

Worker Adjustment: The Missing Ingredient in Trade Policy

Steve Charnovitz

When foreign imports compete with domestic production, workers and businesses can get hurt. Under U.S. trade law, the government may protect industries suffering “serious injury” with tariffs, quotas, and negotiated agreements. Yet such recourse to protection contradicts every nation’s long-run interest. Protectionism violates the theory of comparative advantage, which shows that free trade can make all nations better off.

In view of President Ronald Reagan’s avowal of free market principles, many observers were surprised by the actions his Administration has taken against freer trade. These included: imposing or extending higher tariffs on steel, motorcycles, and ferrochromium; lowering or renewing quotas on textiles, apparel, steel, sugar, clothespins, and brooms; and negotiating limits on automobile, steel, and meat exports to the U.S. How can this contradiction between principle and practice be explained? There are powerful protectionist pressures from Congress and affected interest groups that no President can afford to ignore.

The case against protection is compelling. By decreasing competition, we increase domestic prices. By limiting the availability of desirable foreign goods, we constrict consumer choice. By reducing what foreign nations can sell to us, we reduce their ability to buy from us. By depriving the developing nations of the chance to exploit their advantage in industries like apparel, we diminish the opportunity for these nations to raise their standard of living. Instead of letting them supply our stores, we force them to borrow from our banks.

The main case for protection is that imports cost American jobs.¹ Recent studies have tried to rebut this by showing that imports are not the main

Author's note: The views in this article are those of the author and are not the official position of the U.S. Department of Labor [where the author is employed].

cause of manufacturing job loss and that imports and exports together create more jobs than they destroy.² Regardless of the validity of these studies, they cannot confute protectionism. However positive the net effects of trade, the gross effects of imports are that certain workers, industries, and communities get injured. The argument that there are more important causes of industrial layoffs than imports hardly weakens the political case for protection. Rather, it may strengthen it. Imports are one of the few types of economic change that Congress can control by legislation.

Can anything be done about protectionism? In 1962, President John F. Kennedy proposed a creative departure from the traditional approach of using tariffs to guard against import injury. Kennedy's idea was to allow the beneficial effects from trade to occur, but to rectify the harmful ones through a new government program aimed directly at the injured parties. That program was called trade adjustment assistance (TAA).

In essence, TAA was a promise by the Government to provide special help to import victims in order to gain their support for free trade.³ Unfortunately, TAA did not succeed as intended. The Government broke its social contract, and organized labor responded with fervid protectionism.

This article aims to explain why TAA failed. It will review the history of the program, identify the flaws in the delivery system, and consider why the obvious corrections were not made. There will also be a discussion of the potential usefulness of retraining and some recommendations for improving adjustment procedures.

A Program of Adjustment

The history of TAA begins in 1939 with a famous article by the British economist Nicholas Kaldor. At issue was whether a repeal of the Corn Laws could be shown to be in the public interest. One school of thought felt that even though the monetary gains to consumers would exceed the losses to landowners, there was no way to show that repeal would be beneficial without comparing interpersonal welfare, a no-no for economists. Kaldor disagreed. He argued that it was not necessary to compare interpersonal welfare in order to demonstrate that free trade could make everyone better off. Kaldor proved his point by explaining that the government could tax the beneficiaries of imports and use that money to compensate the losers.⁴

Instead of compensating losers with money, there is another approach the government can use to gain their support. That approach, called "adjustment," is to assist workers in making a full recovery from import injury.⁵ The difference between the two approaches is that compensation indemnifies workers for their loss of income, while adjustment improves their chances for obtaining suitable reemployment.

Since the term "worker adjustment" is used in other contexts, I want

to clarify its use here. Some people have used adjustment to mean convincing workers to accept far lower standards of living. Such a definition, of course, would have doomed any chance for TAA to persuade protected workers to give up their protection. Another form of adjustment is to guarantee real incomes equivalent to those under protection. But that is too costly and far-reaching a goal for any feasible program. This analysis defines adjustment as a process for upgrading worker skills in order to improve opportunities for obtaining a wage commensurate with the previous one. Thus, adjustment is more than simply *any* reemployment. But it is less than an entitlement to being held harmless.

The birth of TAA came in 1962. At that time, the Kennedy Administration was trying to get Congressional approval for undertaking new trade negotiations. As part of its strategy, the Administration urged the creation of TAA for workers and firms.⁶ In announcing his trade bill, Kennedy explained what he intended TAA to accomplish:

This cannot be and will not be a subsidy program of government paternalism. It is instead a program to afford time for American initiative, American adaptability and American resiliency to assert themselves.⁷

One of the strongest supporters of Kennedy's Trade Expansion Act was George Meany, president of the AFL-CIO. For many years, organized labor had advocated that the President be given a better alternative, in cases of import injury, than either raising tariffs or doing nothing. The new TAA program was just what the AFL-CIO wanted. To quote Meany:

There is no question whatever that adjustment assistance is essential to the success of trade expansion. And as we have said many times, it is indispensable to our support of the trade program as a whole.⁸

