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Trade Adjustment Assistance: Facts versus Fiction

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For almost 50 years Trade Adjustment Assistance (TAA) has provided income support, training and other kinds of assistance to workers who lose their jobs due to increased import competition and offshore outsourcing.² The program's 5-year legislative authorization and program reforms implemented in 2009 expired at the end of 2010.³ The Obama administration recently stated that it will not seek Congressional approval of three pending free trade agreements (FTAs) with Korea, Colombia and Panama until there is "a deal with Congress on the renewal of a robust, expanded TAA program."

The following are responses to various charges made against TAA:

CHARGE: Imports and shifts in production do not cause job losses

- There are economic benefits and costs associated with increased import competition and offshore shifts in production. Imports can provide consumers access to high quality, low cost goods and services. Offshore shifts in production can help domestic companies reduce costs, enhance profits and expand sales in foreign markets. At the same time, import competition and the mere prospect of offshore shifts in production can put downward pressure on earnings and can contribute to plant closings and job losses.
- The benefits of trade and investment tend to be large and widely distributed across an economy. By contrast, the costs are smaller and concentrated by region, industry and worker demographics. Although the benefits of trade and investment tend to be much larger than the costs, the costs to individual workers, their families and communities can be substantial. Hufbauer et al (2005) estimate that international trade

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² See Rosen (2008) for a complete description of the TAA program.

³ Both were temporarily extended to February 12, 2011.

contributes approximately \$1 trillion annually to the US economy. They also estimate that the adjustment costs associated with international are approximately \$50 billion annually.

CHARGE: There is no need for a special program to help workers who lose their jobs due to imports and offshore shifts in production

- Workers who lose their jobs due to increased imports or offshore shifts in production have different characteristics and face a higher adjustment burden than all unemployed workers.
 - Mathematica Policy Research (2010) reports that workers eligible for TAA tend to be older, less educated and have higher pre-layoff earnings than all unemployed workers. In addition, there is a higher probability that TAA eligible workers will be women than all unemployed workers. (See table below)

Characteristics of Unemployed Workers

Worker Characteristics (in percent unless noted)	TAA Eligible Workers	All Unemployed Workers
Over 40 years old	67.0	50.2
Female	45.5	41.5
High School diploma or less	74.8	53.6
Bachelor's degree or above	7.9	19.9
Mean wage (in dollars)	\$34,254	\$28,039
Annual earnings < \$20,000	23.7	44.7

Source: Dolfin, Sarah and Jillian Berk, "National Evaluation of the Trade Adjustment Assistance Program: Characteristics of Workers Eligible Under the 2002 TAA Program and Their Early Program Experience," Mathematica Policy Research Inc., April 2010.

- Corson and Decker (1995) found that 72 percent of TAA participates, but only 31 percent of UI recipients lost their jobs through a plant closing and were therefore less likely to be recalled by their previous employers.
- Kletzer (2001) found that workers who lose their jobs from industries facing high import competition, on average, experienced a 13 percent decline in earnings during the 2 years after their layoff. Thirty-six percent of those workers did not experience any earnings

loss and 25 percent of workers experienced an earnings loss greater than 25 percent.

- Assisting workers move out of uncompetitive industries and into more competitive industries, through active labor market programs, may reduce the need to protect uncompetitive industries, and thereby promote a more efficient allocation of labor and capital, leading to higher productivity growth and living standards throughout the entire economy.
- There is a moral obligation for the government to help mitigate the costs from job losses associated with increased imports and offshore shifts in production, which often occurs as a result of direct government policies, i.e. trade agreements.
- Public opinion surveys find that American support for trade and investment liberalization is conditioned on the government's willingness to assist those workers adversely affected. Members of Congress may be more willing to vote in favor of legislation that results in trade liberalization if it is combined with assistance to workers, firms and communities potentially adversely-affected by that liberalization.

