

# **BROKEN BUFFER:**

**How Trade Adjustment Assistance  
Fails American Workers**

**RAMYA M. VIJAYA**

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## INTRODUCTION

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Bleak unemployment numbers and the prospect of a jobless recovery have brought into sharp focus the tough landscape facing American workers. In particular, recent events have exposed the inadequacy of the safety nets available to workers during periods of economic stress. But well before the dramatic unemployment numbers created by the recession, certain sectors of the economy faced a long-term trend of employment displacement. Such job displacements are largely linked to increasing trade and globalization, particularly the influx of cheap manufacturing imports. This trend is unlikely to be reversed even in an economic recovery. Recognizing the irreversible nature of trade-related job losses, the U.S. has long had a policy of targeted assistance for U.S. workers hurt by globalization - Trade Adjustment Assistance (TAA). Yet this assistance has been woefully inadequate. While the impact of trade on the U.S. economy has been dramatic and far-reaching, devastating entire communities and trade professions as well as more broadly depressing wages in certain regions, TAA has remained a comparatively small and ineffective program. Even as industrialized nations have pioneered large-scale and multi-faceted efforts to help workers displaced by trade, the United States hasn't begun to tap the potential for creative public policy to offset the economic trauma caused by globalization.

This report evaluates the adjustment assistance provided to trade displaced workers. It shows the ways in which TAA has failed to respond adequately to the challenges facing dislocated workers. It highlights the need for a more comprehensive set of policies to help workers and families navigate the economic restructuring that has become an inevitable part of increasing trade and globalization.

At the same time that policymakers focus on the near-term challenges of providing jobs and ensuring a full economic recovery, they need to be thinking ahead to a broader agenda that allow Americans workers to succeed in today's international economy.

## TRADE AND JOB LOSSES

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In promoting free trade policies as a vehicle of economic growth, U.S. policymakers in both political parties have often acknowledged that trade-related structural changes in the economy place a considerable burden on workers. Certain sectors of the economy, particularly those that compete directly with growing imports, have experienced large scale job dislocations. Increasing exports may create jobs in other sectors. But the skills of the workers dislocated from the shrinking import competing sectors rarely match the new areas of job growth. The transition for dislocated workers is therefore extremely arduous. Such dislocations in the U.S. - particularly in the manufacturing industries competing with cheap imports - have been well documented. In a widely quoted report for the Institute for International Economics, Lori Kletzer estimated that over the 20 year period, 1979 to 1999, about 6.4 million jobs were displaced in import competing manufacturing industries.<sup>1</sup>

The dislocations intensified beginning in the late 1990s. An Economic Policy Institute (EPI) report on the impact of NAFTA on the U.S. economy estimates that the job losses in the U.S. due to cheap imports far outpaced the job growth due from exports.<sup>2</sup> The report estimated a net job loss of 1 million due to NAFTA for the years 1993-2004. Far more significant, though, has been the recent role of imports from China in accelerating the dislocation in manufacturing. An EPI study estimated that in the years 2001-2007, the increasing trade deficit with China led to about 1.5 million manufacturing jobs being displaced. The EPI study also estimated that an additional 800,000

jobs were lost in other sectors of the economy. With the outsourcing of technology and other service sector work, trade related job dislocation are no longer limited to the manufacturing sector.

The job displacements in manufacturing have been spread across industries and regions. Many of the workers affected are ill-prepared to seek jobs in other sectors. A majority (57 percent) of the TAA recipients have only graduated high school. Only 8 percent have a college degree. Another significant pattern is that contrary to ex-

**“...over the 20 year period, 1979 to 1999, about 6.4 million jobs were displaced in import competing manufacturing industries.”**

pectations a majority of the displacements have occurred in industries that employ a large percentage of women workers. For example, textile mills - an industry with female employment percent of over 50 percent - have received the maximum number of Trade Adjustment Assistance certifications each year since 2004. Apparel and other finished fabric manufacturers, also an industry with female em-

ployment intensity greater than 50 percent, are also within the top 5 industries receiving certifications. Moreover, during the late 1990s and early 2000s, women received a majority of the Trade Adjustment Assistance. In more recent years, they have continued to make up about 48 percent of TAA recipients.

