

TRADE ADJUSTMENT ASSISTANCE: WHAT WENT WRONG?

Steve Charnovitz

In theory, free trade promises overall benefits to the economy. But in practice, foreign imports harm certain individuals. Since the losses from trade are more concentrated than the gains, the trade losers usually fight harder than do the winners. Consequently, getting public support for freer trade can be a difficult problem.

Trade Adjustment Assistance (TAA) was a creative approach toward solving this problem. The TAA program targeted government aid directly to workers losing their jobs because of foreign competition. By facilitating the adjustment of workers to new economic conditions, TAA was intended to reduce public resistance to imports.

Unfortunately, TAA failed either to promote adjustment or to reduce protectionism. Senator Bob Dole (R. Kans.) recently summed it up well: "I have never known a program that promised so much and gave so little as the trade adjustment program."¹ Under the Reagan administration, the TAA program has been sharply cut and barely escaped termination.

What went wrong with TAA? Understanding its problems can be instructive to those debating "industrial policy." Examining TAA is also useful because it illustrates some all too common failures in government management and policy analysis.

TAA Benefits Explained

In 1962, the Congress enacted TAA as part of the law authorizing the "Kennedy Round" of trade negotiations. During the next

¹ For Senator Dole's statement, see the *Congressional Record* for September 30, 1983, p. S13323.

12 years, TAA reached very few workers and was roundly criticized as a failure. In response to these problems, the Congress amended TAA in the Trade Act of 1974 by easing eligibility and expanding program benefits.

The 1974 TAA program was assigned to the U. S. Department of Labor (DOL). DOL was to determine eligibility from worker petitions and then to deliver program benefits through the state employment security agencies. There were three main benefits—income maintenance, training, and relocation.

Adjustment Benefits

Workers adjudged adversely affected by imports were provided a weekly "Trade Readjustment Allowance" (TRA) equal to 70 percent of the previous wage for up to one year. The maximum benefit was capped at 100 percent of the average national wage in manufacturing. Since unemployed workers also received unemployment insurance (UI), the TRA was reduced dollar-for-dollar by the amount of the UI.

TRA differed from UI in two ways. First, TRA was paid according to a national standard, whereas UI varied in each state. Second, TRA was much higher than UI because of the lower state UI caps and wage replacement ratios. Typically, state UI caps are around 60 percent of the state's average weekly wage.

Anyone certified for TAA became eligible for a free training program. The training was to be flexibly defined, and even included professional studies. To facilitate adjustment, trainees about to exhaust their income maintenance were given an extension of six months of additional TRA.

Knowing that the TRA benefit was generous, the Congress imposed a mandatory retraining requirement. Any TRA recipient who refused to accept training (recommended by the state agency) was to be *disqualified* from receiving further cash benefits. In other words, the states were empowered to make TRA contingent on the acceptance of training.

Since plant shutdowns often make it difficult for workers to find re-employment in their home communities, TAA offered job

search and relocation benefits. Workers traveling out of town to investigate a new job could be reimbursed for 80 percent of expenses up to \$500. Workers relocating could be reimbursed for 80 percent of their moving expenses and given a one-time payment of up to \$500.

Implementation Gap

The problem with TAA was not in its legislative design, which was very good. The problem was in its implementation, which was very bad. When the Reagan administration took office, the program was in notable disorder:

- TAA benefits were badly delayed. Although benefits were supposed to reach workers soon after layoff, the average worker waited *14 months* after layoff to receive his first TRA check.²
- Training was rarely provided. Of the unemployed workers declared eligible for TAA, only *6 percent* received training.³
- The mandatory training requirement in the law was *never* used. Those on TRA were not required to commit themselves to adjustment.
- Fewer than *1 percent* of the unemployed workers got job search or relocation assistance.⁴
- Only a miniscule amount of the total TAA spending went for adjustment (see Table 1). From 1975 to 1981, the government spent just \$11 on adjustment for every \$1,000 spent on income maintenance.

