Notes on American Adjustment Policies for Global-Integration Pressures[1]

a contribution to a series of Short Notes
on adjustment costs and impacts of trade

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OVERVIEW.

The Trade Adjustment Assistance (TAA) program of the United States is nearing its 50th year. Like many 50-somethings it has expanded and contracted in sometimes-regretful ways. But it has also gained in experience and seasoning. And, we will argue, current relevance.

Much has also changed over 50 years in global goods markets, including their volatility and its consequences. Goods-market volatility is sure to continue to confront firms, workers, and communities even after macroeconomic normalcy is restored.

Features of TAA's somewhat unshapely structure may in fact have promise for today's stressful labor markets, such as its conditional link of extended income support to a worker's re-training initiative. Looking further ahead, however, growing instabilities in worker earnings, as well as growing reasons for extended bouts of structural unemployment, suggest the need for a re-shaped program. A re-shaped program would recognize the many ways that *globally-enabled* dynamism exposes workers to the same instability and displacement as does trade – even when such dynamism seems more narrowly conceived as technological and organizational innovation

Both the regrets and the seasoning of historic TAA can provide a foundation for radical reform – a widening of its remit to *structural* adjustment assistance (SAA), a re-emphasis on its re-employment goals for workers and training goals for firms, refinement of some

[1] These notes draw on well over a decade of research by me and my colleagues at the Peterson Institute for International Economics, in particular Howard F. Rosen, and also C. Fred Bergsten, Kimberly Ann Elliott, J. Bradford Jensen, Lori G. Kletzer, Howard Lewis III, Catherine L. Mann, and Matthew J. Slaughter. Because my understanding of my mandate for this World Bank project was American policy, I have consciously dis-regarded the extensive European and broader OECD literatures on adjustment policies, including the recently revised and expanded European Globalisation Adjustment Fund (EGF).

of its features, in particular its insurance options (going well beyond its current wage insurance), and adoption of innovative new firm-worker-civic stakeholder partnerships, especially for training.

Such re-shaped and re-grounded structural assistance initiatives will require creative reform and innovation in *domestic* policies designed to undergird the initiatives. Their ultimate objective is to better empower large numbers of Americans to do two things simultaneously:

- to prosper from inter-linked global opportunity and technological dynamism *and*

- to manage their risks and challenges more effectively.

NOTES ON HISTORICAL TAA CONTEXT.

An Ever-Evolving Patchwork, Historically.

American Trade Adjustment Assistance was designed originally in the 1960s to meet three implicit and often- conflicting objectives: efficiency, equity, and (political) compensation. These words described deliberate and fair relocation coupled with income support for those bearing excessive burdens on behalf of broader public policy -- cross-border trade liberalization that enabled larger imports. Adjustment assistance was originally linked only to explicit decisions to lower policy barriers at the border and to their incremental injurious effects.

These strictures and very tight insistence that imports be the *major* cause of dislocation led to no awards of TAA (out of 25 petitions) in the 1960s. There was widespread dissatisfaction that the program was more than symbolic tokenism. In preparation for the WTO's Tokyo Round negotiations, and in the throes of the global economic "re-ordering" of the 1970s, C. Fred Bergsten and others within the U.S. Executive Branch pressed for a more genuine program, linked merely *importantly* to import growth itself, not just to incremental import growth from trade agreements, and extended to firms and community economic development.[2]

Though these changes breathed life into the TAA program, the worker petitions that were subsequently granted were largely focused only on income support, much like unemployment insurance (UI), and were rarely linked to firm or community assistance. The 1970s program subsequently lost much of its popular support from the confluence of three politically unsupportable trends: TAA recipients turned out to be increasingly

[2] See Rosen (2006) for the most comprehensive retrospective. Among similar retrospectives, U.S. GAO (2000), Baicker and Rehavi (2004), and Bown and McCulloch (2005, 2007) provide more recent but more limited historical reviews.

recalled to former employers, and were disproportionately in high-paid unionized jobs.[3] TAA's budget costs soared by a factor of 5 (!) when President Jimmy Carter ordered autoworker petitions expedited during his re-election campaign. A knowing public and their Congressional representatives saw that TAA was providing no "adjustment," only "assistance" to those who had weak warrants for it compared to more marginal workers.

