

TRADE ADJUSTMENT ASSISTANCE FOR WORKERS: ISSUES

The stated aim of Trade Adjustment Assistance for workers is to help people who lose their jobs because of imports learn new skills and find good new jobs. The main issue in evaluating TAA is whether it does this job well.

By its nature, TAA cannot include all the features that make a displaced worker program most effective. In a 1986 study of worker displacement, Technology and *Structural Unemployment: Reemploying Displaced Workers*, OTA found several common ingredients of success in projects serving displaced workers, regardless of the details of their design. These common factors are:

1. help for workers is ready early, preferably before people are laid off;
2. services are offered all together, in a one-stop center, on the premises where the layoffs take place or as nearby as possible;
3. employers and workers are directly involved in planning and delivering services; and
4. the projects offer a full range of services, including testing, assessment, and counseling; training in job search skills and searching out job opportunities; and arranging for training in new skills or in basic educational skills, when workers are lacking in such skills.¹

With TAA alone, it is scarcely possible to begin serving workers before layoff, since they must first be certified as trade-affected; this takes several weeks at the least and in the past has often taken several months. There is no provision under TAA for employers and workers to cooperate in the delivery of services; the Unemployment Insurance (UI) and Employment

Service (ES) offices are charged with this task. As for offering a full range of services, it is theoretically possible for the ES to do counseling, assessment, job development, and so on for TAA-certified workers; in practice, the ES has never done much in the way of providing these services to its clients, and with the staff and funding cuts of recent years is now doing even less.²

To get the benefit of early response, one-stop services in the plant or nearby, employer-worker cooperation, and a full range of services, displaced workers must go elsewhere than TAA. Projects funded under Title III of the Job Training Partnership Act can offer all these features; not many, so far, do. But it is at least possible. The States administer Title III; many of them are striving to create programs that include the desirable features described above. TAA has its own special advantages for workers—mainly, the possibility of generous support for training and extended income benefits for people out of work. Thus, States which are adept at combining the best features of the two programs can offer first-class service to TAA-certified workers (assuming the funds for training and relocation assistance hold out). A few States are doing this very well, and offering an example to others,

An alternative to coordination would be to revise the law so as to roll TAA and Title III into one comprehensive adjustment assistance program open to all displaced workers. Most of the issues related to eligibility and certification of trade-affected workers for TAA would disappear if the two programs became one. So would the management problems of coordinating TAA and Title III. However, no proposal before Congress for a single program includes all the useful features of both programs, in particular, the long-term income support now available to TAA-certified workers in training. Also, the equity argument for TAA—that workers bearing the heaviest costs of the Nation's

¹ 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), ch. 6 and passim. For another report that emphasizes many of the same elements in successful displaced worker projects, see *Economic Adjustment and Worker Dislocation in a Competitive Society*, Report of the Secretary of Labor's Task Force on Economic Adjustment and Worker Dislocation (Washington, DC: U.S. Department of Labor, December 1986).

² U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., p. 198.

free trade policy deserve special consideration—has strong bipartisan support.

Many of the other issues that concern administrators of TAA and Title III programs come down, essentially, to money. TAA-certified workers in approved training courses are entitled to an extra year of income support; workers in Title III projects are not. This is a money issue. Shoe workers are usually certified for TAA; workers who make rubber heels for those shoes are not. The eligibility rule that causes quirks like these is principally a money issue. In the detailed discussion that follows, it may be helpful to keep in mind the larger, simplifying issues of how much the Nation is willing to pay for help to displaced workers, and whether workers injured by our trade policies need special adjustment assistance,

The Equity Argument for TAA

The equity argument is the main rationale for a Program of benefits restricted to trade-affected workers. Despite some difficulties and outright failures in program administration, TAA as a separate program is popular with its beneficiaries. Labor unions representing large clusters of trade-affected workers are strong advocates of TAA. Many individual workers feel more at home in the local Unemployment Insurance office, where Trade Readjustment Allowances are administered, or in the Employment Service, which supervises TAA training and relocation benefits, than in an unfamiliar JTPA project center.

The equity argument can be turned upside down, however. In asking for an overhaul of the TAA program for workers in 1981, President Reagan appealed to fairness as the reason for abolishing extra benefits under TAA. He said:

[W]e wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are laid off due to domestic competition. Anyone must agree that this is unfair.³

³I Address Before a Joint Session of the Congress on the Program for Economic Recovery, Feb. 18, 1981, *Public Papers of the Presidents of the United States, Ronald Reagan*, 1981, p. 111.

Another objection to a special assistance program for trade-affected workers is that it is difficult to pinpoint the cause of worker displacement. This is more true today than when the program was created; in 1962, U.S. involvement in world trade was much slighter than it is now, and trade-affected workers easier to identify. In today's world, worker displacement results from a combination of causes, hard to disentangle—competition from imports, domestic competition, and automation in response to competition, as well as changes in consumer tastes and failures of management. Under the law and Labor Department regulations, the certification of workers for TAA seems to be quite reliable in excluding workers who are not affected by trade, but it is not so good at including all those who *are* affected, at least indirectly. Inevitably, the distinctions between those who get benefits and those who don't are sometimes unfair or illogical; and the whole process of applying the distinctions takes time. These are unavoidable features of a program targeted to just one class of workers—those affected by trade,

As part of its evaluation of TAA for workers, OTA interviewed the administrators of TAA and Title III programs in 39 States, on strengths and weaknesses of the two programs and coordination between them.⁴ Many of these officials favored combining the two programs, both for administrative simplicity and for equity. Because of the intricacies of eligibility for TAA, there may be two classes of workers within a single plant, or even among partners on the assembly line. Foreign competition has strong indirect impacts, said one State official, so why restrict some benefits only to those directly

⁴OTA requested interviews with program administrators in 40 States, including all that had any substantial number of TAA-certified workers in fiscal years 1985 and 1986; interviews were conducted in all but one of these States. Most of the interviews were by telephone; many of the States provided written answers to a brief survey as well. OTA staff visited one State (Massachusetts) for interviews. The States interviewed were Alabama, Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia, Washington, Wisconsin, Wyoming.

Box A.—Are GM Auto Workers Trade-Affected? Under TAA Rules, Maybe Not

General Motors has announced plans to close 11 assembly and stamping plants in Illinois, Michigan, Missouri, and Ohio, and eliminate 29,000 jobs. Whether all, or any, of these workers will be certified for Trade Adjustment Assistance benefits is doubtful.

When workers petition the Department of Labor for TAA eligibility, the Department examines the record of their company over the past 2 years. It looks for evidence that sales or production declined in that period, that employment has declined or threatens to, and that an important factor in the declines was desertion by the firm's customers in favor of an import. The law, and the Labor Department's interpretation of the law, require that the influence of imports must be recent, direct, and specific to that firm if the laid-off workers are to qualify for TAA.

Clearly, the U.S. auto industry has been buffeted by import competition in the past decade. Foreign cars increased their share of the American market from 17.9 percent in 1978 to 26.7 percent in 1980. Chrysler nearly went under. Ford closed plants while developing new designs. General Motors, the giant of the industry, also closed some plants, but postponed massive retrenchment while looking for ways to meet the new competition. Since 1980, the share of auto imports has steadied at about 28 percent, partly as a result of voluntary export restraint by Japanese automakers; but reverberations from the great rise in imports are still being felt throughout the industry. General Motors, having lost out to domestic as well as foreign competitors and operating many plants at 60 and 70 percent capacity, is now closing plants on a large scale.

In the four States most affected by the scheduled GM closings, directors of programs for displaced workers (TAA for trade-affected workers and Title III of the Job Training Partnership Act for other displaced workers) told OTA they could be swamped by demands for retraining and other adjustment services. Without TAA funds, they are afraid they will not be able to meet the needs of all the displaced GM workers.

Recent decisions by the Department of Labor suggest that the GM workers will not qualify. Of six TAA petitions filed on behalf of GM workers from July 1986 to April 1987, five were denied, and the sixth had not been decided by the end of April. A petition from an Oldsmobile-Cadillac plant in New Jersey was denied because, the Department found, the cars from that plant were losing out to domestic competitors. A foundry in New York was turned down on grounds that the closing was due to a consolidation rather than import competition. A New York fuel systems plant was rejected because the closing was considered due to technological change.

The big cutbacks at General Motors, with the loss of thousands of jobs, aptly demonstrate the point that the causes of worker displacement are multiple and intertwined. Import competition certainly has something to do with many if not all of the GM plant closings. So has technological change, domestic competition, and GM's own management decisions. The law governing TAA does recognize this complexity; it requires a showing that import competition "contributed importantly" to a firm's decline, not that it be the only or most significant cause. But if the effects of imports are somewhat indirect or distant in time, it is likely that the Labor Department will rule against TAA eligibility for the workers.

affected—" It makes for bad feelings. " In one State (Pennsylvania) a steel company that had been certified as import-affected in one year was turned down the next—just before it closed. The reason was that there was no evidence of an increase in imports in the year of closure. "This makes absolutely no sense," said these officials. (See box A for another example, the auto industry.) Several administrators cau-

tioned, however, against losing special TAA benefits, such as greater support for training, if the two programs are combined. One said: "Our fear is they will take the worst parts of each program. "

A variant of the equity argument in support of TAA is that the program is politically necessary to defuse demands for tariff or quota pro-

tection against imports, Brookings Institution authors Lawrence and Litan, for example, say: "Rather than acceding to protectionism, lawmakers should develop effective policies for easing the dislocations induced by trade."⁵ They argue that protection can cost much more than even a generous adjustment program.

Extra Benefits Under TAA

Vocational Skills Training

In 38 of 39 States surveyed, officials cited the superior support for training under TAA as a great advantage for eligible workers. First, TAA provides income support at the level of UI benefits for as long as 78 weeks, which includes 26 extra weeks for people in approved training courses. Title III offers very little in the way of income support; though services that support training, such as child care and transportation, can be approved for reimbursement, they seldom are.⁶ As a rule, the only publicly provided income support for displaced workers in Title III training is UI, which lasts no more than 26 weeks (except when unemployment rates are exceptionally high). In addition, TAA can pay for tuition and fees for training courses that last as long as 2 years. And, until recently at least, there was more money available for training costs, per person, in the TAA pot than in Title III. Although there is no explicit time or money limit for training courses under Title III, managers have to juggle the demands of many clients for limited resources. Also, most Title III training courses are planned to be short enough to fit into the 26 weeks of eligibility for UI. In 1985, the average length of classroom training under Title III was 9 weeks.⁷

States report that the more generous support for training and income maintenance under

TAA allows workers to enroll in courses that will give them more advanced skills and the potential for a higher wage. Some workers are able to complete college degrees with TAA help. Also, having a longer period for training means that there is time for people to be assessed, and for them to make up their minds to put up with the sacrifices and make the commitments that training requires. Moreover, it allows time for those who need it to get remedial education before undertaking vocational skills training. One State JTPA manager explained that, from her point of view, there is a different mind set about training in the two programs, because (until quite recently) TAA training funds were sufficient to provide training to all the eligible workers who wanted it, "With Title III, you have to spread it thin. With TAA, it's a gift."

One or two State officials demurred on the value of TAA-funded training. One (in Illinois) said that workers sometimes "take advantage" of expensive training and lucrative income benefits that may not really be in their best interest. Another (Oregon) said, more critically, that workers play the TAA and Title III programs against each other, dropping out of JTPA when they are eligible to enter longer term TAA training, with its extended income support.

The idea that workers enter training in order to get the extra 26 weeks of TRA benefits was only rarely encountered among the State officials OTA interviewed, but it has been a cautionary note in the reports of some analysts of TAA.⁸ A more common criticism is that TAA training has been ineffective in preparing workers for jobs. Lawrence and Litan cite Labor Department figures to show that the percentage of workers completing training under TAA, and then finding jobs related to their training, was 7.6 percent from 1977 to 1981, and dropped to only 4.1 percent from 1982 to 1984.⁹ Labor Department officials say, however, that these figures cannot be taken at face value. Most

⁵Robert Z. Lawrence and Robert E. Litan, "Living With the Trade Deficit: Adjustment Strategies To Preserve Free Trade," *The Brookings Review*, fall 1985.

⁶U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., p. 436.

⁷U.S. Congress, General Accounting Office, *Dislocated Workers: Local Programs and Outcomes Under the Job Training Partnership Act* (Washington, DC: 1987), p. 47.

⁸Wee, for example, Lawrence and Litan, op. cit.; also, Robert Z. Lawrence and Robert E. Litan, *Saving Free Trade: A Pragmatic Approach* [Washington, DC: The Brookings Institution, 1986], pp. 58-59.

⁹Ibid.

placements of TAA trainees are probably never even reported because there is no follow up of participants; the placements that are reported must meet a very rigid definition that was developed to distinguish which placements could be credited solely to the efforts of ES offices.

