Designing a National Strategy

for Responding to Economic Dislocation

testimony by

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before

The Subcommittee on Investigation and Oversight
House Science and Technology Committee

June 24, 2008

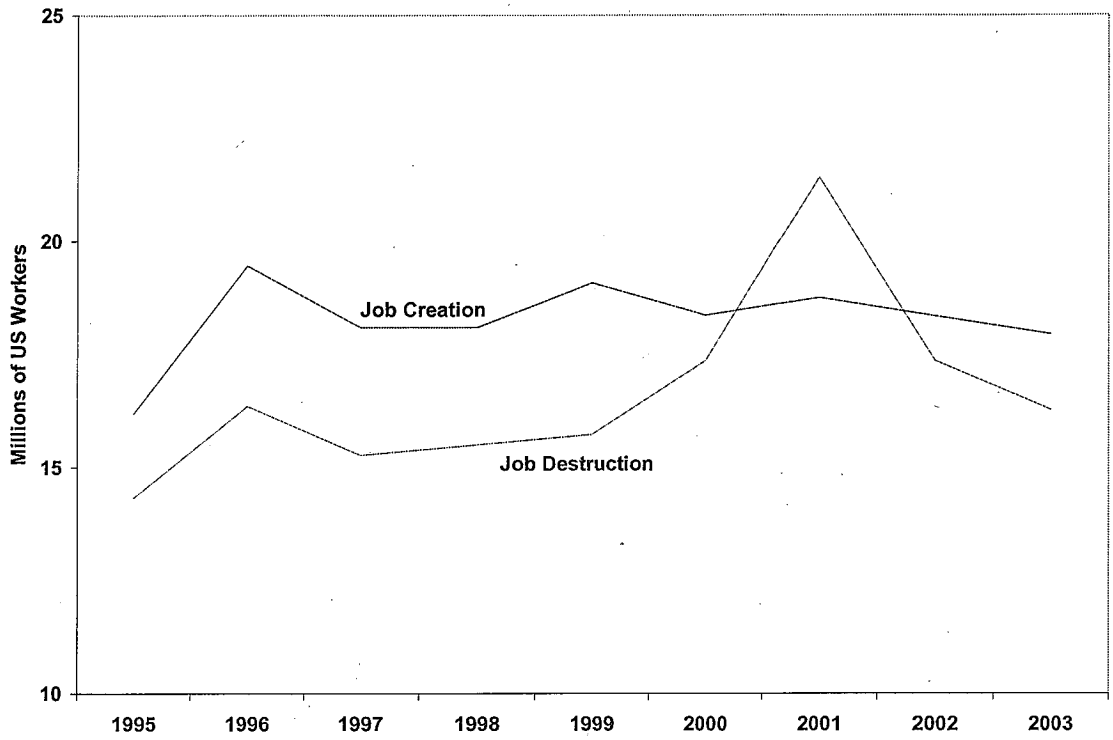
The US economy faces intense competition from home and abroad. Although increased competition may benefit the economy through access to more, better and less expensive products and services, it places significant costs on American workers and their families, firms and communities. These costs are exacerbated by the lack of a national comprehensive strategy to deal with these economic disruptions. In place of a national strategy, there is a collection of ad-hoc, out-of-date and inadequate programs that provide too little assistance too late to those in need. As a result, efforts to expand economic liberalization and introduce new technologies in the economy are facing significant political backlash. Over the long run, reluctance to embrace economic flexibility may result in lower economic growth and risk long-term improvements in US living standards.

American workers, their families, firms and communities experience significant dislocations every day:

- Between 1995 and 2004, approximately 16 million jobs were terminated each year. (See Figure 1.) Four million terminations resulted in serious unemployment.
- Although the national unemployment rate has been falling over the last several years, the duration of unemployment has been rising. (Figure 2.)
- No region is exempt from the recent changes in the labor market. There has been a convergence of unemployment rates across all 50 states and the District of Columbia.
- Between 1995 and 2004, approximately 690,000 firms closed each year, affecting 6.1 million workers. An additional 1.7 million firms contracted each year, affecting 11.8 million workers. (See Figure 3.)

- Between 1996 and 2007 there were on average 16,400 mass layoff plant-closings each year, affecting 1.8 million workers.[1] (See Figure 4.)

Figure 1
Employment Dynamics, 1993 to 2004



[1] Lay offs affecting 50 or more workers is considered a mass layoff.