TAA during most of the 1980s was starved and haphazard ... unsurprisingly, given the lull between the WTO's Tokyo Round and Uruguay Round, and given the "standing" of labor interests under the Reagan Administration. TAA was actually high on the list of programs for elimination in the early Reagan years.

Though the program returned to late-1970s usage in the late 1980s, changes were quite minor (e.g., explicit authorization of energy-exploration workers). A NAFTA-TAA clone was introduced in 1993, and lasted until 2002. It anticipated – in the NAFTA context only – the expanded eligibility criteria to come in 2002 to the general TAA program, into which it was then folded..

The More Expansive 2002 and 2009 Evolutions.

Major TAA reform took place around the turn of the millennium as both the late Clinton and early Bush Administrations struggled to get Congress to re-launch authority for global and regional trade agreements. The reforms focused especially on workers, making their assistance more reemployment-oriented and training-contingent.

Under the Trade Act of 2002,[4]

- eligibility was broadened to include "secondary" workers displaced upstream or downstream from an importantly-impacted group, "impact" was broadened to include not only imports but shifts in production to any countries with which the U.S. had a preferential trade agreement, and a small TAA program for farmers and fisherman was introduced with different criteria (it has since accounted for roughly 2% of TAA spending).

Under the 2002 act, TAA recipients could receive:

- up to 130 weeks of training, which needed to be pursued full-time, including 104 weeks of vocational training and 26 weeks of remedial training (such as for English-as-a-Second-Language or for language literacy);

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[3] See Richardson (1982), reporting on a program evaluation conducted by Mathematica Policy Research, and based on a survey of TAA recipients in the late 1970s. See Rosen (2006), pp. 91-93 for the astounding surge in coverage and budget outlay.

[4] The account in the following paragraphs comes from Rosen (2008), p. 3, and from Kletzer, Richardson, and Rosen (2007), pp. 12-13.

- up to 78 weeks of extended income support, after the 26 weeks of standard UI was exhausted, if enrolled in training;

- job search and relocation assistance;

- a 65 percent advance-able, refundable Health Coverage Tax Credit (HCTC) to help offset the cost of maintaining health insurance during the period of unemployment;

- a targeted program of wage insurance, called Alternative Trade Adjustment Assistance (ATAA). ATAA provided workers age 50 and older, who became reemployed within 26 weeks and earn less than $50,000, half of the difference between their new and old wage, for up to 2 years subject to a $10,000 maximum.

Wage insurance was probably the most innovative, market-based labor market adjustment program to be introduced in the United States over the last several decades. Although the take-up rate was low for the early years, initial anecdotal reports suggested that many workers benefited from the program.

Wage insurance and the HCTC are two illustrations of a commendable shift in worker assistance -- from traditional income transfers to support that is arguably more targeted and cost effective. Both, for example, serve as an implicit subsidy for workers to take a job with a new employer, whose costs of on-the-job training (OJT) are implicitly subsidized to the degree that workers are attracted to jobs they might have turned down in the absence of wage insurance (jobs with low wages or long vesting periods for benefits).[5]

Yet the degree of success and its exact cost-effectiveness are still matters of controversy. There is yet to be any systematic evaluation of either program even though the Trade Act of 2002 called for it.

Though the annual number of petitions fell from roughly 3600 to 2200 between 2003 and 2007, program take-up rates among eligible workers increased, and the proportion of petitions accepted rose slightly from mid-50s% to 65% Import-related displacement accounted for roughly half of the accepted petitions, shifts in production abroad for 40%, and spillover from upstream and downstream supply chain effects for 10%.[6]

The Trade and Globalization Adjustment Assistance Act of 2009 strongly scaled up and accelerated the momentum of expansiveness initiated by the Trade Act of 2002. Eligibility was expanded, almost every benefit was made more generous, and many contingencies were removed. Specifically,

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[5] See Brainard et al. (2005).

[6] Rosen (2008), pp. 2-3; U.S. Department of Labor (2009).

- eligibility was extended for the first time explicitly to service-sector and public-agency workers;

- dislocation from shifts in production to <u>any</u> country now warranted consideration for support, not just to preferential-trade-agreement partners;

- training support was increased uniformly by 26 weeks;

- workers no longer needed to contribute 10% "co-pays" to job-search and relocation allowances;

- workers could receive <u>both</u> wage insurance, re-christened Reemployment Trade Adjustment Assistance (RTAA presumably, instead of ATAA) <u>and</u> training support, removing the 2002 act's one-or-the-other contingency.