## **TRADE ADJUSTMENT ASSISTANCE**

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The TAA program is the primary U.S. policy response to the dislocations caused by trade. Since free trade policies are expected to bring overall gains to the economy, there is an economic rationale for providing assistance to the workers whose jobs will inevitably be sacrificed for the greater good. In recognition of this sacrifice the TAA program was first established in 1962 to assist workers losing jobs due to foreign competition. The program provides a combination of income replacement, retraining and relocation funds to workers displaced due to trade-related economic restructuring.

In response to the heightened concerns about job losses due to the NAFTA, a special NAFTA-TAA was created in 1993. The NAFTA-TAA expanded eligibility to include job losses not just from increased imports but also losses from shifts in production of goods to Canada and Mexico. In a reorganization of the TAA in 2002 the NAFTA-TAA was combined with the original TAA to form a single program. The program included shifts in production to all countries with whom the U.S. has a trade agreement. It also includes some secondary workers, that is, workers from factories that produced inputs for goods that are facing import competition.

In order to qualify for TAA benefits, a group of workers (three or more from the same place of employment) have to jointly submit a petition to the Department of Labor declaring that their jobs have been lost due to increased imports of goods. Once certified, workers can receive income support, Trade Readjustment Allowance (TRA), for up to 26 weeks after the regular unemployment insurance (UI) is exhausted, when they enroll in training programs which were also funded by TAA. Prior to 2009, the training fund available under TAA was capped at \$220 million a year. Workers still enrolled in training after the combined 52 weeks of UI and TRA can receive TRA for an additional 52 weeks.

The 2002 reorganization also introduced two additions to the TAA. One was Alternative Trade Adjustment Assistance (ATAA), which acts as a wage insurance program. Wage insurance makes up a portion of the lost wages,

when the new job that the worker finds pays less than the job lost due to trade-displacement, for two years. The ATAA program introduced a limited wage insurance component for workers over 50 years old. The benefits under wage insurance only start once a new job is found. It is argued that this provides an incentive for quicker re-employment. The second addition to the TAA was a Health Coverage Tax Credit (HCTC). The tax credit pays for 65 percent of health insurance premiums for the displaced worker and family for up to two years.

Most recently the TAA has been further enhanced under the American Recovery and Reinvestment Act of 2009 (the stimulus bill). The program has now been expanded to include trade-related job losses in services as well as manufacturing. There is also an expanded list of eligible secondary workers. The act authorizes the expanded TAA through 2010 and has allocated \$575 million for worker retraining. It has also raised the HCTC to cover 80 percent of insurance premiums for displaced workers and their families.

## HOW TAA FAILS WORKERS

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The TAA program as it exists, even with the additional funds under the stimulus bill, is not an adequate response to the large-scale disruptions in the U.S. labor market caused by free trade and globalization. To begin with, the actual number of workers who have been covered by TAA remains far below the estimates of the displacement caused by trade. Table 1 represents the number of workers covered by TAA certifications for the years 2001-2007. During this period under a million workers were officially certified as having lost their jobs due to trade. This is a low number compared to the EPI estimate of 1.5 million manufacturing job displacement due to trade with China alone.

**TABLE 1: Total Number of Workers Certified**

Year	Workers Covered by TAA Certifications
2001	188,352
2002	131,820
2003	166,335
2004	104,127
2005	112,545
2006	123,348
2007	132,336
<b>Total</b>	<b>958,863</b>

Source: Department of Labor, Employment and Training Administration.