Figure 2
Unemployment Rate and Duration, 1960 to 2007

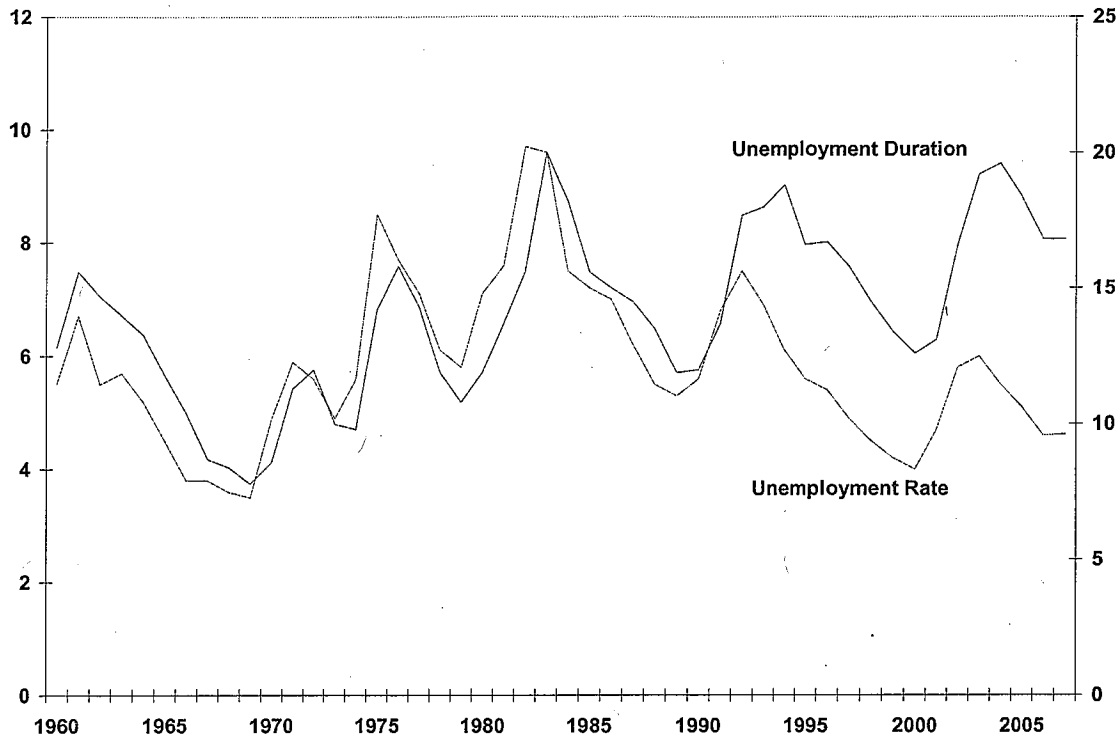


Figure 3
Firm Dynamics, 1995 to 2004

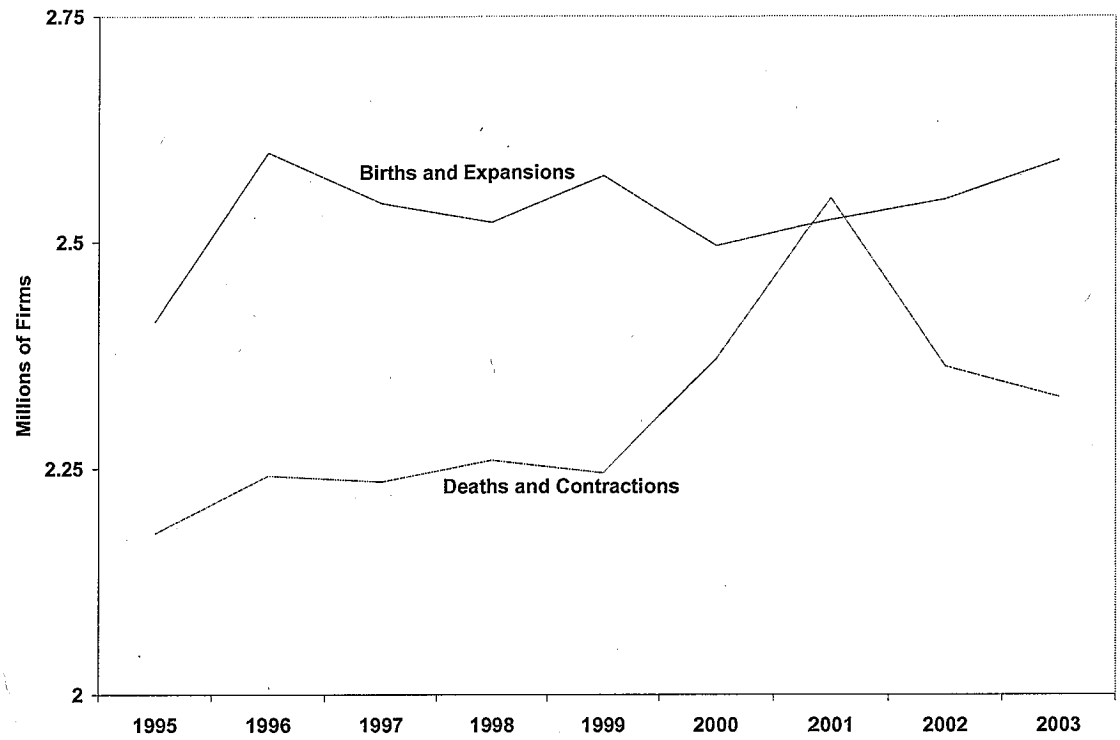
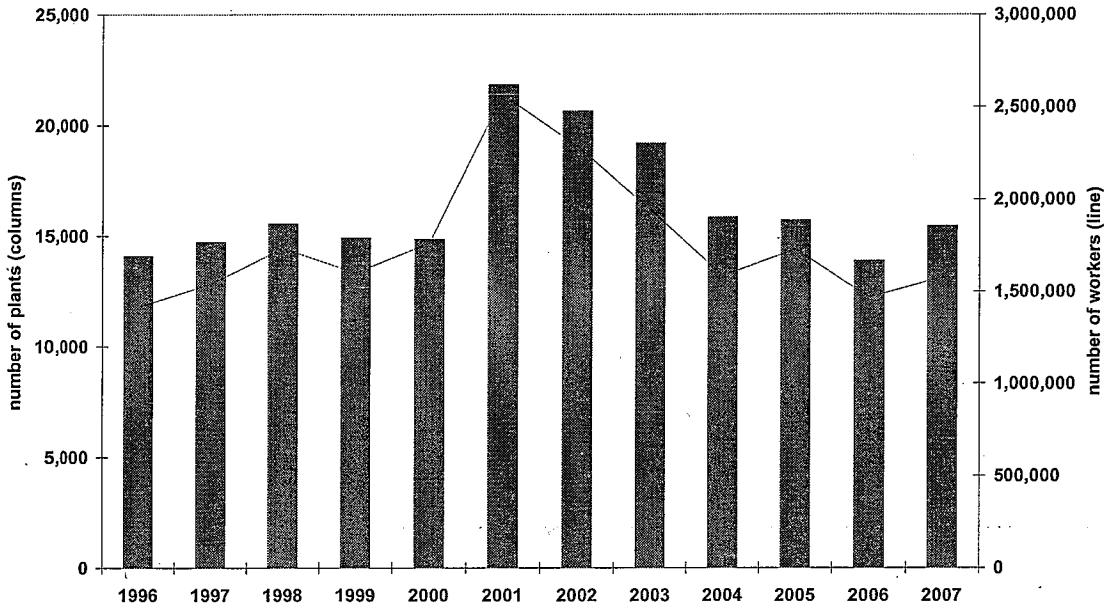


Figure 4
Mass Layoffs, 1996 to 2007



- Forty-five counties, representing ½ million workers, currently have unemployment rates twice the national average.
- Of the 20 metropolitan areas currently 50 percent above the national average unemployment rates, 13 are in California, 2 are in Michigan and one in each New Jersey, Washington, Florida, North Carolina and Arizona. (See Table 1.)

Table 1
Unemployment Rates
by Metropolitan Statistical Areas, April 2008

Metropolitan Area	Unemployment Rate
El Centro, CA Metropolitan Statistical Area	18.4
Merced, CA Metropolitan Statistical Area	12.3
Yuba City, CA Metropolitan Statistical Area	11.8
Yuma, AZ Metropolitan Statistical Area	11.2
Modesto, CA Metropolitan Statistical Area	10.7
Visalia-Porterville, CA Metropolitan Statistical Area	10.3
Hanford-Corcoran, CA Metropolitan Statistical Area	10.2
Fresno, CA Metropolitan Statistical Area	10
Bakersfield, CA Metropolitan Statistical Area	9.7
Madera, CA Metropolitan Statistical Area	9.6
Stockton, CA Metropolitan Statistical Area	9.6
Flint, MI Metropolitan Statistical Area	9.3
Redding, CA Metropolitan Statistical Area	9.2
Ocean City, NJ Metropolitan Statistical Area	8.6
Salinas, CA Metropolitan Statistical Area	7.9
Longview, WA Metropolitan Statistical Area	7.7
Palm Coast, FL Metropolitan Statistical Area	7.6
Rocky Mount, NC Metropolitan Statistical Area	7.6
Chico, CA Metropolitan Statistical Area	7.4
Saginaw-Saginaw Township North, MI Metropolitan Statistical Area	7.3

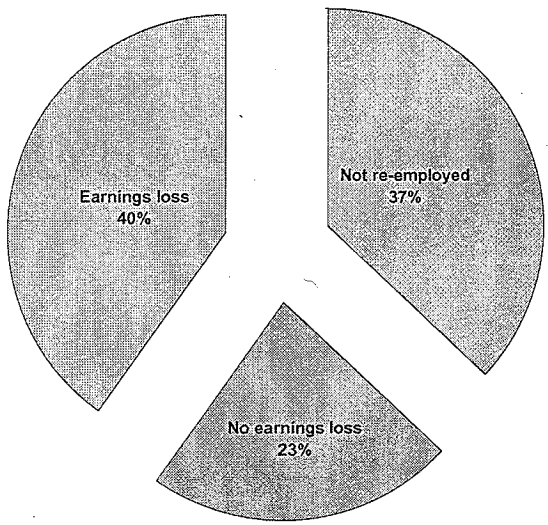
Workers are the first to feel the negative consequences of economic restructuring due to increased domestic and international competition. They may be asked to cut back their hours, accept lower wages and/or benefits, or ultimately lose their jobs. Lori Kletzer finds that almost 40 percent of displaced workers do not find new jobs within a year or two after their initial job loss.[2] (See Figure 5.) Although 40 percent of workers find new jobs, their new jobs pay less than their previous ones. Only a little more than

[2] Kletzer, Lori, *Job Loss from Imports: Measuring the Costs*, Washington, D.C.: Institute for International Economics, 2001

20 percent of displaced workers find new jobs that pay as much or more than their previous jobs.

Job loss can place enormous strain on household finances. The Congressional Budget Office reports that Unemployment Insurance (UI) played a significant role in maintaining family incomes of recipients who experienced long-term spells of unemployment, particularly for those families that had only one wage earner. Before becoming unemployed, recipients' average family income was about $4,800 per month. UI helped offset the reduction in average family income by 20 percent points.[3]

Figure 5
Worker Adjustment Burden



These pressures are not restricted to those workers employed in industries that directly face increased domestic and international competition. Workers employed in up-stream and down-stream industries may also experience economic dislocation as a result of the effect of increased competition on final goods-producing and service-providing industries. For example, in addition to its production workers, an apparel plant closing might affect textile workers, as well as maintenance and food service workers, designers, cutters, sales representatives and accountants associated with the production of apparel. Depending on the number of workers laid off from the apparel plant, there may also be a third ripple effect on the broader community. Communities with a high concentration of industry may experience further cutbacks and job losses, as workers and their families spend less money on consumer goods and services.

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[3] Long-term recipients are defined in this report as unemployed workers who received UI benefits for a spell of at least four consecutive months, in 2001 or early 2002.

Job loss is not restricted to production workers. Firm closures can also affect white-collar management workers. Although these workers tend to be more highly educated and earn higher incomes than production workers, their adjustment to economic dislocation can also be costly. Limited job opportunities in the local community may require these workers to move, causing significantly disruptions to their families.

Mass lay offs and plant closings, and the associated drops in household disposable income, can also hurt a community's tax base, having implications for the provision of government services, including schools, transportation and health care. In summary, what starts as a "limited" lay off or plant closing affecting a select group of workers can very easily result in successive ripple effects with consequences on an entire community.

