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# ISSUE BRIEF

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## Trade Adjustment Assistance: Let the Ineffective and Wasteful "Job-Training" Program Expire

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Members of Congress should be wary of reauthorizing the ineffective and wasteful Trade Adjustment Assistance (TAA) program. Trade Adjustment Assistance should be considered on its own merits and not linked to legislative proposals, such as Trade Promotion Authority (TPA). Similarly, TPA should be evaluated independently based on its merits and not tied to unrelated legislation like TAA.

Under TAA, workers who lose their jobs due to foreign trade are eligible for job training, relocation allowances, and income maintenance while they attempt to shift into new occupations. Absent congressional action, the entire TAA program will expire on December 31, 2014.

TAA provides very expensive benefits for a small fraction of laid-off workers.[1] Furthermore, program evaluations have found that this spending does not actually help this small fraction of workers. A recent federal evaluation found that TAA *hurts* its beneficiaries' job prospects. This finding should not be surprising: scientifically rigorous evaluations of federal job-training programs consistently find these programs to be highly ineffective.[2]

Moreover, the Obama Administration has used very loose eligibility standards for TAA benefits. The Administration awarded TAA benefits to both Solyndra and Hostess employees—two companies whose failures had little to do with foreign trade. Congress should not waste $1 billion on a program that does not help—and may hurt—unemployed workers.

### Trade Adjustment Assistance

The government gives considerable support to workers who lose their jobs. Laid-off workers may receive up to 26 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 who argue successfully that they lost their jobs because of foreign competition receive even greater benefits under TAA. TAA gives covered workers access to:

- A year of Trade Readjustment Allowances (TRA) equivalent to UI benefits (less any UI benefits claimed in state programs);
- A year and a half more TRA benefits while enrolled in an approved job-training program;
- Up to two years of job training in an approved training program;
- Up to $1,250 each for job search and relocation allowances;
- A refundable health coverage tax credit (HCTC) that covers 72.5 percent of a worker's health insurance premiums in qualifying health plans; and

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- In lieu of these benefits recipients may participate in a two-year wage-insurance program that partly replaces workers' earnings if they accept lower-paying jobs.[3]

These benefits are far more generous than anything most unemployed workers receive. They go beyond supporting workers temporarily. Under TAA, taxpayers take primary responsibility for supporting selected unemployed workers for up to two years.

## Loose Eligibility Criteria

In theory, TAA benefits go to workers who lose their jobs because of foreign trade. In practice, an Administration can give benefits to firms whose difficulties have only a loose connection to foreign competition. Companies qualify for TAA by showing they have laid off workers while imports of a "like" product have increased.[4] Foreign trade need not be the primary reason the company laid off workers—only an "important" contribution to it. Thus the Obama Administration could grant TAA certification to both Hostess and Solyndra employees despite foreign trade having little to do with their problems.[5]

## 2012 TAA Impact Evaluation

Congress spends approximately $1 billion a year on TAA.[6] However, this spending appears to do little to improve displaced workers' job prospects. Evaluating the effectiveness of TAA presents challenges because the law entitles displaced workers to TAA benefits and training 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.[7] Thus, policymakers must rely on the results of quasi-experimental evaluation designs.

Four quasi-experimental evaluations have consistently found that TAA training programs are ineffective. The most recent 2012 evaluation by Mathematica statistically matched TAA participants to a comparison group of workers in the manufacturing sector and from the same local areas.[8] Both groups consisted of UI claimants separated from their jobs over the same period of time. The evaluation followed TAA 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.[9] 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 coun-

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. David B. Muhlhausen, *Do Federal Social Programs Work?* (Santa Barbara, CA: Praeger, 2013).
3. Department of Labor, Employment and Training Administration, "TAA Program Benefits and Services under Reversion 2014," http://www.doleta.gov/tradeact/2014_amend_att1.cfm (accessed December 2, 2014), and Internal Revenue Service, "HCTC: Eligibility Requirements and How to Receive the HCTC," http://www.irs.gov/Individuals/HCTC:-Eligibility-Requirements-and-How-to-Receive-the-HCTC (accessed December 2, 2014).
4. Trade Act of 1974, Title II, chapter 2, Section 222(a)(2), http://www.doleta.gov/tradeact/pdf/official_trade_act_amended.pdf (accessed December 2, 2014).
5. News release, "US Department of Labor Certifies More than 18,000 Former Hostess Workers Around the Country as Eligible to Apply for Trade Adjustment Assistance," U.S. Department of Labor, February 19, 2013, http://www.dol.gov/opa/media/press/eta/ETA20130292.htm (accessed December 2, 2014), and Eric Martin, "Solyndra Workers to Get Trade Adjustment Assistance Benefits," *Business Week*, November 30, 2011, http://www.businessweek.com/news/2011-11-30/solyndra-workers-to-get-trade-adjustment-assistance-benefits.html (accessed December 2, 2014).
6. U.S. Department of Labor, Employment and Training Administration, "What Is Trade Adjustment Assistance?" http://www.doleta.gov/tradeact/factsheet.cfm (accessed December 2, 2014).
7. For a discussion of the benefits and scientific rigor of experimental evaluations, see Muhlhausen, *Do Federal Social Programs Work?*
8. Peter Z. Schochet, Ronald D'Amico, Jillian Berk, Sarah Dolfin, and Nathan Wozny, "Estimated Impacts for Participants in the Trade Adjustment Assistance (TAA) Program Under the 2002 Amendments," Social Policy Research Associates and Mathematica Policy Research, Inc., August 2012, p. xv, http://wdr.doleta.gov/research/FullText_Documents/ETAOP%5F2013%5F10%5FParticipant%5FImpact%5FReport%2Epdf (accessed January 3, 2014).
9. Ibid., p. xxix, Table 1.