² Walter Corson et al., *Survey of Trade Adjustment Assistance Recipients*, Final Report, Mathematica Policy Research, Inc., December 1979 (Hereinafter "Mathematica"), p. 129. This report covers TAA before the Reagan administration changes. Comparable data have not been collected for the current program. Of this 14.1 month delay, 6.7 months were caused by delays in the filing of petitions by workers and 7.4 were caused by delays in the government's delivery of benefits. Although the Trade Act (Section 223) required DOL to process petitions within 60 days of receipt, this deadline has rarely been met.

³ Mathematica, p. 62.

⁴ *Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find A Job Can Save Millions*, Report to the Congress by the Comptroller General, January 15, 1980, p. 22.

TABLE 1

Trade Adjustment Assistance Expenditures
(\$ in millions)

Fiscal Year	Income Maintenance (TRA)	Adjustment Services ¹
1976 & TQ ²	\$ 150	\$ 3
1977	148	4
1978	257	13
1979	256	13
1980	1,622	6
1981	1,440	4
1982	103	20
1983	37	25 (Est.)
TOTAL	\$4,013	\$88

¹ Includes spending for training, job search, and relocation.

² Transition quarter. This was a 15-month year which resulted from a change in fiscal year ending from June to September.

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

As a result of these serious gaps in implementation, the program was increasingly subjected to bitter criticism. For example, it was pointed out that only 48 percent of the claimants were still unemployed when they received their TRA.⁵ The rest—recall the 14-month delay—had found jobs. As a result of these delays, workers received much of their TRA (including retroactive payments) in one large check, often over \$1,000.

In making TRA higher than UI, Congress sought to subsidize a job search period long enough to facilitate TRA recipients in finding a job as good as the one they lost. By not paying TRA until recipients were back at work, the government lost its opportunity to facilitate this job search. The fact that those receiving TRA found jobs does *not* mean that adjustment was not needed. Such a conclusion could only be reached after finding that workers did as well alone as they could have through government assistance. Although we do not

⁵ This is a cumulative figure through FY 1980, the last year DOL collected these data. The percent still unemployed increased every year of the program. In FY 1980, 60 percent of the recipients were unemployed at time of first payment.

know exactly how much the government could have helped, we do know that in the *absence of help*, about 76 percent of the TAA recipients who found new jobs (i.e., those not recalled to their former positions) suffered a decrease in wages from their previous job.⁶

Another troublesome finding was that 68 percent of the TRA recipients were recalled to their former jobs.⁷ Although this fact was cited by the Reagan administration as evidence that TAA was unnecessary, it might fairly be concluded that the recalled workers were not reached early enough to have the opportunity to take advantage of adjustment services. Since many of the recalled TAA recipients were auto workers who were later permanently laid off, the need of such workers for more secure employment very effectively refutes the argument that TAA was unnecessary.

A main purpose of TAA was to enable workers to move out of troubled industries. As Table 2 shows, most of the TAA claimants are concentrated in a few

industries. Since it is precisely these industries in which the battle for freer trade is currently being fought (and lost!), it seems clear that until these workers have job alternatives, there will be little chance for further trade liberalization.

Adjustment vs. Compensation

What does it matter that so few workers received training? Wasn't the real purpose of TAA simply to *compensate* workers for their job losses so that they would not oppose free trade? In fact,

⁶ Mathematica, p. 54.

⁷ The 68 percent figure can be obtained in computations from Mathematica, pp. 38, 45, 48.

TABLE 2

Certification for TAA By Industry

Industry	Certified Workers*
Automobiles	727,000
Apparel & Textiles	178,000
Steel	159,000
Footwear	79,000
Electronics	62,000
All Others	226,000
TOTAL	1,431,000

* From April 1975 through September 1983.

