



U.S. Chamber of Commerce International Policy Backgrounder

January 2009

Review, Retool, Renew: The Case for Modernizing Trade Adjustment Assistance

by John Murphy

Executive Summary

- The U.S. Chamber regards Trade Adjustment Assistance (TAA) as an essential part of federal efforts to help workers transition to new employment when jobs disappear, as is inevitable in any market economy.
- However, because less than 3% of layoffs of 50 or more people are attributable to import competition or overseas relocation, TAA's benefits should not be conditioned on misleading attempts to tie job losses to trade.
- TAA eligibility should be extended to workers who lose their jobs when a firm consolidates production among domestic plants as part of a company-wide response to global competition.
- Similarly, workers dislocated due to production shifting overseas should be eligible for TAA benefits without regard to the country to which jobs may be relocated.
- Congress and the Administration should consider integrating TAA's training programs into the Workforce Investment Act-supported one-stop career centers.
- TAA administrators must do a better job making known its benefits, such as its wage-loss insurance program.
- Workers and their families should be given greater flexibility to purchase health care plans that fit their needs rather than those imposed by a one-size-fits-all state mandate.
- As a guiding principle, business should be involved from the outset to make TAA's training programs more effective and to ensure that workers' skills are matched to the needs of industry.

Even before the recent financial crisis, a multitude of opinion surveys confirmed that Americans regard their immediate economic future with anxiety. While many Americans enjoy the fruits of prosperity, economic statistics confirm that more than a few have suffered declining incomes and job insecurity.

As the United States navigates troubled economic waters, the U.S. Chamber of Commerce believes our elected leaders must make the creation of high-quality,

well-paying jobs a top priority.

Policymakers must simultaneously work to increase the pool of qualified American workers.

These challenges are two sides of the same coin. On the one hand, government and business should collaborate to help American workers hone their ability to compete in the worldwide economy by providing training for the higher-end service and manufacturing jobs that increasingly characterize today's U.S.

economy. On the other hand, U.S. businesses need access to a diverse, educated, skilled, and mobile workforce to remain competitive.

To reach these twin goals, the Chamber believes it is appropriate for the federal government to help dislocated workers adapt to the challenges presented by today's rapidly changing economy. Created in 1962 by President Kennedy, the Trade Adjustment Assistance (TAA) program advances this objective by providing assistance to manufacturing workers deemed to have lost their jobs as a result of increased import competition or a shift of production abroad.

Funded at more than \$1 billion annually, "TAA provides up to 130 weeks of training and up to 104 weeks of income support benefits to supplement the regular 26 weeks of Unemployment Insurance (UI) benefits available to workers in most states," according to the Government Accountability Office (GAO).¹ TAA's annual cost per recipient is approximately \$18,000.

Challenges

The TAA program enjoys broad bipartisan support, but it's worthwhile to consider some of the shortcomings in the program identified by non-partisan experts and analysts from across the political spectrum.

First, the program rests on the flawed proposition that trade plays a major role in job loss. In fact, less than 3% of layoffs of 50 or more people between 1996 and 2004 were attributable to import competition or overseas relocation, according to survey data from the U.S. Bureau of Labor Statistics.² A large majority of U.S. jobs aren't even in sectors subject to competition from trade.³

To give broader perspective, the U.S. economy generated 30 million jobs in 2007, while losing 29 million. Research shows this vast and continuous turnover in the U.S. job market is principally driven by technological innovation (especially information technologies), changes in consumer taste, and domestic competition.⁴ Together, these factors are vastly more significant than trade as explanations for this "churn" in the job market.

In this context, programs designed to assist workers in transition miss the mark if they focus on the small portion of job losses that can be attributed to import competition or overseas relocation. Indeed, ascribing the cause of job loss — whether to trade or any other factor, such as technological change — seems to be beside the point.

Edward Gresser, Director of the Progressive Policy Institute's Trade and Global Markets Project, has observed that under the current TAA program workers "must prove that they have lost their job because of trade; this is difficult for workers in small firms. TAA also creates a two-tiered unemployment system. Workers who lose their jobs due to trade are eligible for more jobs and training opportunities than other unemployed" workers.⁵

Other analysts have noted the small role of trade in job losses and recommend fundamental changes in TAA. The Financial Services Forum in July 2008 issued a well-received white paper entitled "Succeeding in the Global Economy: A New Adjustment Assistance Program for the 21st Century American Worker." It observed that "workers who find themselves in transition need a broader, more flexible, and responsive safety net that assists them in rejoining the

workforce, regardless of the reason — trade-related or otherwise — that they find themselves moving from one job to another.”⁶

Second, displaced workers often fail to receive TAA benefits, suggesting the program’s practical shortcomings should be addressed before it is simply expanded. A 2006 report by the GAO paints a mixed picture of the success of TAA in reaching the workers it is intended to help.⁷

GAO examined layoffs following five plant closures and found that many displaced workers fail to learn about TAA benefits. In interviews, these workers “often said they needed to find a job right away and did not think they had time to visit” a one-stop assistance center.