CHARGE: It is impossible to identify job loss due to imports and offshore shifts in production

- In 1974 Congress established a detailed set of criteria for determining TAA eligibility. Those criteria include changes in a firm's sales and employment, as well as imports of "similar or like products." The Department of Labor investigates individual petitions filed by or on behalf of 3 or more workers to determine if there was an increase in imports and if that increased "contributed importantly" to a firm's decline in sales and employment.⁴ In 2002 Congress added shifts in production to another country as another possible factor contributing to job loss.
- Between October 1, 2002 and December 31, 2010, 6,184 petitions, or 26 percent of the total number of petitions filed during that period, were denied.
- Almost 6,000 TAA petitions, covering more than a half million workers, were filed with the Department of Labor from March 16, 2009 and May 1, 2011. Eighty percent of the petitions, covering 452,709 workers were certified as eligible for assistance under the program. More than half the approved petitions, covering 238,332 workers, were certified due to a shift in production to another country. Twice as many

⁴ The Court of International Trade interprets "contributed importantly" to mean that the increase in imports was an important factor, but not necessarily the most important factor, associated with the decline in sales and employment.

petitions were certified due to shifts in production than an increase in imports. More than 600 petitions, covering 64,565 workers, were certified as upstream or downstream producers adversely-affected by an increase in import competition or a shift in production. (See the following table)

Petitions Filed
From March 16, 2009 to May 1, 2011

	Number of petitions	Percent of all petitions filed	Estimated number of workers covered
Total Certified	4,554	0.80	452,709
Denials	1,162	0.20	105,026
Total petitions filed	5,715		557,699
Certification criteria		Percent of certified petitions	
Increase in imports	1,258	0.28	149,776
Shift in production	2,663	0.58	238,332
Downstream	65	0.01	5,771
Upstream	567	0.12	58,794

CHARGE: The costs associated with international trade and investment are limited to job loss in only those firms producing goods facing increased imports and outsourcing

- The costs associated with international trade and investment extend well beyond those firms facing increased imports and offshore outsourcing, including firms up and down the supply chain and more broadly in communities in which these firms are located. For example, increased auto imports can affect workers who design dashboards and produce windshields, even though those products do not face import competition themselves.
- Downsizing and plant closing of large employers can also have ripple effects throughout a community, including, but not limited to reductions in consumer demand, real estate values and local tax revenues.

CHARGE: Increased imports and outsourcing only affects the manufacturing sector

- Goods accounted for 27 percent of US output and manufacturing accounted for 11.5 percent of total employment between 2006 and 2010. By contrast, services accounted for 64 percent of output and 82 percent of employment over the same period.