Yet an even-more-expansive TAA may be promising for today's economic challenges, as discussed in the remainder of these notes.

The Current Slump: Reality Evolves Toward Evolving Patchwork.

It is a truism that life imitates art. Something similar is happening today regarding Trade Adjustment Assistance. The American version of the global downturn, triggered and fueled by the global financial crisis, has generated an environment that is, ironically, ripe *in principle* for an expansion of vocational and remedial training, supported by more generous income replacement allowances and by wage insurance, somewhat in the spirit of the Post-World-War II GI bill, only aimed at the soldiers in a war against depression.

But none of that characterizes traditional American unemployment insurance (UI), which remains very similar in structure, finance, and administration to its founding mid-20th-century self. Modest income support facilitates job search, but not much else. There are no training/retraining mandates, and no wage insurance. And state and federal outlays for traditional UI have always been a huge double-digit multiple of the fairly stable annual $1 billion-or-so spent on TAA,[7] and an especially large multiple during deep recessions.

So is a TAA or a traditional UI system better for today? Kletzer and Rosen (2005, 2006) vote strongly for the former. They argue that the whole American workforce should become eligible for TAA-style adjustment assistance as a *better*, more relevant and effective program for today than UI!

But many observers go even further than this. They believe that today's globally integrated environment is even riper for something even better than expansive *up-scaling* of TAA, something more radically addressed to the way that traditional trade pressures have been

[7] Kletzer, Richardson, and Rosen (2007), p. 13.

- amplified by the radical fusion of traditional trade and investment-based production shifts with changes in technology and in business organization and supply chains,

- borne increasingly

    - by firms rather than by industries,
    - by occupations rather than by broad worker skill-groups, and
    - by those firms and workers who are somehow "less-advantaged" compared to their peers.

We can think of the first of these features as the "integration of (many types of) integration" and the second as the downward devolution of adjustment burdens to precise micro agents, rather than groups of agents in so-called industries and skill groups.

We turn in the remainder of these notes to what these two features might imply for future adjustment policies, keeping an American focus.

NOTES ON A 21st CENTURY ADJUSTMENT-POLICY DESIGN.

The 21st Century Context: "Integrated integration" for "micro-units."[8]

Two new trends in global integration and its understanding shape future adjustment policies: the inter-woven character of many types of integration and the central importance of micro-level agents in accounting for losses and gains.

Traditional accounts of globalization explain how trade, investment, and migration are prompted by a country's resource endowments and comparative advantage interacting with their global counterparts. Trade, investment, and migration in turn change domestic rewards to broad groups of resource-owners, such as skilled and less-skilled workers, and owners of productive physical and intangible capital.

These accounts remain valid today, though their empirical implementation has always revealed only modest impacts on measures of dislocation and adjustment.

Instead today's "empirical action" turns out to be increasingly at the level of "micro units" and to be hard to differentiate from globally-enabled technological and organizational innovation, as described below.

The past three decades of American and global economic integration have increasingly featured inter-woven drivers of change, with variegated adaptation by heterogeneous micro units *within* traditional "groups." The modern period has been punctuated with:

[8] This section is an updating and re-arrangement of Richardson (2005b), pp. 12-14. Documentation and references to the literature have been severely abridged for purposes of these notes.

- revolutionary change in information and communications technology, and with associated job shifts toward “knowledge workers” adept in forensics, diagnostics, problem-solving and complex communication;

- rapid product and process innovation, including creative standardization (e.g., electronic components), differentiation and customization, as well as radical change in intellectual-property law and administration to protect such design innovation;

- aggressive de-regulation, downsizing, and fragmentation of conglomerates and vertically-integrated production relationships;

- the advent of what some call the “global business model -- lines-of-business dedicated to a global market for their “core competencies” (equivalent to corporate comparative advantage), reliant on other businesses for key inputs and services that can be as finely defined as “tasks” (e.g., payroll management), integrated both globally and with upstream/downstream suppliers/distributors, including suppliers of innovation to them and users of their own innovation.

These trends are inter-woven. They might be called “integrated integration” -- the integration of many different types of integration:

- integration across national borders, corporate borders, marketing borders (e.g., *finely*-differentiated products), and temporal borders (e.g., successive upgrades of a product);

- integration across precisely-defined tasks in the production process, or across finely differentiated input types (e.g., standardized and sophisticated reading of X-rays).

