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**STRUCTURAL ADJUSTMENT IN TEXTILES AND CLOTHING:**

**TRADE-RELATED LABOUR ADJUSTMENT POLICIES**

**Paris, 10-11 December 2003**

*This is the second building block in the Trade Committee's review of the process of structural adjustment in the textile and clothing sectors in OECD and non-OECD countries. It examines: (1) the linkages between international trade and labour adjustment; (2) the main characteristics of displaced workers in the textile and clothing sectors; and (3) recent developments and reforms in labour adjustment programmes in some OECD countries. The document is submitted for discussion. It was prepared by a consultant, Howard Rosen, under the supervision of the Secretariat.*

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## TABLE OF CONTENTS

Executive Summary .....	4
STRUCTURAL ADJUSTMENT IN TEXTILES AND CLOTHING: TRADE-RELATED LABOUR ADJUSTMENT POLICIES .....	6
I. Introduction .....	<b>Error! Bookmark not defined.</b>
II. International Trade and Labour Adjustment .....	<b>Error! Bookmark not defined.</b>
III. Characteristics of Displaced Workers .....	<b>Error! Bookmark not defined.</b>
IV. Labour Market Adjustment Policies .....	<b>Error! Bookmark not defined.</b>
V. Concluding Remarks .....	<b>Error! Bookmark not defined.</b>
APPENDIX I: TABLES .....	28
APPENDIX II:	
I. The French Unemployment Insurance System .....	<b>Error! Bookmark not defined.</b>
II. The German Unemployment Insurance System .....	<b>Error! Bookmark not defined.</b>
III. The Japanese Unemployment Insurance System .....	<b>Error! Bookmark not defined.</b>
IV. The UK Unemployment Insurance System .....	<b>Error! Bookmark not defined.</b>
V. The US Unemployment Insurance System and TAA programme ..	<b>Error! Bookmark not defined.</b>
BIBLIOGRAPHY .....	44
<b>Tables</b>	
Table 1: Net Job Losses in Textiles and Clothing Between 1970 and 2000 .....	8
Table 2: Changes in US Employment by Sectors, 1974 to 2000 .....	9
Table 3: Changes in US Employment in Manufacturing Industries .....	9
Table 4: Demographic Characteristics of Displaced Workers .....	15
Table 5: Education Characteristics of Displaced Workers .....	15
Table 6: Tenure Characteristics of Displaced Workers .....	16
Table 7: Earnings and Replacement Rates of Displaced Workers .....	16
Table 8: Classification of Labour Market Adjustment Policies .....	17
Table 9: Standardised Unemployment Rates .....	18
Table 10: Unemployment and Insurance Provisions .....	18
Table 11: Brief summary of Unemployment Insurance Programmes in Five Countries .....	19
Table 12: Expenditure on Training and Unemployment Compensation in 2000 .....	20
<b>Figure</b>	
Figure 1. TAA Participants by Industry, 1975 to 1999 .....	21
<b>Appendix I Tables</b>	
Table A1.1 Job losses in Textiles and Clothing Between 1970 and 2000 ..	<b>Error! Bookmark not defined.</b>
Table A1.2 Employment in Textile and Clothing Segments in the USA and the EU	<b>Error! Bookmark not defined.</b>
Table A1.3 Main Phases in Labour Market Adjustment Policies and Programmes .....	30

**Appendix II Tables**

Table A2.1.1 The French Unemployment Insurance and Solidarity Scheme	<b>Error! Bookmark not defined.</b>
Table A2.1.2. Unemployment Insurance Assistance	<b>Error! Bookmark not defined.</b>
Table A2.1.3 Duration of Assistance	<b>Error! Bookmark not defined.</b>
Table A2.1.4 Re-employment Benefits	<b>Error! Bookmark not defined.</b>
Table A2.1.5 Minimum Daily Assistance	<b>Error! Bookmark not defined.</b>
Table A2.2.1 Long-term Unemployed as a Share of Total Unemployed	<b>Error! Bookmark not defined.</b>
Table A2.3.1 Level of Assistance Under the Japanese Unemployment System	<b>Error! Bookmark not defined.</b>
Table A2.3.2 Benefits For Workers Below 60 years of Age	<b>Error! Bookmark not defined.</b>
Table A2.3.3 Duration of Assistance for Unemployed who lose their jobs as a Result of Bankruptcy or Dismissal	<b>Error! Bookmark not defined.</b>
Table A2.3.4 Duration of Assistance for Unemployed	<b>Error! Bookmark not defined.</b>
Table A2.4.1 Amount of Unemployment Insurance Assistance	<b>Error! Bookmark not defined.</b>
Table A2.5.1 Unemployment Insurance Assistance	<b>Error! Bookmark not defined.</b>
Table A2.5.2 TAA and NAFTA-TAA, 2002 to July 2003	<b>Error! Bookmark not defined.</b>
Table A2.5.3 TAA Services by Participant	<b>Error! Bookmark not defined.</b>
Table A2.5.4 Profile of TAA and NAFTA-TAA Participants, 1999 and 2000	<b>Error! Bookmark not defined.</b>

**Boxes**

Box 1. Job Loss From Imports: Measuring the Costs, Kletzer (2001a)	13
Box 2. Some of the Key TAA Reforms in 2002	23

## Executive Summary

This paper aims at deepening understanding of the relationship between trade liberalisation and labour adjustment focusing on the textile and clothing sectors. It examines: (1) the linkages between international trade and labour adjustment; (2) the main characteristics of displaced workers in the textiles and clothing sectors in OECD countries; and, (3) recent developments and policy reforms in labour adjustment programmes in some OECD countries.

During the last decade, OECD countries have gradually liberalised trade in the textile and clothing sectors in accordance with their international commitments. The prospective elimination of the Multi-Fibre Arrangement (MFA) regime at the end of 2004 has already brought major adjustment, including a redefinition of the global sourcing channels that were formed over decades of trade restrictions. As a result, there is considerable anxiety among textile and clothing workers about the future of their jobs.

Although trade liberalisation yields economy-wide benefits, the opening of markets to international competition puts pressure on labour markets and can result in both temporary and permanent hardships for displaced workers. Moreover, these negative consequences tend to be highly concentrated by industry, by location and by worker demographics. Accordingly, the gains from trade tend to be unevenly distributed throughout the economy with both winners and losers.

It is estimated that between 1970 and 2000 textile and clothing employment in France, Germany, Japan, the United Kingdom and the United States declined by 4 million workers. This decline in employment masks several other developments. While evidence points to considerable net job losses in advanced countries, import competition has also brought new dynamism, resulting in the creation of new jobs in the textile and clothing sectors with different specialisation. In many ways the textile and clothing industries have re-invented themselves with the adoption of improved textile technologies and new organisational structures in the clothing industry. On the other hand, in many cases, these new jobs are not taken by those displaced in other parts of the industry. This mismatch between job losers and job gainers within the textile and clothing industry represents part of the adjustment burden facing workers.

The decline in textile and clothing employment has coincided with a decline, or at least a slowdown, in overall manufacturing employment, and an increase in service sector employment. Despite an overall decline in manufacturing employment in many advanced countries, some industries within the manufacturing sector have experienced net job creation. Once again, net job creation may mask the adjustment burden being experienced by workers. Employment changes within and among manufacturing industries, as well as the shift out of manufacturing and into services, has brought considerable changes in labour demand and supply over the last 30 years.

It is getting increasingly difficult to isolate the causes of worker displacement. Technological change, productivity gains, increased import competition and shifts in production can all contribute to job losses. This difficulty has led many policy analysts to oppose targeted labour market adjustment policies and programmes for special groups of workers, *e.g.* workers who lose their jobs due to increased imports or shifts in production, and instead put into place broad labour adjustment programmes for all displaced workers. This issue is likely to remain prominent in the foreseeable future with the intensification of international relations among countries, spurred by improved technological developments.

In place of the debate over special versus general labour market adjustment policies and programmes, more effort needs to be made to determine which interventions are more effective than others. Most of the industrialised countries are attempting to improve the coordination of their unemployment benefits and employment services. There has been an effort to make the process more “customer-friendly”.

Available evidence on the impact of globalisation and international trade on labour adjustment suggests that workers who lose their jobs due to increased imports or shifts in production do not appear to be different than other dislocated workers. Similarly, their adjustment process does not seem to differ significantly. Trade-related dislocations may suggest the need for labour market adjustment policies and programmes, but not necessarily a special response. An analysis of the characteristics of displaced workers from the textile and clothing industries shows that they tend to have a low level of education, low skills (and thus earn low wages), and are predominantly women and minorities (including minority women). All of these characteristics make it more difficult for workers to adjust to changes in the labour market.

Unemployment insurance programmes in most OECD countries are designed to assist all unemployed workers, regardless of industry, worker demographics or cause of displacement. The most significant exception to this general framework is the targeted Trade Adjustment Assistance (TAA) programme in the United States that provides assistance to displaced workers due to import competition and shifts in production. By comparison, more comprehensive and generous labour market adjustment programmes in most other industrialised countries somehow mitigate the need for special programmes for workers from a specific industry or whose job loss can be traced to a specific cause, *i.e.* trade. TAA may also be a result of the USA's unique trade policymaking process. The absence of targeted trade-related labour programmes in other industrialised countries may also be a reflection of the inherent difficulties in isolating the various causes of worker displacement, *e.g.* trade, technological changes, productivity gains, and shifts in labour demand and supply.

The main goal of any labour adjustment programme should be re-employment -- either returning to one's previous jobs or finding a new job as soon as possible and with minimal disruption in earnings. To that extent, countries have employed various programmes to train workers and provide job search assistance. The recent introduction of "wage insurance" is also designed to encourage workers to return to work as soon as possible. These programmes should also aim at minimising the economic and social impact, of plant closings on communities. Therefore, the overall policy challenge is to devise ways to meet the social goals in a cost-efficient and least trade-distorting manner.

Industrialised countries are not alone in attempting to face the new realities associated with changes in international trade and investment. Policy makers from developing countries are increasingly being asked to consider the domestic consequences of trade liberalisation. The emergence of China as a major exporter has made this concern very real. Countries where low wages played an important role in their export strategy are now learning that they can be out-competed on price. In particular, several developing countries that had excelled as offshore assembly centres, due in part to their MFA quota allocations, will be exposed to the inherent vulnerability of their internationally-fragmented production process in the post-MFA period (OECD 2003b). It is becoming clear that all countries, regardless of their level of development, must begin to address the social and economic consequences to trade liberalisation.

Finally, it needs to be stressed that a sound and dynamic macroeconomic environment is the most important factor in addressing labour market pressures. The main objective is for workers to be employed in jobs that demand high skills and pay high wages. All of the labour market adjustment policies and programmes discussed in this paper are only effective if they result in workers finding new employment.

## **STRUCTURAL ADJUSTMENT IN TEXTILES AND CLOTHING IN THE POST-ATC TRADING ENVIRONMENT**

### **I. Introduction**

1. During the last decade, OECD countries have gradually liberalised trade in the textile and clothing sectors in accordance with their international commitments. Although liberalisation yields economy-wide benefits, the opening of markets to international competition puts pressure on labour markets and can result in both temporary and permanent hardships for displaced workers in the process. The prospective elimination of the quantitative restrictions covered under the WTO Agreement on Textiles and Clothing (ATC) has already brought major adjustment, challenging the global sourcing channels that were formed over decades of trade restrictions.<sup>1</sup> As a result, there is considerable anxiety among textile and clothing workers about the future of their jobs.

2. Although trade policy continues to affect economic outcomes in these sectors, mainly through relatively high import tariffs and preferential trade arrangements, the labour policy challenge in the post-ATC period is likely to become more prominent. How and what kinds of labour adjustment programmes for displaced workers would be appropriate for governments to fulfil their redistribution role, hence contributing to social cohesion? Most OECD countries have already established diverse programmes to deal with displaced workers' needs. In non-OECD countries, displaced workers tend to rely on less sophisticated social safety networks, and family solidarity is often the main mechanism of assistance. Due to difficulty in gathering detailed information on non-OECD countries, this paper focuses on policies and programmes of some OECD countries.

3. This Chapter is structured as follows. Section II examines the linkages between international trade and labour adjustment. It stresses the difficulty in disentangling import competition from other causes of job displacement and emphasises the public policy role of providing assistance to displaced workers. The third section discusses the main characteristics of displaced workers in the textile and clothing sectors in OECD countries, while the fourth describes and analyses recent developments and policy reforms in labour adjustment programmes in some OECD countries. Finally, concluding remarks are offered in the last section. An appendix also describes the main characteristics of unemployment insurance programmes in France, Germany, Japan, the United Kingdom and the United States.

### **II. International Trade and Labour Adjustment**

4. Although liberalisation yields economy-wide benefits, the opening of markets to international competition puts pressure on labour markets that can result in both temporary and permanent hardships for displaced workers. Moreover, these negative consequences tend to be highly concentrated by industry, by location and by worker demographics. Accordingly, the gains from trade tend to be unevenly distributed throughout the economy with both winners and losers.

#### ***Adverse Labour Effects***

5. Workers can be adversely affected by increased import competition, falling export sales and shifts in production in varying degrees. Workers employed by the domestic import competing industry are considered front line or "primary" workers. Workers who produce inputs for the domestic competing industry are considered "secondary" workers. Tertiary workers are those who provide goods and services to primary and secondary workers and their families, but not directly to the industries for which they work. For example, in the case of clothing imports, workers who produce men's pants are considered primary workers. Workers who produce zippers are considered secondary workers and those employed by the

restaurants and retail stores in the community where the clothing and zipper producers are located are considered tertiary workers.