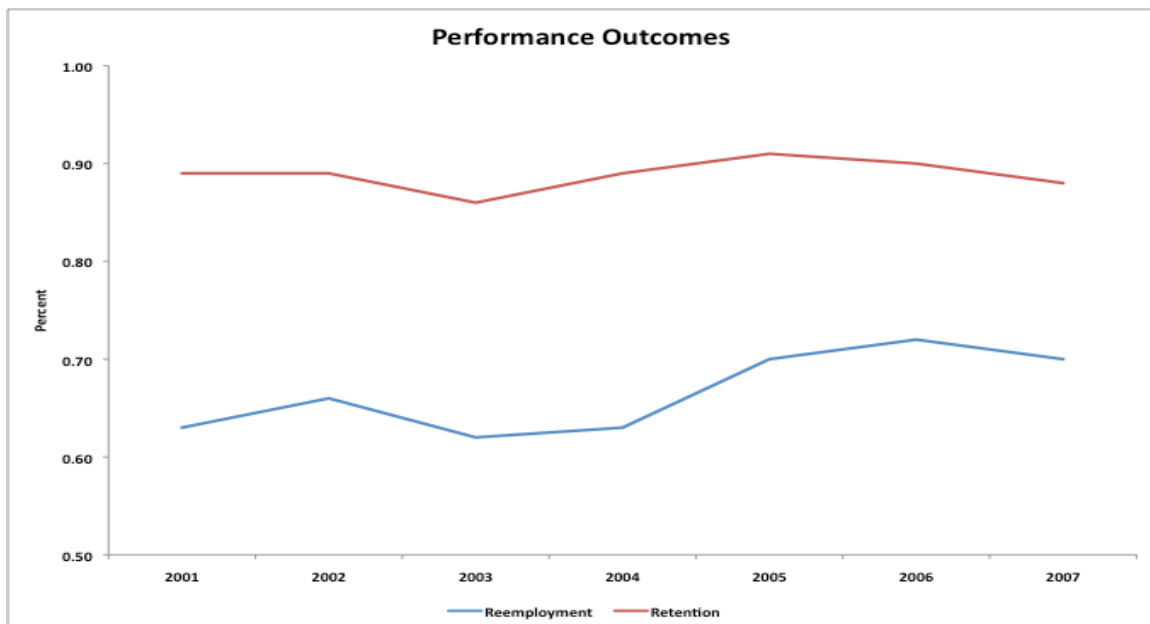
- Similar to manufacturing, many business and professional services, i.e. computer programming, finance, accounting and insurance, face international competition. In fact, Jensen (forthcoming) finds that more American workers employed in business and professional services face international competition than manufacturing workers.

CHARGE: The 2009 TAA reforms, including extending eligibility to service workers and raising the Health Coverage Tax Credit (HCTC), were designed in response to the recession, were only intended to address the immediate increase in unemployment and are no longer necessary

- The 2009 reforms, included in the American Recovery and Reinvestment Act (ARRA), were part of a decade-long process to improve the relevance and effectiveness of TAA. The first set of reforms was included in the Trade Act of 2002. Though included in ARRA, the reforms were clearly intended to be permanent changes in the program, not as temporary measures in response to the recession.
- In a press release issued after Congressional approval of the 2009 reforms Senator Grassley stated, “This amendment reflects more than six years of oversight and thinking on my part on how to improve this program to best meet the needs of American workers in the globalized economy.”

CHARGE: TAA is nothing more than a handout to workers

- Between 2001 and 2007 on average approximately two-thirds of participants found jobs within 3 months of leaving the program and 90 percent of them remained at those jobs for at least a year. (See graph below)



- Workers must have an approved adjustment plan and be enrolled in an approved training program in order to receive income support payments. Payments are terminated as soon as a worker completes his/her training.
- Career counselors must find evidence of an unmet demand for specific skills and the availability of jobs in order to approve a worker's adjustment plan.
- Park (2010) finds that training provided by the TAA program "is effective in reducing adjustment cost of the participants by providing better employment opportunities.
 - On-the-job training (OJT) is found to raise the reemployment rate by 10 to 11 percentage points and the wage replacement rate by 4 percentage points. OJT is also found to increase the job retention rate by approximately 3 percent.
 - Occupational training is found to raise the reemployment rate by 5 percentage points, of which 4 percentage points are contingent on completion of the training program. Enrollment in occupational training tends to increase the job retention rate by 2 to 3 percentage points.
 - Those workers who find jobs in an industry that matches their occupational training experienced wage replacement rates that were 4 to 5 percentage points higher than those whose new job did not match their training.
 - Older workers experienced lower wage replacement rates than younger workers.

CHARGE: TAA provides assistance to workers who do not need it

- Only 86,081 workers, or 20 percent of the 234,949 workers covered by certified petitions participated in TAA during FY 2010. TAA's take-up rate has historically been low, due in part to the conditions imposed on workers participating in the program and the fact that some workers find new jobs or leave the labor market within weeks after their layoff. In addition, workers do not receive any assistance if they are able to find new jobs on their own.
- Reforms implemented in 2009 made TAA more flexible, enabling workers to take only the assistance they need and reducing the overall cost of the program. For example only half of those workers who entered the program during FY 2010 enrolled in training. Other workers may have opted to receive one of the other, less expensive assistance provided under the program, including career counseling, the HCTC, wage insurance and/or job search and relocation assistance.

