

# WebMemo



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## Trade Adjustment Assistance: Baucus–Camp Proposal Restores and Solidifies the Stimulus Expansion

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On June 28, Senator Max Baucus (D–MT), chairman of the Senate Finance Committee, announced that he would hold a “mock” mark up of the South Korea, Colombia, and Panama free trade agreements (FTAs). Unfortunately, the legislation authorizing the South Korea FTA includes a reauthorization of the Trade Adjustment Assistance (TAA) program that reaffirms the expansion of the programs that was created by the 2009 stimulus bill. The restoration of the stimulus expansion of TAA was agreed to by Baucus, House Ways and Means Committee chairman Dave Camp (R–MI), and the Obama Administration.

The TAA is an ineffective and costly program that 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 the nation’s stability, this is hardly a good time to provide overly generous benefits for only a small fraction of laid-off workers.<sup>1</sup> Worse, there is little empirical support for the notion that TAA boosts participants’ earnings.<sup>2</sup>

**Continuing the Failed Stimulus.** Perhaps because this is not the time for wasting precious federal income, Camp recently advanced the claim that TAA “has been cut not only from 2009 levels, but also below 2002 levels in several key areas.”<sup>3</sup> This is not the case, however. Instead of cutting TAA back to pre-stimulus levels, the Baucus–Camp proposal restores and solidifies the most alarming aspects of the stimulus expansion.

- ***It keeps the 2009 stimulus expansion for service-sector workers.*** TAA was originally intended to provide income maintenance and job training to workers from the manufacturing sector. The stimulus bill expanded eligibility to include workers from the service and public sectors. This expansion expired in February, but the Baucus–Camp proposal restores TAA eligibility for service-sector workers. While the Baucus–Camp proposal eliminates the eligibility of government employees, this change is irrelevant, because the Department of Labor has not certified any unemployed government employees for TAA benefits during fiscal year 2010.
- ***It restores the stimulus expansion of benefits for job losses unrelated to FTAs.*** The Baucus–Camp proposal retains the stimulus expansion of providing TAA benefits to any workers who lost their jobs to overseas production, not just TAA-certified jobs that were lost to FTAs.
- ***It reinstates the stimulus’s 161 percent increase in TAA for workers’ job training spending.*** The Baucus–Camp proposal cements the stimulus spending expansion of TAA for workers’ job

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training at \$575 million per year from \$220 million—an increase of \$355 million per year.

- ***It continues the stimulus's creation of a new and duplicative job-training program.*** The Baucus–Camp proposal keeps the TAA Community College and Career Training Program, which has appropriation authorizations of \$500 million per year from fiscal years 2011 through 2014.<sup>4</sup> This new job-training program is just one of the 47 employment and training programs operated across nine agencies by the federal government.<sup>5</sup>
- ***It partially reinstates the stimulus increase in the Health Coverage Tax Credit (HCTC).*** The stimulus expansion raised the HCTC reimbursement rate that covers private health insurance premiums to 80 percent from the pre-stimulus rate of 65 percent. However, the HCTC rate returned to the pre-stimulus level when the stimulus expansion expired in February. By splitting the difference at 72.5 percent, the Baucus–Camp proposal effectively increases the HCTC rate by 7.5 points.
- ***It solidifies the wage subsidies for older workers as a permanent program.*** The pre-stimulus Alternative TAA was a temporary five-year demonstration program that paid 50 percent of the difference between new and old wages of displaced older workers. It subsidized the wages of older workers earning less than \$50,000 per year for up to \$10,000 over two years. After changing the program's name to Reemployment TAA, the

stimulus expansion increased the wage subsidy to \$12,000 over two years for displaced older workers earning less than \$55,000 and made the program permanent. While the Baucus–Camp proposal reduces the wage subsidies to pre-stimulus levels, it also cements into law the permanency of the wage subsidy program.

- ***It retains the stimulus expansion of the union VEBA handout.*** Despite having nothing to do with international trade, the stimulus expansion of TAA extended the HCTC to Voluntary Employee Beneficiary Associations (VEBA). A bankruptcy court can allocate a portion of an out-of-business employer's assets to a VEBA, which assumes responsibility for retirees' health coverage. This expansion primarily benefits unions.<sup>6</sup> Under the Baucus–Camp proposal, the federal government would cover 72.5 percent of the cost of retiree health benefits at bankrupt companies. This coverage occurs regardless of whether the bankruptcies are related to free trade.

**No Evidence of Effectiveness.** 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>7</sup> For example, a 2008 evaluation using a propensity score analysis by Professor Kara

1. 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>.
2. David B. 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>.
3. Press release, "Camp Statement on Announcement That Senate Finance Will Mock Mark Up Pending Trade Agreements, Trade Adjustment Assistance This Week," U.S. House of Representatives, Committee on Ways and Means, June 28, 2011, at <http://waysandmeans.house.gov/News/DocumentSingle.aspx?DocumentID=249264> (July 6, 2011).
4. Press release, "U.S. Labor Department Encourages Applications for Trade Adjustment Assistance Community College and Career training Grant Program," U.S. Department of Labor, Employment and Training Administration, January 20, 2011, at <http://www.dol.gov/opa/media/press/eta/eta20101436.htm> (July 1, 2011).
5. U.S. Government Accountability Office, "Multiple Employment and Training Programs: Providing Information on Collocating Services and Consolidating Administrative Structures Could Promote Efficiencies," January 2011, p. 5, at <http://www.gao.gov/new.items/d1192.pdf> (July 5, 2011).
6. Sherk, "Congress Should Allow Trade Adjustment Assistance to Expire."

M. Reynolds of American University and a colleague found “little evidence that it helps displaced workers find new, *well-paying* employment opportunities.”<sup>8</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>9</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>10</sup>

**Time to End TAA.** Congress should not link the passage of any of the FTAs to renewal of TAA. The

stimulus law was supposed to be temporary, yet the Baucus–Camp proposal strengthens and retains the stimulus expansion of TAA. Congress needs to draw a clear line in the sand by not allowing the stimulus expansion of TAA to become permanent. Instead of solidifying TAA’s expansion, Congress can immediately send a clear message that it is getting serious about the nation’s dire fiscal straits by not attaching TAA renewal to any of the FTAs and letting the entire TAA program expire in 2012.

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7. 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).
8. Reynolds and Palatucci, “Does Trade Adjustment Assistance Make a Difference?” p. 3.
9. *Ibid.*, p. 22.
10. 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).