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Easing the Adjustment Burden on US Workers

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US employment growth has been slow in recovering from the last recession. Two and a half years after the recession ended, total employment remains close to 1 million less than it was at the start of the recession in March 2001.¹ By comparison, total employment had grown by close to 5 million and 10 million, at the same point in the business cycle, after the recessions in the 1990s and the 1980s, respectively (table 10.1). A similar pattern is evident in manufacturing employment, although the numbers for net employment decline following the 1990 and current recessions are far greater than for total employment.

The cyclical nature of employment fluctuations gets headline attention, but monthly data on employment levels released by the Bureau of Labor Statistics (BLS) hide a much deeper and more interesting story about the US labor market. Data on total employment tend to understate the flexibility of the US labor market. Figure 10.1 presents recent BLS data for total

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1. Based on recession start date as determined by the National Bureau of Economic Research, with employment levels to July 2004.

**Table 10.1 Change in employment
39 months into recovery
(in millions)**

Period	Total	Manufacturing
1980s	9.9	1.0
1990s	5.3	-0.2
2000s	-0.9	-2.4

Source: Authors' calculations based on BLS data.

job gains and losses. These data, rather than the more popular monthly or annual change in *net* employment, provide a more accurate picture of job turnover and dynamism in the US labor market.

Between 1992 and 2004, on average, 32.5 million jobs were created each year. Over the same period, on average, 30.8 million jobs were lost each year. Taking both job creation and destruction into account, total employment grew by approximately 1.6 million each year.²

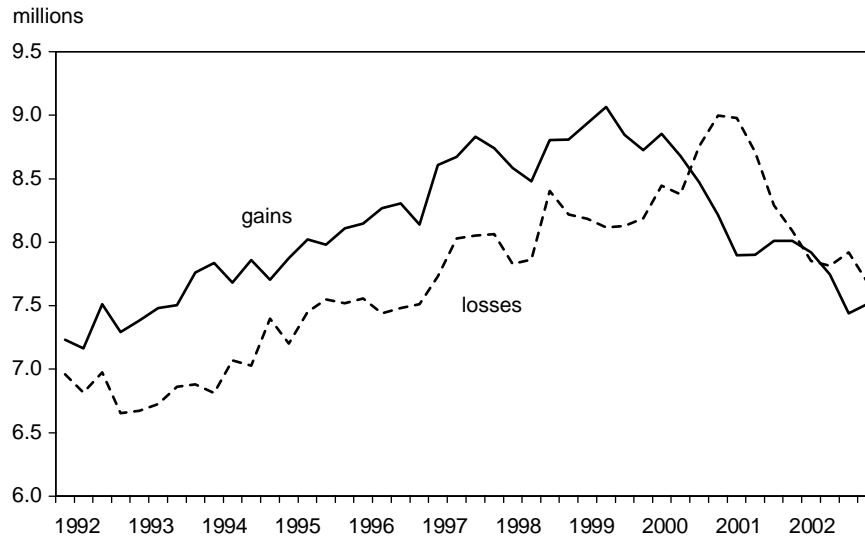
A flexible labor market can benefit an economy, especially when workers have the opportunity to move from low- to high-productivity jobs. Young workers in particular benefit from turnover, when they gain skills and experience and find productive matches with employers. At the same time, labor-market flexibility can impose significant costs on workers and their families. Workers can experience prolonged unemployment, and once reemployed, they may experience large and persistent earnings losses.³

The United States has a well-developed and broad set of labor-market adjustment policies and programs, with Unemployment Insurance (UI) at their center. Other programs include advance notice for major layoffs, mandated by the Worker Adjustment and Retraining Notification (WARN) Act, and training and job search assistance, provided under the Workforce Investment Act (WIA). In addition, the United States is the only country that provides special assistance to workers who lose their jobs due to increased imports and international shifts in production.

Despite the breadth of labor-market policies and programs, there is considerable evidence that these interventions are inadequate. By many standards, US assistance to unemployed workers is modest. Only a minority of workers are eligible for and receive UI when they lose their jobs. Over the last five years, only one-third of unemployed workers received assis-

2. The BLS reports that the average annual change in total employment over the same period was approximately 1.8 million. These employment data are derived from the payroll survey as reported in the Current Employment Statistics and differ from the job losses and job gains discussed above in the text.

3. See Jacobson, LaLonde, and Sullivan (1993) and Kletzer (2001) for estimates of earnings losses associated with job displacement.

Figure 10.1 Quarterly job gains and losses, 1992–2002

Source: Business Dynamics Database, Bureau of Labor Statistics.

tance under the UI program. The level of UI assistance is also low. Eligible workers receive up to 26 weeks of assistance, at an average of \$250 per week, which is below the poverty rate for a family of four (US Bureau of the Census 2004). Training and job search assistance are available only on a first-come, first-served basis, and funding caps limit availability. States often exhaust their federal allocation of funds well before the end of the fiscal year. As a result, very few workers receive meaningful training (GAO 2002).

US spending on active labor-market adjustment programs, such as training, job search assistance, and wage subsidies, is also modest compared with other countries (table 10.2). Relative to five other major industrialized countries, the United States spends the least on active labor-market adjustment programs, even after taking into account each country's unemployment rate. France and Germany each devote about five times more to their active labor-market programs than does the United States.

The technical and methodological issues involved in properly evaluating the effectiveness of US (or any country's) labor-market adjustment programs are considerable. These issues aside, evidence on program effectiveness is mixed at best. Past evaluations find that unemployment insurance and training programs do not appear to make any significant difference in shortening the duration of unemployment or raising incomes once workers are reemployed (see, for example, Betcherman, Olivas, and Dar 2004 and Dar and Tzannatos 1999).

Table 10.2 Spending on active labor-market adjustment programs, 2000–01

Country	As a percent of GDP	Ratio of spending as a percent of GDP to the unemployment rate	As a percent of total spending on all labor-market programs
Canada	0.41	0.06	36.4
France	1.32	0.14	44.4
Germany	1.21	0.16	38.6
Japan	0.28	0.06	34.2
United Kingdom	0.37	0.07	40.0
United States	0.15	0.03	32.9

Source: OECD, *Employment Outlook 2003*.

Weak evidence of program effectiveness has not stopped the United States, or other countries for that matter, from continuing to introduce and administer labor-market adjustment programs. This suggests that governments are motivated by other factors in assisting displaced workers, such as social and political factors.

Modest US labor-market adjustment programs heighten anxiety over job loss. Because workers bear most of the burden of labor-market flexibility, there is understandably great concern over government policies that might place more pressure on them. These concerns have intensified calls to compensate workers adversely affected by government policies and have resulted in targeted assistance to select groups of workers.

Trade Adjustment Assistance

President John F. Kennedy and Congress established the Trade Adjustment Assistance (TAA) program in 1962 to provide assistance to workers who lose jobs due to increased import competition. A combination of weak labor-market adjustment programs for all workers and the unique manner in which trade policy is made in the United States contributed to TAA's establishment. In the United States, in contrast to other countries, Congress must temporarily transfer authority to the president in order for the government to participate in trade negotiations. This provides Congress an opportunity to influence the negotiating agenda. Congress has also used this opportunity to compensate US workers potentially adversely affected by any resulting changes in foreign competition.

