

TRADE ADJUSTMENT ASSISTANCE: HISTORY

Trade Adjustment Assistance was created in the Trade Expansion Act of 1962, as recompense for workers and businesses hurt by the Nation's policy of lowering trade barriers. The program was intended not as a payoff but as an aid to adjustment. "This cannot and will not be a subsidy program of government paternalism," said President Kennedy in announcing the trade bill that created TAA. "It is instead a program to afford time for American initiative, American adaptability and American resiliency to assert themselves." Two linked motives for TAA were fairness—the obligation, as President Kennedy said, "to render assistance to those who suffer as a result of national trade policy"—and the need to find a different way than protective tariffs or quotas to cope with the disruptive effects of trade,

In principle, the TAA approach, offering adjustment assistance in place of protection, fits with a policy of free trade. In practice, questions have been raised since TAA was created on whether the adjustment assistance was really working. Was TAA meeting its goal of helping displaced workers train for and find new jobs and helping businesses adapt to the challenge of rising imports? Is it reasonable to expect that firms losing out to imports can recover, even with good technical assistance?

Another recurring question had to do with fairness: Is it equitable or even possible to distinguish between job losses due to trade and losses due to other (but related) factors, such as advances in technology or changes in consumer preference? Does the worker who loses a long-held job because of import competition need more help than his neighbor who loses out to automation? Or is there a special responsibility to workers affected by trade? A national program to help all displaced workers find or train for new jobs was created in Title III of the Job Training Partnership Act of 1982 (JTPA), but TAA has some benefits that do not exist in the Title III program.

Arguing that trade-affected workers can be served in a program open to all displaced work-

ers, the Administration has proposed to abolish TAA, to replace Title III of JTPA with a new worker readjustment program, and to authorize funding for the new program at about twice the current level of TAA and Title III funding combined. The Administration bill does not, however, include all the benefits now available to TAA-certified workers. While proposing to end TAA for workers, the Administration took more forceful action to close out the TAA program for firms, asking for a budget rescission in 1987 (which Congress did not approve) and meanwhile granting such short-term low-level funding that program activities virtually ceased.

Trade Adjustment Assistance for both workers and firms continues to have strong support in Congress. The equity argument, that special help is due those who are injured by the Nation's trade policy, is widely accepted across party lines. In 1986, Congress reauthorized TAA and extended it for 6 years, through the end of 1991. While rewriting trade legislation in the spring of 1987, Congress again considered substantial changes in TAA, in particular the program for workers. The emphasis in the proposed changes was on making adjustment services stronger and more flexible.

This section outlines briefly the experience with TAA over the past quarter of a century. The next two sections discuss issues related, first, to the current operation and future of the program for workers and second, to the program for firms and industries.

Trade Adjustment Assistance for Workers, 1962-87

Over its 25 years, TAA for workers has been much more a compensation than a training program, whatever the intentions of its founders. The benefits TAA offers to trade-affected workers are extra income maintenance (more than unemployment insurance provides) and training and relocation assistance. Of \$4.5 billion spent on the program over the years, more than 97 percent has gone for income maintenance;

nearly all the workers certified for TAA have received this benefit. However, training has been a stronger part of the program in the 1980s; training and relocation assistance has accounted for about 25 percent of spending since 1982. Demands for training were great enough in early 1987 that the appropriation for the fiscal year—\$29.9 million—was nearly exhausted at the end of the first quarter.

Spending for TAA and the number of workers served has fluctuated greatly over the years. Almost inactive for the first dozen years, the program grew to large proportions by 1980 (costing \$1.6 billion that year), was restructured and sharply reduced in the early 1980s, and is now again expanding. It is a sizable program today. In addition to the \$29.9 million for training and relocation assistance, spending for income maintenance is projected to be \$176 million for fiscal year 1987. If workers continue to be certified at the same rate as in the first two quarters of the year, 110,000 to 140,000 workers will have become eligible for benefits during the year. Both in amount of spending and in number of workers served, TAA is now about as large a program as the general program, under Title III of the Job Training Partnership Act of 1982, which is open to all displaced workers,

Administration of TAA for workers is divided between the State employment security agencies and the U.S. Department of Labor. The Labor Department makes the decisions on certifying groups of workers as trade-affected, according to the criteria in the law. The State agencies, under cooperative agreements with the Labor Department, determine the eligibility of individual workers covered by a certification, and process applications for benefits. The Unemployment Insurance (UI) offices take charge of income maintenance payments, and

¹Nearly 48,000 workers were certified in the first quarter of fiscal year 1987, and about 22,000 in the second quarter. The Labor Department simplified and speeded up the certification process at the beginning of the first quarter. Thus, the exceptionally large number of certifications in the first quarter probably reflects the Department's efforts to reduce a backlog of petitions. If certifications for the last half of the fiscal year run at the rate of the second quarter, the total for the year will be about 114,000.

the Employment Service (ES) is responsible for helping workers find jobs or training opportunities.

Creation and Early Years: 1962-74

The Trade Expansion Act of 1962, authorizing the Kennedy round of trade negotiations under the General 'Agreement on Tariffs and Trade (GATT), also created Trade Adjustment Assistance. Labor spokesmen strongly supported the adjustment program as a part of the law. George Meany, president of the AFL-CIO, told the Senate Finance Committee:

There is no question whatever that adjustment assistance is essential to the success of trade expansion. And as we have said many times, it is indispensable to our support of the trade program as a whole.²

To the House Committee on Ways and Means he said that TAA would:

... strengthen both our domestic economy and our world competitive position by helping companies and workers to increase their efficiency, either in their present field or a new one.³

Eleven years later, labor support for TAA had evaporated. Meany called TAA "burial insurance" and said that "adjustment assistance cannot solve modern trade problems."⁴ By the early 1970s, there was good reason, aside from the success or failure of TAA itself, to reevaluate trade policy. Economic and trade conditions had changed. The United States had gone through a recession in 1970, and in 1971 and 1972 experienced its first merchandise trade deficits in many decades. However, there was also a quite specific reason for labor's disaffection with TAA, which was that very few workers had benefited from it. The eligibility require-

²Hearings before the Committee on Finance, U.S. Senate, July 24, 1962, cited in Steve Charnovitz, "Worker Adjustment: The Missing Ingredient in Trade Policy," *California Management Review*, vol. xxvii, No. 2, winter 1986.

³Hearings before the Committee on Ways and Means, U.S. House of Representatives, Mar. 19, 1962, cited in Steve Charnovitz, op. cit.

⁴Hearings before the Committee on Ways and Means, U.S. House of Representatives, May 17, 1973, and the Committee on Finance, U.S. Senate, March 27, 1973, cited in Steve Charnovitz, op. cit.

ments as laid out in the 1962 law and as interpreted by the administering agency, the U.S. Tariff Commission, were so restrictive that no one qualified from 1962 till 1969. The Tariff Commission then reinterpreted the eligibility rules, and for the first time approved some petitions; still, only about 54,000 workers had been certified for benefits by 1975.

