

Honoring the Commitment:
Assisting US Workers Hurt by Globalization

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Introduction

US employment growth seems to have been slow in recovering from the last recession. Two and a half years after the recession ended, total employment remains close to 1 million less than it was at the start of the recession in March 2001.¹ By comparison, total employment had grown by close to 5 and 10 million, at the same point in the business cycle, after the recessions in the 1990s and the 1980s, respectively (see Table 1). A similar pattern is evident in manufacturing employment, although the numbers of net employment decline following the 1990 and current recession are far greater than for total employment.

Table 1
Change in Employment
39 Months into Recovery
(in thousands)

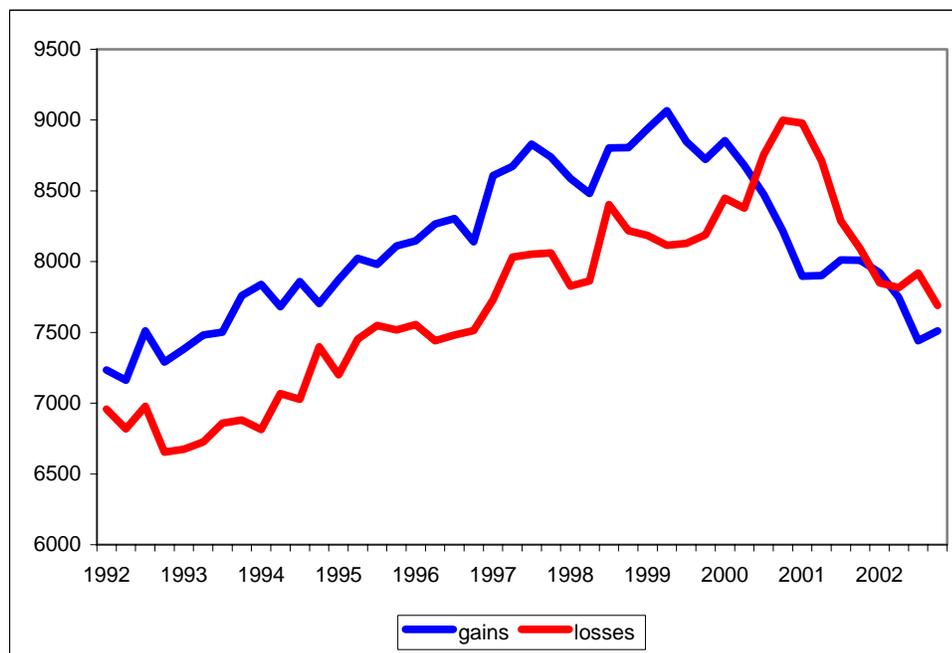
	Total	Manufacturing
1980s	9940	964
1990s	5287	-179
2000s	-935	-2429

Source: Authors' calculations based on BLS data

The cyclical nature of employment fluctuations gets headline attention, but monthly data on employment levels released by the Bureau of Labor Statistics (BLS) hide a much deeper and more interesting story about the US labor market. Data on total employment tend to understate the flexibility of the US labor market. Figure 1 presents recent BLS data for total job gains and losses. These data, rather than the more popular monthly or annual change in *net* employment, provide a more accurate picture of job turnover and dynamism in the US labor market.

¹ Based on recession start date as determined by the National Bureau of Economic Research, with employment levels to July 2004(?).

Chart 1
 Quarterly Job Gains and Losses
 (in thousands)
 1992 to 2004



Source: Business Dynamics Database, BLS.

Between 1992 and 2004, on average, 32.5 million jobs were created each year. Over the same period, on average, 30.8 million jobs were lost each year. Taking both job creation and destruction into account, total employment grew by approximately 1.6 million each year.²

A flexible labor market can benefit an economy, especially when workers have the opportunity to move from low to high productivity jobs. Young workers in particular benefit from turnover, when they gain skills and experience and find productive matches with employers. At the same time, labor market flexibility can also impose significant costs on workers and their families. Workers can experience prolonged unemployment, and once re-employed, they may experience large and persistent earnings losses.³

The United States has a well-developed and broad set of labor market adjustment policies and programs, with Unemployment Insurance (UI) at its center. Other programs include advance notice for major layoffs, mandated by the Worker Adjustment and Retraining Notification (WARN) Act, and training and job search assistance, provided under the Workforce Investment Act (WIA). In addition, the United

² BLS reports that the average annual change in total employment over the same period was approximately 1.8 million. The employment data are derived from the payroll survey, and reported in Current Employment Statistics. Because of this difference, the employment numbers will differ from the job losses and job gains discussed above in the text.

³ See Jacobson, LaLonde and Sullivan (1993) and Kletzer (2001) for estimates of earnings losses associated with job displacement.

States is the only country that provides special assistance to workers who lose their jobs due to increased imports and international shifts in production.

Despite the breadth of labor market policies and programs, there is considerable evidence that these interventions are inadequate. By many standards, US assistance to unemployed workers is modest. Only a minority of workers is eligible for and receives UI when they lose their jobs. Over the last five years, only one-third of unemployed workers received assistance under the UI program. The level of UI assistance is also low. Eligible workers receive up to 26 weeks of assistance, at an average of \$250 per week, which is below the poverty rate for a family of four.⁴ Training and job search assistance are only available on a first-come, first-served basis, and availability is limited by funding caps. States often exhaust their federal allocation of funds well before the end of the fiscal year. As a result, very few workers receive meaningful training.⁵

US spending on active labor market programs, such as training, job search assistance and wage subsidies, is also modest compared to other countries (see Table 2). Relative to six other major industrialized countries, the United States spends the least on active labor market policies, even after taking into account each country's unemployment rate. France and Germany each devote about 5 times more to their active labor market programs than does the United States.

Table 2
Spending on Active Labor Market Adjustment Programs
2000-2001

	As a percentage of GDP	Ratio of spending as a percentage of GDP to the unemployment rate	As a percentage of total spending on all labor market programs
Canada	0.41	0.06	36.4
France	1.32	0.14	44.4
Germany	1.21	0.16	38.6
Japan	0.28	0.06	34.2
UK	0.37	0.07	40.0
US	0.15	0.03	32.9

Source: OECD, Employment Outlook: 2003

The technical and methodological issues involved in properly evaluating the effectiveness of US (or any country's) labor market adjustment programs are considerable. These issues aside, evidence on program effectiveness is mixed at best. Past evaluations find that unemployment insurance and training programs do not

⁴ See U.S. Bureau of the Census (2004)

⁵ See U.S. General Accounting Office (2002)

appear to make any significant difference in shortening the duration of unemployment or raising incomes once workers are re-employed.⁶

Weak evidence of program effectiveness has not stopped the United States, or other countries for that matter, from continuing to introduce and administer labor market adjustment programs. This suggests that governments are motivated by other factors in assisting displaced workers, such as social and political factors.

Modest US labor market adjustment programs heighten anxiety over job loss. Because workers bear most of the burden of labor market flexibility, there is understandably great concern over government policies that might place more pressure on them. These concerns have intensified calls to compensate workers adversely affected by government policies and has resulted in targeted assistance to select groups of workers.

