

SUMMARY AND CONCLUSIONS

In debating the great issues of international trade, and searching for new ideas to improve U.S. competitiveness, Congress has the opportunity to examine and improve an old idea, Trade Adjustment Assistance (TAA). Adjustment assistance for workers losing jobs and firms losing business because of imports has existed, in various forms, for 25 years. **In today's world of intense global competition, TAA has good potential for helping American workers and businesses adapt. Neither the program for workers nor the one for firms is currently fulfilling its potential, but both have strong points to build on.**

TAA for workers offers special training and relocation assistance and extended income support during unemployment to people losing jobs on account of imports. After several lean years, the program has regrown to substantial proportions, expected to cost over \$200 million in 1987 and enroll well over 100,000 workers. Historically, the income support part of the program dwarfed training, but in recent years training has taken on greater importance. **The strongest point in the TAA program for workers is better opportunities for training than in other government-sponsored employment and training programs.**

TAA for firms offers technical assistance to firms and industries that are losing out to foreign competition. **The TAA firm program is small and its existence precarious. In line with Administration policy to abolish it, only \$2.2 million of the \$15.8 million funding provided for it by Congress had been released by May 1987. Modest as it is, TAA for firms is the major Federal program providing sustained, in-depth technical assistance to small and medium-sized manufacturers.**

The Administration also proposes to end the TAA program for workers, arguing that they can be served in a new broader program open to all displaced workers.¹ (Spending for the

present TAA program for workers has not been held up, however.) The rationale for a program open only to trade-affected workers and businesses is that people who bear the heaviest costs of the Nation's free trade policy, meant to benefit all Americans, deserve special assistance. The main argument against a special program is that, as the U.S. economy is increasingly involved in world trade, distinctions among those who are trade-affected and those who are not have become difficult and arbitrary.

If Congress decides to maintain TAA for workers as a separate program, it may want to consider several ideas for bolstering TAA's advantages—mainly, training opportunities—and repairing its weaknesses, such as delays and inequities in determining workers' eligibility. If TAA for firms is to be preserved, it will need strong, explicit congressional direction for timely spending of appropriated funds.

Trade Adjustment Assistance for Workers

After several years when TAA benefits were provided to relatively few workers and spending was limited, TAA is now expanding rapidly. In 1987, TAA approached the size of the general displaced worker program, under Title III of the Job Training Partnership Act (JTPA), which is open to anyone who loses a job when U.S. industries close plants, retrench, automate, relocate, or send work overseas. Funds for Title III for the program year beginning July 1987 will be \$223 million,² about equal to the projected TAA spending of \$203 million for fiscal year 1987 (\$223 million if a supplemental appropriation of \$20 million is passed). About 145,000 workers per year were newly enrolled in Title III projects in the mid-1980s; this compares to 93,000 certified for TAA benefits in fiscal year 1986, and 110,000 to 140,000

¹The Administration proposal for a new worker readjustment program is described in the section entitled *Policy Issues and Options*.

²For the program year 1986-87, Title III funds were \$100 million; Congress had cut the funding from \$223 million because, on a national basis, there was a large amount of unspent Title III funds. Congress restored funding to \$223 million for the program year 1987-88.

expected to be certified in 1987, s Thus, **TAA is a major resource for displaced workers who are trade-affected.** One director of displaced worker services (Massachusetts) told OTA: "TAA is the only way we've been able to make the money go far enough. "

To be eligible for TAA benefits, workers must be laid off, or threatened with layoff, from a firm that is losing ground to import competition. First, a group of three or more workers, or their union or representative, or the company, must petition the U.S. Department of Labor to certify them as eligible. To approve the petition, the Department must find that: 1) a significant number of workers in the firm or subdivision have lost their jobs, or are threatened with job loss; 2) the firm's sales or production, or both, have declined absolutely; and 3) imports of articles "like or directly competitive with" articles the firm produces "contributed importantly" to the decline; that is, the increased imports were as important as any other factor in the decline. On this last point, the Labor Department requires proof that the firm's customers have switched to imports, and the switch must be recent, since records are examined for the past 2 years only. Once certified, the workers are eligible for income support, at the level of unemployment insurance (UI) payments, for as long as 1 year of unemployment; training and extended income support during training; and allowances to cover (within limits) the costs of out-of-area job search and relocation.

According to State officials responsible for the programs,⁴ **TAA's greatest advantage has been its ability to support long-term, intensive training and its extended income support for workers in training—up to 78 weeks, at the level of unemployment insurance (about \$150 a week, on average).** TAA legislation has always stated training in a new skill as a major aim of the

program. Though training was little used in the 1970s, it has recently become a stronger component of the program; training and relocation assistance has accounted for about 25 percent of TAA spending since 1982.⁵ The number of workers getting TAA training is not large; it has been about 7,000 to 8,000 a year in recent years. However, State officials report that demands for TAA training are rising.

