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Trade Adjustment Assistance: Getting Reform Right

Daniella Markheim and James Sherk

Congress is set to consider the Trade and Globalization Assistance Act of 2007 (H.R. 3920, TGAA), which would significantly expand Trade Adjustment Assistance (TAA). TAA was created in 1962 to provide aid and training for Americans who lost manufacturing jobs as a result of international trade, but its impact has been modest. TGAA would expand TAA to cover a much wider range of workers and make it far easier to qualify for benefits than under current law. This would be paid for, in part, by delaying tax cuts designed to boost the international competitiveness of America's multinational firms, likely increasing the number of workers needing assistance. Jobs lost to foreign competition are no different than jobs lost for other reasons. Congress should take this opportunity to offer tax-free dislocation savings accounts to fund retraining, strengthen the role of the states in providing retraining assistance, and reform and consolidate the TAA program with the Workforce Investment Act, simplifying a complex approach to training that will provide cost-effective, timely, and meaningful assistance to workers.

TGAA: Not Just About Retraining. TGAA would expand program eligibility beyond manufacturing workers to include service sector workers, "secondary" workers employed downstream of TAA-certified firms, workers affected by offshoring, and even workers employed in firms awarded protection under antidumping, countervailing duty, or safeguard actions. TGAA would also significantly loosen eligibility criteria: If three firms in an industry prove they cannot compete against foreign firms, then it will be assumed that all firms in the industry cannot compete. Additionally, tax incentives and other subsidies may be provided to whole communities rather than just affected individuals.

Any workers who lose their job under this expanded definition of trade-related reasons would:

- Receive up to two and a half years of job training from the government;
- Qualify for up to two and a half years of unemployment insurance payments while in training;
- Have 85 percent of their health insurance costs covered by the government (though the act would add additional regulations and policies that further undermine the effectiveness of this tax credit); and
- If older, qualify for cash handouts if they took a lower paying job.

This would significantly expand TAA at the cost of billions of additional dollars a year. This may not be money well spent. It is not clear that TAA actually helps workers find new jobs or raises their wages in the jobs they find.

Research on government job training programs shows that they have—at best—a slight positive

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214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

effect on workers' earnings and employment prospects.[1] Because of poor data collection and biases that potentially exist in the data the government does collect, the GAO has concluded that "little is known nationwide about what the [TAA] program achieves."[2] Congress should improve data collection and determine the effect that TAA actually has on workers before spending billions of taxpayer dollars to expand the program.

Redundant and Inflexible Bureaucracy. Difficulties with TAA administration, complicated eligibility criteria, and the limited number of jobs actually lost to freer trade have combined to keep worker participation low.

Even as it expands the number of workers qualifying for TAA, TGAA would further undermine TAA's already limited effectiveness. The bill requires the Department of Labor to provide TAA services to affected workers either directly or indirectly through agreements with states. It prevents the Department of Labor from using the existing federal job training infrastructure to provide TAA benefits to recipients. This makes no sense. The federal government ought to provide TAA benefits through the One-Stop Career Centers established by the Workforce Investment Act. This would reduce administrative costs and promote the coordination of services between federal agencies.

TGAA would also deny states flexibility in providing services to TAA recipients. Section 130 of the bill specifies that only state employees may receive federal funding to provide employment and case management services to TAA recipients. This will only hurt job seekers. Many states rely on nonprofits and faith-based organizations with greater expertise than state employees to provide career counseling and employment assistance services to laid-off workers. Forcing states to use state employees to do the job would mean that TAA recipients, unlike workers who lost their jobs for other reasons, would have to pass up many local programs that could help them simply because those programs are not run by the state government. Reducing workers' choices will not help them return to the job market sooner. Congress should give states the maximum flexibility to train workers effectively with state or (even better) private sector resources.

"Wage Insurance" Handouts Are Bad Policy. TGAA would expand the "wage insurance" for trade displaced workers pilot program created by the 2002 re-authorization of TAA. Under TGAA, a trade-displaced worker who finds work that pays less than his or her previous job would receive cash payments from the government equal to half of the difference between the old wage and the new wage for up to two years. Workers over the age of 50 who had earned less than $60,000 per year initially would qualify for the program and could receive a maximum of $12,000 in handouts.

It is not the role of government to ensure that workers' wages do not fall. Wage insurance invariably leads to unintended consequences. The program could end up subsidizing employers instead of employees. Because the government would pay workers half the difference between their old and new positions, employers could cut their workers' wages, knowing that the government would make up half the difference. A policy intended to help workers would thus actually enable employers to pay their employees less without losing workers. Congress should end, not expand, the wage insurance program.