Trade Adjustment Assistance

A combination of weak labor market adjustment programs for all workers and the unique manner in which trade policy is made in the United States contributed to the establishment of Trade Adjustment Assistance (TAA). In the United States, in contrast to other countries, the Congress must temporarily transfer authority to the President in order for the government to participate in trade negotiations. This provides Congress an opportunity to influence the negotiating agenda. Congress has also used this opportunity to compensate US workers potentially adversely affected by any resulting changes in foreign competition. With this in mind, President Kennedy and Congress established the Trade Adjustment Assistance (TAA) program in 1962, to provide assistance to workers who lost jobs due to increased import competition.

Between 1974 and 2002, approximately 25 million workers received assistance under TAA. More than half of these workers were employed in the auto, textiles, apparel, and steel industries. Assistance included up to 52 weeks of income maintenance (beyond the standard 26 weeks of UI), training, and job search and relocation assistance.⁷ The average weekly payment for income maintenance in FY 2000 was a little above \$200 per week, less than half the total average weekly earnings, which was \$474, and considerably less than the average weekly earnings in manufacturing, which was \$598.⁸

With the approval of the North American Free Trade Agreement (NAFTA) in 1993, Congress established a separate program for workers who lost their jobs due to

⁶ See for example Betcherman, Olivas and Dar (2004) and Dar and Tzannatos (1999).

⁷ Income maintenance under TAA is an entitlement -- Congress must appropriate sufficient funds to provide payments to any worker who is eligible and participates in the program. There is a cap on funds appropriated for training under TAA. 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 opportunity to enroll in training. In addition, states can deny training, if it is determined that a worker can find a job that pays a subsistence wage without training.

⁸ Bureau of Labor Statistics

increased imports from and/or shifts in production to Canada and Mexico. The NAFTA-Transitional Adjustment Assistance (NAFTA-TAA) program provided almost identical assistance to that provided under the general TAA program, with the exception of some differences in scope of coverage. In addition to covering workers who lost their jobs from import-competing industries, NAFTA-TAA provided assistance to workers who lost their jobs due to shifts in production. The Department of Labor (DOL) also provided assistance to some “secondary workers,” e.g. people who worked for suppliers or downstream producers for firms that faced increased import competition from Canada or Mexico.⁹ NAFTA-TAA created considerable overlap, confusion and arbitrary discrimination between workers.

Political support for TAA

Trade Adjustment Assistance has never received strong or enthusiastic support. Although labor unions work to ensure that their workers receive the assistance provided under the program, they have always feared that support for TAA could be seen as weakening their position against trade liberalization. A combination of the link to job loss and the modest amount of assistance has led unions to characterize TAA as “burial insurance.” Union support for TAA was further weakened in the 1990s, as they began placing a higher priority on raising labor standards in low wage countries.¹⁰

Support from both Democratic and Republican Administrations has also been mixed, divided along agency lines. The US Trade Representative (USTR) has long supported TAA as a means for winning Congressional support for trade negotiating authority. That support, however, is essentially political, since USTR has no legislative authority over TAA. By contrast, the Department of Labor (DOL), which does have legislative authority over TAA, has only reluctantly administered the program and has never promoted expansion or reform. TAA requires higher levels of energy and resources to administer than other dislocated worker programs, due to its petition and eligibility process and its wider range assistance services.¹¹ From a purely administrative perspective, DOL would prefer to administer a single program for all workers regardless of cause of dislocation.

The lack of clear political support for TAA is not unique to the executive branch. Although most Congressional Republicans tend to aggressively support trade liberalization, they tend to view labor market adjustment programs as welfare. For most Congressional Republicans, TAA is a “side-payment” and they are only willing to accept the least amount of TAA necessary to win support for trade liberalization. By contrast, support for TAA from Congressional Democrats is mixed. Similar to unions, some Democrats are concerned that their support for TAA might be misconstrued as

⁹ Under NAFTA-TAA, a downstream producer was defined 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.”

¹⁰ Although raising international core labor standards in developing countries would improve the welfare of workers in those countries, there is little evidence that it would help American workers. Elliott and Freeman (2003) find no systematic evidence showing a relationship between core labor standards, as identified by the International Labor Organization, and labor costs. They find that even if higher standards raised labor costs a bit in the short-run, it would not be enough to endanger the comparative advantage of poor countries in labor-intensive exports.

¹¹ Primarily under the Workforce Investment Act (WIA).

weakening their resolve against trade liberalization. A smaller group of Democrats favors trade liberalization and thinks that TAA is necessary if the government wants to pursue trade liberalization.

All of this adds up to weak support for TAA, despite that fact that the program has made a significant difference for over 25 million US workers since it was established. In fact, until recently there was no group that advocated primarily on behalf of TAA and the workers served by the program.¹²

Until recently, there were few calls for reform and the only changes to TAA since 1974 were made in 1981, when assistance was reduced, e.g. income support was reduced from the average manufacturing wage to the prevailing UI rate and made conditional on enrollment in training, and in 1993, when Congress created the separate NAFTA-TAA program.

Since its inception in 1962, changes in TAA have been highly correlated with Congressional consideration of trade liberalizing legislation. For some, TAA has been considered as a *quid pro quo* for support on trade liberalizing legislation. In recent years, significant weaknesses in the program depreciated its value in “buying” that support.¹³

With the lapse in fast-track trade negotiating authority during the 1990s, TAA lost its logical legislative “hook” for program reauthorization and expansion. Over this period, the already fragile support for TAA further weakened, especially as the organized labor community made international labor standards one of its major trade policy priorities.

A number of events in 2000 and early 2001 improved the prospects for action on TAA.

- In 1997, Levi Strauss Company announced its intention to close 13 factories around the US, resulting in laying off approximately one-third of its US workforce. Three of those plants were in New Mexico. In response to the layoffs, Senator Jeff Bingaman (D-NM) undertook an aggressive set of measures aimed at streamlining assistance to the dislocated workers in his state.¹⁴ Senator Bingaman’s efforts revitalized calls for reform and expansion of TAA.
- One of the Bush Administration’s early priorities was passage of Trade Promotion Authority (TPA). In June 2001, as Congress began considering TPA legislation, the Democrats took control of the Senate. The most important consequence for passage of TPA was that Senator Max Baucus (D-MT) became Chairman of the Finance Committee. Almost immediately after assuming the chairmanship of the Committee, Senator Baucus enthusiastically embraced the

¹² The Trade Adjustment Assistance Coalition was established in 2004 to serve this purpose. For more information see www.TAACoalition.com

¹³ See Rosen (2003)

¹⁴ See Rosen (2001)

idea of making a major expansion and reform of TAA a centerpiece of the TPA legislation.