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

that was *not* the original congressional intent.⁸ Congress explicitly chose the strategy of adjustment over compensation out of a belief that retraining workers would be a productive investment in itself.⁹ Representative Eugene Keogh, who was floor manager for the trade bill, explained:

These (TRA) allowances are readjustment payments, not unemployment compensation. They are paid, not to tide a worker over a lull in his employment, but to assist him in attaining new skills and talents to be applied in a new job.¹⁰

By not providing the intended adjustment services, the government transformed TAA into a *de facto* compensation program. Once TAA began to be viewed as compensation, it became hard to justify why trade-affected workers deserved more money than other unemployed workers.¹¹ President Reagan seized this point when, in his first address to the Congress, he declared that with TAA:

... 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.¹²

The concept of TAA as compensation also played upon the policy analysis and research done on TAA. Thus, much thought has been devoted to the question of whether TRA should cover the per-

⁸ For example, see U.S. House of Representatives, Committee on Ways and Means, "Trade Expansion Act of 1962," Report No. 1818, June 12, 1962. See also U.S. Senate, Committee on Finance, "Trade Expansion Act of 1962," Report No. 2059, September 14, 1962.

⁹ Many analyses present TAA as an effort to buy off or bribe workers. For example, see J. David Richardson, "Worker Adjustment to U.S. International Trade: Programs and Prospects," in William R. Cline, ed., *Trade Policy in the 1980's*, (Washington, D.C.: Institute for International Economics, 1983) p. 394.

¹⁰ For Representative Keogh's statement, see the *Congressional Record* for June 27, 1962, p. 11112. Keogh, a hierarch in Brooklyn Democratic politics, was a ranking member of the House Ways and Means Committee during the 1950s and 1960s. Over his entire tenure, 1937-1967, he left his mark not only upon tariff and trade law, but upon a spectrum including the "Keogh plan" retirement accounts for the self-employed and stringent restrictions on food additives found to cause cancer when fed in massive amounts to laboratory animals.

¹¹ The best attempt to defend TAA on equity grounds may be C. Michael Aho and Thomas A. Bayard, "American Trade Adjustment Assistance After Five Years," *The World Economy*, Volume 3, Number 3, November 1980.

¹² For President Reagan's statement, see *Weekly Compilation of Presidential Documents*, Volume 17, Number 8, p. 133.

manent income losses suffered by unemployed workers.¹³ Similarly, the possible disincentive effects of TRA have been greatly pondered.¹⁴ But, in contrast, comparatively little analysis¹⁵ has focused on why a program designed to provide adjustment ultimately mainly made cash payments.

Why Didn't It Work?

The plain and simple reason why TAA failed was that its adjustment tools were never used. The most important tool—training—was not used because the state agencies lacked the money to do so. Even though the Trade Act mandated establishment of a trust fund drawn from tariff revenues to pay for TAA, the Office of Management and Budget (OMB) refused to set it up.¹⁵ OMB's reason was that such trust funds unnecessarily complicate the budget.

In the absence of earmarked money, DOL had to divert Comprehensive Employment and Training Act (CETA) funds for TAA training, job search, and relocation. Although this was done to a limited extent, DOL decided that the CETA program, aimed at the most disadvantaged, was a higher priority than TAA. Thus, the states were always starved for training funds.

Another reason why TAA did not work was that the implementing bureaucracies disapproved of it. Although one usually thinks of bureaucrats as being protective of "their" programs, TAA never became effective because it ran afoul of the decategorization and decentralization of manpower programs started under the Nixon administration. As a result, neither DOL nor the states provided the staff necessary to avoid enormous delays in benefit delivery. In addition, job search and relocation never got off the ground because state governments were politically uninterested in them.

This explanation for the failure of TAA differs from that usually given, *viz.*, that the high TRA payment deterred workers from

¹³ For an analysis of whether TAA overcompensates workers, see Maureen Cropper and Louis Jacobson, "The Earnings and Compensation of Workers Receiving Trade Adjustment Assistance," CRC 459, Public Research Institute, Center for Naval Analyses, February 11, 1982.

¹⁴ For example, see *Mathematica*, pp. 73-124.