Between 1974 and 2002, approximately 25 million workers were eligible, and 2.5 million workers received assistance under TAA. More than half of these workers were employed in the auto, textiles, apparel, and steel industries. Assistance included up to 52 weeks of income maintenance (beyond the standard 26 weeks of UI), training, and job search and relocation assistance.⁴ The average weekly payment for income maintenance in fiscal 2000 was a little above \$200 per week, less than half the total average weekly earnings, which was \$474, and considerably less than the average weekly earnings in manufacturing, which was \$598 (data from the US Department of Labor).

With the approval of the North American Free Trade Agreement (NAFTA) in 1993, Congress established a separate program for workers who lost their jobs due to increased imports from and/or shifts in production to Canada and Mexico. The NAFTA-Transitional Adjustment Assistance (NAFTA-TAA) program provided almost identical assistance to that provided under the general TAA program, with the exception of some differences in the scope of coverage. In addition to covering workers who lost their jobs from import-competing industries, NAFTA-TAA provided assistance to workers who lost their jobs due to shifts in production. The US Department of Labor (DOL) also provided assistance to some "secondary workers"—for example, people who worked for suppliers or downstream producers for firms that faced increased import competition from Canada or Mexico.⁵ NAFTA-TAA created considerable overlap, confusion, and arbitrary discrimination between workers.

Political Support for TAA

TAA has never received strong or enthusiastic support. Although labor unions ensure that their members receive the assistance provided under the program, they have always feared that supporting TAA could be seen as weakening their position against trade liberalization. TAA's link to job

4. Income maintenance under TAA is an entitlement—Congress must appropriate sufficient funds to provide payments to any worker who is eligible and participates in the program. There is a cap on funds appropriated for training under TAA. By contrast, the Workforce Investment Act (WIA), the program that provides assistance to all dislocated workers regardless of cause, is not an entitlement. Workers receive training only if there are adequate funds available. Most states exhaust training funds under WIA well before the end of the year, denying workers the opportunity to enroll in training. In addition, states can deny training if it is determined that a worker can find a job that pays a subsistence wage without training.

5. Under NAFTA-TAA, a downstream producer was defined as "a firm that performs additional, value-added production processes, including a firm that performs final assembly, finishing, or packaging of articles produced by another firm."

loss and the modest amount of assistance have led unions to characterize TAA as “burial insurance.” Union support for TAA further weakened in the 1990s, as unions began placing a higher priority on raising labor standards in low-wage countries.⁶

Support from both Democratic and Republican administrations has also been mixed, divided along agency lines. The US Trade Representative (USTR) has long supported TAA as a means for winning congressional support for trade negotiating authority. This support, however, is essentially political, since USTR has no legislative authority over TAA. By contrast, the DOL, which does have legislative authority over TAA, has only reluctantly administered the program and has never promoted expansion or reform. TAA requires higher levels of energy and resources to administer than other dislocated-worker programs (primarily WIA), due to its petition and eligibility process and its wider range of assistance services. From a purely administrative perspective, the DOL would prefer to administer a single program for all workers regardless of cause of dislocation.

The lack of clear political support for TAA is not unique to the executive branch. Although most congressional Republicans tend to aggressively support trade liberalization, they tend to view labor-market adjustment programs as welfare. For most congressional Republicans, TAA is a “side payment,” and they are willing to accept only the least amount of TAA necessary to win support for trade liberalization. By contrast, support for TAA from congressional Democrats is mixed. Like unions, some Democrats are concerned that their support for TAA might be misconstrued as weakening their resolve against trade liberalization. A smaller group of Democrats favors trade liberalization and thinks that TAA is necessary if the government wants to pursue trade liberalization.

All of this adds up to weak support for TAA, despite the fact that the program has made a significant difference for over 2.5 million US workers since it was established. In fact, until the Trade Adjustment Assistance Coalition was established in 2004, no group advocated primarily on behalf of TAA and the workers served by the program.⁷

Until recently, calls for reform were few, and the only changes to TAA since 1974 were made in 1981, when assistance was reduced—e.g., income support was reduced from the average manufacturing wage to the prevailing UI rate and made conditional on enrollment in training—and in 1993, when Congress created the separate NAFTA-TAA program.

6. Although raising international core labor standards in developing countries would improve the welfare of workers in those countries, there is little evidence that it would help American workers. Elliott and Freeman (2003) find no systematic evidence showing a relationship between core labor standards, as identified by the International Labor Organization, and labor costs. They find that even if higher standards raised labor costs a bit in the short run, it would not be enough to endanger the comparative advantage of poor countries in labor-intensive exports.

7. For more information, see www.TAACoalition.com.

Since its inception in 1962, changes in TAA have been highly correlated with congressional consideration of trade-liberalizing legislation. Some have considered TAA as a quid pro quo for support on trade-liberalizing legislation. In recent years, significant weaknesses in the program depreciated its value in “buying” that support (Rosen 2003).

With the lapse in fast-track trade negotiating authority during the 1990s, TAA lost its logical legislative “hook” for program reauthorization and expansion. Over this period, the already fragile support for TAA further weakened, especially as the organized labor community made international labor standards one of its major trade policy priorities.

A number of events in 2000 and early 2001, however, improved the prospects for action on TAA.

- In 1997, Levi Strauss Company announced its intention to close 13 factories around the United States, laying off approximately one-third of its US workforce. Three of those plants were in New Mexico. In response to the layoffs, Senator Jeff Bingaman (D-NM) undertook an aggressive set of measures to streamline assistance to the dislocated workers in his state (Rosen 2001). Senator Bingaman’s efforts revitalized calls for reform and expansion of TAA.
- One of the Bush administration’s early priorities was passage of Trade Promotion Authority (TPA). In June 2001, as Congress began considering TPA legislation, the Democrats took control of the Senate. The most important consequence for passage of TPA was that Senator Max Baucus (D-MT) became chairman of the Finance Committee. Almost immediately after assuming the chairmanship of the committee, Senator Baucus enthusiastically embraced the idea of making a major expansion and reform of TAA a centerpiece of the TPA legislation.
- One of the proposals under consideration in the package of TAA reforms was the inclusion of a tax credit, for eligible displaced workers, to lower the costs of maintaining health insurance. This proposal caught the attention of Senator Thomas Daschle (D-SD), who became senate majority leader when the Democrats took control of Congress in March 2001. Inclusion of assistance for health insurance quickly became the centerpiece of the TAA reform effort. In some sense, the critical support of two senators—Daschle and Baucus—for TAA reform and expansion significantly improved the chances for final Senate passage of TPA.