Only one of these many facets of “integrated integration” concerns traditional “international trade,” and it is impossible to isolate it even conceptually from all the other types of integrated integration.[9] We will argue that 21st-century adjustment policies should not try to isolate it either, in the spirit of several recent treatments of these integrated trends.[10]

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[9] For example, to be viable, much technological and structural change needs global access to ideas and markets. Traditional global integration thus facilitates productive innovation in products, production, organization, and the management of vertical supply chains and even labor relations. Many of the drivers of change over the past few decades are inter-dependent, and cannot be distilled into a pure essence of globalization, to be distinguished antiseptically from technology and structural evolution.

[10] For example, Mann (2006) and Aldonis et al. (2007).

Integrated integration has generated enormous material benefits. Productivity growth and growth in American and "emerging-economy" standards of living surged in the middle 1990s and more-or-less persisted through severe regional crises and slowdowns, before becoming erratic in 2008-09. There are only a few reasons to think that productivity growth will not return to something near its handsome recent rate as economies work through their current slump. Many sectors have shared in this sustained productivity surge, not merely manufacturing.

Yet until recently, many of the traditional measures of national <u>in</u>equality were trending up over these same three decades, mildly in the late 1990s, more strongly otherwise. With a few exceptions, within-economy inequality has trended up both across *and within* traditional categories.[11] In the United States, inequality trended up *within* and across educational groups, within and across regions, for women as well as for men. The growth in inequality within well-defined categories poses a special challenge for analysis and policy design, since the usual explanations of trends in inequality focus on between-category determinants. And a concomitant of the growth of within-category inequality is the growth of individual income volatility.

Researchers studying integrated integration have thus had to expand traditional perspectives synthetically[12] to feature diversity – heterogeneity *within groups* – in many dimensions:

- heterogeneity across firms in productivity, product differentiation, job attributes, and innovation's costs and rewards.

- heterogeneity across workers in ambition, adaptability, creativity, collegiality, and other hard-to-measure personal workplace traits.

- heterogeneity across regions and communities in infrastructure, business climate and culture, and in openness to other cultures and communities.

The important implication of the blended synthesis is that global integration can have both traditional impacts and effects on the *distributional shape* of outcomes across

[11] On the growth of so-called "residual inequality," inequality *within* categories, inequality that is not easily correlated with ("explained by") any observable fundamentals, and on the resulting growth in expected income volatility, see pioneering research by Gottschalk and Moffitt (1994), authoritative recent research by Violante (2002) and a huge ongoing and supportive literature on the same themes.

[12] The synthetic blend of traditional and newer perspectives is discussed in more detail in Bernard et al. (2007a), in Bernard et al. (2007b), in the Appendix to Part 2 of Richardson (2005b). Helpman et al. (2009) is a path-breaking generalization of these syntheses and of the pioneering work of Davidson and Matusz (2004) . The Helpman et al. paper brings together theoretically heterogeneous firms, heterogeneous workers, and equilibrium structural unemployment for an open, globally-engaged economy.

heterogeneous firms, workers, and communities. The growing *dispersion* of those outcomes is one of the most important aspects of that distribution's shape.[13]

The growing body of empirical micro-data research for the United States suggests that globally-integrated integration *widens the dispersion* of outcomes among American workers firms, and communities, *sifting and sorting* among the advantaged who gain more, the less-advantaged who gain less (or lose), and those in the middle who are often propelled toward either extreme.[14]

If this remains an accurate summary of the micro-trends both during and after the current macro troubles, then American adjustment assistance policies needs radical re-shaping, not mere re-scaling.[15] Yet, ironically, these same micro trends can provide the resources and innovation to fund the radical re-shaping.

New Research on the Gains from Global Integration and Who Gets Them.

Recent research provides a consensus on both the reasons and the resources for re-shaping adjustment policies. In fact, the reasons and the resources are opposing faces of integrated integration, and underlie the need to pair innovation in integration always with innovation in adjustment policies.

1. **Research Consensus 1. Globally-Integrated Integration Generates <u>Large Gains</u>.**

" Twins" research on American micro units shows that, compared to measurably-matched "peers," globally-integrated firms enjoy higher growth and lower failure rates. Their workers enjoy faster employment growth in more stable jobs paying higher rewards. The communities that host them enjoy tax bases that themselves grow faster and more stably.

