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The Importance of Trade Adjustment Assistance for America's Workers

REPORT BY THE CHAIRMAN'S STAFF OF THE JOINT ECONOMIC COMMITTEE

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Trade Provides Large Economic Benefits, But With Some Costs

Proponents of free trade argue that the gains from lowering barriers to trade outweigh the costs. However, alongside the overall benefits from trade, there can be particular costs to some segments of the American work force.

Trade reflects the level of exchange between the U.S. and the rest of the world. Exports represent the portion of domestic production of goods and services that satisfies the demands of foreign consumers, businesses and governments; imports reflect demands by domestic consumers, businesses and governments for foreign-produced goods and services. Trade promoting policies (such as free trade agreements that remove barriers to trade) work to increase overseas markets for U.S.-produced goods and services and also to increase the availability of foreign products to U.S. demanders. Imports can provide domestic consumers with access to less-expensive foreign goods and domestic businesses with lower-cost raw materials and intermediate products to be used to produce goods and services for U.S. demand at lower cost. Trade promoting policies can also increase opportunities for U.S.-based corporations that are able to sell their products and services abroad.

Overall, trade translates into domestic employment. It is estimated that, in 2010, U.S. exports directly supported 9.2 million U.S. jobs and further expanding U.S. exports can be expected to further boost domestic job creation.¹ Imports, on the other hand, support the livelihoods of those Americans directly engaged in importing foreign products as well as indirectly supporting job creation made possible by the availability of lower-cost consumer goods and production inputs.

However, alongside the overall benefits from trade, there can be particular costs to some segments of the American work force. While the larger benefits from liberalized trade are spread throughout an economy, acute losses can be concentrated in specific geographic regions and among a relatively small number of workers who lose their jobs or otherwise find their earning power permanently impaired due to import competition with domestic production. The balance of evidence suggests that those trade-displaced workers tend to be older and less-educated than the overall labor force and they often find it difficult to become reemployed in other industries without additional training. Because employment changes in communities that depend on only a few affected manufacturers can be significant, the spillover effect of lost employment can be especially large in smaller communities. To counter the effects of trade on such displaced workers, Trade Adjustment Assistance (TAA) provides employment services and financial assistance to trade-displaced workers.

Trade Creates Large Adjustment Costs for Some Workers

Workers are harmed when, through no fault of their own, their job and earning power is displaced by trade. Competition from cheaper foreign products may cause businesses to cut production, lay off workers or close. At the same time, domestic workers may become displaced when domestic producers take advantage of lower foreign labor or regulatory costs and shift some or all of their production overseas (a process known as “offshoring”). The combination of growing competition from foreign imports and increased movement of production overseas can leave some workers permanently worse off, despite the broader benefits from trade.

The costs borne by workers who have been displaced by trade can be large. Workers whose employment was adversely affected by increased competition or offshoring often face lower wages or need additional training in order to find work in another industry. Over 280,000 persons were certified as eligible for the Trade Adjustment Assistance program in FY 2010,² 40 percent more than in 2009 and nearly double the number of certified workers in 2007.^{3,4} The recent increases are significantly due to the broader economic downturn that began in December 2007, but are also the result of the expansion in eligibility under the American Recovery and Reinvestment Act.⁵ Compared with other displaced workers, trade-displaced workers tend to face higher adjustment costs as they must endure longer unemployment spells and larger wage losses once reemployed.⁶ For example, workers in manufacturing industries that faced high import competition are less likely to be reemployed (63.0 percent) than their peers in manufacturing industries facing low import competition (67.0 percent were reemployed) and services industries (69.0 percent were reemployed).⁷ Additionally, workers displaced from high import-competing industries experience a 13.0 percent pay cut once reemployed, far greater than the 8.6 percent pay cut experienced by reemployed workers in low import-competing industries and the 3.8 percent decline in earnings experienced by reemployed workers in service industries.⁸

Training Programs Are Critical For Mitigating the Harmful Effects of Trade

Training programs are essential for workers losing their jobs to trade because trade-related job displacement is more likely to be permanent, as opposed to cyclical, and the skills used in the trade-displaced job may not match the skills required elsewhere in the labor market. At the same time, individuals losing their jobs due to trade may need benefits over a longer period of time because many education and training programs can take up to two years to complete.