- One of the proposals under consideration in the package of TAA reforms was the inclusion of a tax credit, for eligible displaced workers, to lower the costs of maintaining health insurance. This proposal caught the attention of Senator Thomas Daschle (D-SD), who became Senate Majority Leader when the Democrats took control of Congress in March 2001. Inclusion of assistance for health insurance quickly became the centerpiece of the TAA reform effort. In some sense, the prospect of TAA reform and expansion that attracted the support of two critical Senators – Daschle and Baucus -- significantly improved the chances for final Senate passage of TPA.

The Trade Act of 2002, which Congress passed in July and which President Bush signed into law in August 2002, provided TPA to the President, and included provisions that substantially expanded and reformed TAA. The bill passed the House of Representatives by a vote of 215 to 212 and the Senate by a vote of 64 to 34. Although it is difficult to prove empirically, it is widely believed that the inclusion of the TAA reform provisions helped secure the votes necessary to pass the Trade Act. These provisions included:

- Merging TAA and NAFTA-TAA – Eligibility criteria and the package of assistance under both programs were harmonized and unified into one program.
- Secondary workers – TAA eligibility was expanded to include workers who lose their jobs from plants producing inputs into goods that face significant import competition. Some of these workers were already covered under NAFTA-TAA. The General Accounting Office estimated that this provision could add between 40,000 and 50,000 new participants each year.¹⁵
- Shift in production – TAA eligibility criteria were expanded to include workers who lose their jobs due to shifts in production to countries with bilateral free trade agreements with the United States and “where there has been or is likely to be an increase in imports...”¹⁶
- 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.
- Wage insurance – Workers over 50 years old and earning less than \$50,000 a year may be eligible to receive half the difference between their old and new wages, subject to a cap of \$10,000, for up to two years. Workers must find a new full-time job and enroll in the Alternative Trade Adjustment

¹⁵ See GAO (2001)

¹⁶ Section 231 of the Trade Act of 2002.

Assistance (ATAA) program within 26 weeks of job loss and cannot receive other TAA assistance.¹⁷

- Training appropriation – Congress doubled the legislative cap on the training appropriation, from \$110 million to \$220 million. Final funding is still subject to the regular Congressional appropriations process.
- 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 amount of assistance was increased to keep up with inflation.

Implementation of 2002 Reforms

The 2002 provisions resulted in the most extensive expansion and reform of TAA since its establishment in 1962. In particular, the health care tax credit (HCTC) and wage insurance (ATAA) were significant innovations in assistance to unemployed workers.¹⁸ Despite the considerable technical challenges involved in implementing these reforms, the DOL and the Internal Revenue Service (IRS) met the deadlines set out in the legislation.

In addition to implementing the reforms, DOL made significant progress in reducing the amount of time it takes to process worker petitions for TAA eligibility. This is an important first step in ensuring that workers receive the assistance they need in a timely fashion.

Although it is too early for a formal evaluation, preliminary evidence suggests that program participation has not met expectations of the bill's initial sponsors. Table 3 presents data on worker petitions for TAA. For the years FY2000 to 2002, data are for TAA only, not inclusive of petitions for NAFTA-TAA. For FY 2003, petitions are for the combined TAA.¹⁹

Table 3
Worker Petitions for TAA

	2000	2001	2002	2003
Petitions filed	1382	2353	2404	3562
Petitions certified	845	1029	1594	1880
Petitions denied	534	606	980	1210
Percent of petitions denied	39	26	41	34
Number of workers covered by certified	98007	139587	235071	197117

¹⁷ The Trade Act of 2002 refers to wage insurance as Alternative Trade Adjustment Assistance.

¹⁸ In the early 1990s, Canada ran a wage insurance demonstration program (Bloom, *et. al.*, 1999), and in 2003, Germany instituted a wage insurance program similar to the US program.

¹⁹ Unfortunately, DOL has not provided a complete set of data in order to make the appropriate comparisons.

petitions				
New income support recipients	32808	34698	42362	47992
Take up rate	0.33	0.25	0.18	0.24

Source: US Department of Labor (report to Senator Baucus, date)

The 48 percent increase in petitions filed from 2002 to 2003 is particularly notable. There are several possible explanations for this significant increase, as reported in this table. Importantly, data for FY 2003 include petitions that would have been filed under NAFTA-TAA. Based on data for both TAA and NAFTA-TAA over the period 1995-1999, approximately 30 percent of filed petitions for the two programs were filed for NAFTA-TAA.²¹ Allowing 30 percent of the increase to be due to program consolidation, we still see a sizeable increase from 2002 to 2003.

It is interesting to note that despite the increase in the number of TAA petitions, the number of workers covered by those petitions declined between FY 2002 and FY 2003. In FY 2001 and FY 2002 the average number of workers per certified petition was 142 and the average number of workers per denied petition was 97. These numbers fell to 105 and 68 respectively in FY 2003. There is no immediate explanation for this decline in the number of workers covered by petitions.

It is particularly noteworthy that TAA participation over the last several years has been so low, given

- the overall weak performance of the US labor market;
- the continued growth of imports, leading to potential eligibility for the program;
- the important expansion in eligibility criteria, including shifts in production and secondary workers; and
- no major change in petition denial rates.

Table 4 presents data on the number of workers participating in the various TAA programs. The 18 percent increase in the number of workers receiving income support between FY 2002 and FY 2003 may be explained by the increase in the number of TAA petitions filed. It is interesting to note that there was a 44 percent increase in the number of training waivers provided between FY 2002 and FY 2003, especially since rules concerning the provision of waivers were tightened in the 2002 law.²²

Table 4
Participation in Various TAA Programs²³

²¹ For the period 1995-1999, 12,205 petitions were submitted to both programs. Of those, 3,651 petitions, or 30 percent, were filed for NAFTA-TAA.

²² Workers need to obtain training waivers in order to exempt from the requirement to be enrolled in training in order to receive income maintenance payments.

²³ Income support and training data for FY 2001, FY 2002 and FY 2003 include TAA and NAFTA-TAA.

	2000	2001	2002	2003
New income support recipients	32808	34698	42362	47992
New training recipients	22665	29941	45771	47239
New on-the-job training recipients	304	194	292	386
New ATAA	0	0	0	42
Number of training waivers	19858	19169	20947	30138

Source: US Department of Labor

One of the ongoing mysteries of TAA is the low percentage of certified workers who receive assistance. In FY 2003, only 24 percent of workers covered by certified petitions received income support, otherwise known as the “take-up” rate (see Table 3). This was a significant increase from the previous fiscal year, when the take-up rate was only 18 percent. Take-up rates in FY 2000 and 2001 were 25 percent and 33 percent respectively. One potential explanation for the low take-up rates is that workers find employment without needing assistance. Although finding a new job is desirable outcome, studies reveal a need for reemployment assistance and large earnings losses even with reemployment.²⁴ Another possible explanation is that workers are not willing to enroll in training in order to receive income support.