It is notoriously difficult to evaluate the effect of training programs on job placement and earnings; most past studies are of disadvantaged workers, and show mixed but modestly favorable results. Experience with displaced worker programs, and the few statistical studies available, suggest that in well-run programs, where applicants and training courses are carefully matched, and the training is planned to meet demands in the local labor market, training in a new skill pays off. For a substantial proportion of displaced workers, on the order of 20 to 30 percent, skills training is the best way to regain the ability to earn a middle class wage. *O

The principal disadvantage to training under TAA alone, according to the State officials, is lack of guidance. In 25 of 39 States, officials of TAA or JTPA, or both, said that Title 111 projects offer far more individual counseling and assessment than the ES does for the TAA-certified workers it serves. According to GAO, 84 percent of Title III participants get some individual job counseling.¹⁰ Several State officials commented that while the sole purpose of Title III is to serve displaced workers, the ES was established as a job exchange service for everyone to use. The ES has neither the staff nor the money to concentrate on the needs of trade-affected workers—especially since the funding cuts and 20 percent staff reduction since 1981; much of the staff cut was taken in counseling.

Although TAA has administrative money equal to 15 percent of program costs, the Labor Department releases these funds only after training is approved for individual workers, not before. The lack of budgeted administrative

funds for TAA, combined with the general shrinkage of funds and staff, discourages planning for TAA activities; most ES offices do not keep any full-time staff dedicated to serving TAA-certified workers. Said one TAA official (New Jersey):

Our biggest frustration is lack of funds for personnel. We need specialists who can convince the workers to enter retraining and, if they need it, basic education.

The paucity of counseling in the ES offices means that many TAA-certified workers are on their own in choosing from a list of approved training courses. Many people experienced in training of displaced workers consider this bad practice—especially considering the fact that many displaced workers have held just one job throughout their adult lives, and have little knowledge of the job market or demand for skills. “We make no bones about it,” said one veteran project director. “We help them choose any training they’re going to take. The results are better.” A State director of displaced worker services put it this way:

TAA relies on the individual worker to know where to go. That’s too random a system. It leaves people in a self-service position. In Title III we are the motivators.

Two TAA officials (Maryland and Pennsylvania) said that the ES offices in their States do as much as they can to assess individuals and match them with appropriate training, but perhaps assessment by the ES is not entirely necessary since the institutions offering courses have their own admissions requirements anyway.

At the time of OTA’s telephone survey, early in 1987, the States’ greatest complaint about TAA training was that the money was running out. The law requires that TAA-certified be advised of opportunities for training. But State after State had proposals for training turned down or pared down, for lack of funds. Training funds had also run short toward the end of the 1986 fiscal year, but the situation was more acute in 1987. Of the \$26 million appropriation for training and relocation benefits for fiscal year 1987 (ending Sept. 30, 1987), 70 percent was obligated by January. Of the remain-

¹⁰U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., pp. 170, 250-260, and passim.

¹¹U.S. Congress, General Accounting Office, *Dislocated Workers*, op. cit., p. 50.

ing \$8 million, the Labor Department set aside half for relocation benefits, which are considered entitlements under the law. That left \$4 million for training for the last 8 months of the fiscal year.¹²

Some States could turn to Title III funds for at least some of training needs for displaced workers (assuming sufficient coordination between the two programs). But others had run out of their Title III funds for the year and had nothing left to obligate. Three-quarters of Title III funds are allocated among the States by a formula in the law, based on the State's share of the national labor force and its unemployment rate. It was these formula funds that many (not all) States had fully obligated well before half the Title III program year was over.¹³ The other one-quarter of Title III funds is given out at the discretion of the Secretary of Labor, but most of this was also obligated.¹⁴

Out-of-Area Job Search and Relocation

As with training, there is no explicit limit on what Title III projects can pay to reimburse workers for costs of job hunting outside their commuting area, or for moving expenses. But again, the need to "spread it thin" dictates

against spending too much for any one person on costs of relocation. Few projects, in fact, put much emphasis on relocation. Under ordinary circumstances, without a good deal of help, information, and assurance of both a job and acceptable, affordable living conditions on the other end, rather few blue-collar workers consider relocating to get a new job. Middle-aged and older workers are especially disinclined to move. Not only are the costs often high—selling a home in a depressed market, abandoning family and community ties, giving up a spouse's job—but the rewards are relatively small for those who have few working years ahead of them.

Under TAA, out-of-area job search and relocation benefits are generous. They can cover up to 90 percent of outlays, with a cap of \$800 for each; and the Labor Department considers them an entitlement, which means that any certified worker who properly applies for them gets them. The number of workers getting these benefits has never been very large; about 13,300 people received relocation allowances from 1975 to 1986, and around 9,600 got out-of-area job search benefits over the years (no doubt many were the same people). In the first 3 months of fiscal year 1987, nearly 900 got relocation allowances—an annual rate of about 3,600, which would be an all-time high if it persists,

The recipients tend to be concentrated in a few States—recently, California, Minnesota, Pennsylvania, and Arizona. In Arizona, for example, both the Title III and TAA programs have been exceptionally active in supporting relocation of displaced workers. As many as 60 percent of the State's Title III clients have lost jobs in the deeply depressed mining areas, so that moving to Tucson or Phoenix, where unemployment rates are relatively low, is an attractive option. Because of competing demands for Title III money, State officials put a limit of \$650 per worker from the JTPA funds for moving costs. The TAA allowances make it possible to offer relocation help to many more workers—about 30 percent of TAA-certified workers in Arizona use it, according to State officials—and the allowances are usually larger.

¹²The full appropriation for training and relocation, including \$3.9 million for administrative costs, was \$29.9 million. As this report was completed, in May 1987, the House of Representatives had passed a supplemental appropriations bill that would provide an extra \$20 million for TAA training and relocation assistance for fiscal year 1987. The Senate Appropriations Committee had reported a similar bill, but the Senate had not yet acted.

¹³JTPA programs are operated on a program year which runs from July 1 to June 30 of the following year. Congress appropriates funds for these programs in advance, by fiscal year. For example, Congress appropriated \$100 million for Title III programs for fiscal year 1986, which began Oct. 1, 1985 and ended Sept. 30, 1986. States began spending fiscal year 1986 funds on July 1, 1986, which was the beginning of the 1986 program year. Thus, program year spending begins about 9 months after it is appropriated. In early 1987, many States had exhausted their allocations of fiscal year 1986 money. Although funds for fiscal year 1987 were already appropriated, at \$223 million for the year, States could not start spending that money until the new program year began on July 1, 1987. Not all States had exhausted their formula money; a number have not been very active in providing Title III services, and have amassed unspent funds. See the discussion of spending for Title III programs in U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit., pp. 186-189.

¹⁴In mid-March 1987, there was about \$7 million left in the Secretary's discretionary fund, to last through June 30, but there were already proposals in the pipeline for much of the remainder.

Extended Income Support

Historically, extended income support for the unemployed has been the major benefit of the TAA program for workers. From 1975 to 1986, nearly 1.5 million trade-affected workers received TRAs, and 55,000 are projected to get TRA benefits in fiscal year 1987.¹⁵ The basic benefit is a guarantee of 52 weeks of income support payments at the level of the individual worker's unemployment insurance. Since UI usually lasts only 26 weeks, TRAs cover an extra 26 weeks of unemployment. (As noted earlier, workers in training can receive TRAs for 52 weeks, added to the regular 26 weeks of UI.) TRAs are an entitlement. Once a worker is certified, and applies for his TRA within the prescribed time, he automatically gets it.¹⁶

One argument for TRAs is that trade-affected workers are likely to remain unemployed longer than the average person who is out of work, because they are more likely to have to change their industry or occupation to get a new job. Thus they need extra time to adjust—to learn a new skill or look for a different kind of job. Whether TRA payments actually help trade-affected workers' adjustment in this way is by no means certain. Some analysts argue that extended income support may be counterproductive, postponing the time when the worker must come to terms with the loss of the old job and seriously look at training, reemployment, or relocation options. One study of displaced workers (not just trade-affected workers) found that those who remained out of work the longest before finding a new job took greater than average pay cuts when they did finally get reemployed. This suggests, said the authors, that a long spell of joblessness may mean that a worker has particularly severe adjustment difficulties,

but that extended job search does not, on average, produce better jobs.¹⁷

The arguments in favor of TRAs are, first, that they are a part of the bargain government made with workers, exchanging adjustment benefits for a policy of free trade and, second, that TRAs are a small price to pay for the advantages of free trade. One analyst, advancing both equity and political arguments for TRA benefits, advocates large lump sum payments to workers displaced by trade, funded by a small tariff on imports.¹⁸ The reason for paying TRA benefits in one lump sum is that it avoids linking benefits with duration of unemployment, and thus possibly discouraging workers from finding a new job as soon as they can. According to this analysis, a payment of \$24,000 each would compensate displaced steel and auto workers for the loss of roughly one year's salary (omitting non-cash benefits),

Most of the State Title III and TAA officials interviewed by OTA were eager to keep the TRA income support feature for workers in training, indeed to extend it to all displaced workers, not just trade-affected workers. Less support was voiced for TRAs that are not tied to training. In Massachusetts, however, one ES official said that trade-impacted workers deserve a little bit extra, and that TRAs are needed especially for older workers whether they are in training or not, because it is hard for them to find new jobs. The Administration proposal to abolish TAA and replace Title III with a new worker readjustment program open to all displaced workers would allow Federal grants to be used, to a limited degree, for extended income support for people in approved training courses. To qualify, workers would have to opt for training by the tenth week of their UI benefit period. This is another approach to dis-

¹⁵As noted above, this estimate is probably on the low side.

¹⁶As noted earlier, TRAs are drawn from the Federal Unemployment Benefits Account, which receives an annual appropriation and funnels the money into TRAs. If the FUBA account runs out, as it did in fiscal year 1986 when TRAs unexpectedly mounted up to \$119 million, TRAs can be drawn from another account that supplies advances as needed for several entitlement programs. If that account runs dry, the Labor Department can ask Congress for a supplemental appropriation.

¹⁷Michael Podgursky and Paul Swaim, "Labor Market Adjustment and Job Displacement: Evidence From the January 1984 Displaced Worker Survey," report to the U.S. Department of Labor, Bureau of International Labor Affairs (Amherst, MA: University of Massachusetts, Department of Economics, 1986).

¹⁸Louis Jacobson, "Trade Adjustment Assistance: An Assessment," paper presented to the National Council on Employment Policy (Kalamazoo, MI: The W.E. Upjohn Institute for Employment Research, 1986).

couraging workers from tacking on training as a way of extending income support payments.

So long as extended TRAs are given to displaced workers who meet a quite restrictive definition of trade-affected, one might argue that it is only fair to give similar extended income support (or alternatively, lump sum payments) to all displaced workers. Almost no one does, however. One reason is that the equity argument weakens as the connection between displacement and foreign competition becomes less clearly visible. Another reason is that extending TRAs to more people would cost extra money. Assuming, for example, that about 600,000 more people per year would collect TRAs if all displaced workers were eligible, and that the average payment to a TRA beneficiary were \$3,200, the extra cost would be about \$1.9 billion per year.¹⁹

Another idea is to provide a temporary wage supplement to trade-affected workers who take new jobs at lower wage; thus, the worker would not have to be unemployed to get the benefit of income maintenance. This proposal recognizes that displaced workers usually have to take a cut in earnings when they get a new job. A temporary wage supplement, perhaps equal to half the value of a TRA payment, might encourage some workers to take a new job even at a lower wage, rather than holding out longer in hopes of getting a better one. These workers would have the benefit of getting back to work sooner than they otherwise would, gaining experience, and getting a start toward regaining some of their former earning power.

A variant of the wage supplement idea is the "reemployment bonus" that the Department of

Labor and the State of New Jersey have included in a demonstration research project in the UI system. In the experiment, workers receiving UI are offered the chance, in their seventh week of unemployment, of collecting a cash bonus equal to half their remaining UI entitlement (about \$1,500 in New Jersey) if they find a full-time permanent job within the next 2 weeks. The bonus declines by 10 percent a week, reaching zero at the end of the 18th week.

Difficulties With TAA

Some of the difficulties States report with TAA have already been touched upon. A source of great frustration at present is the scarcity of TAA money for training. The law requires that workers be advised to enter training, yet before the end of the first quarter of fiscal year 1987, the States were encountering delays, denials, and steep cutbacks in their training proposals, because the training money was fast running out.²⁰ In addition, many States concede that they do not meet the needs of their TAA clients for counseling and guidance, because their funds and staff are stretched too thin. Second only to their concern about training money, the States' most numerous complaints had to do with eligibility and certification of workers.

Delays

First, there are the delays in certification. The law allows 60 days for responses to TAA petitions, but when a flood of petitions comes in a decision by the Labor Department can drag on for 6 months or more. In fiscal year 1984, when 433 petitions covering about 36,000 workers were initiated, the average response time was close to the required 60 days. But in fiscal year 1985, over 1,000 petitions, covering 115,000 workers, came in, and in fiscal year 1986 nearly 1,300, covering 108,000 workers. Delays of several months in handling petitions were the rule, not the exception. In September 1986 the Department of Labor took several steps to speed up the response, including simplify-

¹⁹A Bureau of Labor Statistics survey in January 1986 found that 10.8 million adult workers had lost jobs from 1981 to 1986 because of a plant closing or relocation, abolition of a position or shift, or slack work. About 3.2 million of these, or about 647,000 per year over the 5 years, were without work for 27 weeks or more after displacement. According to rough estimates by the Labor Department, approximately 55,000 TAA-certified workers are expected to collect TRAs in FY 1987 for an average period of 22 weeks, with payments averaging \$147 per week. The estimate of \$1.9 billion is based on the assumption that 592,000 extra workers per year (647,000 less the 55,000 who now receive TRA payments) would each collect \$3,200 in benefits, if extended income support were open to all displaced workers.