6. In the example above, primary workers are most likely to face job loss due to increased import competition. Depending on the state of the economy, it may take some time for those workers to find new jobs. Furthermore, if they finally find a new job, the new salary may be less than what they earned before they were laid-off. Secondary workers may experience similar losses, although the probability of being laid off may be less than that for primary workers, especially if they have a diversified set of consumers and/or production line. Likewise, the tertiary workers may experience similar losses, but also to a lesser degree than for primary and secondary workers.

7. Plant closures resulting from severe competition from abroad are likely to have serious implications for the entire community, beyond the hardships for workers employed by the firm. If a community's economy is highly dependent on a certain firm or industry, as well as the inputs necessary for producing that good, then the adjustment burden will also be experienced by local workers in retail sales and other services. In addition, the loss of a large plant can erode a community's tax base, thereby leaving no one untouched by the closure.

8. In larger communities and during times of economic prosperity, the adjustment burden – although still present – may be less pronounced. In those cases, negative consequences of a single plant closure may be concentrated on the primary workers and may not affect the broader community. In either event, some workers may lose their jobs. They may have to go without a salary for several weeks or months while they try to find new jobs. In addition, depending on their skills and experience, workers may have to accept jobs at lower salaries than they received in previous jobs. The mere threat of moving production facilities overseas is often used as a means of keeping wages low and reducing workers' health insurance and pension benefits.

**Table 3.1 Net Job Losses in Textiles and Clothing between 1970 and 2000**

Country	Textiles	Clothing	Total loss	Total loss %	Employment Levels in 2000
France	-337 000	-238 000	-57 5000	72.9%	241 000
Germany	-333 000	-262 000	-59 5000	67.6%	285 000
Japan	-997 000	-140 000	-1 137 000	66.4%	576 000
United Kingdom	-486 000	-248 000	-72 4000	73.7%	258 000
United States	-585 000	-531 000	-1 116 000	49.0%	1 161 000
Total	-2 738 000	-1 419 000	-4 147 000	62.2%	2 521 000

Source: Extract from Annex Table 1.1

9. Table 3.1 shows that textile and clothing employment in France, Germany, Japan, the United Kingdom and the United States fell by more than four million between 1970 and 2000. This *net* number of job losses masks the actual *gross* job losses and gains during this period (see the following section on creative destruction of jobs). The largest drop in terms of employment level and percent of textile and clothing employment occurred in Japan and in the United Kingdom respectively. Job losses occurred in each of the three decades covered but with less intensity during the first half of the 1990s for all countries (Annex Table 3A.1.1). Although Japan did not apply quantitative restrictions, its percentage of employment losses is marginally lower than Germany and slightly lower than France and the United Kingdom – three countries that have applied MFA restrictions to smooth out the adjustment.

10. A longer historical analysis provides a better appreciation of textile and clothing employment in Japan. It should be recalled that the Short-Term Arrangement Regarding International Trade in Textiles (STA) and the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) came into force in 1961 and 1962 respectively to protect the most advanced countries from the then low-cost production from Japan, Hong Kong, China and other developing countries. Internal factors, such as wage pressure from competing industrial activities in Japan and the appreciation of the Yen, have steadily eroded the competitiveness of Japanese textile and clothing firms (the same is also true for Hong Kong, China). The rise and fall of the Japanese textile and clothing industries illustrates the importance of the macroeconomic factors, *e.g.* exchange rate, and aggregate labour supply and demand conditions as determining factors for sectoral activities.

### *The Broader Picture*

11. Changes in textile and clothing employment over the last 30 years have not occurred in a vacuum. In many economies, the decline in textile and clothing employment occurred against the backdrop of broader employment declines throughout the manufacturing sector and an intensified process of globalisation of industrial activities. For example, total non-farm employment in the United States increased by more than 55 million between 1974 and 2000, which is equivalent to 70.9% increase in employment (Table 3.2).<sup>2</sup> During this period, employment in manufacturing and mining fell by almost two million, and employment in service-related industries, such as transportation, wholesale and retail trade, finance, insurance, real estate, construction, government and services, increased by 57 million.

**Table 3.2 Changes in US Employment by Sectors, 1974 to 2000**

Sector	Employment change 1974 to 2000	
	('000)	%
Total manufacturing (see Table 3)	-1 604	-8.0%
Mining	-154	-22.1%
Transportation	2 306	48.8%
Wholesale trade	2 500	56.2%
Finance, Insurance and Real estate	3 428	82.6%
Construction	4 633	11.5%
Government	6 532	46.1%
Retail trade	10 798	86.1%
Services	27 016	20.1%
<b>Total</b>	<b>55 455</b>	<b>70.9%</b>

Source: US Department of Labour

12. There were also considerable employment developments within the manufacturing sector over the same period. Fourteen of the 20 manufacturing industries experienced declines in total employment, amounting to more than 2.5 million jobs (Table 3.3). These job losses were somewhat offset by an increase in employment of approximately one million workers in the remaining six manufacturing industries. Almost half of the manufacturing job losses were concentrated in textiles and clothing. In fact, the two largest employment declines occurred in the textile and clothing industries.

**Table 3.3 Changes in United States Employment in Manufacturing Industries**

Sector	Employment change	
	1974 to 2000 ('000)	%
Clothing	-729	-53.5%
Textiles	-434.5	-45.0%
Primary metal industries	-390.4	-30.3%
Paper	-239.9	-26.8%
Leather	-200.9	-74.1%
Industrial machinery	-109.2	-4.9%
Stone, clay and glass	-94.4	-14.0%
Fabricated metal products	-93.2	-5.7%
Petroleum	-70	-35.5%
Miscellaneous mfg industries	-69.7	-15.4%
Tobacco	-42.8	-55.5%
Instruments	-40.2	-4.5%
Chemicals	-26.5	-2.5%
Food	-21.7	-1.3%
Transportation equipment	8.8	0.5%
Electronic equipment	59.8	3.6%
Furniture	69.6	14.2%
Lumber and wood	103.8	14.3%
Rubber	273	37.0%
Printing and publishing	436.2	39.3%

Source: US Department of Labour

13. These data suggest that, at least in the United States, the decline in textile and clothing employment coincided with a decline, or at least a slowdown, in overall manufacturing employment. Other industrialised countries also experienced a similar shift out of manufacturing and into services-related industries, resulting in considerable changes in labour demand and supply over the last 30 years.

#### *Creative Destruction of Jobs in Textiles and Clothing*

14. While evidence points to considerable net job losses in advanced countries, import competition has also brought new dynamism, resulting in the creation of new jobs in the same sectors with different specialisation. In many ways the textile and clothing industries have re-invented themselves with the adoption of improved textile technologies and new organisational structures in the clothing industry. One such example occurred in Italy, where textile employment increased by 20 000 between 1995 and 2000 (Annex Table 3A.1.1). In Japan, Korea and the United States, job losses were accompanied with production shifts towards faster growth production segments, such as: industrial and house furnishing applications in the United States; the finishing of textiles in Korea; and made-up textile articles in Japan (Annex Table 3A.1.2).

15. Levinsohn and Petropoulos (2001) discuss the process of creative destruction in the textile and clothing industries. They document a substantial level of entry into the US textile and clothing industries and a high job creation rate from the early 1970s to mid-1990s. They find that many jobs disappeared but new and higher paying jobs simultaneously replaced some of those lost. Despite strong import competition, they concluded that these industries are good examples of creative destruction in which the surviving firms have emerged stronger, while the less productive plants have exited.

16. In comparing the behaviours of globally and non-globally engaged US firms, Lewis and Richardson (2001) reveal that plants with investment links to foreign plants have higher productivity than typical plants without such linkages. Similarly, a typical assembly-line worker in a plant that exports or outsources abroad earns more than an otherwise comparable assembly-line worker in a plant that does neither. They also find that the global commitment through imports of inputs, capital goods inputs, and finished products induce significant productivity gains that more than offset the losses of those workers and firms that are displaced by imports. Against the background of these rewards, their policy suggestions are to encourage the global integration of firms and to minimise the burden on those firms that have not made that choice.

### *The Many Causes of Job Loss*

17. The effects of international trade and globalisation on labour markets have been the focus of considerable debate and analytical research. One of the most interesting and in-depth analyses of the labour adjustment induced by import competition and globalisation is by Lori Kletzer (2001a). Her work shows that import competing workers have reasons to be anxious about the prospects of losing their jobs, because those who lose their jobs experience large and persistent earning losses. But, she also discovers that earning losses are experienced by all displaced manufacturing workers, irrespective of the causes of their job loss, e.g. import competition and/or technological change. While she agrees that there is a need for political recognition of trade-related adjustment problems, her research supports the needs for broad labour adjustment programmes for all displaced workers irrespective of the causes of job displacement.

18. In the same vein, Fields and Graham (1997) studied the re-employment experiences of displaced workers in the textile and clothing sectors to determine both if the unemployment experience was significantly different for these and other sectors, and to relate these findings to possible adjustment costs resulting from trade liberalisation initiatives for the United States. They conclude that textile and clothing workers displaced due to mass lay-offs or large plant closures do not represent a special case, different from workers losing their jobs due to similar circumstances in other industries. Although they find that displaced textile and clothing workers who find new jobs in different sectors experienced a somewhat longer period of unemployment than displaced workers in other sectors, they tended to find jobs in higher wage sectors. They also argue that although the case could be made for pursuing policies to alleviate the hardships of older workers in the textile and clothing sectors, “industry-specific protection from imports does not appear to be an effective way to assist classes of laid-off workers who might experience extraordinary difficulty due to lay-off”.<sup>3</sup>

19. In a review of the empirical literature on the effects of international trade on the US labour market, Blanchflower (2000) concludes that globalisation “did not appear to be the main, or even one of the major, causes of the labour market changes that occurred in the USA or elsewhere since the 1970s”.<sup>4</sup> Other influential factors included: skill-biased technological changes; immigration; declining unionisation; declining real minimum wages; and reductions in the supply of college-educated workers. Although noting the dramatic changes in labour markets that occurred during the previous decades, Blanchflower stresses technology as an important factor in explaining the shift in the demand away from the less skilled jobs.

### *Labour Adjustment as a Public Policy Issue*

20. Unlike capital, there are significant barriers to the free movement of labour. At the international level, most countries have restrictions on immigration. Within an economy, labour mobility is restricted more by natural factors than laws. There are significant financial, economic, social and psychological costs associated with the movement of labour.

21. There are three rationales for government action on labour market adjustment. The first one is economic: labour market policies and programmes may enable a more efficient allocation of resources. In the area of international trade, devoting some resources to ease the adjustment burden may help facilitate more trade liberalisation, which may result in significant gains for the entire economy. The second is political: politicians tend to avoid policies, like trade liberalisation, that might harm employment. One way to make these kinds of policy decisions more palatable to politicians is to make a commitment to assist those workers and communities adversely affected by the policy. The third is equity: there are costs and benefits to most government policies, including trade policy. For example, trade liberalisation may help some people and hurt others. In these cases, there is an argument that those people benefiting from a specific policy should be asked to assist those people hurt by that same policy.

22. The absence of policies and programmes designed to respond to trade-related dislocations may result in the imposition of broader measures to protect an industry from increased import competition. The costs to the economy associated with these measures will most likely be greater than the cost of providing assistance to those workers who might lose their jobs without them. Chapter VI presents a review of quantitative studies of the welfare gains from complete trade liberalisation in textiles and clothing and shows the estimated annual global benefits ranging from USD 6.5 to 324 billion. Moreover, the trade policy community has recently begun paying closer attention to the social and economic consequences of international trade. Policy makers from all countries, regardless if they have a constitutional democracy or parliamentary system, are being asked to think about the labour market adjustment issues related to trade liberalisation.

23. Industrialised countries are not alone in attempting to face the new realities associated with trade policy. Policy makers from developing countries are increasingly being asked to consider the domestic consequences of trade liberalisation. The emergence of China as a major exporter has made this concern very real. Countries where low wages have played an important role in their export strategy are now learning that they can be out-competed on price (see Chapters II and V). Most of these countries do not have any kind of sophisticated social welfare system. Furthermore, many of these low-wage countries have very restrictive labour laws, making it extremely difficult to fire workers.

24. It is becoming clear that all countries, regardless of their level of development, must begin to address the social and economic consequences of trade liberalisation. In recent years, there has been a tendency for policy makers to call for international cooperation to address commonly shared challenges by many countries. Examples include AIDS, poverty and environmental issues. By contrast, responding to the pressures associated with trade liberalisation, despite the fact that all countries around the world face these pressures, continues to be seen primarily as a national responsibility. For example, despite the fact that workers in many developing countries will benefit from the removal of quantitative restrictions, the responsibility of assisting adversely affected workers and communities falls more directly on the formerly protected economies, *i.e.* the United States, the European Union and Canada, and those developing countries that have built an export-led strategy based on MFA quota allocations. There is considerable anxiety in the world wide textile and clothing community about the emergence of more competitive and integrated suppliers, particularly in China, that may capture a disproportional share of the economic benefits arising from the phasing out of the ATC.