The U.S. Department of Labor reported that only 42 workers were enrolled in the new wage insurance program in FY 2003. This low number of participants is probably due to the fact that the program did not officially begin until August 2003, thus these data only reflect 8 weeks of activity. In addition, workers have up to 26 weeks from the date of their job loss to enroll in wage insurance. There is some evidence that there has been an increase in the number of workers enrolled in the wage insurance program, but the number remains relatively small.²⁵

In the eight months between August 2003 and March 2004, approximately 10,250 workers enrolled in the HCTC program. This is an impressive achievement, since the HCTC was formally instituted around the same time as the ATAA program. Approximately 4,500 workers received the HCTC due to their participation in TAA. Almost 6,000 additional workers received the HCTC due by participating in the Pension Benefit Guaranty Corporation (PBGC) program.²⁶ The average cost over the initial 8-month period was approximately \$200 a month per participant.

²⁴ Kletzer (2001) reports reemployment rates in the range of 60 to 65 percent for trade-displaced workers, with the average reemployed trade-displaced worker experiencing an earnings loss of 13 percent. For a sample of Pennsylvania displaced workers, Jacobson, LaLonde and Sullivan (1993) report average earnings losses on the order of 25 percent, five to eight years following job loss.

²⁵ Apparently one of the major handicaps for enrollment in ATAA results from a provision inserted in the legislation by Congressional Republicans. Under this provision, applicants must signify on their initial petition if they want their workers to be eligible for ATAA. Since most petitioners are not aware of the various forms of assistance provided under TAA, potentially thousands of eligible workers have been denied access to the most cost effective aspect of TAA.

²⁶ Under the Trade Act of 2002, HCTC eligibility was extended to workers who retired from steel firms that subsequently declared bankruptcy and stopped providing health insurance. In 2003, 5,738 workers qualified for HCTC via this route.

Discussions with workers and state and local service providers repeatedly confirm that insufficient knowledge about TAA helps explain low take up rates. At less than 50,000 workers per year, the percent of eligible workers who participate in TAA is significantly less than the percentage of eligible workers who receive UI.²⁷ In addition, trade-related worker displacement is less frequent than unemployment due to other factors. Over the last 40 years, DOL has performed very limited public outreach to inform employers, workers and communities of the existence of TAA.

TAA Budget

TAA's total budget has more than doubled over the last three years and is expected to increase further over the next few years, as a direct result of the reforms passed by Congress in 2002. The reforms expanded the potential number of workers eligible for TAA, by adding shifts in production and secondary workers to the eligibility criteria, as well as expanded the amount of assistance available to workers, i.e. HCTC, ATAA and extended income maintenance.²⁸ In FY 2002, prior to the reforms, TAA's total annual budget was \$417 million. In FY 2005, the total budget is estimated to reach above \$1 billion (see Table 5). Expenditures on TAA are projected to rise to between \$1.5 and \$2 billion, once the 2002 reforms are fully implemented.²⁹

Table 5
Federal Budget Outlays for TAA
(in millions)

	2002 actual	2003 actual	2004 estimate	2005 estimate
TAA income maintenance	254	348	513	750
TAA training	94	222	258	259
NAFTA income maintenance	32	51	10	na
NAFTA training	37	37	1	na
Wage Insurance	na	na	14	48
Total	417	658	796	1057

Source: Office of Management and Budget (2004).

Effectiveness

The conventional wisdom in the broader policy community is that government-financed labor market adjustment programs do not work. Although this view is not founded on any empirical basis, policymakers cite difficulties in finding re-employment and the size of permanent wage losses to support their claims. It is beyond the scope

²⁷ Information from the Employment and Training Administration of the U.S. Department of Labor shows that approximately 21 million workers made an initial claim for Unemployment Insurance in 2003, Information available at www.doleta.gov.

²⁸ GAO estimated that expanding the eligibility criteria to include secondary workers could add 40,000 to 50,000 potential program participants, costing approximately \$400 to \$500 million each year. See U.S. GAO (2000).

²⁹ There is no budget outlay for the HCTC. Its cost is measured by the resulting decline in tax receipts.

of this paper to adequately address this misperception. There is a considerable literature on the effectiveness of displaced worker adjustment programs.³⁰ Our discussion is based on the premise that every effort should be made to design and implement effective programs that deliver meaningful assistance. From a political perspective the question is, what would be the alternative to TAA? Political pressures suggest that doing nothing is highly unlikely.³¹ So the challenge is designing the most effective interventions, not whether to intervene or not.

Unfinished Business

Despite significant changes made to the TAA program in 2002, several issues remain outstanding. Some of the issues are technical and have been discovered while implementing the 2002 reforms. Other issues are proposals that were removed during Congressional consideration of the initial 2001 legislation, and continue to be desirable. In addition, there are some new proposals, not considered in the 2002 legislation. Although the following list of issues is long, it is by no means exhaustive.

Technical Changes

Training budget

Many states exhaust the funds available for training before the end of the fiscal year. In FY 2003, it quickly became clear that the increase in the training cap included in the Trade Act of 2002 was insufficient to cover the potentially significant expansion in participation due to expanded eligibility criteria. The original Senate bill called for the training cap to be increased to \$300 million, based on estimates of the expected increase in participation due to the proposed changes in eligibility also included in the bill. House and Senate conferees agreed to increase the funding limit to only \$220 million, with no regard to the projected increase in eligibility. The resulting shortfall in training appropriation deserves immediate action. At a minimum, the funding cap should be raised to \$300 million. Another option is to link the funding cap to an estimate of how much money would be necessary to provide adequate training to all TAA participants.

In addition to the inadequate amount of training funds, there are also problems with the allocation of those scarce training funds among the states. DOL recently began addressing this problem in a coherent way. Until recently, TAA training funds were allocated to the states on a first-come, first serve basis. The result was that large states with high program participation tended to place heavy demands on available training dollars, leaving few funds for small states and those workers who lost their jobs late in the fiscal year. The tightening of training waivers in 2002 exacerbated this problem. DOL recently introduced a more orderly procedure for allocating training funds to states, taking into account size and experience. Although this procedure may be an improvement, it does little to address the fact that the total training appropriation is too small to enable all TAA participants to receive adequate training.

³⁰ See Kletzer and Koch (2004).

³¹ See Rosen (2003)

Shifts in production

Recent experience suggests that shifts in production are increasingly becoming an important contribution to job dislocation in the United States. In FY 2003, shifts in production accounted for one-third of certified TAA petitions.

As part of the effort to harmonize TAA and NAFTA-TAA, the 2002 bill proposed adding shifts in production to the TAA eligibility criteria. Apparently in an effort to restrict the reform efforts, Republican conferees proposed limiting the criteria to shifts in production to countries with which the United States has a bilateral or preferential trade agreement. Democratic conferees, in an effort to cover US workers who lose their jobs due to shifts in production to China, countered by adding the language “there has been or is likely to be an increase in imports...” Initially, there was some evidence that the DOL was following a restrictive (and some would argue erroneous) interpretation of this language, holding that only workers who lose their jobs due to shifts in production to countries with which the United States has a preferential trade agreement *and* there is an increase in imports.³² This interpretation not only contradicts the initial legislative intent, but it also results in denying assistance to workers who lose their jobs due to shifts on production to China and India – likely destinations of a considerable amount of production shifting. A DOL representative recently suggested that the department had changed its interpretation of the law.³³ In any event, this language needs to be clarified in order to prevent any further confusion.