The Trade Act of 2002, which Congress passed in July and which President Bush signed into law in August 2002, provided TPA to the president and included provisions that substantially expanded and reformed TAA. The bill passed the House of Representatives by a vote of 215 to 212 and the Senate by a vote of 64 to 34. Although it is difficult to prove empirically,

it is widely believed that the inclusion of the TAA reform provisions helped secure the votes necessary to pass the Trade Act (Destler forthcoming). These provisions included:

- **merge TAA and NAFTA-TAA.** Eligibility criteria and the assistance package under both programs were harmonized and unified into one program.
- **secondary workers.** TAA eligibility was expanded to include workers who lose their jobs from plants producing inputs into goods that face significant import competition. Some of these workers were already covered under NAFTA-TAA. The General Accounting Office (GAO 2001) estimated that this provision could add between 40,000 and 50,000 new participants each year.
- **shift in production.** TAA eligibility criteria were expanded to include workers who lose their jobs due to shifts in production to countries with bilateral free trade agreements with the United States and “where there has been or is likely to be an increase in imports. . . .”⁸
- **refundable tax credit for health insurance.** Workers are eligible to receive a 65 percent advanceable, refundable tax credit to offset the cost of maintaining health insurance for up to two years.
- **wage insurance.** Workers over 50 years old and earning less than \$50,000 a year may be eligible to receive half the difference between their old and new wages, subject to a cap of \$10,000, for up to two years. Workers must find a new full-time job and enroll in the Alternative Trade Adjustment Assistance (ATAA) program within 26 weeks of job loss and cannot receive other assistance from the TAA program.⁹
- **training appropriation.** Congress doubled the legislative cap on the training appropriation, from \$110 million to \$220 million. Final funding is still subject to the regular congressional appropriations process.
- **extension of income maintenance by 26 weeks.** Workers can be enrolled in training and receive income maintenance for up to two years.
- **increase in job search assistance and relocation assistance.** The amount of assistance was increased to keep up with inflation.

Implementation of 2002 Reforms

The 2002 provisions resulted in the most extensive expansion and reform of TAA since its establishment in 1962. In particular, the health care tax

8. Section 231 of the Trade Act of 2002.

9. The Trade Act of 2002 refers to wage insurance as Alternative Trade Adjustment Assistance.

Table 10.3 Worker petitions for TAA, 2000–03

	2000	2001	2002	2003
Petitions filed	1,382	2,353	2,404	3,562
Petitions certified	845	1,029	1,594	1,880
Petitions denied	534	606	980	1210
Percent of petitions denied	39	26	41	34
Number of workers covered by certified petitions	98,007	139,587	235,071	197,117
New income support recipients	32,808	34,698	42,362	47,992
Take-up rate (percent)	33	25	18	24

TAA = Trade Adjustment Assistance program

Source: US Department of Labor.

credit (HCTC) and wage insurance (ATAA) were significant innovations in assistance to unemployed workers.¹⁰ Despite the considerable technical challenges involved in implementing these reforms, the DOL and the Internal Revenue Service (IRS) met the deadlines set out in the legislation.

In addition to implementing the reforms, the DOL made significant progress in reducing the amount of time it takes to process worker petitions for TAA eligibility. This is an important first step in ensuring that workers receive the assistance they need in a timely fashion.

Although it is too early for a formal evaluation, preliminary evidence suggests that program participation has not met expectations of the bill's initial sponsors. Table 10.3 presents data on worker petitions for TAA. For fiscal 2000 to 2002, data are for TAA only and exclude petitions for NAFTA-TAA. For fiscal 2003, petitions are for the combined TAA.¹¹

There are several possible explanations for the 48 percent increase in petitions filed from 2002 to 2003, as reported in table 10.3. Importantly, data for fiscal 2003 include petitions that would have been filed under NAFTA-TAA. Based on data for both TAA and NAFTA-TAA over 1995–99, approximately 30 percent of filed petitions for the two programs were filed for NAFTA-TAA.¹² Even after allowing for the increase due to program consolidation, there remains a sizable increase in petitions from 2002 to 2003.

It is interesting to note that despite the increase in the number of TAA petitions, the number of workers covered by those petitions declined between fiscal years 2002 and 2003. In fiscal years 2001 and 2002 the average number of workers per certified petition was 142, and the average num-

10. In the early 1990s, Canada ran a wage insurance demonstration program (Bloom et al. 1999), and in 2003, Germany instituted a wage insurance program similar to the US program.

11. Unfortunately, the DOL has not provided a complete set of data in order to make the appropriate comparisons.

12. For 1995–99, 12,205 petitions were submitted to both programs. Of those, 3,651 petitions, or 30 percent, were filed for NAFTA-TAA.

Table 10.4 Participation in various TAA programs, 2000–03

	2000	2001	2002	2003
New income support recipients	32,808	34,698	42,362	47,992
New training recipients	22,665	29,941	45,771	47,239
New on-the-job training recipients	304	194	292	386
New ATAA recipients	n.a.	n.a.	n.a.	42
Number of training waivers	19,858	19,169	20,947	30,138

n.a. = not applicable

ATAA = Alternative Trade Adjustment Assistance program

NAFTA-TAA = North American Free Trade Agreement–Transitional Adjustment Assistance program

TAA = Trade Adjustment Assistance program

Note: Income support and training data for fiscal years 2001, 2002, and 2003 include TAA and NAFTA-TAA.

Source: US Department of Labor.

ber of workers per denied petition was 97. These numbers fell to 105 and 68, respectively, in fiscal 2003. There is no immediate explanation for this decline in the number of workers covered by petitions.

It is particularly noteworthy that TAA participation over the last several years has been so low despite

- the overall weak performance of the US labor market;
- the continued growth of imports, leading to potential eligibility for the program;
- the important expansion in eligibility criteria, including shifts in production and secondary workers; and
- no major change in petition denial rates.

Table 10.4 presents data on the number of workers participating in the various TAA programs. The increase in the number of TAA petitions filed may explain the 18 percent increase in the number of workers receiving income support between fiscal 2002 and fiscal 2003. It is interesting to note that there was a 44 percent increase in the number of training waivers provided between fiscal 2002 and fiscal 2003, especially since rules concerning the provision of waivers were tightened in the 2002 law.¹³

One of the ongoing mysteries of TAA is the low percentage of certified workers who receive assistance. In fiscal 2003, only 24 percent of workers covered by certified petitions received income support, otherwise known as the “take-up” rate (see table 10.3). This was a significant increase from the previous fiscal year, when the take-up rate was only 18 percent. Take-

13. Workers need to obtain training waivers to be exempt from the requirement to be enrolled in training in order to receive income maintenance payments.

up rates in fiscal 2000 and fiscal 2001 were 33 and 25 percent, respectively. One potential explanation for the low take-up rates is that workers find employment without needing assistance. Although finding a new job is a desirable outcome, studies reveal a need for reemployment assistance and large earnings losses even with reemployment.¹⁴ Another possible explanation is that workers are not willing to enroll in training in order to receive income support.