25. Against this background of closer international integration, the systemic shift towards services-related activities and the phasing out of quantitative restrictions, the main policy challenge for policy makers is to secure the benefits from liberalised trade and investment while, simultaneously, minimising the resulting adjustment burdens on adversely affected workers and communities. In order to achieve this goal, governments must transfer some of the benefits of trade and investment enjoyed by the vast majority of people to help offset some of the costs incurred by those adversely affected by import competition. The main goal of any labour adjustment programme should be re-employment, either returning to their previous

jobs or finding new jobs, as soon as possible, with minimal disruption in earnings. These programmes should also aim at minimising the economic and social impact of plant closures on communities. Therefore, the overall policy challenge is to devise ways to meet the social goals in a cost-efficient and least trade distorting manner.

### III. Characteristics of Displaced Workers

26. As mentioned in the previous section (Table 3.1), a change in *net* employment is only one aspect of the labour adjustment story. The data presented are *net* figures and do not provide any insight into the actual number of job losses and gains. The issue of *net* versus *gross* changes in employment gets to the heart of the burdens associated with labour market adjustment. Many workers do not (and some may argue, cannot) move freely from job to job, due to skill requirements, location, family responsibilities and wage and benefit differentials. In some cases, the labour market is segmented in effect. Thus the existence of a job opportunity alone does not erase the adjustment burden.

27. In order to fully appreciate the burdens of labour market adjustment, it is important to develop a deeper understanding of the individual workers who are forced to adjust to changes in the labour market for which detailed labour data are required. Until recently, the United States was the only country that surveyed displaced workers in order to gain some insight into the adjustment process.<sup>5</sup> In addition to providing more information about the displaced workers by age, sex, marital status, and education, these data also enable a deeper understanding of the adjustment burden facing workers. The data include information on the industry from which the worker was separated, his/her pre-separation wage, tenure, and length of unemployment. Identical workers are surveyed over time in order to get some information on the adjustment process, *e.g.* if the worker is re-employed and if he/she has experienced any income loss. Therefore, the availability of these surveys has facilitated the analysis of labour adjustment developments in the United States.

28. Lori Kletzer (2001a) undertook one of the most ambitious studies of displaced workers, which includes an in-depth analysis of the adjustment process and the costs of adjustment for displaced workers. Box 3.1 presents a summary of her major findings.

#### Box 3.1 Job Loss from Imports: Measuring the Costs, Kletzer (2001a)

Similar to manufacturing workers displaced for other reasons, import-competing displaced workers are older, less formally educated, and more tenured than displaced non-manufacturing workers. Generally, these are not the characteristics of workers who succeed in training programmes.

For many workers, import-competing job loss is very costly, due to difficulties finding new employment at a level of pay similar to the old job. Two-thirds of re-employed workers earn less on their new job than they did on their previous job, and one-quarter experience earnings losses in excess of 30%. The average earnings loss is more modest, but still sizeable at 13%. The distribution of earnings loss is very similar to that found for all workers displaced from manufacturing jobs for other reasons.

Import competition is associated with low re-employment rates because the workers vulnerable to rising imports experience difficulty in gaining re-employment, based on their individual characteristics. The characteristics that limit the re-employment of import-competing displaced workers are: low educational attainment; advancing age, high tenure, minority status; and marital status. Workers with high tenure and/or low skill may confront serious skill-related adjustment problems, along with having rusty job search skills.

For most workers, the costs of job loss occur as re-employment earnings losses. Less formally educated workers experience the greatest difficulty maintaining earnings. More generally, re-employment earnings losses rise with age, fall with education, and rise with job tenure. Workers with these characteristics appear to need the most help.

Re-employment in manufacturing minimises the earnings losses (on average). An advantageous outcome for production workers with manufacturing-specific skills is to stay employed in manufacturing. Earnings losses are reduced by re-employment in the old industry. Re-employment in services is associated with the largest earnings losses. There may be little retraining associated with these moves.

29. More recently, Kletzer carried out additional calculations focusing on displaced workers in the textile and clothing sectors for the period 1993 to 2001. These data are presented in Tables 3.4 to 3.7. Data are presented for four groups of displaced workers: those previously employed in clothing and textiles; other import-sensitive industries; and all other manufacturing industries.<sup>6</sup>

30. Table 3.4 presents the basic demographic characteristics of displaced workers and shows that displaced workers from the clothing and textile industries represent only 11% of all surveyed displaced workers. Although there does not appear to be any discernable difference in age between the four groups, there is a higher prevalence of women and minorities in the textile and clothing industries. This finding can play an important role in the adjustment process, since women tend to be second wage earners in many families, and are thus less likely to relocate in order to take a new job.

**Table 3.4 Demographic Characteristics of Displaced Workers**

<b>Sector</b>	<b>Share</b>	<b>Age (in years)</b>	<b>Female</b>	<b>Minority</b>	<b>Married</b>
Clothing	8%	39.47	75%	46%	56%
Textiles	3%	38.36	54%	35%	69%
Other Import-sensitive	34%	39.61	36%	24%	63%
Other Manufacturing	55%	39.11	31%	21%	61%

Source: Unpublished calculations by Lori Kletzer.

31. Table 3.5 shows that displaced workers from textile and clothing industries are twice as likely to have less than a high school education, relative to other dislocated workers. At the other end of the education spectrum, displaced textile and clothing workers are much less likely to have attended college than other displaced workers. This finding supports the widely held perception that textile and clothing workers are low skilled.

**Table 3.5 Education Characteristics of Displaced Workers**

<b>Sector</b>	<b>Less than high School</b>	<b>High School grade</b>	<b>Some College</b>	<b>College or more</b>
Clothing	34%	40%	21%	6%
Textiles	23%	40%	30%	7%
Other Import-sensitive	11%	37%	30%	23%
Other Manufacturing	14%	38%	30%	18%

Source: Unpublished calculations by Lori Kletzer.

32. Table 3.6 provides further insight into the jobs from which workers were separated. It appears that all four groups of displaced workers were separated from full-time (FT) jobs. Textile workers tend to have the longest average job tenure (approximately ten years), almost twice as long as workers displaced from the clothing industry. In fact, of the four groups, displaced workers from the clothing industry experienced the shortest average job tenure. On the other hand, approximately 80% of the workers displaced from the clothing industry were employed for more than ten years. This is considerably higher than for other displaced manufacturing workers. Data in the last two columns compliment earlier findings concerning the level of education. According to these data, there is a higher probability that displaced workers from the clothing and textile industries will be operators and a lower probability that they will have a craft. Both of these findings support the conclusion that the textile and clothing industries tend to require low-skill work.

**Table 3.6 Tenure Characteristics of Displaced Workers**

Sector	Displaced from FT Job	Job tenure (years)	Tenure less than 10 years	Craft	Operator
Clothing	94%	5.59	19%	8%	76%
Textiles	97%	9.64	36%	11%	63%
Other Import-sensitive	97%	7.33	28%	21%	35%
Other Manufacturing	95%	6.96	26%	17%	42%

Source: Unpublished calculations by Lori Kletzer.

33. Table 3.7 provides some insights into workers' pre-separation earnings. Displaced textile and clothing workers earned significantly less than other displaced manufacturing workers. It is particularly interesting to note that the mean earnings for displaced textile and clothing workers are much less than mean and median earnings for displaced workers from other import-sensitive industries. Approximately one-quarter of displaced clothing workers had earnings of less than USD 200 a week. This is considerably higher than the percent of textile workers (9%) and the percent of all other displaced workers (5%) earning less than USD 200 a week. This suggests that in addition to being primarily low-skill industries, textile and clothing also tend to pay low wages.

**Table 3.7 Earnings and Replacement Rates of Displaced Workers**

Sector	Mean Earnings USD	Median Earnings	Earnings less than USD 200/week	Earnings greater than USD 800/week	Wage Replacement Rate
Clothing	247.31	201.58	26%	3%	56%
Textiles	346.37	283.09	9%	4%	63%
Other Import-sensitive	529.96	420.44	5%	22%	69%
Other Manufacturing	471.37	383.89	5%	18%	69%

Source: Unpublished calculations by Lori Kletzer.

34. Overall, the preceding tables suggest that displaced workers from the textile and clothing industries tend to have low level of education, low skills (and thus earn low wages), and are predominantly women and minorities (including minority women). All of these characteristics make it more difficult for workers to adjust to changes in the labour market. Therefore, it is not surprising that the probability of re-employment within the two-year survey period is significantly lower for workers displaced from the clothing industry and somewhat lower for workers displaced from the textile industry than for workers displaced from other manufacturing industries.

#### IV. Labour Market Adjustment Policies

35. This section sets out a framework for analysing labour market adjustment policies and programmes in major industrialised countries. This framework may also assist policy makers in developing countries, as they consider options for responding to labour market adjustment burdens in their countries. Labour adjustment policies are only one part of a country's overall set of policies designed to respond to each country's unique economic and social conditions. They tend to be classified into three major sets of categories: (1) preventive and reactive; (2) direct and indirect; and (3) targeted and general.

##### *Classification of Labour Adjustment Policies*

36. In the first category, the *preventive* measures are put in place primarily to *avoid* dislocations and typically take the form of protecting an industry and its workers from foreign competition or some other economic development. The *reactive* measures are put in place in *response* to dislocations. They usually

take the form of assisting workers during their period of unemployment and can include unemployment insurance, job search assistance and training.

37. Specific measures within these two major types of policies can also be qualified in terms of their effects. The *direct* measures aim at addressing the immediate workers' needs. They are sometimes referred to as "active" labour market policies. Examples of direct labour market programmes for unemployed workers include financial assistance during the period of unemployment, job search assistance and training. The *indirect* measures are steps taken which have an indirect effect on workers, in particular, and on the labour market, more generally. For example, raising a customs tariff on one particular product or group of products will likely have an indirect effect on the workers who produce those goods. In this case, the increased tariff may assist an industry facing foreign competition and prevent, or at least postpone, worker displacement from the industry.

38. The third major classification deals with the scope and reach of the labour market programmes and policies. The *targeted* measures tend to be highly focused on assisting either one or a limited group of industries and its workers. A government subsidy to a particular industry is an example of a targeted measure. The *general* measures are designed to assist all industries and/or workers without discrimination or preference. Table 3.8 shows some examples of direct and indirect, targeted and general labour market policies and programmes.

**Table 3.8 Classification of Labour Market Adjustment Policies**

Measures	Direct	Indirect
<b>General</b>	Unemployment insurance, training and job search assistance for all displaced workers.	Macroeconomic, exchange rate and tax policies; across the board trade policy measures e.g. an import surcharge.
<b>Targeted</b>	Special assistance for a particular group of workers e.g. workers who lose their jobs due to increased import competition.	Industry subsidies and preferential tax treatment, tariffs, quotas and other industry-specific trade policy measures.

39. Direct adjustment programmes traditionally have focused on providing financial assistance to unemployed workers through unemployment insurance. Over the last few years, there has been a shift in emphasis toward re-employment services, like training and job search assistance. Recent reforms in Germany, Japan and the United States have gone beyond job search assistance to include re-employment incentives, like wage subsidies.

40. Direct programmes in most countries also tend to be general in nature and designed to assist all unemployed workers, regardless of worker characteristic, industry of origin, or cause of dislocation. The US Trade Adjustment Assistance (TAA) programme is an example of a targeted and direct programme. Under TAA, additional assistance beyond the traditional unemployment insurance system is offered to workers adversely affected by increased import competition and shifts in production.

41. Macroeconomic policies – monetary and fiscal policies – although not exclusively designed to affect labour markets, can have a significant impact on them. These policies are therefore classified as general and indirect labour adjustment policies. One example would be the macroeconomic policies

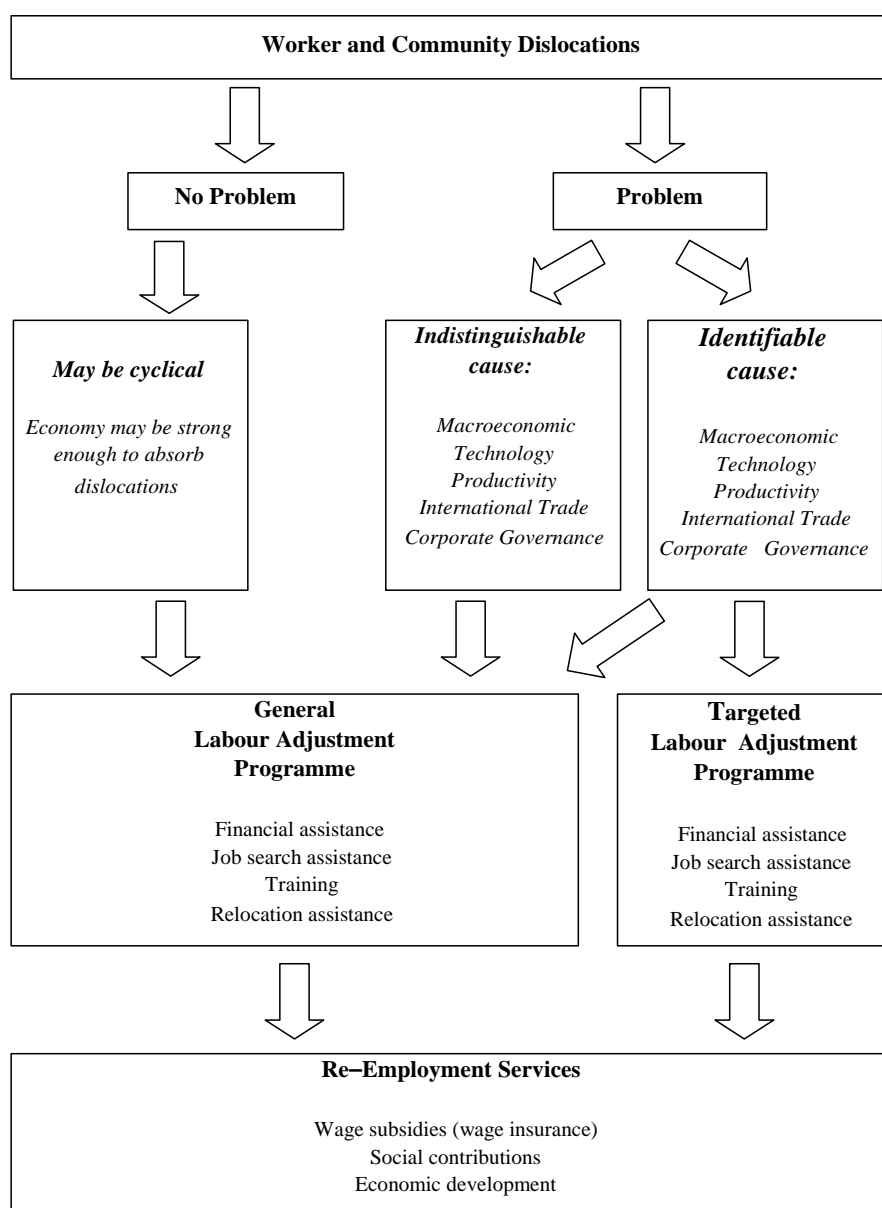
implemented in the United States during most of the 1990s, which resulted in a significant expansion in total employment. The growth in job creation reduced some of the adjustment burden that some workers have experienced as a result of losing their jobs.