Current Policy Responses to Economic Dislocation

Existing government programs designed to cushion the effects of economic dislocation are, for the most part, out-of-date, ad hoc and inadequate. These programs are often targeted to assist select groups of workers or communities that have some political importance. Overall, these programs are not part of any comprehensive or coherent strategy. This "segmentation "of assistance is not a new phenomenon. Early examples include assistance programs for workers employed by Studebaker, the railroad industry and the meat packing industry in the 1960s.[4]

Many targeted programs are designed to "compensate" workers deemed to be adversely affected by changes in discrete policies, in order to reduce opposition to those changes. The largest example is Trade Adjustment Assistance (TAA), which was established in 1962 and subsequently expanded as part of Congressional approval of negotiations to liberalize trade. Other examples include targeted programs to assist workers affected by the Clean Air Act and legislation to protect Spotted Owls. Congress in currently considering establishing a program to assist workers potentially adversely-affected by policies aimed at reducing greenhouse gas emissions.

Although there may be a political motivation for these targeted programs, the economic justification for them may not be as compelling. There is not much evidence that the adjustment burden placed on workers covered by these targeted programs is significantly different from that experienced by other dislocated workers. In addition to discriminating between groups of workers, these programs create a bureaucratic maze, making it harder for worker to get the assistance they desperately need.

For example, the Catalogue of Federal Domestic Assistance lists 52 programs under the category of "Economic Development," 44 programs under "Community Development" and 60 programs under "Job Training and Employment."[5] Although the information included in the catalogue is extremely useful, the catalogue is difficult to navigate and the material is written at a highly technical level. A more brief and use-

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[4] Frank Jr., Charles, *Foreign Trade and Domestic Aid*, Washington: The Brookings Institution. 1974.
[5] Executive Office of the President, Office of Management and Budget, *Catalog of Federal Domestic Assistance*, Washington: Government Printing Office, 2008.

friendly version of this catalogue could provide invaluable assistance to workers, their families, firms and communities facing economic dislocations.

The following are examples of some of the more well known programs designed to assist workers, firms and communities adjust to economic dislocation.

Worker assistance

Unemployment Insurance

Despite significant changes in US labor market conditions there have been no major changes in the basic structure of UI since it was established 70 years ago. As a result, UI does not currently meet its initial goals, leaving millions of workers without the assistance they desperately need.[6]

UI's original goals were to smooth a worker's income stream by providing income support during periods of unemployment, to provide insurance against the risk of job loss and to serve as counter-cyclical stimulus during periods of economic downturns.

Although a federal entitlement, UI is administered by the states, allowing each state to set its own program parameters. On average, workers can receive up to 26 weeks of benefits. The national average weekly benefit in 2007 was $281.17.

The following program indicators suggest that the current UI program falls short in meeting its initial goals:

- The average recipiency rate, i.e. the percent of unemployed receiving UI, over the past 27 years is approximately 37 percent.
- The average replacement rate between 1975 and 2004, i.e. the amount of assistance relative to a worker's *previous* wage, was 36 percent, far short of the initial goal of 50 percent.[7]
- The exhaustion rate, i.e. the percent of workers who exhaust their benefits before finding new jobs, averaged approximately 30 percent between 1974 and 2007.

Restrictive eligibility criteria constitute a large hole in the existing UI program. The current look back and job tenure provisions, as well as the exclusion of contingent workers, i.e. temporary and part-time workers, particularly affect low-income workers.[8] Thirty-seven states do not provide dependent payment supplements.

After taking inflation into account, the real value of the national average weekly benefit has not changed much over the last 30 years. Nor has it changed much relative to the

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[6] Kletzer, Lori G. and Howard F. Rosen, "Reforming Unemployment Insurance for the Twenty-First Century," The Hamilton Project, Discussion Paper 2006-06, Washington: The Brookings Institution, September 2006.

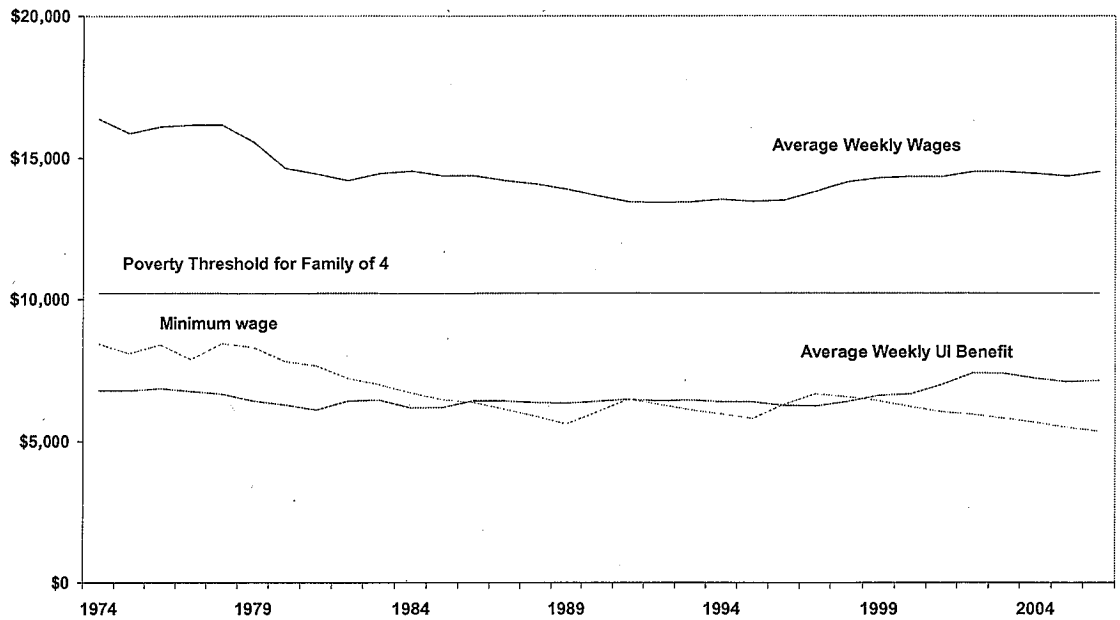
[7] Author's calculations based on Department of Labor data.

[8] Some workers associated with temporary placement agencies may receive UI. Twenty states currently do not cover part-time or temporary workers.

poverty threshold or average weekly earnings. It has improved relative to the minimum wage only because that was not increased for a decade.

Figure 6 presents the real annualized value of the national average UI weekly benefit relative to the real annualized value of the hourly minimum wage, the poverty threshold for a family of 4 adjusted by inflation, and the annualized value of the real average weekly wage for all workers. On average over the last 35 years, the real value of the weekly UI benefit has been about 40 percent below the poverty rate for a family of four adjusted by inflation, and approximately 44 percent of real average weekly earnings.

Figure 6
Comparison of Weekly UI Benefits and Other Income Measures



In 1970, Congress enacted the Extended Benefit (EB) program with automatic triggers to provide assistance in an orderly fashion during periods of high unemployment. Under the current program, UI benefits can be extended for an additional 13 weeks when the unemployment rate reaches a certain level.

Changes in the labor market, combined with the static nature of the triggers, have produced an extended benefit system that is no longer automatic. As a result, Congress has occasionally found it necessary to extend UI through legislation. Although helpful to millions of workers, these temporary stopgap measures politicize UI, thereby undermining one of the initial goals of the program. These temporary programs have proven to be clumsy, typically being enacted after hundreds of thousands of workers have already exhausted their UI. In addition, the sunset provisions are arbitrarily set and usually fall before employment has recovered. Overall, the nation's

UI program has become less automatic and more dependent on Congressional action in response to prolonged periods of economic slowdown.

UI is financed by a combination of federal and state payroll taxes. Revenue from the federal payroll tax is used to finance the costs incurred by federal and state governments in administering the UI program and to cover loans to states that exhaust their regular UI funds. States are required to raise the necessary revenue to finance regular UI benefits paid to their unemployed workers. Currently, federal taxes finance 17 percent of the UI program. The remaining 83 percent is financed by state taxes.

The federal tax established by the Federal Unemployment Tax Act (FUTA) is currently 0.8 percent on the first $7,000 of annual salary by covered employers on behalf of covered employees. A maximum of $56 is collected annually for each worker who is covered under the program.

There have been few adjustments in the FUTA taxable wage base since it was first established in 1939. The last adjustment was in 1983. Had the taxable wage base been automatically adjusted for inflation over the past 65 years, it would currently be about $45,000.

The following are some proposals to improve UI:[9]

- Shift the determination of eligibility to hours rather than earnings
- Amend the work test to allow job search for part-time employment
- Standardize benefit levels to at least half of *lost earnings*
- Increase the federal taxable wage base, in steps, from $7,000 to $45,000.
- Set a maximum weekly benefit equal to two-thirds of state average weekly earnings.
- Fix the extended benefit triggers so that they are more automatic and workers can receive assistance during economic downturns without disruption.
- Standard allowances for dependents across all states.
- Provide a Health Coverage Tax Credit (HCTC) similar to the one currently included in the TAA program.