Moreover, Meany's statements make clear that his vision of TAA was that of adjustment, not compensation. As he told a House committee, TAA "would strengthen both our domestic economy and our world competitive position by helping companies and workers to increase their efficiency, either in their present field *or a new one.*" [Emphasis added.]⁹

The worker TAA program which passed the Congress had three main parts—income maintenance, relocation benefits, and training. The income maintenance was called a "trade readjustment allowance," or TRA. The TRA was made longer and higher than state unemployment insurance (UI) because import victims were expected to suffer a greater than average stint of unemployment as they acquired new skills and searched for different lines of work. Unlike UI, which varied in each state, the TRA was uniformly set at 65 percent of the previous wage for up to 52 weeks of unemployment. Those in training were eligible for 26 more weeks. (The UI received was deducted.) The relocation benefit covered the full transportation costs plus a one-time payment for related expenses.

Training was to be provided free to any claimant needing it. As the

trade bill's floor manager explained during the House debate: "In most cases this [TRA] allowance will be accompanied by an intensive training program which will be aimed at getting these workers trained in skills which will enable them, in as short a time as possible, to take their rightful place in the economy."¹⁰ So important was training to the adjustment process that Congress directed the Department of Labor (DOL) to withdraw TRA from any claimant who refused training without good cause.¹¹ The Congress realized that the normal resistance to undergoing retraining would have to be overcome.

Despite its potential for facilitating adjustment, TAA's results were very disappointing. From 1962 to 1969, not a single TAA petition was approved by the administering agency, the U.S. Tariff Commission. In late 1969, the Commission reinterpreted the eligibility requirements and started to approve some petitions. Yet over the next several years, only about 35,000 workers received TRA and very few received training.¹² From the labor union perspective, the Commission was erecting insurmountable barriers against TAA petitions by requiring workers to prove their cases with data that were obtainable only from their previous employer or from the Commission itself.

The most serious repercussion from the neglect of TAA was that it embittered the AFL-CIO attitude toward both adjustment assistance and free trade. The AFL-CIO charged that the Government never made a serious attempt to implement TAA and derided it as "burial insurance."¹³ More critically, Meany declared that "adjustment assistance cannot solve modern trade problems."¹⁴ Of course by the early 1970s, the AFL-CIO had many other complaints against U.S. trade policy. Still, by fumbling on TAA, the Government squandered an opportunity for maintaining labor support.

A Second Chance for TAA

The impetus for improving TAA in the Trade Act of 1974 came from the Congress itself, rather than organized labor. Despite opposition by the Nixon Administration, which had soured on the program, the Congress decided that TAA could play a constructive role in facilitating adjustment and reducing resistance to freer trade.

There were several major changes in the new TAA program. First, the eligibility criteria were eased and the certifying process moved from the Tariff Commission to DOL. Second, the TRA weekly payment was increased to 70 percent of the previous wage, with a maximum benefit set at the national average manufacturing wage. Third, because the training funds under the 1962 program had been inadequate, the Congress established a new trust fund drawing from tariffs to pay the costs of worker adjustment. The trust fund harked back to Kaldor's idea of having the gainers reimburse the losers. Fourth, a job search benefit was added to

reimburse 80 percent of the costs of out-of-town job search.¹⁵ In spite of these improvements, the AFL-CIO made a prescient prediction that "There will not be any better performance from the new promises than in the past."¹⁶

DOL's implementation of the 1974 TAA program faltered right from the start. Within a few months, there was a large backlog of petitions missing the 60-day deadline mandated in the law. The state employment security agencies, which were responsible for paying the TRA and arranging for training, made only minimal efforts to alert potentially eligible claimants and to deliver the benefits on a timely basis. The main reason for these snafus was that neither DOL nor the state agencies provided sufficient staff to handle the new workload.

As a result of these delays, TAA's potential was severely undermined. Had TAA operated properly, laid-off workers could have begun using adjustment services within two to three months after layoff. Instead, the lack of information about TAA at local UI offices caused workers and unions to lose about seven months in getting their petitions filed. The lack of DOL staff to process petitions and state staff to make TRA payments added another seven months of delay. Thus, by the time the Government reached the average claimant, a period of 14 months had elapsed. Not surprisingly, about half of the claimants had by then found a job.¹⁷

There were two stages of failure in the TAA delivery system. First, the long delays reduced by half the number of people who could be provided constructive help. All the Government could do for claimants who were reemployed, even in lower-wage jobs, was to issue them a retroactive TRA check. The second failure was the inability to provide adjustment services to the claimants most in need—those who did *not* have jobs when TAA reached them. Despite their demand for counseling, training, and relocation assistance, most unemployed workers were not able to obtain these services.

The reason why the states did not furnish the adjustment services is that they lacked the funds to do so. Contrary to the explicit provision in the Trade Act, the Office of Management and Budget (OMB) refused to implement the TAA trust fund. DOL did take some training funds from the Comprehensive Employment and Training Act (CETA) program, but minimized such use on the grounds that the disadvantaged clientele of CETA were "needier." Had more training money been available, there is little doubt that it would have been used. For example, Ohio requested \$2.7 million in 1976, but DOL gave it only \$400,000.¹⁸

Another reason for failure was that DOL chose not to enforce the provision making TRA contingent on entering training. In disregarding this requirement, DOL neglected two chances to head off problems that would haunt the program later. First, the training requirement could have pushed workers coming from redundant jobs into acquiring new skills. Second,

claimants on temporary layoff uninterested in getting retrained could have been removed from the TRA rolls. This would have saved a lot of money.