The TAA benefits for workers provided in the 1962 law were training, relocation assistance, and extra income maintenance, at a higher level and for a longer time than UI afforded. The idea was that workers who lost their jobs because of trade were likely to go through longer than average spells of unemployment, and needed time to train in new skills. Income support was in the form of Trade Readjustment Allowances (TRAs) which, combined with UI, could pay up to 75 percent of the worker's former wage and could last for a full year, or 65 weeks for workers at least 60 years old. The TRA alone, after unemployment insurance ran out, could pay as much as 65 percent of the worker's former wage or 65 percent of the average manufacturing wage, whichever was lower; UI paid less than that in many States, and was generally limited to 26 weeks.

The law emphasized training. Congressional debate on the bill also showed that its backers expected training to be a prominent feature of TAA; the floor manager in the House of Representatives said that most workers getting TRAs would:

. . . [receive] an intensive training program which will be aimed at getting these workers trained in skills which will enable them, in as short a time as possible, to take their rightful place in the economy.⁵

Any eligible trade-affected worker could get training free, if referred by the Department of Labor. Moreover, workers could collect an additional 26 weeks of TRA (a total of 78 weeks) while in training. The law directed the Labor Department to disqualify workers for TRAs if they refused suitable training when referred to it, or failed to make satisfactory progress.

⁵Rep. Eugene Keogh (D-NY) was House floor manager. See *Congressional Record*, June 27, 1962, p. 1145.

The law also included a relocation benefit. For workers who could find a suitable job only outside their commuting area, TAA offered reimbursement of "reasonable and necessary expenses" (to be prescribed by regulation) of moving a worker and his family and household, and a lump sum payment, equal to two and one-half times the average weekly manufacturing wage, for other related expenses.

The benefits under the 1962 law remained mostly theoretical. To become eligible, a group of three workers, or their representative, or the company, had to petition the Tariff Commission, which then determined whether "as a result in major part of concessions granted under trade agreements" increased imports were causing or threatening to cause unemployment or underemployment of a significant number or proportion of workers in a firm or subdivision. Until 1969, not one petition was approved. Over the next 5 years, about 46,000 workers received TRAs; no complete record was kept of those receiving training, but they were few, according to the Department of Labor.

Years of Expansion: 1975-81

In the Trade Act of 1974, Congress revised the framework for trade negotiations, to guide the forthcoming Tokyo Round of GATT trade talks, and at the same time restructured TAA. The biggest change in TAA for workers was to ease the eligibility requirements. The new law no longer required proof that trade concessions caused injury to firms or workers, or even that imports were a major cause, but only that increased imports "contributed importantly" to the injury. It created two criteria for injury: 1) an absolute decline in sales, production, or both, in a firm or subdivision; and 2) actual or threatened total or partial layoffs of a significant number or proportion of the workers,

Another major change was to raise benefits. TRAs were now set at 70 percent of the worker's previous wage and capped at 100 percent of the national average manufacturing wage; combined TRA and UI benefits could be as much as 80 percent of the previous wage. The

period of eligibility for TRAs was still 52 weeks, except for people in training or workers 60 and over, who qualified for an extra 26 weeks. Recognizing that very little practical adjustment assistance had reached trade-affected workers under the 1962 law, Congress established a new trust fund drawing from tariffs to pay for the program. Also, the law added a new benefit which would repay workers 80 percent of the costs of searching for jobs outside their home areas (up to a maximum of \$500). Finally, certification of workers for TAA was moved from the Tariff Commission to the Department of Labor.

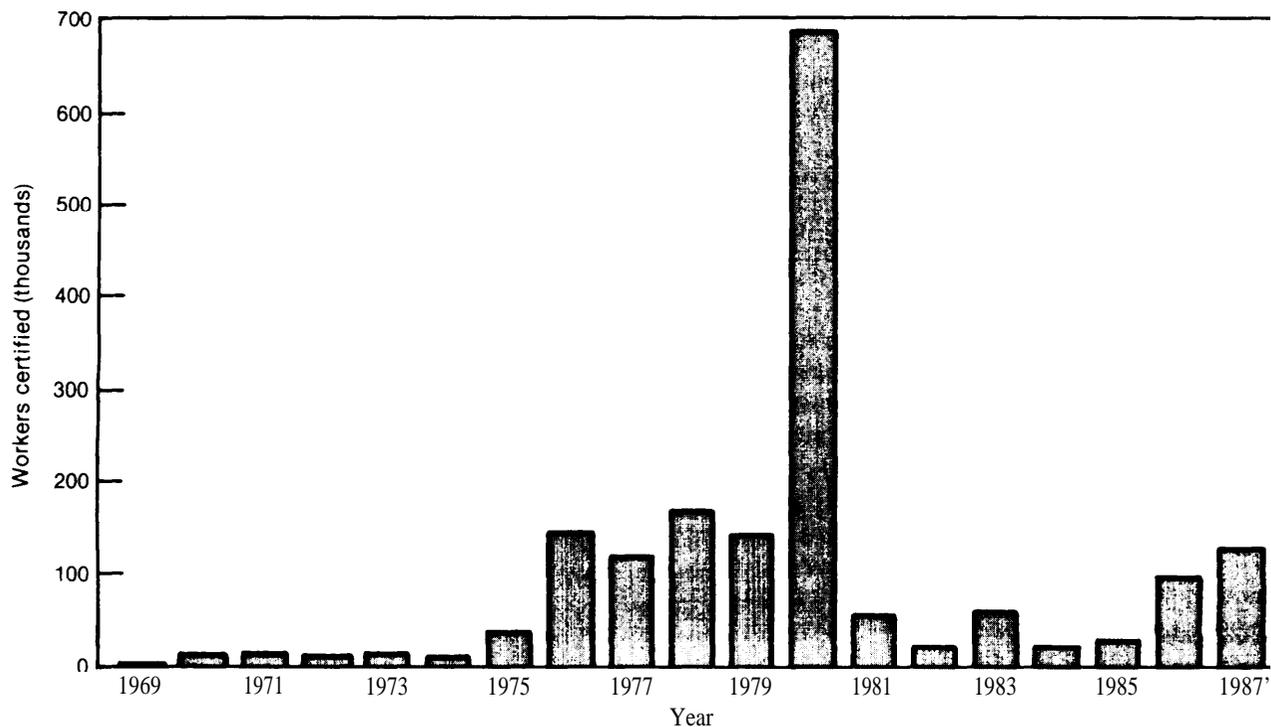
Over the next 7 years, many more workers received TAA benefits, and far more money was spent, than in the first dozen years of the program (figures 1 and 2). At least some workers displaced by trade did receive compensation. But very few received any kind of adjustment assistance, and compensation was usually so late—typically beginning 14 to 16 months

after layoff—that most workers were back at work, either at the old job or a new one, by the time they got their first payment. According to surveys of TAA during this period, two-thirds of the workers receiving TRAs were eventually recalled to their old jobs and thus were not really displaced—for the time being at any rate.⁶

In fiscal years 1975 to 1981, over 1.3 million workers were certified eligible for TAA benefits. Fully half of these workers were certified in one fiscal year (1980) when auto workers responded to rapidly rising imports and widespread layoffs with unprecedented applications for TAA benefits. Spending for the program,

⁶Two of the most comprehensive reviews were U.S. Congress, General Accounting Office, *Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find a Job Can Save Millions* (Washington, DC: 1980); and Walter Corson, Walter Nicholson, David Richardson, and Andrea Vayda, *Final Report: Survey of Trade Adjustment Assistance Recipients*, report to the Bureau of International Labor Affairs, U.S. Department of Labor (Princeton, NJ: Mathematical Policy Research, Inc., 1979).

