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Before the

**Senate Finance Committee
Trade Adjustment Assistance**

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As someone who has long been a supporter of the trade adjustment assistance program and who helped make sure it stayed alive when it was under attack in the 1980s, I am here to add my voice to those endorsing its continuation and to commend the Committee for initiating this review of the program. It has been some time since it has been examined in any detail.

While I want to comment on some of the proposals that have been made for improvement, I will begin with some general comments that put the program in an appropriate context and to explain why the National Foreign Trade Council, an organization of over 500 businesses dedicated to open, rules-based trade, also supports an effective trade adjustment assistance program. Let me also make clear right at the beginning, however, that the NFTC also supports launching a new trade round and urges the Committee to take up Trade Promotion Authority legislation as soon as possible in order to help make a new round a reality.

The concept of trade adjustment assistance grows out of Congressional and Executive efforts over the past 70 years to cooperate in the development of trade policy. The Constitution assigns control of interstate and foreign commerce to the Congress, a responsibility it has taken seriously over the years but which has inevitably subjected it to increasing protectionist pressures in recent decades as globalization has eroded America's historic insularity and created new challenges for American industry.

Professor I. M. Destler of the University of Maryland has referred to the Congressional response to these pressures as one of developing "antiprotectionist counterweights, devices for diverting and managing trade-restrictive pressures." In effect, over time, Congress has constructed a precarious bargain among its members and between itself and business and labor. In essence, that bargain provides for the continuation of policies that, in general and always with some exceptions, support open, rules-based trade. In return,

the U.S. government will do two things: address the problem of those hurt by open trade and insist on aggressive enforcement of U.S. trade remedy laws in order to make sure our industries are not disadvantaged by foreign trade practices that violate multilateral rules.

Trade adjustment assistance falls into the former category – taking care of the victims. While it would be fair to say that the “victims” have not always welcomed this kind of assistance, often referring to it as “burial assistance,” it is clear that the existence of the program has played an important role in persuading Members of Congress and the general public to support open trade.

That this issue continues to have political resonance is demonstrated by recent polling by the Program on International Policy Attitudes at the University of Maryland. In late 1999, 66% of respondents agreed with the statement, “I favor free trade, and I believe it is necessary for the government to have programs to help workers who lose their jobs.” Only 18% felt that it was not necessary for government to have such programs, and another 14% did not favor free trade. In a parallel survey, more than 85% of respondents said they “would favor free trade if [they] were confident that we were making major efforts to educate and retrain Americans to be competitive in the world economy.” Less than ten percent disagreed.

The obvious conclusion to draw is that broad based public support for open trade is significantly enhanced by, if not dependent on, the government’s commitment to assistance for the victims of the changes brought on by such trade. This is a fact that has no doubt contributed to the survival of the TAA program over a long period of time and to the current interest in extending and possibly expanding the program.

This is a circumstance where public opinion also reflects sound economics. International trade benefits the economy through lower prices, increased productivity, and greater consumer choice. In general, it can serve as a force for improving an economy’s overall productivity, which in turn can result in rising living standards. In order for the economy to experience higher productivity growth, however, workers have to move from low productivity sectors to higher productivity sectors. It is in our economic, as well as political, interest to facilitate that adjustment.

It also argues, paradoxically, against one of the reforms that has frequently been proposed – the consolidation of TAA with other general unemployment assistance programs. While that may make sense from the standpoint of more efficient management, it would undermine the fundamental political rationale for the program and would ultimately erode public support for open trade. That support has been hard-won over the years, and it would be a mistake to toss it aside in the interest of this kind of reform.

That support is particularly important right now as Congress debates Trade Promotion Authority – which the NFTC also supports and urges the Committee to act on as soon as possible – and prepares for a new WTO round. As you no doubt all have noticed, anti-globalization pressures are growing, and in a period of economic downturn, they will only get worse. Uncertainty makes people nervous about change, particularly change that affects their pocketbooks. TAA is one way the government demonstrates its commitment

to help people – and firms and communities – deal with change and make it manageable, a form of support we will badly need in the coming months.

Beyond continuing the program, there are other changes which merit consideration. Most that have been proposed, however, involve expansion of the range of benefits that are part of the program. While I want to comment on some of those, I think the Committee should begin by looking at the extent to which the program's current benefits are being fully utilized. In that regard, the recently issued GAO report is instructive. It makes clear that the allowance that is equivalent to extended unemployment benefits has been by far the largest part of the program, with training somewhat less and job search and relocation assistance far behind.

For the period 1995-99, GAO reports slightly more than \$900 million being spent on the basic and additional allowances that are essentially extended unemployment insurance. In contrast, \$390 million was spent on training while only \$8.1 million went to relocation assistance and less than \$1 million for job search costs. The contrast is starker if one counts people. Over 155,000 received initial benefits; only 4737 received relocation assistance and 2802 job search assistance.

Obviously, many beneficiaries did not take advantage of these additional benefits because they found jobs and did not need further assistance. Equally obviously, that was a lot easier to do in a booming economy with low unemployment. If growth continues to slow, we can expect to see not only more applications and certifications but also fuller use of the available benefits.

