

# **Designing A New Approach to Assist Workers and Communities Respond to Globalization**

**By Howard Rosen<sup>1</sup>**

## **Introduction**

According to traditional economic models, international trade benefits an economy through lower prices, increased efficiency in the competing domestic industry and greater consumer choice of products. What is often left out in this type of analysis is the fact that (1) these gains may not be equally distributed throughout the economy and that (2) there are costs to increased imports, i.e. some people may actually experience unemployment and income loss as a result of increased international trade. In other words, the gains from trade are “net gains” – there are both winners and losers.

The gains from trade – lower prices, increased efficiency and greater consumer choice – can be widely, although not equally, distributed throughout the economy. On the other hand, the negative consequences of increased competition from abroad – unemployment and income loss – tend to be highly concentrated by industry, by location and according to worker characteristics. For example, increased steel imports throughout the 1970s and 1980s helped hold down steel prices and encouraged US steel producers to become more productive. On the other hand, increased competition from abroad caused tens of thousands of US steel workers to lose their jobs and experience severe income losses. These losses were highly concentrated in the “rust belt” states of Michigan, Ohio, Pennsylvania and West Virginia and the workers who lost their jobs tended to be older and less educated.

In addition to increased import competition, workers can also be adversely affected by shifts in production to overseas. In order to reduce costs, firms may out-source production of certain inputs, or move entire production facilities overseas. The effects on workers and communities of shifting production overseas are similar to those related to increased import competition. The mere threat of moving production facilities overseas is often used to keep wages low and reduce health insurance and pensions benefits.

The great challenge to increased openness in the world economy is to secure the benefits from liberalizing trade and shifting production while simultaneously minimizing the resulting burdens on workers and communities. In order to achieve this goal, public policies may be enacted to transfer some of the benefits of trade and investment enjoyed by the vast majority to help offset some of the costs incurred by those

adversely affected. This is one of the rationales behind government programs aimed at assisting workers and communities adjust to increased competition from abroad.

### **The Adjustment Process**

Over the past few years, US workers and labor market institutions have absorbed most of the adjustment burden resulting from increased competition, both from home and abroad. Workers have experienced massive layoffs, lower wages, and an increase in the number of hours worked. Public policy responses – such as unemployment insurance, training, relocation allowances and job search assistance – are all designed to assist workers face this burden.

Workers can be adversely affected by increased import competition, falling export sales and shifts in production to other countries in varying degrees. Workers employed by the domestic import competing industry are considered front line or “primary” workers. Workers employed by industries that produce inputs for the domestic competing industry are considered “secondary” workers. “Tertiary” workers are those who provide goods and services to primary and secondary workers and their families, but not directly to the industries for which they work. For example, in the case of increased apparel imports from Mexico, those workers employed by the US apparel industry are considered primary workers. Workers employed in the US zipper industry, for example, are considered secondary workers and those employed by the restaurants and retail stores in the community where the apparel and zipper producers are located are considered tertiary workers.

In the above example, primary workers are most likely to lose their jobs due to increased import competition. Depending on the state of the economy, it may take some time for those workers to find new jobs. Furthermore, when they finally find them, their new salary may be less than what they earned before they were laid off. Secondary workers may experience similar losses, although the probability of being laid off may be less than for primary workers, especially if the zipper producers either produce other items or zippers for other plants that are not facing stiff competition from abroad. Likewise, the tertiary workers may experience similar losses, but also at a lesser degree than for primary and secondary workers.

Plant closings resulting from severe competition from abroad are likely to have serious implications for the entire community, beyond hurting the workers employed by the firm. If a community’s economy is highly dependent on a certain firm or industry and the inputs necessary for producing that good, then the adjustment burden will also be experienced by local workers in retail sales and other services. In addition, the loss of a large plant can erode a community’s tax base, thereby leaving no one untouched by the closing.

In larger communities and during times of economic prosperity, the adjustment burden – although still present – may be tempered. In this case, the negative consequences of a single plant closing may be concentrated on the primary workers

and may not affect the broader community. In either case, some workers will lose their jobs. They may have to go without a salary for several weeks or months while they try to find a new job. In addition, depending on their skills and experience, the workers may have to accept a job at a lower salary than they received at the previous job.