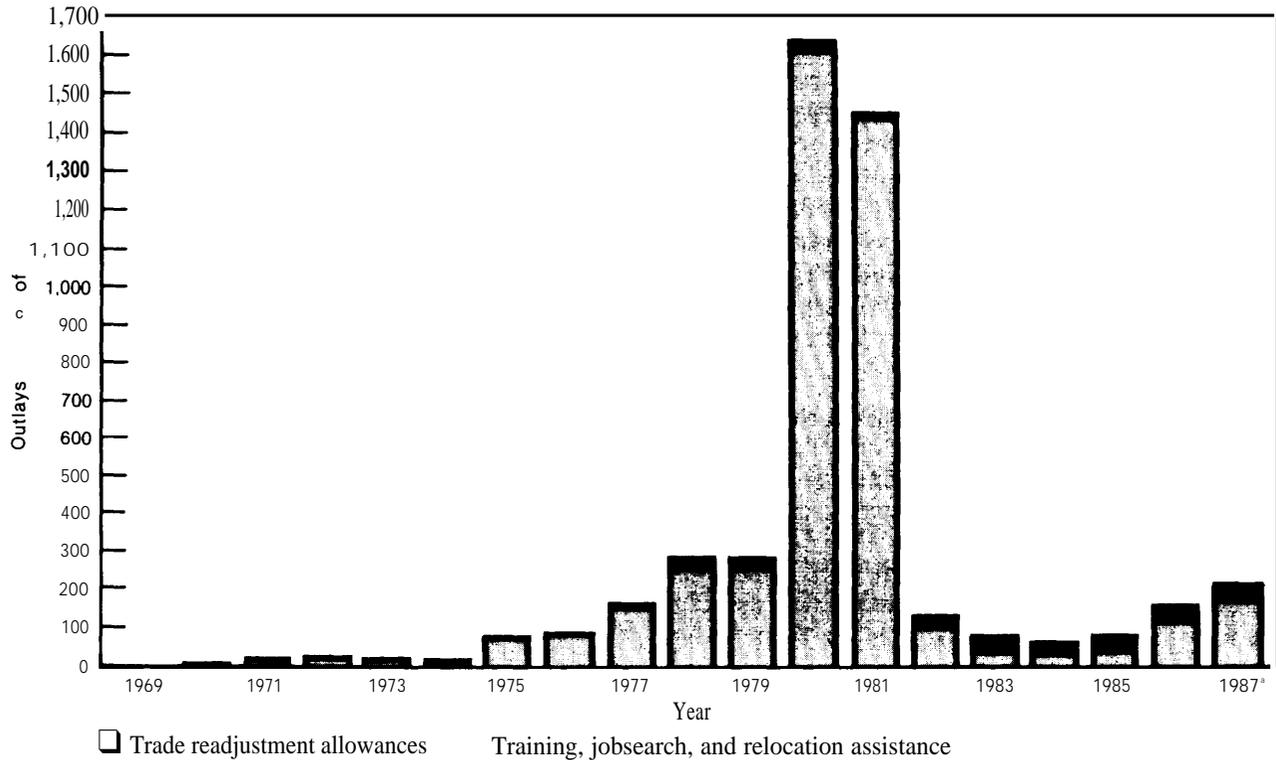
Figure 1.—Workers Certified for TAA Benefits, 1969–87



^aEstimated.

SOURCE U S Department of Labor, Bureau of International Labor Affairs and Office of Trade Adjustment Assistance.

Figure 2.—Outlays for TAA Benefits for Workers, 1970-87



^a Estimated.

SOURCE: U.S. Department of Labor, Office of Trade Adjustment Assistance; and U.S. Congress, House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, 1987 Edition*, 100th Cong., 1st Sess., Committee Print WMCP: 100-4, Mar. 6, 1987, pp. 318, 320.

which was about \$150 million in fiscal years 1976 and 1977, and about \$260 million in the next 2 years, soared to \$1.6 billion in 1980 and \$1.4 billion in 1981.

Nearly all of this money went for TRAs. Some 48,000 workers (4 percent of those certified) entered training. About 5,200 got out-of-area job search assistance and 4,400 relocation assistance; each of these services went to fewer than one-half of one percent of the certified workers. Of the \$3.9 billion spent for the program in 7 years, only \$43 million went for training, relocation, and out-of-area job search combined (table 1).

The TRAs, though no doubt welcome at any time, did not serve the purpose of income support during the time the workers were unemployed, since 50 to 70 percent were back at work

by the time they got their first payment.' Several factors accounted for the delays. First, workers were slow to file petitions. Many did not know until months after their layoff that the program existed; and when they did discover TAA, did not know how to apply. The U.S. Department of Labor did not try to acquaint workers directly with the program, but urged the State employment security agencies, which administer TAA through the local ES and UI offices, to do so. The outreach system did not work well. Most workers who heard about TAA discovered it through their union,

The Mathematical study found that the average delay in receiving the first TRA payment was 14 months, and 50 percent of the recipients were reemployed. The General Accounting Office (GAO) found an average delay of 16 months and 71 percent reemployed. See Corson, et al., *op. cit.*; and U.S. Congress, General Accounting Office, *op. cit.*

Table 1.—Workers Certified for TAA, Trade Readjustment Assistance, and Adjustment Services, 1975-87

Fiscal year	Workers certified	Workers receiving TRAs	Outlays for TRAs (millions of dollars)	Number of workers			Outlays (millions of dollars) ^a		
				Entered training	Job search	Relocation	Job training	Job Search	Relocation
1975 (4th qu.)	34,879	47,000	71	463	158	44	—		
1976	144,396	62,000	79	823	23	26	\$2-7	\$ ^b	\$ ^b
1977	116,726	110,705	148	4,213	277	191	3.8	^d	0.2
1978	165,866	155,005	257	8,337	1,072	631	12.0	0.2	0.6
1979	140,079	132,188	256	4,456	1,181	855	12.0	0.3	1.2
1980	684,766	531,895	1,622	9,475 ^e	931	629	5.2	0.1	0.7
1981	51,072	281,426	1,440	20,366 ^c	1,491	2,011	1.9	0.3	2.0
1982	19,465	30,463	103	5,844	697	662	18.4	^d	1.0
1983	56,173	30,032	37	11,299	696	3,269	33.0	^d	3.0
1984	19,688	15,821	35	6,821	799	2,220	16.5	0.2	2.3
1985	25,339	20,300	40	7,424	916	1,692	30.2	^b	^b
1986	93,132	42,000 ^f	119 ^g	7,743 ^g	1,384 ^g	1,089 ^g	28.6	^b	^b
1987	110,000-140,000 ^f	55,000 ^g	176 ^g	n.a.	n.a.	n.a.	29.9	^b	^b

^aFor 1985 and 1987, "outlays" are appropriations

^bIncluded in total for training

^cOf workers entering training in 1980, 5,840 (59 percent) paid for their own training costs, in 1981 18,940 (94 percent) paid for their own training. Trainees were eligible for TRA living allowances

^dIncluded in total for relocation

^eU.S. Department of Labor estimate

^fOTA estimate

NOTES Trade Readjustment Allowances (TRAs) provide income support during unemployment or training. Job search expenditures are for job searches outside the workers' commuting area.

