

PubPol/Econ 541

Class 22

Trade Adjustment Assistance

by

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Pause for News

Quiz Results

TAA:

Trade Adjustment Assistance

- The US program
- Wage Insurance (ATAA)
- Arguments against
- Current status of TAA

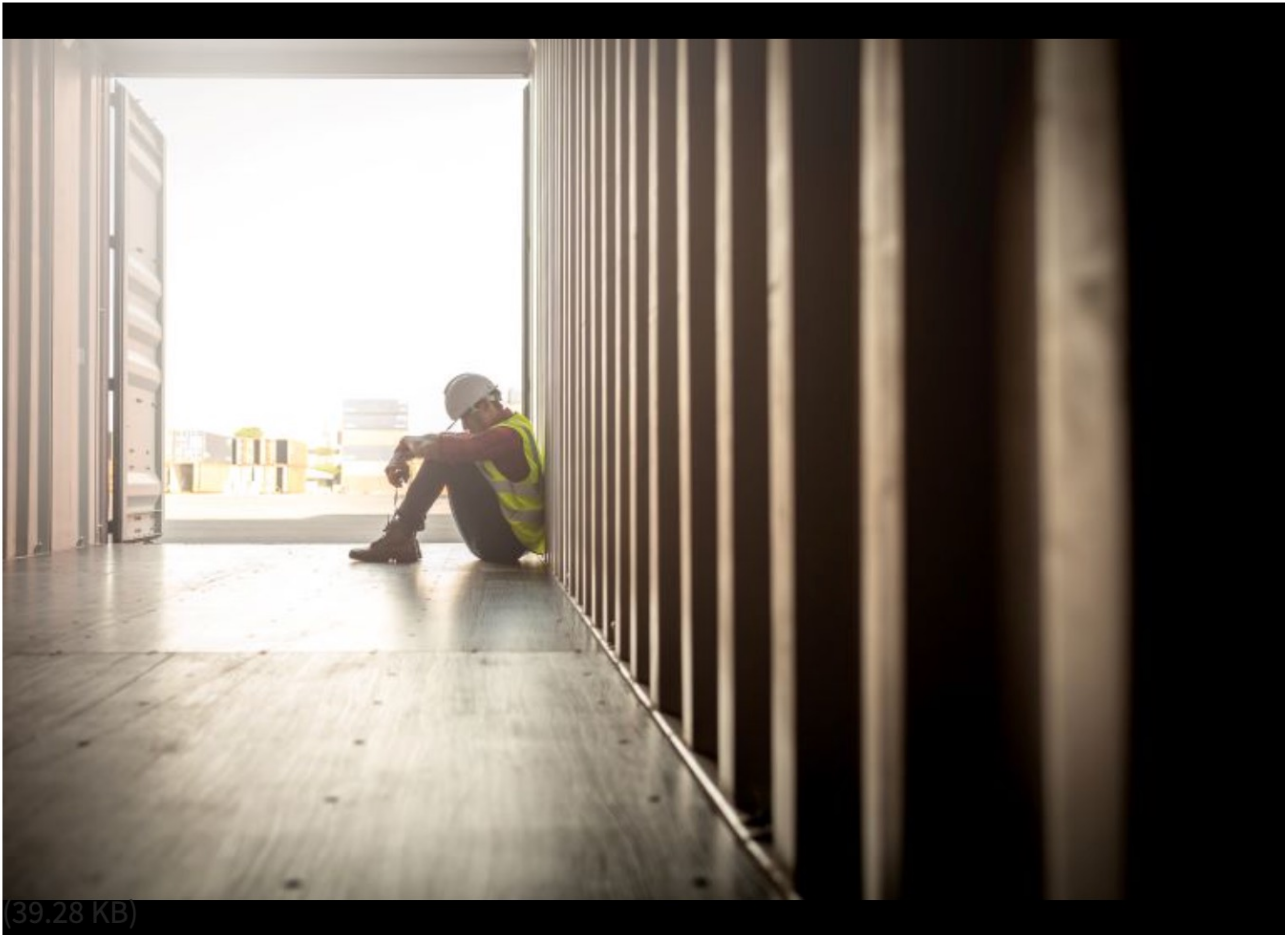
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US TAA

- Started 1962
 - Reason (Kennedy)
 - “Obligation to render assistance to those who suffer as a result of national trade policy”
 - Costs of trade are concentrated, compared to benefits
- Latest expansion: 2002
 - New features, but few take advantage of them
- Program stopped July 2022
 - Workers separated from job before June 30, 2022, still eligible
 - Needs re-authorization by Congress



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[TAA Termination Fact Sheet](#)

Since July 1st, 2022, the TAA Program has been unable to certify new workers or serve workers separated after this date. Read more about the impacts.