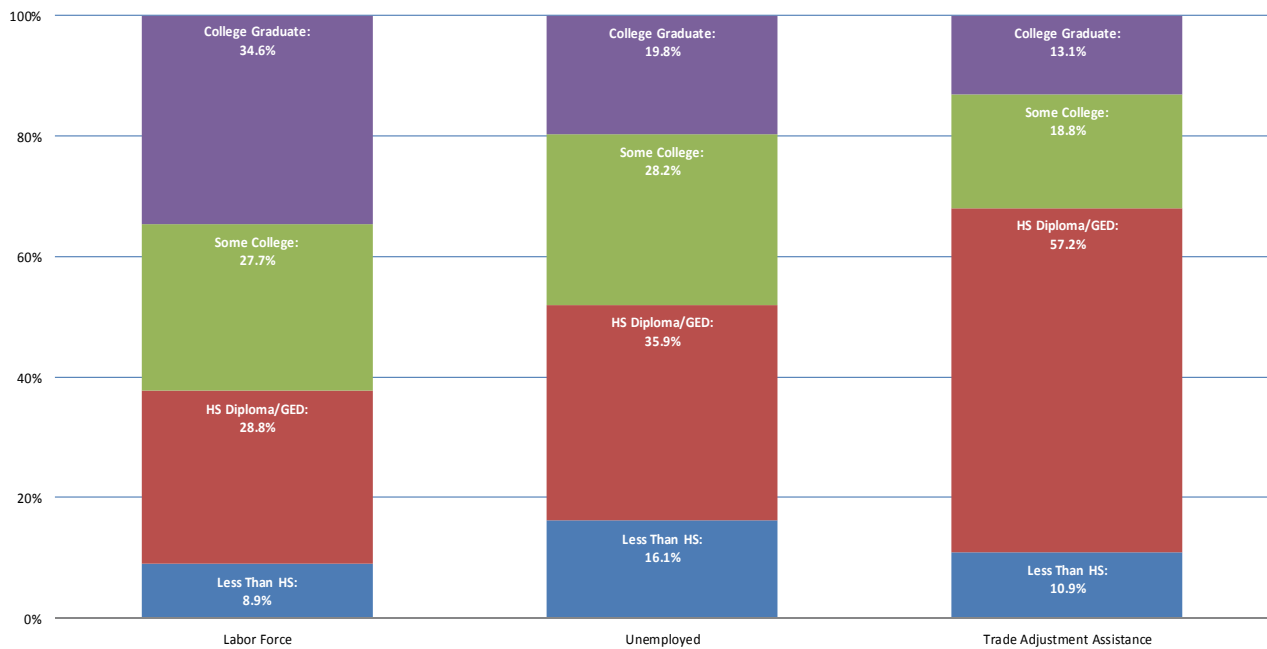
In addition, the characteristics of trade-displaced workers differ from the rest of the unemployed population. Within the United States, workers dislocated due to increased trade are more likely to have finished their education in high school and tend to be older, when compared to the overall unemployed population. These two characteristics, along with long job tenure, substantially increase the costs of trade-related job loss,⁹ making education and training programs crucial for helping trade-displaced workers find reemployment.

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Trade-displaced workers tend disproportionately to have lower educational attainments. As Figure 1 shows, workers with a high school diploma make up 57.2 percent of workers receiving assistance from trade adjustment programs in the United States. However, persons with a high school diploma constitute 35.9 percent of all unemployed workers, and only 28.8 percent of the labor force. At the same time, those with a college degree or some college make up 48.0 percent of all unemployed persons, but represent only 31.9 percent of persons receiving trade adjustment assistance. College graduates, who make up 19.8 percent of the unemployed, comprise only 13.1 percent of those persons receiving trade adjustment assistance.