The DOL reported that only 42 workers were enrolled in the new wage insurance program in fiscal 2003. This low number of participants is probably due to the fact that the program did not officially begin until August 2003, thus these data reflect only eight weeks of activity. In addition, workers have up to 26 weeks from the date of their job loss to enroll in wage insurance. Some evidence indicates that the number of workers enrolled in the wage insurance program has increased, but the number remains relatively small.¹⁵

In the eight months between August 2003 and March 2004, approximately 10,250 workers enrolled in the HCTC program. This is an impressive achievement, since the HCTC was formally instituted around the same time as the ATAA program. Approximately 4,500 workers received the HCTC due to their participation in TAA. Almost 6,000 additional workers received the HCTC by participating in the Pension Benefit Guaranty Corporation (PBGC) program.¹⁶ The average cost over the initial eight-month period was approximately \$200 a month per participant.

Discussions with workers and state and local service providers repeatedly confirm that insufficient knowledge about TAA helps explain low take-up rates. At less than 50,000 workers per year, the percentage of eligible workers who participate in TAA is significantly less than the percentage of eligible workers who receive UI.¹⁷ In addition, trade-related worker displacement is less frequent than unemployment due to other

14. Kletzer (2001) reports reemployment rates in the range of 60 to 65 percent for trade-displaced workers, with the average reemployed trade-displaced worker experiencing an earnings loss of 13 percent. For a sample of Pennsylvania displaced workers, Jacobson, LaLonde, and Sullivan (1993) report average earnings losses on the order of 25 percent, five to eight years following job loss.

15. Apparently one of the major handicaps for enrollment in ATAA results from a provision inserted in the legislation by congressional Republicans. Under this provision, applicants must signify on their initial petition if they want their workers to be eligible for ATAA. Since most petitioners are not aware of the various forms of assistance provided under TAA, potentially thousands of eligible workers have been denied access to the most cost-effective aspect of TAA.

16. Under the Trade Act of 2002, HCTC eligibility was extended to workers who retired from steel firms that subsequently declared bankruptcy and stopped providing health insurance. In 2003, 5,738 workers qualified for HCTC via this route.

17. Information from the Employment and Training Administration of the US Department of Labor shows that approximately 21 million workers made an initial claim for Unemployment Insurance in 2003. See www.doleta.gov.

Table 10.5 Federal budget outlays for TAA (millions of dollars)

	2002 actual	2003 actual	2004 estimate	2005 estimate
TAA income maintenance	254	348	513	750
TAA training	94	222	258	259
NAFTA income maintenance	32	51	10	n.a.
NAFTA training	37	37	1	n.a.
Wage insurance	n.a.	n.a.	14	48
Total	417	658	796	1,057

n.a. = not available

NAFTA = North American Free Trade Agreement

TAA = Trade Adjustment Assistance program

Source: OMB (2004).

factors. Over the last 40 years, the DOL has performed very limited public outreach to inform employers, workers, and communities of the existence of TAA.

TAA Budget

TAA's total budget has more than doubled over the last three years and is expected to increase further over the next few years, as a direct result of the reforms passed by Congress in 2002. The reforms expanded the potential number of workers eligible for TAA, by adding shifts in production and secondary workers to the eligibility criteria, as well as expanded the amount of assistance available to workers—i.e., HCTC, ATAA, and extended income maintenance.¹⁸ In fiscal 2002, prior to the reforms, TAA's total annual budget was \$417 million. It is estimated to reach above \$1 billion in fiscal 2005 (see table 10.5). Expenditures on TAA are projected to rise to between \$1.5 billion and \$2 billion once the 2002 reforms are fully implemented.¹⁹

Effectiveness

The conventional wisdom in the broader policy community is that government-financed labor-market adjustment programs do not work. Although this view is not founded on any empirical basis, policymakers

18. The GAO estimated that expanding the eligibility criteria to include secondary workers could add 40,000 to 50,000 potential program participants, costing approximately \$400 million to \$500 million each year. See GAO (2000).

19. There is no budget outlay for the HCTC. Its cost is measured by the resulting decline in tax receipts.

cite difficulties in finding reemployment and the size of permanent wage losses to support their claims. It is beyond the scope of this chapter to adequately address this misperception. There is a considerable literature on the effectiveness of displaced-worker adjustment programs (e.g., Kletzer and Koch 2004). Our discussion is based on the premise that every effort should be made to design and implement effective programs that deliver meaningful assistance. From a political perspective, the question is: What would be the alternative to TAA? Political pressures suggest that doing nothing is highly unlikely (Rosen 2003). So the challenge is designing the most effective interventions, not whether to intervene or not.

Unfinished Business

Despite significant changes made to the TAA program enacted in 2002, several issues remain outstanding. Some of the issues are technical and have been discovered while implementing the 2002 reforms. Other issues are proposals that were removed during congressional consideration of the initial 2001 TAA legislation and continue to be desirable. In addition, there are some new proposals, which were not considered in the 2001 TAA legislation. Although the following list of issues is long, it is by no means exhaustive.

Technical Changes

Training Budget

Many states exhaust the funds available for training before the end of the fiscal year. In fiscal 2003, it quickly became clear that the increase in the training cap included in the Trade Act of 2002 was insufficient to cover the potentially significant expansion in participation due to expanded eligibility criteria. The original Senate bill called for the training cap to be increased to \$300 million, based on estimates of the expected increase in participation due to the proposed changes in eligibility also included in the bill. House and Senate conferees agreed to increase the funding limit to only \$220 million, disregarding the projected increase in eligibility. The resulting shortfall in training appropriation deserves immediate action. At a minimum, the funding cap should be raised to at least \$300 million. Eventually the funding cap should be linked to an estimate of how much money would be necessary to provide adequate training to all TAA participants.

In addition to inadequate training funds, their allocation among the states also has problems. Until recently, TAA training funds were allocated to the states on a first-come, first-served basis. The result was that large states with high program participation tended to place heavy demands on available training dollars, leaving few funds for small states

and workers who lost their jobs late in the fiscal year. The tightening of training waivers in 2002 exacerbated this problem. The DOL recently introduced a more orderly procedure for allocating training funds to states, taking into account size and experience. Although this procedure may be an improvement, it does little to address the fact that the total training appropriation is too small to enable all TAA participants to receive adequate training.

Shifts in Production

Recent experience suggests that shifts in production are increasingly contributing to job dislocation in the United States. In fiscal 2003, shifts in production accounted for one-third of certified TAA petitions.

As part of the effort to harmonize TAA and NAFTA-TAA, the 2002 bill proposed adding shifts in production to the TAA eligibility criteria. Apparently in an effort to restrict the reform efforts, Republican conferees proposed limiting the criteria to shifts in production to countries with which the United States has a bilateral or preferential trade agreement. Democratic conferees, in an effort to cover US workers who lose their jobs due to shifts in production to China, countered by adding the language “there has been or is likely to be an increase in imports. . . .” Initially, there was some evidence that the DOL was following a restrictive (and some would argue erroneous) interpretation of this language, holding that it applies only when workers lose their jobs due to shifts in production to countries with which the United States has a preferential trade agreement *and* there is an increase in imports.²⁰ This interpretation not only contradicts the initial legislative intent but also results in denying assistance to workers who lose their jobs due to shifts in production to China and India—likely destinations of a considerable amount of production shifting. A DOL representative recently suggested that the department had changed its interpretation of the law.²¹ In any event, this language needs to be clarified to prevent any further confusion.