²⁰As noted, the House had voted a supplemental appropriation of \$20 million as of May 1987, and the Senate was preparing to consider it.

ing the collection and reporting of data, and delegating some of the work to the 10 regional offices of the Labor Department. By May 1987, officials reported that 85 percent of petitions were getting a response within 60 days.

Despite this improvement, some delay is inevitable in getting TAA certification. Even if 100 percent of petitions were processed within 60 days, that much delay would still seriously hamper the delivery of employment and training services to displaced workers. One of the critical elements for success in displaced worker projects is early action. A full range of services should be ready, if possible, the day of the plant closing or layoff, when demand for assistance peaks. A lead time of 2 to 4 months *before* the layoffs is needed for planning and preparation.²¹ The law gives Title III programs wide latitude to respond quickly to plant closings; services can begin even before layoff if the employer gives notice in advance. A few States are organized to provide services effectively and quickly when plant closings or mass layoffs are announced, but most are not.²² Many States are showing a keen interest in improving their rapid response abilities; the Labor Department is helping States learn how to do it; and bills from both parties and in both Houses of the 100th Congress proposed to strengthen rapid response mechanisms. Already, the possibility is at least there in Title III programs. In TAA it is not.

Another cause of delay is that many workers who would be eligible for TAA benefits do not know the program exists until long after they lose their jobs. The Department of Labor does not make aggressive efforts to inform State employment security agencies about the TAA program. In turn, some State agencies and local ES offices are far from adequate in informing

workers.²³ Some are misinformed. For example, a group of steel workers who lost jobs at an Armco plant in western Pennsylvania were certified in the spring of 1983, and applied soon after for TRAs. ES officials told the workers they could apply if they liked, but there was no money to pay for benefits. This advice was not accurate; TRAs are an entitlement, drawn from the Federal Unemployment Benefits Account. Over a year later, some of these same workers decided to apply for training, and requested TRAs for income support. Now, they were told, their eligibility had expired. They appealed, and in this case their TRAs were restored. But such delays can be fatal to a worker's drawing benefits, because there are time limits to eligibility for TRAs.²⁴

Eligibility: Drawing the Lines

Workers can be certified for TAA benefits only after the Labor Department investigates the firm they worked for, and finds that: 1) a significant number of workers in the firm have lost their jobs, or are threatened with job loss; 2) that sales or production, or both, of the firm have decreased; and 3) that imports of articles "like or directly competitive with" articles produced by the firm in question were as important as any other factor in causing the declines. Labor Department investigations are strict on this last point; proof is required that a firm's clients have switched to foreign providers of the same article the firm makes. Also, the influence of imports must be recent; the Labor Department looks at records of the firm for the past 2 years only,

²¹For a fuller discussion, see U.S. Congress, Office of Technology Assessment, *Plant Closing: Advance Notice and Rapid Response*, OTA-ITE-321 (Washington, DC: U.S. Government Printing Office, September 1986), pp. 12-16. See also the conclusions in the Report of the Secretary of Labor's Task Force, op. cit.

²²U.S. Congress, Office of Technology Assessment, *Plant Closing*, op. cit., pp. 28-32.

²³Local ES offices vary widely in their knowledge of the TAA program and diligence in letting workers know about it. Some do an outstanding job. For example, in 1985 congressional hearings the Lorain, Ohio ES office and counselor Ella Tomka got high praise from a number of TAA-certified workers who were steered into effective training through Ms. Tomka's efforts. See U.S. Congress, House of Representatives, Committee on Ways and Means, Subcommittee on Trade, *Hearings on Trade Adjustment Assistance for Workers*, June 10, 1985, Lorain, OH (Washington, DC: U.S. Government Printing Office, 1985).

²⁴Congress has recently responded to many reports of problems workers have had with time limits for TAA eligibility. As reauthorized under COBRA in April 1986, the eligibility period for TRAs was doubled; however, workers must still apply for training within 210 days of becoming eligible for TAA, in order to receive extended TRAs during training.

Further restrictions in the law exclude some workers who clearly are affected by foreign trade. Services are not covered. Oil well drillers, for example, submitted petitions in droves after oil prices plunged in 1986, U.S. exploration and production dropped precipitously, and oil imports rose. But the Department of Labor considered drillers to be service workers, and their petitions were denied. (Some petitions were also denied because imports were not considered to be the cause of declining sales or production.) Services are covered only if they integrated into a goods-producing enterprise. The present trend among many manufacturers is to shed some of their service divisions (engineering design, for example) and buy the services from independent firms—whose employees would not be eligible for TAA if they were displaced.

Another big exclusion is supplier industries. This is why shoe workers were certified when foreign shoes were coming to dominate the U.S. market, but workers who make rubber heels for the shoes were not certified. Rubber heels *per se* are not imported; thus the firm that makes them does not close down because of the import of a “like or directly competitive” article. The same is true of tires made for new cars. If General Motors sells 1 million fewer cars because of Honda or Toyota imports, the GM workers are certified; but the Goodyear workers who once made tires for those GM cars are not certified. The Labor Department applies the same rule to suppliers as to services, that is, they are covered only if they are employed by an integrated company. For example, miners producing coal for steelmaking in an integrated company, USX, are certified because USX is import-affected; but coal miners employed by an independent coal company, Pittston, that sells the coal to a steel company are rejected.

The legislation to reauthorize TAA that failed to pass Congress in December 1985 would have extended TAA eligibility to workers supplying essential parts and services to manufacturers experiencing declines on account of import competition. Such an expansion might cause some administrative problems, since second order import effects are probably harder to pin

down. It would also cost more money. The same bill contained a new source of funding however; it authorized the imposition of a uniform tariff on all imported goods, up to 1 percent of their value. The Administration opposed such a tariff, partly on grounds that it was illegal under the General Agreement on Tariffs and Trade (GATT), and a Presidential veto was threatened. The bill would have required the President to negotiate with the other parties to GATT over the following 2 years to allow a uniform fee on imports for adjustment purposes. The idea of a tariff to fund TAA was still alive and attracting interest in the 100th Congress.

Another idea that has been broached from time to time, both to get rid of anomalies and inequities in certifying workers for TAA and to reduce certification delays, is to make findings of import injury for entire industries. The finding of declining sales and production would not be necessary for individual firms. In identifying trade-affected industries, it might make more sense to look at import trends over the past decade or so, rather than confine the observation to the past 2 years, as the Labor Department does for firms. Sometimes firms in industries confronted by rising imports are slow to react, and postpone technological or organizational changes that help the firm compete but call for reductions in the work force. (See box A for an example.) Thus, industrywide certification could extend TAA benefits to workers laid off from firms that are able to survive foreign competition, perhaps by adopting new labor-saving technology, or by trimming less profitable operations, or by sending some of their work offshore to places where costs (especially labor costs) are lower.

Another possible change, included in the House-passed amendments to TAA in 1985 (but not in the bill as reported by the conference committee) is to extend eligibility to workers laid off or threatened with layoff because of the relocation of production to another country.

Directors of displaced worker programs point out that the wait for TAA certification firm-by-firm not only delays the delivery of services to workers, but makes it very hard to plan, since

you cannot confidently predict that a firm will be certified. In extending eligibility and making it more equitable, the change would probably bring more workers into the program, and cost more money. Also, identifying industries that are trade-affected poses some difficulties.²⁵

The time limits on eligibility, mentioned above, have in the past been the cause of some workers failing to get benefits even when co-workers succeeded. In certifying groups of workers, the Labor Department establishes an impact date for the import injury; the individual worker's first layoff after that date starts the clock running on his period of eligibility for unemployment insurance and subsequently for TRAs. Until COBRA was passed in April 1986, the worker remained eligible for TRAs for 1 year after exhausting his eligibility for UI under that first layoff. COBRA changed that period to 2 years after exhausting UI eligibility under the first layoff following the impact date. The reason for the extension is that plants in decline do not always lay off everyone at once. If the impact date is set too late, some workers who actually lost their jobs due to the decline lose their eligibility. If the impact date is set earlier, some workers who have been laid off once, then recalled, and then laid off again later, have found their individual period of eligibility, reckoned from the first layoff, much reduced, compared to co-workers who were laid off later. The 2-year period of eligibility provides more flexibility to avoid such difficulties, but some persist. Some State officials suggest that, in addition, the period of eligibility should be determined by the last layoff, not the first.

A continuing source of inequality, sometimes found among workers from the same plant, is that the Labor Department certifies import injury by product. Suppose one plant makes toasters, toaster ovens, electric coffeepots, and waffle irons, and that only the first two are found to be injured by imports. Then only the workers making those items are certified—yet the whole plant may be moved or closed down, and

everyone loses his job. The workers who made coffeepots and waffle irons are out of luck.

Ever since TAA began, a major difficulty has been that many workers never find out about it. Unions, employers, or as few as three workers in a group affected by imports may petition for certification. Unions have been the most active petitioners. The General Accounting Office pointed out in a 1977 report that 80 percent of petitions were filed by unions, but that only 35 percent of manufacturing workers were then represented by unions. In 1980, GAO reported that a new sample (taken in 1978) showed that 64 percent of petitions were filed by unions—still a disproportionate figure.²⁶

The great variation over the years in total number of workers certified for TAA benefits reflects not only legislative changes but also shifts in Administration policy and Labor Department practice. As noted above, certifications that had been running at around 150,000 to 200,000 per year soared to 685,000 in fiscal year 1980, of which 592,000 were for auto workers; the Carter Administration policy in 1980 was to award TAA benefits generously to auto workers losing jobs to imports. When the Reagan Administration took office, the policy shifted to a clampdown on certifications. From 1981 to 1985, the Labor Department certified 20 percent or fewer of the workers applying. When the approval rate rose in fiscal year 1986, so did the number of workers certified; 92,000 workers were certified that year, compared to 25,000 in 1985. In the first half of fiscal year 1987 certifications were running at an annual rate of 110,000 to 140,000.

The Job Search Program Requirement

When Congress reauthorized TAA in April 1986, in COBRA, it added a requirement that workers must be enrolled in a job search workshop or job finding club in order to qualify for TRAs, unless the worker has already completed a job search program, or unless none is reason-

²⁵See the discussion in the section entitled *Policy Issues and Options*.

²⁶U. S. Congress, General Accounting Office, *Restricting Trade Act Benefits*, op. cit., pp. 32-35.

ably available.²⁷ These programs are meant to help workers learn how and where to look for jobs; many displaced workers have had just one job in their lives, and they got it simply by appearing at the plant gate.

Neither Congress nor the Department of Labor has allocated extra funds to the Employment Service to provide job search programs to TAA-certified workers; ES offices are expected either to furnish the programs themselves or to refer workers to other programs, such as Title 111 or the Work Incentive Program (WIN), that can furnish them. Findings that no job search program is reasonably available cannot be made en masse; waivers must be written individually,

Of the 39 States OTA surveyed, 21 said they had no problems with the job search requirement or had experienced few so far. Some of these States had very few TAA-certified workers; others said they were meeting the requirement with job search programs already offered in their ES systems; others had set up new systems to cope with the requirement, and found they were working adequately so far. The other 18 States reported various degrees of difficulty. Some were not able to serve workers in rural areas and were giving them waivers; some feared that a big plant closing would overload their ability to provide the service. In five States, officials said they were already overloaded, and were waiving the requirement for many workers. Some officials expressed dismay that another burden had been put on the TAA or Title III programs with no extra money to cope with it. No one had any quarrel with the requirement itself; nearly everyone thought that job search programs are worthwhile. For example, a Wisconsin Title III official said,

²⁷The law defines a job search workshop as a short (1- to 3-day) seminar designed to teach participants skills in finding jobs; among the subjects the seminar should include are labor market information, resume writing, interviewing techniques, and techniques for finding job openings. A job finding club is defined as a job search workshop that includes a 1- to 2-week period of structured, supervised activity in which participants try to find jobs. The term "job search program" means either a job search workshop or a job finding club.

We've had trouble figuring out how in the world to pay for it. We don't have near enough money to do the Title III job, and now have another job shoved at us. It makes perfect sense to give TAA-certified workers job search training; paying for it is the problem. . . . We have a large need and small funds.

The Department of Labor's Role

According to some State officials, the U.S. Department of Labor made it difficult to get people into the TAA program in the early 1980s, but this approach has recently changed. One State administrator said:

The TAA program got off the track in 1981. It just got back on last summer [1986]. They [the Labor Department] are not being advocates, but the approach is now much more open,

At the time of OTA's survey, there were complaints that the Department gives too little help to State agencies administering TAA, that as a result workers never hear of the program, and that if they do, they maybe misinformed by ES or UI staff who do not understand the program themselves.

