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United States International Trade Commission

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Distributional Effects of Goods and Services Trade and Trade Policy on U.S. Workers

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Thank you Chairman Kearns and Commissioners for the opportunity to testify. I will focus on the distributional effects of international trade in services from an employment perspective and a consumption perspective. The intersection of the U.S. economy with services trade takes place digitally online, through investment, and the temporary movement of people. Foreign direct investment (FDI) permeates the U.S. services economy and creates jobs. FDI in services expands the scope and lowers the cost of services for workers. The collapse of international travel and its renewal illustrates the effects of services trade on employment in services industries.

The USITC should emphasize in its report the serious constraints lower income, and less skilled workers face navigating a churning and evolving job market. The U.S. is experiencing a tight labor market in part due to obstacles that inhibit workers from securing and moving to new jobs. Potential workers remain outside of the labor market in under-represented and underserved communities. Lower income and less skilled workers are more dependent on labor income, hold fewer assets, and are less inclined to participate in capital markets as stock or bond holders. Trade policy can help alleviate the high costs workers face and increase disposable income.

The U.S. is a leader in international trade in services. In 2020, the U.S. exported over $684 billion in commercial services.[i] Other commercial services[ii] represented 79.1% of exports, travel represented 10.6%, and transport represented 8.3%.[iii] The primary U.S. export partners in services trade are the EU, the UK, Switzerland, Canada, and China. In the same year, the U.S. imported over $435 billion in commercial services.[iv] Other commercial services represented 73.8% of imports, travel represented 8.2%, and transport represented 16.6%.[v] The primary U.S. import partners in services trade are the EU, the UK, Japan, and Canada. International trade flows are, "dominated by products that are not consumed but further used in the production of other goods and services."[vi] This includes services as intermediate inputs into agricultural, manufacturing, and services industry production. The value of U.S. imports and exports of services with our trading partners illustrates the benefits of reciprocity in trade.

The intersection of the U.S. economy with services trade takes place digitally online, through investment, and the temporary movement of people. For example, small businesses can offer services online to clients around the world. Digital services trade has opened the global marketplace to women entrepreneurs providing professional, educational, business, and IT services supported by a sophisticated financial services infrastructure that allows secure cross-border payments. This is a two-way street. Small businesses can also consume services, for example, website design, translation, and research services from foreign countries. Note 99.9% of women-owned employer businesses are small businesses in services industries including professional, scientific, and technical services.[vii] Women from all walks of life are engaging in international trade in services across borders from their desktop.

FDI permeates the services economy and creates jobs. FDI in the U.S. through the acquisition, establishment, and expansion of businesses supported 7.9 million U.S. jobs in 2019.[viii] This included 419,600 jobs in finance and insurance, 359,200 in information services, 448,500 in professional, scientific and technical services, 90,300 in real estate and rental and leasing, 924,700 in retail trade, 686,200, in wholesale trade, and 2,182,200 in other industries not including manufacturing.[ix] (FDI in U.S. manufacturing supported 2,836,400 jobs.) FDI in the services sectors creates employment, lower-cost, high-quality services, as well as entrepreneurial opportunities. A substantial number of women are employed across services sectors and stand to gain from FDI as employees, consumers of services, and business owners seeking investment.

FDI in services expands the scope and lowers the cost of services for workers. For example, a robust U.S. financial sector that welcomes FDI under prudential regulations offers sophisticated payment systems, lowers the cost of credit, as well as the cost of life and non-life insurance premiums. FDI deepens and diversifies U.S. capital markets, which contributes to capital formation for job creation and business growth. Foreign firms are present in the life and non-life insurance sector and play a leading role in the reinsurance market. Under-represented and underserved communities <u>do</u> need low-cost, high quality financial services to manage spending, save for college, and plan for retirement. Advances in brokerage services have opened capital markets to low income workers with a cell phone and an interest in trading securities. Workers need not be left out of the capital markets. The U.S. has benefited from an open financial sector and should continue to press large economies to provide full reciprocity.