Changes necessary to move UI into the twenty-first century require significant federal leadership. The very basic structure of UI must be reformed, broadening it from the single-employer, full-time worker, temporary layoff model to an approach that accommodates permanent job loss, part-time or contingent work, self-employment, and the incidence of job loss and national, rather than local or regional, unemployment. American workers are currently facing considerable pressure due to corporate restructuring, technological change and increased competition from home and abroad. These pressures are likely to intensify as the economy faces new challenges.

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[9] Kletzer, Lori and Howard Rosen, "Reforming Unemployment Insurance for the Twenty-First Century," The Hamilton Project, Discussion Paper 2006-06, Washington: The Brookings Institution, September 2006.

Reforming UI is an important step toward providing workers with the assistance they need to adjust to these challenges.

Training

The Workforce Investment Act (WIA), passed in 1998, provides job training and related employment services to unemployed and underemployed individuals. The Act establishes training programs for a wide array of individuals, including, youth, adult, dislocated workers, Veterans, Native Americans. Although all of these programs fall under the responsibility of the federal Department of Labor, they are administered by state and local One-Stop Career Centers. Federal spending on all of these programs was $3.7 billion in FY 2007, of which $1.4 billion was dedicated to dislocated worker training. Of the approximately 260,000 workers who participated in the program in PY 2007, approximately 182,000 workers received core and intensive employment services and only 77,000 enrolled in training.[10]

Although designed to assist all dislocated workers regardless of cause of job loss, the number of participants in WIA programs account for only 6½ percent of the annual estimate of dislocated workers. In addition, since the program is not an entitlement, there is no guarantee that workers in need will receive training assistance. Training funds are distributed on a "first come, first served" basis, with little regard for a worker's needs.

Trade Adjustment Assistance (TAA)

TAA provides workers 78 weeks of income maintenance payments, in addition to the traditional 26 weeks of UI, for as long as they participate in training. In addition, the program includes a 65 percent HCTC, a limited wage insurance program, job search and relocation assistance. Under wage insurance, otherwise known as Alternative Trade Adjustment Assistance (ATAA), workers above the age of 50, earning less than $50,000, can receive half of the difference between their old and new wages, for up to 2 years, subject to a maximum of $10,000. This program is designed to assist the large number of workers who experience earnings losses after re-employment.

In order to be eligible for TAA, workers must have been laid off from a plant for which at least one of the following 3 criteria "contributed importantly" to its decline in employment and sales:

- An increase in imports
- Laid off from an upstream or downstream producer
- A shift in production to another country

ATAA and HCTC are two examples of how assistance under the TAA for workers program has shifted from traditional income transfers to more targeted, cost effective

[10] Budget data are presented according to fiscal year (October to September) and participate data are collected according program year (April to March).

assistance. Despite the benefits associated with these new forms of assistance, enrollment in ATAA and the HCTC are disappointingly low. A 2006 GAO study of 5 large plant closings found that less than half of those TAA eligible workers who visited one-stop career centers were even informed of the HCTC during their visits to one-stop career centers. A little over half of eligible workers were aware of the ATAA program.

One of the gapping holes in the existing program is that it does not cover all service workers. As recent press stories suggest, American service workers are experiencing dislocations due to international outsourcing. Although some service workers, like computer programmers and accountants, have the necessary tools to ease their adjustment from job to job, other workers, like call center operators and data entry clerks may not, making their adjustment more costly. Congress is currently considering proposals to expand TAA eligibility to cover all service workers.

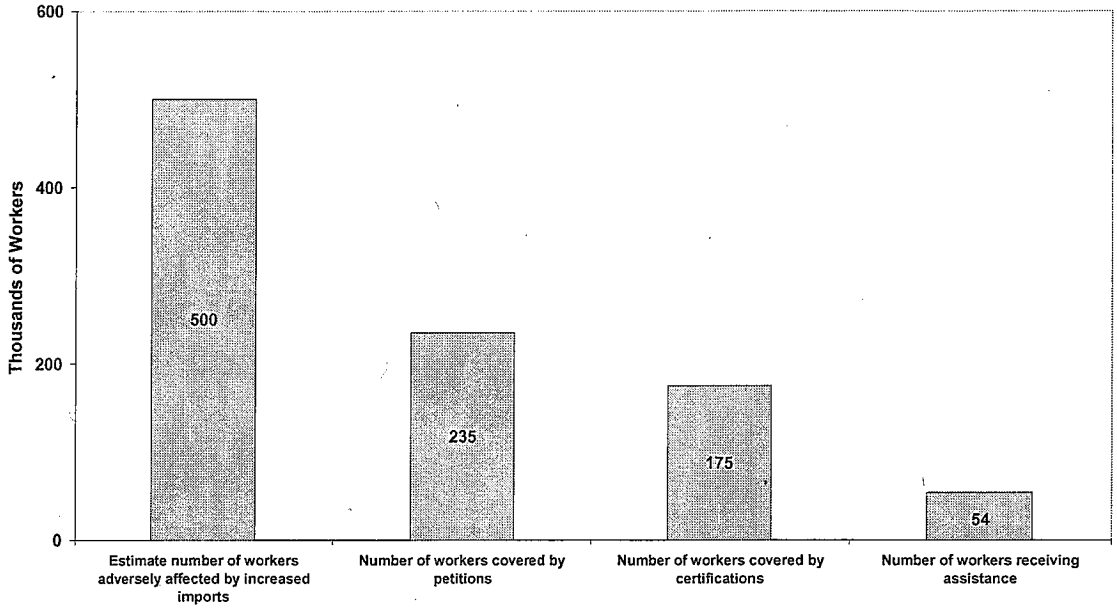
Other reform proposals currently under consideration include,

- Raising the cap on training funds
- Increasing the HCTC from 65 percent to 85 percent
- Expanding ATAA to cover workers over the age of 40 making less than $60,000
- Technical changes to make the program more user-friendly

Although the TAA for workers program has been the subject of some criticism over the years, it has and continues to provide critical assistance to millions of workers and their families as they face probably the most severe financial burden of their lifetime. More than 25 million workers have received assistance under the program since it was established in 1962.

The TAA for workers program works; the problem is that it helps only a minority oif potentially affected workers. Only 10 percent of estimated group of potentially eligible workers receive assistance. (See Figure 7.)

Figure 7
TAA Participants, Annual Average, 2002 to 2006

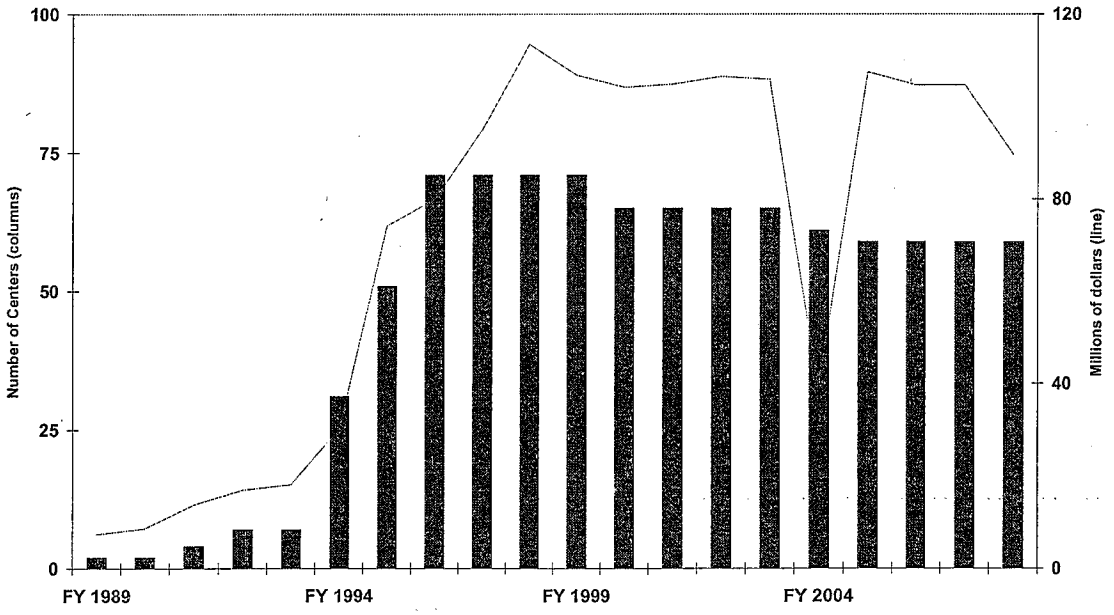


Assistance to Firms

Manufacturing Extension Partnership (MEP)

MEP provides a wide spectrum of services, including business support, technical assistance and training, to manufacturing companies throughout the United States. Presently, the MEP program includes 59 centers with approximately 440 locations serving manufacturing establishments across the country. The Centers are financed through a partnership between federal and state governments with additional project funding from private industry. The program fosters partnerships with public institutions, including the Small Business Development Centers (SBDC), community colleges, technical colleges and universities, trade associations, local Chambers of Commerce and organizations focused on economic development. The purpose of the program is to improve the productivity and enhance competitiveness of US manufacturers. Despite numerous reports of effectiveness, the program's funding has been low and relatively flat over the last few years. (See Figure 8.)