42. Exchange rate policies may also be seen by some as another example of general economic policies that have an indirect effect on labour market adjustment. The strong appreciation of the US dollar against the major trading currencies during the first part of the 1980s intensified competition on the US tradable-goods sector, resulting in a loss of export market overseas and a significant increase in imports. This burden has more recently shifted to Japan and somewhat to Europe, as the values of the Yen and the Euro have appreciated against the US dollar.

43. Since it is difficult to trace the direct impact of macroeconomic and exchange rate policies on labour markets, these policies tend to get ignored in discussions of labour market adjustment policies and programmes. In addition, these policies are difficult to fine-tune. On the other hand, the macroeconomic environment is extremely important in determining the extent of the adjustment burden and the speed by which workers can move between jobs. For example, job search assistance is enhanced if an economy is creating large numbers of jobs.

44. The most traditional examples of direct and preventive policies are industry subsidies, tax preferences and various kinds of trade policy measures. These measures tend to target a particular industry or group of industries, but they can also be designed to affect an entire economy. A schematic representation of labour market adjustment policies and programmes is shown in Figure 3.1.

Figure 3.1 Main Phases in Labour Market Adjustment Policies and Programmes



### *Unemployment Insurance*

45. The most common form of labour market adjustment programme throughout the world is unemployment insurance. Developed in the early part of the 20<sup>th</sup> Century, unemployment insurance programmes have become a central part of the social safety net in most industrialised countries and more recently in some developing countries. As a general rule, unemployment insurance programmes provide some financial assistance to workers during their period of unemployment. The programmes tend to be financed through payroll taxes paid by employers and employees. For the most part, unemployment insurance programmes provide assistance to workers who involuntarily lose their jobs without cause. In rare cases, such as Japan, workers who voluntarily leave their jobs may also be eligible for assistance.<sup>7</sup>

46. Table 3.9 presents recent unemployment rates for France, Germany, Japan, the United Kingdom and the United States. Japan has traditionally experienced low unemployment rates, although that has been changing in recent years. During the 1990s, the Japanese unemployment rate has more than doubled. Of the five countries France has experienced the highest unemployment rates and the United States the most stable unemployment rates.

**Table 3.9 Standardised Unemployment Rates**

Country	1990	1995	2000
France	8.6%	11.4%	9.3%
Germany <sup>1</sup>	4.8%	8.2%	7.9%
Japan	2.1%	3.1%	4.7%
United Kingdom	6.9%	8.5%	5.4%
United States	5.6%	5.6%	4.0%
Total OECD	na	7.4%	6.3%

Note 1: Replacement rate is the percentage of the previous wage received by workers. For 1990 the unemployment rate is only for the former West Germany.  
Source: OECD Employment Outlook 2002.

47. Comparative information concerning the unemployment insurance programmes in five industrialised countries is presented in Tables 3.10 and 3.11. More detailed information about the assistance programmes provided in each of these countries is found in Appendix II. There is a wide variance among unemployment insurance programmes in these countries. Major differences occur in the amount and duration of financial assistance paid to unemployed workers. This reflects an ongoing debate over the potential disincentives of providing financial assistance to unemployed workers.

48. Some people argue that unemployment insurance should operate as any other type of insurance programme – workers pay a premium to insure themselves against the possibility of losing their job. Where that occurs, this argument goes; workers would be entitled to compensation. This position is balanced against those who argue that providing financial assistance to unemployed workers might serve as a disincentive for finding a new job. This group argues that generous assistance to unemployed workers prolongs the duration of unemployment, thereby causing moral hazard.

**Table 3.10 Unemployment Insurance Provisions**

Country	Replacement Rate	Minimum Payment USD	Maximum Payment USD	Duration (months)
France	75%	8 214	60 184	60 <sup>1</sup>
Germany	60%		30 890	12 <sup>1</sup>
Japan	80%		20 209	10
United Kingdom	Flat rate		4 084	6
United States	50%	4 524	15 600	6

Notes: Replacement rate is the percentage of the previous wage received by workers; and the relevant exchange rates are mentioned in Appendix II.

Note 1: Both France and Germany provide additional assistance once UI is exhausted.

Source: OECD Employment Outlook 2002.

**Table 3.11 Brief Summary of Unemployment Insurance Programmes in Five Countries**

Country	Qualifying period	Duration of benefits	Replacement rate	"Fallback" programmes	Comments
<b>France</b>	5 alternative ways to qualify for different benefit durations, depending on work history in the last 3 years	4 months to 33 months, depending on employment history and age	57 to 75 % of previous earnings (no maximum); benefit rate falls after an initial jobless period.		
<b>Germany</b>	12 months in the last 3 years	156 to 832 days, depending on age and employment history	67 % of previous net wage (60 % for workers without children)	57 % of previous net wage (50 % without children)  Means tested: unlimited duration	12 week waiting period for quitters
<b>Japan</b>	26 weeks of work in past year	90 to 360 days; increases with age, years worked and full time status	50 to 80 %, depending on age and rate of pay, to a maximum	Universal welfare, unlimited duration	Some restrictions on quitters
<b>United Kingdom</b>	2 years continuous employment	6 months	Flat rate cash benefits (48.25 Pounds in 1996) per week.	Means tested unemployment assistance, based on household income; unlimited duration	Unemployment assistance is more generous than UI, especially if no other earners in the household. Unemployment assistance can include full rent and property tax subsidies
<b>United States</b>	26 weeks of work in past year	26 weeks (plus 13 weeks extended benefits in cases of high unemployment)	50 to 70 % to a maximum  Average replacement rate 30 to 40 %	Means-tested welfare benefits available to single parents only  Lifetime limit of 5 years	Very low take up rate; quitters are disqualified; and benefits are taxed as income

Source: The author's summary based on available information

49. Programmes in each of the five countries covered fall along the spectrum of this debate. Following recent reforms, the United Kingdom provides the lowest amount of financial assistance to its unemployed workers. The US programme is next. Both the United Kingdom and the United States provide initial financial assistance for only six months, the shortest duration among the five countries analysed.<sup>8</sup> France, Germany and Japan are at the other extreme, providing more financial assistance for longer periods of time. The Japanese unemployment insurance programme is the closest to a true "insurance" programme, in that all unemployed workers are eligible for assistance, regardless if their separation was voluntary or not. The French programme appears to be the most generous.

### *Training Programmes*

50. Next to unemployment insurance, training is probably the second most prevalent aspect of direct or active labour market adjustment programmes in industrialised countries. In some countries, like Germany, providing training to unemployed workers is part of a comprehensive policy of training and vocational programmes. Other countries employ a mix of private and training schemes.

51. Training programmes fall into two broad categories: providing basic skills in language and math to those with low educational attainment; and providing specific job-related skills. Deficiencies in basic skills are particularly present in the case of workers in traditional low skill manufacturing jobs, like in the

textile and clothing industries. Many workers in these industries have less than a high school education. The lack of basic skills adds a burden onto an already arduous adjustment process when these workers face the need to find a new job.

52. In recent years, there have been efforts to engage the private sector more in the provision of specific job-related skill training. In Germany, tax credits are used to encourage firms to hire and train new workers. In the United States, in recent years, there has been a shift from government-provided training to government-financed privately-provided training. Workers are given what amounts to vouchers, which they can use to finance approved training.

53. Analysing training programmes is severely limited by the lack of data concerning who gets trained, for what, at what cost, and how useful the training is in helping the worker find a new job. Despite the lack of useful empirical research on the effectiveness of various training schemes there is evidence that on-the-job training tends to be more efficient than classroom training. Accordingly, government-sponsored training programmes have moved more in that direct in recent years.

54. Table 3.12 presents a comparison of expenditures on training and unemployment insurance in the five countries. France and Germany spend the most on training and unemployment insurance. This is due to a combination of ambitious training programmes, generous assistance and relatively higher unemployment rates than experienced in the other countries. In relative terms, the cost of the rather generous assistance in the Japanese programme is offset in part by the lower incidence of unemployment. The United States appears to spend the least amount on assisting its unemployed workers among the five countries. A similar pattern exists regarding expenditures on training. France and Germany spend the most among the five countries. The low percentage for Japan is primarily due to its low unemployment rate. The United Kingdom and the United States spend relatively less on training on their unemployed workers than the other countries.

55. It is interesting to note the gap in expenditures on training between France and Germany at one extreme and Japan, the United Kingdom and the United States at the other. Training programmes in France and Germany do not appear to be a substitute for unemployment compensation, but rather a compliment to it. There is also no evidence that training somehow reduces the adjustment period, and thus the need for more unemployment compensation. In fact, in some cases, training may actually prolong the adjustment process, but may also prevent workers from experiencing long-term income losses as a result of their job loss.

**Table 3.12 Expenditure on Training and Unemployment Compensation in 2000**

<b>Country</b>	<b>Training</b> (% of GDP)	<b>Unemployment Compensation</b> (% of GDP)
France	0.22%	1.38%
Germany	0.34%	1.89%
Japan	0.03%	0.55%
United Kingdom	0.04%	0.56%
United States	0.04%	0.30%

*Source: OECD Employment Outlook 2002*

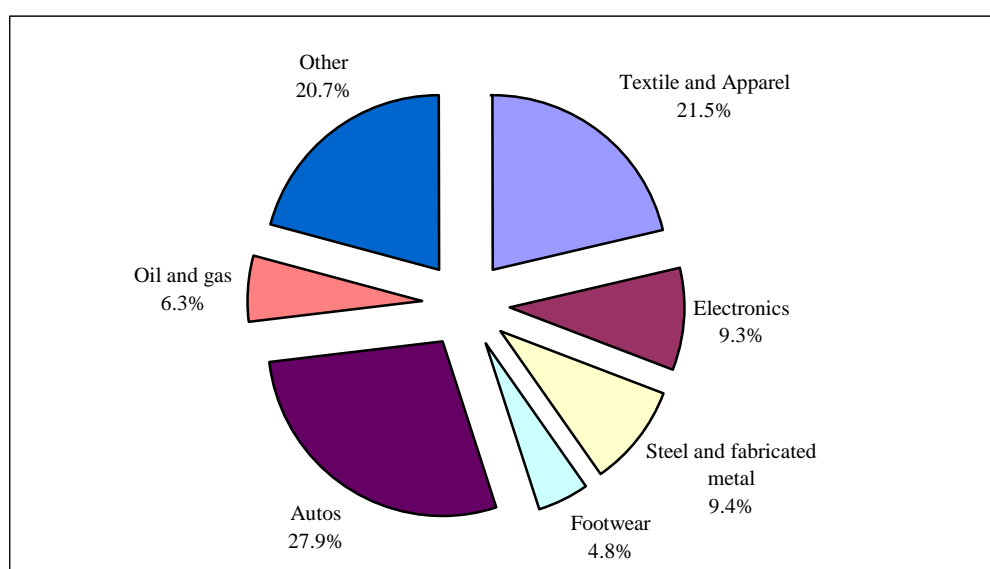
### ***Trade Adjustment Assistance***

56. As mentioned above, unemployment insurance programmes in most industrialised countries are designed to assist all unemployed workers, regardless of industry, worker demographics or cause of dislocation. The most significant exception to this general framework is the TAA programme in the United

States. By comparison, more generous labour market adjustment programmes in most other industrialised countries somehow lessen the need for special programmes for workers from a specific industry or whose job loss can be traced to a specific cause, *i.e.* import competition. The absence of targeted trade-related labour programmes in other industrialised countries may also be a reflection of the inherent difficulty to isolate the trade cause of worker dislocations from other causes, *e.g.* technological changes, productivity gains, and shifts in labour demand and supply.