Despite these implementation problems, the Federal Government acted as though it had a viable TAA program. Under the Trade Act, one of the options open to the President whenever the International Trade Commission finds serious injury is to reject import relief and instead direct the Labor and Commerce Departments to give "expeditious consideration" to TAA petitions. During 1976, President Gerald R. Ford chose expedited TAA in four of the seven industries where injury was found. His decision on shoes, in particular, infuriated the AFL-CIO and the shoe workers who protested that expedited TAA was an empty gesture. The unions were correct. In none of the four industries did DOL expedite TAA.

In April 1977, a new shoe case came to the White House for decision. This time the President granted import relief. But President Jimmy Carter also directed an interagency task force to review TAA so that he could "within the next 90 days...present a comprehensive trade adjustment assistance program."¹⁹ During the next several months, the group met repeatedly to reform TAA. As new political appointees are prone to do, however, the task force members focused on legislative expansion to the near exclusion of TAA's delivery fiasco. When the final package of \$600 million was presented to Carter in late 1977, he rejected it as too costly. The promised reform of TAA never emerged.

Over the next three years, TAA grew much larger but not much better. Greater publicity about the program led to more petitions and by the end of the Fiscal Year (FY) 1980, over a million workers had received TRA benefits. The cost of these benefits was \$2.4 billion. As Table 1 shows, about two-thirds of this total came during FY 1980. This cost explosion (resulting from auto layoffs) took the government's budget planners by surprise. TAA was catapulted into notoriety.

Almost perversely, as the costs of TRA went up, the amount DOL spent for adjustment went down. In FY 1980, DOL allocated less than half of what it had the year before even though the percentage of TRA recipients who were unemployed (at the time their petition was approved) rose from 41 to 60 percent. Of those unemployed TRA recipients, only 19 percent got counseling, 3 percent got training, and less than one percent got job search or relocation aid.²⁰

Critique of the Evaluations

In late 1979 and early 1980, two studies of TAA were released which had considerable influence on the public's view of the program. One study was done by Mathematica for DOL and the other by the General Accounting Office for the Congress. Because of the importance of these studies to the TAA debate, I will report their principal findings and critique some of the conclusions drawn from them.

Table 1. TAA Services Provided to Workers by Year since 1976

Year ^a	Workers ^b (thousand)	Income Maintenance ^c (\$ million)	Training & Reemployment Services ^d (\$ million)
1976	152	150	3
1977	117	148	4
1978	166	257	13
1979	140	256	13
1980	685	1622	6
1981	52	1440	4
1982	19	103	20
1983	56	37	23
1984	19	35	19
TOTAL	1406	4048	105

Notes:

- a. Years are fiscal years. The year 1976 includes the transition quarter and is therefore a 15-month year.
- b. Workers are estimates of certified workers.
- c. Income maintenance is the trade readjustment allowance not including any UI paid.
- d. Reemployment services means job search and relocation benefits.

Source: All data from the U.S. Department of Labor, Employment and Training Administration.

Based on the limited experience under the 1962 program, the Congress had assumed that workers certified for TAA would be permanently laid off. Thus, an important finding of the Mathematica study was that 68 percent of the TAA population ended their layoff by returning to their previous employer.²¹ The conclusion most analysts have drawn is that the returnees did not need TAA and, therefore, should not have been certified. But that misses the point about TAA's purpose. TAA was intended to be a way to get workers *out of* import-sensitive employment.

Consider the auto industry, where many of the TAA recalls occurred. Before the U.S. negotiated the export restraint with Japan in 1981, the future of the American auto industry looked bleak. Shouldn't the Government's goal have been to give auto workers a chance to transfer out of

insecure employment? Certainly, the United Auto Workers thought so. Of all the unions receiving TAA, the auto workers complained the loudest about the lack of retraining funds. In fact, a 1980 survey of laid-off Chrysler workers showed that 78 percent were interested in being trained for different jobs.²² Now that auto employment has stabilized, it might be argued that TAA was not needed. But one ought not forget how heavily consumers have paid to forestall rationalization in the auto industry.