Health Care Tax Credit (HCTC)

Under the new law, workers must be receiving income maintenance, which means that they must be enrolled in training, in order to be eligible to receive the HCTC. This restriction severely limits the number of displaced workers who can receive the HCTC. A recent report by the Government Accountability Office (GAO) found that this requirement has forced workers to enroll in training and request income maintenance payments, who might otherwise not do so.³⁴ Some argue that this requirement promotes “real adjustment,” by requiring training participation. Others argue that it results in workers getting expensive assistance that they might not need. One proposal would be to provide the HCTC to TAA-certified workers for up to 2 years or until the worker finds a new job, regardless of enrollment in training.

The GAO report also found that workers are experiencing difficulties getting the HCTC, because as part of the package of assistance provided under TAA, UI benefits must be exhausted prior to receiving TAA program assistance. Beyond exhausting UI benefits, there is an additional waiting period before workers are enrolled in TAA. As a result, many workers have either lost their health insurance, or can no longer afford to maintain it, by the time the HCTC becomes effective. These timing requirements defeat

³² See http://www.doleta.gov/tradeact/2002act_freetradeagreements.cfm for the list of eligible countries.

³³ Private communication with the authors.

³⁴ See GAO (2004a)

the purpose - of helping workers maintain their health insurance during their period of unemployment. This problem requires prompt attention.³⁵

Wage Insurance (Alternative TAA)

In another attempt to confine the program, Republican conferees added a provision requiring firms or groups of workers to identify that their workers might be interested in participating in ATAA in their initial TAA petition submission to DOL. This caused two immediate problems. First, the petition being used by DOL did not include a place for petitioners to identify their interest in ATAA.³⁶ Second, how could petitioners know if they were potentially interested in a program that never existed before and about which they knew nothing?

Anecdotal evidence confirms that this arbitrary requirement has denied potentially thousands of workers access to ATAA and may help explain why participation in the program has been so low.³⁷

ATAA is the only aspect of TAA for which workers must identify their interest during the petition process. It also appears that the only motivation for this requirement is to restrict the number of participants in the program. This is particularly ironic, since ATAA is more potentially cost-effective than other forms of assistance under TAA and is the only form of assistance that is directly linked to finding a new job, which should be the ultimate goal of any labor market adjustment program. All workers eligible for TAA should be eligible for ATAA.

Outreach

Another recent GAO report found that many workers are unaware of TAA and that they are eligible to receive assistance under the program.³⁸ This may help explain why program take-up rates are so low. The U.S. Department of Labor has not to date performed any major outreach, for example using television and radio, to publicize the program. The 2002 law called on DOL to insure that state agencies notify all workers included on a certified petition of all the possible assistance available to them. This provision was also dropped from the final bill.

One possibility would be to expand the organizations that administer TAA within a state to include private community-based organizations. On the one hand, some union representatives are likely to oppose this proposal, for fear that it might risk the jobs of unionized government workers. On the other hand, this proposal might enable unions to get more directly involved in administering TAA and delivering assistance to

³⁵ DOL issued TEGL 11-2, Change 1, encouraging states to waive the training enrollment deadline so that workers can be eligible to receive the HCTC while receiving UI.

³⁶ Until a new petition was designed, DOL claims that its staff members called all petitioners to ask if they were interested in ATAA.

³⁷ One glaring example of the problems associated with this arbitrary requirement is the case of the Pillowtex workers in North Carolina. Since some petitioners did not know about the requirement to identify interest in ATAA, Pillowtex workers from some sites are eligible, while Pillowtex workers from other sites are not.

³⁸ See GAO (2004b)

workers. In any event, more resources need to be devoted to informing workers about TAA and other forms of assistance for dislocated workers.

Issues That Haven't Gone Away

Service workers

Currently, DOL follows a narrow interpretation of TAA eligibility, thereby denying TAA to thousands of workers laid off from the service sector. According to the law, workers must prove that they lost their job from a firm that makes a product that is "similar or like an imported good." Although the law does not specifically restrict TAA eligibility only to workers employed in manufacturing industries *per se*, over the years DOL's interpretation of the law has *de facto* resulted in such a restriction. Many workers have appealed DOL's decision to the Court of International Trade, the court with judicial responsibility over TAA.

Recently, the Court's rulings have taken on a rather angry tone, as the Court has strongly criticized DOL for its narrow interpretation on this issue and others. The following excerpts from recent Court decisions provide examples of the Court's frustration with the administration of TAA.

In the opinion in the case of the Former Employees of Ameriphone, Inc. versus the US Secretary of Labor, the Court commented,

There is something fundamentally wrong with the administration of the nation's trade adjustment assistance programs if, as a practical matter, workers often must appeal their cases to the courts to secure the thorough investigation that the Labor Department is obligated to conduct by law.

It would be wholly inconsistent with Congress' intent if the trade adjustment assistance programs were to become little more than "claims mills," where all but the most well-documented and patently meritorious claims were denied at the agency level, and thorough investigations were largely reserved for those few cases, which were appealed to the courts.

It can hardly be said that "all's well that ends well," when the Workers here have been for over a year deprived of the job training and other benefits to which they are entitled⁴⁰

The Court's opinion in the case of the Former Employees of Chevron Products Company versus the US Secretary of Labor, further states,

⁴⁰ Former Employees of Ameriphone, Inc., Plaintiffs, v. United States, Court No. 03-00243, US Court of International Trade, 288 F. Supp. 2d 1353; 2003, October 24, 2003.

In a word, this case stands as a monument to the flaws and dysfunctions in the Labor Department's administration of the nation's trade adjustment assistance laws -- for, while it may be an extreme case, it is regrettably not an isolated one. The relatively high number of requests for voluntary remands in trade adjustment assistance cases appealed to this Court speaks volumes about the calibre of the Labor Department's investigations in general, and the Government's ability to defend them... Similarly telling is the growing line of precedent involving court-ordered certifications of workers, evidencing the bench's mounting frustration with the Labor Department's handling of these cases. Clearly, there is a message here. Only time will tell whether the Labor Department, and Congress, are listening.⁴¹

It appears that recently DOL has “heard the message,” as it has begun exploring ways to provide assistance to workers who might have been denied assistance in the past.

Community adjustment

One of the lessons learned from the experience of the Levi Strauss plant closings in New Mexico is that the adjustment process can be exacerbated by local economic and social conditions. For example, Levi Strauss was the single largest private employer in Roswell, New Mexico, before closing in 1998. The plant closing dealt a terrible blow to the community and the surrounding region. Providing temporary financial assistance and training alone to workers was not enough to restore economic stability to the region.

Building on the Defense Department's experience in addressing and enhancing economic adjustment in response to military plant closings in the 1990s, Senator Jeff Bingaman reached out to various community leaders and representatives and developed a strategy for responding to the hardships resulting from the plant closing. , Senator Bingaman requested technical assistance from the Department of Defense.. In addition, the community applied for and received grants from the US Department of Commerce's Economic Development Administration, to develop a strategy for revitalizing the local economy, and from the North American Development Bank (NADBANK), to expand training resources to accommodate the large number of dislocated workers.