57. The Trade Expansion Act of 1962, which provided President Kennedy with the authority to enter into GATT negotiations, established the TAA. Initially, the programme was designed to provide extended financial assistance, beyond the traditional 26 weeks of unemployment insurance, to workers who lose their jobs due to an increase in imports. Very few workers received assistance during the programme's first 12 years, due in large part to rigid eligibility criteria. In 1974, Congress eased the eligibility criteria and expanded the assistance to include training.<sup>9</sup> Since 1975, over three million American workers have been certified as eligible for assistance under TAA, and approximately 1.9 million workers have received assistance.

**Figure 3.2 TAA Participants by Industry, 1975 to 1999**



Source: US General Accounting Office (2001)

58. Throughout the history of the programme, workers from the steel, auto, textile and clothing industries comprised a large majority of TAA participants between 1975 and 1999 (Figure 3.2). Based on more recent data, between January 2002 and July 2003, a little more than 23% of the petitions, representing close to 28% of eligible workers, were from the textile and clothing industries (Annex Table 3B.5.2).

59. Under the programme, workers who enrol in training can currently receive up to 78 weeks of financial assistance, beyond the standard 26 weeks of unemployment insurance. In addition, workers can receive job search and relocation assistance. The financial assistance is considered an entitlement whereby Congress must appropriate sufficient funds to provide payments to all eligible workers. Training is a *capped* entitlement by which Congress fixes the total amount of funds appropriated for training, but every eligible participant is entitled to enrol in some government-sponsored training.<sup>10</sup> TAA also provides funds for job search and relocation assistance, although not many workers request this assistance.

60. With the approval of the North America Free Trade Agreement (NAFTA) in 1993, Congress established a separate programme for workers who lose their jobs from industries facing increased imports from and/or relocates production to Canada and Mexico. Assistance provided to workers under the NAFTA–TAA programme was almost identical to that provided under the general TAA programme, but there were some differences in 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 to Canada and Mexico. In addition, some secondary workers, who lost their jobs because they worked for suppliers or downstream producers for firms that faced increased import competition from Canada or Mexico, received assistance. Annex Table 3B.5.4 shows the characteristics of workers who received assistance under TAA and NAFTA–TAA in 1999 and 2000.

61. In August 2002, President George W. Bush signed the Trade Act of 2002, granting him the authority to enter into multilateral and bilateral trade negotiations. The Act also included the most extensive reform and expansion of the Trade Adjustment Assistance, since the programme was established (Box 3.2). These new TAA provisions must now be fully enacted and the necessary funds appropriated to enable the reformed programme to operate. With its broader scope, the TAA annual budget is estimated to triple over the next few years.

**Box 3.2 Some of the Key TAA Reforms in 2002**

**Secondary workers:** TAA eligibility criteria were expanded to include workers who lose their jobs from plants producing parts that are inputs into import-competing final goods. Some of these workers were already covered under NAFTA–TAA. This provision could result in a doubling in the number of workers eligible for assistance.

**Refundable tax credit for health insurance:** Workers are eligible to receive an advance of 65% of a refundable tax credit to help offset the cost of maintaining health insurance for up to two years.

**Shift in production:** TAA eligibility criteria were expanded to include workers who lose their jobs due to shifts in production to those countries which have bilateral agreements with the United States or “where there has been or is likely to be an increase in imports....”

**Wage insurance:** Workers over 50 years old and earning less than USD 50,000 a year may be eligible to receive 50% of the difference between their old and new wage for up to two years, if the new wage is lower than the old wage.

**NAFTA-TAA and TAA:** NAFTA-TAA and TAA were harmonised and combined.

**Training appropriation:** Congress doubled the legislative cap on training appropriation, from USD 110 million to USD 220 million a year. Congress also has to agree to the actual annual appropriation for training.

**Extended income maintenance by 26 weeks:** Workers enrolled in training may be eligible to receive income maintenance for up to two years. This constitutes an increase of the previous limit by 26 weeks.

**Increased in job search and relocation assistance:** The assistance was updated for inflation.

**TAA for farmers:** A programme was established to provide assistance to farmers and fishermen when the international price of a commodity falls more than 20% below the previous five-year average.

**Increased funds for TAA for firms:** Congress raised the appropriation cap on this very small programme that provides loan guarantees to firms for the purpose of retooling and responding to international competition.

62. One of the key issues regarding TAA is the mechanism by which a worker’s job loss can be traced to increased imports. The TAA law sets out a rather sophisticated process for making this determination. A group of workers, or some organisation acting on behalf of a group of workers, like a firm or union, may petition the US Department of Labour. Based on the petition, the Department of Labour initiates an investigation into the circumstances of the lay-offs.

63. In the case of increased import competition, there are three criteria: (1) a significant number or proportion of the workers in such workers' firm have become or are threatened to become totally or partially separated; (2) sales or production of such a firm have decreased absolutely; and (3) imports of like products or those that are directly competitive with articles produced by the workers' firm contributed importantly to the total or partial separation or threat thereof, and to the decline in sales or production.

64. The US judicial courts have interpreted "contributed importantly" to mean that increased imports, although one of several factors contributing to the decline in production, sales and employment, must be at least as important as all the other factors. In other words, another factor cannot be more important than the increase in imports.

65. In 2002, TAA eligibility was expanded to include workers that lose their jobs due to shifts in production. Here too, the legislation sets out three criteria for making this determination: (1) a significant number or proportion of the workers in such workers' firm have become or are threatened to become totally or partially separated; (2) sales or production of such firm have decreased absolutely; and (3) a shift in production of like articles or directly competitive with articles produced by such workers' firm contributed importantly to the total or partial separation or threat thereof, and to the decline in sales or production.

66. Since the programme was only expanded in 2002 to cover eligibility under the shift in production criteria, the courts have not yet had an opportunity to provide their interpretation of the legislation. It is fair to assume that none of these determinations will be clear cut and easy to make. Moreover, workers have the right to appeal the Department of Labour's initial determination. They can also take their complaints to the US Court of International Trade.

67. The inherent difficulties associated with determining the cause of a job loss, *i.e.* increased imports or shift in production, will now be compounded by the inclusion of secondary workers. The 2002 law defines secondary workers as workers employed by supplier firms, downstream producers, and firms that provide contract services who are separated or threatened with separation if their separation is due to a loss of business with a firm where workers have been certified as eligible to apply for trade adjustment assistance.

68. Difficulties associated with identifying the cause of displacement, together with the issue of providing different unemployment and re-employment services based on that cause of displacement, have led many policy analysts to recommend to implement broad labour adjustment programmes for all displaced workers regardless of the causes of job displacement.<sup>11</sup> In an overview paper of the Globalisation Balance Sheet project undertaken by the Institute for International Economics, Richardson (2003) stresses the emerging consensus that policies should: "(1) move away from specific industry-and-job-based relief and towards worker empowerment; (2) move toward education and skill-building experience, including on-the-job training; and (3) move toward insurance programmes that preserve an individual's lifetime earnings potential".<sup>12</sup>

69. At the outset, it appears that the TAA is a reflection of the unique way of granting trade negotiating authority to the US President in which political compromises are simultaneously reached on many trade-related considerations, including the means for offering some kind of compensation for workers adversely affected by trade. The ultimate priority for any labour market adjustment programme should be its effectiveness in assisting workers to find new jobs, as soon as possible, with the least amount of permanent income loss. Since the United States is the only country with a targeted programme devoted to workers adversely affected by trade, there is insufficient evidence to test the effectiveness of this approach.

### *Other Labour Adjustment Measures*

70. Labour market adjustment policies and programmes in most of the industrialised countries are currently undergoing reform. This reform is being motivated by three factors. First, many industrialised countries have been experiencing high unemployment rates that coincide with long periods of unemployment. Second, the high incidence of unemployment has raised the cost of maintaining generous unemployment insurance systems. Third, there is an ongoing debate over the effect of unemployment assistance on prolonging unemployment. Proponents argue that generous assistance serves as a disincentive to work, prolonging the period of unemployment and exacerbating a country's unemployment rate. Although there is limited empirical evidence to support the argument, it has gained attraction in countries with high unemployment, like Germany and the United Kingdom.

71. In general, reforms of labour market adjustment programmes are proceeding on the basis of three principles. First, direct financial assistance has been reduced in an effort to address the disincentive argument – weekly amount of financial assistance has been reduced in France, Germany and the United Kingdom. Second, there has been a shift in emphasis from unemployment compensation to re-employment assistance. Third, in providing re-employment assistance, efforts have been made to improve the management and coordination of services. There has been an effort to make unemployment assistance programmes more “customer friendly” in each of the five countries analysed. Job seekers work with re-employment counsellors, who assist in identifying and obtaining new employment. In some cases, workers are required to actually sign a “contract” with the counsellors, formalising their job search plans.

72. In recent years, the policy focus concerning unemployment assistance in the United States has also shifted toward re-employment services. The idea of a “one-stop shop” for unemployment assistance – inspired by the German system – was further developed and promoted by the United States. In recent years, Japan has established “Hello Work” centres, similar to the one-stop job assistance centres in the United States. On the other hand, it is interesting to note that the United States has not followed the other large industrialised countries in reducing direct financial assistance. The United States periodically extends the provision of unemployment insurance during periods of prolonged high unemployment.

73. Probably the most creative innovation in unemployment assistance over the last few years is the introduction of “wage insurance”. Both Germany and the United States (under TAA) have recently introduced a limited version. Under the US programme, workers who are older than 50 and who earned less than USD 50 000 at their previous job, may be eligible to receive half of the difference between their new and old wage, if their new wage is less than their previous wage. This programme is aimed at reducing one of the major barriers to re-employment. It is also hoped that workers would get on-the-job training at their new job, which tends to be more effective than government-financed classroom training.

### **V. Concluding Remarks**

74. Available analytical work on the impact of globalisation and international trade on labour adjustment suggests that workers who lose their jobs due to increased imports or shifts in production do not appear to be different than other displaced workers. Similarly, their adjustment process does not appear to differ significantly. Trade-related displacement may suggest the need for labour market adjustment policies and programmes, but not necessarily a special response.

75. It is getting increasingly difficult to isolate the causes of worker displacement. Technological change, productivity gains, increased import competition and shifts in production can all contribute to job losses. This difficulty has led many policy analysts to oppose targeted labour market adjustment policies and programmes for special groups of workers *e.g.* workers who lose their jobs due to increased imports or shifts in production, and instead put into place broad labour adjustment programmes for all displaced

workers. This issue is likely to remain prominent in the foreseeable future with the intensification of international relations among countries, spurred by improved technological developments.

76. In place of the debate over special versus general labour market adjustment policies and programmes, more effort needs to be made to determine which interventions are more effective than others. Most of the industrialised countries are attempting to improve the coordination of their unemployment benefits and employment services. There has been an effort to make the process more “customer-friendly”.

77. There has been increasing reliance on training as part of the toolbox of labour market adjustment programmes. Many workers coming out of traditional low wage manufacturing industries lack basic language and math skills, thereby preventing them to acquire the specific skills required in the new jobs being created. The shift in structure of the labour market in the industrialised countries has also resulted in gap between the skills that workers needed in their old jobs and those demanded by their future jobs. Governments are employing various subsidies and tax incentives to encourage training and skill enhancement.

78. One creative innovation in recent years is the advent of wage insurance. Although somewhat similar to existing wage subsidy programmes, wage insurance is designed for those workers whose new wage is lower than their previous wage. By subsidising some portion of the difference in new and previous wages, it is hoped that workers will be encouraged to take a new job sooner. It is also hoped that new employers will provide the worker with on-the-job training, which has proven to be more effective and cheaper than government-financed classroom training. Germany and the United States have recently introduced limited programmes for older workers.

79. It is also important to see labour market adjustment policies and programmes within the context of a country’s broader social safety net. The best example is the issue of health care in the United States. The United States is one of the few industrialised countries without universal health care. Since employers provide health insurance and pensions for many workers, when those workers lose their jobs, they and their families also face losing their health insurance and pensions. One way to reduce the “special-ness” of TAA would be to provide the new health insurance tax credit to all unemployed workers, regardless of the cause of displacement.

80. With few months before the scheduled elimination of the ATC, there is considerable anxiety in the world wide textile and clothing community about the emergence of more competitive and integrated suppliers, particularly in China, that may capture a disproportional share of the economic benefits arising from the phasing out of the ATC. In particular, several developing countries that had excelled as offshore assembly centres, due in part to their MFA quota allocations, will be exposed to the inherent vulnerability of international production fragmentation in the post-ATC period. Therefore, developing countries are certainly not exempt from labour pressures derived from changes in international trade and investment.

81. In some ways, developing countries are at a disadvantage, as many of them do not have well developed social safety nets already in place. On the other hand, the wealth of experience in the industrialised countries may provide developing countries, particularly the most advanced ones, with important lessons from which to develop their own labour market adjustment policies and programmes. International financial institutions might also help them overcome the resource constraints associated with developing a response to issues related to structural adjustment.

82. In stark contrast to the amount of resources being devoted to labour market adjustment measures, governments do not collect the data necessary to determine the effectiveness of these programmes. More information about the experience of displaced workers and the effectiveness of the various elements in

labour market adjustment programmes could make an important contribution to reforming existing programmes and developing new ones. The technology exists for such data collection; governments need to see better data collection as a priority and commit sufficient resources for doing so.

83. Finally, it needs to be stressed that a sound and dynamic macroeconomic environment is the most important factor in addressing labour market pressures. The main objective is for workers to be employed in high skilled and high wage jobs. All of the labour market adjustment policies and programmes discussed in this paper are only effective if they result in workers finding new employment.