Trade-displaced workers also tend disproportionately to be older. As illustrated by Figure 2, older workers, those aged 45 and above, are disproportionately affected by trade, making up 42.9 percent of the labor force but 57.0 percent of current participants in the Trade Adjustment Assistance program. The disruptive impacts of trade can be especially acute for workers above the age of 55, requiring many of them to seek trade adjustment assistance. These workers account for approximately 14.2 percent of unemployed persons, but 22.7 percent of those persons receiving trade adjustment assistance. At the same time younger workers were less likely to receive trade adjustment assistance. Persons under the age of 30 comprise a quarter of the workforce and 38.7 percent of the unemployed, but just 8.7 percent of those persons currently receiving trade adjustment assistance.

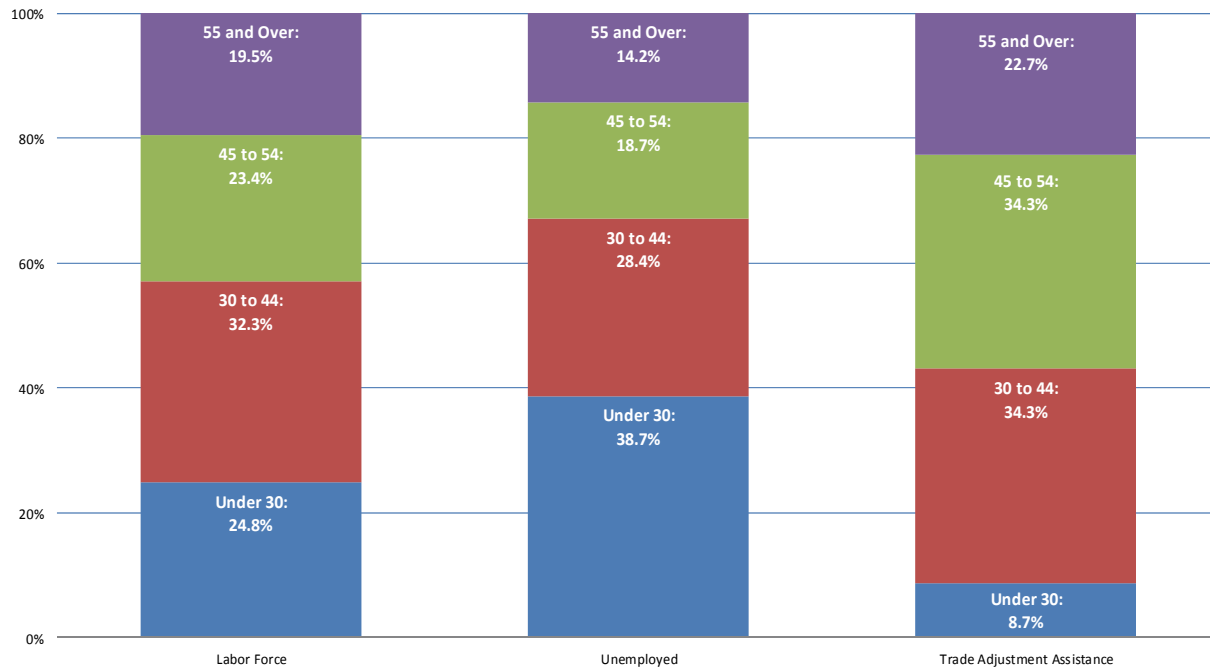
Figure 1. Workers With A High School Degree Make Up More Than Half of TAA Participants
2010



Note: Labor force and unemployment calculations are over the calendar year, Trade Adjustment Assistance shares are over the fiscal year.
Source: Chairman's Staff of the Joint Economic Committee based on data from the Department of Labor.

