POLICY ISSUES AND OPTIONS

In light of the Administration's proposals to abolish Trade **Adjustment** Assistance for both workers and firms, the first issue to consider is the continued existence of both programs. If Congress decides to preserve them, several options for their more effective functioning may be considered. For the worker program, the major issues Congress may wish to examine are:

- how to encourage more effective coordination of TAA and Title 111 programs (under the Job Training Partnership Act) so that workers can take advantage of the best features of each;
- how to cut back delays, inequities, and inconsistencies in determining eligibility for TAA;
- how to structure TAA to emphasize adjustment—that is, training for workers who can benefit from it and prompt reemployment for others; and
- how and at what level to fund a program offering high-quality services to-a b-road group of eligible workers.

For the firm program, the major issue Congress may wish to consider is how to put technical assistance for firms on a **steady,** reliable footing. Also, options for broadening and simplifying eligibility for TAA might be considered for firms as well as for workers. The following sections consider separately the TAA programs for workers and for firms.

TAA for Workers

Continued Existence

The principal arguments in favor of continuing a separate program for trade-affected workers are: 1) that fairness demands special attention to the needs of people who pay the most for the Nation's free trade policy, and 2) that a combined program, open to all displaced workers, is bound to lose some of the valuable features now offered to TAA-certified workers. Some also argue that changes in TAA certification (discussed below) could remove much of the delay and inequity in determining eligibility.

The main argument against a separate program is that decisions on who is trade-affected and who is not have become difficult and arbitrary. Twenty-five years ago, when trade was only a modest factor in the U.S. economy, it may have been feasible to identify particular groups of workers affected by trade. Today, when more and more of the goods manufactured in the United States are facing stiff world competition, such distinctions are hard to draw, A program offering adjustment services of high quality to all displaced workers, regardless of the cause of displacement, would avoid the delays and inequities in determining eligibility that plague TAA.[1]

As this report was written, in spring 1987, none of the proposals before Congress for a comprehensive displaced worker program included all of TAA's features. The Administration proposal to abolish TAA and replace Title III of JTPA with a new displaced worker program was contained in Subtitle C (the Worker Readjustment Act) of a bill entitled the Trade, Employment and Productivity Act of 1987 (H.R. 1155., introduced by Rep. Michel and others in the House, and S. 539, introduced by Sen. Dole and others in the Senate). The proposed Worker Readjustment Act includes a number of new features, such as a requirement that States establish a system for rapid response to plant closings or large layoffs, and authorizes spending of $980 million per year. This compares to the appropriation of $223 million for JTPA Title 111 for fiscal year 1987, and the projected expenditure of $206 million for TAA.

The Administration bill would also allow up to 2 years of training for displaced workers (as TAA now does for trade-affected workers) and, if it were determined necessary for participation in training, would provide income support

[1] In this section, the arguments for and against a separate program for trade-affected workers are only briefly stated. For a fuller discussion, see the section entitled "The Equity Argument for TAA, " under *Trade Adjustment Assistance for Workers: Issues.*

at the level of unemployment insurance payments after UI is exhausted. For workers not eligible for UI, a needs-based benefit could be provided. Thus the bill has a provision for extended income maintenance for workers in training. However, these payments would not be granted automatically, as in TAA, but only allowed. Also, to be eligible for the payments, the worker must decide to participate in retraining no later than 10 weeks after starting to receive UI. Furthermore, the money to pay for income support must come out of the funds available for all support services, which include transportation, health care, special services and materials for the handicapped, dependent care, financial counseling, and other reasonable expenses necessary for participation in the worker readjustment programs. Spending for support services is limited to 15 percent of the amount available for the basic services program (including training), which is half the total authorization of $980 million. Thus the maximum available for all support services for people in training would be $73.5 million per year (assuming Congress appropriates the amount authorized),

Judging by experience, it is not likely that the full 15 percent would be spent for all supportive services, much less for the single item of income support for people in training. Title III of JTPA also allows roughly 15 percent of grant money to be spent for supportive services, including income support for participants in training. In practice, almost nothing has been spent for this purpose. [2] In JTPA program year 1985 (July 1985 to June 1986), the most recent for which information is available, 5 percent of Federal grants for Title 111 services was spent for all supportive services, and no more than 7 percent was spent in any previous year; most of it has gone for transportation and child care expenses, Possibly, with a program that is more generously funded than JTPA Title III, more would be allocated to income support for workers in training, but the Administration bill would not assure income maintenance as TAA does.

Even in the unlikely event that the maximum amount allocated for support services were devoted to income support for people in training, it probably would not go far enough. The Administration estimated that the new program would serve 500,000 displaced workers per year. In well-run displaced worker projects, about 20 to 30 percent of participants can be expected to opt for retraining. Supposing that 100,000 workers per year (20 percent) selected training, that the average length of training was 32 weeks (two semesters), and that the Worker Readjustment Program provided income support payments for 16 weeks (assuming that workers enroll in training after 10 weeks of receiving UI, and that UI pays income support for the first 16 weeks of training). In 1987, TRA payments averaged about $147 per week; 16 weeks of payments would amount to $2,350; and 100,000 such payments would amount to $235 million per year.