## ANNEX A: TABLES

Annex Table 3A.1.1 Job Losses in Textiles and Clothing Between 1970 and 2000

Country	France			Germany			Japan		
	(,000)	Textiles	Clothing	Total	Textiles	Clothing	Total	Textiles	Clothing
1970	451	338	789	501	379	880	1 349	364	1 713
1975	364	304	668	357	288	645	1 093	467	1 560
1980	297	272	569	320	227	547	776	437	1 213
1985	na	na	na	246	170	416	706	459	1 165
1990	150	143	293	229	143	372	634	488	1 122
1995	131	139	270	261	122	383	491	375	866
2000	114	100	214	168	117	285	352	224	576
1970-2000	-337	-238	-575	-333	-262	-595	-997	-140	1 137
% change	-74.7%	-70.4%	-72.9%	-66.5%	-69.1%	-67.6%	-73.9%	-38.5%	-66.4%

Country	United Kingdom			United States			Italy		
	(,000)	Textiles	Clothing	Total	Textiles	Clothing	Total	Textiles	Clothing
1970	625	357	982	1 113	1 164	2 277			
1975	511	346	857	996	1 065	2 061			
1980	351	277	628	986	1 150	2 136			
1985	259	237	496	840	887	1 727			
1990	227	203	430	829	807	1 636			
1995	188	173	361	842	724	1 566	332	274	606
2000	149	109	258	528	633	1 161	352	206	558
1970-2000	-476	-248	-724	-585	-531	-1116	20	-68	-48
% change	-76.2%	-69.5%	-73.7%	-52.6%	-45.6%	-49.0%			

Source: United Nations Yearbook of Industrial Statistics; Bureau of Labour Statistics, US Department of Labour and Cline (1990)

**Annex Table 3A.1.2 Employment in Textile and Clothing Segments in the USA and the EU**

<b>Textile and Clothing Employment</b>		Employment (Thousands)		Segment as % of total employment	
		2000	2001	2000	2001
<b>China</b>					
<b>Textile industry</b>		4,211.5	4,244.3		
Natural fibers		3,782.7	3,808.6	89.7%	89.8%
Preparation of textile fibers		3,057.8	3,081.9	72.6%	72.6%
Finishing of textiles		379.8	379.2	8.9%	9.0%
Made-up cotton articles and cordage		299.2	303.1	7.1%	7.1%
Knitting textile industry, excluding knitwear		45.9	44.5	1.0%	1.1%
Synthetic fibers		428.8	435.7	10.3%	10.2%
<b>Clothing industry</b>		2,871.9	2,664.5		
Knitwear		499.4	476.1	17.9%	17.4%
Garment textile industry and others		2,372.5	2,188.3	82.1%	82.6%
Equipment manufacturing industry		165.3	164.2		
<b>NACE</b>	<b>The European Union</b>	<b>1996</b>	<b>2000</b>	<b>1996</b>	<b>2000</b>
17	<b>Total Textile</b>	1165.961	1,110.1		
171	Preparation and spinning of textile fibres	150.857	128.6	12.9%	11.6%
172	Textile weaving	178.526	176.0	15.3%	15.9%
173	Finishing of textiles	114.584	112.6	9.8%	10.1%
174	Made-up articles, except apparel	128.729	126.6	11.0%	11.4%
175	Other textiles	177.235	176.4	15.2%	15.9%
176	Knitted and crocheted fabrics	47.969	50.5	4.1%	4.5%
177	Knitted and crocheted articles	188.85	142.3	16.2%	12.8%
18	<b>Total Clothing</b>	1136.559	1,025.0		
181	Leather clothes	13.427	10.4	1.2%	1.0%
182	Other wearing apparel and accessories	959.303	803.6	84.4%	78.4%
183	Dressing and dyeing of fur	14.7	13.6	1.3%	1.3%
<b>JSIC Rev. 10</b>	<b>Japan</b>	<b>1994</b>	<b>2000</b>	<b>1994</b>	<b>2000</b>
<b>1700</b>	<b>Textiles</b>	517.7	352.4		
1710	Spinning, weaving and finishing of textiles	217.5	130.4	42.0%	37.0%
1711	Preparation of textile fibres; weaving of textiles	133.9	76.2	25.9%	21.6%
1712	Finishing of textiles	83.6	54.2	16.2%	15.4%
1720	Other textiles	139.1	114.5	26.9%	32.5%
1721	Made-up textile articles, except apparel	78.2	64.5	15.1%	18.3%
1722	Carpets and rugs	9.3	7.2	1.8%	2.1%
1723	Cordage, rope, twine and netting	10.3	8.5	2.0%	2.4%
1729	Other textiles, nec	41.2	34.3	8.0%	9.7%
1730	Knitted and crocheted fabrics and articles	161.1	107.4	31.1%	30.5%
<b>1800</b>	<b>Wearing apparel and fur</b>	407.0	223.7		
1810	Wearing apparel, except fur apparel	406.0	223.0	99.8%	99.7%
1820	Dressing and dyeing of fur; articles of fur	1.0	0.7	0.2%	0.3%
<b>1900</b>	<b>Leather and articles; footwear</b>	82.7	58.9		
1910	Leather and articles of leather	35.9	24.3	43.4%	41.3%
1911	Tanning and dressing of leather	11.1	8.4	13.5%	14.3%
1912	Luggage, handbags & the like, saddlery & harness	24.8	15.9	29.9%	27.0%
1920	Footwear	46.8	34.5	56.6%	58.7%

Annex Table 3A.1.2 Employment in Textile and Clothing Segments in the USA and the EU (continued)

Textile and Clothing Employment		Employment (Thousands)		Segment as % of total employment	
		1990	2000	1990	2000
SIC	<b>Korea</b>				
<b>1700</b>	<b>Textiles</b>	355.2	232.2		
1710	Spinning, weaving and finishing of textiles	269.3	154.7	75.8%	66.6%
1711	Preparation of textile fibres; weaving of textiles	219.7	95.8	61.9%	41.3%
1712	Finishing of textiles	49.6	58.9	14.0%	25.4%
1720	Other textiles	46.1	46.2	13.0%	19.9%
1721	Made-up textile articles, except apparel	24.4	27.2	6.9%	11.7%
1722	Carpets and rugs	1.1	1.0	0.3%	0.5%
1723	Cordage, rope, twine and netting	7.5	4.9	2.1%	2.1%
1729	Other textiles, nec	13.2	13.1	3.7%	5.6%
1730	Knitted and crocheted fabrics and articles	39.8	31.3	11.2%	13.5%
<b>1800</b>	<b>Wearing apparel and fur</b>	240.4	152.5		
1810	Wearing apparel, except fur apparel	234.6	150.1	97.6%	98.4%
1820	Dressing and dyeing of fur; articles of fur	5.8	2.4	2.4%	1.6%
<b>1900</b>	<b>Leather and articles; footwear</b>	217.1	52.9		
1910	Leather and articles of leather	37.5	19.4	17.3%	36.7%
1911	Tanning and dressing of leather	20.2	10.3	9.3%	19.4%
1912	Luggage, handbags & the like, saddlery & harness	17.3	9.1	8.0%	17.2%
1920	Footwear	179.6	33.5	82.7%	63.3%
SIC	<b>The United States</b>	1970	2002	1970	2002
22+239	<b>Total Textile</b>	1,136.8	619.8		
22	Textile mill products	974.8	431.8	85.7%	69.7%
221	Broad woven fabric mills, cotton	212.1	49.5	18.7%	8.0%
222	Broad woven fabric mills, synthetics	100.1	45.9	8.8%	7.4%
223	Broad woven fabric mills, wool	36.6	5.3	3.2%	0.9%
224	Narrow fabric mills	29.6	16.2	2.6%	2.6%
225	Knitting mills	254.1	89.1	22.4%	14.4%
226	Textile finishing, except wool	83.8	50.1	7.4%	8.1%
227	Carpets and rugs	57.4	62.9	5.0%	10.1%
228	Yarn and thread mills	130.9	65.1	11.5%	10.5%
229	Miscellaneous textile goods	70.3	47.7	6.2%	7.7%
239	Miscellaneous fabricated textile products	162	188	14.3%	30.3%
2391	Curtains and draperies	32 <sup>a</sup>	16.6	2.8%	2.7%
2392	House furnishings, nec	47 <sup>a</sup>	46.9	4.1%	7.6%
2396	Automotive and apparel trimmings	31.3 <sup>a</sup>	57.3	2.8%	9.2%
231-8	<b>Total Clothing</b>	1,108.4	322		
231	Men's and boys' suits and coats	119	15.2	10.7%	4.7%
232	Men's and boys' furnishings	374.9	105.7	33.8%	32.8%
234	Women's and misses' outerwear	424.3	150.3	38.3%	46.7%
235	Women's and children's undergarments	116.7	13.7	10.5%	4.3%
236	Girls' and children's outerwear	73.5	9.6	6.6%	3.0%
238	Fur goods, and misc. apparel and accessories	65.5 <sup>a</sup>	27.5	5.6%	8.5%

## ANNEX B: COUNTRY SPECIFIC SYSTEMS

### I. The French Unemployment Insurance System

1. The French unemployment insurance system is probably the most generous among the five countries. The programme consists of two parts: unemployment insurance, financed by employer and employee contributions, and a “solidarity scheme” financed by the state. Workers who involuntarily lose their jobs and have made contributions to the system are eligible to receive assistance under the programme. The level of assistance is based on the worker’s previous earnings. Workers who exhaust their unemployment insurance, have difficulty finding employment or are near retirement, may be eligible for assistance under the solidarity scheme.

2. The French unemployment insurance system is unique as it is managed by a combination of private organisations, including numerous employers’ associations and trade unions. At the national level, this organisation is called Unedic, and it is responsible for setting the overall policy for the programme. At the local level, the joint organisation is called Assedic, and it is responsible for administering the programme. Annex Table 3B.1.1 presents the basic elements of the unemployment insurance programme and the solidarity scheme.

**Annex Table 3B.1.1 The French Unemployment Insurance and Solidarity Scheme**

Group	Unemployment Insurance	Solidarity Scheme
Management	The “Social Partners” through Unedic	The State
Assistance	Earnings related assistance, for a limited period of time	Fixed amount of assistance for an unlimited period
Financing	Employer and employee contributions	State budget
Target population	Workers who have involuntarily lost their jobs	Workers who have exhausted UI; hard to re-employ; and older
Administering	Assedic	Assedic

*Source: Assedic (2003)*

3. Currently, total contributions for unemployment insurance equal 6.4% of payroll, up to a maximum equal to 8½ times the minimum wage, or USD 1 044.45 (except otherwise noted EUR 1=USD 1.10). The employer share is 4% of payroll and the employee’s share is 2.4% of payroll. It is interesting to note that among the five countries surveyed, France is the only one where the employer’s contribution to unemployment insurance is larger than the employee’s.

4. Workers applying for unemployment assistance, are asked to sign a “Return to Employment Aid Plan” (PARE), committing them to actively seek re-employment. Companies with less than 1 000 employees must provide workers with a PARE as a form of advance notification of job termination. This allows workers to file for unemployment insurance and begin meeting with the employment service, even before their last day of work.

5. Once workers meet with representative from the National Agency for Employment (ANPE), they are asked to develop and sign a “Personal Action Plan” (PAP). The plan outlines the type of jobs the

worker is seeking as well as the worker's request for training. The local Assedic office monitors the worker's progress in achieving the goals set forth in the PAP. If the worker remains unemployed after six months, he or she may be asked to develop a new plan. If the worker remains unemployed after 12 months, the local Assedic may provide a subsidy to a prospective employer.

6. Workers who sign a PAP are eligible to receive: (1) unemployment insurance for the entire duration of eligibility; (2) a mobility grant equal to travel expenses up to USD 2 086.70; (3) a training grant covering part of the costs for tuition, travel and accommodations during training; and (4) a special grant for those unemployed for more than 12 months. Workers can receive the special grant for up to three years, at a declining scale (40% of gross salary during the first year, 30% of gross salary during the second year and 20% of gross salary for the remaining third year).

7. The French unemployment insurance system also provides assistance to workers who leave their jobs in order to follow a spouse who moves for professional reasons. Another unique aspect of the French unemployment insurance programme is that workers younger than 50 can continue to receive financial assistance for a maximum of 18 months *after* re-employment. This is designed to help workers who take temporary or part-time jobs while they continue to look for full-time employment or workers who have lost their major employment, although they maintain a secondary job. In order to be eligible, the current salary can not be greater than 70% of the worker's pre-lay off income.

8. Annex Tables 3B.1.2 to 3B.1.4 provide more details about the French unemployment insurance programme. Annex Table 3B.1.2 presents information on the amount of assistance workers receive and Table 3B.1.3 presents information on the duration of that assistance. Annex Table 3B.1.4 provides information on re-employment benefits.

**Annex Table 3B.1.2 Unemployment Insurance Assistance**

<b>Monthly Gross Earnings</b>	<b>Initial Assistance</b>	<b>Social Contribution USD</b>
Less than USD 1 089.44	75% of salary	
Between USD 1 089.44 and USD 1 193.39	Minimum assistance 27.24 per day	
Between 1 193.39 and 1 970.30	40.4% of gross daily earnings plus USD 11.17 per day	3% of previous earnings (for pension)
Between USD 1 970.30 and USD 10 700.80	57.4% of gross daily earnings	11.25% of assistance, if above USD 33

Source: Assedic (2003).