This has salutary results for industries and overall economies. Globally-integrated integration *facilitates* sifting and sorting among heterogeneous firms. Firms with higher productivity and other advantages find themselves able to "select into" integrated integration of all types. Then as they grow faster and fail less often than their less-advantaged and lower-productivity peers, they represent larger and larger shares of any industry. Their advantaged workers likewise represent growing shares of worker-group employment, and their host communities account for growing shares of regional and

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[13] So also are the *skewness* and *kurtosis* that describe whether the upper, lower, or middle ranges of that distribution are unusually densely concentrated.

[14] The last finding pertains to workers in particular, and seems to suggest "fatter" distributional tails. The more accurate summary of this trend is a fatter tail at the very top of the distribution, and a less dense concentration of gains from integrated integration among the working poor. But the non-working poor seem to have gained proportionately from integrated integration due to cheaper goods and services (see, for discussions of these productivity-induced price effects, (Broda et al. (2009)).

[15] As does adjustment assistance in countries with similar trends.

national output. Overall populations are increasingly represented by their "fittest" members.

The large gains from this process are not limited in sectoral scope: These same patterns apply to services firms, and to service occupations, as well as to manufacturing. "Tradable occupations" reward their workers better (wages, full-time frequency).[16] And the gains seem to cumulate. The most integrated of the globally-integrated firms, those workers in tradable occupations *and* industries; and the most re-structuring-minded firms that are trade-*and*-investment-*and*-technology- engaged all seem to enjoy multiple, possibly multiplicative, performance "premiums."

2. Research Consensus 2. There is a <u>Unbalanced Distribution</u> of Those Gains.[17]

But the opposite face to the large gains described above is the tenuous survival of the "less fit." Firms with lower productivity and other dis-advantages grow slowly, shrink, and die. Their workers face grimmer workplaces and workplace opportunities (e.g., for on-the-job training, for promotion), and their host communities lose tax base to others. These heightened adjustment pressures on the less-productive and less-advantaged are an inescapable downside of the sifting and sorting gains generated by deeper integrated integration.

"Economic mobility" can in principle ease the heightened adjustment pressures. Lower-productivity firms and their workers can be absorbed by high-performing, globally-integrated firms. Workers themselves can seek to move between employers of varying "fitness," seeking to make the best possible "match."[18] But overall trends in American economic mobility are negative,[19] and structural impediments to worker mobility remain prominent in the American economy. New policies are needed to help.

Underlying Policy Mindset for the 21st Century Context.

A new policy mindset is also needed. Further deepening of America's strongly beneficial engagement of globally-integrated integration needs newly creative, newly effective *domestic* policy. The recipe for American success involves *pairs* of ingredients always, *complementary cognates,* dynamic global-integration initiatives paired with creative domestic adjustment initiatives. With domestic policy reform and innovation to diffuse

[16] See, for example, Jensen and Kletzer (2005, 2008) and Mann (2006), as well as the forthcoming Jensen, Kletzer, and Mann book.

[17] Richardson (2004, 2005a) contains additional detail and documentation.

[18] See Andersson et al. (2005) for impressive evidence that among comparably disadvantaged, low-wage American workers, there are enormous gains to landing a job with a high-productivity <u>firm</u> (compared to an average firm). Micro-agent <u>matches</u> matter a great deal.

[19] This is the briefest thumbnail summary of results from the ongoing Economic Mobility Project, supported by the Pew Charitable Trusts (www.economicmobility.org).

the benefits and to increase the typical American worker's capability to engage global dynamism, deeper future global integration will be more sustainable, even perhaps widely welcome.

Concrete Policy Implications: Wider Mandate, New Actors.

American Trade Adjustment Assistance has already expanded its *scale*, as described above. There is an urgent need now to re-shape it expand its *scope* and its *constituency*.