Participation in the TAA for Workers Program
during FY 2010

New TAA Participants	86,081
Total TAA Participants	234,949
New Training Participants	44,255
Total Training Participants	97,888
New Income Support Recipients	29,463
Total Income Support Recipients	28,438
Participants Exiting the Program	50,619

- The number of workers receiving income support payments was artificially low in FY 2009 and FY 2010 due to the extension of Unemployment Insurance (UI) payments. Workers must exhaust their UI payments before receiving income support under TAA.

CHARGE: TAA is not integrated into other workforce development programs

- Salzman (2009) finds that there are “close connections between Rapid Response functions and TAA.” Rapid Response is used by state agencies in cases of large layoffs to coordinate assistance to workers and communities.
- Dunham (2009) concludes that, “in many states and local One-Stop Career Centers, the TAA program has developed strong and extensive linkages with certain workforce development programs” but also points that that “one of the major challenges to developing and maintaining linkages between TAA and other workforce development partners is that TAA has so little administrative funding to pay for staffing, particularly at the local level.”
- Mack (2009) finds that TAA participants who are also enrolled in the Workforce Development Act (WIA) programs “receive more in-depth assessment, counseling, case management and post-training assistance.” She reports that co-enrollment in WIA has increased in more than half the states.

CHARGE: TAA does not have bipartisan support

- Senators Baucus and Grassley and Congressmen Rangel and Camp issued a joint press release in February 2009 following Congressional approval of a package of TAA reforms. In the release Congressman Rangel stated, “This breakthrough represents a bipartisan effort to expand and improve the Trade Adjustment Assistance program to help workers

impacted by trade and globalization so they can get back on their feet -- and it could not have come at a better time.” Senator Grassley said, “The amendment is a bipartisan compromise. It respects a social compact we’ve had on trade for more than 45 years.” Congressman Camp said, “It’s not every day that we are able to reach a bipartisan and bicameral compromise, and I am so proud to have reached agreement with Chairman Baucus, Chairman Rangel, and Senator Grassley on legislation to expand and improve the Trade Adjustment Assistance program.”

CHARGE: TAA is simply too expensive

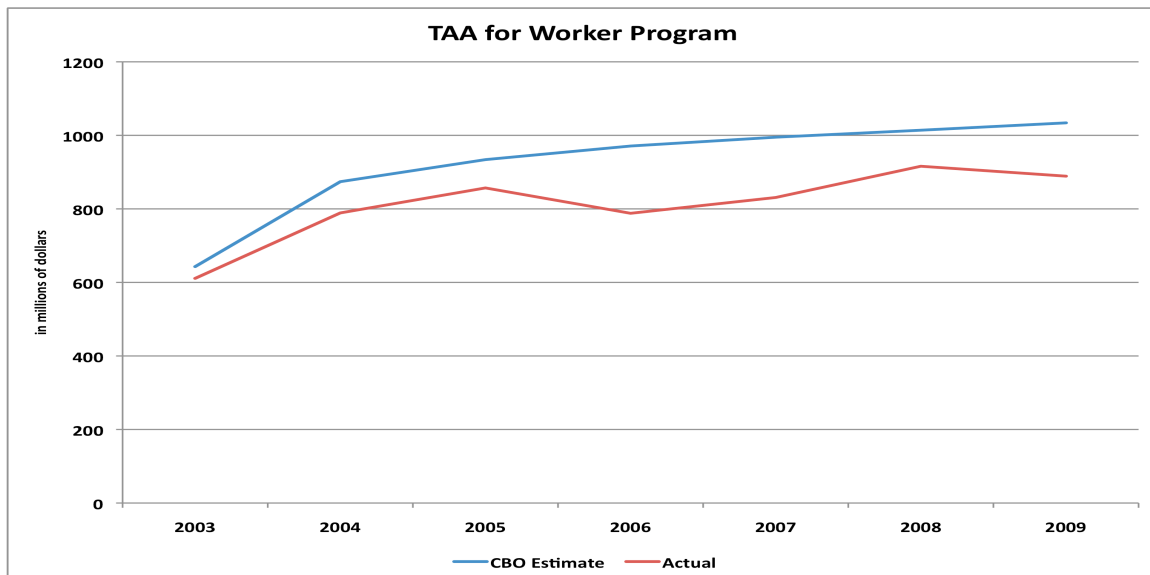
- Expenditures on the TAA for Workers program were less than \$1 billion in FY 2010. The program’s direct costs are somewhat offset by increased tax revenue due to workers returning to work sooner and with higher earnings than had they not participated in the program. Tax revenues are also enhanced due to increased employment by firms that successfully complete the TAA for Firms program.
- Hufbauer et al. (2007) comment that the costs of TAA should be viewed in the context of the fact that international trade contributes approximately \$1 trillion annually to the US economy.