**Annex Table 3B.1.3 Duration of Assistance**

<b>Duration of previous employment</b>	<b>Duration of assistance</b>
6 months within the last 22 months	7 months
14 months within the last 24 months	23 months
Between the age of 50 and 57 and over 27 months within the last 36 months	36 months
Above 57 years old, 27 months within the last 36 months and 100 quarters of contributions to retirement pension	42 months

Source: Assedic (2003)

**Annex Table 3B.1.4 Re-Employment Benefits**

<b>Gross Salary and other income</b>	<b>Amount of assistance while working</b>	<b>Example</b>
<b><u>During the first six months of new employment</u></b>		
Level of monthly earnings equal to or less than half the guaranteed minimum wage <i>i.e.</i> USD 668.32	Full amount of assistance	Before taking a new job, assistance was USD 447.48 per month. Assuming the monthly salary from the new job equals USD 419.23, the worker will continue to receive the full amount of unemployment insurance, in addition to his/her new salary.
Level of monthly earnings is greater than half the guarantees minimum wage <i>i.e.</i> greater than USD 668.32	40% of unemployment insurance assistance, in excess of USD 668.32	Before taking a new job, assistance was USD 447.48 per month. Assuming the monthly salary from the new job equals USD 838.48, the worker will receive USD 379.41 per month of unemployment insurance, in addition to his/her new salary.
<b><u>During the following six months</u></b>		
All levels of earnings	Unemployment assistance will be reduced by 40% of gross earnings.	Before taking a new job, assistance was USD 447.48 per month. Assuming the monthly salary from the new job equals USD 838.48, the worker will receive USD 112.09 per month of unemployment insurance, in addition to his/her new salary.

Source: Assedic (2003)

9. Annex Table 3B.1.5 presents data on the minimum amount of daily assistance under unemployment insurance, the solidarity scheme and early retirement programmes. The programmes are designed so that a worker can move through all three, if necessary. For example, an older worker who has difficulty finding a new job may initially receive unemployment insurance. If the worker has not found a new job by the end of the benefit period, he or she may be eligible to continue receiving assistance under the solidarity scheme. Workers may be eligible for an early retirement pension, if they are older than 57 and if they have made at least 100 quarterly contributions to the national pension fund.

**Annex Table 3B.1.5 Minimum Daily Assistance**

<b>Programme</b>	<b>Minimum daily assistance</b>
<b>Unemployment insurance</b>	
Minimum assistance	USD 27.24
Fixed amount	USD 11.17
<b>Solidarity allowance</b>	
Allowance for special categories of job seekers	USD 10.51
Specific solidarity allowance	USD 14.92
Increased allowance	USD 21.42
Retirement-equivalent assistance	USD 32.19
<b>Early Retirement</b>	
Minimum amount	USD 29.58
Minimum gradual early retirement	USD 14.78

Source: Assedic (2003)

## **II. The German Unemployment Insurance System**

10. The German unemployment insurance programme is one of the oldest in the world. Until recently, it was also one of the more generous programmes. It is similar to others, in that it is financed through a payroll tax paid by employers and employees. The Federal Employment Office (Bundesanstalt für Arbeit), an independent government agency, administers the programme. The German unemployment insurance system has recently been the focus of much attention as its reform is at the centre of Chancellor

Schroeder's Agenda 2010. A commission established by Chancellor Schroeder and chaired by Peter Hartz, CEO of Volkswagen, developed most of the reform proposals.

11. Until recently the German unemployment insurance system consisted of three parts: (1) "Unemployment Money" (Arbeitslosengeld), based on previous wages and financed exclusively through payroll taxes, provided assistance to workers for 12 to 32 months; (2) "Unemployment Assistance" (Arbeitslosenhilfe), was means tested and financed exclusively through expenditures from the Federal budget. Workers could receive unlimited Unemployment Assistance once they exhausted their Unemployment Money; and (3) "Social Assistance" (Sozialhilfe), based in family assets and is financed exclusively through expenditures from state budgets, was available to workers who were not eligible for Unemployment Assistance.

12. Although there is limited direct empirical evidence of the relationship, many people have argued that the potential for significant government assistance for an almost unlimited period contributed to the high rate of long-term unemployment in Germany. Table 3B.2.1 provides a comparison of long-term unemployment rates in the five large industrialised countries. Long-term unemployed as a share of total unemployed in Germany is in fact higher than in France, Japan, the United Kingdom and the United States. It is also substantially higher than the average for all OECD countries.

**Annex Table 3B.2.1 Long-term Unemployed as a Share of Total Unemployed**

Country	1990		1998		2001	
	>6 months	>1 year	>6 months	>1 year	>6 months	>1 year
France	55.5%	38.0%	64.3%	44.2%	57.2%	37.6%
Germany	64.7% *	46.8% *	69.6%	52.6%	67.6% **	51.5% **
Japan	39.0%	19.1%	39.3%	20.9%	46.2%	26.6%
United Kingdom	50.3%	34.4%	47.3%	32.7%	43.6%	27.7%
United States	10.0%	5.5%	14.1%	8.0%	11.8%	6.1%
Total OECD	44.6%	30.9%	48.6%	33.4%	41.8%	27.5%

Note: \* Only covers West Germany

\*\* Data for 2000

Source: OECD Employment Outlook 2002

13. Reducing the duration of unemployment assistance and tightening the eligibility requirements were among the major objectives of the Hartz Commission. The following is a list of the Commission's recommendations, as well as a comment on implementation. They are listed in order of their appearance in the Commission's report to the Chancellor.

- A. Creation of Job Centres: Combine Unemployment Insurance offices, currently financed by the Federal government, and Social Assistance offices, currently financed by the state governments. The Federal government would fully finance the new combined office. Another recommendation was to organise the job centres by region, not according to political jurisdictions. The government did not adopt these recommendations.
- B. Rapid response activities: Workers would be required to register for unemployment insurance as soon as they were notified of potential lay-off. Workers could gain access to all job search tools, like national job opening database. Workers could also take off work in order to search/interview for a new job. Workers would not receive income assistance until they were officially unemployed. The government adopted this proposal and it was implemented on 1 July 2003.

- C. Accepting job offers (“neue Zumutbarkeit”): Under this proposal, all unemployed workers would have to accept new job offers, taking geographic mobility factors into account. If the first offer is refused, the worker’s unemployment assistance could be stopped for four to 12 weeks. During this time, the workers could get social assistance if he/she met the eligibility criteria. After one year, workers must be willing to accept a job offer *anywhere* in Germany. Refusing a second job offer could result in forfeiting further unemployment assistance. In that event, a worker could continue to receive social assistance, if he or she was eligible. These proposals were adopted by the government and have already been implemented.
- D. Education and training of young people: This recommendation deals with alternative means of financing training. One option calls for a new apprenticeship programme for young workers based on a credit system. Individuals would have an account, which they could use to finance their training. The government rejected these proposals, since training is not compulsory under the unemployment insurance system.
- E. Incentives for hiring older workers:
- Wage insurance for older workers: Workers over 55 can be eligible for a government subsidy of 50% of the difference between the old and new wages for up to 12 months. Similar to unemployment insurance payments, workers would receive a monthly transfer in the amount of the wage subsidy. The government has adopted this proposal. The wage insurance system has been implemented and a few workers are already receiving assistance.
- Early retirement: The Commission proposed allowing workers over 55 to receive the full amount of unemployment assistance in a lump sum. In the end, the government did not adopt this proposal.
- Develop incentives to hire older workers, e.g. reducing social contributions, more flexibility in application of labour laws, permit short-term contracts.
- F. Unemployment benefit reform
- Unemployment Money (Arbeitslosengelt): The Commission proposed to reduce the maximum length of assistance from 32 to 18 months for older workers. The level of assistance would be linked to previous wage – 67% of previous wage if worker has children, 60% if not. The length of assistance would depend on age. Workers less than 45 years old would be eligible for 12 months of assistance. Workers over 55 years old could receive assistance for up to 18 months.
- Unemployment Money is financed through a social contribution of 6.5% of wages, split equally between employees and employers, up to the first USD 5 610/month.
- Unemployment Assistance (Arbeitslosenhilfe): The Commission proposed harmonising Unemployment Assistance and Social Assistance. Workers would continue to be eligible for Social Assistance if they remained unemployed after their unemployment money expired, but the level of assistance would be set at the current level of social assistance. The commission also recommended tightening the means tests for Social Assistance. Workers must be available for work, including temporary jobs, or training, and must accept new job offers, in order to continue receiving assistance.
- G. Incentives to employers for hiring and retaining workers: the Commission recommended proposals designed to reward companies – possibly by reducing social benefit contributions – employers that hire unemployed workers and retain their existing workers. This proposal included some kind of experience rating for hiring. The government has not yet acted on these proposals.

- H. Temporary job placement agencies (PSA): Beginning January 2004, workers can enter into temporary contracts with job placement agencies (PSA). PSAs are responsible for paying wages and making social contributions for workers, regardless if he/she receives a placement or not. If a temporary assignment turns into a permanent job offer, the hiring company takes on the responsibility of paying wages and social contributions directly. Workers must be willing to accept short-term contracts with PSAs. If a temporary job does not become permanent, a worker can re-enter the unemployment insurance system.
- I. "Ich AG": This proposal aims at encouraging self-employment. Self-employed workers would be eligible for government assistance, including lower taxes and simplified accounting requirements. Self-employed workers could also receive up to three years of unemployment assistance, if he or she is not generating income. Self-employed workers can not hire others, except for family members. The government adopted this proposal and it is being implemented.
- J. Promotion of Low Wage Jobs: The Commission recommended developing preferences for low wage jobs. Workers making less than USD 440 would not have to pay any social benefit contributions. Employers would be paid a lump sum payment of 25% of wages, which includes all taxes and social contributions. For wages between USD 440 and USD 880, workers would pay some social benefit contribution and the employer would pay the full 21% of wages. Above USD 880 workers and employers would pay full social benefit contributions and taxes. The government also adopted this proposal.
- K. Reorganisation of the Federal Employment Service: The Commission recommended reorganising the Federal Employment Service to be more like a private company rather than a government authority. Federal Employment Service workers would have contracts similar to private employees, not government workers. The government has not yet adopted this proposal.
- L. Clusters and competence centres: The proposal was to combine economic development, regional planning and employment functions. The government rejected this proposal.
- M. Tax incentives for hiring unemployed workers (capital for work): Firms hiring unemployed workers would be eligible to borrow up to USD 110 000 for each worker, at a reduced interest rate, from the Credit Anstalt. The government would subsidise the lower interest rate. The firm would only need to secure half the loan, and the Federal government would guarantee the other half. The government adopted this proposal.

14. These steps are probably the most ambitious set of reforms undertaken by any country in recent years. The German unemployment insurance system, once considered one of the most generous programmes, is becoming more similar to programmes in most industrialised countries.

15. One of the major criticisms of these reforms is that they will do little to reduce the high rate of German unemployment. The connection between the amount of unemployment assistance and the unemployment rate in Germany has primarily been based on anecdotal evidence. The critics also argue that the reform of the Federal Employment Office and the unemployment insurance system will do little to create additional jobs in Germany. There seems to be an assumption implicit in this reform effort that increasing the supply of workers actively seeking employment will somehow increase the demand for those workers.

16. Reforming the unemployment assistance programme alone does little to help create new jobs. The Chancellor's Agenda 2010 includes little direct assistance for economic development. More importantly, a large share of German employment remains under collective wage setting agreements.

Inflexible German wage-setting policies may make it difficult for the increase in labour supply to translate into lower wages, which in turn might encourage more job creation.

17. An important aspect of the reformed German unemployment insurance system is the interaction between the unemployed and Federal Employment Office counsellors. These counsellors are responsible for assisting workers in their job search. They are also responsible for enforcing the new rules that dictate that assistance can be terminated if a worker is not willing to accept a job, regardless of the wage offered or its location. The ultimate success of most of the recently implemented reforms lies with these counsellors.

18. The conventional wisdom is that Germany is the paragon of training. Based on the data presented in Table 10, Germany spends ten times more on training than Japan, the United Kingdom and the United States. It appears that most of that money is devoted to apprenticeship programmes and active worker training. Training is not considered an “entitlement” as part of the German unemployment assistance programme. Training funds are available on a “first come, first served” basis. If funds are available, unemployed workers can take one course per year. Courses tend to be short. Federal Employment Service counsellors are the primary “gate keepers” for training.

19. Health insurance is not an issue for the unemployed since German law requires that everyone have health insurance. Employers are responsible for paying health insurance premiums for their employees. The Federal government subsidises health insurance premiums for unemployed workers. This serves as an incentive for unemployed workers to register with the Federal Employment Office.

20. In addition to providing unemployment assistance, the German system has several incentives for hiring new workers. Companies that hire unemployed workers are eligible for a reduction in the amount of social contributions they are required to make. In addition, companies may be eligible to receive up to four months of salary for a worker during his or her initial probation period.

### **III. The Japanese Unemployment Insurance System**

21. Until recently, Japanese labour market adjustment policies could be characterised as predominately preventative measures. These measures were primarily subsidies to firms in order to prevent or postpone worker layoffs. Recent macroeconomic developments in Japan have increased pressures on firms forcing the government to reduce its reliance on programmes that forestall adjustment and expand programmes that assist in the adjustment process.