Another finding contrary to expectations was that the TAA and UI populations were fairly similar in terms of demographics and duration of unemployment.²³ Some analysts have drawn the conclusion that this similarity negates the case for a special TAA program.²⁴ But advocates of TAA never claimed that import victims were the *only* ones needing adjustment. What was claimed was that, in the absence of a dislocation program serving everyone, there was sufficient political reason to give import victims the assistance needed to retribute injury. Furthermore, it should be noted that the TAA recipients who were permanently laid off did face more difficult adjustment problems than did the average unemployed worker.²⁵

The studies also looked at the effect of the TRA payment on job search behavior. Mathematica estimated that TRA recipients remained unemployed for 3.8 weeks longer than comparable UI recipients. Moreover, there was little evidence that this longer period for job search helped the TRA group end up in better jobs.²⁶ One inference which could have been drawn was that, given the absence of retraining, the TRA alone could not be expected to do much to enhance employability. Instead, many analysts rushed to the conclusion that the higher (than UI) TRA was unnecessary or counterproductive since it did not improve labor market outcomes.²⁷

A final finding was that despite the legislative intent, TAA participants did not engage in more training than regular UI participants.²⁸ From this sad fact, many have concluded that the TRA payment gave claimants a disincentive to utilize adjustment services.²⁹ While it is true that some workers turned down such help, the main reason why so few workers "took advantage" of training or relocation is that those benefits were not generally available.³⁰ Furthermore, had DOL taken steps to insist that claimants search for jobs and get retrained when necessary, the full program could have minimized any disincentives to adjustment.

Reagan Reforms TAA

The high costs of TAA made it an early target for overhaul by the new Administration in 1981. In his first address before the Congress, President Ronald Reagan explained what was wrong with TAA:

...because these [TRA] benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are laid off due to domestic competition. Anyone must agree that this is unfair.³¹

Of the various reasons to impugn TAA, it is revealing that President Reagan chose "fairness." For that was precisely what President Kennedy hoped to achieve when he declared that "there is an obligation to render assistance to those who suffer as a result of national trade policy."³² What a difference 20 years can make!

The current TAA program, enacted in 1981, was designed primarily to cut costs and secondarily to improve adjustment. There were three major changes from the 1974 program.³³ First, the TRA was reduced to the state UI level and not started until after a claimant exhausts UI. Although this change ended the disparity between TRA and UI levels, it introduced a new disparity between the amount of federal money received by similar claimants working in different states. Second, TAA recipients were required to accept any job offer made to them through the public employment service so long as the job paid more than their UI benefit. In other words, the usual protections in state law as to the suitability of a job vis-à-vis the worker's past employment history were overridden by a restrictive federal standard. Third, DOL was permitted to require recipients to choose between retraining and relocation after eight weeks on TRA. The legislative history of this provision suggests that many members of Congress were unaware of the dormant training requirement already in the law.

There is not much that can be reported about the current program because DOL has cut back its data collection. What is clear is that DOL has succeeded in lowering the costs of TAA (see Table 1). When TAA came up for renewal in 1983, the Administration tried to get the program abolished. Instead, the Congress extended it for just two years. In 1985, the Administration again proposed killing the program. As of this writing, the Congress appears unwilling to go along. TAA has been rescued from termination by two temporary extensions.

Job Training Partnership Act

Although the Reagan Administration and the Congress have cut back TAA, they did take a step toward providing adjustment assistance to all dislocated workers irrespective of the cause. That was the enactment and funding of the Job Training Partnership Act (JTPA), the successor to CETA. While JTPA provides no adjustment authorities beyond those in CETA, the new program is a breakthrough in earmarking a large amount of money for adjustment, something CETA did not do.³⁴ The funding for dislocated workers in the 1985-86 program year is \$223 million.³⁵

Of course, JTPA does not end the situation of some workers getting more aid than others. In the absence of sufficient funds to cover all dislocated workers, each local JTPA agency has to establish its own priority among claimants. Some agencies may choose those most in need, while others choose those likely to succeed.

Based on the limited experience DOL had under the TAA and CETA

adjustment programs, there are three ways in which JTPA can be improved. First, many participants will find it financially difficult to enroll in training, particularly long-term training, unless they have concurrent income maintenance. At present, JTPA cannot provide trainees either the 26 extra weeks of income available under TAA or the minimum-wage training stipends offered under CETA. One way to correct this deficiency would be to provide a stipend to all trainees who can demonstrate financial need.

A second problem with JTPA regards relocation assistance. Studies of TAA found that state agencies did not inform claimants about relocation benefits.³⁶ The best explanation for this inaction is that states doubt depopulation is in their interest and, consequently, are not going to boost relocation programs. Therefore, if there is a national interest in improving worker mobility, the Federal Government will have to facilitate relocation. Perhaps the delivery of these services could be privatized, but DOL sponsorship is needed.

A third problem with JTPA is that there is a vacuum of leadership at the federal level. When training funds were available for TAA, a frequent response of local officials was that they did not know what skills to train people in or how to identify quality training. The early experience under JTPA has shown the same predicament of states not knowing how to spend their training money. The reason for an active federal role in training is not that DOL has the answers to these questions (It does not!), but rather that these questions are so tough that no community can find the answers on its own. The appropriate role for DOL is to serve as a clearinghouse for information about what does and does not work. DOL should also participate in state adjustment experiments in order to maximize their objectivity and transferability.

