CENTER FOR COMMERCE & DIPLOMACY

FUTURE OF THE GLOBAL TRADING SYSTEM: CONFERENCE ON TRADE AND LABOR MARKETS

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TAKEAWAYS

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In search of a viable and mutually beneficial Future for the Global Trading System, the **Center for Commerce and Diplomacy** (CCD) at the UC San Diego School of Global Policy and Strategy (GPS) brought together academic experts, policymakers, and business leaders in a virtual event on Feb. 25, 2022. The participants acknowledged that many workers and communities in the U.S. have been left out of the benefits of globalization and technological progress. They also acknowledged that these labor market inequities are undermining trust in the global trading system. “We should recognize that trade is an easy scapegoat for political anger,” said Dr. Ngozi Okonjo-Iweala, Director-General of the World Trade Organization, in her keynote address.

The experts at the conference found broad agreement on the sources of these challenges, but there were few areas where consensus emerged for identifiable policy and institutional responses. The exception was expanding the social safety net and making it more responsive to regional economic conditions. Participants from academia, industry and policy agreed this is key to helping workers and communities adjust to the dislocations of trade and economic change. However, there was a significant divergence of opinion on whether and how trade agreements should play a role and on the best way to improve workforce development and education. This suggests more research is needed in these areas.

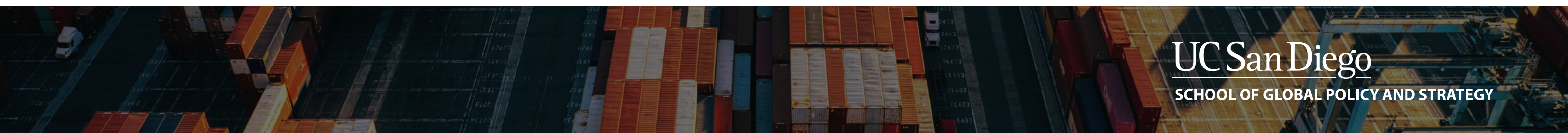
The following summary does not represent the views of any single participant but rather the authors’ impressions from the discussion. In some areas, we extrapolate beyond what was said at the conference to identify specific policy recommendations that are consistent with the tenor of the discussion.

Four main takeaways emerged:

1. Expand social safety net programs and make them more responsive to regional economic conditions. The labor-market effects of trade vary across regions. While some regions benefit, others experience significant long-term economic and social harm. To cushion the adverse impacts, automatic stabilizers like unemployment insurance can be expanded and made more contingent on regional economic conditions. Expanding the social safety net can rebuild trust in global trade, and, hence, one avenue to pass a new trade agreement is to package it with these improvements.

2. The best “place-based” policies focus on infrastructure and education. Place-based policies target areas, rather than individual workers or firms, so they have the potential to address the spatial inequities caused by trade. Policies that generate local public goods, such as infrastructure and education, have proven to be beneficial. We recommend that the federal agencies administering new infrastructure spending take spatial inequalities into account to ensure that infrastructure reaches *communities* that have been adversely affected by trade.

3. Workforce development needs better coordination and information-sharing. While local and state governments, often working in conjunction with local employers, have been sources of policy innovation, there is little coordination and sharing of policy ideas. Furthermore, the localities most in need of labor market support are constrained by a lack of resources. The federal government is positioned to address these problems: it can serve as a clearinghouse for information on best practices and facilitate the transfer of resources to distressed communities. Officials at all levels should



also recognize that the future of employment is in services, and many service sector jobs are in firms that are increasingly exposed to imports. Efforts to reduce the impacts of trade on labor also need to also prepare service-sector workers to adapt.

4. What is the role for business? What is the role for unions? In the U.S., employers and employees can work together to advance their collective interests in the labor markets, such as flexibility for business and security for employees. Lessons can be taken from Denmark and other northern European countries, where labor market policy is highly centralized. Employers are organized into cross-sectoral organizations that advance the collective interests of employers on labor market issues, and labor does the same. Coordinating labor market approaches among business reduces competitive pressures to minimize benefits. Coordinating across labor provides clearer guidance to businesses for most effective approaches.

We elaborate on these takeaways below and conclude with a reflection on the prospects for restoring the global trading system by facilitating labor market adjustment.

1. Expand social safety net programs and make them more responsive to regional economic conditions

International trade generates aggregate benefits—it makes the pie larger—but, while gains are distributed across all workers and regions, the losses are highly concentrated. Workers in declining industries and occupations may experience job losses or falling wages. In principle, they could find employment in expanding industries, but in practice there are many barriers to smooth adjustment. Industries are often concentrated regionally, and there are high costs of moving to another region, especially for those whose family support network remains in the local region. Likewise, switching occupations or improving skills may require costly retraining. Information on job openings may also be limited. Trade spurs aggregate growth but also generates significant distributional changes and dislocations.