22. The following is a list of various preventative Japanese labour market adjustment programmes: (1) Industry Assistance; (2) Employment adjustment subsidy (*koyo chousei joseikin*); (3) Labour movement employment-stability subsidy (*rodo ido koyo ante joseikin*); (4) Labour movement ability-development subsidy (*rodo ido noryoku kaihatsu joseikin*); and (5) Lifetime ability-development subsidy (*shogai noryoku kaihatsu kyuhukin*).

23. Like the other five large industrialised countries, the primary reactive labour market adjustment programme in Japan is unemployment insurance, known as Employment Insurance (EI). As a rule, the Japanese unemployment insurance system covers all workers under the age of 65, except for those workers employed by the government and in the ship building industry. In order to be eligible for assistance, EI contributions must be made on behalf of the worker, and the worker must be employed for at least six months during the year previous to job separation. Worker must register at a government-sponsored placement office in order to receive EI.

24. The Japanese unemployment insurance scheme covers any worker separated from his or her job, regardless of the reason for the separation. Workers who voluntarily leave their jobs can be eligible for EI

assistance. In fact, one unofficial estimate suggests that currently only one-third of workers receiving assistance under EI were involuntarily laid off from their jobs.

25. Until recently, EI assistance was set at between 60 and 80% of a worker's previous wage (50 to 80% of previous wages for workers between the age of 60 and 64), subject to a maximum amount. Workers receive payments for 90 to 360 days, depending on age, years of EI coverage and work status (full-time).

26. A combination of very liberal eligibility requirements, the amount of payments and the length of payments made the Japanese system one of the most generous unemployment insurance schemes among the industrialised countries. On the other hand, the Japanese economy experienced a very tight labour market for much of the last 30 years. During the 1980s and the beginning of the 1990s, the Japanese unemployment rate remained between 1 to 2%. Few workers left their jobs voluntarily or involuntarily and few workers received assistance under the EI programme.

27. All of this has changed over the last decade. The Japanese unemployment rate has been increasing since 1993. The added demand on EI has almost completely depleted any reserves accumulated from previous years. The EI trust fund is currently facing a serious financial crisis. This has prompted the Japanese government to institute some reforms in the EI system.

**Annex Table 3B.3.1 Level of Assistance under the Japanese Unemployment System**

Age	Upper Limit of Daily Wages	Upper Limit of Daily Basic Allowance
up to 29	USD 108.83	USD 54.42
30 to 44	USD 120.92	USD 60.46
45 to 59	USD 133	USD 66.5
60 to 64	USD 128.83	USD 57.98

Note: USD 1.00 = YEN 110

Source: Japanese Ministry of Health, Labour and Welfare (2003)

**Annex Table 3B.3.2 Benefits for Workers Below 60 Years of Age**

Amount of daily wage	Benefit rate
USD 17.67 to USD 34.83	80%
USD 34.83 to USD 101.08	50% to 80%
USD 101.08 to USD 133.00	50%

Source: Japanese Ministry of Health, Labour and Welfare (2003)

**Table 3B.3.3 Duration of Assistance for Unemployed who lose their jobs as a Result of Bankruptcy or Dismissal**

Age	< 1 year	1 to 4 years	5 to 9 years	10 to 19 years	> 20 years
less than 30	90 days	90 days	120 days	180 days	Na
30 to 34	90 days	90 days	180 days	210 days	240 days
35 to 44	90 days	90 days	180 days	240 days	270 days
45 to 59	90 days	180 days	240 days	270 days	330 days
60 to 64	90 days	150 days	180 days	210 days	240 days

Source: Japanese Ministry of Health, Labour and Welfare (2003)

**Annex Table 3B.3.4 Duration of Assistance for Unemployed**

Age	< 1 year	1 to 4 years	5 to 9 years	10 to 19 years	> 20 years
<b>For Ordinary Unemployed</b>					
all ages	90 days	90 days	90 days	120 days	150 days
<b>For Workers Hard to Re-employ</b>					
less than 44	150 days	300 days	300 days	300 days	300 days
45 to 64	150 days	360 days	360 days	360 days	360 days

Source: Japanese Ministry of Health, Labour and Welfare (2003)

#### IV. The UK Unemployment Insurance System

28. The UK unemployment insurance has also recently undergone significant reform, making it considerably less generous than programmes in France, Germany, Japan, and the United States. In contrast to some other countries, in the United Kingdom, firms are required to notify workers well in advance of any potential lay-off. Employers must also provide severance pay to qualified workers. Workers qualified for redundancy rights are eligible to the following notice of potential job loss: (1) minimum of one week for each year of service, up to a maximum of 12 weeks; and (2) employers must provide severance pay based on length of service and previous weekly earnings [up to a maximum of USD 341.25 (1GBP = USD 1.625)] – Age 18 to 21, half a week's pay for each year of service; Age 22 to 40, one week's pay for each year of service; and Age 41 to 60, one and a half week's pay for each year of service. The maximum severance package is USD 10 237.50, approximately one-third annual average earnings.

29. The British Job Seekers Assistance (JSA) has two components: (1) contribution-based unemployment insurance (UI); and (2) non-contribution, means tested unemployment assistance (UA). Workers earning above USD 102.38 per week must make contributions to the UI system. In order to receive UI, workers must have been employed for two years prior to separation. In 1996, the duration of UI payments was reduced from 12 to six months. After exhausting UI assistance, workers can apply for the means-tested UA programme. Eligibility for UA is based on family income, not the worker's previous income. Workers with children may be eligible for additional assistance.

30. JSA is based on being unemployed, and is not related at all to the cause of displacement. There is no special assistance for workers whose job loss may be associated with changes in international trade. There are also no special provisions for workers from specific industries. One objective in recent reforms to JSA was to make assistance less attractive and this encourages people to return to work sooner.

**Annex Table 3B.4.1 Amount of Unemployment Insurance Assistance**

Age	Weekly Amount
16 to 17	USD 53.46
18 to 24	USD 70.28
Above 25	USD 88.81

Note: GBP 1 = USD 1.625

#### V. The US Unemployment Insurance System and TAA programme

31. The US unemployment insurance programme is mandated by the Federal government and administered by the States. Although there are many similarities across the various State programmes, it is as if the United States has 50 different unemployment insurance programmes. The Federal Unemployment Tax is 0.8% of the first USD 7 000 of gross payroll, split evenly between employers and employees.

Contributions are experience-rated, *i.e.* some portion of the contribution is based on past experience with the unemployment insurance system.

32. The weekly benefit amount is based on some portion of an individual's wage, and is set by the States. Benefits vary widely by state. In 2000, the average benefit was approximately USD 200 per week. Minimum weekly benefits ranged from zero in New Jersey to USD 102 in Rhode Island. Maximum weekly benefits ranged from USD 133 in Puerto Rico to USD 646 in Massachusetts.

33. Data presented in Annex Table 3B.5.1 suggest that the average replacement rate has tended to be about 35% of average weekly wages over the last 30 years. Replacement rates vary not only across States, but also among individual recipients. Workers with higher previous wages tend to experience lower wage replacement rates. The inverse is true for workers with lower incomes.

**Annex Table 3B.5.1 Unemployment Insurance Assistance**

Year	UI Average Weekly Benefit		Reciency rates *
	Nominal dollars	Ratio to Average Weekly Wage	
1970	USD 50.31	35.7%	43.0%
1975	USD 70.23	37.1%	49.2%
1980	USD 99.66	36.6%	43.3%
1985	USD 128.14	35.3%	30.8%
1990	USD 161.56	36.0%	35.2%
1995	USD 187.29	35.5%	34.0%

Note \* Percentage of unemployed receiving unemployment insurance  
Source: BLS, US Department of Labour, ET Handbook Number 394

34. The duration for receiving unemployment insurance also varies by State. The minimum duration ranges from four weeks in Oregon to 26 weeks in 12 States. Federal law sets the maximum duration at 26 weeks, but the maximum duration for Unemployment Insurance is 30 weeks in Massachusetts and Washington. Extended Benefits (EB), equal to 13 additional weeks of unemployment insurance, may be triggered when the unemployment rate remains high over a period of time. In 1992, the US Congress established an optional trigger for an additional seven weeks. Very few states have adopted this new trigger.

35. The initial 26 weeks of unemployment insurance is financed fully by employer and employee contributions to the UI Trust Fund. Half of the additional 26 weeks of extended benefits is funded as a direct expenditure of the Federal government. The other half is financed out of the UI Trust Fund. Extended Benefit levels are identical to those under the initial 26 weeks of unemployment insurance.

36. The following three Annex Tables provide more detailed information about TAA and NAFTA-TAA participants.

Annex Table 3B.5.2 TAA and NAFTA–TAA, 2002 to July 2003

TAA	Number of Certifications		Employees covered by Certifications	
	unit	%	unit	%
All Industries	3 606	100%	376 428	100%
Clothing	563	15.6%	69 150	18.4%
Textiles	281	7.8%	35 436	9.4%
Textiles and Clothing	844	23.4%	104 586	27.8%

Source: US General Accounting Office (2001)

Annex Table 3B.5.3 TAA Services by Participant

TAA Services	1995	1996	1997	1998	1999	2000	Total
<b>Total Workers Certified</b>	<b>118 837</b>	<b>166 310</b>	<b>165 898</b>	<b>153 804</b>	<b>227 650</b>	<b>145 112</b>	<b>977 611</b>
<b>Basic Allowance</b>							
Recipients	25 641	32 856	3 4158	26 241	36 910	32 368	18 8174
Average USD	4 270.5	3 889.7	4 332.81	4 542.51	4 310.48	5 564.14	4 483.62
<b>Additional Allowance USD</b>							
Recipients	5 856	7 132	15 215	7 736	8 166	10 010	54 115
Average USD	7 103.83	6 113.29	3 522.84	6 489.14	62 08.67	7 472.53	5 811.7
<b>Training</b>							
Recipients	28 645	32 971	26 865	25 235	32 120	24 106	16 9942
Average USD	2 126.03	2 077.58	3 104.41	3 166.24	3 029.27	4 322.58	2 908.05
<b>Job Search Assistance USD</b>							
Recipients	927	752	520	289	314	359	3161
Average USD	323.62	398.94	384.62	346.02	318.47	278.55	347.99
<b>Job Relocation Assistance USD</b>							
Recipients	1 678	940	875	473	771	731	5 468
Average USD	1 668.65	1 914.89	1 942.86	1 691.33	1 297.02	1 504.79	1 682.52
Total services in millions USD	215.1	242	286.9	250.2	308.2	360.3	1 662.7

Source: US General Accounting Office (2001)

Annex Table 3B.5.4 Profile of TAA and NAFTA-TAA Participants, 1999 and 2000

Characteristics	TAA and NAFTA–TAA Participants	Total US Workforce
Male	36%	53%
Female	64%	47%
Average age	43	NA
Limited English proficiency	12%	NA
Average pre-lay off wage	USD 12.13/hour (at separation)	USD 13.36/hour (production worker)
Average new wage	USD 10.31	NA
Median job tenure	7 years (at separation)	3.5 years
Education		
Less than High School	25%	10%
High School Graduate	55%	32%
Some post High School	17%	28%
College Graduate	4%	30%

Source: US General Accounting Office (2001)

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<sup>1</sup> The WTO ATC superseded the Multi-Fibre Arrangement (MFA) regime of quantitative trade restrictions when it entered into force in January 1995 and provided the multilateral trade framework applicable for trade in textiles and clothing for all WTO members. The ATC provides for the elimination by 31 December 2004 of all forms of quantitative restrictions applied to trade in textile and clothing products, including those that originated from the MFA regime. The ATC phases itself out of existence at the end of 2004. For the purpose of qualifying the period when there will be no more quantitative restrictions applied to trade in textile and clothing products, the term “the post-ATC period” is used throughout this review.

<sup>2</sup> The United States is taken in an example given the data availability over a sufficiently long period of time.

<sup>3</sup> Field and Graham (1997), page 156.

<sup>4</sup> Blancflower (2000), page 54.

<sup>5</sup> The future of the Bureau of Labour Statistics (BLS) is actually in doubt. By contrast, in light of the significant reforms of its labour market assistance programmes, Germany is beginning an ambitious effort to survey its displaced workers.

<sup>6</sup> For an explanation of the import-sensitive industries, see Kletzer (2001a).

<sup>7</sup> One Japanese official unofficially estimated that only one-third of those currently receiving UI were involuntarily separated from their jobs.

<sup>8</sup> The United States has a programme of extended assistance in times of high unemployment. Workers who exhaust their unemployment insurance in the United Kingdom can be eligible for assistance under the country’s welfare programme.

<sup>9</sup> The eligibility criteria were liberalised, so that imports had to “contribute importantly” to job loss. In other words, the increase in imports had to only be one of several contributing factors to the job loss.

<sup>10</sup> By contrast, the Workforce Investment Act (WIA) -- the programme that provides assistance to dislocated workers regardless of cause -- is not an entitlement. Workers only receive training if there are adequate funds available. Most States exhaust training funds under WIA well before the end of the year, denying workers the ability to enrol in training. In addition, States can deny training, if it is determined that a worker can find a job, which pays a subsistence wage.

<sup>11</sup> See in particular: Richardson (2003), Kletzer (2001a), Field and Graham (1997), Blancflower (2000).

<sup>12</sup> Richardson (2003), page 12.

**Notes**

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