Figure 8
Manufacturing Extension Partnership Program, FY 1989 to FY 2008



TAA for Firms

Congress established the TAA for Firms program in 1962 to help US firms respond to the pressures resulting from increased import-competition in order to *avoid* possible cutbacks and layoffs. Initially the program provided technical assistance, loans and loan guarantees. Congress eliminated the loans and loan guarantees in 1986. Technical assistance is currently provided to firms by 11 Trade Adjustment Assistance

Centers (TAAC) located around the country. Eligibility criteria mirror, although are not exactly the same as those for the TAA for Workers program.

The TAA for Firms program has historically been quite small. Between 2001 and 2006, the program assisted approximately 150 firms a year that employed some 16,000 workers. Average spending over the last 9 years has been approximately $11 million per year.

Assistance to Communities

Similar to worker assistance programs, community assistance has tended to be targeted to politically sensitive regions and not widely available to all communities. The best example is a program designed to assist communities adversely affected by military base closings.

Department of Defense (DOD) Office of Adjustment Assistance

The DOD Economic Adjustment program has been successful in helping communities in the aftermath of a military base closing. Under the program, the DOD provides intensive technical assistance and funds to help communities prepare strategic plans for economic development. Economic development specialists are assigned to regions to help local public and private leaders design and implement its strategic plan. The specialists also help local communities identify and apply for federal and state assistance.

In 1998, in response to the Levi Strauss plant closing in Roswell, New Mexico, Senator Bingaman initiated a series of steps aimed at assisting the workers and the community modeled after DOD's base closing program.[11] The Levi Strauss plant was Roswell's largest single employer and as a result, the economic impact of the plant closing was felt throughout Roswell and the surrounding communities.

Senator Bingaman's plan included the following elements:

- A committee was established including representatives from state and local government, private industry, unions and other non-profit organizations.
- An economic development specialist from the DOD Office of Adjustment Assistance was assigned to provide technical assistance to the committee in developing and implementing a strategic plan to revitalize the region's economy.
- Senator Bingaman invited representatives from numerous federal and state government agencies to meet with public and private sector officials in Rowsell. The purpose of the meeting was to describe the various government programs designed to assist workers, their families and communities facing economic dislocation.

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[11] Rosen, Howard. 2001. A New Approach to Assist Trade-Affected Workers and Their Communities: The Roswell Experiment. *Journal of Law and Border Studies* 1:1.

- The Clinton administration established an inter-agency working group to provide assistance to the economic redevelopment committee in Roswell, as well as to state and local government officials.

It is difficult to evaluate the impact of these measures, since the effort was disbanded prematurely due to political factors. Individual elements of this initiative have subsequently been tried in response to other plant closings. Congress is currently considering a TAA for Communities program, modeled on Senator Bingaman's efforts in response to the Levi Strauss plan closing in Roswell.

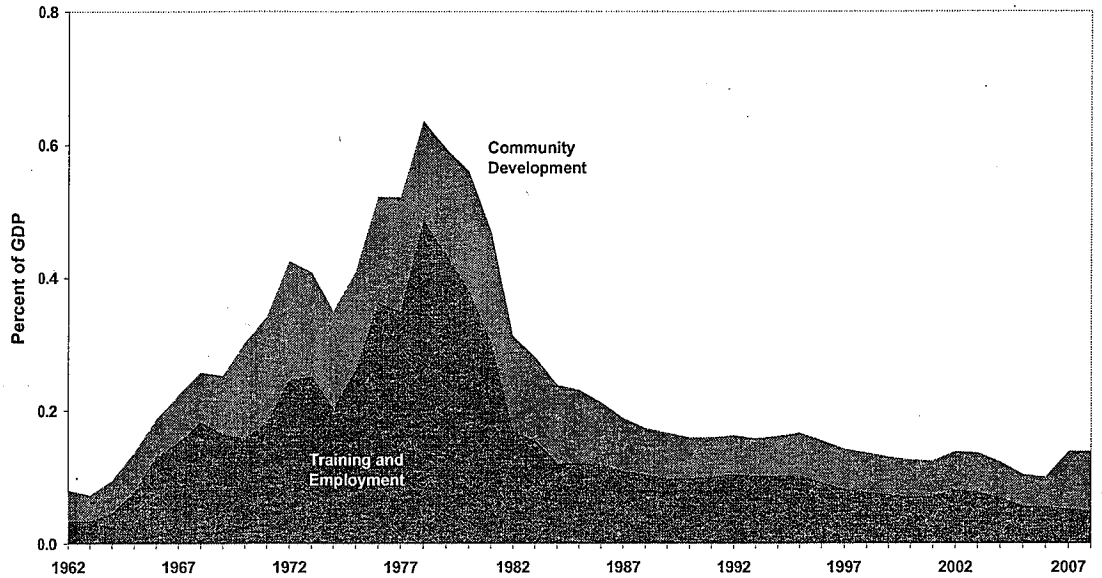
Summary

This survey suggests that the United States has a series of ad-hoc and under-funded programs that serve only a limited number of workers, firms and communities. Most of the programs are motivated by political considerations, with little economic justification. As a result, these programs discriminate between workers and communities. Although these programs may be effective in winning support for discrete policy changes, they certainly do not constitute a national strategy for responding to economic dislocation, regardless of its cause.

Ironically, funding for most of these programs has declined, despite increased pressures on the US economy, resulting is greater demand for these programs' services. At 0.05 percent of GDP, federal spending on employment and training programs is at its lowest rate in almost 45 years.[12] Federal spending on community development programs was also 0.05 percent of GDP in 2006, down considerably from its peak of 0.18 percent of GDP in 1980. (See Figure 9.)

[12] Federal spending on employment and training peaked at 0.46 percent of GDP in 1978 and 1979.

Figure 9
Federal Spending on Training and Employment and Community Development, 1962 to 2008



The National Economic Adjustment Rapid Response (NEARR)

Developing a comprehensive national strategy to respond to economic dislocation would require four steps:

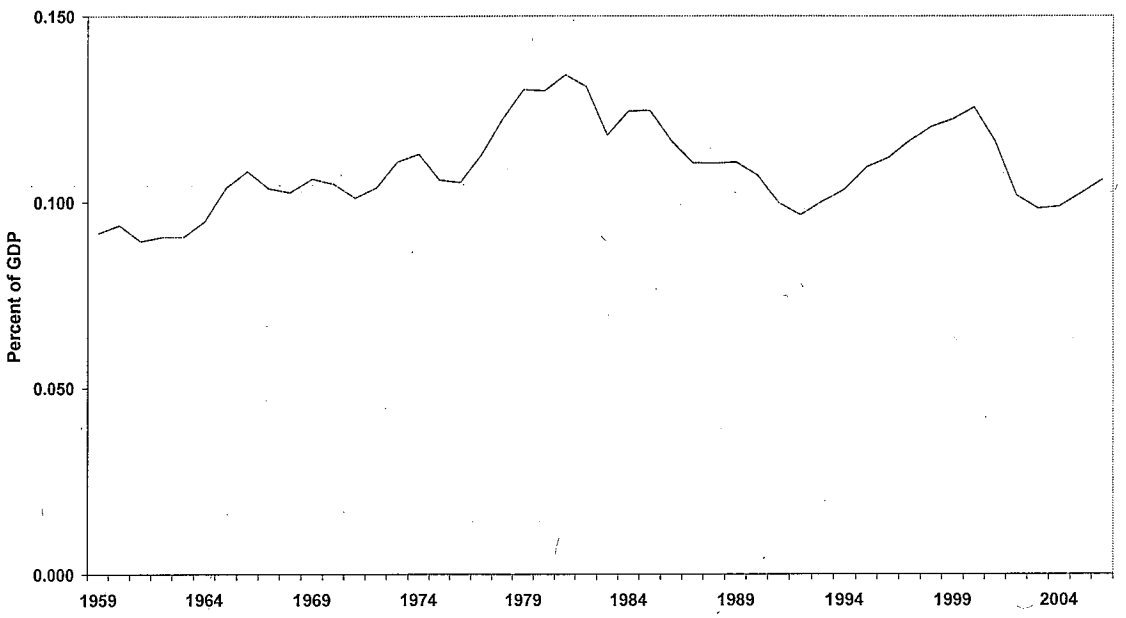
- Update existing adjustment programs, e.g. UI, to meet the needs of the current workforce.
- Reform existing programs borrowing from effective elements in targeted programs, e.g. TAA.
- Remove discrimination resulting from assistance programs targeted toward select groups of workers.
- Bring all programs under the umbrella of a comprehensive national strategy

The National Economic Adjustment Rapid Response (NEARR) would be based on the following principles:

- Assist all in need, regardless of cause of dislocation
- Comprehensive assistance to all workers, firms and communities
- Flexible, not "one size fits all" assistance
- Coordinate public and private assistance
- Early intervention

Any response to economic dislocation needs to be built on the foundation of encouraging investment in new or expanding existing plant and equipment, in order to create high skilled, high wage jobs. At 10 percent of GDP, current investment in plant and equipment is significantly below its 50-year trend. (See Figure 10.) Inadequate investment hurts the prospect of raising productivity that in turn affects the creation of high skilled, high wage jobs. Sustainable increases in productivity growth are necessary in order to achieve long-run improvements in living standards.