¹⁵ For a discussion of the trust fund, see "Background Materials on the Trade Adjustment Assistance Program Under Title II of the Trade Act of 1974," U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Trade, WMCP: 95-17, May 10, 1977, p. 22.

adjusting. Thus, in an article appearing in this publication, Michael C. Barth wrote:

What no one counted on was the side-effects associated with such generous and long-lasting income replacement. Given the circumstances, it is hardly surprising that TAA could cause them to defer training or relocation.¹⁶

While superficially plausible, such an explanation ignores the reality of TAA:

- over half of the workers involved were reached too late to be eligible for training,
- the minimal funds made available for training were never sufficient to meet the demand, and
- only 34 percent of the potentially eligible workers even knew about the possibility of training.¹⁷

If the reasons for failure were that simple, one might ask, why were they left uncorrected? The answer is that by 1975, TAA had become a political orphan.

Who had a strong interest in TAA reform? Not organized labor! After its bad experience under the 1962 program, the AFL-CIO doubted that the government would ever implement TAA. Indeed, an AFL-CIO statement on the Trade Act declared that TAA "is at best burial insurance."¹⁸ During the Carter administration, when TAA reform was under consideration, the AFL-CIO and industrial unions showed relatively little concern about improving adjustment. Their main interest was to broaden eligibility to include workers producing component parts and services for articles covered by TAA.

Nor was the business community much interested in TAA. Like the unions, firms in import-affected industries saw trade restraints as the answer to sensitive imports. Thus, an effective TAA

¹⁶ Michael C. Barth, "Dislocated Workers," *THE JOURNAL/ THE INSTITUTE FOR SOCIOECONOMIC STUDIES*, Vol. VII, No. 1, Spring 1982, p. 27.

¹⁷ *Mathematica*, p. 127.

¹⁸ For the AFL-CIO statement, see *Hearings Before the Committee on Finance, U.S. Senate*, March 27, 1974, p. 1188.

program would only undercut their case for greater protection. While many business groups lobbied for free trade, at no time did the Chamber of Commerce, the Business Roundtable or any major trade association (or consumer organization) actively advocate the improvement of TAA.

There was executive branch interest, but this extended only to legislating TAA, not to running a TAA program. Once TAA had served its purpose of making the 1962 and 1974 trade laws more politically palatable, the concern of policy officials about TAA dissipated. Even the Office of the U.S. Trade Representative, which had an institutional reason to care about whether TAA was working, reneged on its legal responsibility to oversee the delivery of benefits.¹⁹

Cost Explosion Topples TAA

In 1980, TAA was transformed from a little government failure into a big government failure. Large layoffs in the automobile industry were certified for TAA. The cost of the program exploded without warning. The FY 1980 TRA cost was \$1.6 billion, a 533 percent increase over the previous year. Unlike training, TRA was a legal entitlement which had to be paid regardless of whether enough money was included in the budget.

When the Reagan administration came to office, it criticized TAA on the grounds of these cost overruns, the unfairness of special benefits, and TAA's emphasis on income maintenance rather than adjustment. Using analyses showing that TRA was a work disincentive (TRA was said to increase the duration of unemployment by 3.8 weeks), the administration convinced Congress to make major cutbacks in TRA.²⁰ These included: (1) reducing TRA to each state's UI level; (2) starting TRA only after a worker's UI had run out; and (3) stopping TRA after 52 weeks of combined UI or TRA benefits. Thus, in high-unemployment states with extra-long UI programs, TRA is not payable at all.

¹⁹ Section 281 of the Trade Act of 1974 established an adjustment assistance coordinating committee chaired by a deputy U.S. trade representative. According to the law, the function of the committee is to coordinate TAA and promote the efficient and effective delivery of benefits. The committee met only infrequently during the early years of the program, and not at all in the past year.

²⁰ The 3.8 weeks figure is derived in *Mathematica*, p. 156.

In 1982, the Congress finally decided to earmark funds for TAA training (see Table 1). But the amount provided is still far short of what is needed, according to some unions. Last year, the Reagan administration declared that TAA was unnecessary and recommended that it be terminated. Instead, the Congress extended TAA until 1985, but failed to correct any of its long-standing deficiencies.

What Is At Stake

Had TAA worked as planned, it could have, in the context of "industrial policy," served as a model (and as an experiment) for a broader adjustment program to help all workers affected by technological changes. It must be underscored, however, that while adjustment assistance posits a government role, it is a much more modest role than is envisioned in some of the current approaches to industrial policy.