Excessive Unemployment Insurance Benefits. Unemployment insurance (UI) exists to insure workers against unexpected job losses. That is why only workers who are fired or laid off, not those who quit their jobs, receive benefits. TGAA would overturn this principle and move toward a system where the government pays individuals not to work. The bill would provide states $7 billion over

1. For a comprehensive review of the economic research on government job training programs, see James Heckman, Robert Lalonde, and Jeffrey Smith, "The Economics and Econometrics of Active Labor Market Programs," in Orley Ashenfelter and David Card, eds., *The Handbook of Labor Economics* (St. Louis, MO: Elsevier, 1999).
2. Testimony of Sigurd R. Nilsen, Director of Education, Workforce, and Income Security Issues, Government Accountability Office, before the House Committee on Ways and Means, "Trade Adjustment Assistance: Program Provides an Array of Benefits and Services to Trade-Affected Workers," June 14, 2007, at *www.gao.gov/new.items/d07994t.pdf*.

the next five years in additional funding, provided they extend UI eligibility to additional workers.

In particular, the bill would provide money for states to cover workers who have quit their jobs for "compelling family reasons." The statute's definition of "compelling family reason" includes, quite reasonably, domestic violence but also, less reasonably, relocation due to a spouse's changed location of employment. Families move to new jobs because they believe they will be better off with the new job than they would be if they stayed. Paying UI benefits to these workers has nothing to do with insuring against unexpected job loss. The government should not pay workers not to work under these circumstances.

The statute also includes workers who quit their job because of an illness in the immediate family. Nothing in the text of the legislation restricts "compelling family reason" to include only serious illnesses or illnesses requiring full-time care. Any illness would qualify. Nor does the act require any medical certification of that illness. A worker could collect full unemployment insurance benefits if he or she quits to care for a spouse who claimed to be suffering from stress or back pains. Unscrupulous workers would have little difficulty using the illness provision to turn the UI system into a system of cash handouts.

Little Rationale for TGAA. Economy-wide, the estimated net number of jobs displaced each year by international trade is a relatively small 3 percent of the workforce.[3] Far more important to the changing composition of America's workforce have been improvements in technology and shifts in consumer preferences. Contrary to the premise of TGAA, the combined impact of innovation and reduced barriers to trade has served to help the economy, not harm it. Since 1996, the unemployment rate has fallen from 5.4 percent to 4.7 percent today.[4]

Today's $13 trillion U.S. economy is bolstered by free trade. The United States has the world's largest economy and is the world's largest trading nation for both exports and imports of goods and services.[5] The service sector accounts for roughly 80 percent of the U.S. economy and 30 percent of the value of American exports.[6] Service industries account for eight out of every ten jobs in the United States and provide more jobs than the rest of the economy combined.

Manufactured exports support an estimated 5.2 million jobs in the United States, including one in six manufacturing jobs. Agriculture exports support 836,000 U.S. jobs. Moreover, U.S. jobs supported by goods exports pay an estimated 13 percent to 18 percent more than the U.S. national average.[7] Today, more than 57 million Americans are employed by firms that engage in international trade.[8]

Freer trade enables more goods and services to reach American consumers at lower prices, giving families more income to save or spend on other goods and services. According to the Peter G. Peterson Institute for International Economics, trade liberalization has caused Americans' annual income to

3. Daniel Griswold, "Trading Up: How Expanding Trade has Delivered Better Jobs and Higher Living Standards for American Workers," *Trade Policy Analysis* No. 36, Cato Institute, October 25, 2007, at *www.freetrade.org/node/782*. Similar results were derived on 2003 jobs statistics in Erica L. Groshen, Bart Hobijn, and Margaret M. McConnell, "U.S. Jobs Gained and Lost through Trade: A Net Measure," Federal Reserve Bank of New York, August 2005, at *www.ny.frb.org/research/current_issues/ci11-8/ci11-8.html*.
4. Council of Economic Advisors, "Economic Report of the President 2007," Table B-35, and Bureau of Labor Statistics, "Employment Situation Summary September 2007," October 5, 2007, at *www.bls.gov/news.release/empsit.nr0.htm*.
5. World Trade Organization, "International trade statistics 2006," December 20, 2006, at *www.wto.org/english/res_e/statis_e/its2006_e/its06_toc_e.htm*.
6. Bureau of Economic Analysis, "International Economic Accounts," October 24, 2007, at *www.bea.gov/International/*.
7. U.S. Trade Representative, "Trade Promotion Authority Delivers Jobs, Growth Prosperity and Security at Home," Fact Sheet, January 31, 2007, at *www.ustr.gov/Document_Library/Fact_Sheets/2007/Trade_Promotion_Authority_Delivers_Jobs,_Growth_Prosperity_Security_at_Home.html*.
8. Council of Economic Advisors, "Economic Report of the President 2007," p. 169.