Figure 10
Investment in Plant and Equipment as a Percent of GDP, 1959 to 2006



Ironically, over the last several years, adjustment assistance programs targeted to small groups of workers and communities have been expanding while general programs designed to those facing severe economic dislocation have become more out-of-date and inadequate. Any national strategy should be designed to provide adequate assistance to all workers, firms and communities facing economic dislocation, regardless of cause.

The existing "one size fits all" worker assistance programs need to be reformed in order to make them more flexible and tailored to the needs of individual workers and local economic conditions. One way to achieve this goal would be to allow workers to formulate their own assistance program from a menu of various forms of assistance, including income maintenance payments, training, employment services, wage insurance, health insurance assistance, as well as job search and relocation assistance.

Most of the current resources devoted to worker assistance are devoted to reducing the costs associated with job loss. The limited wage insurance program under TAA is an

effort to shift assistance more toward re-employment. Wage insurance, re-employment bonuses and other wage subsidy schemes, deserve further study and experimentation.

Re-employment services, including job banks, resume-writing and interview workshops, have proven to be extremely cost effective. These efforts should be expanded and made available to workers prior to their lay off. Training may be necessary for workers with little prospect of returning to their original occupation. Programs aimed at encouraging on–the-job training (OJT) should be promoted, since by definition, this form of training is most closely related to re-employment. Dislocated workers should be able to take advantage of the myriad of education-related financial assistance programs available to college-age students.

Providing technical assistance to firms facing intensified domestic and international competition may prevent, or at least minimize, economic dislocations. MEP and the TAA for Firms programs are effective, but have limited reach. These kinds of programs should be expanded and made available to all firms, regardless of location, industry or cause of economic dislocation. These programs should also be integrated into worker and community adjustment programs.

Designing a community adjustment program should begin by borrowing from DOD's base closing program. This program currently assists communities develop and implement a strategic plan for responding to severe economic dislocation, as well as helps communities identify and apply for appropriate federal and state grants and loans.

Communities are rarely "prepared" for significant economic dislocations. For example, most communities do not have the capacity and expertise to assess the needs of workers and assist them in designing their own adjustment plans. Since it is inefficient for each community to develop and maintain this kind of resource, the federal government might establish an economic dislocation "swat teams" to provide logistical assistance to communities in a timely fashion. These teams would be assigned to communities in need, moving on once they complete their tasks.

Communities need to have the necessary and adequate infrastructure in order to provide effective training. Since communities may not experience large-scale lay offs often, they may not have resources necessary to meet workers' training needs. For example, training facilities, like community colleges, may not have sufficient room and equipment to accommodate large increases in enrollment. Addressing these considerations should be part of any comprehensive adjustment program.

In order to insure that a community's adjustment efforts are coherent and that all the pieces are fully coordinated, it might convene a group of federal, state and local governments officials, as well as private sector representatives. The group might include local representatives from unions, community colleges, religious and social service organizations and other non-profit groups, as well as regional coordinators of federal assistance programs, like the Economic Development Administration and the Employment and Training Administration. This group can potentially play an instrumental role in the development and implementation of the community' strategic plan for responding to the economic dislocation it is experiencing.

In some instances, firms may provide their own assistance to laid off workers and local communities. Firms should be encouraged to voluntarily provide this type of assistance, since this is difficult to mandate it. The local board described above might help coordinate and leverage the various forms of public and private assistance.

Conclusion

Pressures facing American workers, firms and communities resulting from increased domestic and international competition are not likely to dissipate any time soon. On the contrary, they are likely to continue intensifying. Existing programs designed to assist workers, firms and communities respond to economic dislocation are ad-hoc, out of date and inadequate. These piecemeal efforts tend to be "too little too late," placing an additional burden on workers, firms and communities.

The lack of a national strategy designed to respond to economic dislocation is contributing to political backlash against further trade liberalization and the introduction of new technologies. The growing resistance to economic change could jeopardize future increases in economic growth and risk long-term improvements in US living standards.

Economic flexibility brings costs and benefits. Movement out of activities that require low skills and pay low wages and into activities that require high skills and pay high wages can improve overall productivity providing benefits to all Americans. On the other hand, this movement can place a significant burden on workers, firms and communities. Easing this adjustment burden through public and private efforts may reduce opposition to economic change.

Establishing a comprehensive and integrated National Economic Adjustment Rapid Response, primarily based on updating and expanding existing programs, may be a first step toward responding to the economic dislocations being experienced through the United States.

Howard Rosen
Biographical Material

Howard Rosen is Executive Director of the Trade Adjustment Assistance Coalition, which he established in 2002. The Coalition advocates on behalf of workers, farmers and fishermen, firms and communities adversely affected by changes in international trade and investment. Rosen assisted in drafting provisions, included in the Trade Act of 2002, which significantly reformed and expanded the Trade Adjustment Assistance program.

Rosen also currently serves as a Visiting Fellow at the Peterson Institute for International Economics. He previously served as Minority Staff Director of the Congressional Joint Economic Committee, and Executive Director of the Competitiveness Policy Council. Prior to that he was Research Associate and later Assistant Director of the Institute for International Economics, and an economist in the Research Department of the Bank of Israel in Jerusalem and in the Bureau of International Labor Affairs in the US Department of Labor. He has consulted to the Senate Finance Committee, the Agency for International Development, the Inter-American Development Bank, the United Nations Conference on Trade and Development, the Business Roundtable and Data Resources, Inc.

Mr. Rosen received his BA and MA in economics from the George Washington University, where he concentrated on international economics.

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National Economic Adjustment Rapid Response

Howard Rosen
Subcommittee on Investigation and Oversight
House Science and Technology Committee
June 24, 2008