In *scope*, traditional adjustment assistance needs to expand to cover "structural"-dislocation in addition to traditionally narrow trade-related versions of structural dislocation.[20] The distinction between structural and cyclical dislocation is well-established in macro and labor economics, and could be codified into eligibility criteria that are at least as persuasive as in current TAA decision-making. One nuance that might help to bound criteria for awarding workers such adjustment assistance is that their structural dislocation should be linked to global integration (i.e., integrated integration, in the parlance of this paper), thereby maintaining continuity with the historic TAA program (e.g., outsourcing, even domestically, would be covered; natural catastrophes like floods and fires would not). A structural expansion of scope would match the reality of the 21st century's multiply integrated forms of integration. It would also shift structural adjustment assistance in a healthy "no-fault" direction from an ineffective and politically volatile "blame-trade" mindset.

The detail of structural adjustment assistance – SAA, say -- could build on TAA with minor modifications. Rules for petitioning and training/re-employment-oriented income support (including wage-and-benefits insurance) could be very similar to those currently used.

Effective design would require serious – mandated and funded – monitoring and evaluation of results and cost-effectiveness, including longitudinal surveys of program participants. Effective design would also abjure some suggested TAA reforms that have never yet formally been implemented, "industry" certifications for example, in which SAA petitions from an entire sector or occupational group were accepted and processed. In the 21st-century world this would be wastefully ineffective. Within <u>every</u> sector and occupation are high-performing workers and firms who need and deserve the chance to move up and expand at the expense of others; smart adjustment assistance targets these "others," not the universe, and helps them "move" toward the high-performance skills and practices of the successful micro-units.

In *constituency*, traditional adjustment assistance needs to expand its constituency – stakeholders – to include natural and new American institutions. Among the natural constituents are labor unions and community colleges, both of which are beginning to turn from their normal audiences toward benefits management, skills-upgrading, and job-

[20] This expansion of scope reflects a growing consensus in the research community. See Brainard et al. (2005), Mann (2006), Aldonis et al. (2007), Lawrence (2008), and Kletzer, Richardson, and Rosen (2007).

search training. Among new constituents should be not-for-profit social-service firms[21] and even for-profit businesses themselves, because of the empirically proven value of on-the-job training compared to any other variety, as long as free-riding can be disciplined by making OJT training incentive-compatible for both employers and employees (see below). Insurance companies in particular should be interested in new and incentive-compatible forms of "worker-asset" insurance, backstopped perhaps by government as re-insurer.[22]

The detail of constituency-expanding reform might include:

- mandatory-but-refundable "human investment" payroll taxes[23] for on-the-job-training. Both workers and firms would contribute. Workers could/would "receive their tax back" once (and only if) they reach a given tenure threshold in a new job. Employers in that case (but not otherwise) would be allowed to deduct their share of the worker's cumulated training taxes from corporate income. Firms would have much stronger incentives to become training mediators. Unions and community colleges would have incentives to become firms' training sub-contractors (in addition to the training role they serve naturally). Arrangements like these are attractive for the prominent centrality of OJT-that-works and for their "pay-or-stay" incentive compatibility. The administrative costs are low in charging the payroll-tax system to be overseer.

- insurance refinements. Current adjustment insurance, including standard UI, TAA/SAA, and wage-and-benefit insurance is too narrowly construed as a worker entitlement and an employer tax burden. The true "stakes" and stakeholders are much broader, and could be made concretely visible by refinements such as:

    - giving workers the opportunity to finance individual insurance accounts or voluntary supplements from private-provider add-ons to existing programs;[24]
    - re-balancing employer and taxpayer premium contributions, and adding worker contributions, all to enhance incentive compatibility;

[21] In the late 1990s, Australia contracted out its job-matching and other services to its long-term unemployed. The so-called Job Network still exists and has been modeled by Oslington (2005), but project evaluations and empirical assessments remain to be accomplished.

[22] Insurance companies are, in fact, already interested, as documented in Kletzer, Richardson, and Rosen (2007).

[23] Catherine L. Mann has recommended these in a number of places. Human investment tax credits would supplement the way that wage insurance provides an implicit subsidy for training a firm's newest employees, as described above.

[24] Chile has been experimenting with a mixed public-individual UI system for several years. See Acevedo, Eskenazi, and Pages (2006), summarized briefly in World Bank (2005), p. 154, and Senbruch (2004) for a more skeptical evaluation. See also a large number of assessments of the Danish "flexicurity" system, publically administered but privately chosen – or not – by Danish workers.

- adding (and sometimes adding back) principles of sound insurance management: deductibles, co-pays, caps, all of which would be burdensome and unpopular by themselves, but which would be counter-balanced in principle by more generous training opportunities and dislocation/wage insurance.
- participation mandates with narrowly-construed default-option provisions for both workers and their employers.