In the absence of effective TAA, Congress and the administration will continue to face no-win trade policy decisions. Either limit foreign imports, which costs the consumer in dollars and choice, or permit increased imports, which creates pockets of unemployment and community disruption. The reality of this painful dilemma was noted by Senator John Heinz (R. Pa.) who last year declared: "The result of not having any adjustment programs, which is the administration's position, is that workers who have lost their jobs have nothing to ask for but protectionism and no place to go but the Congress to ask for it."²¹

TAA needs to be added to the arsenal of the fight for freer trade. In cases where industrial retraining is part of an industry's plan to remain competitive, TAA could keep temporary import restraints *temporary*. In cases where some or all of an industry is hopelessly uncompetitive, TAA could become a political alternative to continued protection.

Proposals for Reform

At present, the prospects for TAA reform are poor. There is

²¹ For Senator Heinz' statement, see *Hearings Before the Subcommittee on International Trade of the Committee on Finance, U.S. Senate, March 17, 1983, S. Hrg. 98-189, p. 228.*

still no political lobby for TAA. The groups one might expect to push TAA reform, such as the AFL-CIO and the affected unions, are much more interested in industrial policy and local content laws.

Should adjustment assistance be provided to all dislocated workers, not just to those hurt by imports? Ideally, yes. In the obverse, however, in the absence of a program for all dislocations, I do not agree that a categorical program like TAA should be canceled just because it is not comprehensive. Adjustment for some groups is better than for none at all.

Although the Reagan administration has touted the dislocated worker provisions of the Job Training Partnership Act, the JTPA program provides *less help* to dislocated workers than the earlier programs did. Unlike TAA or CETA, the new program provides no income maintenance to support trainees.²² In other words, training is available only to those who can afford to remain out of work.

To reform TAA would require both government management improvements and congressional action. The most important administrative changes, including funding, are the following:

- All claimants receiving TRA should be interviewed frequently to assure that they are searching for work. These interviews are necessary to prevent abuse. Sadly, they have been scrimped on in recent years because of Federal budget cuts.
- Funding should be increased to pay for the training of all workers with poor employment prospects. Although it is hard to predict how much money would be needed, about \$85 million would have paid for training one-third of the workers certified in 1983.²³
- Since existing training is often inadequate for

²² CETA Section 124 specifically provided for a basic hourly allowance for workers receiving training. In the JTPA, the authorized activities under Section 303 do not include income maintenance. While a state may choose to provide an income stipend, there are mandatory limits in Section 307 on how much Federal funds can be used for supportive services, wages, allowances, stipends, and administration.

²³ The \$85 million figure can be obtained by taking one-third of the 73,000 certified workers at an average training cost of \$35,000.

skilled workers, the government should encourage new providers by issuing vouchers that can be used in community colleges, technical institutes, or on the job. Two advantages of on-the-job training are that it maintains worker contact with employers and assures the relevance of the training.

- The relocation program should be removed from local governments; they cannot be expected to give it emphasis. The Federal government should run relocation itself or contract it out using a system of reimbursement tied to successful job matches.

In addition to these improvements in implementation, there are several legislative changes needed:

- The cumbersome system of certifying workers on the basis of separate petitions should be scrapped in favor of an industrywide certification. Whenever the International Trade Commission finds that imports have injured a specific industry, all unemployed workers in that industry should be made eligible for TAA. The determining standard for "injury" for the purposes of TAA might be made less rigorous than the injury standard for import relief.²⁴
- In establishing a TRA higher than state UI, the Congress acknowledged that many state UI maximums were too low to allow for adjustment. (For example, Missouri's maximum benefit is \$105 a week.) Under such low benefits, workers may be forced to take the first job they can find, rather than being able to undertake training or seek a good job match. Although it cannot easily reverse its 1981 cutback of TRA benefits, the Congress could give special stipends (or loans) to workers engaged in training or job search programs. The stipends could supplement UI to bring workers up to a standard

²⁴ The standard for TAA is that imports have *contributed importantly* to the layoffs. The standard for import relief is that imports are a *substantial cause* of the injury. *Contributed importantly* means a cause which is important, but not necessarily the most important. *Substantial cause* means a cause which is important and not less than any other cause.

amount—say, 60 percent of the previous wage.

