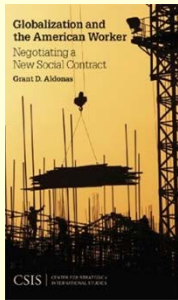


**Globalization and
the American Worker**

Negotiating a
New Social Contract

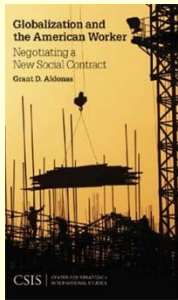
Grant D. Aldonas

CSIS | CENTER FOR STRATEGIC
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Benefits of Globalization

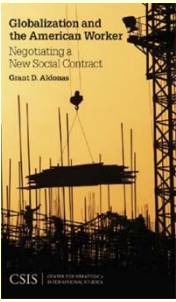
- Additional \$1.4 trillion in GDP each year (10% of GDP)
- Translates into \$10,000 increase in income for a family of 4 on a median income of \$48,000
- Another \$500 billion increase in GDP annually from further trade and investment liberalization



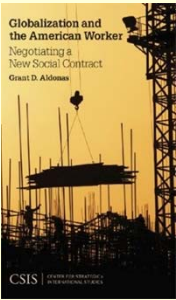
Further Liberalization Would Benefit Wage Earners Most

- Over half of the \$26 billion in tariff revenue U.S. collects annually comes from shoes and clothing
- Average single-parent family pays \$2,000 for shoes and clothing annually (\$400 in tariffs)
- Highest duty (67%) applies to sneakers below \$10 in value; high end Italian shoes enter duty free

Weighing the Benefits Against Rising Economic Insecurity

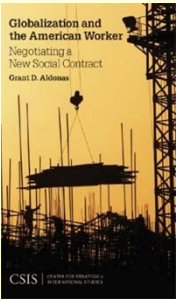


- Declining job security (job tenure down by 1/3 in past 25 years)
- Stagnating wages (wages of bottom 10% fell from 1970-2000); increasing income disparity (wages of top 10% rose 23%)
- Workers caught in a vise between stagnating wages and rising costs of education, health care, and energy



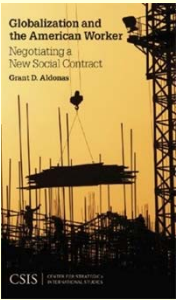
Reinforcing a Rising Populism

- From 1999-2007, number of Americans who believed trade agreements “hurt” U.S. rose from 30% to 46%
- Americans saying trade agreements “helped” U.S. fell from 39% to 28%
- Rising populist rhetoric reflected in Democratic positions on trade and Republican positions on immigration



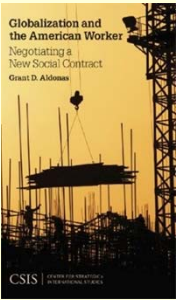
Is Trade to Blame?

- Trade accounts for roughly 10% of the impact of technological change and other forces driving globalization
- Actual degree of liberalization of trade barriers limited to industrial goods
- No correlation between specific trade agreements and fluctuations in wages (e.g., real wages rose after implementation of NAFTA)



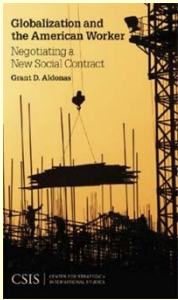
Obscuring the Real Challenge

- Picture of the U.S. and global economies is roughly 40 years out of date
- Globalization has redrawn economic geography; reorganizing production on a global basis (as of 2003, >50% of world trade is in intermediate goods)
- Since 2005, developing world accounts for >50% of world GDP and considerably >50% of world economic growth)



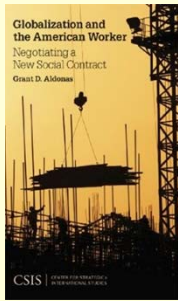
Implications for U.S. Workers

- Globalization multiplies opportunities for specialization; creates a broader plane across which those opportunities play out
- Specialization driven by innovation; talent and ideas become differentiating factors in global economic competition
- Key to higher income/rising standard of living lies in acquiring skills in demand in a globalized/knowledge-driven economy



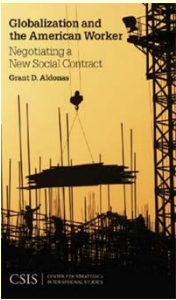
Involves a Race Between Education and Technology

