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More Trade and More Aid

By Matthew J. Slaughter and Robert Z. Lawrence

A FEUD over trade has erupted in Washington, and American workers are caught in the middle. Congressional Republicans (and some Democrats) are threatening to hold up approval of free-trade agreements with South Korea, Colombia and Panama if President Obama keeps insisting on renewing expanded benefits under [Trade Adjustment Assistance](#), the main aid program for American workers harmed by foreign trade.

Supporters say the program — which offers retraining, relocation and other benefits to workers who lose their jobs due to competition from imports — offers vital protection. Opponents label it an unaffordable boondoggle. If our country fails to resolve this dispute, our economic future will be bleak.

As former advisers to presidents from different parties, we are coming together to urge a way out: rethinking how we help displaced workers in order to revive political support for the free trade our economy needs.

Three principles guide our proposal. First, trade is indeed worth it for America. Annual national income today is at least \$1 trillion higher than it would have been absent decades of trade and investment liberalization. With unemployment at 9.1 percent and 24.6 million Americans unemployed or underemployed, we need to rebalance our economy away from the excessive consumption that helped bring about the global financial crisis, and create jobs linked to exports and international investment.

Second, trade is not worth it for every individual American. Trade creates unemployment for some and wage losses for others; its gains do not directly accrue to every worker and community. Indeed, there has been a steep drop in public support for trade; a recent Wall Street Journal/NBC poll found that only 17 percent of respondents said free-trade deals have helped America.

Third, Trade Adjustment Assistance, created in 1962 to supplement unemployment insurance, cannot adequately help displaced workers. Workers today face continual adjustment as new technologies and competitors, both domestic and foreign, render their talents and skills obsolete. Indeed, the premise that job losses can be attributed to precise causes is archaic, given the linkages among international trade and investment and technological change.

In recent years, less than half of workers certified as eligible for T.A.A. benefits have actually used them. Petitions filed with the Labor Department for T.A.A. benefits in 2007 covered just 93,903 workers — fewer than the number of jobs created or lost on an average day.

Our proposal to resolve the trade impasse: more trade *and* more aid. More trade means that President Obama should immediately submit, and Congress should immediately ratify, the pending free-trade agreements. Colombia and Panama already enjoy unfettered access to our market, and South Korea has negotiated free-trade deals with the European Union and India; we cannot afford to fall behind.

More aid means Congress and the president should replace T.A.A. with a broader safety net that helps workers regardless of why they lost their jobs. Unemployment insurance, introduced in the early 1930s, has not really changed since then; it should be merged with T.A.A. Today, unemployed workers face challenges far greater than T.A.A. or unemployment insurance alone can address: getting matched with a new employer, often in a new industry; upgrading or learning new skills, often at reduced wages; and coping with lost benefits, especially health coverage.

A new American Adjustment Program should combine the best elements of unemployment insurance, T.A.A., and training programs authorized by the Workforce Investment Act. This approach would include a wage-loss insurance program for workers 45 and older, to speed their rehiring by supplementing their income if they take work at lower pay; helping workers receiving unemployment insurance to pay for coverage under Cobra (which allows workers who lose their jobs to keep group health benefits for limited periods); and enabling unemployed workers to make penalty-free withdrawals from savings accounts like 401(k)'s and I.R.A.'s to finance costs like occupational retraining and relocation.

Our plan would cost about \$20 billion per year. We would pay for this by scrapping the current unemployment insurance tax structure, which is extremely regressive, for a low flat tax on all worker earnings — a change that would cut taxes for tens of millions of lower-wage workers. The costs of our plan would decline in the long run as the economy recovers. Moreover, the cost of not better supporting workers will be far greater if a skeptical public pushes America into economic isolation and the result is slower growth, fewer jobs and lower tax receipts.

Voter support for engagement with the world economy is strongly linked to labor-market performance. If American workers continue to fear change, their support for free trade will not return.

Matthew J. Slaughter, a professor of management at the Tuck School of Business at Dartmouth, and Robert Z. Lawrence, a professor of international trade and investment at the Harvard Kennedy School, were economic advisers to Presidents George W. Bush and Bill Clinton, respectively.