The ultimate goal of any assistance to these workers should be re-employment, either returning to their previous jobs or finding new jobs, as soon as possible, with minimal disruption in earnings. An additional goal is to minimize the economic and social impact on a community due to plant closings. The challenge for public policy is to devise ways to meet these goals in an efficient and cost-effective manner.

### **Existing Federal Programs to Assist Dislocated Workers**

Currently, the United States does not have a coherent strategy for dealing with dislocated workers and economically distressed communities. Instead, federal and state governments have developed a combination of the following small programs, primarily aimed at compensating individuals for their job and income losses.

Unemployment Insurance (UI) provides income support for unemployed workers for up to 26 weeks. Unemployment payments currently average less than \$200 per week, approximately one-third of average weekly earnings for all salaried workers. Payments can be extended during times of recession under certain circumstances. In recent years, only one-third of unemployed workers have actually received UI benefits. The program is administered by the states and financed through a federal payroll tax.

Job Training Partnership Act (JTPA), which has since been incorporated into the Workforce Investment Act (WIA), allocates funds to the states to provide training and some income maintenance benefits for dislocated workers, regardless of cause of job separation. Since the total amount of funds appropriated for this program is so small, JTPA/WIA benefits tend to be concentrated on providing training, with no or little funds remaining for supplemental income support payments.

Economic Dislocation Worker Adjustment Assistance Act (EDWAA) requires firms to give workers advanced notice of any plant closing and attempts to coordinate some dislocated worker programs.

Trade Adjustment Assistance (TAA) was established in 1962 to provide assistance to those workers whose job loss could be traced to increased import competition. There have been several changes in the program since its establishment, including most recently in 2002. Workers whose job loss can be attributed to increased imports or shifts in production can be eligible for income maintenance and training funds for 78 weeks (after UI benefits expire), job search and relocation assistance. Workers must be enrolled in training in order to receive income support.

These four programs serve as the centerpiece of the federal government's efforts to respond to worker dislocations. Several other programs fall under this category, but they are not very large.

### **Criticisms of Existing Programs**

The primary criticism of these programs is that they are "too little, too late." Federal funding for training and income support is not very large. UI is self-financed through a federal payroll tax. In FY 1999, the federal government spent \$3.4 billion on UI, of which only \$2.3 billion was paid to individuals. Direct government outlays for dislocated worker programs in FY 1999 totaled about \$1.4 billion. Funding for TAA and NAFTA-TAA together added another \$414 million.<sup>1</sup> Assuming an average of 1 million workers laid off each year, total federal funding for training and income maintenance (not including UI) amounted to approximately \$1,800 per worker – barely enough to cover the costs for enrollment in training, let alone sufficient funds for any kind of serious income support. The United States spends far less on training and income support than any of the other industrialized countries.<sup>2</sup>

Most of the federal effort in assisting workers is concentrated on "compensating the losers," as opposed to preventing plant closings or encouraging the creation of new jobs.<sup>3</sup> The proponents of this view argue that many dislocations might be avoided if the government would intervene earlier in the process, rather than later, after the firm has been closed and the workers have been laid off.

There are more than 150 targeted training and adjustment programs spread out throughout the federal government. Most recent efforts toward improving the government's efforts at adjustment assistance have focused on consolidating and coordinating these various programs. A considerable amount of federal funds are currently being devoted to training, but it is difficult to navigate through the web of the various programs.

Training benefits are typically provided with little concern for the skill needs of current or potential employers. This complicates the training process and raises the possibility that people will train for jobs that do not exist. This raises the philosophical question: Should workers be allowed to enroll in whatever training they want, regardless of potential job opportunities, or should they be forced to train for specific jobs? Under most existing training programs there is only a weak link between training and potential employment.

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<sup>1</sup> Between 1993 and 2002 there was a special program, TAA-NAFTA, for workers who lost their jobs due to increased imports from or shifts in production to Canada and Mexico.