The Administration bill has no provision for extended income support (up to 1 year) for unemployed displaced workers, comparable to the Trade Readjustment Allowances that all TAA-certified workers are entitled to draw. Few proposals have ever been made for extending this benefit to all displaced workers, although the rationale—that people losing jobs because of structural economic change are likely to go through longer spells without work than the average unemployed worker—applies as much to all displaced workers as to trade-affected workers. Such a benefit for all displaced workers could cost as much as $2 billion per year. a

The Administration proposal for income support for workers in training falls short of that now available to trade-affected workers under TAA. If Congress wishes to combine the two

[2] By and large, Title III programs do not emphasize vocational skills training, especially long-term training; most emphasize rapid reemployment and low-cost services. See U.S. Congress, Office of Technology Assessment, *Technology* and Structural *Unemployment: Reemploying Displaced Adults, OTA-ITE-250* (Washington, DC: U.S. Government Printing Office, February 1986), pp. 182-185.

[3] Further discussion of this point and the basis for the estimate are in the section entitled “Extended Income Benefits” under *Trade Adjustment Assistance for Workers: Issues.*

programs but to preserve the TAA benefit of reliable income support throughout the period of training, and extend it to all displaced workers, the benefit would have to be made automatic, not optional, and it would have to be better funded.

Coordination of TAA and Title III Programs

Should Congress continue to maintain separate programs for trade-affected workers and displaced workers in general, effective coordination of the two programs can be highly advantageous to both groups of workers. TAA-certified workers can make use of services in Title III programs that are not offered (or effectively offered) under TAA. For example, rapid response to plant closings and early provision of services is all but impossible under TAA, because workers must first petition for certification and wait for approval, a process that usually takes at least 2 months. Rapid response is possible under Title 111, though it is not yet widely in place; several bills before the 100th" Congress would strengthen rapid response capabilities in programs open to all displaced workers. q Program coordination can also spread benefits over a greater number of displaced workers; when TAA approval comes through for trade-affected workers and payment for their training or relocation benefits is picked up by TAA, Title III funds can be freed for service to other displaced workers.

The great advantages of TAA are its ability to support longer term training and income support during training, plus more generous allowances for out-of-area job search and relocation costs. The greatest strength of Title III, besides the possibility of early response, is that these projects offer a wider range of services—especially in counseling and assessment—than TAA-certified workers usually get from the Employment Service, With better coordination of the two programs, Title III projects could offer workers the individual counseling they need to evaluate their training and reemployment options, and could provide expert guidance (which many ES offices cannot offer) on local training opportunities.

Only about a dozen States have made real progress toward coordinating their TAA and Title III programs, but some of these have done it very successfully. Common features in these States are their aggressiveness in making sure that petitions are submitted as early as possible for workers' TAA eligibility, and their ingenuity in putting together services from each program for the benefit of individual workers. Because TAA certification is not predictable, these States must cope with a high degree of uncertainty in making training plans.

Some State officials—including some in States doing an outstanding job of coordination—say that coordination would be easier if TAA could reimburse Title III programs for money spent on workers who later get TAA certification, for such services as counseling and assessment, job search skills training, or the early weeks of vocational skills training courses. The latest law authorizing TAA (the Consolidated Omnibus Budget Reconciliation Act of 1985, enacted in April 1986) prohibits this kind of reimbursement. So long as money available for training, per worker, is more plentiful under TAA than under Title III, this idea might have the merit of spreading training opportunities more equitably among all displaced workers. However, with the near exhaustion of TAA training funds in the first quarter of fiscal year 1987, the reimbursement issue became moot. In the future, if TAA training were funded at a higher level, reimbursement might again become a practical question.

Another problem in coordination is that, under the law, as interpreted by the Department of Labor, once a TAA-eligible worker is approved for training, all the training costs must be paid by TAA. Training cannot be approved in the first place unless the TAA program has the funds to pay for all of it, and afterwards

[4]For example, H, R. 1122, introduced by Rep. William Ford and others, and S. 538, introduced by Sen. Howard Metzenbaum and others (both entitled the Economic Dislocation and Worker Adjustment Assistance Act); H .R. 90, introduced by Rep. Augustus Hawkins; and the Administration bills, S. 539 and H.R. 1155.

the funds must be spent.[5] In effect, this means that no contribution from any private sources, such as the company that laid off the workers, or from State or local governments can be used to supplement TAA training funds. The law also states quite explicitly that no other Federal program can contribute to the costs of TAA training once TAA funds are being spent for the purpose.[6] Congress may wish to reconsider these prohibitions, and allow TAA programs to combine their own training funds with additional contributions from companies, company-union funds (such as the United Auto Workers-Ford and UAW-General Motors nickel-an-hour funds), State programs, and other Federal programs, including federally funded Vocational Education and Adult Basic Education.