In 1987, in fact, TAA training funds were running out. Before the end of the first quarter of the fiscal year, the Labor Department was delaying, rejecting, or sharply cutting back proposals for training submitted by the States. Even so, \$18 million of the year's \$26 million appropriation for training, out-of-area job search, and relocation assistance was gone by March, and half the rest was reserved for job search and relocation assistance, which are considered entitlements under the law.⁶ In April, the House passed a supplemental appropriation of \$20 million; by early May the Senate Appropriations Committee reported out a bill, but the full Senate had not yet acted.

Despite the current shortage of funds, TAA does have the mandate and the potential to support long-term training. The JTPA Title III program, open to all displaced workers, has a great deal of flexibility, but in practice, training tends to be deemphasized. Most of the JTPA programs give higher priority to low-cost job search assistance that leads to early reemployment. Title 111 training is usually short (9 weeks, on average, according to the General Accounting Office), and income support is nearly always confined to the 26 weeks of regular UI payments.

Several bills before Congress would require that workers receiving TAA income support payments (Trade Readjustment Allowances, or TRAs) take remedial education or vocational

³OTA based this estimate for 1987 on the numbers of workers certified in the first two quarters of the fiscal year. Certifications were exceptionally high in the first quarter, because the Labor Department simplified its decision process, and went through a backlog of petitions.

⁴For this special report, OTA interviewed directors of Trade Adjustment Assistance worker programs and JTPA Title 111 programs in 39 States.

⁵For most years, Labor Department records do not show spending for training, out-of-area job search, and relocation assistance separately; in fiscal year 1984, when spending was reported separately, training accounted for 87 percent of the total for the three benefits.

⁶The total appropriation for training, out-of-area job search, and relocation assistance was \$29.9 million, of which \$3.9 million was for administrative costs.

skills training courses, unless State officials waive the requirement as inappropriate or infeasible. If Congress wishes to take such steps to emphasize training under TAA more strongly, higher funding will be necessary. The Labor Department has projected that 55,000 workers will draw TRAs in 1987, an estimate that is probably low, considering the rising number of workers being certified. If 55,000 TAA-eligible workers were in training, the cost for the year would probably be about \$138 million to \$165 million; this compares to an appropriation of \$29.5 million for training, out-of-area job search, and relocation allowances in fiscal year 1987.

The great disadvantage of TAA, according to State officials, is that workers have to wait to get adjustment services. Often, workers do not know about the TAA program and do not submit petitions for eligibility promptly. Then it usually takes at least 60 days to get a decision from the Labor Department. Until quite recently, the delays were often much longer. In October 1986 the Department simplified the certification process and delegated part of the fact-finding to its regional offices. In May 1987 the Department reported that 85 percent of petitions were being approved or denied within the 60 days the law allows for a decision. Because approvals are case-by-case, however, some delay is built into the TAA process. Experience with displaced worker adjustment programs shows that early action is critical in helping the workers find or train for new jobs. Under Title III of JTPA, an immediate response to plant closings or mass layoffs and early provision of services are possible, although most States are not yet organized to offer an effective rapid response.

State officials also report that workers are much more likely to get individual skills assessments and job counseling from Title III projects than from the Employment Service, which administers TAA training and relocation assistance. Workers benefit most from training—both remedial education and occupational skills

training—that follows individual assessment and counseling.

Thus, it takes a combination of features from TAA and from JTPA Title III to provide the best service to trade-affected displaced workers. Most States have at least some pro forma integration of TAA and Title III services, but only about a dozen do an effective job of putting the best features of the two programs together. In the few States that do an outstanding job (Massachusetts, for example), everyone from the State director of displaced worker services down to staff at individual projects is aware of the helpful features of both programs. They are aggressive in urging unions, companies, or groups of three workers to submit TAA petitions promptly. “We go to the plant the minute we hear about a closing or layoff,” said a Massachusetts official, “and we carry TAA petitions in our pockets.” They use Title III for counseling, assessment, and job search skills training, and for starting workers in vocational skills training. They switch to TAA, if it comes through, for longer term training.

Some of the States that do little to coordinate TAA and Title III services have few displaced workers. Some, however, do have large numbers of certified workers, but neither Title III nor TAA officials are aware of the potential of the other program. For example, in Santa Clara County, California, where tens of thousands of workers in semiconductors and computers have lost jobs since January 1985, Title III project managers knew little or nothing about TAA. The same was true of officials at the State level.