<sup>2</sup> Rosen, Howard, "Assisting US Labor Market Adjustment to Freer Trade Under NAFTA," North American Outlook, Volume 4, Number 1-2, National Planning Association, September 1993.

<sup>3</sup> There is a small TAA-Community program, which makes loans to trade-impacted areas.

The existing structure of training and adjustment programs is completely divorced from any serious efforts to attract and/or create new jobs. The overarching objective of any program should be to get workers back into the labor market as soon as possible, with the least amount of long-term income loss. These programs do not directly address this objective. In fact, some analysts argue that the mere existence of training and income benefits may deter people from returning to work, thereby prolonging their adjustment process.

As entitlements, some critics argue that TAA does not give workers an incentive to return to work as soon as possible.<sup>4</sup> These critics also argue that entitlements tend to be an open-ended drain on the federal budget. On the other hand, JTPA/WIA and EDWAA are not entitlements and their benefits are constrained by a budget cap. It has been a common occurrence for JTPA/WIA to run out of funds, particularly during times of great need, thereby not meeting the demand for benefits they are supposed to provide.

Many of the adjustment programs have specific eligibility criteria. Given changes in the US economy over the last several years, it has become increasingly difficult to attribute causality to worker dislocation, both between trade and non-trade factors, and within trade, by region. This has made it more difficult for workers to get the assistance they need.

Worker dislocation can have a significant adverse impact on a community. Conversely, a community's ability to respond to a large plant closing will have a great impact on workers' abilities to find new jobs. The federal government provides very little assistance for economic development at the community level. Thus it is a challenge to make people aware of these programs and help them gain access to their benefits in a timely fashion.

Finally, despite recent reforms, some workers who lose their jobs due to shift in production may not be eligible for TAA. There is no logical reason to discriminate against these workers.

## **A New Approach**

The previous discussion suggests that there are significant problems with the existing federal programs aimed at responding to increased competition from abroad and worker dislocation. The federal government's efforts tend to be too little too late, and tend to focus on "compensation" rather than on re-employment.

In contrast to the experience of worker-related adjustment programs, there is some evidence that the federal government has been more successful in helping communities respond to the economic consequences due to military base closings and defense conversion. Although there are many differences between responding to trade-related dislocations and defense conversion, there may be lessons from the latter which

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<sup>4</sup> The wage insurance program instituted in 2003 is an effort to address this problem.

might be useful in thinking about worker-related adjustment programs.

Defense conversion differs from other forms of dislocation in that it was viewed as a one-time event. In addition, primarily due to political considerations, the federal government allocated significantly more money to helping workers and communities respond to military base closings than to other forms of dislocation. Defense conversion adjustment programs were highly centralized, with considerable involvement by the military base and its personnel. Most programs included providing technical advice in developing a strategic response to the economic and social consequences of the base closing.

All of this is in contrast to the federal government's efforts to assist workers and communities respond to increased import competition, lost export markets, or shifts in production to overseas. In these cases, the government's efforts are primarily based on the five training and income support programs outlined above — UI, JTPA/WIA, EDWAA and TAA. These government programs address worker dislocation as an individual's problem, ignoring both the prospects for re-employment and the residual effects on the community as a whole.

There currently is fairly wide consensus that existing adjustment assistance programs are both insufficient and inefficient in assisting workers and communities respond to economic dislocations. In addition, there is growing awareness that economic pressures on workers and communities are continuing to mount. The increasing trend toward globalization suggests that these pressures are certain to continue. The combination of these two factors suggests the need to rethink the government's efforts toward assisting workers and communities respond to economic dislocation.

### **“The Roswell Experiment”<sup>5</sup>**

During the Congressional “fast-track” debate in November 1997, the Levi Strauss Company announced its intention to close 11 plants throughout the United States, laying off 6,395 workers, or a third of its total manufacturing workforce in the United States and Canada. Two of these plants slated for closure were in New Mexico — Albuquerque and Roswell. Some policymakers believed that these unfortunate events might serve as an opportunity to explore some of the options for assisting workers and communities, which were discussed during the failed “fast-track” debate.

