

WebMemo



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Congress Should Allow Trade Adjustment Assistance to Expire

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Trade Adjustment Assistance (TAA) provides substantial government benefits to American workers who lose their jobs because of foreign trade. The 2009 stimulus bill expanded TAA coverage and increased TAA benefits. However, very few workers lose their jobs because of foreign trade, and the Department of Labor's Dislocated Workers Program already provides basic services to laid-off workers.

Congress should allow TAA to expire. If Congress does reauthorize TAA, it should return the program to its pre-stimulus scope and couple reauthorization with the pending free trade agreements.

Original TAA Program. Free trade increases overall living standards. Economists estimate that the North American Free Trade Agreement saves the average American family of four between \$1,300 and \$2,000 a year.¹ However, trade can also cause severe losses for those who lose their jobs to foreign competitors.

Congress compromised by creating the TAA program for workers who lost their jobs because of trade. TAA would provide these workers with generous financial assistance and job training to prepare them for jobs in new industries. The pre-stimulus TAA gave covered workers:

- Up to two years of job training in an approved training program,
- Up to 52 weeks of Trade Readjustment Allowances (TRA) for workers in job training,²
- Job search and relocation allowances,
- A refundable "health care tax credit" that covers 65 percent of a worker's health insurance premiums in qualifying health plans, and

- A two-year wage insurance program that partly replaces workers' earnings if they take a lower-paying job.

This gave covered workers substantially more generous benefits than most laid-off workers receive. The 2009 stimulus bill.³

- Expanded TAA to cover workers whose employers shift production to any foreign country, not just those (as under prior law) whose jobs were outsourced to countries with which the U.S. has free trade agreements;
- Expanded TAA coverage to the service sector and government employees who lose their jobs because of trade;
- Increased the tax credit available to cover private health insurance premiums from 65 percent to 80 percent;
- Increased the appropriations cap for training from \$220 million to \$575 million;
- Gave \$17.5 million to states for employment and case management; and
- Lengthened the amount of time workers may receive TRA assistance by 26 weeks.

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Unfortunately, TAA job training largely fails to help workers. Studies show that workers who complete TAA job training earn no more afterward than workers who do not.⁴

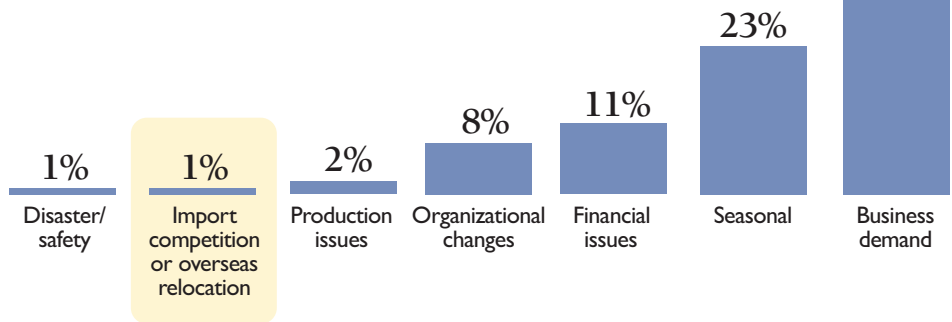
Small Portion of Jobs Losses Due to Trade. Competition and innovation constantly create and destroy jobs in America. Shrinking and bankrupt firms eliminate about 2 million existing jobs a month, while new and expanding companies create a similar number of new jobs.⁵ International trade accounts for just a small portion of these job losses.

Just 1 percent of jobs lost in mass layoffs is caused by overseas relocations or import competition. Similarly, less than 1 percent of workers who filed for unemployment benefits in 2010 received TAA.⁶

Few Mass Layoffs Are Due to Overseas Competition

About 1 percent of mass layoffs—instances when an employer lays off 50 or more workers in a five-week period and those workers remain unemployed for at least 30 days—result from international competition.

Jobs Lost in Mass Layoffs, by Reason, in Third Quarter of 2009



Source: Heritage Foundation calculations using data from the U.S. Department of Labor, Bureau of Labor Statistics, "Extended Mass Layoffs," Tables 2 and 10, at http://www.bls.gov/news.release/archives/lmslo_11122010.pdf (February 3, 2011). Excludes employers who refused to answer or did not know the reasons for the layoffs. The "Business Demand Category" reasons exclude import competition.

Chart 1 • WM 3134 heritage.org

No Discrimination. The government should not discriminate between workers who lose their jobs because of trade and workers who lose their jobs for other reasons. The worker who loses his job to a foreign competitor should receive the same