Usefulness of Adjustment Assistance

In considering improvements to TAA and JTPA, it would be useful to know how effective adjustment services could be. It is one thing to point out that counseling, placement, training, and relocation were missing from TAA. But it is another to show that they would have made any difference. Of course, not every adjustment tool will be needed for each displaced worker. For example, in the 1980-1983 project for dislocated workers run by the Downriver Conference near Detroit, about 57 percent of the participants received retraining, while only eight percent received relocation assistance.³⁷

In evaluating a specific adjustment tool like retraining, one must consider three issues. First, quality. Does the curriculum succeed in teaching the intended skills? Quality is measured by factors such as the time needed for each student to reach competency. A second issue is effectiveness. Does training pay off for the trainees as compared to a control group of non-trainees? Effectiveness is measured by factors such as the speed of

reemployment and the ratio of the new to the old wage. The third issue is overall impact. Does training pay off for society as a whole, or does it just rearrange the unemployed? Impact is difficult to measure without large-scale social experiments.

Perhaps an illustration might clarify these distinctions. Quality asks whether Paul will learn how to repair cars properly after taking a training course in auto repair. Effectiveness asks whether Paul will get a better job with his training than Peter without it. Impact asks whether if neither Peter nor Paul gets trained by the Government, one of them would get the job anyway. Or if Paul but not Peter gets trained, whether Paul would just displace Peter.

Although there are many effectiveness studies of training for youth and the disadvantaged, there are only a few evaluations of training designed for dislocated workers. Since there is so little training to analyze, the results are inconclusive.³⁸

The one exception to the paucity of training results is the recently completed demonstration project in Buffalo. That study found that classroom training raised participant earnings by \$122 per week over the earnings of comparable non-participants.³⁹ Whether this level of effectiveness can be replicated in other projects remains to be seen.

While there is limited evidence on training, there is considerable evidence on the effectiveness of other adjustment programs when initiated soon after layoff. For example, in the first phase of the Downriver project, utilization of adjustment services raised reemployment earnings by \$75 per week (compared to non-participants) and the reemployment rate by 13 percentage points.⁴⁰ In the Buffalo project, the program raised weekly earnings by \$134 for participants and the reemployment rate by 33 percentage points.⁴¹ Of course, since the population consisted of displaced workers, the average earnings on the new job were less than earnings on the old job. In Buffalo, the new jobs paid about 75 percent of the old wage for participants versus about 60 percent for non-participants.⁴²

Of course, the absence of a group of studies showing the utility of training should not end the matter. The simplest explanation for the failure of a training program is that it was badly designed or implemented. This is especially so in view of what we know about the deficiencies in many local training programs, which have not kept pace with advances in instructional methodology. In some communities, vocational training is still conducted in traditional classroom settings, despite the superiority of interactive, highly mediated techniques.

The rationale for government involvement in training is that the market provides less than the optimal amount. Workers may underinvest in training because by the time they realize their need, they may be unemployed and, consequently, unable to get financing. Employers may underinvest because worker mobility prevents firms from capturing the full benefits of their training expenses.

In face of this situation, employers nevertheless do spend a large amount on training their workers—one estimate is \$30 billion annually.⁴³ These employers presumably have validated the merit of training programs in a competitive environment. Since the private sector spends so much to train the employed, it is argued, the government should spend a commensurate amount to train the unemployed.

Another rationale for subsidizing training is that it may create or save jobs by slowing the rate at which employers substitute foreign for domestic labor. In view of the growing competition from the Third World, the only way that American labor will be able to maintain its share of national income is to become increasingly adept at higher value-added tasks. In that regard, it should be pointed out that most other industrial countries (e.g., Sweden, France, and Germany) have far more extensive government training policies than the U.S.⁴⁴ Whatever lessons one adduces from foreign experiences, it is interesting to note that other countries seem less concerned about justifying their training programs with rigorous evaluations.

Finally, it must be remembered that social policies cannot be evaluated in the abstract. A program offering adjustment should be compared to its alternatives. While there is not much evidence yet on training, the findings are in on trade barriers and are consistently negative. So until someone discovers a political solution to protectionism, we should keep trying out economic solutions to dislocation.

What Went Wrong?

TAA failed to achieve either of its basic purposes which were to obviate protectionism and to heal worker injuries. This failure is especially unfortunate since neither of these problems has disappeared since 1962. Indeed, they are probably worse today. In redressing TAA's failure, the first step is to understand what went wrong.

TAA did not fail from a poor conception. It failed from poor implementation. But the mistakes in TAA's implementation were not the kind that most often occur in government. TAA was not a case where the Congress legislated impossible goals. It was not a case where the program outlived its need. It was not a case where the solution exacerbated the problem. What happened in TAA was a failure of dereliction, not of dysfunction. TAA failed because the Government never really tried it.

As a result of the poor implementation, the Government perverted TAA from a program of adjustment into one of compensation. Of the \$2954 spent per worker since 1975, about 97.5 percent went for TRA, while only 2.5 percent went for adjustment.

In many ways, TAA became a cruel caricature of what adjustment was intended to be. Instead of providing income maintenance when workers needed it, the Government delivered TRA too late to aid adjustment or cushion unemployment. Instead of requiring workers to enter appropriate

training, the government denied training to those who wanted it. Instead of proving to organized labor that TAA was an alternative to protection, the Government proved that the unions' scepticism was justified.

