

# WebMemo



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## Trade Adjustment Assistance: Don't Link the Costly and Ineffective Program to Free Trade Agreements

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The Obama Administration and Congress recently began negotiations on three pending free trade agreements (FTAs) with Colombia, South Korea, and Panama.<sup>1</sup> While these FTAs would boost economic activity and strengthen ties between participating nations, the Administration and many in Congress want passage of the FTAs to be linked to the reauthorization of the Trade Adjustment Assistance (TAA) program. This ineffective and costly program provides job training, relocation allowances, and unemployment pay for workers who lost their jobs due to foreign trade, while they attempt to shift into new occupations.

With out-of-control spending and surging public debt threatening our nation's stability, renewing TAA makes little sense. TAA provides overly generous benefits for only a small fraction of laid-off workers.<sup>2</sup> Worse, there is little empirical support for the notion that TAA boosts participants' earnings.<sup>3</sup>

Congress should not link passage of the FTAs to TAA renewal. Instead, Congress can immediately send a clear message that it is getting serious about our nation's dire fiscal straits by letting the entire TAA program expire on February 12, 2012, setting a much-needed precedent that ineffective programs should no longer receive funding.

**Costly Program in Time of Excessive Overspending.** The Congressional Budget Office (CBO) repeatedly warned Congress that the trajectory of the federal budget is unsustainable.<sup>4</sup> For fiscal years 2009 and 2010, the federal government reached the largest deficits (annual budget short-

falls) since the close of World War II—10 percent and 8.9 percent of gross domestic product (GDP), respectively.<sup>5</sup> The national debt—the sum of all previous deficits—reached 62 percent of GDP at the end of fiscal year 2010.<sup>6</sup> Based on current law (which includes an enormous tax increase on January 1, 2013), the national debt is set to reach 77 percent of GDP by 2021.<sup>7</sup>

The deficit and debt are driven largely by entitlement spending on Medicare, Medicaid, and Social Security. However, Congress's fondness for employment and training programs—and all other questionable programs advocated in Congress—only moves the nation closer to fiscal insolvency. During fiscal year 2010, Congress appropriated \$1.1 billion in Trade Readjustment Allowances (TRA), similar to unemployment insurance.<sup>8</sup> In addition to the TRA appropriation, Congress allocated more than \$975 million to fund other TAA services, including \$575 million for job training.<sup>9</sup>

TAA reauthorization has been linked in the media to passage of the FTAs because national business organizations, such as the Business Roundtable and U.S. Chamber of Commerce, support the program.<sup>10</sup> According to press reports, the Obama Admin-

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istration has specifically asked national business organizations to stridently support TAA renewal in exchange for passage of the FTAs.<sup>11</sup> Support for TAA costs the business community little, but it saddles American taxpayers with the bill for an ineffective and costly program. Congress is already borrowing 43 cents for every dollar it spends, and taxpayers cannot afford to pay for ineffective programs.<sup>12</sup>

**Overly Generous Benefits.** The federal government gives considerable support to workers who lose their jobs. Laid-off workers may receive up to 99 weeks of unemployment insurance (UI) 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.

Workers laid off because of international trade receive even greater benefits under TAA. TAA gives 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;<sup>13</sup>
- 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 accept lower-paying jobs.

These benefits are far more generous than most unemployed workers receive. They go beyond supporting workers temporarily while they find new jobs. Under TAA, taxpayers take primary responsibility for supporting selected unemployed workers for up to two years. This is excessive.

1. *Inside US Trade*, "With FTA Technical Talks Moving Ahead, TAA Negotiations to Intensify," May 6, 2011.
2. James Sherk, "Congress Should Allow Trade Adjustment Assistance to Expire," Heritage Foundation *WebMemo* No. 3134, February 4, 2011, at <http://www.heritage.org/Research/Reports/2011/02/Congress-Should-Allow-Trade-Adjustment-Assistance-to-Expire>.
3. 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>.
4. Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2011 to 2021," January 2011, at [http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26\\_FY2011Outlook.pdf](http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf) (May 9, 2011).
5. Congressional Budget Office, "The Budget and Economic Outlook," p. xi.
6. *Ibid.*
7. *Ibid.*
8. John J. Topoleski, "Trade Adjustment Assistance for Workers (TAA) and Reemployment Trade Adjustment Assistance (RTAA)," Congressional Research Service *Report for Congress*, September 24, 2010, p. 1.
9. U.S. Department of Labor, "Training Adjustment Assistance for Workers," report to the Committee on Finance, U.S. Senate, and Committee on Ways and Means, U.S. House of Representatives, December 2010, p. 19, at <http://www.doleta.gov/tradeact/docs/AnnualReport10.pdf> (May 10, 2011).
10. "Letter to President Obama and Congressional Leadership in Support of Trade Adjustment Assistance," May 5, 2011, at <http://businessroundtable.org/news-center/letter-to-president-obama-and-congressional-leadership-in-support-of-trade> (May 10, 2011).
11. *Inside US Trade*, "With FTA Technical Talks Moving Ahead, TAA Negotiations to Intensify," and *Inside US Trade*, "White House Urges Business Groups to Campaign for TAA Renewal," April 29, 2011.
12. Brian M. Riedl, "Obama's 2012 Budget Offers More Gimmicks, Not Reform," Heritage Foundation *Backgrounder* No. 2529, March 9, 2011, at <http://www.heritage.org/Research/Reports/2011/03/Obama-s-2012-Budget-Offers-More-Gimmicks-Not-Reform>.
13. 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.