Several officials reported difficulties because of protracted delay in publishing TAA regulations. Eligibility and certification rules for TAA are complex; yet a compilation of the regulations implementing the 1981 amendments to the program (in OBRA) was not published until December 1986. To understand the Labor Department's rules on how to administer TAA, local officials would have had to keep a scrapbook of notices appearing in the Federal Register over nearly 6 years. In May 1987 the Labor Department reported plans to publish a set of proposed regulations for the TAA program as amended by COBRA in 1986 within a month or so.

Coordination Between TAA and Title III Programs

In early 1987, coordination between the two major programs serving displaced workers was improving but had a long way to go. Success in coordination is an important issue for sev-

eral reasons. First, Congress has reauthorized TAA through 1991—the longest extension of the program since TAA was overhauled in 1981. Second, the Administration has proposed to replace TAA and Title III with one displaced worker program; coordination of the two programs, taking advantage of the strongest features of each, is an alternative. Third, the funding situation in 1986-87 made coordination of the programs a practical necessity in many States. Funds available for the Title III program year beginning July 1, 1986 were less than half those available for the previous program year; Congress cut the appropriation because, on a national basis, there was a large, continuing carryover of unspent Title III funds from one year to the next. However, the States that had been most active in serving displaced workers were the ones that felt the financial pinch most, since they had little unspent money from previous years.

States are almost wholly responsible for planning and operating Title III programs; TAA services to workers are provided by State employment security agencies, through the local ES and UI offices. In a May 22, 1986 letter to the Governors, the Secretary of Labor urged States to

... establish a common and coordinated delivery system for training, job search and relocation assistance . . . [that] will reduce duplication of effort, improve cost effectiveness and improve delivery . . . ²⁸

OTA's survey of TAA and Title III officials in 39 States found that all but four States make some effort at coordination. However, only about a dozen had some degree of real integration of services. The majority of States coordinated through a system one official described as "paper shuffling"; that is, TAA officials notify the Title III program when workers are certified, and Title III informs TAA of major plant closings and layoffs. While TAA officials in many of these States notify companies and unions of the program and the services offered, they usually do not take active steps to make

sure that someone has petitioned the Department of Labor for certification. Actual coordination of services in most States is limited and uneven.

States give several reasons for their limited degree of coordination. Many report that the greatest barrier to coordination is the time it takes to get certification. A New Jersey official, for example, said that by the time the Department of Labor approves petitions, most of the workers have completed their stay in the Title III program, have exhausted their UI, and have either found work or left the program. For this reason, many States do not consider TAA an integral part of their displaced worker program, but view it as a fortuitous added benefit if certification is approved. Several States reported that certification has sped up considerably since regional Department of Labor offices took over part of the task of investigating petitions (starting in October 1986). One State (Washington) said that decisions were not only faster, but more consistent, since the regional offices have fewer petitions to deal with and have a better understanding of the history of certifications in their own regions.

Other reasons for the limited coordination in a majority of States were also offered. Some States, such as Pennsylvania and California, give a great deal of leeway to the local Service Delivery Areas (SDAs) in administering Title III services.²⁹ Thus, coordination of services depends very much on the SDA's knowledge of TAA and how it can be used to complement Title III. Some States referred to off-again on-again funding and authorization for TAA (the lapse in authority from December 1985 to April 1986 and the funding cuts of the early 1980s) and difficulties in coordination arising from uncertainty. In one State (Oregon), a Title III official said his program occasionally makes use of TAA benefits, but he does not generally favor the longer term training TAA provides because "it is tougher for workers to return to work and they grow reliant on UI." For this

²⁸The Honorable William E. Brock, Secretary of Labor, letter to the Governors, May 22, 1986.

²⁹SDAs operate JTPA Title 11A employment and training programs for low-income workers. At the discretion of the Governor, they may also be put in charge of Title III programs.

and other reasons (uncertainty of funding, delays in certification), coordination in Oregon is limited. Some States have been confronted for the first time with large numbers of displaced workers. In Alaska, which now has thousands of displaced oil and timber workers, a Title 111 official said:

I only just found out about TAA. There was no real need for it until the bottom dropped out of the State's economy.

In the few States that make no effort at coordination, the reason is usually that they have had very few certified workers. There are States, however, that have a large number of TAA-certified workers and receive substantial TAA funds but operate the two programs as quite separate entities. For example, California officials saw no reason to combine the programs since they consider that Title 111 serves less skilled workers—many of them Hispanics and Asians who do not speak English and would require remedial education before retraining—while TAA serves workers with a long work history who usually do not require retraining but simply want benefits and a new job. The separation of TAA and Title III services extends to the local project level. In Santa Clara Valley, which has experienced the loss of tens of thousands of jobs in semiconductor and computer manufacture since 1985, managers of Title III were unaware, or barely aware, of TAA benefits, and reported that they had no linkage at the local level with TAA service providers.

Eleven of the States were able to achieve some real integration of TAA and Title III. Massachusetts is a leader. From the top managers of the State's Industrial Services Program, which directs both displaced worker services and assistance to firms that are in trouble, to the staff of local displaced worker projects, everyone is aware of the possibilities of combining benefits from Title III, TAA, vocational and adult education programs, and the State's own displaced worker program. The State's director of displaced worker services said: "TAA is the only way we've been able to make the money go far enough." Box B describes how coordination works in Massachusetts.

The States that work around the uncertainties in TAA and integrate it with Title III services share a common approach. All are creative in looking for the best features in each program—and in other programs as well, such as vocational and adult education—and combining them for the benefit of individual workers. Many of them foster coordination at the local or project level by requiring service providers to list every source of funding available to the project.

In integrated programs, workers are usually sent to Title III projects for assessment and counseling, job search programs, on-the-job training (OJT), remedial education, and—until TAA funds come through—classroom training. Title III can also pay for child care for people in training; TAA cannot. For eligible workers, TAA is reserved for long-term classroom training, the costs of transportation for training outside the normal commuting area, and out-of-area job search and relocation expenses. A number of the activities usually provided by Title III projects can be offered under TAA (on-the-job training, for instance) but the Title III service providers usually have more staff and administrative funds to plan and arrange for such services, and they can usually start sooner. Under Labor Department regulations, remedial education is defined as a supportive service, so that costs usually have to be covered by administrative funds (no one reported doing that). The Labor Department has ruled that TAA training funds can pay for remedial education when it is preparation for a vocational skills training course, and a few States, such as Massachusetts, do so. Title III projects can offer remedial education as training, independently.³⁰

A near-universal feature of integrated programs is the States' aggressiveness in urging unions, companies, or a trio of workers to petition for TAA. In Texas, for example, the State

³⁰OTA found in its assessment of worker displacement (U.S. Congress, Office of Technology Assessment, *Technology and Structural Unemployment*, op. cit. (1986)) that remedial education is largely neglected in Title III programs. However, this is not universal; some States take advantage of the Title III program to offer well-planned remedial education courses in an attractive setting. Many of these States are the same that do an outstanding job of coordinating TAA and Title 111.

Box B—Coordinating TAA and Title III Programs: How Massachusetts Does It

In Massachusetts, the TAA program for trade-affected workers and the Title III program for all displaced workers, under the Job Training Partnership Act, are essentially one program. In charge of all services for all displaced workers, whether trade-affected or not, is the Industrial Services Program (ISP), a 3-year-old agency with dual responsibilities—to business (technical and financial assistance to firms in trouble) and to workers (reemployment and retraining help for people losing jobs due to plant closings and permanent layoffs).

Suzanne Teegarden is director of worker services for the ISP. Her approach is to cut through the bureaucratic thicket and put together every possible source of help for every displaced worker. With TAA it is not easy, mainly because certification is slow and uncertain. Teegarden and her colleagues believe strongly in the value of early action to help displaced workers find new jobs or get into training. The ISP moves in rapidly, within a day or two, whenever it gets news of a plant closing or major layoff. A reemployment and retraining project is set up in the plant, if a large enough number of workers is involved. In a small layoff, the workers are referred to a continuing displaced worker center nearby.

ISP staff members go to the site of the closing with TAA petitions in hand and make sure someone signs them. But they cannot wait on TAA certification to start a project. Despite recent improvements, it still takes several weeks after the petitions are filed to get the decision, and not long ago it was typically 6 to 9 months. The project gets started with State funds; employers are asked to contribute staff, space, and funds too if they can. In theory, the project could start up with Title III funds, but there are often delays in getting these grants. Usually, Title III money kicks in second, paying for a variety of employment services and short-term support for training, and after that TAA, which is counted on especially for long-term training. But meanwhile, planning for training is chancy, because certification is not predictable.

In 1986-87, the problem of planning was acute, because Massachusetts had obligated all the Title III funds allocated to it early in the program year; Title III appropriations for that year had been cut in half from the year before, and States like Massachusetts with an active displaced worker program felt the pinch early. The State could apply to the Secretary of Labor for discretionary Title III funds, but there is no assurance of that either.

Teegarden offered the example of a leather goods plant in Agawam, where ISP applied for both discretionary Title III money and TAA and then had to wait for a decision on both. Meanwhile, ISP gambled and committed itself to occupational training courses for these workers, starting with State funds which were not enough to last the full course. "It was a crapshoot," said Teegarden. "But these were leather workers with specialized skills that are no longer in demand. Training was an obvious need." She suggested that some TAA training money be made automatically available for workers losing jobs in trade-impacted industries, to make access faster.

Although many States do not emphasize training for displaced workers, Massachusetts does. The statewide unemployment rate is much below the national average, but many plants are closing in the central and western parts of the State. ISP's goal is to get new jobs for displaced workers that pay at least 85 percent of their old wage, and for that, Teegarden says, skill enhancement is important. TAA is especially welcome, because the extra income support and longer periods of training really help people develop new skills. Besides, it sometimes takes time for people to commit themselves to training. Time is one of TAA's real advantages, Teegarden said, especially since many displaced workers need remedial education before they can begin an occupational training course. There simply is no time for that in a compressed training course, such as most Title III projects support.

Remedial education is a strong part of ISP's training. For example, at the Agawam plant, 38 percent of the people laid off did not have a high school diploma. A member of the project staff, a displaced worker himself, sold many of these workers on remedial education. Midway through the project, 68 of 371 workers who enrolled for services were taking remedial courses, and another 20 or so were expected to sign up. The ISP takes advantage of the Department of Labor rule that TAA training funds can cover remedial education if it is part of vocational training. Many States do not.

Teegarden was asked whether she would favor a single Federal program combining TAA and Title III. Considering the effort her agency puts into integrating the two, would it be simpler to deal with one? She was dubious. "Our fear is that they will take the worst parts of each program."

Title 111 program has a coordination agreement with the Texas Employment Commission, by which Title III pays salaries of EC staff members to go out and actively get TAA petitions started. The State's rapid response team keeps an eye on UI claims, and whenever the team notes a big jump in claims, it targets the area and alerts the Employment Commission. If the layoffs are due to import competition, either EC or Title III staff make sure that someone—usually the union or the company personnel director—files. If the company refuses and there is no union, they go back to UI records and find three workers who were laid off from the company, encouraging them to file. The system works. In the 9 months before the agreement was signed, Texas had only 28 applications for TAA; in 6 months afterwards, 256 petitions were sent forward. According to a Title III official, of all the resources available to displaced workers including Title III and vocational education, TAA is a major contributor,

Other than sending a letter to Governors urging coordination between the Title 111 and JTPA programs, the Department of Labor has generally not done much to actively promote it. An exception to this is the Region V office of the Department of Labor, located in Chicago. The office holds quarterly roundtable meetings of employment security agencies, TAA offices, and JTPA in the six Midwestern States the region includes (Illinois, Indiana, Michigan, Minnesota, Wisconsin, and Ohio). Discussion of the potential for coordinating TAA and Title III, and examples of what to do and what not to do, are leading topics at the roundtables. Several TAA and Title III officials in the region praised the roundtable discussions. One State (Wisconsin) said, "The roundtables have brought us [TAA and Title III] together; if not for that, we'd be much further behind." The regional office also fields questions about the programs on a daily basis and, according to the State officials surveyed, dispenses "excellent information." Four of the six States in this region have achieved some real integration of TAA and Title III services, and the other two are making progress,

Other regions have not followed suit. Region VI, in Dallas, held one meeting at the request of Texas officials, and Region X also held a meeting for the Pacific Northwest States. One State official (Texas) specifically commented that the coordination problems with Title III and TAA are at the national level, in the Department of Labor. This official offered the example that, in conducting TAA training for the Employment Service, the regional office of the Labor Department said Title 111 agencies would provide the job search programs required for workers receiving TRAs—without any idea that funds for Title III that year had been cut in half.

When OTA asked the States what changes they would like to see in the TAA program, the one most often put forward (in 19 States) was a shift toward more unified services for all displaced workers, whether or not the workers are trade-affected. In a unified program, open to all displaced workers, the nettlesome problems of delays in certification and arbitrary distinctions among workers on whether they are trade-affected would disappear. Most of the people who suggested this change insisted, however, that the best features of both TAA and Title III be kept. For TAA, the best features are seen as longer term, better quality and higher cost training combined with extended income support. For Title III, they are State responsibility for designing the program and control over most of the funds; a broader range of services, including remedial education; and the flexibility to move in and provide adjustment services before layoff.