Health Care Tax Credit

Under the new law, workers must be receiving income maintenance, which means that they must be enrolled in training, in order to be eligible to receive the HCTC. This restriction severely limits the number of displaced workers who can receive the HCTC. A recent GAO report (GAO 2004a) found that this requirement has forced workers to enroll in training and request income maintenance payments. Some argue that this requirement promotes “real adjustment,” by requiring training participa-

20. See www.doleta.gov/tradeact/2002act_freetradeagreements.cfm for the list of eligible countries.

21. Private communication with the authors.

tion. Others argue that it results in workers getting expensive assistance that they might not need. One proposal would be to provide the HCTC to TAA-certified workers for up to two years or until the worker finds a new job, regardless of enrollment in training.

The GAO report also found that workers are experiencing difficulties getting the HCTC, because as part of the package of assistance provided under TAA, UI benefits must be exhausted prior to receiving TAA program assistance. Beyond exhausting UI benefits, there is an additional waiting period before workers are enrolled in TAA. As a result, many workers either have lost their health insurance or can no longer afford to maintain it, by the time the HCTC becomes effective. These timing requirements defeat the purpose—of helping workers maintain their health insurance during their period of unemployment. This problem requires prompt attention.²²

Wage Insurance (Alternative TAA)

In another attempt to confine the program, Republican conferees added a provision requiring firms or groups of workers to indicate that their workers might be interested in participating in ATAA in their initial TAA petition submission to the DOL. This caused two immediate problems. First, the petition being used by the DOL did not include a place for petitioners to identify their interest in ATAA.²³ Second, how could petitioners know if they were potentially interested in a program that never existed before and about which they knew nothing?

Anecdotal evidence confirms that this arbitrary requirement has denied potentially thousands of workers access to ATAA and may help explain why participation in the program has been so low.²⁴

ATAA is the only aspect of TAA for which workers must identify their interest during the petition process. It appears that the only motivation for this requirement is to restrict the number of participants in the program. This is particularly ironic, since ATAA is potentially more cost-effective than other forms of assistance under TAA and is the only form of assistance that is directly linked to finding a new job, which should be the ultimate goal of any labor-market adjustment program. All workers eligible for TAA should be eligible for ATAA.

22. The DOL issued TEGL 11-2, Change 1, encouraging states to waive the training enrollment deadline so that workers can be eligible to receive the HCTC while receiving UI.

23. Until a new petition was designed, the DOL claims that its staff members called all petitioners to ask if they were interested in ATAA.

24. One glaring example of the problems associated with this arbitrary requirement is the case of the Pillowtex workers in North Carolina. Since some petitioners did not know about the requirement to identify interest in ATAA, Pillowtex workers from some sites are eligible, while those from other sites are not.

Outreach

Another recent GAO report (GAO 2004b) found that many workers are unaware of TAA and that they are eligible to receive assistance under the program. This may help explain why program take-up rates are so low. The DOL has not to date performed any major outreach—for example, using television and radio—to publicize the program. The initial 2001 TAA legislation called on the DOL to ensure that state agencies notify all workers included on a certified petition of all the possible assistance available to them. This provision was also dropped from the final bill.

One possibility would be to expand the organizations that administer TAA within a state to include private community-based organizations. On the one hand, some union representatives are likely to oppose this proposal, for fear that it might risk the jobs of unionized government workers. On the other hand, this proposal might enable unions to get more directly involved in administering TAA and delivering assistance to workers. In any event, more resources need to be devoted to informing workers about TAA and other forms of assistance for dislocated workers.

Issues That Haven't Gone Away

Service Workers

Currently, the DOL follows a narrow interpretation of TAA eligibility, thereby denying TAA to thousands of workers laid off from the services sector. According to the law, workers must prove that they lost their job from a firm that makes a product that is “similar to or like an imported good.” Although the law does not specifically restrict TAA eligibility only to workers employed in manufacturing industries per se, over the years the DOL’s interpretation of the law has de facto resulted in such a restriction. Many workers have appealed the DOL’s decision to the Court of International Trade, the court with judicial responsibility over TAA.

Recently, the court’s rulings have taken on a rather angry tone, as the court has strongly criticized the DOL for its narrow interpretation on this and other issues. The following excerpts from recent court decisions provide examples of the court’s frustration with the administration of TAA.

In the opinion in the case of the *Former Employees of Ameriphone, Inc. vs. the US Secretary of Labor*, the court commented,

There is something fundamentally wrong with the administration of the nation’s trade adjustment assistance programs if, as a practical matter, workers often must appeal their cases to the courts to secure the thorough investigation that the Labor Department is obligated to conduct by law.

It would be wholly inconsistent with Congress’ intent if the trade adjustment assistance programs were to become little more than “claims mills,” where all but the most well-documented and patently meritorious claims were denied at the

agency level, and thorough investigations were largely reserved for those few cases, which were appealed to the courts.

It can hardly be said that “all’s well that ends well,” when the workers here have been for over a year deprived of the job training and other benefits to which they are entitled.²⁵

The court’s opinion in the case of the *Former Employees of Chevron Products Company vs. the US Secretary of Labor* further states,

In a word, this case stands as a monument to the flaws and dysfunctions in the Labor Department’s administration of the nation’s trade adjustment assistance laws—for, while it may be an extreme case, it is regrettably not an isolated one. The relatively high number of requests for voluntary remands in trade adjustment assistance cases appealed to this Court speaks volumes about the calibre of the Labor Department’s investigations in general, and the Government’s ability to defend them . . . Similarly telling is the growing line of precedent involving court-ordered certifications of workers, evidencing the bench’s mounting frustration with the Labor Department’s handling of these cases. Clearly, there is a message here. Only time will tell whether the Labor Department, and Congress, are listening.²⁶

It appears that recently the DOL has “heard the message,” as it has begun exploring ways to provide assistance to workers who might have been denied assistance in the past.

Community Adjustment

One of the lessons learned from the experience of the Levi Strauss plant closings in New Mexico is that local economic and social conditions can exacerbate the adjustment process. For example, Levi Strauss was the single largest private employer in Roswell, New Mexico, before closing in 1998. The plant closing dealt a terrible blow to the community and the surrounding region. Providing temporary financial assistance and training alone to workers was not enough to restore economic stability to the region.

Building on the Defense Department’s experience in addressing and enhancing economic adjustment in response to military plant closings in the 1990s, Senator Jeff Bingaman reached out to various community leaders and representatives and developed a strategy for responding to the hardships resulting from the Levi Strauss plants closing. Senator Bingaman requested technical assistance from the Department of Defense. In

25. *Former Employees of Ameriphone, Inc., Plaintiffs, v. United States*, Court No. 03-00243, US Court of International Trade, 288 F. Supp. 2d 1353, October 24, 2003.