- Under Federal law, workers receiving extended UI benefits or TRA can be required by the state agency to take any job paying more than UI. This means that a worker trying to locate training could be sent to a clearly unsuitable job (like a fast food chain) on pain of losing his income support. One solution would be to waive this requirement for workers who are waiting to enter a training program.
- The 1981 amendments took the teeth out of the statutory disqualification for refusal of training.²⁵ Under present law, disqualification cannot be imposed during the first eight weeks of TRA and after that, workers can opt for out-of-town job search instead of retraining. Since the limited resources for income maintenance should be saved for workers who want adjustment, the current law should be rewritten to withdraw TRA from anyone who refuses training without good cause.

What Have We Learned?

Examination of the TAA program provides three useful lessons:

- The implementation of new laws is not automatic. To call TAA a failure is to misstate the degree to which it has been implemented. In terms of its adjustment potential, TAA has never really been tried.
- Policy analysts can misdiagnose a problem. In spite of the many studies of TAA, the literature on the program has a blind spot for implementation. Much of what has been attributed to perverse economic incentives can easily be explained by poor government management.

²⁵ Like other changes made by the Omnibus Budget Reconciliation Act of 1981, the Congress may not have fully understood what it was doing. The record suggests that the Congress intended to introduce a link between TRA and training, but had forgotten about the existing dormant provision. Whatever the congressional intent, the new provision has suffered the same fate as the older one—complete disuse.

- The poor experience with TAA does not encourage belief in our ability to carry out ambitious and complex strategies like industrial policy. The information, judgments and mechanisms required for TAA are only a modicum of what would be involved in the nostrums called industrial policy. Yet the United States was never able to get TAA off the ground.

A major goal for the United States in the 1980s is the preservation and improvement of the international trading system. In the face of increasing obsolescence and redundancy of American workers, there is a strong temptation to grasp at short-term protectionist solutions. If these are to be surmounted, TAA must be revitalized to counteract the negative side effects of trade. By developing the capacity to heal injuries caused workers by imports, we can actualize the universal benefits of freer trade.

Opinions expressed in this article are those of the author and are not official views of the Department of Labor.

THE JOURNAL

Volume IX, Number 1

Spring 1984

Wage Outlook by A.H. Raskin	1
Tuition Tax Credits by Vincent D. Breen	15
Trade Adjustment Assistance: What Went Wrong by Steve Charnovitz	26
Urban Arson by Michael P. Jacobson	40
Farm Bloc vs. Puerto Rico by Harry L. Turner	53
Mitterrand: Time of Danger by Suzanne Berger	67
The Soviet Oil Treadmill by Arthur Jay Klinghoffer	78
Party Politics and Economic Crisis in Mexico by Steven E. Sanderson	87
Recent Books on Socioeconomic Issues	98
Reviews of: <i>Capitalism and the Welfare State</i> , author—Neil Gilbert; <i>The Barbaric Counter-Revolution: Cause and Cure</i> , author—W.W. Rostow; <i>The Next Economy</i> , author—Paul Hawken; <i>Rights and Regulation: Ethical, Political, and Economic Issues</i> , editors—Tibor R. Machan and M. Bruce Johnson; <i>Business Lobbies, The Public Good and the Bottom Line</i> , authors—Sar A. Levitan and Martha R. Cooper; <i>City Money: Political Processes, Fiscal Strain, and Retrenchment</i> , authors—Terry Nicholson Clark and Lorna Crowley Ferguson; <i>The Work Revolution</i> , authors—Gail Garfield Schwartz and William Neikirk	
Credits	120

THE INSTITUTE FOR SOCIOECONOMIC STUDIES

White Plains New York

RECEIVED
APR 2 1984
MILWAUKEE UNIVERSITY LIBRARY