



**Testimony on Promoting U.S. Worker
Competitiveness in a Globalized Economy**

**Diana Furchtgott-Roth
Senior Fellow, Hudson Institute**

**Testimony before the Subcommittee on Investigations
and Oversight of the House Committee on Science**

June 24, 2008

Testimony on Promoting U.S. Worker Competitiveness in a Globalized Economy

**Diana Furchtgott-Roth
Senior Fellow, Hudson Institute**

Mr. Chairman, members of the Committee, I am honored to be invited to testify before your Committee today to speak on the subject of promoting U.S. worker competitiveness in a global economy.

Currently I am a senior fellow at the Hudson Institute. From February 2003 until April 2005, I was chief economist at the U.S. Department of Labor. From 2001 until 2003, I served at the Council of Economic Advisers as chief of staff and special adviser.

The United States has one of the lowest unemployment rates in the industrialized world. In April 2008, the latest month for which comparable data are available, Americans had an unemployment rate of 5.0 percent, while unemployment rates in the Eurozone were 7.1 percent; in France, 8.1 percent; in Germany, 7.6 percent; in Spain, 9.6 percent; and in Canada, 5.3 percent. Only Japan had a lower rate than the United States.

Last month, although the unemployment rate rose to 5.5 percent, unemployment rates among adults 20 and over remained below 5 percent. Unemployment rates for men were 4.9 percent, and for women were 4.8 percent. The jump in the unemployment rate was due to unemployment of teenagers,

who have been priced out of the job market by last summer's hike in the minimum wage.

Skilled workers are important for global competitiveness. We live in an open, global economy, and we compete against other countries to offer the best environment for investment and for firm location. We want firms to locate and expand in the United States, creating jobs here rather than going offshore. In order to do that, we need to provide a ready supply of labor and keep the smartest entrepreneurs and workers here. When our workers lose their jobs, we need to help them find new ones as effectively as possible.

Our challenge is to facilitate the movement of workers from some sectors to others. The need for skilled workers makes it all the more imperative that we modernize our workforce training programs and make them as efficient as possible.

Workers already have some protection from job loss. About 97 percent of wage and salary workers have unemployment insurance (UI), a federal-state program funded by employer payments that rise with the number of firm layoffs. The program gives many unemployed workers, who last month numbered 8.5 million, benefits for up to six months. Qualifications and benefit levels are set by individual states.

There are more than a dozen programs organized by the Labor Department to help train unemployed workers. I won't describe all, but let me review just a few. Workers adversely affected by trade have access to Trade

Adjustment Assistance, a program that is projected to help 92,000 workers in FY 2008, at a cost of \$9,000 per participant. Alternative Trade Adjustment Assistance (ATAA) compensates manufacturing workers age 50 and older who lose jobs to imports. If these workers take a job paying less than their previous position, they receive half the difference in wage between their new job, up to a level of \$5,000 annually, for 2 years, a concept called “wage insurance.”

The Workforce Investment Act program for adults is projected to have 296,000 participants in PY 2008, at an average cost of \$2,900 per participant. This has a network of “One-Stop Centers” where unemployed workers can register for benefits, training, and available job openings. A related program, the Workforce Investment Act program for dislocated workers expects to serve 319,000 participants, at an average cost of \$3,750 per person. The Wagner Peyser Employment Service is projected to help 14 million participants, at a cost of \$54 per person. Other programs, for youths, Native Americans, older Americans, and migrant and seasonal farmworkers, also make important contributions.

Some have proposed expanding TAA to other sectors, such as services, in order to deal with problems of global competition. Last October, the House of Representatives passed the Trade and Globalization Assistance Act of 2007, at a cost of \$9 billion over 10 years, and the bill is now awaiting action in the Senate. However, economic circumstances do not warrant such a drastic expansion of the program.

The Trade and Globalization Assistance Act of 2007 would cover more workers with TAA, even those now covered under other programs, and give more benefits – hence the expensive \$9 billion price tag. The bill would extend TAA to the service and the government sectors, claiming that these workers suffer from trade. Perhaps true, but services have generated over 90 percent of the 8 million jobs created since the start of the jobs recovery in August 2003, and government has created another 9 percent.