The New York Times

America's Safety Net for Workers Hurt by Globalization Is Falling Apart

A 60-year-old program that provides retraining to workers whose jobs are eliminated because of foreign competition has expired, leaving many at risk.



By Ana Swanson

July 20, 2022

Congress Must Help Dislocated Workers by Reviving the Trade Adjustment Assistance Program



OCTOBER 03, 2022

US TAA

- Types of TAA
 - Workers (since 1962)
 - Firms (since 1962)
 - Farmers and fishermen (since 2002)

US TAA

- Eligibility: laid off due to
 - Increase in imports (most)
 - In upstream or downstream producers (secondary)
 - Shift in production abroad (2nd most)

Table 1 Distribution of certified petitions by reason, 2002–07

| Grouping | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------|---------|---------|---------|---------|--------|
| Number of all petitions submitted | 2,796 | 3,585 | 3,215 | 2,594 | 2,488 | 1,086 |
| Number of workers covered by all petitions submitted | 336,833 | 304,126 | 210,153 | 155,712 | 168,871 | 93,903 |
| Percent of petitions certified | 59 | 53 | 56 | 60 | 58 | 63 |
| Percent of certified petitions due to increased imports | n.a. | 47 | 55 | 55 | 53 | 46 |
| Percent of certified petitions due to secondary workers | n.a. | 8 | 9 | 6 | 8 | 9 |
| Percent of certified petitions due to shifts in production | n.a. | 30 | 36 | 39 | 39 | 44 |

n.a. = not available

Source: US Department of Labor.

Source: Rosen (2008)

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Table 2 Comparison of participation in TAA for Workers program before and after 2002 reforms, annual average, 1997 to 2005

| Grouping | 1997–2001 | 2003–05 |
|----------------------------------|-----------------|---------------------|
| Number of petitions filed | n.a. | 2,693 |
| Percent certified | 67 ^a | 64 |
| Take-up rate (percent) | 19 ^b | 43 |
| Workers receiving income support | 34,800 | 62,444 |
| Workers in training | 31,200 | 46,103 |
| Workers in ATAA | n.a. | 3,864 ^c |
| Workers receiving HCTC | n.a. | 22,000 ^c |

n.a. = not available

ATAA = Alternative Trade Adjustment Assistance

HCTC = Health Coverage Tax Credit

a. Figure is for 1994–98.

b. Figure is for 1996–2000.

c. Total is for 2003–06.

Source: US Department of Labor.

Source: Rosen (2008)

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Table 3 Reemployment and earnings experience of dislocated workers

| Category | Manufacturing | Nonmanufacturing | High-import competing |
|--|---------------|------------------|-----------------------|
| Average prelayoff weekly wage (dollars) | 396.88 | 368.95 | 402.97 |
| Share reemployed (percent) | 65 | 69 | 64 |
| Average change in earnings (percent) | -12.1 | -4 | -1.3 |
| Share with no earnings loss (percent) | 35 | 41 | 36 |
| Share with >15 percent earnings loss (percent) | 35 | 29 | 35 |
| Share with >30 percent earnings loss (percent) | 25 | 21 | 25 |
| Share unemployed >26 weeks (percent) | 22 | 13 | 24 |

Sources: Author's calculations based on data for 1979 to 2001 from the Displaced Worker Survey, Bureau of Labor Statistics; Kletzer (2001).