How did this happen? The agencies charged with TAA responsibilities were allowed to flout the Trade Act without any effective Presidential or Congressional oversight. OMB ignored the legal mandate to set up the tariff trust fund. DOL violated the 60-day decision deadline in 77 percent of the TAA petitions, and still violates it.⁴⁵ DOL ignored the statutory strings between TRA and adjustment services (both in 1962 and 1981 provisions), and still ignores them.

But there is something else which needs to be explained. Where were the usual corrective mechanisms of government, like interest groups and vociferous clients? The answer is that there were no strong supporters of TAA, and certainly no TAA lobby. TAA lacked a constituency because most of the groups concerned about international trade preferred other approaches.⁴⁶

Consider these groups one at a time. Organized labor was willing to give President Carter's TAA reform a chance, but when that fizzled out, the AFL-CIO turned to more reliable solutions ranging from quotas to domestic content requirements.⁴⁷ The firms in import-sensitive industries had a greater interest in seeing TAA fail than succeed, both in order to bolster their case for protection and to keep workers from bailing out. The economists espousing free trade were often so opposed to government intervention in principle that TAA's adjustment purposes were rejected. From their perspective, TAA was simply a bribe, and a gratuitous one since the AFL-CIO was not interested.⁴⁸ Last, the federal and state bureaucracies, though by reputation sympathetic to new programs, were actually hostile to TAA because it was underfunded and overcomplicated.⁴⁹

The final reason for TAA's failure is that many evaluations of it were too quick to round up the usual suspects, like government-caused disincentives, without carefully examining the implementation problems.⁵⁰ While it is a recurring feature of these evaluations to see the high TRA payment spotlighted as the culprit behind the nonuse of training, very few of these studies point out the inadequacy of training funds.

Future of Adjustment Assistance

Taking into account the tight federal budget constraints, there are still some significant improvements in TAA which can be made. First, the time-consuming process of investigating individual petitions should be scrapped in favor of blanket approval for any industry where imports are causing unemployment. The reduced TAA benefits available under the current program do not justify the effort spent in making hairsplitting determinations as to the specific cause of layoff in each firm. TAA should be kept easier to qualify for than import relief, however, by retaining a less stringent injury test.

Second, DOL should establish a mechanism to provide “special handling” for TAA claimants in order to make sure that they receive needed services. The special handling would consist of a counseling session for everyone and a guaranteed stipend for those in approved training. If trade-affected workers are told to queue up at the same JTPA window as everyone else, they will opt for the more familiar window of import protection which they know can help them.

Third, the states should look for ways to encourage employers to offer and claimants to accept on-the-job training. The trick will be to avoid having the subsidized workers displace the other ones.

Fourth, the federal law requiring TRA claimants to take “unsuitable” jobs should be revised to exempt workers actively engaged in job search or training.

Fifth, to assist the President in making import relief decisions, DOL should set up a tracking system by industry to provide information on the pace and effectiveness of adjustment. Ideally, U.S. trade officials should be able to increase the flow of adjustment services to industries when necessary to respond to increased import penetration.

In addition, there are two potentially useful changes which deserve careful consideration. One would be to set a cutoff date for each eligible industry in order to prevent workers from joining it solely to qualify for TAA benefits.⁵¹ While there are clear efficiency advantages to such a cutoff, there may be unintended consequences to the healthy firms in the industry. The other modification would be to give the President authority to extend TAA to everyone in an industry, not just to those laid off. The President would need to weigh carefully the industry’s interest in retaining its most qualified workers against the workers’ interest in adapting to foreign competition.

The Future of Free Trade

As imports move up the technology scale, the threats to domestic employment will increase. To respond to these threats, the U.S. needs an economically efficient remedy for import injury. In view of the legacy of broken promises, we must recognize that, in the short run, improving TAA will not pack much of an anti-protectionist punch. Nevertheless, until we lay the cornerstone of a reliable adjustment program, the U.S. will have little hope of building a better edifice of free trade.

Of course, even with effective TAA, the advocates of protection will not be quieted. Those industries losing out to imports will switch to other arguments for relief, such as national security. (For example, the shoe industry argues that “footwear manufacturing is a strategic resource.”) Yet without the pretense of preserving employment, troubled industries will find it difficult to couch their plea in the guise of a public interest. There are few instances of recent protection that did not have the ostensible purpose of “saving” jobs.

In the past, nations preferred exports to imports in order to accumulate more gold. A "favorable" balance of trade is now praised on the grounds that exports add jobs while imports subtract them. Since both rich and poor nations fear the incursion of imports, it will take something more than the prospect of higher exports to get world trade barriers eliminated.

Certainly, continued progress can be made through a new round of trade negotiations. But most nations will assuredly reach the point at which further dismantling of protection will seem more costly (in jobs) than additional foreign sales seem beneficial. When that happens, mutual reduction of import barriers will stall. If nations lack confidence in the ability of their economies to adjust to change, then economic growth will stagnate.

Today's protectionists argue that permitting more imports would seriously erode the quantity and quality of American jobs. They claim that while adjustment assistance was a good idea for the 1960s, even the best possible program would not be capable of dealing with the foreign industrial policies of the 1980s. In trying to address these contentions, it becomes clear that the greatest failure of TAA was not the poor use of \$4 billion. It was the poor use of 23 years. Had the U.S. utilized that time to test adjustment strategies and to demonstrate the reliability of a TAA safety net, we would be closer to solving one of our most vexing economic problems.