Some of the reasons for this limited coverage have been addressed by the 2009 enhancement of the TAA. For example prior to 2009, in order for workers to receive the certification, a direct link had to be established between the job losses and either increased imports or the shift of production to a foreign country with a free trade agreement with the US. This criteria excluded the workers whose jobs shifted to countries without a free trade agree-

ment with the U.S. More importantly the direct link with imports also limited the coverage of secondary workers. Secondary workers are workers who work in firms that provide inputs (upstream and downstream) to final products that are affected by imports. Prior to 2009, only secondary workers whose job dislocations were related to trade with either Canada or Mexico (i.e., NAFTA countries) were eligible to apply for TAA. And most glaringly prior to 2009, TAA was limited to manufacturing job losses. Completely excluded were the increasing numbers of service sector workers whose jobs are being outsourced, as well as those workers who provide support services to the manufacturing sector.

## GLOBALIZATION'S FORGOTTEN LOSERS

Even with the current extensions to the TAA, it is conceptually flawed in the way that it defines who is hurt by international trade. By demanding that workers establish a clear link between trade and jobs lost, TAA ignores the varied ways that globalization has depressed wages for Americans workers and shifted jobs overseas. In many areas, the evaporation of well-paying manufacturing and more recently outsourced service sector jobs has depressed wages for all workers by expanding the pool of available labor. An indication of this is the wage replacement levels of workers who have received TAA benefits (Table 2). Dislocated workers on an average have not been able to find jobs that match the pay levels of the jobs lost.

**TABLE 2: Average Wage Replacement in New Jobs for TAA Covered Workers**

Year	Wage Replacement (Percent)
2001	87
2002	80
2003	73
2004	74
2005	75
2006	89

Source: Department of Labor, Employment and Training Administration.

It is in fact not surprising that the replacement is far less than a 100 percent because many jobs in the trade-impacted low-skilled manufacturing sectors pay much better than other jobs that are available to workers without college degrees. For instance industry level data from the Current Employment Statistics, compiled by the Bureau of Labor Statistics (BLS), indicates that in 2008, the average weekly wage in textile industries, a sector that has received the largest number of TAA certifications, was \$524 in textile industries. That wage is about 30 percent higher than the average for the retail sector (\$386) and almost double that of the average for food services (restaurants) industry (\$233). Moreover in many regions of the country these industries have been the predominant source of employment and the loss of these job have created a vacuum in the local economies. This makes a transition to other jobs particularly difficult.

## THE FAILURE OF TRAINING

Retraining workers is essential to help them secure new and well paying jobs, but the training component of the TAA has been the least successful. Prior to the expansion of the training fund under the stimulus bill, when the training fund was capped at \$220 million, states reported a chronic shortage of funds to cover all certified workers particularly towards the end of the year.<sup>4</sup> Not all workers who enter the TAA program enroll for training. The proportion of workers who do enroll in some form of training has been very low. Many receive waivers for a variety of reasons such as enrollment non-availability, lack of funds and workers having marketable skills. For example from 2003 to 2008 in the years after the reorganization of the TAA, a little over 789,000 new workers were covered by TAA certifications. Only 250,000 workers or about 33 percent entered training programs (See Table 3).

Even if more workers had enrolled in training, the training funds capped at \$220 million would not have been able to match the demand. For example if we compare the training funds to the number of workers certified each year after the 2002 reorganization of TAA, the amount available per worker is less than \$2,000 dollars. In 2007, just over 130,000 new workers were certified by TAA petitions. Given the total training funds of \$220 million, the average amount per worker is \$1,662.

**TABLE 3: Training under TAA**

Year	Workers Covered by Petitions	New Training Participants
2003	166,335	43,672
2004	104,127	50,929
2005	112,545	38,207
2006	123,348	37,426
2007	132,336	49,339
2008	150,899	37,752
<b>Total</b>	<b>789,590</b>	<b>257,325</b>

Source: Department of Labor, Employment and Training Administration.

These numbers suggest a significant failing in both the reach and extent of training. More importantly, the TAA program lacks any systematic approach to planning the training. There are very few guidelines in the program itself about the nature of the training or where to obtain it. There is also very little follow up evaluation of the kinds of training choices made by displaced male and female workers, and whether these choices have been effective in getting them re-employed.