Labor market adjustment is exacerbated when job creation is weak. This linkage is even more important at the local or regional level. The original version of the Trade Act of 2002 called for the establishment of a TAA for Communities program, in order to formalize some of the efforts tried in Roswell, New Mexico. This initiative was an attempt to acknowledge that income support and training alone may be insufficient for assisting dislocated workers find new jobs. House-Senate conferees removed this provision from the final bill.

⁴¹ Former Employees of Chevron Products Company, Plaintiffs, v. United States Secretary of Labor, Defendant, Court No. 00-08-00409, US Court of International Trade, December 30, 2003.

The weak performance of the US labor market over the last few years has renewed support for some targeted assistance tailored to communities facing severe economic dislocation. The Defense Department's experience in addressing economic adjustment in light of the base closings in the 1990s may provide a good start, with some lessons on community targeted economic adjustment. In any event, the linkage between labor market adjustment and community economic development needs greater consideration. One way to proceed would be to introduce some limited demonstration projects.⁴²

Data Reporting

Over the last decade, DOL, under both Democratic and Republican leadership, has been extremely reluctant to release data related to TAA, despite the fact that these data, which were widely available in prior years, do not appear to include any sensitive information. Accordingly, the original version of the Trade Act of 2002 included language requiring DOL to issue regular reports on program participation and performance. Senate Republicans complained that this requirement was onerous and insisted on removing it from the final legislation. DOL has not improved its record in making public data available. In fact, data included in this chapter were only provided in response to a request made by several Senators.

Participation data are crucial to determining how well TAA is working and which aspects of the program need to be improved, eliminated or expanded. Throughout TAA's history, all reform efforts have originated outside the Department of Labor. Providing the public access to TAA program data is therefore critical to monitoring and evaluating the program.⁴³

A More Ambitious Agenda

As mentioned at the outset of this chapter, the US labor market is remarkably flexible. In fact, on average, close to one of every four workers are expected to either lose and/or gain a job in any given year. The extent of this flexibility has recently highlighted a number of shortcomings in the country's existing labor market programs.

Despite all the calls for customizing labor market programs to the needs of individual workers, the US unemployment insurance system continues to operate based on the "one-size-fits-all" model. The amount of assistance is determined by states, disregarding the reason for dislocation or a worker's difficulty in finding a new job. The triggers for extended unemployment insurance also appear to be ineffective, as evidenced during the last recession. Receiving government-financed training is similar to playing the lottery – i.e. funds are allocated to states with little connection to current need and the demand for training funds is always greater than the total amount budgeted.

⁴² A limited Adjustment Assistance for Communities program was initiated as part of the Trade Act of 1974 (Public Law 19 USC 2371), but was later repealed.

⁴³ The Department of Labor recently began providing some TAA participation data on its website. This is a welcomed development, but the Department's efforts in this regard should be expanded.

Pressures on the US labor market due to technological change, productivity improvements and international competition, call for a significant reform and expansion of all US labor market adjustment programs. Unfortunately, both Democratic and Republican policymakers have not shown any political will in pursuing such needed reform. The only area in which Congress and the President have been willing to even consider reform is Trade Adjustment Assistance, and those reforms have only been accepted in order to get Congress to approve trade negotiating authority. Given the lack of political will to reform, redesign and expand programs which would better meet the needs of US workers and their families, the second-best strategy appears to be to continue down the path of incrementally expanding Trade Adjustment Assistance.

The need for comprehensive expansion and reform is further underscored by recent attention paid to services outsourcing. Concern over job loss is clearly broadening. Currently, services outsourcing is receiving more attention than traditional trade-related job loss. It is difficult to determine the extent of this phenomenon, since existing data do not accurately capture this activity.⁴⁴

What is clear is that the impact of outsourcing on US employment once again reveals the limits of targeted labor market adjustment programs. For the most part, those US workers adversely affected by outsourcing are not currently eligible for TAA. This has further fueled calls to expand TAA eligibility in order to cover service sector workers. This change alone will not be sufficient to fully address the problem, due to difficulties associated with clearly identifying the various causes of job loss, an issue that is central to TAA.

Another group of workers left out of TAA's reach are those employed in export-related industries. Between 2000 and 2002, US exports fell by 11 percent, most likely contributing to job loss in related industries.⁴⁵ Although export-related job loss does not occur as frequently as job loss as a result of import competition and/or shifts in production, it is no less painful or disruptive to workers and their families. Despite this fact, workers who lose their jobs due to a fall in exports are not eligible for assistance under TAA.

These holes in coverage give rise to questions about America's fundamental commitment to assisting all workers adversely affected by changes in international trade and investment, as enunciated by President Kennedy in 1962, as well as by all subsequent Presidents.

One way to address these administrative difficulties would be to remove the requirement to identify the causes of job loss from TAA eligibility criteria. One proposal would be to pre-identify industries and provide TAA to any worker displaced from them. Another proposal would be to provide more assistance to all displaced workers, regardless of industry or cause of dislocation. One immediate problem with this proposal is that it would break the link between TAA and trade policy. Although in

⁴⁴ Cite Catherine Mann chapter.

⁴⁵ See Kletzer (2002) for an analysis of the link between changes in exports and job loss.

reality the relationship has only been evident in periodic legislation, some policymakers may be opposed to weakening that link.

Providing TAA-type assistance to all dislocated workers would also require a major reform in the country's unemployment insurance system, including the UI trust fund. Similar to the issues raised by health care and social security, building a coalition to reform the country's unemployment insurance system would be difficult to do. In the meantime, incremental changes may be easier to achieve.

An immediate area to begin reform efforts is to provide the HCTC to all displaced workers. Providing the HCTC to all unemployed workers would reduce the discrimination between those workers who lost their jobs due to "trade" and all other displaced workers. It could also have the added benefit of reducing the growing number of uninsured.

Another option would be to provide wage insurance (ATAA) to a larger set, and perhaps all, displaced workers. Wage insurance encourages workers to accept a new job more rapidly, addressing one of the criticisms of unemployment insurance. It also offers targeted assistance for an importance aspect of involuntary job loss, i.e. potentially lower earnings on the new job.

The following section provides cost estimates for these proposals. Estimates of the number of potential recipients are derived from the Displaced Worker Survey, a biennial supplement to the Current Population Survey.⁴⁶ Program costs are based on current average program costs per participant.⁴⁷

Cost Estimates for Reform Proposals

Table 6 presents cost estimates for several different proposals to expand coverage of the existing TAA program.

All dislocated workers from pre-identified trade impacted industries: Under the current program, groups of three or more workers must submit a petition to DOL to determine eligibility for TAA. By contrast, this proposal would end the certification process and automatically provide assistance to any worker displaced from industries pre-identified as facing competition from imports or shifts in production. Workers would only have to prove that they worked in one of these industries in order to receive assistance.