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Figure 2. Older Workers Make Up Disproportionate Share of TAA Participants
2010



Note: Labor force and unemployment calculations are over the calendar year, Trade Adjustment Assistance are over the fiscal year.
Source: Chairman's staff of the Joint Economic Committee based on data from Department of Labor.

Trade Adjustment Assistance

For workers harmed by import competition, the effects can be devastating. Recognizing this, Congress passed the Trade Expansion Act of 1962 which compensates workers who lose their jobs due to trade. Over time, Congress substantially altered trade adjustment assistance (TAA) through the Trade Act of 1974, the Omnibus Budget Reconciliation Act of 1981, NAFTA implementation in 1994, and the Trade Adjustment Assistance Reform Act of 2002.¹⁰ The American Recovery and Reinvestment Act of 2009 (ARRA) temporarily reauthorized and expanded TAA to include service sector workers.¹¹ Under ARRA, workers who lost their jobs due to trade were eligible to receive financial assistance for an additional six months beyond what was previously allowed through TAA and receive training on both a full-time and part-time basis. Additionally, the ARRA amendments to TAA fully covered allowable job search and relocation costs.¹² TAA, as expanded by ARRA, was extended by the Omnibus Trade Act of 2010 until February 2011, and the entire TAA program is scheduled to expire in February 2012.

As shown in Table 1 below, TAA is designed to better address the unique needs of trade-displaced workers than other job training and unemployment programs. Unlike current unemployment insurance (UI) beneficiaries, most TAA recipients are required to enroll in a training program. Training is also provided to Workforce Investment Act (WIA) participants; however, since trade-displaced workers often must find work in other industries or occupations, TAA extends additional benefits to its participants in order to give them adequate time to acquire the skills necessary to become reemployed in a new industry or occupation.

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Table 1. Comparison of U.S. Labor Market Adjustment Programs

| | Trade Adjustment Assistance | | Unemployment Insurance | Workforce Investment Act |
|--------------------------------------|--|--|--|---|
| | Under ARRA | Under Current Law | | |
| Weekly Benefits | Up to 130 weeks of cash payments if enrolled in full-time training Up to 156 weeks of cash payments if enrolled in remedial training | Up to 104 weeks of cash payments for workers enrolled in full-time training Up to 130 weeks of cash payments if the worker is also enrolled in remedial training | Up to 26 weeks of UI benefits Up to 99 weeks in states with high unemployment rates | N/A |
| Training Enrollment Deadlines | Workers must be enrolled in training 26 weeks after certification or layoff | Workers must be enrolled in training eight weeks after certification or 16 weeks after layoff | N/A | Workers must have completed at least 1 course under core services and intensive services before enrolling in training |
| Training Services | Training may be approved on a full-time or part-time basis. Full-time training is required for TRA eligibility. | Training may only be approved on a full-time basis | N/A | Training approved on a full-time or part-time basis |
| Options for Older Workers | Wage supplement for full-time workers 50 years of age or older. Available only for workers earning less than \$55,000 per year in reemployment Maximum benefit of \$12,000 over a period of up to two years | Wage supplement for full-time workers 50 years of age or older Available only for workers earning less than \$50,000 per year in reemployment Maximum benefit of \$10,000 over a period up to two years | N/A | N/A |
| Job Search Allowance | 100% of allowable costs, up to \$1,500 | 90% of allowable costs, up to \$1,250 | N/A | N/A |
| Relocation Allowance | 100% of allowable costs Provides an additional lump sum payment of up to \$1,500 | 90% of allowable costs Provides an additional lump sum payment of up to \$1,250 | N/A | N/A |
| 2010 Funding | \$65 million was appropriated for ATAA and \$686 million for training, job search and relocation allowances, case management and employment services, and state administration | N/A | Spending on federal UI benefits was \$156.1 billion | \$2,274,540,000 was allocated to Adult and Dislocated Worker Activities ARRA provided an additional \$1.95 billion in Adult and Dislocated Worker Activity Grants and National Reserve for FY 2009 and FY 2010 |
| Recent Number enrolled | 280,873 workers had their petitions certified for any type of benefit under the program. | N/A | 25,572,893 new claims in 2010 | 3,788,232 people served in 2010 |

Source: Department of Labor.