Another prohibition that could get in the way of effective service to trade-affected workers is the Labor Department's decision that TAA funds may not be used to pay for the job search workshops or job finding clubs that COBRA requires for workers receiving TRAs. The Department took the position that the requirement could mostly be met by other programs, such as Title III or the Work Incentive Program; the law allows a waiver of the requirement if no job search program is reasonably available. A number of States have reported difficulty in providing the job search program, especially for workers in rural areas, and five States with large numbers of TAA-eligible workers said they are waiving the requirement for many workers. Nearly all officials interviewed by OTA observed that job search training is valuable, and those that could not provide the service regretted it. If Congress wishes to make the service available to all TAA-eligible workers, it may want to consider designating funds for the purpose.

[5]This interpretation is based on language in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) stating that the Secretary of Labor may approve training for TAA-eligible workers and that "upon such approval, the worker shall be entitled to have payment of the costs of such training paid on his behalf by the Secretary" (Sec. 2506(2)(a)].

[6]This explicit prohibition was added in the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272), which states that if the costs of training a TAA-eligible worker are paid by TAA, "no other payment for such costs maybe made under any other provision of Federal law" (Sec. 13004(3)(A)),

The Department of Labor has asked the Governors to take steps to promote coordination of TAA and Title III, but the Department itself has not actively encouraged it or offered much technical assistance. Also, TAA regulations were not published in a timely way from 1981 to 1986. The Labor Department has stated, however, that proposed regulations under COBRA (passed in 1986) will be published by June 1987.

If Congress wishes to encourage States in coordinating TAA and Title III services, to make the most of both programs in serving displaced workers, it might consider the following:

- through legislative guidance in oversight hearings, encourage the Department of Labor to offer technical assistance to the States on coordinating the two programs via the Department's 10 regional offices; alternatively, require by law that the Department do so;
- amend the Trade Act to allow TAA programs to accept contributions from other public and private sources for training of TAA-eligible workers;
- amend the Trade Act to allow reimbursement to Title III projects for services given to trade-affected workers before the workers are certified for TAA; and
- provide a designated fund for offering job search workshops or job finding clubs in States or areas where the service is not otherwise available.

Reducing Delays and Inequities in TAA Certification

Delays of several months have been common in getting certification of workers for TAA benefits. Delays arise from two causes: 1) ignorance about the program, so that workers or their representatives (union, employer, or any three workers) do not submit petitions as soon as the workers are laid off or get notice of layoff; and 2) the process of certifying workers firm-by-firm, which inevitably takes time. To approve a petition, the Labor Department must find evidence that import competition contributed importantly to the declining sales or production of the firm laying off those workers. Usually, the Department interviews customers of the

firm to establish that imports have displaced the products of that firm.

Outreach.–More energetic outreach, both by State employment security agencies and the U.S. Labor Department, might help to reduce delays caused by lack of knowledge about TAA. One bill before the 100th Congress (H.R. 3, passed by the House of Representatives in April 1987) would require States to inform workers about benefits and procedures under TAA when the workers apply for unemployment insurance, and to facilitate the early filing of TAA petitions. Another possibility is to allow State Governors to file petitions on behalf of workers. This would give the Governors more responsibility, as well as more opportunity, to make sure that workers in their States become eligible for TAA benefits as quickly as possible.

A number of the State employment security agencies have suggested that they could do a better job of acquainting workers with the TAA program and seeing that petitions are submitted early if administrative money were available in advance, rather than paid after proposals for TAA services are approved. (The State agencies receive 15 percent of the amount of training or relocation grants for costs of administration.) With money provided at the beginning of the fiscal year, they say, they could hire permanent staff to take care of TAA clients, providing more individual counseling and assessment as well as doing a better job of TAA outreach.

How to allocate the money among (and also within) States is the problem with providing administrative funds in advance. It is hard to predict where trade-affected workers will be concentrated. If the administrative funds were allocated by the same formula as Wagner-Peyser grants (the Federal grants which are the main source of funding for the State employment security agencies), the funds might turn out to be poorly matched with the number of workers certified for TAA benefits. This is speculative, however. There is no reason to believe that TAA certifications accurately reflect the geographic or industrial distribution of trade-affected workers. Some States have done a much better job of outreach than others, and labor unions are active in submitting petitions, so that unionized workers have a better chance than non-union workers to be certified, Wagner-Peyser grants are allocated by a formula that takes account of the size of the State's labor force and its rate of unemployment. If advance allocation of TAA administrative funds succeeded in getting State agencies to do better outreach, the result might be a wider and more equitable distribution of TAA benefits than exists at present, It probably would also raise demands for funding for the program.

If advance allocation of administrative funds appears desirable, one option might be to allocate a portion, not necessarily all of it.