An expansion of the program in 2002 added health insurance and wage insurance benefits for eligible workers. However, GAO found that no more than 12% of workers at each site received the health insurance benefit, and no more than 20% of the “older workers at each site received the wage insurance benefit, and at two sites, fewer than half the older workers who visited a center were aware of it.” These findings indicate that policymakers should place priority on improving TAA — including making its benefits known — before increasing the number of workers for whom it is available.

There has been a wide array of recommendations to improve TAA’s effectiveness in these areas. Ed Gresser has proposed making “TAA’s health subsidy and job training available to all dislocated workers.”⁸ In addition, Gene Sperling, a Senior Fellow at the Center for American Progress, has argued for policies to “address job dislocation due to

globalization and technological change before they happen. Such preemptive assistance — offered to any displaced worker, no matter the cause of job loss or the broader state of the economy — is essential to renewing the social compact in the United States.”⁹

Recommendations

The Chamber recommends that a number of changes to the program be made as part of its modernization and possible expansion:

- Efforts to identify layoffs deemed the result of import competition or production shifting overseas — and on that basis determine eligibility for TAA benefits — skew benefits unfairly toward a small minority of displaced workers. These efforts miss the point of such assistance programs, and the unhelpful and misleading attempt to tie job losses to trade should be abandoned. A modernized program to succeed TAA should be renamed to reflect this change.
- Congress and the Administration should consider extending federal training programs provided under TAA to more workers. In particular, eligibility should be extended to workers who lose their jobs when a firm consolidates production among domestic plants as part of a company-wide response to global competition. The proposal by Senate Finance Committee Chairman Max Baucus to make TAA benefits available to services workers, who account for more than 80% of the U.S. workforce, arises from similar concerns about TAA’s narrow mandate.
- Congress and the Administration should consider integrating TAA’s

training programs into the Workforce Investment Act-supported one-stop career centers. This would help to create a streamlined system of federal job training programs, prevent duplication in infrastructure, and focus training on the needs of employers.

- Some possible changes to TAA already enjoy broad support. At present, displaced workers are eligible for TAA benefits if they lose their jobs due to production shifts to some foreign countries — but not to others. This makes no sense. Workers dislocated due to production shifting overseas should be eligible for TAA benefits without regard to the country to which jobs may be relocated.
- The expansion of TAA in 2002 introduced a wage-loss insurance program for workers 50 years of age and older to supplement their income in the event they take a lower paying job. A modernized TAA program should place greater emphasis on making these little-known benefits known to displaced workers.
- Workers who lose their jobs often face the added challenge of losing their health care. Workers and their families should be given greater flexibility to purchase health care plans that fit their needs rather than those imposed by a one-size-fits-all state mandate. The tax code should not punish Americans buying health insurance on their own by taxing them at a higher rate than those who buy it through their employer.

- As a guiding principle, business should be involved from the outset to make TAA's training programs more effective and to ensure that workers' skills are matched to the needs of industry.

Conclusion

Today's workers can expect to have many different jobs over the course of their working lives. As a result, policymakers must think "outside the box" to assist workers who lose their jobs.

The U.S. business community is committed doing its part. Business is already making a major contribution: the American Society for Training & Development estimates that U.S. businesses and private organizations spent nearly \$130 billion on employee learning and development in 2006, or more than \$1,000 per worker.¹⁰ While these programs and their funding levels need to be constantly reassessed, this level of investment underscores the commitment of American business.

In the end, the answer to a worker losing his job at a typewriter factory is not to force the factory to keep making typewriters. It's to make sure that workers can move from a 20th century job to a 21st century job without turning their lives upside down. The U.S. Chamber looks forward to working with Congress and the Administration to meet this challenge and modernize TAA.

John Murphy is Vice President for International Affairs at the U.S. Chamber of Commerce.

- ¹ 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>).
- ² Economic Report of the President, February 2006 (http://www.gpoaccess.gov/eop/2006/2006_erp.pdf).
- ³ Robert Krol, “Trade, Protectionism, and the U.S. Economy: Examining the Evidence,” Trade Briefing Paper no. 28, Cato Institute, September 16, 2008 (<http://www.freetrade.org/pubs/briefs/tbp-028.html>).
- ⁴ Economic Report of the President, op. cit.
- ⁵ Quoted at a discussion hosted by the Carnegie Institution for International Peace (<http://www.carnegieendowment.org/events/index.cfm?fa=eventDetail&id=1097&prog=zgp&proj=zted>).
- ⁶ Grant D. Aldonas, Robert Z. Lawrence, and Matthew J. Slaughter, “Succeeding in the Global Economy: A Policy Agenda for the American Worker,” Financial Services Forum, July 2008 (<http://www.financialservicesforum.org/site/c.mtJ2J7MKIsE/b.4381543/>).
- ⁷ GAO, op. cit.
- ⁸ Edward Gresser, “Lou Dobbs is Wrong!” *Blueprint Magazine*, Democratic Leadership Council, April 23, 2007 (http://www.dlc.org/ndol_ci.cfm?kaid=108&subid=206&contentid=254269).
- ⁹ “Assisting Workers in Global Competition,” Center for American Progress, July 27, 2007 (<http://www.americanprogress.org/issues/2007/07/taa.html>).
- ¹⁰ State of the Industry Report 2007, American Society for Training & Development.