SOURCES U. S. Congress, House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, 1987 Edition* 100th Cong., 1st sess. Committee Print WMCP 100-4, Mar. 6, 1987, pp. 318, 320; U. S. Department of Labor, Office of Trade Adjustment Assistance

co-workers, or the company, belatedly as a rule. Workers and unions typically lost 7 months in getting petitions filed, and another 2 or 3 months after the workers were certified, often because State agencies failed to notify them that they were now eligible for benefits.

The other main factors in the delay were that the Labor Department generally took much longer than the 60 days allowed under the law to process petitions for certification. As more petitions were filed, backlogs grew and delays of 5 or 6 months before certification were common. State agencies added more delays in checking out individual workers' eligibility and benefits. Thus, by the time the average claimant got his first check, 14 to 16 months had gone by.

These delays were part of the reason for the failure to deliver adjustment services. The majority of workers had taken a job in the year or more that it took for government help to reach them; at this point there was little to be done for them, other than giving them a lump sum retroactive payment. Also contributing to the failure was the fact that workers did not

know that training or other adjustment services were available. One study found that only one-third knew about the possibility of training; one-fifth had heard of job counseling, testing, and job referral services; and one-eighth knew about the out-of-area job search allowance and reimbursement of moving expenses. ^a

Generally, the ES offices did not push these services. A principal reason was that the States never got any extra training or relocation funds for TAA-certified workers. Despite the provision in the Trade Act for a TAA trust fund, the Office of Management and Budget refused to set it up, arguing that employment and training services were available under the Comprehensive Employment and Training Act (CETA). Yet CETA was designed primarily for disadvantaged workers; the Department of Labor set aside only very limited CETA training funds for the TAA clients. Moreover, applying to CETA for training was both a bureaucratic and psychological hurdle for TAA-eligible workers. In fact, in the 2 years 1980-81, over 80 percent

^aCorso n, et al., op. cit., p. 127.

of TAA-certified workers in training paid their own tuition and fees; TAA did give them income support, however, in the form of TRAs.

Another likely reason for the neglect of adjustment services was that the Employment Service, which was supposed to provide them, had other clients to serve and other legally set priorities—in particular, to serve disadvantaged jobseekers. According to GAO, many officials and staff of the Labor Department's regional offices, State agencies, and local ES offices saw no reason why displaced trade-affected workers should go to the head of the queue for such services as testing, counseling, and referral to training.⁹ Considering the scant attention given to training and the lack of funds for it, it is not surprising that the Department of Labor never enforced the provision under which TRAs could be withdrawn if a TAA client refused training that was recommended for him,

Even if training and relocation services had been offered much more effectively, it is by no means certain that many workers would have made use of them. At that time, few adult workers with a steady work history had experienced long-term displacement. Most had been through layoffs and recalls before, and probably expected to be recalled again, eventually. The old job usually offered better pay and benefits than any new job available through training, so that holding out for a recall seemed to many at the time a better choice than retraining. And they were right—at least for a brief time. Only later, in the 1980s, did widespread displacement and permanent loss of the old job become a reality for millions of adult workers.

While the TAA program expanded in the half dozen years after 1975, the mix of industries affected by trade changed considerably. In the earlier years, 1975-79, most of the certified workers were from the leather, shoe, textile, and apparel industries (see table 2). In 1980, auto workers accounted for most of the enormous rise in certifications. The soaring number of TAA-certified workers and the great rise

in spending pushed the program into notoriety. The studies showing that the majority of TAA clients had gone back to their old jobs, that most were back at work when they collected TRAs, and that training and relocation services were scarcely used, made TAA a prime target for cost cutting as the Reagan Administration took office in 1981.

Cutback and Regrowth: 1981-87

In the Omnibus Budget Reconciliation Act of 1981 (OBRA) Congress reconstructed the TAA program for workers to cut its costs, pull away from income compensation for temporary layoffs, and once more emphasize training and other adjustment measures for the permanently displaced. The major change was to cut back TRA benefits. The TRA was reduced to the same level as the worker's UI payment (differing under various State laws), and payment could begin only after the worker's UI was exhausted. The overall limit for UI plus TRAs remained at 52 weeks, with 26 additional weeks for workers in approved training. The extra 26 weeks for older workers was abandoned.

OBRA extended the program for 1 year only. Later legislation extended it for another 2 years, and then for briefer periods through December 19, 1985, at which time authority temporarily lapsed, to be restored in April 1986.

No changes were made in the criteria for TAA eligibility,¹⁰ but the number of workers certified dropped steeply after 1981, and so did spending. In fiscal year 1982, expenditures for TAA for workers were \$121 million, less than one-tenth the levels of the 2 previous years, and for the next 3 years dropped still lower, to about \$54 to \$73 million. The number of workers applying for benefits declined from the 1980 peak, possibly because of a widespread misapprehension that the program was abolished. More important, the percentage of workers approved for certification by the Labor Department de-

⁹U.S. Congress, General Accounting Office, op. cit., pp. 15-16.

¹⁰OBRA did tighten the criterion for eligibility slightly, but the change never took effect. The change was to require that imports be a "substantial" rather than an "important" cause of declines in employment and sales or production. The change was rescinded before it was scheduled to take effect.

Table 2.—Workers Certified for Trade Adjustment Assistance, by Selected Industries, Fiscal Years 1970-86

SIC	Industry	970-74 ^a	1975 ^b	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	total
22	Textile mill products	2,835	395	3,418	2,305	5,200	9,112	2,237	485	170	280	3,321	882	1,973	29,778
23	Apparel/other textile products	—	1,072	11,781	7,860	25,195	43,146	21,675	4,458	5,497	3,359	3,696	4,788	13,296	145,823
30	Rubber/miscellaneous plastics products	5,232	184	2,001	6,681	3,704	9,900	11,152	52	207	470	176	258	6,009	40,794
31	Leather/leather products	3,867	4,115	9,063	13,495	16,319	21,397	6,753	1,537	1,705	3,759	7,057	4,509	4,716	94,425
—314	Footwear, except rubber	—	4,115	8,243	12,147	13,610	16,890	5,223	393	416	3,410	6,535	3,594	3,047	77,623
33	Primary metal industries	400	615	26,858	46,179	40,489	2,492	1,142	3,885	126	11,147	7,794	1,342	10,908	152,977
—331	Blast furnaces/basic steel products	—	—	26,729	45,788	39,502	2,057	552	437	126	8,570	6,542	372	260	130,935
35	Machinery, except electrical	676	1,885	1,005	32,569	2,624	2,943	3,802	4,254	2,805	1,866	4,869	4,457	8,626	71,705
—354	Metalworking machinery	—	—	548	2,472	—	63	253	—	3	—	1,128	32	3,211	7,710
—3573	Electronic computing equipment	—	189	63	—	—	—	—	—	—	—	432	380	1,287	2,351
36	Electrical/electronic equipment	20,887	9,954	10,906	7,027	15,590	5,467	13,059	3,622	089	1,470	6,512	1,820	13,634	91,150
—3651	Radio/TV sets	—	5,992	2,779	2,955	10,702	1,654	2,433	115	166	258	1,368	310	6,387	35,119
—3674	Semiconductors/related devices	—	2,900	3,098	402	240	147	1,574	70	—	292	—	—	1,665	10,388
37	Transportation equipment	2,150	6,175	40,242	17,671	14,992	4,919	592,205	21,397	65	0,098	2,417	547	5,385	726,113
—371	Motor vehicles/equipment	—	3,727	39,843	17,671	11	2,136	591,838	18,856	65	8,714	1,805	250	514	695,430

^aThrough Apr. 2, 1975.^bApril 1975 through September 1975.