Industrywide Certification.-The Labor Department recently improved turnaround time for TAA petitions by simplifying procedures and delegating to its regional offices some of the tasks of collecting information. However, even if all decisions are made within the statutory limit of 60 days, a delay of several weeks makes it impossible to deliver adjustment services promptly to TAA-certified workers. One proposal to reduce delays is to certify whole industries, so that all workers displaced from jobs in those industries are automatically eligible for TAA benefits. Industry certification might also make eligibility more predictable and more equitable,

A difficulty with industry certification is that, as eligibility becomes more equitable and widespread, needs for funding to serve the larger number of eligible workers would rise. In addition, it may not be a simple matter to identify trade-affected industries, H.R. 3, the trade bill passed by the House in April 1987, in the 100th" Congress, provides for automatic approval of petitions from workers losing jobs in industries that the International Trade Commission [ITC] has found, under Section 201 of the Trade Act of 1974, to be seriously injured by imports. (The workers' petitions would have to be filed within 3 years of the finding of serious in jury.) Section 201 findings are few and quite limited, however. In responses to twelve Section 201 petitions in fiscal years 1984 through 1986, the

ITC found only four industries to be seriously injured by imports, and some of those industries were very narrowly defined; one, for example, was wood shingles and shakes.[7]

A fundamental problem with using ITC findings as a basis for industry certification is that these findings are made for entirely different purposes. In the case of Section 201 findings, the purpose is to allow a nation to provide some import relief, which would otherwise be illegal under the General Agreement on Tariffs and Trade, to hard-pressed domestic industries. Probably one reason there has been so little use of this "escape clause" is that import relief for domestic industries, even if justified by a finding of serious injury, has important repercussions on the economies of both the United States and our trading partners.

Another possibility is to certify industries that have an ITC finding of import injury in relation to charges of dumping by foreign competitors, or of government subsidies that give competitors an unfair advantage (anti-dumping and countervailing duty investigations, under Title VII of the Tariff Act of 1930). These findings are much more numerous than those under Section 201—56 in fiscal years 1984-86, compared to 4 under Section 201.[8] These findings, although somewhat broader than those under Section 201, still tend to be quite specific. In 1985, for example, of 129 investigations completed, 56 involved narrowly defined steel products such as hot-rolled carbon steel plate, carbon steel wire rod, stainless steel sheet and strip, welded carbon steel pipes and tubes, stainless steel wire cloth, carbon steel sheets, and steel wire nails.[9] Also, these findings are made only in connection with charges of dumping or subsidies, and thus do not cover the whole range of industries that might be import-affected. Using the ITC finding of import injury as a trigger for certification of an industry would be at best a partial answer to certification of workers by industry, rather than by individual firm.

Along the same line, another trigger for industry certification might be the existence of trade agreements by which other countries voluntarily agree to limit exports of certain articles to the United States. An example is the Voluntary Restraint Agreement for autos, which Japan observed from 1981 to 1985 (and continues to observe voluntarily through 1987), the Multifiber Agreement (negotiated in 1974) covering textiles and apparel, and a number of Orderly Marketing Agreements.[10] These agreements might be taken as evidence that American industries are seriously threatened by foreign competition in the items covered,

Another possible approach is allow industries, as well as firms, to petition for certification as trade-affected. To decide on the petitions, the Labor Department would need to identify trade-affected industries. This might be done by examining data for employment trends, import penetration in the U.S. market, import levels, exports, and share of world markets, by industry. A part of the responsibility for such an effort already rests with the Departments of Labor and Commerce; Section 282 of the Trade Act directs them to monitor changes in U.S. imports and related domestic production and employment. However, data on ex-

[7]The industries receiving an affirmative finding of serious injury from imports in fiscal years 1984-86 were certain carbon and alloy steel products, unwrought copper, non-rubber footwear (1985), and wood shingles and shakes, Negative findings were made for stainless steel flatware, non-rubber footwear (1984), canned tuna, electric shavers and parts, certain metal castings, apple juice, and steel fork arms. The fact that non-rubber footwear was turned down for a finding of serious injury in 1984 and accepted in 1985 suggests that these findings may not be very predictable or consistent.

[8]This includes all final affirmative findings under the anti-dumping and countervailing duty provisions of the Tariff Act. Final affirmative findings, made after a final investigation by the ITC and the Department of Commerce, indicate that "a U.S. industry is materially injured or threatened with material injury, or the establishment of such an industry is materially retarded, by reason of imports of merchandise that is being sold at less than fair value (i.e., dumped) or is benefiting from foreign subsidies." (U.S. International Trade Commission, *Annual Report* '85 (Washington, DC: U.S. Government Printing Office, 1986), p. 2.) Preliminary affirmative findings are made after a preliminary investigation by the ITC, and indicate that "there is a reasonable indication" of injury. (Ibid.) There were 208 preliminary findings of injury in the 3 years 1984-86.

[9]Ibid., p. 3.

[10]The number of these agreements in force is, at present, Unknown. The Department of Commerce and the Office of the U.S. Trade Representative told OTA that there is no current count of such agreements, but the USTR plans to make a compilation and keep it up to date.

ports and world market shares are more limited. A 1982 paper by a Bureau of Labor Statistics economist analyzed 318 manufacturing industries at the four-digit SIC level, and concluded that 72 were "import sensitive, " that is, had experienced either a sustained high level or a substantial increase in import share of U.S. sales during 1972-79.[11] Of 79 industries producing goods similar to those in the import-sensitive group, 38 showed employment declines over the period; more than half of these were in the textile, apparel, and leather goods manufacturing businesses, The Labor Department has not repeated this analysis, but the data to do so are available.

