

ISSUE BRIEF

No. 4396 | APRIL 28, 2015

Trade Adjustment Assistance Enhancement Act: Budget Gimmicks and Expanding an Ineffective and Wasteful “Job-Training” Program

David B. Muhlhausen, PhD, James Sherk, and John Gray

On Wednesday, April 22, 2015, the Senate Committee on Finance reported out of committee the Trade Adjustment Assistance Enhancement Act of 2015. The bill was sponsored by Senators Susan Collins (R-ME) and Ron Wyden (D-OR). A day later, a companion bill (H.R. 1892), sponsored by Representatives Dave G. Reichert (R-WA), Tom Reed (R-NY), and Patrick Meehan (R-PA), was reported out of the House Committee on Ways and Means.

Members of Congress should be wary of reauthorizing and expanding the ineffective and wasteful Trade Adjustment Assistance (TAA) program, especially considering the budget gimmicks that accompany the Reichert-Reed-Meehan and Collins-Wyden bills. The proposals pay to expand and continue TAA with budgetary gimmicks to satisfy budget constraints.¹ Both proposals restore the expired 2009 economic stimulus expansion of TAA. This new spending is unjustifiable, especially in light of program evaluations that find TAA participation economically harms unemployed workers.

Judge TAA on Its Own Merits

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 indepen-

dently based on its merits and not tied to unrelated legislation, such as 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 at the end of fiscal year 2015.

TAA provides expensive benefits for a small fraction of laid-off workers.² Furthermore, program evaluations have found that this spending does not actually help this small fraction of workers. In fact, 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.³

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

Current TAA Benefits

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

This paper, in its entirety, can be found at <http://report.heritage.org/ib4396>

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

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 of 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; and
- An alternate two-year wage-insurance program that partly replaces workers' earnings if they accept lower-paying jobs and forego the above TAA benefits.⁴

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.

More Stimulus Spending

The House and Senate proposals restore the expansion of TAA eligibility to service workers. TAA was originally intended to provide income maintenance and job training to workers from the manufacturing sector, but the stimulus bill expanded eligibility to include workers from the service and public sectors. This expansion expired in 2011, but

the Reichert–Reed–Meehan and Collins–Wyden proposals would restore TAA eligibility for service-sector workers.

Further, both proposals would restore the stimulus expansion of benefits for job losses unrelated to free trade agreements (FTAs). The proposal revives 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.

Finally, the proposals would revive the refundable health coverage tax credit that covers 72.5 percent of a worker's health insurance premiums in qualifying health plans. Those eligible for TAA would be allowed to claim the credit.

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 are only loosely connected to foreign competition. Companies qualify for TAA by showing that they have laid off workers while imports of a “like” product have increased.⁵ Foreign trade need not be the primary reason that 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.⁶

Budget Gimmicks

To fund all of this, the Reichert–Reed–Meehan and Collins–Wyden bills offset new spending by inserting a budget gimmick known as corporate

1. For an analysis of the budgetary impact of the Reichert–Reed–Meehan bill, see Congressional Budget Office, “Estimated Effects on Direct Spending and Revenues of H.R. 1892, the Trade Adjustment Assistance (TAA), and for Other Purposes Act of 2015, as Introduced on April 17, 2015,” April 17, 2015, <https://www.cbo.gov/publication/50125> (accessed April 22, 2015).

2. 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>.

3. David B. Muhlhausen, *Do Federal Social Programs Work?* (Santa Barbara, CA: Praeger, 2013).

4. U.S. Department of Labor, Employment and Training Administration, “TAA Program Benefits and Services Under Reversion 2014,” December 31, 2013, http://www.doleta.gov/tradeact/2014_amend_att1.cfm (accessed April 20, 2015).

5. Trade Act of 1974, § 222(a)(2), http://www.doleta.gov/tradeact/pdf/official_trade_act_amended.pdf (accessed December 2, 2014).

6. 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).

timing shifts. Congress uses this gimmick to satisfy budget restraints that prohibit legislation from increasing the deficit over five years and over 10 years. In this example, the TAA sponsors are attempting to comply with a budget rule that requires deficit neutrality in years one through five. This gimmick works by shifting the amount of estimated corporate tax that is due in year six to year five. This effectually works by requiring large corporations to pay more taxes in the third quarter of a calendar year (i.e., the last quarter of the budget year) and a subsequently lesser amount in the fourth quarter.

This is nothing but a budget gimmick. The tax payments shift only slightly, but the particular corporations end up sending the same amount of revenues to Washington. In both bills, the gimmick is used as a \$2 billion fake offset.

Aside from budget gimmicks, these bills also lack any fiscal responsibility. They demonstrate the typical spend-now-pay-later Washington status quo. Nearly 85 percent of the new spending takes place in the first five full fiscal years (2016–2020). However, nearly 85 percent of the spending cuts happen in the 10th year. Of these 10th-year cuts, \$700 million comes from a questionable Medicare sequestration, and another \$1.7 billion comes from customs user fees. There is little need to convince the American public that Congress will spend the more than \$2 billion on TAA over the next five years, but who actually believes future Congresses will abide by spending cuts 10 years from now?