SOURCE: U.S. Department of Labor, Office of Trade Adjustment Assistance.

clined sharply. Approvals, which had held at about 65 percent through 1970s and rose above 80 percent in 1980, dropped to 15 and 12 percent (table 3).

The decline in certifications was in line with the new Administration's efforts to cut spending; according to GAO, borderline petitions that would previously have been approved were now rejected.¹¹ Also, all petitions for 50 or more workers began to receive special scrutiny; for a period all were personally reviewed by the Assistant Secretary of Labor with responsibility for the program. Certifications of auto workers dropped steeply. Over 90 percent of auto workers petitioning for certification got approvals in 1980, 22 percent in 1981.¹² In 1982, petitions covering just 65 auto workers were approved; this compares with about 592,000 in 1980 and 19,000 in 1981 (figure 3; table 2 shows details).

Another change in the TAA program for workers was in the patterns of activity and spending. In relative terms, training took on greater importance. Some 214,000 workers were approved for TAA benefits in the 5 years 1982-86. In the same period, a total of 139,000 received TRAs and 39,000 entered training. About 9,000 received relocation assistance and 4,500 got help with out-of-area job search. (The numbers of workers receiving training, out-of-area job search, and relocation assistance are not additive; some workers may have received

¹¹U.S. Congress, General Accounting Office, *Information on the 1974 Trade Act Worker Adjustment Assistance Program Certification Process* (Washington, DC: 1982).

¹²The Labor Department stated that many petitions in 1981 were from auto dealers, which were ineligible because they were service firms, and from auto parts makers, which were ineligible because the parts they made were not being imported. However, only about 700 workers in auto dealerships petitioned in 1981; all were denied. Petitions from final auto assembly plants were denied in the same proportion (78 percent) as from auto parts plants. In 1981, the Labor Department approved TAA petitions covering 11,929 workers from firms making motor vehicle parts and accessories (SIC 3714) and rejected petitions covering 41,563 workers. The same year, petitions covering 6,927 workers from plants making motor vehicles and car bodies (SIC 3711) were approved, and petitions covering 24,384 such workers were rejected. In 1982, 64 workers from motor vehicle parts and accessories were certified and 4,680 rejected; 1 worker from motor vehicles and car bodies was certified and 4,245 were rejected.

Table 3.—Workers Certified for TAA as a Percentage of Workers Applying

Fiscal year for certification	Workers applying	Workers certified	Percent certified
1970-75 ^a . . .	121,330	53,899	44 ^b /0
1975 ^b	73,036	34,879	48
1976	219,641	144,396	66
1977	183,218	116,726	64
1978	255,452	165,866	65
1979	214,856	140,079	65
1980	840,794	684,766	81
1981	354,863	51,072	14
1982	157,549	19,465	12
1983	266,954	56,173	21
1984	88,133	19,688	22
1985	72,001	25,339	35
1986	168,005	93,132	55
1987 ^c	190,000-255,000	110,000-140,000	55-58

^aThrough March 1975

^bFrom April 1975 to September 1975

^cOTA estimate, based on first and second quarters, fiscal year 1987

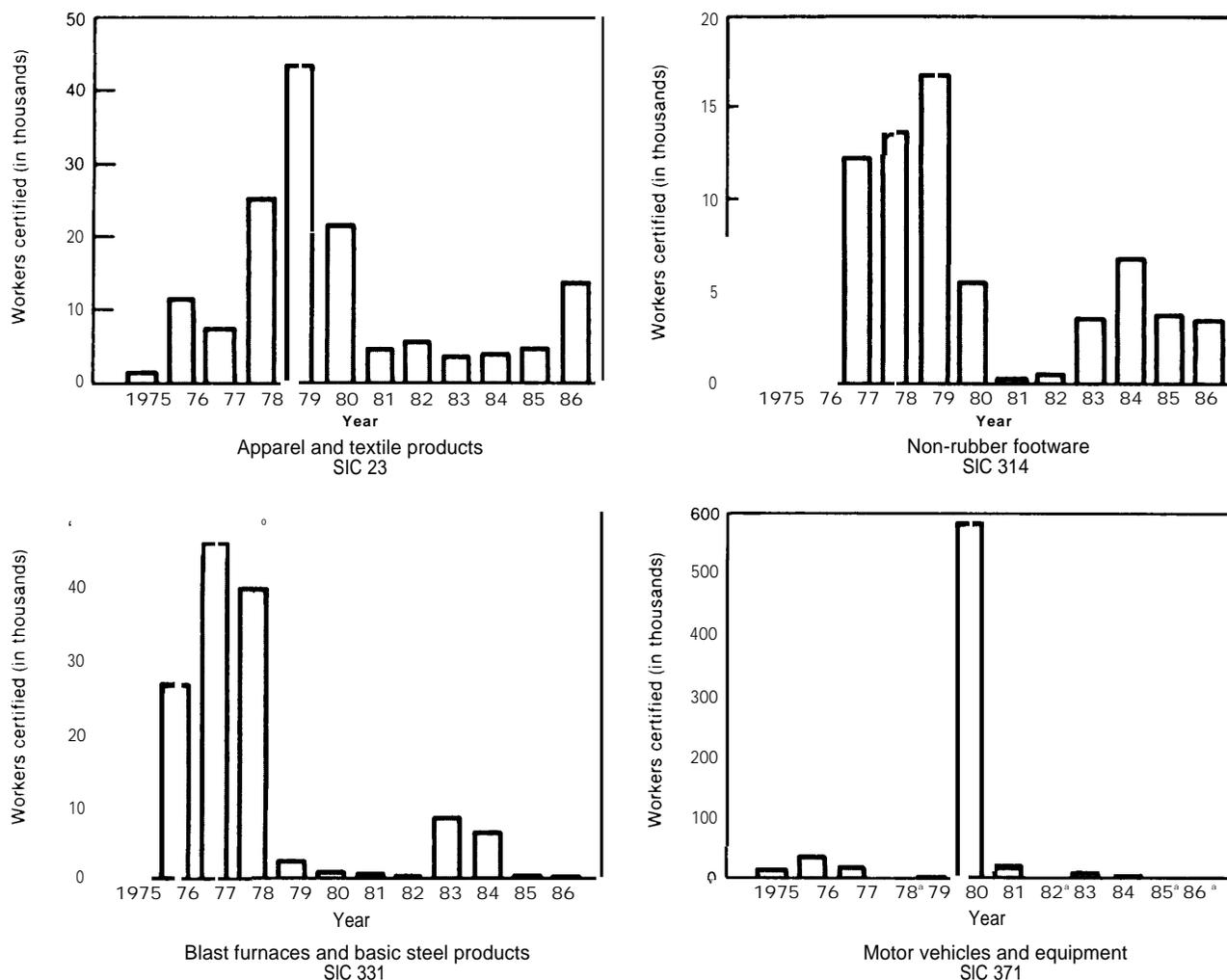
SOURCE: U.S. Department of Labor, Office of Trade Adjustment Assistance

two or three of the services.) Although the numbers of TAA-certified workers receiving training were no greater than in earlier years (see table 1), the proportion of those certified who entered training was much larger (18 percent, versus under 4 percent). During the deep recession of 1982-83, more workers than ever before took advantage of relocation assistance,

The increased emphasis on training reflected easier access to training funds. In 1982, for the first time, Congress earmarked funds specifically for training and relocation services. The appropriation for several years was about \$26 million, with \$3.9 million for administrative expenses added in 1985. Cuts required under the Gramm-Rudman-Hollings deficit reduction law lowered the combined funds to \$28.5 million in 1986; the \$29.9 million appropriation was restored in 1987.