26. *Former Employees of Chevron Products Company, Plaintiffs, v. United States Secretary of Labor, Defendant*, Court No. 00-08-00409, US Court of International Trade, December 30, 2003.

addition, the community applied for and received grants from the Department of Commerce's Economic Development Administration, to develop a strategy for revitalizing the local economy, and from the North American Development Bank (NADBANK), to expand training resources to accommodate the large number of dislocated workers.

Labor-market adjustment is exacerbated when job creation is weak. This linkage is even more important at the local or regional level. The initial 2001 TAA legislation called for the establishment of a TAA for communities program, in order to formalize some of the efforts tried in Roswell, New Mexico. This initiative was an attempt to acknowledge that income support and training alone may be insufficient for assisting dislocated workers find new jobs. House-Senate conferees removed this provision from the final bill.

The weak performance of the US labor market over the last few years has renewed support for some targeted assistance tailored to communities facing severe economic dislocation. The Defense Department's experience in addressing economic adjustment in light of the base closings in the 1990s may provide a good start, with some lessons on community-targeted economic adjustment. In any event, the linkage between labor-market adjustment and community economic development needs greater consideration. One way to begin would be to introduce some limited demonstration projects.²⁷

Data Reporting

Over the last decade, the DOL, under both Democratic and Republican leadership, has been extremely reluctant to release data related to TAA, despite the fact that these data, which were widely available in prior years, do not appear to include any sensitive information. Accordingly, the initial 2001 TAA legislation included language requiring the DOL to issue regular reports on program participation and performance. Senate Republicans complained that this requirement was onerous and insisted on removing it from the final legislation. The DOL has taken only small steps in making public data available.²⁸ Participation data are crucial to determining how well TAA is working and which aspects of the program need to be improved, eliminated, or expanded. Throughout TAA's history, all reform efforts have originated outside the DOL. Providing public access to TAA program data is therefore critical to monitoring and evaluating the program.

27. A limited Adjustment Assistance for Communities program was initiated as part of the Trade Act of 1974 (Public Law 19 USC 2371) but was later repealed.

28. The DOL recently began providing some TAA participation data on its website. This is a welcomed development, but the department's efforts in this regard should be expanded.

A More Ambitious Agenda

As mentioned at the outset of this chapter, the US labor market is remarkably flexible. In fact, on average, close to one of every five working-age people is expected to lose and/or gain a job in any given year. The extent of this flexibility recently highlighted a number of shortcomings in the country's existing labor-market adjustment programs.

Despite all the calls for customizing labor-market programs to the needs of individual workers, the US unemployment insurance system continues to operate based on the "one-size-fits-all" model. States determine the amount of assistance, disregarding the reason for dislocation or a worker's difficulty in finding a new job. The triggers for extended unemployment insurance also appear to be ineffective, as evidenced during the last recession. Receiving government-financed training is similar to playing the lottery since funds allocated to states have little connection to current need, and the demand for training funds is always greater than the total amount budgeted.

Pressures on the US labor market due to technological change, productivity improvements, and international competition call for significant reform and expansion of all US labor-market adjustment programs. Unfortunately, both Democratic and Republican policymakers have not shown any political will in pursuing such needed reform. The only area in which Congress and the president have been willing to even consider reform is TAA, and those reforms have been accepted only to get Congress to approve trade negotiating authority. Given the lack of political will to reform, redesign, and expand programs that would better meet the needs of US workers and their families, the second-best strategy appears to be to continue incrementally expanding TAA. Recent attention paid to services outsourcing further underscores the need for comprehensive expansion and reform. Concern over job loss is clearly broadening. Currently, services outsourcing is receiving more attention than traditional trade-related job loss. It is difficult to determine the extent of this phenomenon, since existing data do not accurately capture this activity (see Catherine Mann's chapter in this book).

What is clear is that the impact of outsourcing on US employment once again reveals the limits of targeted labor-market adjustment programs. For the most part, US services-sector workers adversely affected by outsourcing are not currently eligible for TAA. This has further fueled calls to expand TAA eligibility to cover services-sector workers. This change alone will not be sufficient to fully address the problem, due to difficulties associated with clearly identifying the various causes of job loss—an issue that is central to TAA.

Another group of workers left out of TAA's reach are those employed in export-related industries. Between 2000 and 2002, US exports fell by 11 percent, most likely contributing to job loss in related industries.²⁹ Al-

29. See Kletzer (2002) for an analysis of the link between changes in exports and job loss.

though export-related job loss does not occur as frequently as job loss from import competition and/or shifts in production, it is no less painful or disruptive to workers and their families. Despite this fact, workers who lose their jobs due to a fall in exports are not eligible for assistance under TAA.

These holes in coverage give rise to questions about America's fundamental commitment to assisting all workers adversely affected by changes in international trade and investment, as enunciated by President Kennedy in 1962 as well as by all subsequent presidents.

One way to address these administrative difficulties would be to remove the requirement to identify the causes of job loss from TAA eligibility criteria. One proposal would be to preidentify industries and provide TAA to *any* worker displaced from them. Another proposal would be to provide more assistance to *all* displaced workers, regardless of industry or cause of dislocation. An immediate problem with this proposal is that it would break the link between TAA and trade policy. Although in reality the relationship has been evident only in periodic legislation, some policymakers may be opposed to weakening that link.

Providing TAA-type assistance to all dislocated workers would also require a major reform in the country's unemployment insurance system, including the UI trust fund. Similar to the issues raised by health care and social security, building a coalition to reform the country's unemployment insurance system would be difficult to do. In the meantime, incremental changes may be easier to achieve.

An immediate area to begin reform efforts is to provide the HCTC to all displaced workers. Providing the HCTC to all unemployed workers would reduce the discrimination between those workers who lost their jobs due to "trade" and all other displaced workers. It could also have the added benefit of reducing the growing number of uninsured.

Another option would be to provide wage insurance (ATAA) to a larger set of, and perhaps all, displaced workers. Wage insurance encourages workers to accept a new job more rapidly, thus addressing one of the criticisms of unemployment insurance. It also offers targeted assistance for an important aspect of involuntary job loss—i.e., potentially lower earnings on the new job.

The following section provides cost estimates for these proposals. Estimates of the number of potential recipients are derived from the Displaced Worker Survey, a biennial supplement to the Current Population Survey.³⁰ Program costs are based on current average program costs per participant.³¹

30. Data for 1998, 1999, 2000, and 2001 were initially analyzed. Impact and cost estimates for 2001 were significantly different from those for the earlier three years due to the recession's influence. Table 10.6 reports averages for 1998 to 2000 for estimating projected costs.

31. The average cost for income maintenance and training under TAA is approximately \$10,000 per worker per year. Because current training funds continue to be inadequate, an average of \$100 per worker per month was used in these estimates. The average cost for the HCTC is approximately \$200 per month per worker. Workers can receive the credit for up to 24 months.