1. U.S. Trade Representative, *2006 Trade Policy Agenda and 2005 Annual Report*, March 1, 2006.
2. Workers qualify for TRA once they have exhausted their unemployment insurance (UI) benefits, and the benefit is equivalent to their UI payments. TAA workers also qualify for up to 52 weeks of basic TRA benefits irrespective of whether they enroll in training. However, UI benefits subtract from the amount of time workers qualify for basic TRA. Since Congress increased UI eligibility to a maximum of 99 weeks, few workers now receive basic TRA benefits.
3. U.S. Department of Labor, "Sunset of Expanded TAA Program," November 17, 2010, at http://www.workforceatm.org/sections/pdf/2010/TAAFactSheetFinal_11_17_10.pdf?CFID=500646&CFTOKEN=87026170 (January 26, 2011).
4. David Muhlhausen, "Trade Adjustment Assistance: Let the Ineffective and Costly Program Expire," Heritage Foundation WebMemo No. 3135, February 4, 2011, at <http://www.heritage.org/Research/Reports/2011/02/Trade-Adjustment-Assistance-Let-the-Ineffective-and-Costly-Program-Expire>.
5. U.S. Department of Labor, Bureau of Labor Statistics, "Business Employment Dynamics—Second Quarter 2010," February 1, 2011, at <http://www.bls.gov/news.release/pdf/cewbd.pdf> (February 3, 2011). Note that the quarterly figures are here expressed in monthly rates.
6. TAA covered 228,000 workers in FY 2010; 24.4 million workers filed initial claims for unemployment insurance in that fiscal year. U.S. Department of Labor, *Trade Adjustment Assistance for Workers: Report to the Committee on Finance of the Senate and Committee on Ways and Means of the House of Representatives*, December 2010, at <http://www.doleta.gov/tradeact/docs/AnnualReport10.pdf> (February 3, 2011). Data on initial UI claims come from the Department of Labor, Employment and Training Administration, and Haver Analytics.

treatment as the Blockbuster employee who lost his job to Netflix.

The government currently provides up to 99 weeks of unemployment insurance benefits. The Department of Labor's Dislocated Workers Program also provides job placement, career counseling, and (in some cases) training vouchers for laid-off workers. Congress should not single out trade-displaced workers for especially generous benefits.

Union VEBA Handout. The stimulus also expanded TAA in one way that has nothing to do with trade: If an employer providing retiree health benefits goes out of business, a bankruptcy court can set up a Voluntary Employee Beneficiary Association (VEBA). A portion of the employer's remaining assets goes into the VEBA, which takes over responsibility for the retiree's health coverage.

The stimulus extended the health care tax credit to such VEBAs. This refundable tax credit is indistinguishable from government spending. In effect, the federal government now covers 80 percent of the cost of retiree health benefits at bankrupt companies—no matter why they went out of business. This primarily helps unions, since unionized companies are disproportionately likely to offer these benefits.⁷

This is poor public policy. Taxpayers should not fund union benefits when unionized companies go bankrupt. This reduces the incentives for unions to be reasonable during contract negotiations. If Con-

gress wants to insure retiree health benefits, it can do so by requiring employers that offer them to purchase insurance for their plans.

Additionally, few Americans receive retiree health benefits beyond Medicare. Congress should not spend scarce public dollars guaranteeing top-of-the-line benefits to a small minority of workers when Medicare itself faces considerable financial strain.⁸

America Cannot Afford Excess Spending. The Congressional Budget Office estimates that the federal government will run a record \$1.5 trillion deficit in 2011 and that the national debt will double over the next decade.⁹ Higher government spending is driving these historic deficits.¹⁰ To avoid national bankruptcy, Congress must sharply reduce federal spending and eliminate nonessential programs.

The Department of Labor estimates that TAA will cost taxpayers \$2.4 billion in 2011.¹¹ TAA recipients appreciate their enhanced benefits. However, TAA is one of many programs the country can no longer afford.

Allow TAA to Expire. The expanded stimulus TAA benefits expired on December 31, 2010. Congress passed legislation intended to extend the new benefits to February 12, 2011.¹² Due to a drafting error, however, that legislation causes most of the TAA program to sunset on February 12.¹³

The best protection for displaced workers is a dynamic, growing economy that creates new jobs. Government overspending and debt are holding

7. Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2010 Annual Survey*, p. 165, at <http://ehbs.kff.org/pdf/2010/8085.pdf> (February 3, 2011).
8. Robert E. Moffit and Kathryn Nix, "The Future of Health Care Reform: Paul Ryan's 'Roadmap' and Its Critics," Heritage Foundation *Background* No. 2495, December 3, 2010 at <http://www.heritage.org/Research/Reports/2010/12/The-Future-of-Health-Care-Reform-Paul-Ryan-s-Roadmap-and-Its-Critics>.
9. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, at http://cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf (February 3, 2011).
10. Brian Riedl, "New CBO Budget Baseline Reveals Permanent Trillion-Dollar Deficits," Heritage Foundation *WebMemo* No. 3121, January 26, 2011 at <http://www.heritage.org/Research/Reports/2011/01/New-CBO-Budget-Baseline-Reveals-Permanent-Trillion-Dollar-Deficits>.
11. U.S. Department of Labor, *FY 2011 Department of Labor Budget in Brief*, p. 25, at <http://www.dol.gov/dol/budget/2011/PDF/bib.pdf> (February 3, 2011). Note that this figure assumes that Congress maintains the TAA expansions contained in the stimulus.
12. H.R. 6517, Omnibus Trade Act of 2010, at <http://www.gpo.gov/fdsys/pkg/BILLS-111hr6517enr/pdf/BILLS-111hr6517enr.pdf> (January 27, 2011).
13. National Skills Coalition, "TAA Set to Expire February 12," January 27, 2011, at <http://www.nationalskillscoalition.org/homepage-archive/taa-set-to-expire.html> (January 28, 2011).

back the economy. TAA benefits only a small percentage of laid-off workers, and TAA retraining fails to raise employees' pay.

Congress should allow TAA to expire; at a minimum, it should return the program to its pre-stimulus levels. Congress should consider reauthorizing

the pre-stimulus TAA *only* in conjunction with the passage of pending free trade agreements.

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