It should be noted that the "best features" of TAA and Title 111 programs represent potential in some cases, not actuality. The superiority of TAA training was greatly diminished in early 1987 because funds had nearly run out. Not many States provide remedial education in Title III projects, and an effective rapid response to plant closings and mass layoffs does not yet exist in most States. Title III allows States to provide these services, however, and a few are effectively doing so.

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS AND INDUSTRIES: ISSUES

The main issue concerning the TAA program for firms is whether it should exist. The Reagan Administration maintains that it should not, arguing that it is natural and inevitable for many firms to succumb to competition, foreign as well as domestic, and that the government has no business trying to save them. Congress, in reauthorizing TAA for firms through 1991, in effect made the judgment that the program is worthwhile, that given good technical assistance, some firms weakened by import competition can revive and continue to provide jobs and economic benefits to their communities. Since the reauthorization, however, Commerce Department administration of the program has hobbled its ability to offer technical assistance.

Aside from the current crisis in program administration, a continuing question is whether the certification requirements for firms—a showing that the firm's sales or production have declined, as a result of import competition—make sense. Should the program be restricted to firms that are demonstrably in trouble already? Or should firms throughout a trade-affected industry be eligible for TAA services, thus making it possible to offer assistance to firms with a better chance of survival—but also greatly enlarging the number of potential clients. This question, though not so pressing as the question of the program's continued existence, has some broad implications. In recent years the suggestion has been made, by OTA and others, that an industrial extension service of some kind might contribute to competitiveness of American industry.¹ The idea is for

a government-supported program that would help small and medium-sized manufacturing firms learn about and apply up-to-date technologies and management practice. Several States have technical assistance programs along this line,

An assessment of the possibilities of an industrial extension service is beyond the scope of this special report, which is focused on the Trade Adjustment Assistance programs. However, the experience with TAA for firms does suggest, roughly at least, how a broader program of technical assistance to industry might work.

How TAA for Firms Operates

Before getting to the issue of survival of TAA for firms, let us first take a brief look at how the program operates—or how it operated before the crippling interruptions of authority and funding freezes that have occurred repeatedly since December 1985. Two features of the program stand out. First, the technical assistance the program offers is in-depth; typically, client firms receive 60 to 80 days of expert assistance in diagnosing competitive problems and developing ways to solve them. Second, the program takes time. The assistance itself is time-consuming because it is intensive; and the Department of Commerce approvals at three steps in the process, though usually done fairly expeditiously, add more time.

Twelve Trade Adjustment Assistance Centers (TAACs) operate the program through grants from the Department of Commerce; the grants have customarily been for 12 months (from December 1985 through May 1987 the TAACs received grants for no more than a few months at a time, and they are operated on short time extensions with limited funds). Annual grants range from about \$700,000 to \$2 million, and

¹U. S. Congress, Office of Technology Assessment, Industry Technology, and Employment Program, *Development and Diffusion of Commercial Technologies: Should the Federal Government Redefine Its Role?* staff memorandum, March 1984; see also H. R. 4361, the Advanced Technology Foundation Act, a bill proposed in the 98th Congress.

average a little more than \$1 million each, z The TAACs' first step is to help firms prepare petitions for certification, claiming that sales and production declines are due to competition from imported products; weed out the clients who obviously cannot substantiate the claim; and send the petitions on to the Commerce Department for a decision. The department verifies the claims, usually by telephoning the firm's customers, and decides whether the firm is eligible. If many petitions are being submitted, these decisions may take longer than the 60 days the law allows, but such delays have generally been shorter than in the TAA program for workers.

In interviews with OTA, officials of one TAAC said that any firm coming to it is allowed to apply for certification, so long as the firm appears to meet the criteria of declining sales or production due to imports. The other TAACs do some informal screening. Although they accept the principle that any trade-affected firm has a claim on assistance, they do sometimes discourage clients from preparing petitions if they see little chance that the firm can recover. In making this judgment, the TAACs put greatest emphasis on management's flexibility and willingness to make changes. If the client seems to be looking only for a quick financial fix, for example, the TAAC counselor may emphasize that the firm will have to bear at least 25 percent of the cost of technical assistance. Or if a client appears to be on the brink of insolvency,

the TAAC may point out that recovery measures will be slow and long-term. In this way, the decision not to proceed is generally mutual; TAACs do not simply turn away clients. At least one TAAC (Western) does require that before it gets involved with a firm, the management must already have made some changes in response to problems. The idea is that a firm that initiates its own adjustment shows a commitment to change, and also improves its ability to get financing to carry out an adjustment plan.

Once a firm's petition is approved, the TAAC conducts a diagnostic survey, which includes a scrutiny of the firm's financial situation, its system of management information and cost controls, its product development, marketing plans and sales efforts, as well as its operations on the shop floor. To stay in the program a firm must be willing to open its books. The diagnostic study is a critical piece of the program, since it determines the direction the adjustment plan will take. Usually, the TAAC's technical staff does the diagnostic study; most TAACs, when fully staffed, have people with training and experience in industrial engineering, finance, and marketing. Sometimes, for a client in an unusual or highly technical business, the TAAC may hire a consultant for the diagnostic study. TAAC and the firm together formulate an adjustment plan based on the diagnosis, specifying what the firm needs for recovery and the kind of technical assistance it will ask for. The study and plan generally take 6 to 8 weeks to complete. An adjustment proposal must be sent to the Department of Commerce for approval, which usually takes about 3 weeks.

The next step is to find contractors who can provide the technical assistance that the adjustment plan calls for. The firm may need a market survey, to determine whether a new product it is planning will find any customers. It may need engineering help in designing a new product. It may need to install and learn how to use a management information system that will identify production bottlenecks that raise costs. It may need a manufacturing engineer to look over and redesign shop floor operations. Technical assistance may cover any of these things; but it cannot cover the purchase

²This description of how the program operates comes from interviews with and materials provided by officials of the Department of Commerce and the TAACs. For this special report, OTA interviewed policymaking officials and staff members of the office of Trade Adjustment Assistance (OTAA), the agency in the Commerce Department which oversees TAA for firms. OTA also interviewed by telephone and in two site visits the directors and staff members of 11 of the 12 TAACs. The only TAAC not represented in the telephone survey was the Mid-America TAAC, located in St. Louis, which had just been created with final approval pending in the Department of Commerce. The Mid-America TAAC was previously located in Little Rock, AR, but it ceased operations in 1986. TAACs surveyed by telephone were New York State, Binghamton, NY; Metro New York, New York, NY; New Jersey, Trenton, NJ; Mid-Atlantic, Philadelphia, PA; Great Lakes, Anne Arbor, MI; Mid-West, Chicago, IL; Rocky Mountain, Boulder, CO; Northwest, Seattle, WA; and Western, Los Angeles, CA. The TAACs visited by OTA staff were New England, Boston, MA, and Southeastern, Atlanta, GA.

of equipment or the provision of working capital. For technical assistance that costs an average of \$75,000, firms must pay at least 25 percent; the firm's share rises with increases in cost beyond that level. Usually, the TAACs bring in a consultant with specialized skills to provide technical assistance; they are chosen by competitive bids, and their contracts must be approved by the Department of Commerce.

Assuming things go smoothly and there are no hitches, the process outlined here takes at least 6 to 8 months. Many firms meanwhile take steps on their own to follow suggestions made in the diagnostic study and adjustment plan. Others take longer than a few months to mull over the TAAC's diagnosis and recommendations, and decide whether to proceed. In any case, they must have enough strength to survive several months at least before getting the adjustment assistance that has been designed to meet their needs. Boxes C and D describe the experiences of a New England clockmaker and a couple of garment manufacturers in the South with technical assistance provided by TAACs.

Firms served by the TAACs are relatively small. In the last 2 years the TAACs were in full operation (fiscal years 1984 and 1985), the TAACs each added an average of about 30 certified firms to their rolls, and had adjustment assistance plans approved for 15 firms each, on average (see table 5). The expenditure per firm certified works out to about \$37,500 per year; adjustment assistance, if carried to completion, generally costs about \$75,000 per firm—not enough to do much for a large firms. The typical TAAC client has sales averaging about \$5 to \$10 million per year and 100 to 150 employees; although quite a few smaller firms, with sales of \$1 to \$2 million, are also served. Service to firms with sales more than about \$30 million per year is unusual. All the firms served are in manufacturing, since TAA does not cover service industries.

No other Federal program—probably no State or local program either—operates quite as TAA does to provide sustained, sophisticated technical assistance to small and medium-sized manufacturers. The Economic Development Administration (EDA) gives grants of about \$7 million per year to universities, local governments, or nonprofit organizations for several purposes related to economic development in areas of high unemployment and poverty. Activities include technical assistance to local businesses and programs to help local governments learn about economic development. The Department of Defense offers assistance to small companies, usually subcontractors, who lack the sophisticated equipment needed to meet military specifications.

The Small Business Administration offers grants to Small Business Development Centers, which are operated by the States and offer counseling and training to small businesses. Counseling, given to 72,000 firms in fiscal year 1986, helps owners deal with specific difficulties that arise in their day-to-day operations. Training, provided to nearly 260,000 firms in 1986, is given in seminars or classes that teach basic business skills such as marketing or cost control. The average time spent with each firm is 7 to 10 hours. Most of the firms are small, some with as few as one or two employees, and nearly all are in services, mainly retail trade. The SBDCs concentrate on firms that cannot afford to pay someone for advice. The counseling and training they provide is free; often volunteers from the Service Corps of Retired Executives offer the assistance. Funding for the program in fiscal year 1986 was \$35 million.

A number of States offer technical assistance to manufacturing firms, often as part of their economic development programs. OTA has not assessed these programs, but from a brief look it appears that many provide services that are much shorter in duration than those the TAACs provide. For example, the highly respected Industrial Extension Service of the Georgia Tech Research Institute usually provides 3 to 5 days' service to its clients, with the limit rising to 10 days for firms that are expected to provide new jobs. The Georgia Tech program is one of the

³Information supplied by the TAACs.

Box C.—New Life for a Ninety-Year-Old: TM Helps New England Clock Firm Survive

The Chelsea Clock Co., founded in Chelsea, MA, in 1897, is the only one of the old New England clockmakers left. Others still have their names on the clock cases, but the innards are made in Europe or Japan. Chelsea Clock, housed in its 19th century brick building in one of the old industrial towns ringing Boston, makes fine timepieces from scratch and guarantees them for a lifetime—the clock's lifetime, which means as long as anyone wants to keep it.

Until a few years ago, the company made clocks the traditional way with spring-wound movements, despite the quartz technology revolution. Yachtsmen, clock collectors, and companies looking for a handsome gift for retiring employees remained steady customers for a timepiece handmade of brass and fitted with gold-plated works that you could watch through the back of the case. But in the early 1980s, the new technology began to catch up with the company. Customers started to balk at paying several hundreds or thousands of dollars for a thing of beauty that didn't keep time as well as a \$10 clock from the corner drugstore.

Richard Leavitt, president of Chelsea Clock, is a former accountant who bought the company in 1978. By 1982, he realized that, even though dollar sales were holding up, the number of clocks sold every year was sliding fast, from 14,000 in **1980** to 9,000 in 1983. Twenty of the firm's 70 employees had to be laid off. First Leavitt tried putting the standard plastic quartz movement into a Chelsea clock, but he didn't like it and neither did his clock-fancier customers. He knew his company was best off holding on to the fine clock part of the market, where sales of 15,000 to 20,000 clocks a year would be enough to keep his small firm prosperous but not enough to tempt giants like Seiko into competing, probably with a good looking but lower cost clock. He also knew he wanted a fine electronic movement for the Chelsea clock. But the technical expertise to design it was beyond his means to buy (he had already mortgaged his house to put money into the company), and banks don't readily lend money to buy designs. They can't foreclose on a design.

Leavitt learned about the Federal Trade Adjustment Assistance program, which provides technical assistance to firms hurt by imports, just as he was concentrating on how to raise the money for developing a high-quality quartz movement. The New England Trade Adjustment Assistance Center (TAAC) helped to diagnose the firm's problems and write a proposal, which the Department of Commerce approved, for a recovery plan. The project included a market survey as well as development of the quartz movement. The Cambridge consulting firm Arthur D. Little Inc. did both pieces of work, and Federal grant money paid two-thirds of the \$100,000 cost; the company paid the rest. When the market study found that customers would buy a high-priced clock with brass parts-but not plastic parts-the design team created a movement with gold-plated brass plates, gear wheels that are cut not stamped, and synthetic jewels at points of wear.

So far, the plan is succeeding. The company's sales and profits have risen, and Leavitt plans an aggressive sales effort to add more fine gift shops and jewelry stores to his customer list. Most but not all of the work is done at the plant; cases for the top-of-the-line clocks are imported from Switzerland, but Leavitt plans to bring that work home. The shop already makes its own cases for ship's clocks, which have long been a staple of the Chelsea business. The plant has kept its 50 workers, many of whom are 20-year veterans, and include precision assemblers, machinists, inspectors and testers, and a master clockmaker.

