

ISSUE BRIEF

No. 4001 | JULY 29, 2013

Trade Adjustment Assistance: Another Evaluation Finds the Program to Be Ineffective and Costly

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Under the Trade Adjustment Assistance (TAA) program, workers who lost their jobs due to foreign trade are eligible for job training, relocation allowances, and income maintenance while they attempt to shift into new occupations. TAA provides overly generous benefits for a small fraction of laid-off workers.¹ However, is there any evidence that this assistance and training improves earnings based on newly acquired job skills? Program evaluations of TAA say no.

A 2012 quasi-experimental impact evaluation of TAA by Mathematica Policy Research and Social Policy Research Associates builds upon the consensus of three previous quasi-experimental impact evaluations that have found TAA ineffective at improving the employment outcomes of participants.² Thus, Congress should let this costly and ineffective program expire by not reauthorizing the program.

Trade Adjustment Assistance. Prior to the passage of the American Recovery and Reinvestment Act (ARRA) of 2009, eligible displaced workers enrolled in full-time training could receive up to 104 weeks (two years) of cash payments. A displaced worker requiring remedial education could receive

an additional 26 weeks (six months) of cash payments while enrolled in training.

ARRA extended the number of weeks newly eligible displaced workers can receive cash payments. Newly displaced workers now receive up to 130 weeks (two-and-a-half years) of cash payments while enrolled in full-time training, while newly displaced workers requiring remedial education can receive up to 156 weeks (three years) of cash payments while in remedial training. ARRA also expanded the definition of eligibility to include any unemployed worker whose firm transferred production to a foreign nation.

In 2011, Congress passed and President Obama approved the Trade Adjustment Extension Act, which cemented into law the expansion of TAA under ARRA. However, the expanded eligibility and benefits are set to expire on December 31, 2013. The entire TAA program is set to expire on December 31, 2014.

2012 TAA Impact Evaluation. Evaluating the effectiveness of TAA is difficult because displaced workers are entitled to benefits and training provided by the program once the Department of Labor approves eligibility. While experimental evaluations are the “gold standard” of evaluation design, the entitlement nature of TAA benefits and training prevents this scientifically rigorous method from being used.³ Thus, policymakers must rely on the results of quasi-experimental evaluation designs.

The 2012 evaluation statistically matched TAA participants to a comparison group of workers in the manufacturing sector and from the same local areas.⁴ Both groups consisted of unemployment insurance (UI) claimants separated from their jobs over the same period of time. The evaluation followed TAA

This paper, in its entirety, can be found at <http://report.heritage.org/ib4001>

Produced by the Center for Data Analysis

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participants and comparison group members over a four-year period. During the first three years, TAA participants had lower rates of employment than members of the comparison group.⁵ However, by the fourth year, the employment rates of the two groups were statistically indistinguishable.

Lower employment rates of TAA participants should be expected, because they are more likely to engage in training activities than their counterparts. Approximately two-thirds of TAA participants received training, and the average trainee spent about 1.5 years in training.⁶ Being more likely to receive job-training services naturally raises the question of whether such training raises the earnings of TAA participants.

In the first and second years, TAA participants averaged \$12,674 and \$12,987 less in annual earnings (2005 dollars) than their counterparts.⁷ During the third and fourth years, TAA participants averaged \$7,451 and \$3,273 less in annual earnings, respectively. Over the entire four-year follow-up period, TAA participants earned a total of \$37,133 less than their counterparts. Further, “[w]hen TAA participants returned to work, they had lower wages and were less likely to have access to fringe benefits than their comparisons.”⁸ For their most recent jobs, TAA participants have an average hourly wage of \$11.81 (2006 dollars), while the comparison group averaged \$12.59—a difference of \$0.78.⁹

Given that TAA participants were more likely to receive job training than their counterparts, employers may place a higher value on work experience than on TAA training activities. Only 37 percent of TAA participants who received job training found employment in the occupations for which they trained.¹⁰

Some may assert that the negative findings are not the results of the ineffectiveness of TAA but a result of the deep recession that occurred during the four-year follow-up period. The authors of the 2012 evaluation state, “Employment rates and earnings were probably lower during the recession than they would have been in a strong economy, but they were likely to have been lower for both TAA participants and comparisons.”¹¹

How did TAA impact the receipt of UI? Over the four-year follow-up period, TAA recipients received \$2,933 (2006 dollars) more in UI benefits than their counterparts.¹² TAA participants were more likely to exhaust their UI benefits: 82.6 percent of TAA participants exhausted their UI benefits, compared to 45.3 percent of their counterparts—a difference of 37.3 percent.¹³

Finally, a cost-benefit analysis found that the net benefit to society of TAA was a negative \$53,802 per participant.¹⁴