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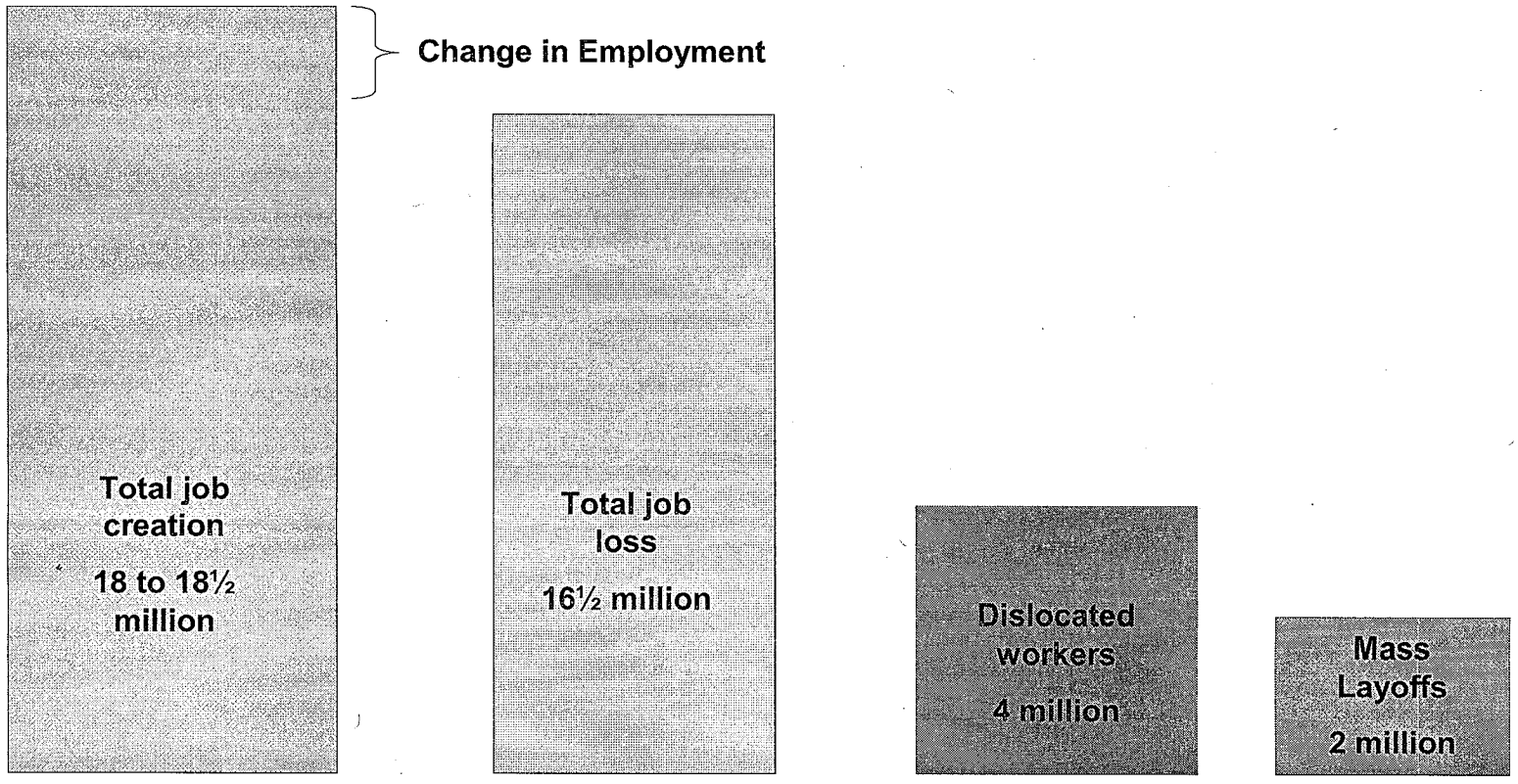
Employment Turnover



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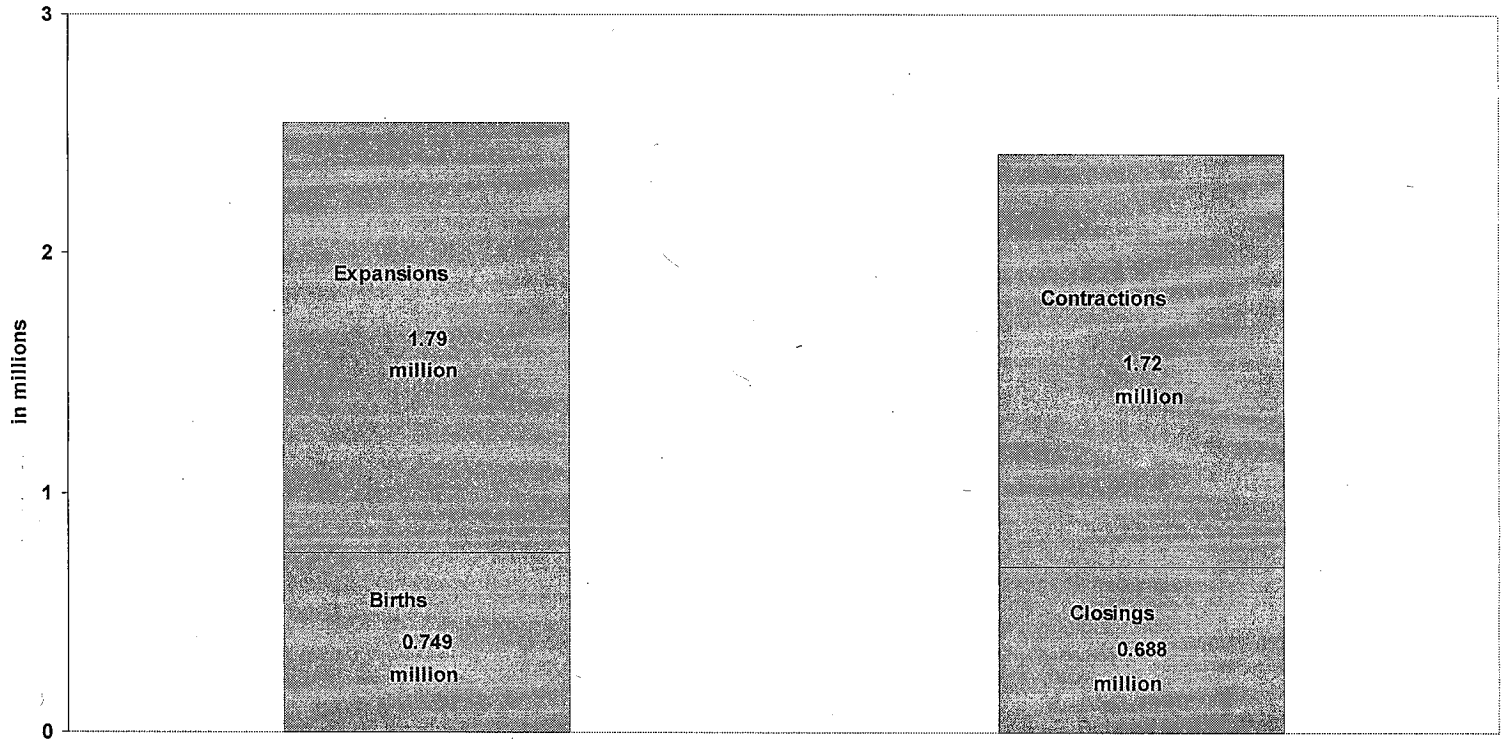
Business Dynamics



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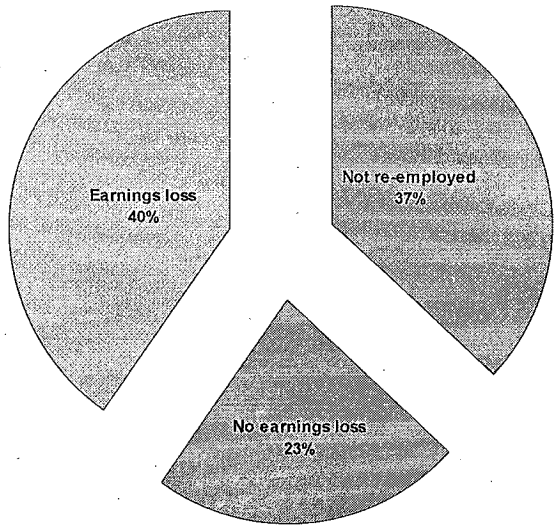
The Adjustment Burden



Kletzer, Lori, Job Loss from Imports: Measuring the Costs, Washington, D.C.: Institute for International Economics, 2001

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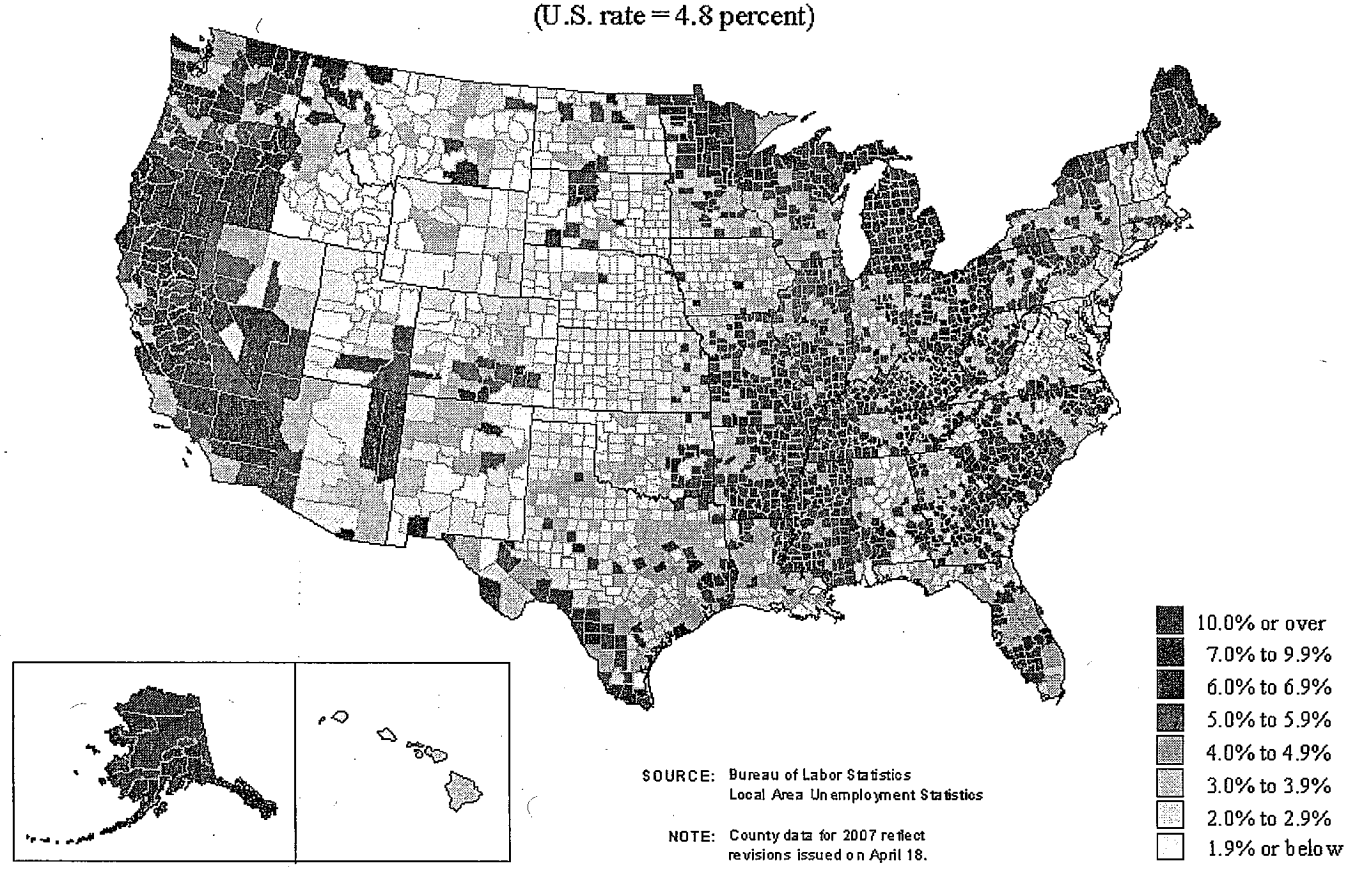
Unemployment rates by county, May 2007 - April 2008 averages