Leavitt gives high marks to the New England TAAC for helping to make the company profitable and competitive. He says he would have done the project eventually without the TAA help if he'd had to, but at much greater risk. The cost of the project was as much as the firm's entire profits in a good year. Without help, Leavitt would have been obliged to bet the company, and if the bet didn't pay off soon enough, Chelsea Clock would have become a hollow company.

The other New England clockmakers have already taken that path. "We could have followed the pack," Leavitt said, "and used the Chelsea name to put on products we import. We chose the more difficult route, keeping responsibility for design and manufacture. That translates into jobs here rather than to people in other countries."

Box D.-Made in the USA: Trade Adjustment Assistance for Apparel Manufacturers

Introduction

Garment making is still a very large industry in the United States, despite increasing imports. In 1986, employment in the industry was 1.1 million; this compares to 815,000 in the auto industry and 266,000 in basic steel. Certainly, imports have made inroads. One-quarter of the amount Americans spend for apparel and other textile products goes for imports. Despite the highly structured quota protection under the Multifiber Arrangement, imports rose to a new high in 1986—\$17.8 billion. This compares to \$2.3 billion (about \$5.3 billion in 1986 dollars) in 1973. And employment is down from its 1973 peak of 1.4 million.

Yet in some ways apparel is holding its own. Employment and output in steel mills, for example, are both less than half of what they were in 1973. Jobs in apparel have declined only about 20 percent, and output in constant dollars has risen over 9 percent. Granted, jobs in apparel are poorly paid compared to the average manufacturing wage (\$5.86 per hour vs. \$9.83), and are taken mostly by women and minorities. But to many of the people holding them, these are the best jobs available anywhere near home,

The Southeastern TAAC, located in the Georgia Tech Research Institute in Atlanta, specializes in technical assistance for small and medium-sized apparel and textile firms: Much of rural Georgia and the Carolinas is economically dependent on textiles and apparel. A generation ago, when these industries were leaving New England for the lower wage South, the Southeastern States made energetic efforts to attract them, especially to the rural counties that were losing tens of thousands of farm jobs with the rapid mechanization of agriculture. Now, Georgia and the Carolinas are trying to save these industries from lower wage competition in Asia, Mexico, and the Caribbean.

Aiken industries

The TAAC's part in all this is to help firms like Aiken Industries, a family-owned and run apparel plant in Aiken, South Carolina, survive and prosper. Cary Friedman, the plant manager and son of the founder, heard about the TAAC's serv-

ices through an industry newsletter in 1984, at a time when the plant was losing sales and profits were declining. Friedman knew the firm had to change to survive, but he didn't know exactly what to change, nor was the firm doing well enough to pay for both technical advice and any new hardware that might be needed. The TAAC sent its apparel expert, a former private consultant to the apparel industry, to diagnose the firm's troubles and work with Friedman on an adjustment plan.

Aiken Industries is atypical small (135 employees) "cut-and-sew" operation. It receives fabric from a larger apparel firm and returns the finished goods; essentially, it is selling labor, including managerial labor. A firm like this can survive by doing quality work, accepting fast turnaround orders (such as re-orders of popular items) that would take too long for foreign competitors to fill, and squeezing out unnecessary costs. The TAAC's contribution was to help Aiken Industries control costs. The diagnosis showed the need for a management information system for cost analysis and control. The company spent \$20,000 for a computer and software, and the TAAC expert taught Friedman how to interpret the data to pinpoint areas of excess labor cost. ("Excess cost" is a term of art in the apparel industry; there is always some excess cost, but well-run firms reduce it to a minimum.) Georgia Tech Research Institute trainers, available through the TAAC but paid for by the company, taught first line supervisors how to reduce costs in the areas identified—for example, by seeing that machines are repaired quickly if there is a breakdown.

When the project started, the TAAC expert estimated that Aiken's excess costs could be cut in half. By early 1987, the company had achieved 60 percent of that by following the adjustment plan and paying for the improvements it identified. The last piece of work was yet to be done, however. The plan called for an engineering consultant to improve shop floor operations. This was the technical assistance the TAAC promised to help pay for; it would cost \$90,000, of which the firm would contribute one-third. But the TAAC was unable to pay for technical assistance, because it had not received any fiscal year 1987 funds from the Department of Commerce, and

was authorized to stay in business for only 1 or 2 months at a time.¹ **The Friedman family, Aiken's owners, felt that they could afford to risk \$30,000, but not \$90,000, for the engineering consultant.**

The failure to come through with funds for the consultant was Friedman's only criticism of the TAA program. At this point, he said, "For the government not to help me be more competitive would be crazy." Otherwise, he had nothing but praise for the program, and freely gave it credit for the firm's turnaround.

Burke Industries

An apparel firm that completed its TAA adjustment plan with successful results is Burke Industries of Waynesboro, Georgia. Jack Steinberg, Burke's owner and manager, has been in business in Waynesboro for over 25 years and now specializes in denim jackets, an exacting item that requires over 40 operations. Burke has also recently won a contract for military clothing, and expects to add 100 more people to its work force (early in 1987) of 160.

Despite the firm's experience and good reputation, Burke nearly went under in 1982-83, when the combined effects of the recession and rising imports knocked many American apparel firms out of business. Steinberg heard about the TAAC at the industry's annual meeting and fair (the Bobbin Show in Atlanta). Just an initial talk with a TAAC expert gave him some ideas, he said. He pulled the firm through its immediate crisis by selling finished garments to retailers.

For the longer haul, the TAAC made several major contributions. At its low point, the firm was strapped for cash. The TAAC expert helped Steinberg devise a financial program, and went with him to the local development board which, after looking over the plan to improve the com-

pany's prospects, approved a loan. As it did for Aiken Industries, the TAAC advised Burke to install a computerized management information system, and showed him how to use it. The system has paid off in identifying areas of excess cost. The TAAC also advised Burke to use a modified system of in-process statistical quality control, in which inspectors examine a sample of garments before the sewing operations are completed. Burke inspectors also look at every finished garment before it goes out. The in-line sampling combined with the final audit have reduced defects enough that customer rejections have gone down from two or three shipments a year to zero. In addition, Burke, like Aiken, got training for its first-line supervisors from Georgia Tech experts.

The most notable change due to the TAAC's advice resulted from an engineering consultant's suggestions on re-arranging the cutting room. He proposed to get rid of stored fabric that no one was using, to use fewer cutting tables and make them uniform in size and shape, and improve the traffic pattern. These seemingly simple suggestions allowed Steinberg to reduce his staff in the cutting room from 20 to 8.

Steinberg observed that many of the TAAC suggestions, once they were made, seemed obvious. But like most small businessmen, he was so busy with a multitude of tasks that he never had a chance to step back and determine what changes he needed to make, and which to do first. He gave the TAAC full credit, not only for providing technical expertise that he lacked (how to use the computerized management information system), but also for identifying the most urgent actions the company had to take. "The improvements they helped us make were really and truly dramatic," Steinberg said.

Burke Industries is now offered five times as much business as it can handle, Steinberg says. The firm has recovered strongly and its outlook is good, at least for the time. "The advantage we've got," Steinberg says, "is that we can deliver on time. To get deliveries from overseas, you have to order a year ahead of time. If we ever lose that edge, we've lost it." While he has it, the firm employs 150 to 250 people a year, and is a mainstay of the local economy.

¹In March 1987, the Southeastern TAAC received about \$100,000 in a grant from fiscal year 1987 funds, and a time extension through June 15. In earlier years, this TMC received about \$1 million for a 12-month grant. In May, the Commerce Department requested a proposal for a 12-month grant.

most experienced in the country. It was established in 1960, now has 12 centers staffed by engineers and other professionals throughout the State of Georgia, and is funded by the State at \$2 million per year.

TAA for firms began with a strong emphasis on loans and loan guarantees, but that part of the program is now defunct. TAA financial assistance was at its height at the end of the 1970s, reaching \$70 million in 1980. Under the Reagan Administration, loans and loan guarantees were scaled back sharply, declining to \$900,000 and just two firms in 1986, the last year TAA financial assistance was offered. When requirements for loans were not very stringent, as was apparently the case in the late 1970s, numerous firms qualified but default rates were subsequently high. When requirements were tightened, the number of firms getting loans or guarantees dropped sharply. To qualify, firms had to show evidence that they could pay back the loan, and at the same time show they could not get private financing—a difficult combination. Also, in the last 2 or 3 years of the program, loan approvals met with long delays—usually more than a year—in the Commerce Department; Commerce officials themselves describe the time it took for approvals as “interminable.”

TAA financial assistance to firms has few defenders today. Because of the delays and the stringent requirements for firms to qualify, most of the TAAC officials interviewed by OTA did not regret the loss of the loan program. Several said they considered technical assistance more efficient and valuable in any case; if firms need money to carry out their adjustment plans—as many do—the very fact that they have an adjustment plan makes them better prospects for private loans. Also, loans or guarantees may be available from other Federal sources (such as the Small Business Administration), or State or local agencies. For example, one Georgia garment manufacturer who had previously had no luck with a community economic development agency got a loan when the TAAC counselor accompanied him to the agency and explained the recovery plan. Three years later, the company was in good shape, and expanding. An

official of another TAAC (New England) said that most firms served by his TAAC need management changes, not a quick financial fix, for long-term survival; the main purpose the loan program served, he said, was to draw people who could use help into the technical assistance program.

Should TAA for Firms Continue?

The Administration's arguments against continuing TAA for firms are that it does not work, and is not justifiable anyway, because firms injured by imports do not merit any special help beyond what is available to other firms. Officials in charge of the program add that it is hard in any case to draw the line between injury caused by increased imports and plain inadequacy of management. It is also argued that, in a dynamic society operating under a free trade philosophy, TAA is often directed to firms in industries that are dying a natural death. TAA is “fighting the inevitable.”⁴

Proponents of the program are not very organized or visible, but they include business people who have received technical assistance. Many individual firms have high praise for the program, and credit it with their improvements in sales and profits. Those who favor TAA for firms believe it works—not in every case, possibly not in the majority of cases—but often enough, and with enough benefits to the public as well as to the firms concerned, to justify the program. The equity argument—that special help is due those who are injured by the Nation's free trade policies—does not apply in quite the same way to firms as to workers.

⁴This argument is emphasized in U. S. Department of Commerce, Office of Inspector General, *International Trade Administration Trade Adjustment Assistance: No Cure for Import-Injured Firms* (Washington, DC: Department of Commerce, 1985), see especially pp. 12-13.

⁵See, for example, U.S. Congress, House Committee on Ways and Means, Subcommittee on Trade, *Hearings: Trade Adjustment Assistance for Firms, April 6, 1985—Atlanta, GA; Trade Adjustment Assistance for Workers, June 10, 1985—Lorain, OH*, 99th Cong., 1st sess. (Washington, DC: U.S. Government Printing Office, 1985); also, five client firms visited by OTA staff in December 1986 and January 1987 said they knew of no other program providing the high quality, sustained technical assistance given by the TAACS, and attributed their improved performance to TAAC assistance.

Workers must earn a living; firms don't necessarily have to stay in business. Yet, firms are owned and managed by people, and employ people; those people may be thought to have a claim on the government for help if government policies do them economic harm. Moreover, if a government program helps to save a business, that may well be a better outcome than trying to adjust to the loss of all the jobs that go with it if a business fails.

Whether the TAA program for firms works is a central question. Two recent evaluations of the TAA program for firms come to quite different conclusions. A report by the Office of Inspector General in the Department of Commerce, issued in March 1985, concluded that the TAA program successfully aided only 3.6 percent of clients requesting assistance and 13 percent of those completing adjustment plans. The report said that although some aspects of the assistance process—such as timeliness—could be improved, “intractable national and international economic and market conditions [e. g., low labor costs and subsidies to industry in other countries, the strength of the dollar] prevent the program's success.”⁶ The report praised TAAC personnel as dedicated and well-qualified, but said “the adverse environment in which the program must operate remains unyielding and overwhelming.”⁷

A May 1985 report prepared for the Department of Commerce by a private consultant firm, HCR, found that 35 percent of firms receiving technical assistance from the TAA program were better off than they were before entering the program—and better off than the average firm of their own size and kind; 79 percent of all the firms sampled were still in business. a

Because of congressional interest in determining whether TAA for firms is worthwhile,

and because the experience with TAA may be a useful guide for other industrial extension service programs, a close look at the methods and results of the two studies is in order. Several factors help to explain the wide divergence in the results, and to cast substantial uncertainty over both. The interpretation of data, definitions of success, and time period chosen (the 1982-83 recession) in the Inspector General report all tend toward pessimistic results; the report very likely understates the program's successes. The HCR study lacks the detailed descriptions of individual firms that appear in the Inspector General report, and its data have been criticized by the Department of Commerce as inaccurate, erring on the optimistic side.