Previous TAA Impact Evaluations. The other three quasi-experimental impact evaluations also

1. James Sherk, “Congress Should Allow Trade Adjustment Assistance to Expire,” Heritage Foundation *WebMemo* No. 3134, February 4, 2011, <http://www.heritage.org/Research/Reports/2011/02/Congress-Should-Allow-Trade-Adjustment-Assistance-to-Expire>.
2. Peter Z. Schochet et al., *Estimated Impacts for Participants in the Trade Adjustment Assistance (TAA) Program Under the 2002 Amendments*, Social Policy Research Associates and Mathematica Policy Research, August 2012, http://wdr.doleta.gov/research/FullText_Documents/ETAOP%5F2013%5F10%5FParticipant%5FImpact%5FReport%2Epdf (accessed July 25, 2013).
3. For a discussion of the benefits and scientific rigor of experimental evaluations, see David B. Muhlhausen, *Do Federal Social Programs Work?* (Santa Barbara, CA: Praeger, 2013).
4. Schochet et al., *Estimated Impacts*, p. xv.
5. *Ibid.*, table 1, p. xxix.
6. *Ibid.*, p. VII-1.
7. *Ibid.*, table VII-3, p. VII-8.
8. *Ibid.*, p. xviii.
9. *Ibid.*, Table VIII-3, p. VII-9.
10. *Ibid.*, p. xviii.
11. *Ibid.*, p. VII-3.
12. *Ibid.*, Table IX-1, p. IX-1.
13. *Ibid.*
14. Sarah Dolfin and Peter Z. Schochet, *The Benefits and Costs of the Trade Adjustment Assistance (TAA) Program Under the 2002 Amendments: Final Report*, Mathematica Policy Research, December 2012, p. 57, http://wdr.doleta.gov/research/FullText_Documents/ETAOP%5F2013%5F09%2Epdf (accessed July 24, 2013).

indicate that TAA is ineffective in raising the wages of participants.¹⁵

Using a quasi-experimental design, Paul T. Decker of Mathematica Policy Research and a colleague evaluated the impact of TAA job training on earnings outcomes.¹⁶ After comparing TAA job-training recipients to TAA non-training recipients, the authors found that participating in TAA training had no effect on raising the earnings of participants.

An evaluation using quasi-experimental methods by Leah E. Marcal of California State University-Northridge compared TAA training participants to TAA non-trainees and those who had exhausted their UI benefits.¹⁷ Compared to UI exhaustees and TAA non-trainees, the newly acquired skills by TAA job-training participants failed to translate into higher wages.¹⁸ However, TAA trainees were 12 percent and 9 percent more likely to find employment than TAA non-trainees and UI exhaustees, respectively.¹⁹

Another evaluation using a propensity score analysis by Kara M. Reynolds of American University and a colleague found “little evidence that it helps displaced workers find new, *well-paying* employment opportunities.”²⁰ Specifically, the authors compared employment and wage outcomes of TAA participants to a sample of displaced workers from the

Current Population Survey. Finding that TAA participants experienced a wage loss of 10 percent, the authors conclude that the negative impact “is obviously not the result one would expect from a program designed to help displaced workers.”²¹ However, the authors did find that TAA training participants had a reemployment rate of 83.9 percent, compared to the 73.7 percent reemployment rate of the comparison group—a difference of 10.2 percent.²²

Let Failed Programs Expire. Overall, there is little empirical support for the notion that TAA improves the employment outcomes of displaced workers. In fact, TAA participants are more likely to earn less after participating in the program. This trend was also confirmed by a Government Accountability Office report that concluded that TAA participants are more likely to earn less in their new employment.²³ Last, TAA failed a common-sense test of determining whether the program produces more benefits than its costs.

With the partial and complete expiration of TAA approaching, Congress would be wise to add the program to the dustbin of history.

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15. Another TAA impact evaluation by Mathematica Policy Research was originally set to be published in 2010. However, the U.S. Department of Labor and Mathematica have yet to release the findings to the public.

16. 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.

17. Leah H. Marcal, “Does Trade Adjustment Assistance Help Trade-Displaced Workers?,” *Contemporary Economic Policy*, Vol. 19, No. 1 (2001), pp. 59–72.

18. *Ibid.*, table 4, p. 69.

19. *Ibid.*, p. 70.

20. Kara M. Reynolds and John S. Palatucci, “Does Trade Adjustment Assistance Make a Difference?,” American University, August 2008, <http://w.american.edu/cas/economics/repec/amu/workingpapers/2008-12.pdf> (accessed July 26, 2013).

21. *Ibid.*, p. 22.

22. *Ibid.*, Table 6, p. 32.

23. 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, <http://www.gao.gov/new.items/d0643.pdf> (accessed July 26, 2013).