US TAA

- Benefits:
 - Income maintenance
 - 78 weeks vs. 26 weeks under UI
 - All training expenses
 - Health Coverage Tax Credit (HCTC)
 - Job search costs (90%)
 - Job relocation costs (90%)

US TAA

- What's wrong with TAA?
 - Workers are not informed (esp. HCTC)
 - Doesn't cover service industries
 - Certification done by firms, not by industry
 - Money for training apportioned poorly
 - Some places run out, others leave \$ unspent
 - Self-employed don't qualify
 - No support for communities
 - US spends less than others (but was first)

Table 4 Spending on active labor-market adjustment programs

| Country | As a percent of GDP | Ratio of spending as a percent of GDP to the unemployment rate | As a percent of total spending on all labor-market programs |
|----------------|----------------------------|---|--|
| France | 1.32 | 0.14 | 44.4 |
| Germany | 1.21 | 0.16 | 38.6 |
| Canada | 0.41 | 0.06 | 36.4 |
| United Kingdom | 0.37 | 0.07 | 40.0 |
| Korea | 0.31 | 0.08 | 66.9 |
| Japan | 0.28 | 0.06 | 34.2 |
| United States | 0.15 | 0.03 | 32.9 |

Source: Organization for Economic Cooperation and Development, *Employment Outlook 2003*, data for 2000–2001.

Source: Rosen (2008)

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Pause for Discussion

Questions on Rosen, “Strengthening TAA”

- Who qualifies for TAA, and what do they get?
- How does US expenditure on TAA differ from expenditure on similar programs in other major countries?
- What’s wrong with US TAA?

Questions on Lawrence, “A Numbers Argument...”

- Are the gains from trade agreements large enough to justify the expenses of TAA?
- Does Lawrence advocate for adjustment assistance only for trade-displaced workers?
- Why does Lawrence associate TAA with passing Trade Promotion Authority?

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Wage Insurance

- What is it?
 - Program that replaces a fraction (usually 50%) of any cut in wage when the unemployed take a new job. Workers get it for only a limited time
 - Object is to encourage taking a new job even at a lower wage, with the hope that wage will then rise with experience
 - Widely advocated by economists, not just for trade-displaced workers

Wage Insurance

- ATAA: Alternative Trade Adjustment Assistance
 - Part of 2002 expansion of TAA
 - Available only to workers who are
 - Over 50
 - Earning less than \$50,000 a year
 - If they get new employment within 26 weeks
 - Payment is
 - 50% of drop in wage for at most 2 years
 - Not to exceed \$10,000 per worker over the 2 years

Wage Insurance

- Brainard and Litan argue
 - Wage insurance is needed for all workers
 - But especially for trade-displaced workers
 - Their unemployment lasts much longer
 - Their drop in wage is somewhat larger
 - TAA does very little
 - Advantage of wage insurance
 - Speeds re-employment
 - Subsidizes training (on the job)
 - Encourages workers to consider alternative jobs

Table 1
Displaced Workers:
Prior Earnings, Earnings Losses, and Unemployment Durations,
2001-2003 Averages

| | Full-Time Workers Displaced | Average Earnings on Lost Job | Change in Earnings in New Job | Average Weeks without Work |
|--|--------------------------------|---------------------------------|----------------------------------|-------------------------------|
| Trade Displaced (TAA)* | 71,000 | \$32,505 | -21% | 80** |
| Manufacturing Displaced | 693,000 | \$40,154 | -20% | 14.1 |
| Services Displaced | 953,000 | \$45,479 | -13% | 10.5 |
| Services Potentially Affected by Offshoring | 205,000 | \$60,535 | -14% | 13.1 |

Note: Table Refers to Full-Time Workers with at least 2-year tenure.

* TAA displaced worker estimate based on entire TAA population. Earnings estimates of TAA displaced workers based on those that completed the program.

** Author's calculations based on TAA data.

Source: Department of Labor, BLS.

Recession

| Table 2 TAA Certification, Denials, and Enrollment, 2000–2004 | | | | | |
|---|--------|-------------|---------|---------|---------|
| | 2000 | <u>2001</u> | 2002 | 2003 | 2004 |
| Petitions | 1,382 | 2,353 | 2,404 | 3,564 | 2,918 |
| Percent Petitions Certified | 61% | <u>44%</u> | 69% | 53% | 59% |
| Number of Workers Certified | 98,007 | 139,587 | 225,072 | 197,264 | 147,956 |
| Number of Workers Denied | 53,433 | 59,067 | 74,760 | 91,585 | 55,295 |
| Percent of Newly Certified Receiving Income Support | 34% | 23% | 16% | 22% | 51% |
| Percent Newly Certified Receiving Training | 23% | 18% | 16% | 22% | 31% |
| New ATAA Recipients* | NA | NA | NA | 288 | 1,115 |
| Note: Not all workers certified under an approved TAA petition are individually eligible for TAA benefits and services. *Authors' calculations based on DOL data. Source: Department of Labor | | | | | |