Table 10.6 Estimated budget costs for TAA expansion

	Number of potentially eligible participants	Spending estimates (millions of dollars)				
		Income maintenance	Training	ATAA (50-\$50-50%)	HCTC	Total
Fiscal 2003 (actual)	48,000	399	259	n.a.	n.a.	658
Fiscal 2004 (projected)	57,000	523	259	14	n.a.	796
Preidentified trade displaced	165,000	1,900	750	100	375	3,125
All workers	575,000	7,000	2,800	900	1,400	12,100

n.a. = not available

ATAA = Alternative Trade Adjustment Assistance program

HCTC = Health Care Tax Credit

Source: Authors' calculations from the 2000 and 2002 Displaced Worker Surveys.

Cost Estimates for Reform Proposals

Table 10.6 presents cost estimates for several proposals to expand coverage of the existing TAA program.

All dislocated workers from preidentified trade-impacted industries. Under the current program, groups of three or more workers must submit a petition to the DOL to determine eligibility for TAA. By contrast, this proposal would end the certification process and automatically provide assistance to any worker displaced from industries preidentified as facing competition from imports or shifts in production. To receive assistance, workers would only have to prove that they worked in one of these industries.

Approximately 83,000 workers are estimated to be displaced annually from the 27 industries determined to be "high-import" industries.³² In addition, GAO (2000) estimates that one secondary worker may lose his/her job for every worker displaced from an import-competing industry. Thus, approximately 165,000 workers per year could be expected to receive assistance under this reform proposal. It is estimated that covering all of these workers would cost approximately \$3 billion per year.

All dislocated workers. Enrolling all dislocated workers in TAA would not only remove any remaining discrimination between workers but also significantly reduce the burden of administering a targeted program with

32. See Kletzer (2001) for the "highly import-competing" classification scheme. See appendix table 10A for a list of industries.

specific eligibility criteria. Under this proposal, all dislocated workers, regardless of cause of dislocation or industry, would be eligible to receive the entire package of assistance currently provided under TAA.³³ There would be no petition process. Similar to current TAA participants, all dislocated workers enrolled in training would be eligible for up to 104 weeks of income support, the HCTC, and wage insurance (ATAA), as well as job search and relocation assistance.

Using data from the Displaced Worker Survey, we estimate that approximately 575,000 workers could potentially receive assistance under this proposal. Program costs for enrolling these workers in TAA, with the complete set of benefits, would be approximately \$12 billion per year.³⁴

HCTC for all dislocated workers. Short of providing the entire package of TAA assistance to all dislocated workers, another option would be to extend only the HCTC component of TAA to all dislocated workers. This larger set of dislocated workers would continue to be eligible for standard UI, as in the current “dual system” of UI and TAA. We estimate that this would cost approximately \$1.4 billion per year.

ATAA for all dislocated workers (50–\$50–50%). Similar to the above proposal, another option would be to expand the current ATAA program to include all displaced workers. Under the current program, workers 50 years of age or older, earning less than \$50,000 a year (on a new full-time job) can receive 50 percent of the difference between their new and old wage, up to a maximum of \$10,000, for up to two years. It is estimated that 70,000 workers could potentially participate in this program at an approximate cost of \$900 million per year. Removing the minimum age requirement would raise the number of potential participants to approximately 450,000, at an estimated cost of \$4 billion per year.³⁵

Financing Reform Proposals

Currently, UI is primarily financed through a complicated web of federal and state payroll taxes.³⁶ TAA is financed through general revenues, with-

33. Dislocation (displacement) is commonly understood to be the involuntary loss of a job, without regard to an individual worker’s performance. Dislocation does not include quits or firings.

34. Based on these estimates, trade-related displaced workers account for 14 percent of all dislocated workers.

35. In order to be eligible to participate in ATAA, workers must find a job within 26 weeks of the job loss. Thus ATAA participants are *not* included in the number of workers potentially eligible for income maintenance, training, and the HCTC.

36. The federal payroll tax accounts for approximately one-quarter of the UI trust fund.

out any dedicated revenue offset.³⁷ One proposal would be to dedicate customs duties to finance a further expansion of TAA. In fiscal 2003, total customs duties equaled approximately \$20 billion, and they are expected to rise to \$25 billion over the next few years (OMB 2004). Since funds collected from customs duties are currently considered general revenue, diverting them to finance these proposals would contribute to the federal budget deficit. A more limited proposal would be to dedicate only the *increase* in customs duties over the next few years to offset the costs associated with expanding adjustment programs. This would also exacerbate the fiscal deficit and might not be sufficient to cover the total costs of the more ambitious proposals outlined above. Nonetheless, it might be a good way to jump-start the reform process.³⁸

Congress is currently discussing whether and how to respond to recent World Trade Organization (WTO) rulings against the Byrd Amendment, which provides for the US government to repatriate to the domestic industry revenue generated from antidumping and countervailing duty cases. Another option would be to dedicate the Byrd Amendment revenues to finance the *expansion* of US labor-market adjustment programs. Although many in the trade policy community oppose the idea of dedicating revenues generated from safeguard measures, doing so for adjustment purposes may be more compatible with the WTO. The amount of money currently collected under this provision is significantly less than the current TAA budget, but like the other options, these funds could be used to finance an expansion of the program.³⁹

Another option would be to increase the UI payroll tax. Currently, the federal UI payroll tax is extremely modest—0.8 percent on the first \$7,000 of taxable income. For the vast majority of workers, this amounts to only \$56 per year. The ratio of taxable wages to total wages has fallen from 98 percent in 1938, when the UI trust fund was established, to 33 percent in 1997.⁴⁰ A simplistic, straight-line calculation suggests that raising the tax base by \$1,000—i.e., from \$7,000 to \$8,000—would generate an additional \$80 million in revenue. Raising the tax rate by one-fifth of 1 percent—i.e., from 0.8 to 0.85 percent—would generate an additional \$35 million in revenue.⁴¹

37. The Trade Act of 1974 called on the Department of Treasury to establish a trust fund, financed by all customs duties, from which to finance TAA. This trust fund has never been established.

38. It should be noted that there is long-standing opposition among economists to dedicated funding schemes.

39. The US Customs and Border Protection Agency reports that more than \$200 million was available under the program in fiscal 2004.

40. The DOL has not published more recent data due to technical problems.

41. Both of these estimates do not consider any income or substitution effects. They are advanced only to suggest the magnitudes involved.

Obviously, a third option would be to finance these reforms the same way TAA is currently financed—i.e., through general revenues with no direct revenue offset.

The bottom line is that none of these proposals would “break the bank.” For example, as mentioned above, providing the HCTC to all dislocated workers would cost approximately \$1.4 billion per year. This figure amounts to less than a rounding error in the federal budget. Also, according to our estimates, all dislocated workers could be eligible for wage insurance at two-thirds that price.