In its program of industrywide technical assistance under TAA, the Department of Commerce needs to identify import-affected industries. The Department's method is, first to define the industry by four-digit SIC, and then determine whether it has a significant number of firms, worker groups, and workers certified as eligible for TAA. Then, the Department examines trends in import penetration ratios and levels of imports over several years. The Department also considers ITC findings of import injury (if any), and examines data developed by industry representatives on particular product lines, especially for industries that don't neatly fall into SIC codes, Because the Commerce Department does not need to be comprehensive in selecting industries for technical assistance, but can be selective, it is not an exact model for possible industrywide TAA certification for workers. It can be useful as a guide, however, in how to identify trade-affected industries.

Because of lack of experience, there are many uncertainties in both the method and results of certifying workers for TAA benefits by industry. For example, the impacts from foreign competition are now so widespread throughout American manufacturing industries, that the result might be to open the TAA program to nearly all workers displaced from manufacturing jobs, The total number of workers displaced per year because of plant closings and production cutbacks is about 2 million per year; about half (approximately 1 million per year) are from manufacturing industries, If Congress is interested in pursuing the idea of industrywide certification for workers, it might direct government agencies, such as the Departments of Labor and Commerce, to undertake a study of possible methods of identifying the industries and the number of workers likely to be covered, with results reported back to Congress within a reasonable time (e.g., 1 year).

Other Problems of Equity.—A continuing problem of equity in TAA certifications is that workers in service and supply industries are not eligible. For example, many workers in oil and gas exploratory drilling have been denied certification because they were considered service industry workers. (Others were turned down because the Labor Department did not consider imports to be the cause of distress in the industry.) Several bills in both the 99th and 100th Congresses proposed to extend eligibility to all oil and gas workers. More generally, the legislation that would have reauthorized TAA, but failed to pass Congress in December 1985, (the Consolidated Omnibus Budget Reconciliation Act) would have extended eligibility to workers in firms providing essential parts or essential services to the firms injured by import competition, S. 23 introduced by Senators Roth and Moynihan in the 100th Congress, contains the same provision, This broadening of eligibility, like industrywide certification, would result in opening TAA benefits to more workers, and raising costs. COBRA proposed to generate funds for TAA from a new source, a small uniform duty on all imports (described in the section on funding, below).

A more specialized problem, but one that affects a good many workers, has to do with the date of the worker's separation. Under the present law, workers may receive income support payments (Trade Readjustment Allowances, or TRAs) during a 2-year period following their first layoff after the impact date established for their firm. Often during a firm's decline, workers are repeatedly rehired and laid

[11] Gregory K. Schoepfle, "Imports and Domestic Employment: Identifying Affected Industries, " *Monthly Labor Review,* August 1982, pp. 13-26.

off; since the clock for TRAs starts to run from the date of their first layoff they maybe denied full benefits. Congress addressed this problem in the last authorization of TAA, by extending the period of eligibility from 1 year to 2 years after the first date of separation; some workers, however, still run into a cutoff of benefits, while coworkers who were not rehired and laid off repeatedly may receive full benefits. One bill before the 100th Congress (S. 749, introduced by Senators Mitchell and Heinz) would amend TAA to allow workers to collect TRAs during the 2-year period following their last, not first, date of separation.

If Congress wishes to attempt to reduce delays in TAA certification, it might consider the following:

- through legislative oversight, encourage the Department of Labor to offer more information and technical assistance to State employment security agencies on the TAA program and urge them to take a more active role in getting petitions submitted early; alternatively, require in legislative language that States inform workers of TAA benefits and procedures when workers register for UI, and facilitate the early filing of TAA petitions;
- provide by law for the allocation of TAA administration funds in advance;
- direct the Labor Department to give automatic approval to petitions from workers in industries with findings of import injury from the ITC or industries covered by voluntary agreements with other countries that restrict their exports to the United States; or
- direct the Departments of Labor and Commerce (and any other appropriate agency) to undertake a study of possible methods for industrywide certification of TAA workers and the number of workers likely to be covered, with a date set for submission of the study report to Congress.

Some of the above options might make TAA benefits available to a larger number of workers and at the same time distribute the benefits more equitably. Another option for more equitable and broader eligibility that Congress might wish to consider is to:

- extend TAA eligibility to workers in firms that supply essential supplies and services to firms injured by import competition.

Emphasizing Adjustment Services

Several times in the 25 years of TAA's existence, Congress has made changes in the program to reemphasize its original purpose, that is, to provide services that will help trade-affected workers find or train for new jobs that are reasonably well-paid or offer opportunities for advancement. In the 1980s, training and relocation services have become a more significant part of the program, in relation to TRAs. Under the present law, workers must take part in a job search skills training program or job club (if either is reasonably available) in order to receive TRAs, must be advised of training opportunities, and must enroll in training if advised to do so.