Source: Brainard et al. (2005) Class 22: Trade Adjustment Assistance

| Table 3 Costs per Worker Under Alternative Adjustment Programs | | | | | | |
|--|-----------------|------------------------|---------------------|--------------------------------|-----------------|------------------------------|
| Program | TAA | UI and WIA | ATAA Wage Insurance | Brainard Litan Warren Proposal | Bush PRAs | Skill-Improvement Tax Credit |
| Maximum Duration | 1-1/2 Yrs | 1/2 Yr | 2 Yrs | 2 Yrs | 1 Yr | 5 Yrs |
| MAXIMUM/AVERAGE BENEFIT PER WORKER | | | | | | |
| Employer-Sponsored Training | — | — | — | — | — | Max. of \$5,000 |
| Total Average Income Maintenance Payments | <u>\$19,300</u> | <u>\$6,800</u> | — | — | — | — |
| Income Subsidy | — | — | Max. of \$10,000 | Max. of \$20,000 | — | — |
| One-time Job Search Allowance | Max. of \$1,250 | — | — | — | — | — |
| One-time Relocation Allowance | Max. of \$1,250 | — | Max of \$1,250 | — | — | — |
| Reemployment, Training, or Support Services | — | — | — | — | Max. of \$3,000 | — |
| Training | \$4,800 | \$5,000–\$9,000 | — | — | — | — |
| Average Health Coverage Tax Credit | \$6,100 | — | \$8,100 | — | — | — |
| Total | <u>\$32,700</u> | <u>\$11,800–15,800</u> | <u>\$19,400</u> | <u>\$20,000</u> | <u>\$3,000</u> | <u>\$5,000</u> |
| Sources: Authors' calculations based on data from DOL, GAO, and Economic Policy Institute. | | | | | | |

Source: Brainard et al. (2005) Class 22: Trade Adjustment Assistance

Table 4
Reemployment Rate and Earnings Loss for
Displaced* Workers, 2000–2003 (thousands of workers)

| | 2000 | 2001 | 2002 | 2003 |
|---|-----------------|-----------------|-----------------|-----------------|
| Unemployment Rate (%) | 4.0 | <u>4.7</u> | <u>5.8</u> | <u>6.0</u> |
| Total Displaced | 2,667 | 3,465 | 3,615 | 5,050 |
| Total Displaced from Full-Time Job** | 1,191 | 1,985 | 1,903 | 2,318 |
| Total Reemployed*** | 1,917 | 2,461 | 2,507 | 2,581 |
| Total Full-Time Reemployed** | 654 | 1,126 | 1,030 | 925 |
| Total Full-Time Reemployed at Lower Wages**** | 258 | 514 | 452 | 375 |
| Average Wage Loss (\$) | <u>\$12,706</u> | <u>\$17,463</u> | <u>\$15,473</u> | <u>\$14,792</u> |

* Workers are classified as displaced if they reported the reason for their job loss as: plant or company closed down or moved, insufficient work, position or shift abolished.

** Displaced from permanently lost, full-time jobs with at least 2-years tenure.

*** Displaced within the last 52 weeks.

**** Those holding fewer than 4 jobs since reemployment.

Source: Authors' calculations based on BLS data.

Source: Brainard et al. (2005) Class 22: Trade Adjustment Assistance

Pause for Discussion

Questions Brainard & Litan. “Insuring America’s Workers”

- Why is wage insurance more likely to encourage reemployment than unemployment compensation?
- Why do the authors argue that it should be given to all displaced workers, not just those displaced by trade?
- Why does wage insurance lead to more effective retraining than TAA?

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Arguments against TAA

- Arguments against US TAA (see James)
 - Note free-market orientation: “As long as property is acquired legally and not through fraud, inequality is not unfair”
 - Argument in favor was to get support for trade. That’s hasn’t worked.
 - Trade-impacted workers do not suffer more than other unemployed.
 - Program is not very effective or well-run.