It also appears that another significant reason for under-utilization of some of the program's benefits was the low level of general education and lack of good English skills of many of the beneficiaries. In other words, the program may not be providing the kinds of services its participants most need if they are to find new jobs. In some states, some degree of proficiency in English is a prerequisite for participation in occupational training programs, or both English and the equivalent of a high school education are effectively requirements for most of the jobs that are available.

In addition, some of the NFTC's members believe that another obstacle to full utilization of the existing program is lack of knowledge about it and how to take advantage of it. Many small and medium-sized companies not only have no TAA specialists but may lack adequate human resources personnel as well. As a result, some workers, unless represented by a knowledgeable, aggressive union, at worst may not even know about TAA and at best will have no one to help them with the paperwork necessary to take advantage of the program.

I would recommend the Committee review the GAO report and examine closely the extent to which the program can be adjusted to better meet the needs of its participants before you address the question of expansion of benefits. I would also suggest the Committee work with the Department of Labor to determine whether it can undertake more outreach regarding the program and provide more services to workers on how to enter it.

In any consideration of TAA reform, there are certain ideas that regularly come up, some of them nearly as old as the program itself. In reality, the critical question in the Committee's deliberations is likely to be cost rather than the merit of any particular change, but I would like to make a few comments on some of the suggestions that have been around for some years.

- 1) Expansion of Scope. One popular proposal is to expand the program to cover secondary workers and shifts of production outside the U.S. Both of these are part of the NAFTA-TAA program, and there is a certain logic to combining the programs at the NAFTA-TAA level, particularly since there is already a body of regulation and administrative practice surrounding the additional interpretations that would be required.

On the other hand, coverage of secondary workers, a change which labor has sought for at least 25 years, is potentially a significant expansion of the program. It makes sense on the merits, but the Committee should review cost estimates carefully before acting.

- 2) Expansion of Benefits. There are a number of ways to expand the benefits associated with the TAA program:

- lengthen the benefit period from 52 weeks to some longer period.

- expand the benefit package to include help in maintaining health care insurance, childcare, transportation to and from training, etc.

Lengthening the benefit period would probably be helpful in addressing the language skill and high school education program. An individual who takes the time during his benefit period to study English and/or get a GED often does not have time left in his benefit cycle to then enter into job training. Lengthening the benefit period would provide the additional time needed.

Expanding the benefit package is primarily a question of cost. Certainly these additional payments would be helpful and would facilitate getting people into training and keeping them there. Whether we can afford it is a matter for the Committee's judgment.

I should also point out that business itself spends substantial sums on training and education for its workers. For example, United Technologies Corporation, one of the NFTC's members, has spent more than \$230 million since 1996 on college and graduate school education for its employees. In 200 alone, UTC paid for 13,449 of its employees to attend college. More than 7,000 employees have earned degrees through the program.

Business also provides substantial indirect support. For example, the Information Technology Industry Council reports that its members annually contributed more than \$1 billion in cash, equipment, personnel time and financial aid to the nation's educational systems.

One other area of reform that deserves mention relates to the programs for firms and communities. The program for firms, which I followed very closely when I was a Congressional staffer, has been a poor stepchild of TAA for a long time despite its basic logic – if a firm is healthy and competitive, it is not going to lay people off, which will save the TAA program and the taxpayers a lot of money.

In 1991 and 1992, when I was on Senator Rockefeller's staff, I had occasion to work with so-called turnaround specialists – firms whose business it is to go into failing companies and restore them to profitability. These situations are almost always small or medium-sized businesses operating in smaller cities and towns, where the impact of failure resonates throughout the community. What I learned is that these efforts succeed far more often than one might think, often without publicity or public awareness, beyond the gratitude of the affected workers and the communities in which they live. While each case is different, which makes it difficult to draw general conclusions, there is clearly a role for assistance to firms, and the number of jobs saved and smaller communities made more stable and prosperous is not negligible. (The beneficiaries are almost always small and medium-sized businesses.) I recommend the Committee consult with both existing Trade Adjustment Assistance Centers and with private sector turn-around specialists on how to develop a more effective program. For a relatively small expenditure – the program has consistently been less than \$20 million and is currently just over \$10 million – you can accomplish a great deal.

With respect to community assistance, the Committee is no doubt aware that a previous program that was part of this law was never effectively implemented and was ultimately repealed. I believe that working with an impacted community, particularly when there is one large plant that accounts for most of the jobs, can be an important element in a successful adjustment when a plant closes or implements significant layoffs. Experience would suggest, however, that a successful community program requires a number of different federal and state programs and agencies working together in close coordination.

In sum, Mr. Chairman, there are good arguments for broadening and deepening the TAA programs, but the most important question in considering such proposals will always be their cost. At the same time, I would urge the Committee to focus on those changes that will permit the existing benefits package to be more fully utilized before addressing the further expansion of benefits.

Finally, let me return to what I said at the beginning. I hope the Committee will not forget the important role TAA has played in constructing and maintaining broad public support for rules-based open trade. Particularly now, as we are, hopefully, heading into a new trade round in tandem with a continuing economic downturn, maintaining that support will be critical in advancing the round and in fending off anti-globalization pressures that will try to disable it.