A number of proposals put before Congress would tie TAA benefits still more tightly to training. In the 1985 legislation that would have reauthorized TAA, Congress included a requirement that any worker collecting TRAs must be enrolled in training or remedial education. In 1986, when the legislation was passed, the requirement for training was removed. Bills before the 100th Congress reinstated it. For example, H.R. 3, the House-passed trade bill, would require workers receiving TRAs to be in training or remedial education. Workers would be exempt only if they had already completed training, or if they had a reasonable prospect of recall to the old job, or if training were not considered feasible or appropriate. S. 23 would also require that workers receiving TRAs be in training, unless State agencies waived the requirement because training was not feasible or appropriate.

Several problems arise with a requirement that workers receiving TRAs be in training. First, funding for training would have to be greater than it is now. Training funds were virtually exhausted before half the fiscal year was

out in 1987, even with no requirement for training. The Labor Department estimated that about 55,000 workers would receive TRAs in fiscal year 1987; as noted above, that figure is probably low, but it can serve as the basis of a rough estimate of training costs. Assuming on the basis of recent TAA figures that spending for training is about $2,500 to $3,000 per worker per year (not counting TRAs), the annual cost of training for 55,000 workers would be about $138 to $165 million, or approximately $110 to $127 million more than in 1987. Both H.R. 3 and S. 23 provide that workers are entitled to vouchers of $4,000 for approved training, remedial education, or relocation services and the money may be spent over 104 weeks of training. Both bills also contain a provision for a small import duty as a new source of funding (see the discussion below).

Another concern is that not everyone needs or can benefit from training. For example, some older workers who plan to work for only another few years may not want to make the investment of time, effort, and forgone income that training requires. (No implication is intended that older workers cannot benefit from training; some can and do.) A related problem is that linking TRAs to training might artificially inflate the demand for training. One option that might reduce these difficulties is to allow workers to use a portion of their TRAs as a temporary wage supplement, easing the transition for workers for whom retraining is not appropriate. This option was included in H.R. 3; it would allow workers taking a new job at lower pay than the old job to collect 50 percent of their TRA benefits as a supplemental wage allowance over a period of 1 year, beginning when regular UI payments end, The reasoning is that the supplemental wage would encourage workers to take new jobs faster than they otherwise would, and begin to restore some of their lost earning power. The allowance would be limited to an amount that would raise the worker's pay to a maximum of 80 percent of the pay on the old job.

In analyzing for an earlier assessment the option of a temporary supplemental wage for all displaced workers,[12] OTA noted that there is little or no experience with a publicly funded program of this sort, and cost estimates are highly uncertain, A rough estimate of the cost of such a program as proposed in H.R. 3 is about $33 million per year for every 10,000 workers. This estimate assumes that the wage supplement program pays, on average, the difference between $7.80 per hour (80 percent of the average manufacturing wage of $9.80 per hour in early 1987) and $6.20 per hour (the average reemployment wage of workers who went through Title III programs and found jobs in 1986).[13] Any estimate of how many workers would be covered in such a program, and how many would be removed from the rolls of those receiving full TRAs, must be highly speculative because of the novelty of the program. In light of the large uncertainties involved, OTA suggested in the earlier assessment that if Congress is interested in the proposal, a trial or demonstration program might be a practical first step.

According to the directors and staff of displaced worker projects, many of their clients—typically, 20 percent or more—need remedial education to improve their basic skills in reading and math. Although States may offer remedial education as one of the services in Title III projects, not many do.[14] Trade-affected workers are probably just as much in need of basic skills training as other displaced workers, but remedial education is very infrequently offered as a TAA benefit, In its TAA regulations, the U.S. Department of Labor classifies remedial education as a support service, unless it is an integral part of a vocational skills training course, Payment for support services must come from administration funds, not training funds; no States reported to OTA that they use administrative money for this purpose. The 1986 legislation reauthorizing TAA states

[12] U.S. congress, office of Technology Assessment, *Technology and Structural Unemployment,* op. cit., pp. 61-62.

[13] The Supplement on an hourly basis would be $1.60, which is $64 per week and $3,328 for 1 year. This is within the limit of 50 percent of the average TRA benefit paid in 1987, which was $147 per week.

[14] U. S. Congress, Office of Technology Assessment, *Technology and Structural Umemployment*, op. cit., pp. 185-186, 260-261,

that any training program provided by States in Title III projects may be approved as TAA training; a number of States approve remedial education as training under Title III (although not many actually include it among the services offered), and all could approve it if they wished. If Congress desires that remedial education be offered as training in the TAA program, it could direct the Department of Labor to approve this use of TAA training funds.

Implementing a training requirement through a voucher system, as proposed in several bills before Congress, might raise some other problems. Many experienced directors of displaced worker programs believe that their clients benefit greatly from guidance in selecting training courses. It is not uncommon for displaced workers to have held just one job in their lives; often they have little knowledge of the local labor market, or training institutions, or the kind of training that their background and skills are best suited to. In addition, a voucher system raises the danger that workers may be victimized by trainers who are in it for the money. When training is not just one option, but is required for anyone receiving TRAs, this problem could assume greater proportions. Coordination of TAA and Title III programs, with emphasis on adequate counseling and guidance of TAA-eligible workers in one program or the other, could help to avoid the danger of misguided or wasted training.