In general, States have not received adequate Federal information and guidance on TAA. For example, regulations under the 1981 amendments to the program were not published until the end of 1986.⁸ **The Labor Department has not given the States much technical assistance on how to combine services from the two programs.** The Labor Department’s Region V (Chicago) is

⁷According to Labor Department spokesmen, this estimate may be revised upward.

⁸Regulations under the TAA legislation passed in 1986 were not yet published as this report was written (May 1987), but the Department of Labor stated that proposed regulations would be published no later than June.

an exception. This regional office holds quarterly roundtables for Title III and TAA officials of the Midwestern States it serves, for exchange of information and experience. Several of these State officials volunteered that the help they get from the regional office in coordinating TAA with Title 111 is essential. "If not for that, we'd be much further behind," said a Wisconsin official,

Other problems besides coordination also interfere with the best use of TAA training benefits. Many trade-affected workers could benefit from remedial education, but few States use TAA funds to provide it. In its TAA regulations, the Labor Department classifies remedial education as a supportive service, so that payment has to come from administrative funds, not training funds; no State reported using administrative money for this purpose. The Department does allow the use of TAA training funds for remedial education if it is an integral part of a vocational skills training course, and a few States (such as Massachusetts) use the funds in this way. If Congress wants remedial education to be offered as training in the TAA program, it could direct the Department of Labor to approve the use of TAA training funds for this purpose.

Another problem is that **under the law, as interpreted by the Department of Labor, TAA funds must pay for *all* of a worker's TAA training; contributions from State or local programs or from private sources (such as the company laying the workers off) cannot be accepted.** Funds from other Federal programs can be used to start a worker's training, but once TAA money begins to be used, funding from other Federal programs must cease. If Congress deems it desirable to encourage the combining of resources to pay for training for trade-affected workers, it could add language to the law that explicitly allows it.

Finally, not all displaced workers want or can benefit from vocational skills training. Another possible way to help trade-affected workers adjust might be to use a portion of a worker's Trade Readjustment Allowance as a wage supplement, for a limited time. On average, dis-

placed workers take a cut in earnings when they find a new job. A limited wage supplement might help some workers get reemployed sooner than they otherwise would, and possibly get a head start on regaining some of their earning power. There has been very little experience with a public program of this sort; how much it might cost, and whether it might have adverse effects that are not anticipated, are uncertain. If Congress is interested in the idea of a wage supplement, it might wish to authorize a demonstration project,

While TAA training support can be invaluable to workers who want training in a new skill, it is difficult to administer because the delays and unpredictability of TAA certification seriously interfere with planning. In setting up training for groups of workers, the State agencies may have to gamble on getting TAA certification. If all workers from certain designated industries were made automatically eligible for TAA benefits, TAA training funds could be available immediately.

Industrywide certification might make eligibility more equitable, as well as faster and more predictable. A finding of a decline in sales or production would not be necessary for individual firms. Also, in identifying trade-affected industries, import trends over the past decade or so, rather than the past 2 years only, might be considered. Sometimes firms in trade-affected industries are slow to react, and postpone technological or organizational changes that could help the firm compete but involve reductions in the work force. Industrywide certification could extend TAA benefits to workers laid off from firms that make changes in order to meet foreign competition—by adopting new labor-saving technology, or trimming less profitable operations, or sending some of their work to lower cost countries. Very likely, industrywide certification would mean that many more workers would be eligible for TAA benefits, and needs for funding would rise substantially.

One difficulty with industrywide certification is in defining the industries. It has been suggested that findings of import injury by the International Trade Commission might be one ba-

sis for certifying industries; however, these findings are infrequent and narrow, and are made for purposes other than adjustment assistance to workers. If Congress is interested in the idea of industrywide certification, it might make more sense to develop criteria, such as trends in import penetration, import levels, exports, and world market shares, for defining the industries to be certified.

A much-criticized feature of TAA is the exclusion of workers from service and supplier industries. This gives rise to such anomalies as shoe workers being ruled eligible, but not the workers who make rubber heels for the shoes. If coverage of TAA were broadened to include firms providing essential services and supplies to the firms directly affected by imports, the number of workers eligible would almost certainly rise. So would funding needs.

Another way to achieve broader coverage is to replace TAA and Title III with one program that includes the most useful features of each and is open to all displaced workers. Administration proposals before the 100th Congress would do away with TAA and create a new worker readjustment program, adding new features that are not in the present Title III program, and authorizing spending of \$980 million per year. **The Administration bill for a new displaced worker program does not, however, include all the desirable features of TAA, in particular the long-term income support now available to TAA-certified workers in training.** Nor does it include any extended income support for unemployed workers who lost their jobs due to import competition but are not in training. Some version of this feature has been a part of the TAA program since the 1960s. Continuation of a program of special benefits to trade-affected workers has strong support on both sides of the aisle in Congress, on grounds that it is fair to compensate those injured by national trade policy.