TABLE 1

## TAA Participants Work Less, Earn Less than Comparable Workers

| Average Weeks Worked per Year | TAA Participants | Comparison Group | Difference | Statistically Significant? |
|---|---|---|---|---|
| Year 1 | 6.0 | 25.5 | –19.4 | Yes |
| Year 2 | 18.9 | 37.8 | –18.9 | Yes |
| Year 3 | 28.1 | 37.1 | –9.0 | Yes |
| Year 4 | 33.0 | 35.0 | –2.0 | No |

| Average Annual Earnings (2006 Dollars) | TAA Participants | Comparison Group | Difference | Statistically Significant? |
|---|---|---|---|---|
| Year 1 | $3,053 | $15,728 | –$12,674 | Yes |
| Year 2 | $9,574 | $22,561 | –$12,987 | Yes |
| Year 3 | $13,548 | $20,999 | –$7,451 | Yes |
| Year 4 | $15,917 | $19,189 | –$3,273 | Yes |
| All four years | $42,939 | $80,072 | –$37,133 | Yes |

**Note:** Statistical significance is at the 99 percent level.
**Source:** Peter Z. Schochet, Ronald D'Amico, Jillian Berk, Sarah Dolfin, and Nathan Wozny, "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, p. xxix, http://wdr.doleta.gov/research/FullText_Documents/ETAOP%5F2013%5F10%5FParticipant%5FImpact%5FReport%2Epdf (accessed January 3, 2014).

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terparts. Approximately two-thirds of TAA participants received training, and the average trainee spent about one and a half years in training.[10] Being more likely to receive job-training services naturally raises the question of whether such training raises the earnings or re-employment prospects of TAA participants.

In the first and second years, TAA participants averaged $12,674 and $12,987 (2005 dollars), respectively, in lower annual earnings than their counterparts.[11] During the third and fourth years, TAA participants averaged $7,451 and $3,273, respectively, in lower annual earnings. 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."[12] 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.[13]

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 were trained.[14]

Mathematica concluded that TAA financially hurt both its participants and society overall. A cost-benefit analysis found that the net benefit to society of TAA was a *negative* $53,802 per participant. Taxpayers bore half of the cost—the economy could have put the resources spent on TAA to productive use elsewhere. But displaced workers bore the other half of the cost of the program. In net present-value terms, the typical TAA participant expe-

10. Ibid., p. VII-1.
11. Ibid., p. VII-8, Table VII-3.
12. Ibid., p. xviii.
13. Ibid., p. VII-9, Table VIII-3.
14. Ibid., p. xviii.

rienced $26,837 lower total earnings and income despite receiving federal benefits.[15] As Mathematica reported:

> Participants' reduced tax bills and higher benefits from UI and TRA were not enough to compensate for the additional earnings and fringe benefits they would have received had their paid employment been similar to that of the comparison group.[16]

The most recent federal evaluation finds that TAA participation hurts displaced workers.[17]

## Previous TAA Impact Evaluations

The other three quasi-experimental impact evaluations also indicate that TAA is ineffective in raising the wages of participants. Paul T. Decker of Mathematica Policy Research and a colleague evaluated the impact of TAA job training on earnings outcomes.[18] 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.

Another evaluation by Leah E. Marcel of California State University-Northridge compared TAA training participants to TAA non-trainees and those who had exhausted their UI benefits.[19] Compared to UI "exhaustees" and TAA non-trainees, the newly acquired skills by TAA job-training participants failed to translate into higher wages.[20] However, TAA trainees were 12 percent and 9 percent more likely to find employment than TAA non-trainees and UI exhaustees, respectively.[21]

Another evaluation by Kara M. Reynolds of American University and a colleague found "little evidence that it helps displaced workers find new, *well-paying* employment opportunities."[22] 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."[23] However, the authors did find that TAA training participants had a re-employment rate of 83.9 percent, compared to the 73.7 percent re-employment rate of the comparison group—a difference of 10.2 percent.[24]

## Let Failed Programs Expire

Overall, little empirical evidence supports the notion that TAA spending helps displaced workers. In fact, TAA participants are more likely to have lower earnings after participating in the program. This trend was also confirmed by a Government Accountability Office report.[25] TAA fails a commonsense test of determining whether the program produces more benefits than costs. Congress should not spend $1 billion a year on a program that does not help, and may well hurt, unemployed workers.

15. 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 January 3, 2014).
16. Ibid., p. ii.
17. Ibid.
18. 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.
19. Leah H. Marcal, "Does Trade Adjustment Assistance Help Trade-Displaced Workers?" *Contemporary Economic Policy*, Vol. 19, No. 1 (2001), pp. 59–72.
20. Ibid., p. 69, Table 4.
21. Ibid., p. 70.
22. Kara M. Reynolds and John S. Palatucci, "Does Trade Adjustment Assistance Make a Difference?" American University Department of Economic *Working Paper Series*, August 2008, http://w.american.edu/cas/economics/repec/amu/workingpapers/2008-12.pdf (accessed January 3, 2014).
23. Ibid., p. 22.
24. Ibid., p. 32, Table 6.
25. 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 January 3, 2014).

Congress should not see linking TPA to TAA as a worthwhile trade-off. The potential for congressional consideration of TPA should not get bogged down by efforts to continue a failed billion-dollar program. The forthcoming expiration of TAA at year's end, gives Congress the chance to practice fiscal responsibility by adding the program to the dustbin of history.

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