TAA Expenditures
(in millions of dollars)

	Actual			CR	Proposed
	2008	2009	2010	2011	2012
TAA for Workers					
Income support	628	178	256	231	805
Training	260	685	685	278	260
Wage Insurance	28	26	34	39	35
Total	916	889	975	548	1100
TAA for Farmers and Fishermen	0	25	90	33	0
TAA for Firms	14	14	17	16	0
TAA for Communities	0	0	0	0	0

CR: Continuing Resolution

- The Congressional Budget Office (CBO) over-estimated the costs for the TAA for Workers program between FY 2003 and FY 2009 by \$784 million, or 12 percent above actual costs. Part of over-estimation can be due to an overly optimistic assumption of public awareness of the reforms and difficulties in accurately estimating the number of workers potentially eligible for TAA under the revised criteria. In addition, CBO did not take into account the *decline* in the petitions filed under the “old” increase in import competition criteria. It does not appear that CBO corrected for these factors in its more recent estimates of the additional cost associated with the reforms implemented in 2009.



CHARGE: TAA is a payoff to the unions

- Mathematica Policy Research (2010) reports that less than half of TAA participants were members of a union.
- Historically, union support for TAA has been less than enthusiastic, often favoring instead to protect domestic industries from import competition. TAA’s core Congressional support has been from Democrats and Republicans interested in pursuing trade and investment liberalization, but at the same time wanting to address the negative consequences that might occur as a result of that liberalization.
- Given the overall decline in unionization, there is no evidence that TAA recipients are likely to find news jobs in firms with union representation after completing the program.

CHARGE: There is no need to reauthorize TAA since the program continues to operate as long as Congress appropriates funds for it

- The Office of Management and Budget (OMB) has ruled that government programs receiving Congressional appropriations can continue to operate, even if its legislative authority has expired.
- There are considerable risks in administering a program that does not have legislative authorization, however without authorization, Congress does not have the ability to guide and tailor the program to deal with new challenges or address unforeseen problems. Uncertainties associated with operating a program without authorization can have a substantial effect on potentially eligible workers and state agencies that administer the program.
- The 2009 reforms, including extending eligibility to all service workers and all workers adversely-affected by offshore shifts in production and raising the HCTC from 65 percent to 80 percent, terminated at the end of 2010, along with all other provisions in the ARRA.

CHARGE: Government assistance to workers prolongs unemployment

- There is no empirical evidence that providing workers modest income maintenance payments and training significantly adds to the duration of unemployment.
- Virtually no elected officials are on record calling for the elimination of unemployment insurance solely based on the prospect of work disincentives.