- insurance innovation. Current adjustment insurance is focused almost exclusively on income flows; worker assets (skills, mobility, lifetime health, personal assets) are inappropriately neglected. Innovation in workers' asset-value insurance would make adjustment to dislocation significantly less burdensome. For example:

    - workers' housing equity could be insured against specified types of structural-dislocation catastrophes;[25]
    - workers' educational and training investments might be similarly insured (and, perhaps, financed as well as insured, as suggested by the concept of "training mortgages");[26]
    - even a community's tax base could be insured against structural trends beyond the control of its resident employers.[27]

Expanding the number of stakeholders in structural adjustment programs and aligning their incentives appropriately to minimize chronic contention, forms of cheating, and free-riding is the key to 21st-century SAA reform.

Compared to the three motives for historic TAA, efficient adjustment becomes primary, and distributional equality and political compensation recede as motives.

Finally, the chances of success for the structural-adjustment initiatives described above are much enhanced when undergirded by two types of foundational civic infrastructure:

- best-practice public education,[28] involving measurable upgrading in the American context, and

[25] Scheve and Slaughter (2001) show how popular support for border openness is lower among homeowner-voters in communities with high import penetration, other voter characteristics being held equal.

[26] Insurance companies are always a blend of "mutual" firm, pooling risk among their members, and financial firm, taking in cumulated past premiums and paying out current and future claims. The recent global financial crisis has given a bad name to unsupervised financial innovation, but <u>not</u> to insurance innovation of the sort illustrated by weather insurance for crops and outdoor entertainment events, catastrophe bonds, and other types ofcreative customized insurance products.

[27] Lawrence and Litan (1986), pp. 119-122 made precisely this recommendation for trade-impacted communities in the context of historic TAA, and Lawrence has repeated it recently for a broader set of structural risks in Aldonis et al (2007), pp. 48-49.

- best-practice active and passive labor-market policies (e.g., raising national thresholds for core labor rights in the direction of international best-practice).[29]

RE-CAP: NEW MOTIVES, NEW CONCEPTIONS FOR 21ST-CENTURY WORKER ADJUSTMENT.

Widely-shared, globally-engaged,efficient dynamism is the new motive for American adjustment initiatives. The policy refinements and innovations sketched here are not *merely* re-distributive, not *merely* "compensatory." They actually improve an economy's overall performance and welfare. They enhance its capacity to adapt to structural change and to negotiate deeper global integration by facilitating both new opportunity and risk management. A successful domestic policy infrastructure of the type discussed here is at least partially self-financing, with fewer distorting and unpopular burdens on taxpayers than one might naively expect.

"Adjustment services" are the new conception, rather than adjustment "policies." Americans are the most ingenious service providers in the world. The ideas described here are best conceived as *services* aimed at sharpening and broadening Americans' capabilities to engage global dynamism. To re-conceive policies as services is not an academic exercise. In reality, firms and markets provide services, though often facilitated by policy. Firms include unions, schools, cooperatives, and not-for-profit organizations. If as services these ideas can be refined to work effectively, then they become one more American service sector with profitable comparative advantage, promising jobs, and global growth potential.

Inclusion is the deeper underlying motive for refining American approaches to adjustment assistance – inclusion of middle-voters. Without their support, the nation will sacrifice vital future momentum in its standard of living because current internal, domestic policies are too weak to diffuse even large gains from global integration and structural dynamism widely across American society.

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[28] See Richardson (2005b) for a description of the under-appreciated labor-market coping and adjustment benefits of improved primary, secondary, and higher education, including community colleges and training institutes. Worker-oriented innovation and reform in basic and higher education is a "virtuous staircase," creating an ascent toward higher productivity and wages and toward broader footings from which to recover one's balance when confronted with change. In individual micro data, educational attainment is clearly correlated with upward quintile-to-quintile economic mobility, as documented in the Economic Mobility Project (www.economicmobility.org). And there is an intriguing *negative* micro-data correlation reported by Abowd et al. (2009) between the frequency of mass layoffs/firm failure and the level of education (and skills and experience) of the firm's workforce -- education may inhibit unanticipated change!

[29] See Richardson (2000) for ideas on a beginning agenda.

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