TAA Does Not Work

Congress spends approximately \$1 billion per year on TAA.⁷ 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 use of this scientifically rigorous method.⁸ Thus, policymakers must rely on the results of quasi-experimental evaluation designs.

Four quasi-experimental evaluations consistently found that TAA training programs are ineffective. A study by Mathematica in 2012, the most recent evaluation, statistically matched TAA participants with a comparison group of workers in the manufacturing sector and from the same local areas.⁹ 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.¹⁰ 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 one and a half years in training.¹¹ Their extensive use of job-training services naturally raises the question of whether such training raises the earnings or re-employment prospects of TAA participants.

TAA participants averaged \$12,674 in the first year and \$12,987 in the second year in lower annual earnings than their counterparts (in 2006 dollars).¹² TAA participants averaged \$7,451 in the third year and \$3,273 in the fourth year 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

7. U.S. Department of Labor, Employment and Training Administration, “What Is Trade Adjustment Assistance?” June 22, 2012, <http://www.doleta.gov/tradeact/factsheet.cfm> (accessed April 22, 2015).

8. For a discussion of the benefits and scientific rigor of experimental evaluations, see Muhlhausen, *Do Federal Social Programs Work?*

9. 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, p. xv, http://wdr.doleta.gov/research/FullText_Documents/ETAOP%5F2013%5F10%5FParticipant%5FImpact%5FReport%2Epdf (accessed January 3, 2014).

10. *Ibid.*, p. xxix, Table 1.

11. *Ibid.*, pp. VII-1.

12. *Ibid.*, pp. VII-8, Table VII-3.

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, 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, p. xxix, http://wdr.doleta.gov/research/FullText_Documents/ETAOP%5F2013%5F10%5FParticipant%5FImpact%5FReport%2Epdf (accessed January 3, 2014).

IB 4396  heritage.org

comparisons.¹³ For their most recent jobs, TAA participants have an average hourly wage of \$11.81 (in 2006 dollars), while the comparison group averaged \$12.59—a difference of \$0.78.¹⁴

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. Yet only 37 percent of TAA participants who received job training found employment in the occupations for which they trained.¹⁵

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, and the economy could have

put the resources spent on TAA to productive use elsewhere. However, displaced workers bore the other half of the program's cost. In net present-value terms, the typical TAA participant experienced \$26,837 lower total earnings and income despite receiving federal benefits.¹⁶ 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.¹⁷

The most recent federal evaluation finds that TAA participation hurts displaced workers.¹⁸

13. *Ibid.*, p. xviii.

14. *Ibid.*, pp. VII-9, Table VIII-3.

15. *Ibid.*, p. xviii.

16. Sarah Dolfin and Peter Z. Schochet, "The Benefits and Costs of the Trade Adjustment Assistance (TAA) Program Under the 2002 Amendments," Mathematica Policy Research, December 2012, p. 57, http://wdr.doleta.gov/research/FullText_Documents/ETAOP%5F2013%5F09%2Epdf (accessed January 3, 2014).

17. *Ibid.*, p. ii.

18. *Ibid.*

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.¹⁹ After comparing TAA job-training recipients with TAA non-training recipients, the authors found that participating in TAA training had no effect on raising the earnings of participants.

An evaluation by Leah E. Marcel of California State University-Northridge compared TAA training participants with TAA non-trainees and those who had exhausted their UI benefits.²⁰ Compared with UI “exhaustees” and TAA non-trainees, the newly acquired skills by TAA job-training participants failed to translate into higher wages.²¹ However, TAA trainees were 12 percent more likely than TAA non-trainees and 9 percent more likely than UI exhaustees to find employment.²²

An 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.”²³ Specifically, the authors compared employment and wage outcomes of TAA participants with a sample of displaced workers from the Current Population Survey. Finding that TAA participants experienced a wage loss of 10 percent, the authors concluded that the negative impact “is obviously not the result one would expect from a program designed to help displaced workers.”²⁴ However, the authors did find that TAA training participants had

a re-employment rate of 83.9 percent, compared with the 73.7 percent re-employment rate of the comparison group—a difference of 10.2 percent.²⁵

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.²⁶ As a program, TAA fails a commonsense test of producing 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.

Congress should not see linking TPA to TAA as a worthwhile trade-off. The potential for congressional consideration of TPA should not become bogged down by efforts to continue a failed billion-dollar program. Instead of budget gimmicks to hide new spending, Congress has the chance to practice fiscal responsibility by letting the program expire at the end of the 2015 fiscal year.

—*David B. Muhlhausen, PhD, is a Research Fellow for Empirical Policy Analysis in the Center for Data Analysis, of the Institute for Economic Freedom and Opportunity, at The Heritage Foundation. James Sherk is Senior Policy Analyst in Labor Economics in the Center for Data Analysis. John Gray is Research Fellow in Federal Fiscal Affairs in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom and Opportunity.*

19. 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.

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

21. *Ibid.*, p. 69, Table 4.

22. *Ibid.*, p. 70.

23. Kara M. Reynolds and John S. Palatucci, “Does Trade Adjustment Assistance Make a Difference?” American University Department of Economics Working Paper No. 2008-12, August 2008, <http://w.american.edu/cas/economics/repec/amu/workingpapers/2008-12.pdf> (accessed January 3, 2014).

24. *Ibid.*, p. 22.

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

26. 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).