The Inspector General Study

The Inspector General report first looked at the 370 firms certified in 1982 and 1983 at six TAACs (Midwest, Mid-Atlantic, New Jersey, New England, Southeastern, and Metro New York), and found that 269, or 73 percent, dropped out of the program after being certified but before reaching the phase of implementing an adjustment plan (generally, before an adjustment proposal was written). Selecting the Midwest TAAC, with a 74 percent dropout rate, as typical, the report interviewed or reviewed files of the 65 firms certified at that TAAC over the 2 years to discover the reason for the “tremendous percentage” of firms dropping out. Summing up the reasons 47 firms gave for dropping out, the report classified 33 percent as “dissatisfaction” with the program, 24 percent as “disabling financial conditions,” and 15 percent as miscellaneous.

Yet the client responses, as summarized in the report, could be interpreted quite differently. In many cases, it appears that “dissatisfaction with the program” amounted to disappointment that TAA would not provide a quick loan, or that the firm had to pay 25 percent of the cost of technical assistance, or that the program did not provide some kind of trade protection. Thus, one might well interpret the results as showing that the TAAC was weeding out firms who were interested only in finding a source of ready money, and were not willing

⁶U.S. Department of Commerce, Office of Inspector General, op. cit., p. 12.

⁷Ibid., p. 14.

⁸HCR, *Evaluation of the Adjustment of Firms Assisted by the Trade Adjustment Assistance Program: Economic Experience of Client Firms Since 1981*, report prepared for the U.S. Department of Commerce, Office of Trade Adjustment Assistance (Washington, DC: 1985),

and able to make management changes that would improve their chances of surviving. For a program with limited resources and the goal of providing intensive assistance, some kind of triage is certainly necessary. The TAAC might be criticized for failing to make clear the nature of the program before sending on the petitions for certification; perhaps more firms could be weeded out at an earlier stage, before they are certified. It should be kept in mind, however, that 1982 and 1983 were the years of the deepest recession in 50 years; it is likely that more firms than usual were unable to pay anything for an adjustment program.

A different kind of complaint, appearing quite often in these cases, was that TAA help was too slow in coming. The average time for completing adjustment plans ranged from a low of 1 year to a high of more than 6 years, with an average of 2 years 8 months. Some of this delay is unavoidable, arising from the nature of assistance in the TAA program (see the discussion below), but some might be avoided by improving TAA procedures.

The most serious charge against the TAA program in the Inspector General report is that its success rate was a "dismal" 3.6 percent. This extremely low figure was produced by examining 38 firms in four TAACs that completed implementation of adjustment plans in 1982 and 1983 and concluding that five, or 13 percent, adjusted successfully due to TAA efforts. This percentage was then applied to the 101 firms remaining in the programs of the six TAACs, yielding 13 cases expected to be successful. The 13 cases were then divided by 370 (the number of firms certified by the six TAACs in 1982 and 1983), producing a figure of 3.6 percent, which was termed the success rate. This puts the success rate in a very unfavorable light. It implies that every firm that is certified should receive service, and that success must be judged by the ability of the TAACs to help all of the firms certified, whether or not they received service.

Another measure of success is the percentage of cases coming to completion that succeeded due to the TAAC's efforts. That figure

is 5 of 38, or 13 percent, according to the report. Another 4 cases were judged successes, but not on account of the TAAC's efforts; thus 9 firms, or 24 percent, adjusted satisfactorily. A firm's adjustment was defined as successful if its sales, production, or employment stabilized or increased by the time the plan was completed. This part of the report's conclusion also bears questioning.

first, it maybe difficult in some cases to pinpoint just how much the TAAC had to do with a successful outcome. For example, one TAAC advised a firm producing wire that improved marketing would be a major solution to its problems, recommended hiring five nationwide sales representatives, and helped the firm choose them. The firm decided later to do without the salesmen and instead got a listing in a leading national industrial directory. Sales rose, and the firm's position improved, but a company spokesman gave no credit to the TAAC since he believed that success was entirely due to the directory listing. It might be considered that the TAAC deserved some credit, however, since it was the TAAC that identified a national marketing effort as key to the firm's improvement.

A second point is that the cases on which the Inspector General report rested its conclusions were completed in the deep 1982-83 recession. The large percentage of bankruptcies and business failures reported for the 38 firms the report examined was probably due at least in part to the dismal economic climate of the time.

Congressional hearings on the TAA program for firms, held in 1985, suggest that the number of successes found in the Inspector General study was exceptionally small, possibly on account of the time frame chosen for the study. At hearings of the Subcommittee on Trade of the House Committee on Ways and Means in Atlanta, Georgia, on April 6, 1985, a much larger number of successful cases was reported by two of the six TAACs included in the study. The Southeastern TAAC submitted a report stating that 45 firms entering its program from 1982 through 1984 had stabilized or improved

their situation by 1985.⁹ Several businessmen whose firms got assistance from the Southeastern TAAC also testified that their situation had improved. In addition, the New Jersey TAAC submitted a report on 16 firms entering its program between 1978 and 1983 (13 of them from 1981 to 1983), detailing increases in sales and employment for all of them by 1984-85.¹⁰ These reports are not comparable with the results reported in the Inspector General study; most were from the TAACs, not the firms, and might have been biased toward optimism. Also, a followup a year or two later might show that **some** of the improvements did not last. However, the 61 firms reported as improved after working with these two TAACs greatly outnumber the five successes credited to four TAACs (including the New Jersey TAAC) in the Inspector General report. One difference may be that 1984-85 were much more prosperous years than 1982-83.

Finally, any study that evaluates the success of a program must consider carefully what "success" means. This issue is discussed below, in relation to the HCR report as well as the report of the Inspector General.

The HCR Report

This report by a private consultant was commissioned by the Commerce Department in 1984 and completed the following year. The study selected a random sample of 249 firms from a total of 426 firms which had submitted a diagnostic survey or adjustment proposal between June 1, 1981 and April 24, 1984. (HCR did not include in the sample all firms that were certified, since TAACs discourage firms in weak financial condition from seeking assistance.) Then, reports on the firms' economic circumstances were drawn from the TAAC files or obtained from the firms themselves; usually the TAACs got in touch with the firms for information, but in a few cases HCR made the contact. Enough information **was** gathered on

127 of the **249** firms in the sample to allow an evaluation of the firm's degree of success in adjusting by December 31, 1984, that is, 8 months to 3 years after the firms took the first step to get technical or financial assistance.

The HCR study used three criteria to indicate whether the firm understood and heeded the TAAC's advice, whether its economic situation improved, and whether the progress was due to the TAAC's intervention, or simply to changing economic fortunes in the firm's industry. The criteria for adjustment were that the firm must have:

- begun implementing a majority of the tasks specified in its adjustment proposal;
- shown improvement in sales or profitability or an increase in employment after TAAC assistance; and
- equaled or bettered the average performance in sales or profit for similar firms (with approximately equal sales and in the same four-digit SIC).

These criteria for success are more exacting than those used in the report of the Inspector General. Yet HCR found that 44 of 127 firms assisted by the TAACs met all the criteria, and many met some but not all three; over half increased sales, the report said. Of the 122 sample firms for which no outcome data were available, HCR estimated (on the basis of the Dun & Bradstreet Credit Rating Reference Book) that 81 percent were still in business. This is close to the survival rate (79 percent) reported for firms that did have outcome data, and perhaps implies that the outcomes for both groups might have been much the same.

The report's results are clouded with uncertainty, however, HCR, unlike the Office of Inspector General, relied heavily on data in the TAACs' files, or collected by the TAACs in interviews; in the 127 cases, HCR directly interviewed only 17 firms. Details on the extent of adjustment—that is, a listing of individual firms showing what happened to the sales, profits, and employment of each—do not appear in the report. Thus, the questions the Commerce Department raised about the accuracy of the data

⁹U.S. Congress, House of Representatives, Subcommittee on Trade of the Committee on Ways and Means, *Hearings*, op. cit., p. 97.

¹⁰Ibid., pp. 25-27

could **not** be convincingly answered by material in the report,

Department officials were particularly skeptical of the study's finding that 10 of 15 firms getting Trade Act loans adjusted successfully; they thought this inconsistent with the fact that the default rate on TAA loans had traditionally been high. The Deputy Assistant Secretary in charge of the TAA program ordered a staff review of the data on firms getting loans and meanwhile held up release of the HCR report. The staff review reported that 9 firms, not 15, got TAA loans during the period reviewed, and that 4 firms instead of 9 adjusted successfully. The figures were not significant statistically because the sample was so small. No further information from the staff review was published, and no details on individual firms were given.

In authorizing the release of the HCR report in 1986, the Deputy Assistant Secretary for TAA included as an appendix an exchange of letters on the data problem. His letter said that:

... a closer review of the forty-four firms which HCR has characterized as "adjusted" reveals that a number of them are in severe financial difficulty .11

No details on the extent of financial difficulty, that is, a listing by individual firms of declines in profits or sales, appeared in the letter or the appendix.

Defining Success

The definition of **success** is obviously a critical element in evaluating a program's effects. For individual firms, the standard of success used in the Inspector General report—that the firm must have increased or stabilized its sales, production, or employment as a result of TAA assistance—seems generally reasonable. However, there are cases in which such a standard fails to measure success. For some firms battered by import competition, the best strategy may be to contract, not expand, and find a niche in which the firm can succeed. For example,

a New England company employing 500 people was producing three different kinds of woollens and was using compromise equipment, not the best for each kind of material, for "flexibility." With the assistance of the TAAC, the company put in a cost accounting system which enabled it to discover that two of the three lines of woollens were losing money. The TAAC advised the company to close two of its three mills, cut down to 300 workers, and concentrate on its profitable line. The company did so, although reluctantly, since the owners did not want to let the workers go. But the change made the company profitable, and made the 300 remaining jobs more secure. In this case, a firm succeeded by reducing sales, production, and employment, without the TAAC assistance, the company might have failed, with the loss of even more jobs.

This sort of definition also has a more fundamental flaw. In a high-risk program such as TAA, in which assistance is given to firms that are already in trouble, it may be misleading to define success solely by the adjustment rate of individual firms. One TAAC official advocated what he called the "portfolio approach," He said:

It's like the way a venture capitalist operates. He may have 10 busts for every hit, but if the hit is big enough, it pays for the failures.

Evaluating TAA assistance to firms would mean analyzing the costs and benefits of the whole program, measuring the public expenditure (now about \$16 million per year) against the social benefits of the businesses and jobs that are preserved. The dollar benefits to society include property and income taxes paid, and outlays for unemployment insurance, adjustment programs, and other social programs avoided. No one has evaluated the program in this way.

Some of the TAACs have offered illustrative examples, however. For instance, Dawson Industries, a Georgia apparel manufacturer, first sought help from the TAA program in 1977, at a time when its line of women's lingerie was losing out to imports, and sales, profits, and employment were declining. That year, the firm

¹¹August G. Fromuth, Deputy Assistant Secretary for Trade Adjustment Assistance, letter dated June 30, 1986 to Ms. Louise Woerner, President, HCR.

paid only \$4,000 in corporate taxes, and its 350 jobs were in jeopardy.

The first change Dawson undertook, with the help of the New York TAAC, was to change the firm's line to higher fashion, more import-resistant sportswear; the company received a \$1 million Trade Act loan to help make the changeover. Sales increased, but profits still lagged. The Southeastern TAAC then conducted an audit of the firm's operations, and recommended several changes to improve management and reduce manufacturing costs—such changes as re-engineering the sewing room, retraining first-line supervisors, and developing new piece rates and cost reporting. Sales continued to rise (to \$30 million in 1983, up from \$7 million 6 years before) and the company began making acceptable profits.

In 1985, employment was up to 400 at Dawson's own plant, with many more workers employed by subcontractors. Annual income taxes from corporate profits and the personal income taxes from the 400 Dawson employees were estimated at \$1.5 million per year. The budget for the southeastern TAAC was \$1.3 million for the year. In addition, when workers' jobs are saved, unemployment insurance need not be paid. At \$125 per week (the average UI payment in 1985), savings for 400 workers could amount to \$500,000, assuming an average of 10 weeks' unemployment; with longer unemployment, savings of UI might be over \$1 million.

The New England TAAC also provided OTA with information on several firms that received assistance from the program and were still in business in 1987, as a basis for a rough cost-benefit calculation. Four of the firms providing data entered the program in 1983. Their total employment in 1987 was 488. Based on payroll data provided by the firms and information from the Internal Revenue Service on tax rates for a family of four in 1984 (the latest data available), those workers paid, roughly, \$911,500 in Federal taxes in 1984. In addition, UI payments saved for those 488 workers can be estimated at \$677,200. The combined benefit in income taxes paid and UI payments avoided is roughly

estimated at \$1,588,700 for 1984.¹² The Federal grant to the New England TAAC in 1983 (the year these firms enrolled) was \$1,040,000.