The Levi Strauss plant was an important part of Roswell's economy for over 30 years. Roswell has a population of approximately 50,000 and a total workforce of approximately 25,000. Levi Strauss, one of the region's largest employers, employed almost 600 workers.

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<sup>5</sup> The author is grateful to Senator Bingaman for giving him the opportunity to spend time in Roswell, New Mexico and learn about the adjustment process from a first-hand basis.

Several principles were kept in mind while trying to assist the workers and the community in response to the Levi Strauss closing:

- Encourage private companies to take an increased role in helping workers and communities adjust to dislocations. Integrate company benefits and efforts with government benefit and efforts.
- Integrate worker adjustment with community economic development. In other words, link training to actual jobs.
- Provide technical assistance to the leaders of the community.
- Coordinate all federal, state and local efforts.
- Develop local capacity, both public and private, to manage the adjustment process.

In addition to providing 6 to 8 months of advance notice of the closing, as mandated under federal law, Levi Strauss also informed its workers that they would receive:<sup>6</sup>

- Up to 3 weeks' severance pay for every year of service;
- Out-placement and career counseling services for 6 months;
- Continuation of health care benefits up to 18 months (also as mandated by law)<sup>7</sup>;
- A \$500 new job bonus paid to employees upon securing new employment;
- A \$6,000 allowance that can be applied to a menu of benefits -- e.g., easing expenses associated with relocation, education and training dependent care and small business start-up; and
- An early retirement window for eligible workers.

In addition, the workers were eligible for UI, TAA and NAFTA-TAA benefits.

In response to the Levi Strauss plant-closing announcement, Senator Jeff Bingaman convened a community meeting in Roswell, New Mexico, on November 24, 1997. The sole purpose of the meeting was to bring together various community groups in order to mobilize them to develop a communal response to the plant closing and resulting economic dislocations. Attendance included elected officials -- including state

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<sup>6</sup> Quoted directly from a press release issued by Levi Strauss and Co. on November 3, 1997.

<sup>7</sup> Included in the Consolidated Omnibus Budget Reconciliation Act (COBRA).

legislators and local mayors, local county executives, and representatives from the Chamber of Commerce, the Hispanic Chamber of Commerce, Levi Strauss, the workers, the local union (UNITE), the Chaves County Economic Development Council and other interested parties.

The meeting was also an opportunity for representatives of various federal and state agencies to describe their programs aimed at assisting communities and workers cope with a large plant closing and related economic dislocations. Representatives from the White House, Department of Agriculture, EDA, Department of Energy, Department of Labor, and the Small Business Administration also participated in the meeting.

There were several announcements of eligibility for federal programs at the meeting. The Economic Development Administration (EDA) announced that it had awarded a \$40,000 grant to Roswell to help develop a strategic plan for responding to the situation. The Treasury Department announced that it had started the process to certify Roswell as eligible to participate in the North American Development Bank (NADBANK). And the White House announced that as part of its ongoing efforts to assist communities adjust to economic dislocations, it would arrange to send someone from the Office of Economic Adjustment (OEA) within the Department of Defense to provide technical assistance to the community. Other agencies presented their benefit programs for which Roswell might be eligible.

On a parallel path, the White House established an inter-agency working group, chaired by the National Economic Council, to coordinate the federal government participation and monitor the situation in Roswell. It was hoped that this group would expand to work with other communities, like El Paso, Texas.

Following the November meeting, Senator Bingaman's office worked with federal, state and local agencies to insure that all eligible workers received the benefits they deserved. It also assisted the community in identifying and applying for other sources of government assistance. This included a \$750,000 grant to Eastern New Mexico University (ENMU) from NADBANK in order to expand the use of technology in training dislocated workers.

Unfortunately, the administrative side of this experiment did not work very smoothly. Misinformation about benefits, lack of communication between all the interested parties, and a local election, all served to complicate the situation in Roswell. The community was completely caught by surprise by the plant closing. The number of laid off workers placed an administrative nightmare on the Department of Labor, and increased the enrollment in ENMU by one-third. The community just did not have the capacity in place to respond to the needs of the workers as a result of the plant closing.