### Stimulus Expansions Even More Excessive.

The American Recovery and Reinvestment Act of 2009, otherwise known as the stimulus bill, made TAA even more excessive, expanding the number of workers covered and the generosity of benefits. Many of the same business groups that support current renewal efforts advocated for TAA expansion under the stimulus bill.<sup>14</sup>

Specifically, the stimulus:

- Expanded TAA to cover workers whose employers shifted 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 could receive TRA assistance by 26 weeks.

The stimulus expansions of TAA expired in February 2011, and Congress did not reauthorize them. The program has now reverted to its pre-stimulus levels.

**Ineffective Job Training Program.** While TAA provides overly generous benefits for only a small fraction of laid-off workers, is there any evidence

that this assistance and training improves workers' earnings based on newly acquired job skills? Program evaluations of TAA say no.

Three quasi-experimental impact evaluations indicate that TAA is ineffective in raising participants' wages.<sup>15</sup> For example, an evaluation using a propensity score analysis by Professor Kara M. Reynolds of American University and a colleague found "little evidence that it helps displaced workers find new, *well-paying* employment opportunities."<sup>16</sup> In fact, TAA participants experienced a wage loss of 10 percent. The authors concluded that this negative impact "is obviously not the result one would expect from a program designed to help displaced workers."<sup>17</sup> This trend was confirmed by a Government Accountability Office report that concluded that TAA participants are more likely to earn less in their new employment.<sup>18</sup>

**Time to End TAA.** The expensive Trade Adjustment Assistance program does nothing for the vast majority of unemployed Americans. Only a small minority of workers actually lose their jobs to trade. Mass layoffs and unemployment insurance receipt data both show that foreign competition accounts for only 1 percent of job losses.<sup>19</sup> Domestic competitors, new technology, and changing consumer preferences cost far more jobs than foreign trade. Under TAA, the government taxes all Americans to provide especially generous benefits to a selected few.

Congress should not link the passage of FTAs to renewal of TAA. Congress should not agonize over the difference between a straight renewal of TAA at pre-stimulus levels and an even greater expansion. Instead, Congress can immediately send a clear message that it is getting serious about our nation's

14. *Inside US Trade*, "White House Urges Business Groups to Campaign for TAA Renewal."

15. Paul T. Decker and Walter Corson, "International Trade and Worker Displacement: Evaluation of the Trade Adjustment Assistance Program," *Industrial and Labor Relations Review*, Vol. 48, No. 4 (1995), pp. 758–774; Leah H. Marcal, "Does Trade Adjustment Assistance Help Trade-Displaced Workers?" *Contemporary Economic Policy*, Vol. 19, No. 1 (2001), pp. 59–72; and Kara M. Reynolds and John S. Palatucci, "Does Trade Adjustment Assistance Make a Difference?" American University, August 2008, at <http://w.american.edu/cas/economics/repec/amu/workingpapers/2008-12.pdf> (May 10, 2011).

16. Reynolds and Palatucci, "Does Trade Adjustment Assistance Make a Difference?" p. 3.

17. *Ibid.*, p. 22.

18. U.S. Government Accountability Office, *Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, but Better Outreach Needed on New Benefits*, GAO-06-43, January 2006, at <http://www.gao.gov/new.items/d0643.pdf> (May 10, 2011).

19. Sherk, "Congress Should Allow Trade Adjustment Assistance to Expire."

dire fiscal straits by letting the entire TAA program expire. Congressional appropriators need to recognize that TAA expires early in fiscal year 2012 by appropriating only enough funds to cover expenses until February 12, 2012. If Congress fully funds TAA for all of fiscal year 2012, then this action will be a clear signal that it is unwilling to do away with

a wasteful program during a time of severe budget constraints.

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