Approximately 83,000 workers are estimated to be displaced annually from the 27 industries determined to be "high import" industries.⁴⁸ In addition, GAO estimates that

⁴⁶ Data for 1998, 1999, 2000 and 2001 were initially analyzed. Influenced by the recession, impact and cost estimates for 2001 were significantly different than those for the earlier three years. Table 6 reports averages for 1998-2000, for estimating projected costs.

⁴⁷ The average cost for income maintenance and training under TAA is approximately \$10,000 per worker per year. Because current training funds continue to be inadequate, an average of \$100 per worker per month was used in these estimates. The average cost for the HCTC is approximately \$200 per month per worker. Workers can receive the credit for up to 24 months.

⁴⁸ See Kletzer (2001) for the "highly import-competing" classification scheme. See Appendix Table 1 for a list of industries.

one secondary worker may lose his/her job for every worker displaced from an import-competing industry.⁴⁹ Thus approximately 165,000 workers per year could be expected to receive assistance under this reform proposal. It is estimated that covering all of these workers would cost approximately \$3 billion per year.

All dislocated workers: Enrolling all dislocated workers in TAA would not only remove any remaining discrimination between workers, but would also significantly reduce the burden of administering a targeted program with specific eligibility criteria. Under this proposal, all dislocated workers, regardless of cause of dislocation or industry, would be eligible to receive the entire package of assistance currently provided under TAA.⁵⁰ There would be no petition process. Similar to current TAA participants, all dislocated workers enrolled in training would be eligible for up to 104 weeks of income support, the health care tax credit (HCTC), wage insurance (ATAA), as well as job search and relocation assistance.

Using data from the DWS, we estimate that approximately 575,000 workers could potentially receive assistance under this proposal. Program costs for enrolling these workers in TAA, with the complete set of benefits, would be approximately \$12 billion per year.⁵¹

HCTC for all dislocated workers: Short of providing the entire package of TAA assistance to all dislocated workers, another option would be to extend only the HCTC component of TAA to all dislocated workers. This larger set of dislocated workers would continue to be eligible for standard UI, as in the current “dual-system” of UI and TAA. We estimate that this would cost approximately \$1.5 billion per year.

ATAA for all dislocated workers (50-\$50-50%): Similar to the above proposal, another option would be to expand the current ATAA program to include all displaced workers. Under the current program, workers 50 years of age or older, earning less than \$50,000 a year (on the new full-time job) can receive 50 percent of the difference between their new and old wage, up to a maximum of \$10,000, for up to two years. It is estimated that 70,000 workers could potentially participate in this program at an approximate cost of \$900 million per year. Removing the minimum age requirement would raise the number of potential participants to approximately 450,000, at an estimated cost of \$4 billion per year.⁵²

Table 6
Estimated Budget Costs for TAA Expansion

Spending Estimates (in millions)		
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⁴⁹ See GAO (2000).

⁵⁰ Dislocation (displacement) is commonly understood to be the involuntary loss of a job, without regard to an individual worker’s performance. Dislocation does not include quits or firings.

⁵¹ Based on these estimates, trade-related displaced workers account for 14 percent of all dislocated workers.

⁵² In order to be eligible to participate in ATAA, workers must find a job within 26 weeks of the job loss. Thus ATAA participants are *not* included in the number of workers potentially eligible for income maintenance, training and HCTC,

	Number of potentially eligible participants	Income maintenance	Training	ATAA (50-\$50-50%)	HCTC	Total
FY 2003 (actual)	48,000	\$399	\$259	na	na	\$660
FY 2004 (projected)	57,000	\$523	\$259	\$14	na	\$796
Pre-identified trade displaced	165,000	\$1900	\$750	\$100	\$375	\$3125
All workers	575,000	\$7000	\$2800	\$900	\$1400	\$12100

Source: Authors' calculations from the 2000 and 2002 Displaced Worker Surveys

Financing the reform proposals

Currently, UI is primarily financed through a complicated web of federal and state payroll taxes.⁵³ TAA is financed through general revenues, without any dedicated revenue offset.⁵⁴ One proposal would be to dedicate custom duties to finance a further expansion of TAA. In FY 2003 total custom duties equaled approximately \$20 billion and they are expected to rise to \$25 billion over the next few years.⁵⁵ Since the funds collected from custom duties are currently considered general revenue, diverting them to finance these proposals would contribute to the federal budget deficit. A more limited proposal would be to dedicate only the *increase* in custom duties over the next few years to offset the costs associated with expanding adjustment programs. This would also exacerbate the fiscal deficit and might not be sufficient to cover the total costs of the more ambitious proposals outlined above. Nonetheless, it might be a good way to jump-start the reform process.⁵⁶

Congress is currently discussing if and how to respond to recent World Trade Organization (WTO) rulings against the "Byrd Amendment," which provides for the US government to repatriate to the domestic industry, revenue generated from antidumping and countervailing duty cases. Another option would be to dedicate the Byrd Amendment revenues to finance the expansion of US labor market adjustment programs. Although many in the trade policy community oppose the idea of dedicating revenues generated from safeguard measures, doing so for adjustment purposes may be more compatible with the WTO. The amount of money currently collected under this provision is significantly less than the current TAA budget, but similar to the other options, these funds could be used to finance an expansion of the program.⁵⁷

⁵³ The federal payroll tax accounts for approximately one-quarter of the UI trust fund.

⁵⁴ The Trade Act of 1974 called on the Department of Treasury to establish a trust fund, financed by all custom duties, from which to finance TAA. This trust fund has never been established.

⁵⁵ See OMB (2004).

⁵⁶ It should be noted that there is long standing opposition among economists to dedicated funding schemes.

⁵⁷ The US Customs and Border Protection agency reports that more than \$200 million was available under the program in FY 2004.

Another option would be to increase the UI payroll tax. Currently, the federal UI payroll tax is extremely modest, i.e. 0.8 percent on the first \$7,000 of taxable income. For the vast majority of workers, this amounts to only \$56 per year. The ratio of taxable wages to total wages has fallen from 98 percent in 1938, when the UI Trust Fund was established, to 33 percent in 1997.⁵⁸ A simplistic, straight-line calculation suggests that raising the tax base by \$1000, i.e. from \$7,000 to \$8,000, would generate an additional \$80 million in revenue. Raising the tax rate by one-fifth of one percent, i.e. from 0.8 to 0.85, would generate an additional \$35 million in revenue.⁵⁹

Obviously, a third option would be to finance these reforms the same way TAA is currently financed, i.e. through general revenues with no direct revenue offset.

The bottom line is that none of these proposals would “break the bank.” For example, as mentioned above, providing the HCTC to all dislocated workers would cost approximately \$1½ billion per year. This figure amounts to less than a rounding error in the federal budget. Also, according to our estimates, all dislocated workers could be eligible for wage insurance at two-thirds that price.