The collapse of travel and its renewal illustrates the distributional effects of services trade on workers. Visiting foreign students, medical patients, tourists, and business people are also consumers of educational, health, business, and leisure and hospitality services. "In the third quarter of 2020, spending by international travelers was down…78% in North America."[x] The extreme decline in travel due to the pandemic and the consequent loss of employment in the U.S. leisure and hospitality industry provides a clear example of the negative distributional effects of international services trade when the temporary movement of people comes to a halt. As the U.S. experiences a renewal of visiting foreign students, medical patients, tourists, and business people, demand for educational, health, business, and leisure and hospitality services will increase. The consequent increase in employment in these sectors offers a current example of the positive distributional effects of international trade in services through the temporary movement of people.

The USITC should emphasize in its report the serious constraints lower income, and less skilled workers face navigating a churning and evolving job market. The pandemic has made these constraints clear.

Potential workers remain outside of the labor market in under-represented and under-served communities. While college educated workers have re-engaged in the economy consistent with 2019 levels, lower income, and less skilled workers lag in re-engagement.[xi] Similarly, women with children face child care cost and availability hurdles to rejoining the labor market. Women with young children report the "inability to arrange child care" as a primary reason why they are not in the labor force.[xii] Lower income and less skilled workers are more dependent on labor income, hold fewer assets, and are less inclined to participate in capital markets as stock or bond holders.[xiii] With fewer assets and lower income, less skilled workers have less flexibility to commute or physically move to new jobs in different counties or states. They have less money for education and training to switch into growth sectors. They have a difficult time reacting to production shocks due to the global pandemic or the concentrated negative effects of trade such as job losses. Low to moderate income households may take several years to recover from financial and housing instability due to the pandemic,[xiv] or a job loss.

The U.S. is experiencing a tight labor market in part due to obstacles that inhibit workers from securing and moving to new jobs. In 2021, the U.S. experienced average monthly job gains of 555,000.[xv] In January 2022, the labor force participation rate stood at a low of 62.2% and the unemployment rate was 4%.[xvi] Just over 25% of the unemployed were considered long-term unemployed as they had been jobless for 27 weeks or more.[xvii] There is also a proportion of the population that has left the job market altogether due to discouragement, care for family members, or retirement.

A trade negotiation is not required in some cases to obtain the benefits of trade such as lower drug prices and increased disposable income. Behind the border regulatory constraints to government procurement of medicines from abroad hits low-income households the hardest. The U.S. is ranked 87th out of 156 countries for women's health and survival.[xviii] Unilateral U.S. reform that liberalizes government procurement of medicines from abroad would lower drug prices and increase disposable income for under-represented and underserved communities.

Services industries and renewed international trade are playing a significant role in the economic recovery. In February 2022, "Notable job gains occurred in leisure and hospitality, professional and business services, retail trade, and transportation and warehousing," services.[xix] Today 80% of U.S. workers are employed in services industries.[xx] The size of the professional and business services sector is 13.2% of employment versus manufacturing of 7.9%. Financial services and information technology services together represent 7.5% of employment. Healthcare and social assistance represent 12.9%. Leisure, hospitality, and retail represent 18.4%. Private educational services account for 2.3%. Transportation and warehousing represent 3.6% of employment and are on an upward trend. Non-agricultural self-employed represents 5.5%. (Table 1 illustrates the comparative size of each industry sector – see the attachment to the testimony.)

The U.S. economy generates a broad scope of innovative services jobs at high wages that demand different types of skills and workers. The highest paying services sectors are information, finance, professional, and business services.[xxi] In 2021, the United States provided 426,710 H-1B visas to temporary foreign workers to work primarily in the information technology services industry at a median annual salary of $101,000.[xxii] Presumably, this is a stop gap measure. The U.S. educational system is pivoting to bridge the disconnect between U.S. workers' skills and labor market demand. States as diverse as Texas and California do provide affordable college education to under-represented and underserved communities to learn skills in demand in the labor market.[xxiii] Many states have invested in secondary STEM education to boost employment prospects for high school graduates. For example, Maryland has 15 nationally ranked science, technology, engineering, and mathematics high schools.[xxiv]