Community leaders set up a coordinating committee, but this group quickly got bogged down in political fighting. The Hispanic Chamber began representing the workers' needs -- which was logical since most of the workers were Hispanic -- but it too

lacked the resources required to meet their own objectives. The placement organization contracted by Levi Strauss, in many cases provided wrong information to the workers. To add insult to injury, the technical assistance on detail from the Defense Department was recalled and the White House monitoring group was disbanded due to political pressure in Washington.

Despite all these problems, most workers received their benefits and were able to enroll in training. For the most part, the community came together to help one another. Many federal government agencies provided assistance to the workers and the community, despite the lack of coordination. At a minimum, Roswell's experience served as an example for other communities responding to plant closings.

There were 571 workers laid off from the Levi Strauss plant in Roswell. According to Roswell's US Department of Labor office, 374 of them enrolled in some kind of training, including 321 in higher education and 53 in English as a Second Language (ESL) and General Education Degree (GED) programs. The average length of training was 2 years. The remaining 197 workers may have found new jobs immediately, opted for early retirement, left town to find work elsewhere, or did not apply for any government benefits.

In October 2000, the Department of Labor reported that only 99 workers had found employment after training. All of them received health care and pension benefits through their new jobs. Forty-five workers remained in training, 7 workers had started their own businesses, and 16 workers moved out of Roswell.<sup>8</sup>

The Levi Strauss workers earned an average wage of \$9.00 an hour before they lost their jobs. The average wage for those workers who subsequently found new jobs was \$6.50 an hour. This constitutes a 28 percent loss in wages.

## **Lessons Learned**

1. Over recent years, economic dislocations have occurred infrequently, thus catching most communities by surprise. Most small and medium size communities do not have strategies "on the shelf" for dealing with isolated plant closings, and sometimes lack the expertise for responding effectively. It therefore can take some time to prepare community leaders so that they can respond in a timely and effective manner.
2. Institutional differences between local, state and federal governmental bodies can complicate the process of assisting dislocated workers and restoring economic stability to the region.

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<sup>8</sup> The Department of Labor data fall considerably short of the total number of the laid off Levi Strauss workers. This may be due to the Labor Department's data collection methods and the fact that workers are reluctant to report their employment situation to the government.

3. It is not very easy to integrate the immediate need to assist dislocated workers and the longer-term need to help the local economy adjust to the loss of a large employer. For example, it is difficult to fine-tune worker training programs to fit the needs of the community, when the community is not attracting new employment opportunities on a consistent basis.
4. Federal programs aimed at assisting dislocated workers are not well coordinated, and frequently have complex eligibility requirements. For example, the training component of NAFTA-TAA is more flexible than that for TAA, and both are more flexible than the provisions under JTPA/WIA.<sup>9</sup> Despite repeated efforts, the various federal programs remain a web of confusion.
5. The Levi Strauss case introduced its own unique set of issues. Levi Strauss provided its workers a generous separation package, which was certainly welcomed. On the other hand, some aspects of the package overlapped with federal benefit programs, making it more difficult to coordinate the various benefits. For example, Levi Strauss provided many of the in-take and counseling functions normally provided by the Department of Labor. Unfortunately, the private sector providers were not too familiar with the federal labor market programs. Although private sector assistance was welcomed, in this case it led to some confusion and highlighted the need for better coordination between the various public and private efforts to assist the workers. In addition, Levi Strauss' money might have been spent more efficiently, had their efforts been better coordinated with the federal programs.
6. A majority of the Levi Strauss workers enrolled in ESL and GED courses. This suggests that although the workers may have had the skills to perform their jobs well, those capabilities were not built on a sound foundation of basic reading, writing and mathematical skills. These skills are basic requirements for almost all new jobs in the economy.
7. A large majority of the laid off workers were middle-aged people who did not speak English fluently. The language factor further added to an already complex set of problems.

## Summary

Despite the lowest unemployment rate in over 30 years, approximately 1 million workers are currently laid off from their jobs. This number has not changed much during the recent economic recovery, and in fact has increased a little. Large jobs gains and losses, as well as the miss-match between those workers losing their jobs and those workers finding new jobs, have become a regular occurrence in the US economy.