Trade Adjustment Assistance for Firms and Industries

TAA for firms is a small program offering technical assistance to trade-affected firms, which are defined in the law in the same way as for the worker program. The assistance is delivered by a dozen regional Trade Adjustment Assistance Centers (TAACs), nonprofit entities that are funded by Federal grants averaging about \$1 million each per year, through the Department of Commerce. The program also offers technical and export assistance to industries affected by imports, primarily through their industry associations. Despite its small size (under \$16 million for fiscal year 1987), **TAA for firms is the major Federal program** (with minor exceptions, the only one) **that provides sustained, intensive technical assistance (including advice on finance, marketing, engineering design, and shop floor operations) to small and medium-sized manufacturing firms.** Experience with this modest program may shed some light on how a more broadly available industrial extension service could contribute to the competitiveness of American industry.

Recently, however, Commerce Department administration of TAA for firms has virtually paralyzed the program. From October 1986 to mid-March 1987, the TAACS were given only 1-to 2-month extensions, mostly no-cost extensions with almost no funding from the fiscal year 1987 appropriation of \$13.9 million for technical assistance (an additional \$1.9 million was appropriated for Commerce Department administration). Through the end of April 1987, the Department had not given any 12-month grants to the TAACs. Previously, ever since they were established in 1978, the TAACs had operated on 12-month grants. After an Administration request for rescission of fiscal year 1987 funds failed in March 1987, the Department still

postponed any decision on providing long-term grants to the TAACs. Instead, it extended the TAACs' authority only through mid-June, and released grant money in limited amounts. As of the end of April, \$2.2 million had been released to the TAACs; \$11.7 million remained unreleased. In May, the Department of Commerce finally requested refunding proposals from the TAACs, for the period June 1987-May 1988. When and if these proposals are approved, the TAACs will receive the remainder of the fiscal year 1987 money.

The effect on the TAACs of the prolonged starvation for funds and authority was crippling. Most were reduced to skeleton staffs. They lacked the money to meet outstanding commitments to clients, and could not take on any new clients, since they were authorized to stay in business for only a couple of months. TAAC directors told OTA that they had lost legitimacy with the firms they were meant to serve.⁸

The Administration has asked for an end to the TAA program for firms every year since 1982, and twice proposed rescissions, both of which failed. Administration officials have said they consider the program ineffective and have argued that in any case it is inevitable for many firms to succumb to competition, foreign as well as domestic, and that the government has no business trying to save them. Proponents of the program (including many firms that have received assistance from the TAACs) argue that, given good technical assistance, many firms weakened by import competition can revive, and continue to provide economic life to their communities.

Studies evaluating the effectiveness of the TAA program for firms are contradictory and uncertain. The report of the Commerce Depart-

ment's Inspector General, which called the program a failure, fails in many ways to fairly judge its effectiveness. Probably the most appropriate way to assess the program is to measure its costs to the taxpayer against benefits to society. No one has conducted a systematic cost-benefit analysis of this kind. TAA for firms is by its nature high-risk, because firms can qualify for assistance only if they show that sales or production have declined due to imports. Evidence from a few firms strongly suggests that a few successes a year, resulting in higher income and property tax receipts from the jobs and firms saved, can more than repay the costs of the program.

Many individual firms that have received technical assistance from the TAACs have high praise for the program. Many of the small and medium-sized manufacturing firms assisted by TAA are operated by one person, with family help. One experienced apparel manufacturer in Georgia gave the TAAC most of the credit for getting his company out of trouble, by introducing him to better cost and quality control methods and helping to pay for advice from an industrial engineer, who suggested improvements in the cutting room. Some of the suggestions, he said, were "obvious, once they said it," but he had been too busy to realize what changes needed top priority attention.

The experience of the last year suggests that appropriation of funds for the TAA program for firms is not enough to assure its survival. The Budget and Impoundment Control Act of 1974 was a response to the problem of an Administration's failure to spend appropriated funds because of policy opposition to a program; however, the act does not provide a very direct remedy. One option that is open to Congress, if it wishes the program to continue, is to direct the Department of Commerce to approve 12-month grants to the TAACs by a certain date every year—say by December 31 (the end of the first quarter of the fiscal year),

⁸For this special report, OTA interviewed directors and staff of 11 of the 12 Trade Adjustment Assistance Centers operating across the country.