The bill would go further. Whereas workers in particular firms are now certified by the Labor Department as affected by trade and eligible for TAA, the bill would enable entire industries certified as TAA-eligible. If three firms in an industry were certified within six months, all workers in that industry could get benefits, even those at firms not affected by trade. Similarly, if the International Trade Commission certifies that there have been unfair imports of low-cost goods, all workers in the domestic industry would automatically be eligible for TAA.

In addition to expanding numbers of eligible workers, the bill would expand unemployment benefits. Workers in TAA can now receive up to two years of benefits, with an extra six months if they need remedial education. This would be increased to two-and-a-half years of benefits, with three years if remedial education is needed. So workers who can least afford it would be encouraged to stay out of work and lose three years' income.

The Trade and Globalization Assistance Act of 2007 would prevent TAA-

eligible workers receiving job advice from anyone other than a state worker. Unemployed workers on TAA walking into a career center would not be allowed to talk to job counselors from the private sector, the county, faith-based organizations, non-profits, or local governments. They would have to wait in line to see state workers.

TAA can be improved with less costly congressional legislation by focusing the program on training and reemployment, rather than on unemployment.

One reason that more people are not participating in the program might be that they are finding jobs on their own in the many growing industries in the United States. Industries such as education and health services and professional and business services have hired many more workers over the past few years.

Another reason could be because of administrative difficulties with applying for benefits. If this is the case, then it would be worthwhile to try to streamline the application process of the current program before expanding it.

Other measures to improve TAA could have some effect in shortening the period of unemployment. Workers affected by trade are all different, and it may be beneficial to have One-Stop staff work with TAA recipients to develop individualized plans to find new jobs and determine under what circumstances training is likely to have a large positive effect.

TAA recipients could be required to register at One-Stop career centers and periodically check computerized job listings for suitable jobs. Then, One-

Stop staff could monitor recipients' job search to ensure that they are effectively looking for work.

The One-Stops could provide funds to cover direct training costs and stipends to provide income support, but only in cases where One-Stop staffs certify training is likely to have a high payoff.

In order to further increase incentives to take the best available job, the Labor Department could pay the additional cost of transportation to cover commuting to a job far from home for up to 2 years and paying a portion of relocation expenses. However, relocation payments should be contingent on remaining employed in an area for at least six months.

Before expanding any program, it's necessary to make sure that One-Stops are making the best use of their resources. We should use high-quality measures and standards to hold One-Stops accountable for ensuring funds go to workers assiduously searching for new jobs or obtaining training likely to have a large effect on subsequent earnings.

We also need to redirect the use of training funds to include more community colleges for helping unemployed workers. Community colleges provide some of the best training in the country. They train the majority of nurses and emergency personnel. Forty-five percent of the nation's freshmen are enrolled in community colleges. Studies have shown that when unemployed workers take targeted technical courses at community colleges, their future earnings increase.

For recipients not in training, an ideal performance measure would capture how much quicker recipients return to work than otherwise would be the case. For recipients in training an ideal measure would capture how much higher their earnings are and how much better other aspects of their jobs are than otherwise would be the case. The earnings/job-quality measure also is an appropriate secondary measure for recipients not receiving training.

Americans don't know whether expanding wage insurance, paying unemployed workers part of the difference between the salary of their old job and a lower salary of their new job, will solve problems of economic insecurity from globalization. But it might be worth trying in a few states to see if it works, rather than imposing a federal mandate.

In addition to workforce training, America needs to take a fundamental look at how we educate workers before they join the workforce. We need to lower our high-school dropout rates, if necessary by incorporating vocational training into the last years of high school, and encourage young people to get as much education as possible. This would prepare them for a succession of careers, rather than just one, and enable them to change jobs more easily.

In summary, economic circumstances do not warrant expanding TAA at the present time. A few changes in the administration of the program could make it more efficient without the need for comprehensive expansion. Further, integrating different types of federal training programs and making them more

effective would help the unemployed make the best use of these services and obtain a new job more quickly.

Thank you for giving me the opportunity to appear before you today. I would be glad to answer any questions.