Many studies, across both advanced and developing economies, highlight the varied *regional* impact of trade. Regions are economically specialized, which means that the adverse effects of trade are highly concentrated among workers in specific locations. Because customers and suppliers tend to locate near one another, trade-induced employment impacts are transmitted to suppliers and customers in the same regional market, thus magnifying the regional employment losses. Beyond the direct impact on individuals who lose their jobs or have their wages cut, there is a more widespread and persistent impact on local communities. Jobs and income decline, property values fall, the local tax base erodes and local public services deteriorate. Several decades of economic and social shocks affect everything from school quality to opioid addiction to the health and psychological well-being of individuals and their children.

Expanding the social safety net and making it more flexible should be a top policy priority. Universal national programs that automatically expand in times of national economic hardship do not explicitly focus on lagging regions. Nevertheless, they can assist such regions because they target support toward lagging households. In the U.S., the main federal safety net program designed to aid displaced workers is Unemployment Insurance (UI). UI provides cash benefits for displaced workers for around 26 weeks, and for longer in recessions. But evidence reveals that workers and communities displaced by trade do not recover for 10 years or more. Current UI benefits must be extended and enlarged to address the persistent dislocations caused by trade and other labor market shocks. This is an important first step to rebuilding domestic consensus on trade liberalization, and a necessary complement to pursuing new trade agreements. Trade liberalization and expansion of the social safety net should be packaged together.

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After unemployment insurance, Supplemental Nutrition Assistance Program (SNAP) is the most commonly used program, followed by Free and Reduced Price Lunch (FRPL)—but their support is minimal in comparison to UI benefits, due to stricter eligibility requirements and smaller benefit amounts. Additionally, an even smaller subset of workers turn to social insurance programs targeted to adults with disabilities: Supplemental Security Income (SSI) and Social Security (SS) benefits. Given a large body of evidence that trade disrupts—not just the economic structure of regions—but the medical, educational, familial and psychological fabric as well, all federal safety net programs can be expanded.

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There are also opportunities to strengthen these policies to be more responsive to regional economic conditions. Access is often limited by stringent eligibility requirements, state political choices, a lack of public information, or other institutional barriers. Policymakers should recognize that regions with weaker social safety nets may require more robust interventions.

Expanding program benefits, eligibility, access, and utilization can help improve economic security and health outcomes for the individuals, families and communities displaced by trade. We encourage policymakers seeking to pass new trade agreements to tie it to an increase in these programs. Indeed, this kind of bargain is how support for GATT/WTO was ensured over the past 75 years.

2. The best "place-based" policies focus on infrastructure and education

In principle, universal policies like unemployment insurance would be sufficient to address regional disparities—but only if labor is mobile. The experience of recent decades casts doubt as to whether these standard policy prescriptions are enough to overcome regional disparities. While universal policies may help skilled, younger workers in declining regions move toward better opportunities in booming regions, much of the population is less mobile and may remain stuck. Furthermore, falling demand for lower-skilled labor and steep increases in housing costs in booming regions have further reduced migration from declining regions. This limited mobility has contributed to high and persistent unemployment and nonemployment rates in regions that have experienced deindustrialization and economic decline. In these environments, it is the lack of jobs—not low incomes—that is a likely source of social and political discontent.

Place-based policies target areas, rather than individual workers or firms, so they have the potential to address the spatial inequities described above. But there is little research on their effectiveness. What we do know is that place-based policies that generate local public goods, such as infrastructure and education, have proven to be beneficial, perhaps because these goods are underprovided by the private sector.

The classic example of physical infrastructure investment is the Tennessee Valley Authority, which had a lasting impact on that region's development. Evidence also suggests that higher education generates productivity spillovers that are specific to local industries with links to university research and that employ university graduates. Some evidence finds that university research facilities attract innovative firms to an area, which can help form industry clusters that may deliver longer-term benefits from agglomeration.

By contrast, policies that subsidize businesses based solely on their location rarely work. For example, incentives to firms to bring jobs to where they are needed appear to encourage beggar-thy-neighbor policies that shift activity and employment from one place to another.

The large infrastructure bill that became law late last year includes $550 billion in new physical infrastructure spending from 2022 to 2031. Spending on roads and bridges, power systems, rail, broadband, water systems and public transit will provide the largest boost. Now that Congress has done its part, federal agencies will oversee this surge in infrastructure funding over coming years, including administering new grants and designing new programs. States and localities will have to identify and execute needed projects on the ground.

We recommend that federal agencies administering new infrastructure spending —DOT, DOE, EPA—give special consideration, on the margin, to projects in regions that have been adversely affected by trade. Due to declining tax revenues and shrinking resources, these regions may not have the capacity to compete on equal footing with booming regions for competitive grant programs. Attention to spatial inequality in the administration of the law can help ensure that infrastructure spending reaches these communities.

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We also encourage more federal funding for "human infrastructure"—education, childcare, nutrition and healthcare—which are also public goods. Attention to geographic inequalities in the administration of these projects could help ensure that these resources reach trade-affected communities.

Targeting infrastructure projects—both physical and human—toward regions in long-term economic decline can help rebuild trust in institutions and support for trade agreements.