In its most recent years, 1985 through early 1987, the TAA program for workers survived uncertainty, the lapse in legal authority, and proposals by the Reagan Administration to abolish it. Under a new Secretary of Labor, TAA for workers began once more to expand. In 1986 and 1987, petitions for eligibility and requests for training rose fast. At the same time, the percentage of workers approved for certification increased to about 55 percent—not far below the 65 percent that was typical in the

Figure 3.—Workers Certified for Trade Adjustment Assistance, by Selected Industries, 1975-86



^aNumber of workers certified was less than 500

SOURCE U S Department of Labor, Office of Trade Adjustment Assistance

1970s. In fiscal year 1986, over 93,000 workers were certified, and \$119 million was spent for TRAs, compared to \$35 to \$40 million per year in the 3 previous years. In the first half of fiscal year 1987 (October 1986 to March 1987), more than 69,000 workers were certified (an annual rate of up to 140,000) and the Department of Labor estimated that \$176 million would be spent for TRAs by the end of the fiscal year.¹³ Demands for training in early 1987

¹³TRAs are not funded by a line item appropriation, but are drawn from the Federal "Unemployment Benefits Account (footnote continued)

(FUBA), which is mostly spent for TRAs. General revenues support the FUBA account; if it is exhausted before the end of the year, funds can be advanced from the Advances Account of the Unemployment Trust Fund and Other Funds Accounts. FUBA is currently in good financial shape because it can tap funds that were intended for the Black Lung Trust Fund, but because of a change in the law are not needed. Without this windfall, it is not likely that FUBA would have had enough money to pay for TRAs in fiscal year 1987, unless Congress provided it in a supplemental appropriation.

The Labor Department's estimate of \$176 million for TRAs in fiscal year 1987 appears very conservative. It is based on an estimate of 55,000 workers receiving TRAs for an average of 22 weeks, with the average payment \$147 per week. Since 93,000 workers were certified for TAA benefits in fiscal year 1986, and (footnote continued)

were great enough that Labor Department officials expected funds to run out before the end of the fiscal year, and were rejecting or paring down requests from the States for training funds.

The future of the TAA program for workers was placed in doubt in February 1985, when the Administration proposed in its 1986 budget to abolish TAA and rescind what was left of the \$26 million FY 1985 appropriation. The reason given was that TAA was unnecessary, since the Title III program under the Job Training Partnership Act could be used to serve all displaced workers. The programs are not identical, however. TAA offers more generous support for training, out-of-area job search, and relocation assistance, and provides extended income support during training. TAA also had continuing political support, on the grounds that workers injured by a trade policy meant to benefit the entire Nation deserve special assistance or compensation. Congress did not act on the rescission proposal, and it expired in April 1985.

In December 1985 the program lost its legal authority. Congress failed to pass budget reconciliation legislation that would have reauthorized the program, opened it to more workers, and provided a new source of funding through a small tariff on all imports. Although Congress adjourned without passing the bill, the floor debate indicated strong congressional interest in keeping the program alive; also, a continuing resolution provided funds to keep it going. During the lapse of legal authority, the Department of Labor continued to certify workers and to provide training and relocation services (although not TRAs).

Authorization for TAA was restored in April 1986 in the Consolidated Omnibus Budget and Reconciliation Act of 1985 (COBRA), which extended the program through the end of 1991. This was the longest extension since TAA was overhauled at the outset of the first Reagan

Administration; for the first time in 6 years, the program appeared to have a stable future.

The act also made substantial but not radical changes in the TAA program for workers. It extended the period of eligibility for benefits, because rules related to date of layoff had previously kept some workers from getting their full share. It renewed emphasis on training, requiring that State agencies must advise every worker who applied for TRAs to apply for training, must let the worker know of suitable training opportunities within 60 days, and must approve training, so long as five criteria were met: no suitable job is available, training is available, the worker will benefit from training, can expect to complete it, and can reasonably expect to get a job afterwards. Workers were not obligated to enter training, however, as a condition for getting TRAs. They were obligated to take part in a job search skills workshop or job finding club, unless no acceptable job search program was reasonably available,

With the renewal and apparent stability of the TAA program came a rising tide of applications for benefits. For fiscal year 1987, TAA for workers was expected to cost about \$206 million—nearly as much as the \$223 million appropriation for the JTPA Title III program, which is open to all displaced workers, regardless of cause. The projection of 110,000 to 140,000 workers certified for TAA in fiscal year 1987 compares to about 146,000 displaced workers newly enrolled in Title III programs in the most recent reporting period, July 1985 to June 1986.

Trade Adjustment Assistance for Firms

TAA for firms was created at the same time as the program for workers, in the Trade Extension Act of 1962. It has gone through substantial changes in character since it was created 25 years ago. Like TAA for workers, it was dormant in its first dozen years. As it expanded in the 1970s, it was primarily a financial aid program, offering loans and loan guarantees to firms that were in trouble because of import competition. Technical assistance was at first a small component but soon came to be con-

(footnote continued from previous page)

69,000 were certified in the first half of fiscal year 1987, the estimate of 55,000 seems low, Labor Department spokesmen told OTA the estimate might be revised.

sidered more valuable than financial assistance. A feature added in the later 1970s was industrywide assistance; a few industries began to get technical and export assistance, usually through industry associations. In the 1980s, the Reagan Administration initially backed technical assistance for firms but soon shifted and made the program a target for abolition. In fiscal year 1987, TAA for firms was barely kept alive; the Commerce Department granted only brief, uncertain extensions of authority and funds to service providers.

Over the years, TAA for firms has had less visibility and political support than the TAA program for workers; and even at its height, cost a good deal less. It is now a small program for technical assistance only, funded at \$15.8 million in fiscal year 1987; loans and loan guarantees were dropped in the last law Congress passed reauthorizing the program. Despite its modest scale and its bare survival at present, TAA for firms is, with a few special or minor exceptions, the only Federal program that provides sustained, in-depth technical help to small and medium-sized manufacturing companies. Thus its experience may shed some light on the potential and problems of a government-sponsored industrial extension service for firms.

The TAA program for firms is administered by the Office of Trade Adjustment Assistance, in the Commerce Department's International Trade Administration (until 1981, the Economic Development Administration was responsible for the program). The Commerce Department does not directly provide technical assistance to firms, but gives grants to 12 independent nonprofit agencies, Trade Adjustment Assistance Centers (TAACs), which provide the technical services. The Department decides on petitions for certification, and keeps a tight rein on the TAACs, retaining the power to approve assistance plans and contracts for consultants.