References

1. There are two other cases for protectionism. One is that imports would destroy core domestic industries ("keystone industries") which would weaken the American economy's capability of being competitive across the board. The second is that imports would destroy strategically important industries which would weaken U.S. national security. These arguments would continue to be heard even if the U.S. had a successful worker adjustment program.
2. For example, see Robert Z. Lawrence, *Can America Compete?* (Washington, D.C.: Brookings Institution, 1984), pp. 49-50, 54-63.
3. There is some evidence to buttress the view that TAA could increase public support for free trade. In a poll taken in 1972, 41 percent of Americans favored free trade, 34 percent opposed it, and 25 percent were not sure. When asked their attitude assuming that "workers who lost their jobs because of free trade did not suffer any personal financial loss and were retrained in jobs equal to or better than their old ones," 67 percent were in favor of free trade, 15 percent were opposed, and 18 percent not sure. See Paul Laudicina, *World Poverty and Development: A Survey of American Opinion*. (Washington, D.C.: Overseas Development Council, 1973), pp. 56-57.
4. Nicholas Kaldor, "Welfare Propositions in Economics," *The Economic Journal* (September 1939). Kaldor made no judgment as to whether the compensation should be paid. All he wanted to show was the potentiality of such compensation.
5. In an article written in 1950, Clair Wilcox rejected the notion of compensating workers for import injury, but endorsed the role of government assistance in easing the burden of adjustment to economic change. Wilcox observed that providing such assistance to all victims of economic change would obviate the difficult determination of eligibility and the measurement of injury inherent in a trade-only adjustment program. See Clair Wilcox,

- "Relief for Victims of Tariff Cuts," *The American Economic Review* (December 1950).
6. This article focuses on TAA for workers. There were also TAA programs for firms and communities. The argument for assistance to firms is much weaker than for workers because there is no social necessity for rescuing uncompetitive firms. Firms have no *raison d'être* other than earning income, whereas workers do.
 7. Special Message to the Congress on Foreign Trade Policy, January 25, 1962, in *Public Papers of the Presidents of the United States. John F. Kennedy*, 1962, p. 76.
 8. Hearings Before the Committee on Finance, U.S. Senate, July 24, 1962, p. 241.
 9. Hearings Before the Committee on Ways and Means, U.S. House of Representatives, March 19, 1962, p. 1145.
 10. The floor manager was Eugene Keogh (D-N.Y.). For his testimony, see *Congressional Record*, June 27, 1962, p. 11112.
 11. Trade Expansion Act of 1962, Section 328. The current provision is 19 USC 2296(c).
 12. Data from U.S. Department of Labor, Employment and Training Administration.
 13. Hearings Before the Committee on Ways and Means, U.S. House of Representatives, May 17, 1973, p. 1218.
 14. Appendix VI to the AFL-CIO statement made by George Meany, Hearings Before the Committee on Finance, U.S. Senate, March 27, 1973, p. 1188.
 15. Under the 1974 Act, the job search reimbursement was 80 percent of the cost of job search, not to exceed \$500 per worker. In 1981, this was raised to 90 percent reimbursement, not to exceed \$600. In 1984, it was raised again to \$800. The relocation reimbursement was reduced in 1974 from 100 percent of the moving costs to 80 percent of them. The one-time payment was capped at \$500. In 1981, the reimbursement was raised to 90 percent of costs and the payment cap was raised to \$600. In 1984, the cap was raised to \$800.
 16. Appendix VI to the AFL-CIO statement made by George Meany, Hearings Before the Committee on Finance, U.S. Senate, March 27, 1973, p. 1188.
 17. Walter Corson, Walter Nicholson, David Richardson, and Andrea Vayda, "Final Report. Survey of Trade Adjustment Assistance Recipients," Mathematica Policy Research, Inc., December 1979, p. 130. [Hereinafter "Mathematica (1979)"].
 18. Information on the inability of DOL to meet state training requests was obtained from officials of the Employment and Training Administration. See also Leonard Page, "The Broken Covenant—1962-1982," *University of Detroit Journal of Urban Law* (Summer 1982), pp. 610-611.
 19. Memorandum for the Heads of Certain Departments and Agencies, April 1, 1977, in *Public Papers of the Presidents of the United States. Jimmy Carter*, 1977, p. 554.
 20. All data in this paragraph are from the U.S. Department of Labor, Employment and Training Administration.
 21. The 68 percent calculation can be obtained from Mathematica (1979), pp. 38, 45 and 48. The GAO study found that 67 percent returned to their previous employer. See "Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find A Job Can Save Millions," General Accounting Office, January 15, 1980, p. 10.
 22. Michael R. Gordon, "Trade Adjustment Assistance May Be Too Big For Its Own Good," *National Journal*, May 10, 1980, p. 766.
 23. Mathematica (1979), pp. 28, 31, 71-72.
 24. For example, see "Reauthorization of Trade Adjustment Assistance," American Enterprise Institute, 1983, p. 16.
 25. For example, see Mathematica (1979), p. 168.
 26. Mathematica (1979), pp. 156 and 109. For a discussion of the validity of these findings, see Steve Charnovitz, "The Tragedy of Trade Adjustment Assistance," unpublished report, U.S. Department of Labor, Bureau of International Affairs, February 6, 1981, pp. 29-37.
 27. For example, see Mathematica (1979), pp. 89-90.
 28. Mathematica (1979), p. 119. This was true even controlling for temporary layoffs.