- Early 20th century involved an equally significant period of technological change, but technology was biased in favor of unskilled
- 21st century technological revolution is skill-biased
- U.S. human capital policies (i.e., education and training) still designed to produce a workforce for era of mass-production and “interchangeable employees”



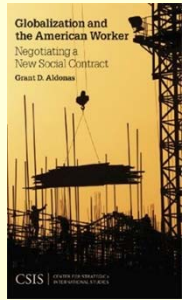
Negotiating a New Social Contract

- Given the benefits that flow from U.S. global engagement, clearly better off committing ourselves to compete in a knowledge-driven global economy
- Requires a counterpart willingness to invest in America's workers to ensure they have the tools to succeed in the global economy



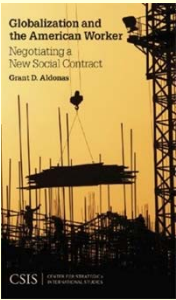
Early Education

- Expanded Head Start program (making publicly funded education available to earliest ages)
- Education equivalent of Family Medical Leave Act to allow parents to spend a few hours a week in school with their children



Primary and Secondary Education

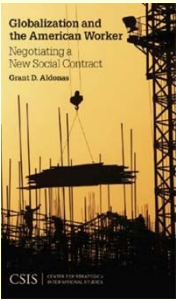
- Developing a primary and secondary curriculum in consultation with private sector that links education to market demand
- Investing in broad program of building public schools immersed in technologies workers will use on the job to offset effects of public education system tied to local property taxes
- Raising teachers' salaries to bid talent away from other markets



Post-Secondary Education

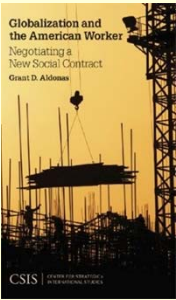
Reducing liquidity constraints by –

- Expanding Education Savings Accounts
- Expanding eligibility for Pell Grants to students from families with median incomes
- Renationalizing Sallie Mae and passing reduced cost of capital on in the form of lower interest rates on student loans



Lifetime Learning

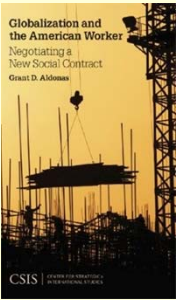
- Eliminating obstacles to acquiring new skills (e.g., limitations on tax deductibility of training related to new job or career)
- Expanding tax-advantaged savings vehicles to allow mid-career workers to save for further education (e.g., IBM's education matching fund)



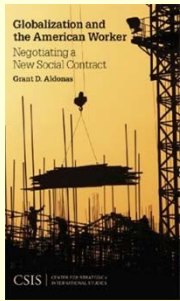
Adjustment and Retraining

- Expanded adjustment assistance program de-linked from trade criteria
- Wage-loss insurance program and continued health insurance coverage
- Allowing workers to tap savings in tax-advantaged accounts without penalty while unemployed
- Subsidizing the cost of on-the-job retraining

Creating an Enabling Economic Environment

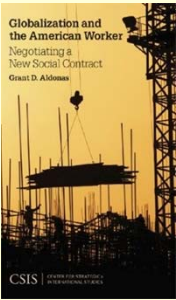


- Replacing the income tax with a value added tax to reduce the disincentive the current tax code creates for building human capital
- Reforming U.S. intellectual property laws in ways that reward work product of human capital
- Reforming immigration laws in ways that would make the U.S. more attractive to globally-engaged firms that create jobs through investment



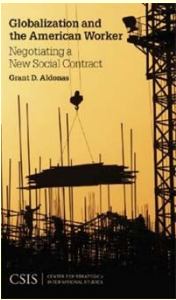
Focusing Trade Policy on What Matters

- Strong preference for progress on a multilateral basis, rather than bilateral or regional agreements
- Negotiate bilateral or regional agreements with commercially significant trading partners
- Ensure new agreements reach beyond the border to address policies that distort investment decisions and shift jobs



Labor and Management's Role

- Aligning interests of workers with the long-term interests of their firms
- Contracts that ensure workers profit directly from the productivity gains they create
- Gearing training to needs of businesses and workers competing in a globalized, knowledge-driven world economy



Making a National Commitment

- Establish a national summit on the terms of U.S. engagement in the global economy
- Bring together private sector, both labor and management, with experts in education and training to chart a U.S. human capital strategy
- Make a commitment to building human capital commensurate with challenge America's workers face in the global economy