The Early Years: 1962-74

Under the 1962 law, eligibility for the TAA firm program was just as restrictive as for the worker program. In order for a firm to qualify,

the Tariff Commission would have to find that the firm was suffering "serious injury" from imports as a result "in major part" of trade concessions. In determining serious injury, the Commission was to take into account all economic factors it considered relevant, including idling of productive facilities, inability to make a reasonable profit, and unemployment or underemployment in the firm.

A firm that got certification could apply for technical, tax, or financial assistance. Once certified, the firm could carry back or carry forward current operating losses for 5 years, and apply for any tax refund or credit that might result. The firm could also receive technical assistance from a public agency or private provider, sharing in the cost as determined to be appropriate by the Commerce Department. The firm could get loans or loan guarantees under the program only if the financial assistance were not available privately or from some other existing government program. The loans were to be used primarily for plant or equipment, but in exceptional cases could be made for working capital,

Through 1969, the Tariff Commission approved no petitions for adjustment assistance. No firms were certified, and none received any help. After the eligibility rules were revised in 1969, 39 firms were certified; 16 were approved for loans and loan guarantees, which amounted to \$32.5 million, of which \$14 million went to two plants. This was the extent of firm assistance in the first dozen years of TAA.

Years of Expansion: 1975-81

The Trade Act of 1974 relaxed eligibility rules for firms on the same terms as for workers. It also dropped tax assistance, limited loans to \$1 million and loan guarantees to 90 percent of \$3 million, and required that firms pay at least 25 percent of the costs of technical assistance.

With the relaxation of eligibility rules and transfer of the program from the Tariff Commission to the Department of Commerce, it was expected that more firms would apply for assistance under TAA. They did, but not to the ex-

tent expected. The Trade Subcommittee of the House Ways and Means Committee reported in 1977 that in the first 2 years under the Trade Act 73 firms were certified, and 18 applications for financial assistance were approved, for a total of \$19.1 million in loans and loan guarantees.¹⁴ A year later, the General Accounting Office also concluded that the program was little used—and that the few firms getting TAA benefits (mostly loans) had not used them to become viable.¹⁵

TAA was criticized for the amount of paperwork involved in applying for the program, and resulting delays; firms complained of high interest rates for loans and requirements for personal repayment guarantees.¹⁶ The Trade Subcommittee of the House Ways and Means Committee said that TAA represents a “classic Catch 22 situation.” Firms could not get help until their sales and/or production and employment were already declining. To get loans, firms had to show they were unable to get financing in the commercial market—but at the same time had to provide assurances of repayment.

The Commerce Department introduced TAA assistance for an entire industry in 1977, using existing authority of the Economic Development Administration. American makers of footwear were suffering from foreign competition, imports having risen from one-fifth to one-half of consumption since 1968 while employment declined 29 percent. The International Trade Commission recommended a quota, but President Carter rejected the proposal. Instead, he proposed an Orderly Marketing Agreement, under which Korea and Taiwan agreed to limit imports for 4 years, and the concerted use of several government programs, including TAA,

to help both individual footwear firms and the industry as a whole.

TAA industrywide assistance for the footwear industry included technological studies (by the government, universities, and private industry) and export promotion, in cooperation with the industry association. Individual firms were targeted for TAA help; in 1977-78, 60 percent of firms certified were in the footwear industry, compared with 20 percent previously.” At the time there were 376 non-rubber footwear companies in the United States; 56 were certified by the end of January 1978. Information is incomplete on how much assistance these firms actually received; according to GAO, approval of loans was slow, and technical assistance was not yet a major part of the TAA program for firms.¹⁸ The effort to revitalize the American shoe industry did not stop the industry’s decline, though the losses may have been moderated; by 1984 imports were 70 percent of U.S. consumption, and employment in the U.S. industry was about 95,000, down from 233,400 in 1968.

Other industries besides footwear also began getting technical assistance in 1978 (table 4). The biggest recipient was the textile and apparel industry, which got nearly \$20 million for technological assistance and export development through fiscal year 1986. TAA funds contributed to the cooperative public-private project of the Textile & Clothing Technology Corp. (TC²), to develop automated methods of sewing. Other projects included helping the American electronics industry and an auto parts industry association set up offices in Tokyo, to serve as marketing, public information, and public policy centers.

In 1978 the Commerce Department also established a new way of offering TAA assistance to firms. Instead of providing it through consultants on contract, the Department set up private non-profit Trade Adjustment Assistance Centers (TAACs) in several regions of the Nation, to deal with firms applying for TAA help,

¹⁴U. s. Congress, House of Representatives, Subcommittee on Trade of the Committee on Ways and Means, *Background Materials on the Trade Adjustment Assistance Programs Under Title II of the Trade Act of 1974* (Washington, DC: U.S. Government Printing Office, 1977).

¹⁵U. s. Congress, General Accounting Office, *Adjustment Assistance to Firms Under the Trade Act of 1974—Income Maintenance or Successful Adjustment?* (Washington, DC: U.S. Government Printing office, 1978).

¹⁶161 bid., and U.S. Government, House of Representatives, op.cit.

¹⁷U.S. Congress, General Accounting Office (1978), op.cit.

¹⁸81 bid., pp. 42-43.

Table 4.—Trade Adjustment to Firms and Industries, Fiscal Years 1978-86—Technical Assistance
(thousands of dollars)

	Assistance to firms				Industrywide assistance					Technical assistance Total
	TAAC ^a agreements	TAAC support	Direct firm assistance	Total	Footwear	Apparel/textiles	Other	Multi-industry projects	Total	
1978 .	\$ 7,359	\$ 94	\$3,100	\$10,553	\$2,437	\$1,975	\$2,675	\$36	\$7,123	\$17,676
1979 .	8,159	101	2,920	11,180	1,597	1,724	2,417	829	6,567	17,747
1980 .	9,736	180	600	10,516	2,719	3,029	1,037	56	6,841	17,357
1981 .	12,663	200	—	12,863	670	3,160	771	—	4,601	17,454
1982 .	8,695	—	—	8,695	244	2,718	382	124	3,468	12,163
1983 .	12,990	—	—	12,990	33	2,854	1,335	285	4,480	17,470
1984 .	12,951	—	—	12,951	—	1,735	800	394	2,929	15,880
1985 .	13,947	—	—	13,947	—	2,000	592	100	2,692	16,639
1986 .	5,078	—	—	5,078	—	—	1,164	—	1,164	6,242

^aTAACs are Trade Adjustment Assistance Centers

^bEDAs direct funding to firms was phased out when the TAACs were created

NOTE TAA financial assistance (loans and loan guarantees) is not shown on this table See table 5 for data on financial assistance

SOURCE Office of Trade Adjustment Assistance, International Trade Administration, U. S. Department of Commerce

Operating on grants from the Commerce Department, the TAACs would take firms through the first stage of preparing petitions for certification, help them apply for loans and loan guarantees, and offer technical assistance to help firms improve their operations and gain a better chance of survival. Drawing technical competence both from their own staffs and from consultants, the TAACs were able to advise firms on problems ranging across new product development, improved manufacturing methods and work organization, financial controls, management information systems, and marketing. With the establishment of the TAACs, the program began to lean more strongly to technical assistance, though loans and loan guarantees remained a big part of it until a change of direction under the Reagan Administration.

