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### Politics & Economics: Seeking to Soften Blows of Globalization --- CEO Group Suggests Aid, Tax Cuts to Defuse Protectionist Sentiment

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WASHINGTON -- Chief executives of the nation's largest financial-services companies, concerned about the growing public backlash against international trade, are wading into the policy debate over how to help those on the losing end of globalization.

A paper commissioned by the Financial Services Forum sets out several policy options aimed at cushioning the blow from job losses and other dislocations caused by global trade, in a bid to defuse protectionist sentiment in the U.S. and promote free-trade agreements.

The banking, investment and other CEOs who belong to the group have consistently cited protectionism as the leading threat to continued U.S. and global economic growth.

The effort marks one of the first times top business leaders have sought to weigh in collectively in the globalization debate. The paper acknowledges that trade can have ill effects on some groups of workers -- such as stagnant personal earnings and job losses -- and recommends ways to reduce, or at least redistribute, the pain.

Its ideas range from the familiar -- such as raising taxes on the wealthy to address income disparities -- to the novel, such as insuring communities against "sudden economic dislocation" caused by a plant shutdown or other factors.

Fending off protectionism is crucial for American companies, which benefit from the flow of goods and services across borders. In 2006, the U.S. exported \$1.47 trillion in goods and services and imported \$2.23 trillion.

The growing backlash against globalization has endangered President Bush's global-trade agenda. Bilateral trade agreements negotiated by the U.S. are running into stiff opposition in Congress, and the Doha Round of global-trade talks are near collapse. Mr. Bush's authority to negotiate trade deals and put them to an up-or-down vote before Congress expires at the end of this month. That authority is considered vital for the administration to win approval of trade deals.

Politicians from both major political parties are struggling to figure out how to keep trade barriers low -- which helps the U.S. economy as a whole -- while protecting American workers whose jobs may be scaled back or eliminated as low-cost competition causes U.S. companies to retrench or shift production overseas. Yet there is little agreement about how to respond to the problem. The only consensus seems to be that the current programs aimed at compensating those hurt by trade aren't working well.

Democrats, many of whom campaigned against unfettered trade in the 2006 midterm elections, have said they plan to introduce legislation later this year to expand trade assistance to displaced American workers, while Republicans, led by the Bush administration, are weighing their own ideas, including vouchers to help workers pay for retraining. Meanwhile, anxiety over trade and globalization continues to increase.

"This debate, at some level, got a little bit off the mark, and there's been way too much talk about protectionism and isolationism when we ought to be talking about good, solid policies that respond to this changing economy," said Financial Services Forum CEO Donald Evans, a former Commerce Secretary under President Bush. He added that while his group commissioned and paid for the paper, not all of its members will agree with every policy prescription.

"This doesn't say that we, the forum, agree with every last proposal or policy idea that's in this report, but we do think this is a constructive report to add to the discussion and the national debate over how important globalization is to the American economy," he said.

Ken Thompson, chairman and CEO of Wachovia Corp. and the forum's vice chairman, said in a statement, "Our open-trade and investment policies have significantly enhanced the economic well-being of American citizens, although not everyone has shared equally in the benefits of globalization. This report presents innovative ideas to broaden the reach of globalization's dividends and to keep the free-trade agenda moving forward."

The paper was written by economists Matthew Slaughter, a former Bush administration economist now a professor at Dartmouth College; Grant Aldonas, a former Bush administration official now at the Center for Strategic and International Studies; and Robert Lawrence, a former Clinton administration official who teaches at Harvard University.

The paper cites limitations of one of the most frequently talked-about prescriptions for success in a global economy -- improving workers' skills through continued education. While gains from education may benefit workers down the road, the report concludes they will do little to help workers struggling today or to appease current critics of globalization.

"Education is a great way of equipping more Americans with the tools to gain from globalization. But the timing of its impact ticks generation by generation," Mr. Slaughter said. For example, he said, it has taken 60 years for the percentage of Americans with college degrees to grow to 30% from 6%.

The forum has started lobbying Capitol Hill on its ideas, and representatives, including the paper's authors, spent Friday meeting with congressional staff.

Still, many of the paper's recommendations are likely to be politically difficult to achieve. One is to merge all worker-assistance programs, such as unemployment insurance, wage insurance and trade-adjustment assistance, into a single program. That idea is likely to meet stiff resistance from organized labor, which has lobbied against wage insurance, or helping displaced workers make up lost wages, for fear it would cannibalize unemployment insurance, which provides a temporary cash benefit paid to anyone who loses a job.

The paper also calls for addressing income inequality by eliminating the payroll tax for those who earn less than the national median income of \$32,140 and possibly increasing it on higher-income earners to make up the lost revenue. Right now, the tax is capped at 15.3% on the first \$97,500 of gross income for every worker.

Mr. Lawrence said addressing income disparities will be critical in winning support for further liberalization of free trade. "People who are in favor of free-trade policies have become increasingly concerned that public support is eroding, and I think the crucial group who have become more disenchanting are college-educated Americans who haven't seen significant income growth."

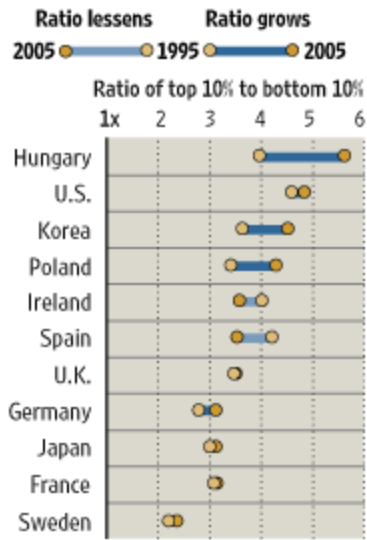
At the same time, the paper suggests new ways to hammer out free-trade deals if Doha Round fails, including having the U.S. negotiate a broad free-trade agreement that would be open to any World Trade Organization member that wants to participate. It also calls for giving the president permanent authority to negotiate free-trade deals on an up-or-down vote.

While the three economists hail from different points on the political spectrum, they said they were able to reach consensus in part because there was no choice but to compromise and take steps to address the backlash.

"We all recognize the power of what the global economy has brought us," Mr. Aldonas said. "It's time to start thinking radically about how we use the tools of economic policy to address the challenges."

## Earnings disparity

The earnings of the highest paid workers as a multiple of the earnings of the lowest paid, in selected countries, in 1995 and 2005



Source: OECD database on earnings distribution.

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