29. Thomas G. Donlan, "Hands Across the Sea; Trade Adjustment Benefits Will Cost Uncle Sam Plenty," *Barrons*, May 5, 1980, p. 30.
30. Mathematica (1979) states that "Less than 10 percent of the TAA sample as a whole *took advantage of* available employment services..." [Emphasis added], p. 172. See also Walter Guzzardi, Jr., "How to Foil Protectionism," *Fortune*, March 21, 1983, p. 79.
31. Address Before a Joint Session of the Congress on the Program for Economic Recovery, February 18, 1981, in *Public Papers of the Presidents of the United States. Ronald Reagan*, 1981, p. 111.
32. Special Message to the Congress on Foreign Trade Policy, January 25, 1962, in *Public Papers of the Presidents of the United States. John F. Kennedy*, 1962, p. 76.
33. The changes were contained in P.L. 97-35, Title XXV. This law (Section 2510) also abolished the tariff trust fund for adjustment.
34. The CETA authority to aid dislocated workers can be found in Comprehensive Employment and Training Act Amendments of 1978, Sections 221, 301 and 304.
35. In February 1985, the Administration requested a reduction of the \$223 million appropriated for dislocated workers to \$103 million. The Congress did not approve the reduction.
36. See "Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find A Job Can Save Millions," General Accounting Office, January 15, 1980, p. 27. See also Mathematica (1979), p. 127.
37. Jane Kulik, D. Alton Smith, and Ernst W. Stromsdorfer, "The Downriver Community Conference Economic Readjustment Program: Final Evaluation Report," Abt Associates, September 30, 1984, pp. 37, 49.
38. *Ibid.*, pp. 86, 88, 91, 108-120.
39. Walter Corson, Sharon Long, and Rebecca Maynard, "An Impact Evaluation of the Buffalo Dislocated Worker Demonstration Program," Mathematica Policy Research, Inc., March 12, 1985, p. 111.
40. The second phase showed a decrease in reemployment rates and no effect on earnings, but there are several reasons to discount these results. See Kulik et al., *op. cit.*, pp. 92-94.
41. Corson et al., *op. cit.*, p. 112.
42. *Ibid.*, pp. 117-119.
43. The estimate of private sector spending on training comes from Anthony P. Carnevale and Harold Goldstein, *Employee Training: Its Changing Role and an Analysis of New Data* (American Society for Training and Development, 1983).
44. See Marc Bendick, Jr., *Dislocated Workers and Midcareer Retraining in Other Countries* (The Urban Institute, August 1983), Harry Meisel, "Retraining and Other Services in Germany," in William Kolberg, *The Dislocated Worker* (Cabin John: Seven Locks Press, 1983); Organization for Economic Cooperation and Development, *The Future of Vocational Education and Training* (Paris: OECD, 1983).
45. Over the history of the program to date (May 1975 to June 1985), DOL issued decisions within the 60-day consideration period in only 23 percent of the cases. Thirty-three percent of the cases took longer than six months. During the first six months of CY 1985, DOL processed only six percent of the cases within the 60-day period. These petition data are from the U.S. Department of Labor, Employment and Training Administration.
46. This problem was foreseen in 1976 by Daniel J. B. Mitchell who noted that TAA "had no solid constituency" and raised the question of whether TAA would survive. See Daniel J. B. Mitchell, "Is Adjustment Assistance An Answer?" *California Management Review* (Winter 1976), pp. 44-50.
47. It is hard to believe that twenty-three years earlier, the AFL-CIO position was that "It is not fair to the American consumer to assume that all solutions lie in the area of 'protecting' U.S. industry." See Hearings Before the Committee on Finance, U.S. Senate, July 24, 1962, p. 280.

48. For example, see "Reauthorization of Trade Adjustment Assistance," American Enterprise Institute, 1983, p. 25.
49. See "Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find A Job Can Save Millions," General Accounting Office, January 15, 1980, pp. 25, 42-45; see also Samuel M. Rosenblatt, "Trade Adjustment Assistance Programs: Crossroads or Dead End?" *Law and Policy in International Business*, Vol. 19, No. 4 (1977): p. 1082.
50. For example, see "An Analysis of the Reagan Economic Program," The Heritage Foundation *Backgrounders*, February 27, 1981, p. 11; see also James A. Dorn, "Trade Adjustment Assistance: A Case of Government Failure," *Cato Journal* (Winter 1982), pp. 893-895.
51. C. Fred Bergsten and William R. Cline, "Conclusion and Policy Implications," in Cline, ed., *Trade Policy in the 1980s* (Washington, D.C.: Institute for International Economics, 1983).