Recent Congressional Activity

In March 2004 Senators Max Baucus and Norman Coleman (R-MN) introduced legislation that addressed many of the issues raised above.⁶⁰ In May Senators Coleman and Ron Wyden (D-OR) proposed amending the JOBS Act with the following provisions in the Baucus bill:⁶¹

- Expand TAA to cover service workers by adding the term “goods and services”
- Increase the training appropriation cap
- Clarify the shift in production eligibility criteria to include all countries
- Increase HCTC from 65 to 75 percent
- Technical changes to HCTC, including reducing the waiting period
- Require DOL to periodically report program data
- Establish a community adjustment program

The amendment received a majority of votes in the Senate, but not enough to overcome the 60-vote rule under the budget act.

⁵⁸ DOL has not published more recent data due to technical problems.

⁵⁹ Both of these estimates do not consider any income or substitution effects. They are advanced only to suggest the magnitudes involved.

⁶⁰ See S 2157.

⁶¹ S1367 presents an alternative to the Foreign Sales Corporation, which the World Trade Organization has ruled is illegal.

MFA removal

US employment in textiles and apparel has declined from 2.3 million in 1974 to 1.1 million currently. Some of that job loss has been associated with technological change and increased pressure from imports and overseas production. As a result, since its inception, textiles and apparel workers have constituted the second largest single group of TAA participants.⁶²

The Multi-Fiber Agreement (MFA), the international regime of textile and apparel quotas, is scheduled to be phased out by January 1, 2005. There has been very little preparation for the upcoming phase-out, despite the expectation that the phase out is likely to place additional pressure on an already battered sector. In the event that shifts in international production result in a significant increase in imports, it is likely that the textile and/or apparel industries may petition the government for temporary relief, either through the imposition of safeguard measures or anti-dumping and countervailing duties. A significant increase in petitions for TAA might also result.

The second-term Bush Administration should consider providing “blanket” eligibility to any worker displaced from the textile and apparel industries, regardless of cause.⁶³ This would relieve some of the administrative burden, and would provide workers with assistance in a more timely fashion.⁶⁴

Legislative Opportunities

As argued above, Congressional support for TAA is not strong enough to enable stand-alone legislation implementing the changes outlined in this paper to be passed by both houses of Congress. All previous changes in the program have been part of broader trade legislation – primarily legislation granting the President trade negotiating authority and implementing multilateral trade negotiations. This will probably remain the case, at least into the near future.

The President’s trade negotiating authority, granted under the 2002 TPA bill, must be renewed in 2005. Under a “fast-track” like process set out in the 2002 bill, Congress must pass a non-amendable resolution in order to renew that authority. This denies the traditional opportunity to link trade negotiating authority to TAA reform. On the other hand, TAA reform could be included in other trade legislation scheduled to be considered by Congress, such as the Central America Free Trade Agreement (CAFTA) implementation legislation.

⁶² Between 1974 and 2000, textile and apparel workers comprised 21 percent of TAA recipients. Automobile workers comprised 29 percent of TAA recipients. Together, workers from these three industries represented half of all TAA recipients. In 2000, textiles and apparel together accounted for 32 percent of workers certified for TAA, with motor vehicles accounting for 21 percent.

⁶³ The precedent for this proposal was set in 1975 for the footwear industry. In response to its request for safeguard protection from an import surcharge, the Ford Administration offered expedited TAA for all workers who lost their jobs from the footwear industry.

⁶⁴ A modification of this proposal would be to provide a blanket certification to any industry found by the International Trade Commission to have experienced injury due to international competition.

We urge Congress and the President to consider implementing the following proposals as a first step towards reforming the nation's labor market adjustment programs:

- Increase the TAA training budget cap
- Clarify the TAA eligibility criteria to include shifts in production to any country
- Correct the HCTC waiting period
- Provide HCTC to all TAA certified workers by removing the link to receiving income maintenance
- Provide ATAA to all TAA certified workers by removing the requirement to pre-request ATAA on the initial TAA petition
- Expand resources available for outreach
- Require DOL to provide periodic data and performance reports
- Grant blanket TAA certification to all workers displaced from the textile and apparel industries

Under current law, the President's trade negotiating authority expires in mid-2007. If the Doha Round of the WTO negotiations is successful, Congress will be asked to pass implementation legislation. If not, the President will most likely ask Congress to pass new legislation, granting him new authority to pursue multilateral trade negotiations. Either one of these scenarios would provide an opportunity for Congress to consider the more ambitious TAA reform agenda set out in this paper. These provisions would include:

- Expand TAA eligibility criteria to include service workers
- Provide TAA package of assistance to all dislocated workers, regardless of cause of dislocation
- Provide HCTC to service workers, if not all dislocated workers, regardless of cause of dislocation
- Provide ATAA to service workers, if not all dislocated workers, regardless of cause of dislocation
- Establish TAA for communities

Summary and Conclusion

The US labor market is remarkably flexible. Most of the burden of this flexibility is borne by US workers and their families. Worker anxiety is therefore heightened

whenever there is discussion of changes in economic policy that might affect the labor market. Trade liberalization is one example of such a policy change. Other changes also heighten worker anxiety, such as the potential growth of services outsourcing.

Given recent labor market trends and given continued and intensified pressures on the labor market from technological change and international competition, the entire system of US labor market adjustment programs is in dire need of reform, redesign and expansion. The current dual-system of assistance to unemployed workers -- a general, yet modest UI program and some training for all workers (WIA), and a targeted program providing more extensive assistance to workers whose jobs loss is associated with an increase in imports or a shift in production (TAA) is no longer adequate. Unfortunately, neither Democratic or Republican policymakers have displayed any leadership in undertaking the necessary steps to begin this reform process.

TAA appears to be the only area in which policymakers have been willing to reform and expand assistance to dislocated workers. In 2002 Congress enacted the most extensive reform of TAA since its creation in 1962. The eligibility criteria were extended to include shifts in production and secondary workers. Assistance was expanded to include a health care tax credit and wage insurance. Most of the reforms have been implemented, but there remain significant problems with insuring that all eligible workers receive the assistance they so gravely need.

Short of reforming and expanding the system of labor market programs designed to assist all displaced workers, regardless of cause of dislocation, the next option would be to continue expanding Trade Adjustment Assistance. Technical corrections to the 2002 reforms and modest expansion require immediate attention. Policymakers should also begin the process of implementing a more ambitious reform agenda

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Appendix table 1
High import competing industries, 1979-2001

Electrical machinery, I

Electrical machinery
Radio, TV

Apparel

Apparel
Misc. fabricated textiles

Transportation Equipment, I

Motor vehicles
Cycles & misc. transport

Machinery, except electrical, I

Electronic computing eqp
Construction & material moving machines
Office & acct machines

Metal industries, I

Blast furnaces
Other primary metal

Misc. manuf industries

Leather & Leather products

Footwear
Leather products
Leather tanning & finish

Professional & photographic eqpt.

Scientific & controlling
Photographic eqp
Watches, clocks

Rubber & Misc. plastics

Other rubber products
Tires & inner tubes

Textiles

Knitting mills
Dyeing textiles
Floor coverings
Yarn, thread
Misc. textile

Toys & sporting goods

Pottery & related

Source: Classification scheme for highly import-competing industries in Kletzer (2001).