Some of the options that Congress may wish to consider for emphasizing adjustment as the goal of the TAA program for workers are the following:

- require that recipients of TRA benefits be enrolled in approved vocational skills training or remedial education programs, with some exceptions, e.g., for workers who may be recalled to plants that are still in operation, for workers beyond a certain age, or for cases where training is not feasible or appropriate;
- support a demonstration program of temporary wage supplements for TAA-certified workers taking a new job at a substantial cut in pay; and
- direct the Department of Labor to approve spending of TAA training funds for remedial education.

Funding

Many of the options discussed above imply a higher level of funding than is currently spent for TAA. In fiscal year 1987, Congress appropriated $29.5 million for training and relocation services (including 15 percent for administration); and when demands for the funds outran the supply, a supplemental appropriation of $20 million was approved by the House (the Senate Appropriations Committee had reported the bill, but the Senate had not yet acted on it as this report was written). In addition, spending for TRAs, from the Federal Unemployment Benefits Account, was running at the rate of $176 million for the year.

A number of proposals before the 100th Congress provided for increased spending for services to displaced workers. Both the Administration bill, which would replace JTPA Title III with a new Worker Readjustment Program, and H.R. 3, which amends Title III as well as TAA, would authorize $980 million a year for retraining and readjustment programs open to all displaced workers.

For funding the TAA program for workers, the idea of a small uniform duty (up to *1* percent) on all imports has come up several times. It was included in the legislation which was reported by the conference committee, but failed to pass the Congress, in December 1985. That version directed the President to undertake negotiations to change GATT so that any country could impose a small duty on imports for the purpose of funding a program of adjustment to import competition. The President was directed to report on progress on the GATT negotiations in 6 months, and the duty would be imposed as soon as there was agreement—but in any case, whether or not agreement was reached, the duty would take effect 2 years after enactment of the law. The bill also would have established a trust fund to pay for the TAA program for workers, with amounts equal to the proceeds of the import duty earmarked for the trust fund.

A similar proposal was before the 100th Congress, in S. 23. H.R. 3, the House-passed trade bill, provides for a trust fund supported in part by a small import duty, but would let the duty take effect only when GATT is changed to allow it.[15] Those who propose negotiating with GATT, but imposing the duty anyway after a certain period, argue that a small duty for funding an adjustment program is reasonable, is not a serious barrier to trade, and that GATT negotiations are usually so slow that a time limit is needed to impel action. Those who oppose it argue that any unilateral action that contravenes GATT undermines the treaty and opens the door to protectionist actions by all countries.

The proposal to support the TAA program through a trust fund is not new. The Trade Act of 1974 provided for it, but the trust fund was never established. The Office of Management and Budget generally opposes earmarking funds for any activity, advocating instead that programs contend on their merits each year for a share of general revenues; this was true in the Carter Administration as well as in the Reagan era. Although laws can be written so that services funded by trust funds are not granted automatically but still require approvals by the responsible agency, the tendency may be to lose budgetary control.

The argument for a trust fund is that it is difficult to anticipate the magnitude of worker displacement, from trade or any other cause, and that it makes more sense to draw from a trust fund as needed than to set appropriations at the right level in advance, or to add funds through the uncertain and usually slow process of supplemental appropriations. Proponents sometimes draw the parallel with the unemployment insurance trust fund accounts, which are supported by variable UI tax rates. In a like manner, the uniform duty on tariffs could be varied (up to the limit of 1 percent), to replenish the account when spending has risen, and to lower the duty when spending falls. To maintain control over spending, Congress might set a limit on the total that could be spent in any year.

Other funding arrangements might also be devised. For example, the Forest Service draws the funds needed to fight fires from a special account, which Congress then replenishes through supplemental appropriations. A number of different kinds of trust funds, with restrictions on spending from them, exist in various Federal Government agencies; some might provide a useful model for the TAA program. The principle in a trust fund or other new funding arrangement would be to make money available when needed for services to trade-affected workers, but keep total spending under control.

TAA for Firms and Industries

Continued Existence

In reauthorizing the TAA program for firms in 1986 and appropriating funds for it, for that fiscal year and the next, Congress made a decision to continue the program. Commerce Department administration of the program from January 1986 through the spring of 1987 almost brought it to an end. At the end of April 1987, more than halfway through the fiscal year, only $2.2 million of the $13.9 million Congress provided for technical assistance to trade-affected firms and industries for that year had been obligated, and money carried over from the previous year was diverted to other uses. The Trade Adjustment Assistance Centers, which deliver technical assistance to firms, had been given only brief 1- or 2-month extensions of authority (mostly no-cost extensions), and were able to do little more than keep their doors open.[16]

In the Budget and Impoundment Control Act of 1974, Congress tried to deal with the problem of an Administration refusing to spend money Congress had appropriated to carry out a program. Under terms of this law, the Administration proposed in January 1987 a rescission of fiscal year 1987 funds for the TAA program for firms. The proposal remained before Con-

[15] This bill would also support the trust fund with money raised from import relief duties and from public auction of import licenses.

