits to those who find one of a limited supply of full-time jobs will end up awarding the “winners.” On the other hand, if the earnings supplement is applied to earnings losses arising from changes in hours worked, effective pay on new part-time jobs could be quite high. For example, if a particular worker’s earnings loss arises solely from working part-time on the new job, that worker will have an opportunity to work half the hours (as compared to the old job) at three-quarters pay. This level of subsidy could induce a sizeable shift to part-time work.

The reemployment incentive aspect of wage insurance gives rise to (some of) the standard set of questions. Will an earnings supplement encourage workers to look sooner or more intensely? Will it broaden the range of job offers considered? Will the supplement lower reservation wages, easing consideration of entry-level jobs in expanding industries, jobs that provide training in new skills and prospects for advancement? In short, will wage insurance lead to shorter unemployment durations, increased earnings and changes in UI benefit receipt?

Summing up

Knowledge that the economy as a whole benefits from free trade (and even outsourcing) provides little solace to the workers, high and low skill, who lose their jobs. Embracing the dynamism of the global economy must be accompanied by real efforts to design and implement policies to address the costs of job loss.

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