Table 1
National Job Turnover, Thousands of Private Sector Employees

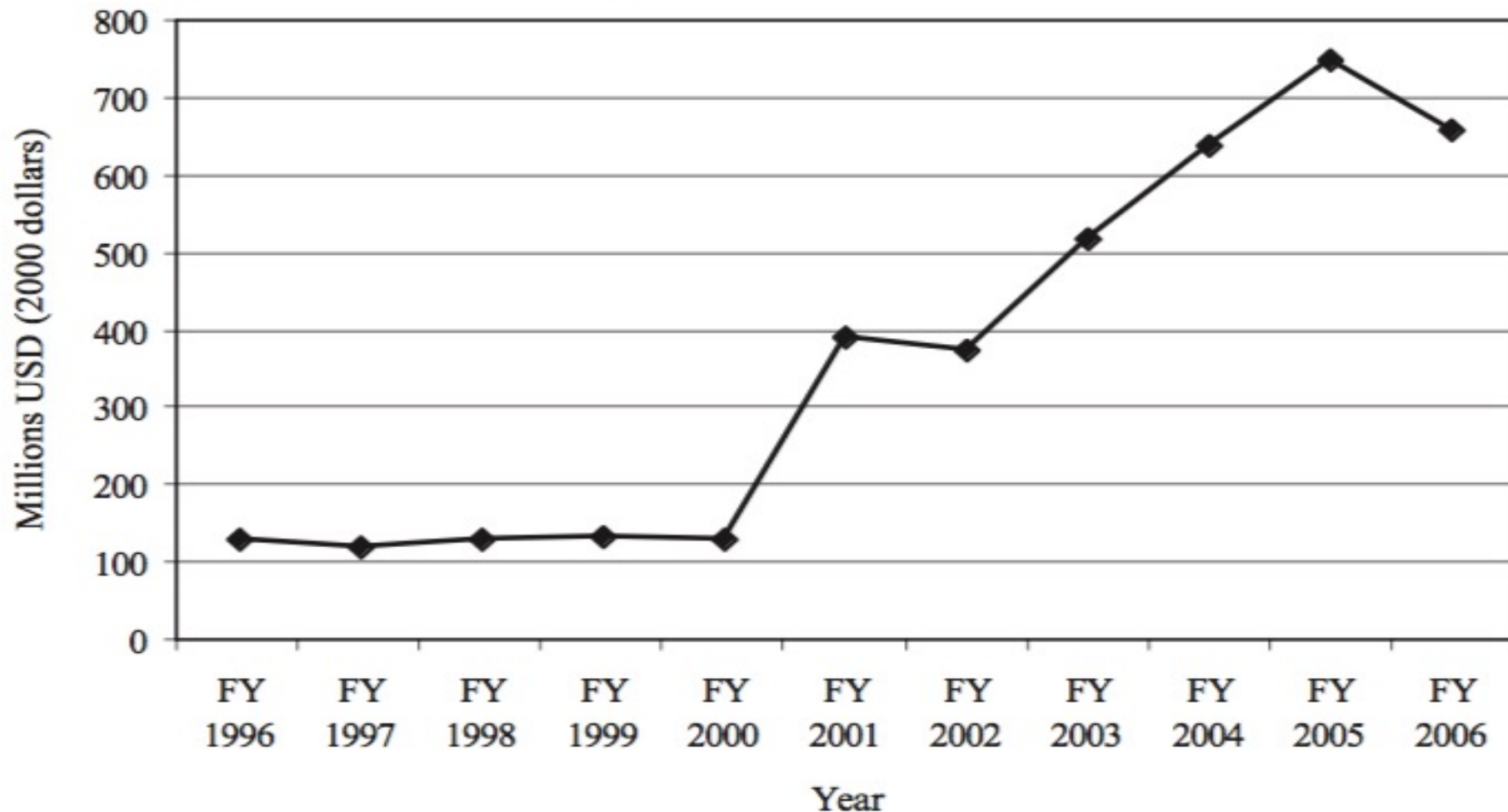
| Year | Job Gains (gross) | Job Losses (gross) | Net change |
|-------|-------------------|--------------------|------------|
| 1996 | 32,490 | 29,895 | 2,595 |
| 1997 | 33,714 | 30,765 | 2,949 |
| 1998 | 34,625 | 31,794 | 2,831 |
| 1999 | 35,505 | 32,903 | 2,602 |
| 2000 | 35,084 | 33,243 | 1,841 |
| 2001 | 32,451 | 35,574 | -3,123 |
| 2002 | 31,643 | 32,110 | -467 |
| 2003 | 30,074 | 30,204 | -130 |
| 2004 | 31,472 | 29,383 | 2,089 |
| 2005 | 31,440 | 29,362 | 2,078 |
| 2006 | 30,415 | 28,630 | 1,785 |
| Total | 358,913 | 343,863 | 15,050 |

Source: Bureau of Labor Statistics, Business Employment Dynamics survey, available from <http://data.bls.gov/cgi-bin/surveymost?bd>.

