

Trade Adjustment Assistance

In 1962, President Kennedy proposed the first legislative linkage between Congressional approval of trade negotiating authority and government assistance for workers whose job loss is associated with changes in international trade. The Trade Expansion Act of 1962, which provided the President the authority to enter into the Kennedy Round GATT negotiations, established the Trade Adjustment Assistance program. Initially, the program was designed to provide extended income maintenance, beyond the traditional unemployment insurance, to workers who lost their jobs due to an increase in imports.

Very few workers received assistance during the program's first 12 years, due in large part to rigid eligibility criteria. In 1974, Congress eased the eligibility criteria and expanded the assistance to include training.¹ Since 1975, over 3 million American workers have been certified as eligible for assistance under TAA, and approximately 1.9 million workers have received assistance.

From the outset, the primary motivation behind a special program to assist workers who lose their jobs associated with increased imports was based on political considerations. TAA was a part of a package to win AFL-CIO support for the Trade Expansion Act of 1962. It was also believed that TAA would make it easier for members of Congress to support efforts at trade liberalization.

Changes in Trade Adjustment Assistance

Under the existing TAA program, workers can receive up to 52 weeks of income maintenance (beyond the standard 26 weeks of unemployment insurance), training, and job search and relocation assistance. Income maintenance is an entitlement -- Congress must appropriate sufficient funds to provide payments to any worker who is eligible and participates in the program. Training is a "capped entitlement," -- Congress fixes the total amount of funds appropriated for training, but every eligible participant is entitled to enroll in some government-sponsored training.² TAA also provides funds for job search and relocation assistance, although not many workers request this assistance.

¹ The eligibility criteria were liberalized, so that imports had to "contribute importantly" to job loss. In other words, the increase in imports had to only be one of several contributing factors to the job loss.

² By contrast, the Workforce Investment Act (WIA) -- the program that provides assistance to all dislocated workers regardless of cause -- is not an entitlement. Workers only receive training if there are adequate funds available. Most states exhaust training funds under WIA well before the end of the year, denying workers the ability to enroll in training. In addition, states can deny training, if it is determined that a worker can find a job, which pays a subsistence wage.

In 1981, Congress greatly curtailed the provision of assistance under TAA. First, the program was changed to require workers to enroll in training in order to receive income maintenance.³ Second, the amount of income maintenance, which had been set at the average manufacturing wage, was significantly reduced to match each state's unemployment insurance payment. This constituted more than a 50 percent cut in assistance.

The average weekly payment in FY 2000 was \$217 under TAA and \$212 under NAFTA-TAA, less than half of the total average weekly earnings, which was \$474.38, and considerably less than the average weekly earnings in manufacturing, which was \$598.21. Contrary to what some people believe, workers cannot become rich living on TAA income maintenance payments. In constant terms, the average weekly payment has been rather constant since 1983.

With the approval of the North America Free Trade Area (NAFTA) agreement in 1993, Congress established a separate program for workers who lose their jobs from industries facing increased imports from and/or relocates production to Canada and Mexico. Assistance provided workers under the NAFTA-TAA program is almost identical to that provided under the general TAA program, but there are some differences in coverage. In addition to covering workers who lose their jobs from import-competing industries, NAFTA-TAA provides assistance to workers who lose their jobs from plants that move overseas. Over the last few years, the Department of Labor has been assisting "secondary workers" – workers who lost their jobs because they worked for suppliers or downstream producers for firms that faced increased import competition from Canada or Mexico, on a discretionary basis.⁴

Since the establishment of the separate NAFTA-TAA program, there has been a lot of confusion and arbitrary discrimination between workers. For example, a worker who loses his/her job from a plant that shifts production to Mexico is eligible for assistance, yet a worker laid off from a plant, which moves to China, is not eligible. There are also several technical differences between the two programs.

³ This change was contrary to the notion that TAA was compensation for government action.

⁴ A downstream producer is defined in the bill as "a firm that performs additional, value-added production processes, including a firm that performs final assembly, finishing, or packaging of articles produced by another firm."

Recent Developments

Over the last 25 years, approximately 2 million workers have received assistance under TAA. More than half of these workers were laid off from the auto, textiles and apparel, and steel industries. In FY 2000, 33,000 workers received assistance under TAA and 2,000 workers received assistance under NAFTA-TAA. The average worker received weekly income maintenance payments, equal to approximately \$220, for about 35 weeks. The total budgetary cost of both programs in FY 2000 was about \$400 million.

Efforts to reform and expand TAA have been debated since 1974. Interest in reforming the program is highly correlated with Congressional consideration of trade liberalizing legislation. Trade Adjustment Assistance is often seen as a quid pro quo for support on trade liberalizing legislation. Significant weaknesses in the program have depreciated its value in “buying” that support.

Despite periodic debate to expand and improve the program, the only changes to TAA since 1974 were in 1981, when TAA criteria were tightened (income support was made conditional on enrollment in training), and in 1994, when Congress created a separate program related to NAFTA.

TAA Reform and Trade Promotion Authority

On July 27, the House of Representatives approved the Trade Promotion Authority (TPA) bill by a 3-vote margin. This was an improvement from the previous two occasions when the margin was only one vote. The bill included provisions, which substantially expands the existing Trade Adjustment Assistance (TAA) program.

The following are some of the specifics of the final legislation:

Secondary workers – TAA eligibility was expanded to include workers who lose their jobs from plants producing parts that are inputs into import-competing final goods. Some of these workers are already covered under NAFTA-TAA. The GAO estimates that this provision could result in as much as a doubling in the number of workers eligible for assistance.

Refundable tax credit for health insurance – Workers are eligible to receive a 65 percent advance-able, refundable tax credit to offset the cost of maintaining health insurance for up to 2 years.

Shift in production – A growing number of American workers are losing their jobs due to shifts in production to overseas, as opposed to direct import competition. Congress agreed to expand TAA eligibility to include workers who lost their jobs due to shifts in production to only those

countries which have bilateral agreements with the United States or “where there has been or is likely to be an increase in imports....”

Wage insurance – Workers over 50 years old and earning less than \$50,000 a year may be eligible to receive 50 percent of the difference between their old and new wage for up to 2 years, if the new wage is lower than the old wage.

Harmonize the TAA and NAFTA-TAA programs – Eligibility criteria and the package of assistance under both programs were harmonized into one unified program.

Training appropriation – Congress doubled the legislative cap on training appropriation, from \$110 million to \$220 million. Congress and the President still have to agree on the annual appropriation for training.

Extend income maintenance by 26 weeks – Workers can be enrolled in training and receive income maintenance for up to 2 years.

Increase in job search assistance and relocation assistance – The assistance was updated for inflation, since the number was set some 20 years ago.

TAA for farmers and fishermen – a program was established to provide assistance to farmers and fishermen when the international price of a commodity falls more than 20 percent below the previous five-year average.

Increased funds for TAA for firms – Congress raised the appropriation cap on this very small program.