[16] In early May, the Department of Commerce requested refunding proposals from the TAACs for the 12-month period June 1987 to May 1988.

gress for the 45 days provided by the law, and in mid-March, since Congress had taken no action, the rescission failed. Through that period, only three TAACs received any fiscal year 1987 money. After the rescission failed, the TAACs received extensions only through mid-June, and were given small grants.

A spokesman for the General Accounting Office informed OTA that this situation, under which the Administration had released only small amounts of the funds appropriated for technical assistance to firms, was being investigated as a possible policy deferral, as described in Section 1013 of the Budget Act; in a policy deferral, the Administration seeks to withhold funds to achieve the President's policy, as opposed to that of Congress. If GAO found that the failure to spend funds for the TAA program for firms was a policy deferral, Congress could deal with the situation, as it has done in several deferral cases in the past, by enacting a law directing the President to spend the appropriated funds as originally provided by Congress.[17]

The Administration has also asserted that the President has inherent authority to defer spending, unless Congress has mandated a schedule of expenditures. One option that is open to Congress, if it wishes to assure that Trade Adjustment Assistance Centers receive grants soon enough and for a long enough period to get some substantive work done, is to mandate a date by which 12-month grants for the TAACs must be approved. For example, Congress might direct bylaw that by December 31 of each year (the end of the first quarter of the fiscal year) the Commerce Department must approve 12-month grants extending through the end of the next calendar year for all the TAACs. Thus, all the money appropriated for TAA assistance to firms for the fiscal year would be obligated in a timely way. Experience in fiscal year 1987 suggests that legislative guidance through congressional hearings might not be sufficient to assure the continued existence of the TAA program for firms. Also, if Congress desires the program to continue, it may need to anticipate a period of rebuilding. It may take some time—possibly a year or more—for TAACs to rebuild their staffs, services, and credibility with clients.

One reason the Administration wishes to end the TAA program for firms is that it considers the program ineffective. Neither of the two recent evaluations of the program (which came to opposite conclusions) is satisfactory. In considering the future of the program, Congress might wish to request an independent evaluation of TAA for firms, including an analysis of the social costs and benefits of the program, from the Congressional Budget Office or the General Accounting Office. A rigorous cost-benefit analysis might prove an unduly expensive way to evaluate this rather small program. However, a less rigorous analysis might provide enough information to judge whether benefits from a very few successful interventions are enough to pay for the modest costs of the program.

Industrywide Certification

It has been suggested that the TAA program for firms might be more productive if all firms within a trade-affected industry were eligibile for technical assistance–not just those that have already shown a decline in sales or production and employment.[18] The idea is to open TAA benefits to firms that have a better chance of survival.

One difficulty with this approach, as with industrywide certification of workers, is that the population of firms eligible for assistance would balloon. Unless the program received more funds, the TAACs would be faced with greater selection and screening problems than they

[17] Sec. 1013(b) of the Budget and Impoundment Control Act gave Congress authority to disapprove policy deferrals by a vote of either the House or the Senate, after which the Comptroller General could sue the responsible department or agency to spend the funds as provided by Congress. However, a Circuit Court of Appeals decision has held Sec. 1013(b) invalid, following the 1983 Supreme Court decision declaring a congressional veto unconstitutional (*Immigration and Naturalization Service v. Chada*, 1983).

[18] H.R. 3, the House-passed trade bill, provides for automatic approval of petitions from firms, as well as workers, from industries found by the ITC to be seriously injured by imports. As noted, these certifications are few and often quite narrow.

have now; unlike the situation with TAA for workers, there are no current proposals for a new source of funds for TAA for firms. Nor is there quite the same justification for industrywide certification. One of the strongest findings from experience with displaced workers programs is that the earlier adjustment services start, the better the results; the best time to begin services to workers is before layoff, if that is possible. It is true that, for firms, there is a point after which assistance is not much use; the firm is too far gone. But no one has identified one key point for offering assistance that promises the best results. Most of the TAAC directors and staff interviewed by OTA said that quite a few of the firms applying for certification have enough financial or managerial strength that they can benefit from assistance. One said:

> All of them are in some kind of trouble, or they wouldn't come to us and wouldn't be certified. But it isn't true that they all have one foot in the grave and the other on a banana peel.

The best argument for making technical assistance available to all firms in trade-affected industries is that such a program, if well done, might help to improve competitiveness of our national economy. But to expand the present small, barely surviving TAA program to such dimensions would be a very large leap. The idea of an industrial extension service for small and medium-sized manufacturing industries is an intriguing one, but is probably best approached in several steps, with consideration of a number of factors—for example, whether States might play a leading role, building on services that some of them already offer. Such an assessment is beyond the scope of this report, with its focus on TAA programs as they exist now or as they might be changed incrementally.