3. Workforce development needs better coordination and information-sharing

Most business leaders voiced support for training and workforce development programs as a means to ease labor market adjustments. While local and state governments, often working in conjunction with local employers, have been sources of policy innovation, there is little coordination and sharing of policy ideas across government agencies and with the business community at large. Furthermore, the localities most in need of workforce development are constrained by a lack of resources. The federal government is positioned to address these problems: it can serve as a clearinghouse for information on best practices and facilitate the transfer of resources to distressed communities.

Well-designed workforce development programs that link community colleges with local employers in growing sectors may be a path to training workers for the next generation of jobs. The key to these programs may be better information flows between local employers and higher education institutions. Business needs are immediate and, in the short run, cannot wait for the government to respond. But better coordination with local colleges could provide more forward guidance on skills training and retraining. Local and state governments can also facilitate the flow of information in the other direction by providing employers with information on public training and apprenticeship programs. At the top, the federal government is positioned to serve as a clearinghouse for information on workforce development and a source of funding for workforce projects emanating from regions in economic decline.

Workforce developers at every level of government should recognize that manufacturing employment has been declining for decades, and those jobs are not likely to return due to automation. Even the reshoring of supply-chain production is unlikely to restore U.S. manufacturing employment. The future of employment is in *services*. Workforce policy should be aimed at preparing service-sector workers for the challenges induced by trade and technological change. Responding to job losses due to the offshoring of services or automation and facilitating adjustment for service-sector workers could be a bulwark to restoring trust in global trade and institutions.

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4. What role for business? What role for trade unions?

In principle, trade unions could play a larger role in training and apprenticeship programs, as they do in Northern Europe. But in the U.S., trade unions have declined steadily over time, and the process of training skilled workers has fallen to individual firms. Business participants at the conference clearly recognize the advantages of continuous training and empowering employees. Some expressed the sentiment that offshoring jobs to lower labor cost countries at the expense of the domestic workforce may have been short-sighted. Overall, the sentiment was that employers owe more to their workers than just a paycheck. In the long run, training workers and thinking about the community are good for the value of the firm.

We often look to countries like Denmark for models of successful labor market policies—its generous safety net for workers and its active labor market programs that prioritize retraining and skills are maintained without excessive regulation on business. These outcomes are the result of Denmark's highly centralized approach to labor market policy in which cross-sectoral associations of business and labor negotiate at the national level. The centralized approach works because it generates a skilled, flexible and loyal workforce without undermining competitiveness. The "flexicurity" model combines generous welfare protection with business-friendly labor regulations to advance both efficiency and equality.

The lesson to draw from Scandinavian countries like Denmark is that investing in safety nets and workforce development are public goods for the business sector. If these goods are left to individual firms—as in the U.S.—they will be underprovided. This is because investing in workers is costly, and any individual firm that does this must pass these costs on to its customers. When margins are tight, the firm that invests in its workers may not be in business for long. This is a classic collective action problem (aka the "Prisoner's Dilemma"): while the business sector as a whole gains from social safety nets and workforce development, it is not rational for any individual business firm to pay for these goods. When all firms contribute to social safety nets and workforce development, these goods are provided without affecting the competitive landscape.

What are the implications for American business? First, the business sector can acknowledge that social safety nets are public goods and build consensus to support their expansion. Business organizations like the Chamber of Commerce and the Business Roundtable can mobilize to persuade business leaders that expanding the federal social safety net improves their provision, while creating minimal competitive distortions between firms—it is available to all firms, and all firms contribute.

Second, business leaders can reevaluate the role of labor unions in the economy. The Scandinavian system works because both labor and capital are organized, and bargaining between them is centralized. In the U.S., labor and capital are decentralized, so when an individual firm negotiates with an individual union, the outcome has competitiveness implications. Consider the movement to organize Amazon's workforce. If this results in the expansion of wages and benefits for Amazon workers, then Amazon loses competitiveness to other online retailers. Centralizing this process can benefit the competitive landscape.

Final Reflections

A large body of work in economics and political economy connects the regional economic effects of trade to regional political behavior. The findings suggest that import competition from low-wage countries leads to regional economic losses and the displacement of jobs which, in turn, leads to more populist and protectionist behavior. Many of the affected workers have lost trust in the institutions that have sustained prosperity for the past 75 years.

In order to begin rebuilding trust in institutions, we must address the distributional inequities of global trade at both the individual and the spatial levels. The participants of the conference found consensus on expanding the social safety net and increasing its ability to target depressed regions. There was also some agreement on advancing place-based policies that focus on infrastructure and education. But in other areas, such as workforce development and the role of business and unions, there was less agreement.

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The question of whether trade agreements should be used to facilitate labor market adjustment was also controversial. Many participants said that the primary role of trade agreements is to negotiate market access and adjudicate trade disputes and that labor market adjustment should be addressed with domestic policy tools.

While the conference only scratched the surface of these issues, the collaboration between academics, business leaders and policymakers made important initial progress in the search for practical and realistic solutions. Our center plans to continue the effort to find solutions.