Recent Congressional Activity

In March 2004, Senators Max Baucus and Norman Coleman (R-MN) introduced legislation (S2157) that addressed many of the issues raised above. In May, Senators Coleman and Ron Wyden (D-OR) proposed amending the JOBS Act with the following provisions in the Baucus bill:⁴²

- expand TAA to cover services workers by adding the term “goods and services”;
- increase the training appropriation cap;
- clarify the shift in production eligibility criteria to include all countries;
- increase the HCTC from 65 to 75 percent;
- make technical changes to the HCTC, including reducing the waiting period;
- require the DOL to periodically report program data; and
- establish a community adjustment program.

The amendment received a majority of votes in the Senate but not enough to overcome the 60-vote rule under the budget act.

MFA Removal

US employment in textiles and apparel has declined from 2.3 million in 1974 to 1.1 million currently. Some of that job loss has been associated with technological change and increased pressure from imports and overseas

42. S1367 presents an alternative to the Foreign Sales Corporation, which the WTO has ruled is illegal.

production. As a result, since its inception, textile and apparel workers have constituted the second largest single group of TAA participants.⁴³

The Multi-Fiber Arrangement (MFA), the international regime of textile and apparel quotas, is scheduled to be phased out by January 1, 2005. There has been very little preparation for the upcoming phaseout, despite the expectation that the phaseout is likely to place additional pressure on an already battered sector. In the event that shifts in international production result in a significant increase in imports, it is likely that the textile and/or apparel industries may petition the government for temporary relief, either through the imposition of safeguard measures or antidumping and countervailing duties. Petitions for TAA might also significantly increase.

The second-term Bush administration should consider providing “blanket” eligibility to any worker displaced from the textile and apparel industries, regardless of cause.⁴⁴ This would relieve some of the administrative burden and would provide workers with assistance in a more timely fashion.⁴⁵

Legislative Opportunities

As argued above, congressional support for TAA is not strong enough to enable both houses of Congress to pass stand-alone legislation implementing the changes outlined in this chapter. All previous changes in the program have been part of broader trade legislation—primarily legislation granting the president trade negotiating authority and implementing multilateral trade negotiations. This will probably remain the case, at least into the near future.

The president’s trade negotiating authority, granted under the 2002 TPA bill, must be renewed in 2005. Under a “fast-track”-like process set out in the 2002 bill, Congress must pass a nonamendable resolution to renew that authority. This denies the traditional opportunity to link trade

43. Between 1974 and 2000, textile and apparel workers constituted 21 percent of TAA recipients. Automobile workers made up 29 percent of TAA recipients. Together, workers from these three industries represented half of all TAA recipients. In 2000, textiles and apparel together accounted for 32 percent of workers certified for TAA, with motor vehicles accounting for 21 percent.

44. The precedent for this proposal was set in 1975 for the footwear industry. In response to its request for safeguard protection from an import surcharge, the Ford administration offered expedited TAA for all workers who lost their jobs from the footwear industry.

45. A modification of this proposal would be to provide a blanket certification to any industry found by the International Trade Commission to have experienced injury due to international competition.

negotiating authority to TAA reform. On the other hand, TAA reform could be included in other trade legislation scheduled to be considered by Congress, such as the Dominican Republic–Central America Free Trade Agreement (CAFTA) implementation legislation.

We urge Congress and the president to consider implementing the following proposals as a first step toward reforming the nation's labor-market adjustment programs:

- increase the TAA training budget cap;
- clarify the TAA eligibility criteria to include shifts in production to any country;
- correct the HCTC waiting period;
- provide the HCTC to all TAA-certified workers by removing the link to receiving income maintenance;
- provide ATAA to all TAA-certified workers by removing the requirement to prerequest ATAA on the initial TAA petition;
- expand resources available for outreach;
- require the DOL to provide periodic data and performance reports; and
- grant blanket TAA certification to all workers displaced from the textile and apparel industries.

Under the 2002 Act, the president's trade negotiating authority expires in mid-2007. If the Doha Round of the WTO negotiations is successful, Congress will be asked to pass implementation legislation. If not, the president will most likely ask Congress to pass new legislation, granting him new authority to pursue multilateral trade negotiations. Either one of these scenarios would provide an opportunity for Congress to consider the more ambitious TAA reform agenda set out in this chapter. These provisions would include:

- expand TAA eligibility criteria to include services workers;
- provide TAA package of assistance to all dislocated workers, regardless of cause of dislocation;
- provide the HCTC to services workers, if not all dislocated workers, regardless of cause of dislocation;
- provide ATAA to services workers, if not all dislocated workers, regardless of cause of dislocation; and
- establish TAA for communities.

Summary and Conclusion

The US labor market is remarkably flexible. Most of the burden of this flexibility is borne by US workers and their families. Worker anxiety is therefore heightened whenever there is discussion of changes in economic policy that might affect the labor market. Trade liberalization is one example of such a policy change. Other developments also heighten worker anxiety, such as the potential growth of services outsourcing.

Given recent labor-market trends and given continued and intensified pressures on the labor market from technological change and international competition, the entire system of US labor-market adjustment programs is in dire need of reform, redesign, and expansion. The current dual system of assistance to unemployed workers—a general yet modest UI program and some training for all workers (WIA), and a targeted program providing more extensive assistance to workers whose job loss is associated with an increase in imports or a shift in production (TAA)—is no longer adequate. Unfortunately, neither Democratic nor Republican policymakers have displayed any leadership in undertaking the necessary steps to begin this reform process.

TAA appears to be the only area in which policymakers have been willing to reform and expand assistance to dislocated workers. In 2002, Congress enacted the most extensive reform of TAA since its creation in 1962. The eligibility criteria were extended to include shifts in production and secondary workers. Assistance was expanded to include a health care tax credit and wage insurance. Most of the reforms have been implemented, but there remain significant problems with ensuring that all eligible workers receive the assistance they so gravely need.

Short of reforming and expanding the system of labor-market programs designed to assist all displaced workers, regardless of cause of dislocation, the next option would be to continue expanding TAA. Technical corrections to the 2002 reforms and modest expansion require immediate attention. Policymakers should also begin the process of implementing a more ambitious reform agenda.

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Appendix 10A

Highly import-competing industries, 1979–2001

Electrical machinery, I

Electrical machinery
Radio, TV

Apparel

Apparel
Miscellaneous fabricated textiles

Transportation equipment, I

Motor vehicles
Cycles and miscellaneous
transport

Machinery, except electrical, I

Electronic computing equipment
Construction and material-moving
machines
Office and accounting machines

Metal industries, I

Blast furnaces
Other primary metals

Miscellaneous manufacturing industries

Leather and leather products

Footwear
Leather products
Leather tanning and finish

Professional and photographic equipment

Scientific and controlling
equipment
Photographic equipment
Watches, clocks

Rubber and miscellaneous plastics

Other rubber products
Tires and inner tubes

Textiles

Knitting mills
Dyeing textiles
Floor coverings
Yarn, thread
Miscellaneous textiles

Toys and sporting goods

Pottery and related products

Source: Classification scheme for highly import-competing industries in Kletzer (2001).