A comparison of average weekly earnings by industry indicates sectors that lag in wages. Low wage workers are concentrated in leisure and hospitality and retail trade, which includes warehousing.[xxv] A tight labor market bumped up wages; however, inflation has eaten those gains. Persistent low wage services jobs reflect the long term diminished institutional support for workers' rights and collective-bargaining, which is being contested. In 2022, workers in grocery stores, food services, and healthcare services challenged management for better working conditions and wages.[xxvi] U.S. domestic policies that influence working conditions and wages must be consistent with our open trade stance. The USMCA labor chapter that suggests cooperation activities on non-discrimination, equal pay for equal work, collective-bargaining, and the advancement of child care is just as important to American workers as it is for our trading partners.

Looking at services industries from a gender standpoint reveals the distribution of women across sectors. In 2021, women had the highest concentration of employment in education and health services (just under 40% of women employed), followed by wholesale and retail trade, professional and business services, leisure and hospitality, and financial and information services.[xxvii] Less than a third of those employed in manufacturing are women who head just under 28% of households in the United States.[xxviii] The sectoral employment distribution is the same for African-American women with the highest concentration of employment in education and health services, followed by wholesale and retail trade, professional and business services, leisure and hospitality, and financial and information services. Asian-American women are also heavily concentrated in education and health services, followed by professional and business services, wholesale and retail trade, financial and information services, and leisure and hospitality. Hispanic-American women are concentrated in education and health services, followed by wholesale and retail trade, leisure and hospitality services, professional and business services, and financial and information services. A significant number of women workers are concentrated in low wage services industries. Initiatives that advance non-discrimination, equal pay for equal work, collective-bargaining, and the advancement of child care can improve conditions for workers.

The U.S. trade stance has an important role to play in facilitating a dynamic, evolving U.S. economy that produces jobs for American workers. When we consider the role of trade in the economy in 2020, trade as a percentage of GDP was just above 23% in the U.S., while Canada was just above 60%, and Mexico averaged just above 78%.[xxix] The U.S. domestic economy plays the leading role as an engine of growth; getting our trade stance right makes a significant difference to the entire economy. Breaking down foreign trade barriers in accountancy, architecture, audiovisual, banking, distribution, education, engineering, environmental, information technology, insurance, health, legal, securities, and transport services including maritime will enable U.S. services industries to generate not only jobs but innovation at home and abroad. International trade in services is a critical part of creating a dynamic U.S marketplace that generates employment opportunities as the economy evolves.

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[i] World Trade Organization, Trade Profile United States, 2020 (https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/US_e.pdf).

[ii] Other commercial services includes: communication, construction, insurance, financial, computer and Information, royalties and license fees, other business services (trade related, operational leasing, miscellaneous business, legal, accounting, management consulting, public relations, advertising, market research, and development, architectural, engineering, and other technical services, agricultural, lining and on-site processing), as well as personal, cultural, and recreational services as reflected in the Balance of Payments Manual 5.

[iii] World Trade Organization, Trade Profile United States, 2020 (https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/US_e.pdf).

[iv] Ibid.

[v] Ibid.

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[ix] Ibid.

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[xiii] International Monetary Fund, United States 2021 Article IV Consultation (IMF Country Report No.21/162), July 2021 (https://www.elibrary.imf.org/view/journals/002/2021/162/002.2021.issue-162-en.xml).

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[xv] U.S. Bureau of Labor Statistics, Employment Situation Summary, February 4, 2022 (https://www.bls.gov/news.release/empsit.nr0.htm).

[xvi] Ibid.

[xvii] Ibid.

[xviii] World Economic Forum, Global Gender Gap Report, 2021 (https://www.weforum.org/reports/global-gender-gap-report-2021).

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[xxi] U.S. Bureau of Labor Statistics, Industries at a Glance, January 2022 (https://www.bls.gov/iag/).
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