Bare Survival: 1981-87

The TAA program for firms initially found some support in the new Administration, as a useful alternative to protectionist measures. In line with this idea, TAA was moved from the Economic Development Administration to the International Trade Administration (both in the Department of Commerce). Financial assistance was deemphasized. Loans and loan guarantees were cut back from over \$40 million per year to about \$20 million; firms getting financial assistance dropped from about 40 per year

to a dozen (table 5). The technical assistance program was pared for one year, but less drastically, and was then restored to its previous modest level of \$16 million to \$17 million per year. In the Omnibus Budget Reconciliation Act of 1981, Congress explicitly authorized the industrywide technical assistance program (previously carried out under EDA authority). Otherwise, there were few changes in the law affecting the TAA program for firms; this was in contrast to the TAA program for workers, which Congress revamped in several major ways to reduce spending.

By the next year, the situation changed. In 1982 and every year thereafter, the Administration proposed to eliminate TAA for firms. The arguments were, first, that the program did not work. This argument focused mainly on the loan and loan guarantee program. Because so many firms went bankrupt shortly after getting financial assistance, the Administration said, the program suffered from a high default rate; about half the TAA portfolio was in liquidation or written off at the end of 1983, and another 11 percent was delinquent in meeting payments. Also, the Administration argued, the fact that a firm is harmed by import competition does not justify special government assistance; this is not fair to firms that suffer from recessions or domestic competition. Besides, firms that are harmed by *unfair* import com-

Table 5.— Firms and Industries Receiving TAA Technical and Financial Assistance, Before Fiscal Year 1982 and Fiscal Years 1982-86

	Before FY 1982	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	Cumulative to date
Firms certified	1,265	195	413	398	319	178a	2,768
Petition acceptance to certification (average number of days)	52	54	57	74	48	88 ^a	57
Adjustment plans accepted (not available)		114	106	191	158	56	—
Total firms receiving DOC Direct Technical Assistance							
Assistance	176	0	0	0	0	0	176
Total firms assisted by TAACs^b							
Pre-certification	1,153	248	513	502	413	206	3,035
Post-certification	434	213	157	252	233	99	1,388
Implementation	78	62	64			137	504
Total technical assistance (\$000)							
Firms	\$70,816	\$12,163	\$17,470	\$15,8%	\$16,639	\$6,243	\$139,428
Industrywide	25,157	3,468	4,480	12,951	13,947	5,078	99,320
Firms receiving financial assistance	295	12	16	2,929	2,692	1,164	40,108
Total loans (\$000)							
Direct loans	\$321,778	\$19,289	\$15,784	\$23,900	\$3,400	\$ 900	\$385,051
Guaranteed loans	187,781	2,527	7,935	7,500	400	900	206,957
Total	133,997	16,762	16,400	16,400	3,000	0	178,094

^aBetween Dec 19, 1985, and Apr. 7, 1986, there was a lapse in the authorization for the trade adjustment assistance program for firms during which petition processing was suspended.

^bDouble-counting is unavoidable, since most firms receive more than one major category of TAAC assistance. Only completed projects have been counted beginning in fiscal year 1979, in-process projects are carried over to the next year, and inactive projects are not included.

^cFinancial assistance to firms was discontinued on Apr. 7, 1986, upon enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985.

SOURCE Office of Trade Adjustment Assistance, International Trade Administration, U S. Department of Commerce.

petition can appeal for protection under the trade laws.¹⁹

In its fiscal year 1986 budget, submitted to Congress in February 1985, the Administration asked for an immediate end to both TAA programs, and a rescission of fiscal year 1985 funds. Under the Congressional Budget and Impoundment Control Act of 1974, Congress has 45 working days to consider an Administration request to rescind funds already appropriated for the current fiscal year; unless both Houses approve the request within the 45 days, it fails. During the time the rescission request ran, the Department of Commerce approved no new grants for TAA firm assistance; but that had little practical effect, because most of the TAACs, which provide the technical assistance, continued to operate on yearlong grants that had already been awarded. The loan program became virtually a dead letter, however. Al-

though money was available for financial assistance, only two firms got loans or guarantees in fiscal years 1985 and 1986, after delays of up to 2 years.

The TAACs and the firm assistance program had no protection when authority for both TAA programs lapsed in December 1985. The Department of Labor continued training and relocation assistance (but not Trade Readjustment Allowances) for TAA-certified workers, under funding Congress had provided in a continuing resolution. The Department of Commerce ordered all TAACs to stop services to their clients and close down their offices entirely by March 31, 1986.

In the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), signed into law on April 7, 1986, Congress revived both the worker and the firm TAA programs. The law ended financial assistance for firms; only technical assistance remained. The Senate and House Appropriations Committees, in providing \$15.8 million for the firm program in fiscal year 1987 (\$13.9 million for grants, the rest for administration) directed that the Department of Commerce continue to provide technical

¹⁹The Administration arguments against the TAA program for firms are cited in U.S. Department of Commerce, Office of Inspector General, *International Trade Administration Trade Adjustment Assistance: No Cure for Import-injured Firms*, report No. D-068-5-006 (Washington, DC: Department of Commerce, 1985), p. 2.

assistance through the TAACs. The Department interpreted this direction to mean that no money was available for industrywide programs.²⁰

Despite the new legislative lease on life, TAA for firms barely survived the next year. First, the Department of Commerce instructed all TAACs to resubmit their proposals for grants; in effect, they had to start over. Most of the TAACs received new grants by the following August, but the grants were short-term, running only through the end of December 1986. In January 1987, in submitting its fiscal year 1988 budget, the Administration again proposed to end the TAA program for firms, and asked for rescission of fiscal 1987 funds. The TAAC agreements were extended for 2 months,

²⁰In a supplemental appropriations bill for fiscal year 1987, the House Appropriations Committee stated in its report: "The Committee did not intend to prohibit fiscal year 1987 funds . . . from being used for industry project grants. The Committee expects ITA to make funds available for this activity out of the total amount appropriated for TAA for FY 1987, at approximately the same level as was made available for this activity in FY 1985 and FY 1986"—that is, about \$1 million per year,

through the end of February 1987; most of the extensions were on existing funds, with no new money. Then some small grants were doled out, with extensions through the end of March. The rescission request expired that month with no action by Congress. The Department of Commerce then gave the TAACs an extension to June 15, 1987, with limited grants from the fiscal 1987 appropriations. Of \$13.9 million available for TAAC grants for the year, \$2.2 million had been released by the end of April 1987. In May 1987, the Commerce Department finally requested refunding proposals from the TAACs, for the period June 1987-May 1988. Meanwhile, in dealing with interruptions, short-term extensions, and lack of money over a period of 16 months, most of the TAACs found they were virtually unable to deliver assistance to their clients,²¹

²¹In March 1987, OTA interviewed directors of 11 of 12 TAACs (all but one that had just been established): all reported serious disruptions of service to clients during the previous months of interrupted and uncertain funding. Other results of the interviews are reported in the section entitled, *Trade Adjustment Assistance for Firms and Industries: Issues*.