Obviously, this calculation is only illustrative. It does not give credit for corporate income taxes or property taxes paid by the company, or for State income or other taxes paid by the workers. It does not include all the firms that enrolled in 1983 and afterwards improved their sales and profits (two did not provide sufficient data). On the other hand, it assumes that the firms would have failed, with the loss of all their jobs, without TAA assistance; and it credits TAA with improvements that might have come about anyway because of the improving economy. It does suggest, however, that a more detailed analysis of the costs and benefits of TAA for firms could offer a reasonable basis for judging the success of the program,

The Dawson example from the Southeastern TAAC is relevant to another issue. An argument against the existence of the TAA program for firms is that it provides a temporary reprieve at best; in a dynamic economy there will always be some declining industries, especially those where labor costs are a significant part of total costs, and foreign labor costs are much lower than in the United States. The description fits the apparel industry. The prescription seems to be to let the apparel industry go.

without getting into a number of broader questions—such as what happens to the U.S. textile and fiber industries if all apparel manufacture goes offshore—one might consider whether it is worthwhile for government to assist an industry that is in decline, but still employs over 1 million people, to slow down and stretch out the decline. The Dawson example suggests that a program that helps even a few companies survive for a few years—not necessarily for decades—may pay for itself. Another

¹²For consistency OTA used UI data for 1984. The average weekly UI payment that year was \$123.42. In a 1986 survey of displaced workers, the Bureau of Labor Statistics found that workers losing jobs in the previous 5 years due to plant closings or production cutbacks were out of work for an average of 13 weeks. For this calculation, OTA assumed that the workers losing jobs in these trade-affected firms would collect UI for 13 weeks; the average payment would thus amount to \$1,604.50 per worker.

point is that it may not be inevitable for the entire American apparel industry to decline. Not all companies in industries facing severe import competition are fated to fail. Some parts of the industry, for example, standard items like men's shirts, may be hard to defend against imports. But there may well be continuing opportunities in America for apparel manufacture—for example, in more specialized, higher fashion lines where a quick turnaround is important. A government program of technical assistance to apparel firms capable of filling profitable niches may succeed, and may pay for itself,

Improving TAA for Firms: Problems and Opportunities

In early 1987, OTA surveyed directors and other officials of 11 of the 12 TAACs, 9 by telephone and 2 by site visits. Among the questions asked were what problems the TAACs encountered in carrying out the program, what were its strong points, and how it might be improved.

Interruptions to the Program

The single point raised by every TAAC in the OTA interviews was the paralyzing effect of the interruptions to the program since December 1985. Especially damaging were the 1- and 2-month extensions, mostly with no grants of funds, in fiscal year 1987. First, when the Commerce Department ordered all the TAACs to close down following the lapse of legal authority for the program, the TAACs were forced to break implementation contracts with many of their clients. When they reopened months later, many clients declined to return to the program. And it was hard to attract new clients, since none of the TAACs had agreements lasting longer than a few months (through the end of 1986). Firms that might have welcomed TAA assistance were reluctant to make a commitment of time and money which the TAACs themselves could not make.

The situation worsened in 1987, when extensions were kept to a month or two, and the funds allowed the TAACs were only enough to keep the doors open. Many staff members left

and could not be replaced; a typical reduction in staff was from 15 to 18 down to 2 or 3. The staff members who remained were job hunting. In April 1987, the TAACs had agreements, with minimal funding, lasting only through June 15.¹³ They owed millions of dollars of technical assistance to firms with whom they had contracts dating back to 1985 and before. They were losing their legitimacy with businesses that might profit from their assistance.

Time Restrictions

Before the disruptions that began in December 1985, most of the TAACs found TAA for firms to be, on the whole, administratively workable. Two or three features of the program have created difficulties, however. One is the inflexible time limit of 1 year during which TAACs can commit themselves to serve their client firms. As described earlier, the shortest time possible for producing an adjustment strategy is more than 6 months, and in practice the time is usually several months longer. Often, the firm itself will delay in committing itself to an adjustment plan, while weighing the costs and benefits.

Commerce Department rules prohibit the TAACs from undertaking any activity, whether with clients, consultants, or anyone else, that will last past the end of the TAAC's grant period. The way TAACs and their clients have handled this restriction in the past, when the TAACs customarily had 12-month grants, was to make a good faith assumption that the TAAC would be around the next year to finish the job. For consultants, one strategy was to break up a technical assistance program into smaller parts that could be completed within the time limits. This can be an awkward and expensive way of managing a project, however. Another possibility would be to allow the TAACs to make contracts that last past the end of the grant year, contingent on their receiving grants the following year. With the recent 1- and 2-month extensions, TAACs have been effectively barred

¹³As noted, in May 1987 the Commerce Department asked for 12-month grant proposals from the TAACs to cover the period June 1987 to May 1988.

from giving any implementation assistance at all, since the time is too brief even to get it started. Five TAACs said in response to OTA's survey that a 12-month grant period is the minimum period they can work with.

Outreach

An October 1981 directive from the Department of Commerce prohibits TAACs from directly approaching firms, by letter or phone call, to acquaint them with the TAA program or offer TAAC services. The purpose of the restriction, according to the Commerce Department, is to prevent any firm's feeling pressured to request trade assistance. TAACs may make speeches or take part in seminars sponsored by industries or communities and explain the TAA program, but must make it clear that it is up to the firm to take the initiative to request assistance.

Most of the TAACs have found it a handicap to operate under this restriction, since the TAA program for firms is small, unpublicized, and little known. The TAACs do make their program known to industry organizations and Chambers of Commerce, Members of Congress, Governors, State and local agencies, and community organizations. The TAACs that are affiliated with universities and economic development agencies use these groups to contact firms. The necessity to make themselves known through a network has proven a positive benefit to some of the TAACs, though most would like to be free to approach firms directly. For example, one TAAC director said he knew that a leather goods firm in his community was in trouble, and would have liked to offer TAA assistance. Eventually the firm did find out about the TAA program, and asked for help, but by that time the firm was too far gone to profit from assistance.

Affiliations With Other Institutions

For some of the TAACs, close links with other institutions are a source of strength. Five of the TAACs are independent, governed by boards representing State and local agencies and the private sector. The others are associated with

or under the wing of other institutions. Six are affiliated with universities. Four of those consider the university connection very advantageous.¹⁴ It gives them legitimacy and helps them attract the kind of clients that can benefit from their services, and it gives them ready access to help from teachers, researchers, and graduate students in business and engineering schools,

The TAACs that seem to have the closest university links are the Southeastern, western, and Great Lakes. The Southeastern TAAC is an integral part of the Georgia Tech Research Institute, under its Industrial Extension Service. Staffed with Georgia Tech Research Institute employees, the TAAC is able to tap the expertise of the entire Institute, with its 650 professional and 150 academic researchers. An especially valuable resource is the Institute's industrial training program, which specializes in training for first and second line supervisors. Another advantage Georgia Tech confers is its name. Georgia Tech is so respected throughout the southeast that the TAAC staff find they have immediate entree to many businesses that might not react so favorably if they saw the TAAC as a government agency. In addition, the Southeastern TAAC has been able to weather the disruptions of 1986-87 better than most because it can trade and share staff with other departments of the Institute. Once staffed with 19 full-time equivalent staff members, it was down to seven full-time equivalents, including 10 people, in early 1987.

The Western TAAC gears most of its assistance to designing new products and produc-

¹⁴They are Southeastern, which is connected with Georgia Tech Research Institute; Great Lakes, with the University of Michigan; Mid-American (not interviewed by OTA), affiliated with St. Louis University; Rocky Mountain, with the University of Colorado; and Western, with the University of Southern California. The New York State TAAC, associated with the State University of New York at Binghamton, is largely autonomous; the university's contribution is largely confined to help with outreach.

The Mid-America TAAC was previously located in Little Rock, AR, but it ceased operations in 1986. TAACs surveyed by telephone were New York State, Binghamton, NY; Metro New York, New York, NY; New Jersey, Trenton, NJ; Mid-Atlantic, Philadelphia, PA; Great Lakes, Ann Arbor, MI; Mid-West, Chicago, IL; Rocky Mountain, Boulder, CO; North west, Seattle, WA; and Western, Los Angeles, CA. The TAACs visited by OTA staff were New England, Boston, MA, and Southeastern, Atlanta, GA.

tion processes, and to installing computer systems; its association with USC gives it access to the university's research center for technology transfer. One professor each from the business and engineering schools serve part time on the TAAC. The university also serves as a base for the TAAC's outreach and administrative activities.

The New Jersey TAAC says it profits from its association with the State's Economic Development Authority. As a part of the State's business retention services, it has access both to expertise in the agency and to financial assistance for firms via the State industrial revenue bonds. Also, the agency helps the TAAC with outreach throughout the State.

Broader Eligibility

TAAC officials mention two problems with eligibility for the program. First, as with TAA for workers, service and supplier industries are not eligible. Then, it is sometimes hard to draw the line for firms that are manufacturing goods. For example, if a firm makes several products, some affected by imports but others not, any product line that accounts for at least 25 percent of the firm's total sales maybe considered for eligibility. But unless the firm's overall employment is declining, none of its products can be certified for assistance. Often, firms losing out to foreign competitors in one product line will shift workers to another line as a temporary expedient; yet over time, the firm's position may erode. An earlier intervention might have kept it out of trouble.

In general, the need for an early response is not as clear for trade-affected firms as it is for workers losing their jobs. However, timely intervention, offered when a firm still has some strengths, is obviously more likely to succeed than help that is delayed until the firm is on its last legs. It has sometimes been suggested that whole industries might be certified as import-affected, so that firms do not have to wait till their sales or production are already in decline before they are eligible for assistance. This of course would enlarge the universe of firms eligible for help; so would the extension

of eligibility to service and supplier firms. unless given additional funds, TAACs would then have to be more selective than they are now, or service to firms would have to be diluted, with briefer, more superficial assistance offered.

An alternative to broadening eligibility for TAA services is to offer industrial extension services to any manufacturing firm that needs to improve its management and technology. Possible models for this kind of service, open to all, range from the highly competent but time-limited assistance offered by Georgia Tech's Industrial Extension Service to the venerable Agricultural Extension Service, with its combination of Federal, State, and county funds, applied research in the land-grant universities, and delivery of services by county agents. Although it is certainly not free from criticism, the Agricultural Extension Service has received a great deal of the credit for fostering the technologically advanced, highly productive agriculture of the United States. The service has taken many years to develop, costs close to \$1 billion per year, and would not be instantly replicable in an industrial extension service. It represents the high end of the range of possibilities for diffusing technology to manufacturing industries.

The TAA Industrywide Program

Since 1978, when industrywide TAA assistance began, the Department of Commerce has signed 52 cooperative agreements with representatives of a variety of trade-affected industries, providing technical and export assistance. Industry associations (or other representatives of industry) share the cost of developing improved manufacturing technologies, better market analysis, and other kinds of technical assistance that will help firms in the industry become more competitive at home and abroad. They also cooperate in helping firms export their products more effectively.

To qualify for the program, an industry must show that its sales or production have declined, that firms in the industry have been certified as TAA-eligible, that the project results will lead

to prompt actions by the industry, and that the industry will commit time, money, and effort to carrying out the project and making its result known to members. usually the industry provides one-quarter to one-half of the cost of the project.

The TAA industrywide program began with a heavy concentration on footwear and the textile-apparel industry; apparel and textiles remain at the top in funding, but footwear has dropped out and other industries—electronics, auto parts, iron products—have received more attention recently. Most of the industrywide projects are short term; the Commerce Department considers its contribution seed money, to get the industry started on technology and management improvements for its members, which the association will then take over itself. One of the bigger recent projects (\$450,000 in TAA funds over 3 years plus \$805,500 from industry) is for improved iron casting. As shown in table 5, the industrywide program was funded at about \$2.5 million to \$4 million in recent years.

By far the largest industry project TAA has supported is TC² (Textile & Clothing Technology Corp.), whose purpose is to produce a machine that will automatically load, fold, and sew limp fabric, particularly in the exacting task of making men's suit jackets. Contributions to that project from TAA funds amounted to \$1.6 million in 4 fiscal years, 1981 through 1984. When the Commerce Department attempted to cease funding TC² after 1984, Congress took over and provided line item appropriations, \$3.5 million in 1985, and \$3.3 million in 1986 and again in 1987. (In April 1987, however, the Commerce

Department had not yet made any grants from the fiscal year 1987 funds for TC².) From 1981 on, the industry provided \$10.7 million in cash for the project, and more resources (e.g., staff time) in kind.

The industry association offices being opened in Tokyo are examples of TAA export assistance to industries. The American Electronics Association established a Tokyo office in 1984 with TAA help, and the Motor Equipment Manufacturers Association planned to follow suit in 1987. Although the Commerce Department intended to limit TAA funding for these offices to 3 years, representatives of the electronics industry have asked that it be continued, on the grounds that the Japanese take government involvement seriously, as an emblem of the industry's importance to the U.S. economy,

Administration officials in the Commerce Department do not express the same "philosophical" objections to the TAA industrywide program as to the program for firms; one described it as a "bright spot." However, the Commerce Department has given no funds to the industrywide TAA program in fiscal year 1987, because officials interpreted language in reports of the House and Senate Appropriations Committee as reserving all Commerce TAA funds to the program for firms. The program is popular with a number of industry associations; some protested to Congress about the cutoff of funds. As noted earlier, the House Appropriations Committee explicitly stated in its report on a bill providing supplemental TAA appropriations that funds should be available to industry projects as well as to the TAACs, for technical assistance to firms.