CHARGE: The government should not be in the business of training workers

- For the most part, the US government has been out of the worker training business for more than 20 years. Instead, the government provides vouchers with which unemployed workers can “purchase” training from private sector providers, like community colleges. In addition, the wage insurance component of TAA encourages on-the-job training, the most effective type of worker assistance.
- Jacobson et al. (2005) concludes that “small investments (in training) are likely to generate small impacts,” but that “such impacts may still be consistent with cost-effective initiatives.” They found that one academic year of community college-based retaining in Washington state raised re-employment earnings for males by 7 percent and for females by much more – by 14.6 percent for females younger than 35 and 11.3 percent of females older than 35.

CHARGE: There is a lot of duplication in government training programs

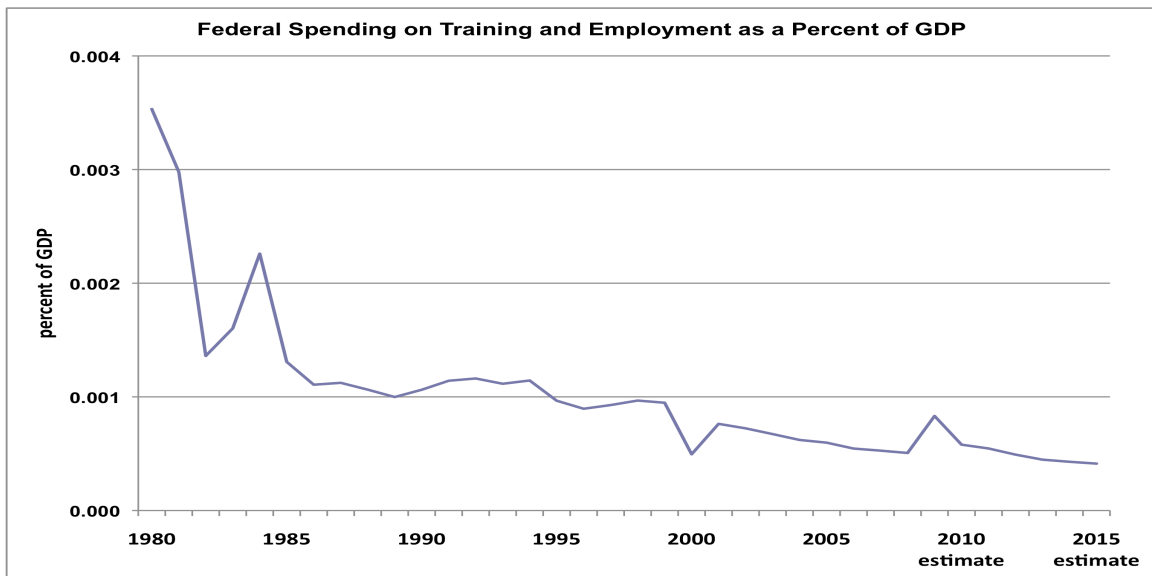
- Although there may be dozens of government training programs, they serve different groups of workers. Workers eligible for TAA cannot receive assistance under any other government training programs. Furthermore, the Unemployment Insurance workers receive is subtracted from the amount of income support they can receive under TAA.

CHARGE: TAA does not retrain workers for “real” jobs

- Workforce development is far from a perfect science. There is inadequate information concerning the skill requirements of prospective employers. In addition, the lag between identifying those needs and providing workers with those skills can be considerable.
- Career counseling is one of the most important aspects of TAA. A worker’s training plan cannot be approved unless there is some evidence that there is a demand for those skills.
- The TAA for Communities program was designed to improve the link between workforce development and local economic development. Unfortunately the Department of Commerce did not establish the program.

CHARGE: US government supports for worker training is part of the shift in the United States toward a socialist economic model

- Federal government spending on training and employment 0.0006 percent of GDP in FY 2010. Government spending on training and employment as a percent of GDP has fallen steadily since 1979, when it was approximately 0.0047 percent of GDP, more than eight times what it was in FY 2010. The pressures on the US labor market from international competition has expanded substantially over that period.



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