Although the overall economy has been performing quite well, weaknesses in US export markets abroad and falling import prices have placed considerable pressure on

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<sup>9</sup> This problem was partially addresses by harmonizing TAA and NAFTA-TAA into one program.

employment in the tradable goods sector. Most analysts project that the recent deterioration in US trade will likely continue in the coming years, against a backdrop of a slowdown in the overall economy.

In other words, worker dislocation is likely to continue, and may even worsen, over the next few years.

There is a widespread perception that government programs aimed at assisting workers are ineffective. Some people argue that government spending is inadequate, contributing to the ineffectiveness of these programs. Others argue that the programs are ineffective and therefore the government should not spend any more money on them. The reality is that federal funds for training and income maintenance are spread out throughout various agencies in the government and are primarily related to the cause of dislocation, something that is becoming harder to prove.

Overall, government programs aimed at assisting dislocated workers are divorced from any effort aimed at creating or attracting new jobs. Currently, worker adjustment assistance is kept separate from community economic development.

### **Addendum**

Between 1975 and 2000, approximately 2 million workers received assistance under TAA. More than half of these workers were laid off from the auto, textiles and apparel, and steel industries. In FY 2000, 33,000 workers received assistance under TAA and 2,000 workers received assistance under NAFTA-TAA. The average worker received weekly income maintenance payments, equal to approximately \$220, for about 35 weeks. The total budgetary cost of both programs in FY 2000 was about \$400 million.

On July 27, 2002, the House of Representatives approved the Trade Act of 2002, which provided trade promotion authority (TPA) to the President, by a 3-vote margin. This was an improvement from the previous two occasions, when the margin was only one vote. The Trade Act of 2002 also included provisions that substantially expanded the existing Trade Adjustment Assistance (TAA) program.

The following are some of the specifics of the final legislation:

**Secondary workers** – TAA eligibility was expanded to include workers who lose their jobs from plants producing parts that are inputs into import-competing final goods. Some of these workers are already covered under NAFTA-TAA. The GAO estimates that this provision could result in as much as a doubling in the number of workers eligible for assistance.

**Refundable tax credit for health insurance** – Workers are eligible to receive a 65 percent advance-able, refundable tax credit to offset the cost of maintaining health insurance for up to 2 years.

**Shift in production** – A growing number of American workers are losing their jobs due to shifts in production to overseas, as opposed to direct import competition. Congress agreed to expand TAA eligibility to include workers who lost their jobs due to shifts in production to only those countries which have bilateral agreements with the United States or “where there has been or is likely to be an increase in imports...”

**Wage insurance** – Workers over 55 years old and earning less than \$50,000 a year may be eligible to receive 50 percent of the difference between their old and new wage for up to 2 years, if the new wage is lower than the old wage.

**Harmonize the TAA and NAFTA-TAA programs** – Eligibility criteria and the package of assistance under both programs were harmonized into one unified program.

**Training appropriation** – Congress doubled the legislative cap on training appropriation, from \$110 million to \$220 million. Congress and the President still have to agree on the annual appropriation for training.

**Extend income maintenance by 26 weeks** – Workers can be enrolled in training and receive income maintenance for up to 2 years.

**Increase in job search assistance and relocation assistance** – The assistance was updated for inflation, since the number was set some 20 years ago.

**TAA for farmers and fishermen** – a program was established to provide assistance to farmers and fishermen when the international price of a commodity falls more than 20 percent below the previous five-year average.

**Increased funds for TAA for firms** – Congress raised the appropriation cap on this very small program.

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<sup>1</sup> The author served as Minority Staff Director at the Joint Economic Committee of the US Congress from 1997 to 2001. He assisted in drafting the provisions of the Trade Act of 2002, which expanded and reformed TAA. He currently serves as the Executive Director of the Trade Adjustment Assistance Coalition, which he helped establish. The author is grateful to Senator Jeff Bingaman for giving him the opportunity to work with the Roswell community as they responded to the Levi Strauss plant closing in 1997.