Case studies conducted by the General Accounting Office have described the above issues regarding training. In a survey of participants from five different TAA cases in different states, a 2006 GAO study found that less than a third of the workers enrolled in training programs at all. In a majority of the cases the training programs were

short-term, lasting less than a year. Examples cited include a one-month nursing assistant course. Funding caps on training and the lack of knowledge about open enrollment programs were cited as some of the reasons for this short-term preference.<sup>5</sup>

Since industries facing trade-related job displacements are not likely to revive, the ability of workers to acquire new skills is key to making a transition to new jobs. Therefore the poor coverage and ineffectiveness of the training programs under TAA is a very significant failure in adjustment assistance policy. The 2009 increase in training funds to \$575 million is a step in the right direction. But given that the TAA and the new funds are only authorized till 2010, there is a question of whether there will be continuing and consistent commitment to support expanded training. More importantly, there is little evidence of a more systematic approach to training.

## CONCLUSION

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**“Another important step for a labor support policy is to professionalize service jobs to ensure that this sector pays better wages and benefits.”**

Transition policies to help workers displaced by trade have an impact beyond the import-competing sectors. If dislocated workers from these sectors are not provided with adequate assistance to transition to other jobs, there is an inevitably negative impact on wage bargaining capacity in all sectors. The low wage replacement rates for the TAA participants is indicative of this decline in bargaining capacity.

The wage replacement rate has to be addressed in several ways. An expansion of the wage insurance program is one option to help prop up the labor markets in the short-run. Currently wage insurance under the ATAA program is only available to those over 50 years of age who are able to find other jobs. Lowering the age requirement can help more workers retain their earnings potential for longer which can also help the local economy.

In the long run a more comprehensive labor support policy is required. The ad hoc manner of funding the transition assistance is clearly not working. Substantial investments have to be made to create and train people for new jobs that aren't threatened by globalization - for example in health, education and social services. This requires a sustained commitment of funds for training and a systematic plan for training and job creation.

Another important step for a labor support policy is to professionalize service jobs to ensure that this sector pays better wages and benefits. The vacuum created in communities by the shrinking of high paying manufacturing jobs cannot be filled by service sector jobs with low wages and benefits. Facilitating unionization, raising the minimum wage, and enacting living wage ordinances are among the steps needed to professionalize and raise up wages for low-end service sector jobs.

Trade-related job displacement is a long-term trend that is not likely to be reversed. Even as the economy rebounds and unemployment falls, import-competing sectors will continue to shrink. Moreover, with job displacement from globalization increasingly spreading beyond manufacturing, they will remain a recurring feature of our economy. Adjustment assistance therefore cannot be seen as a stop gap, stand alone policy. It must be central to the U.S. approach to labor markets and the economy.

## ENDNOTES

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1. Lori G. Kletze, "Job Loss From Imports: Measuring the Cost," Institute for International Economics, 2001.
2. Jeff Faux, Carlos Salas and Robert E. Scott, "Revisiting NAFTA: Still not Working for North America's Workers," Economic Policy Institute, September 28, 2006.
3. Robert E. Scott, "The China Trade Toll: Widespread Wage Suppression, 2 million Jobs Lost in the U.S.," Economic Policy Institute, July 28, 2008.
4. *Trade Adjustment Assistance*, U.S. Government Accountability Office, GAO-04-1012 (Washington, D.C.: 2004).
5. *Trade Adjustment Assistance*, U.S. Government Accountability Office, GAO-06-43 (Washington, D.C.: 2006).

## RELATED RESOURCES

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*Hidden Casualties: Trade, Employment Loss & Women Workers*

Ramya M. Vijaya & David Callahan, July 2009

*The Smart Globalist's Agenda: A Plan for Responsible U.S. Economic Engagement in the World*

Clyde Prestowitz, June 2009

For further research on this topic and on others, please visit **[www.demos.org](http://www.demos.org)**.

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