increase by $1 trillion from 1945. The World Trade Organization's Uruguay Round and the North American Free Trade Agreement alone have lowered U.S. tariffs and provided an average savings of $1,300 to $2,000 per year for a family of four. In the past 10 years, trade liberalization has helped raise U.S. GDP by nearly 40 percent and boost job growth by over 13 percent.[9]

Any negative impact that freer trade may have on job numbers is mitigated by the benefits that trade brings to the economy as a whole. While production may fall in less competitive industries, exporters and domestic producers that use lower cost imported inputs gain a competitive boost that promotes investment, productivity, and growth in these industries. Lower prices for imported goods also help households to stretch their incomes, enabling them to buy more of everything, including goods and services produced domestically. With freer trade, resources flow from less competitive uses to more competitive and efficient uses, creating opportunity and bolstering long-run economic growth and job creation.

Thus, the economic rationale for TAA and its bigger, more costly replacement, TGAA, is not particularly compelling. However, the political argument has been—up until now. TAA was the price paid in exchange for Congress awarding the President Trade Promotion Authority (TPA) to advance free trade policies.

But this year, TPA was not renewed, and multilateral trade negotiations in the WTO are all but stalled. The four pending free trade agreements—with Peru, Colombia, Panama, and South Korea—are not likely to have a significant impact on U.S. jobs if they pass, and they may not, given Congress's growing protectionist attitude. U.S. trade preference programs already allow the Andean countries to export many goods to the U.S. duty-free, so any job displacement from preferential trade policies has likely already occurred. Without TPA or any big trade agreements, the political rationale for extending, let alone expanding, TAA becomes dubious.

Recommendations for Congress. Congress should consider more effective alternatives to any massive expansion of the Trade Adjustment Assistance program. Specifically, Congress should:

- Focus intensive assistance on those who need it most. Instead of creating a general entitlement for two and a half years of job training and income support, support should be focused on workers from low-income backgrounds, those receiving public assistance, and those who are least likely to return to their previous industries.
- Decline to expand TAA benefits to allow workers to receive two and a half years of unemployment compensation. The existing two years provides workers with sufficient public assistance.
- Incorporate trade adjustment assistance into the WIA framework instead of establishing an entirely separate bureaucracy to administer benefits. Congress should also allow states the maximum flexibility to help displaced workers and not restrict states to providing employment and career management services only through state employees.
- Provide workers with maximum flexibility in receiving benefits. Eligible workers should be able to receive job training, including part-time training, after they find employment.
- Allow states to determine their own unemployment insurance eligibility standards without providing additional payments to states with more lenient standards.
- If intent on providing special benefits for workers harmed by international trade, create tax-free dislocation savings accounts. Congress could allow the Department of Labor to certify companies as facing employment pressures because of international trade. Workers in those firms could then invest up to $5,000 per year in dislocation savings accounts that would function much like traditional IRAs. Workers would receive a tax deduction for any money placed in the accounts, and if laid off for trade-related reasons, they could withdraw the money from the accounts,

9. U.S. Trade Representative, *2006 Trade Policy Agenda and 2005 Annual Report,* March 1, 2006, at *www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Trade_Policy_Agenda/asset_upload_file151_9073.pdf.*

tax-free, to cover the cost of moving, job training, and counseling or to use as additional income support after they ran out of unemployment insurance. Upon retirement, workers could add any money left in the account to an IRA or 401(k). This would give workers insurance against unemployment or the need for job training without creating a larger and more expensive federal bureaucracy.

Conclusion. International trade is a boon for the economy and for job creation, greatly adding to the wealth of all Americans. Though some workers in some industries may suffer due to the competitive pressures of international trade, it is not at all clear that Congress's approach to this problem, TAA, has done anything to help them. Expanding a program that has no demonstrated results would be irresponsible; expanding such a program while adding restrictions likely to make it even less effective would be foolhardy. If Congress believes that workers in sectors facing international competition need help, it should enact policies that give those workers maximum flexibility, not create new handouts to workers who choose to leave jobs and incentives to delay re-employment.

—Daniella Markheim is Jay Van Andel Senior Trade Policy Analyst in the Center for International Trade and Economics, and James Sherk is Bradley Fellow in Labor Policy in the Center for Data Analysis, at The Heritage Foundation.