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Under current law, participation in TAA requires persons to demonstrate that their job was adversely affected by trade. Workers certified under TAA are eligible for up to 104 weeks of payments of Trade Readjustment Allowance (TRA) when enrolled in full-time training. To receive TRA, the worker must have been entitled to receive UI benefits before receiving TRA and those benefits must be exhausted. The weekly benefit received is equal to their most recent UI benefit. Training enrollment, which is paid on the state level, can occur no later than eight weeks after certification or 16 weeks after layoff. For older workers, those 50 years of age and older, who may be nearing retirement and are not prepared to train for a job in a new industry, TAA also provides a wage supplement to compensate them for lower wages received after trade-related job loss without undergoing retraining. TAA also provides job search and relocation allowances. Workers can receive the Health Coverage Tax Credit which will offset 65 percent of their health insurance premiums.

TAA Works but the U.S. Program Lags Behind Other Advanced Countries

Data on TAA recipients suggest that the program effectively helps workers harmed by import competition. In 2010, 53 percent of those who participated in the TAA program were employed within the first calendar quarter of exiting the program. TAA participants also appear to find lasting employment relationships; 80 percent of workers employed within the first three months of exiting the TAA program remained employed for an additional six months.¹³ Without the assistance offered by TAA, these workers may not have received the training required to secure employment following a trade-related job loss.

As shown in Table 2, international comparative evidence suggests that the U.S. does significantly less than other major industrial countries when it comes to aiding those who have lost their job due to trade. The gap is particularly notable when compared to each country's trade balance. Despite a large trade deficit from the imbalance in imports of goods, U.S. spending on training programs and other labor market adjustment programs as a share of gross domestic product falls below many other advanced economies. In 2009, spending on training programs was 0.07 percent of U.S. GDP; only Japan spent less. Combined, the U.S. spent 0.99 percent of its GDP on labor market adjustment programs in 2009. Only Canada and Japan spent less.^{14,15}

Table 2. Despite its Large Trade Deficit, the US Spends Less than its Peers on Training Programs

| | 2009 | |
|---------------|---|--|
| | Federal Spending on Training Programs As Share of GDP | Trade Balance In Goods As Share of GDP |
| Canada | 0.10 | -0.32% |
| France | 0.36 | -2.34% |
| Germany | 0.35 | 5.79% |
| Italy | 0.16 | -0.49% |
| Japan | 0.03 | 0.54% |
| United States | 0.07 | -3.57% |

Sources: OECD Employment Outlook 2011, INSEE, BBK, ISTAT, CAO, BEA, SCAN, DGDDI, IST, JMF, Census. Conversion of foreign currency to U.S. dollars by Haver Analytics.

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TAA needs to remain an integral part of trade policy because it compensates those harmed by import competition without sacrificing the larger demonstrable benefits of trade. TAA compensates those workers who, through no fault of their own, are adversely impacted by the effects of import competition on local production and helps those workers develop the skills necessary to compete in the global marketplace. For many of those workers, job training and skills development are necessary to their reemployment because the jobs they lost are simply not coming back. The enhancements to TAA under ARRA (which have now expired) moved the program closer to where it needs to be. Given the demonstrated success of TAA and the prospects of continued if not accelerated import competition every effort should be made to ensure that TAA continues in its expanded form. TAA provides the assistance necessary to develop the skills needed to find a new job. Through training and the relocation and job search allowances, TAA aids the skills-matching process between an employer and the unemployed that is crucial to the recovery of the U.S. labor market.

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