(U.S. rate = 4.8 percent)



SOURCE: Bureau of Labor Statistics
Local Area Unemployment Statistics

NOTE: County data for 2007 reflect revisions issued on April 18.

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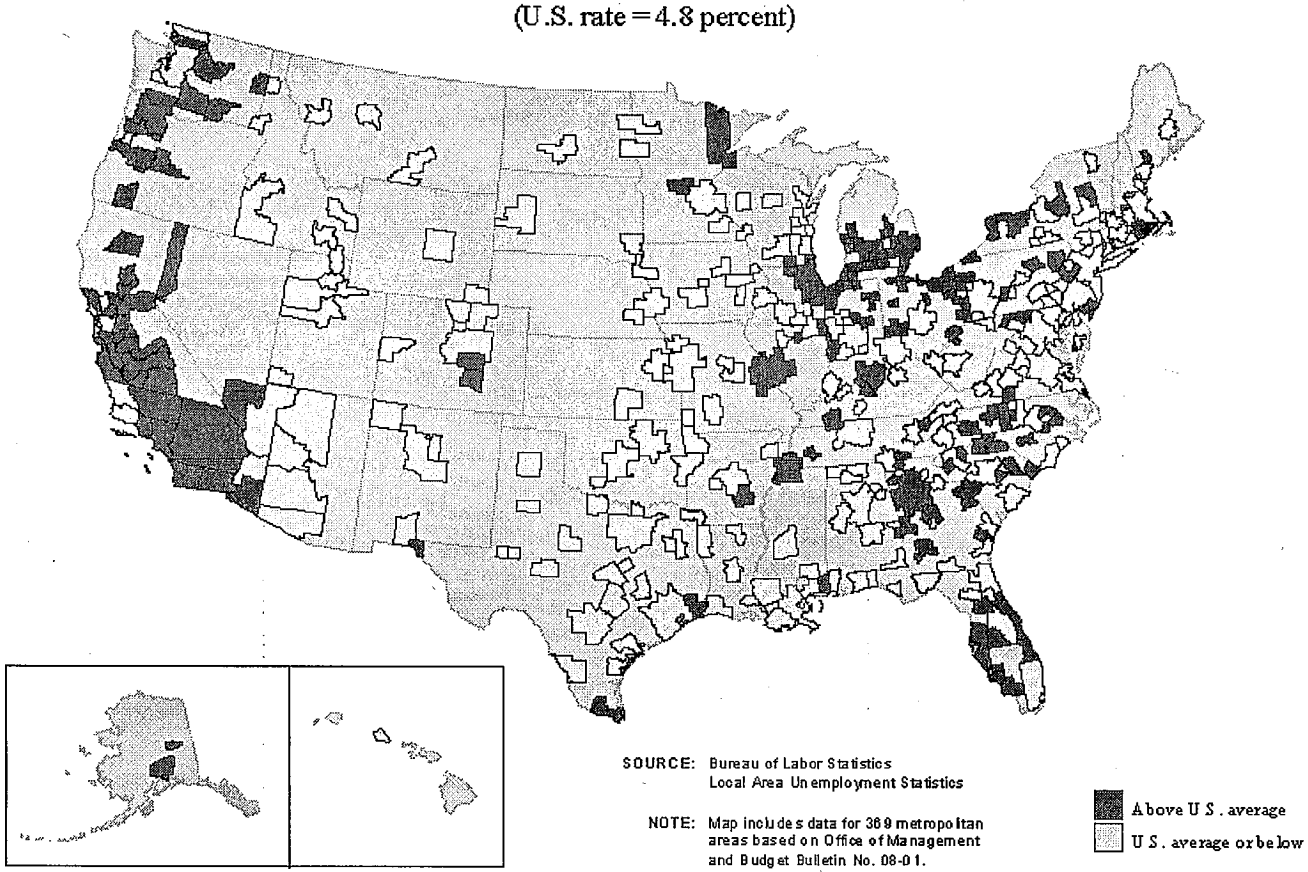
Unemployment rates by metropolitan area, not seasonally adjusted, April 2008

(U.S. rate = 4.8 percent)



SOURCE: Bureau of Labor Statistics
Local Area Unemployment Statistics

NOTE: Map includes data for 369 metropolitan areas based on Office of Management and Budget Bulletin No. 08-01.

Above U.S. average
U.S. average or below

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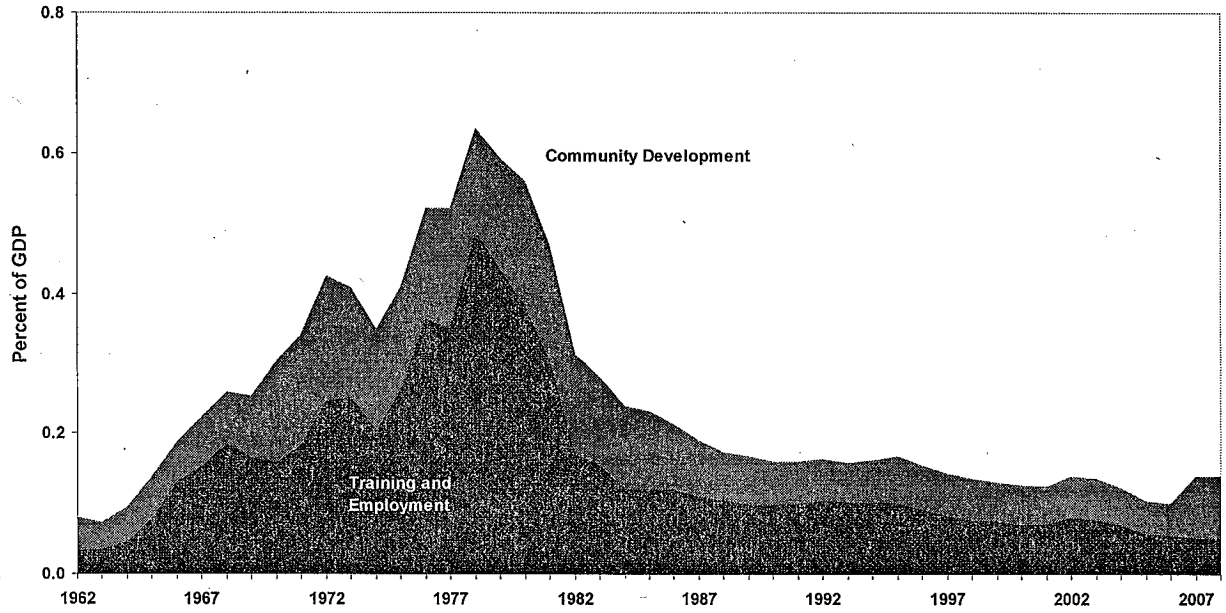
Federal Spending on Training and Employment and Community Development



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