Source: James (2007)

Figure 1

Trade Adjustment Assistance Program Costs (constant 2000 dollars)



Source: Office of Management and Budget, budgets for fiscal years 1996–2006, Department of Labor, www.whitehouse.gov/omb (FY04–08) and FY98–03, www.gpoaccess.gov/usbudget.

Note: Numbers deflated using Bureau of Economic Analysis price deflator.

Source: James (2007)

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Table 2
Estimated Number of Workers Covered by Certifications

| Fiscal Year | Number of Certifications | Workers Covered ^a |
|-------------|--------------------------|------------------------------|
| 2001 | 1,029 | 139,587 |
| 2002 | 1,647 | 235,072 |
| 2003 | 1,890 | 197,359 |
| 2004 | 1,806 | 149,240 |
| 2005 | 1,545 | 117,345 |
| 2006 | 1,407 ^b | 123,000 ^b |

Source: Department of Labor Employment and Training Administration, http://www.doleta.gov/tradeact/taa_certs.cfm.

^a Estimated by the companies at the time certification is issued. Workers may be reemployed, never laid off at all, or additional workers may be laid off.

^b From “Trade Adjustment Assistance: Industry Certification Would Likely Make More Workers Eligible, but Design and Implementation Challenges Exist, Report to Congressional Requests,” GAO-07-919, June 2007 (Washington: Government Accountability Office).

Table 3
TAA Distribution of Certifications by Industry, FY2006

| Industry | Number of Certifications |
|---|--------------------------|
| Textile mill products | 180 |
| Apparel and other products made from fabric | 170 |
| Electronic equipment/components, excluding computer equipment | 134 |
| Industrial and commercial machinery and other equipment | 106 |
| Transport equipment | 92 |
| Fabricated metal products | 92 |
| Measuring, analyzing, and controlling instruments | 87 |
| Rubber and miscellaneous plastic products | 75 |
| Primary metal industries | 65 |
| Chemicals and allied products | 51 |

Source: U.S. Department of Labor, Employment and Training Administration, "Trade Adjustment Assistance (TAA) Distribution of Certifications by Industry Fiscal Year 2006," www.doeta.gov/tradeact/certs_2006.cfm.

Arguments against TAA

- Arguments against EU TAA (see Beattie)
 - EU TAA is European Globalisation Fund since 2007
 - Problems with it
 - Complicated to administer
 - Fails to provide much compensation
 - Contributes to the perception that trade is harmful.
 - Better would be “a Nordic-style comprehensive welfare and education system”

Pause for Discussion

Questions on James, “Maladjusted”

- What has been the primary motivation for enacting and extending TAA?
- What sectors of the US economy have had the most certifications for TAA, according to the FY2006 data presented?
- Are trade displaced workers more in need of help than workers displaced by other causes?

Questions on Beattie, “Flaws of Trying...”

- Does the author mention any examples of successful compensation of producers hurt by imports?
- Does TAA achieve the aim of compensating losers from trade?
- Does TAA achieve the aim of making trade agreements politically acceptable?
- Why should advocates of globalization be opposed to TAA?

Questions on Beattie, “Flaws of Trying...”

- Does the EU have a program analogous to Trade Adjustment Assistance?
- How much money does TAA hand out, and to how many workers?
- Does the author favor doing nothing to help those who lose from trade?

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Current status of TAA

- 2015: TAA was reauthorized through June 2022
 - “Phased termination” would begin then
 - “Sunset provisions” would apply starting July 2021
- 2021-22: Acts to reauthorize were passed in House, but omitted from bills passed by Senate
- June 2023: American Worker and Trade Competitiveness Act (H.R. 4276) was introduced to
 - Extend TAA through FY 2030
 - Expand eligibility and benefits
- As of November 2024, the bill seems to have made no progress.

Questions on Collins, “Trade Adjustment Assistance...”

- When was TAA most recently reauthorized and until when?
- What were the “sunset provisions” in that act, and when did they apply?
- If workers were approved for TAA prior to July 2022, did they lose their benefits?
- Has legislation been introduced to reauthorize TAA, and has it passed?
- What is the status now?

