



# Committee On Finance

Max Baucus, Chairman

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## STATEMENT BY CHAIRMAN MAX BAUCUS SENATE FINANCE COMMITTEE TRADE ADJUSTMENT ASSISTANCE REFORM ACT OF 2002

I want to take this time to talk in some detail about the Trade Adjustment Assistance Reform Act of 2002. This bill is a renamed version of S. 1209, which was reported out of the Finance Committee last December. It is the first part of the trade package to which the pending motion to proceed pertains. I think it is important to put this bill in context. That is why I want to spend some time reviewing the history of the TAA program, its purpose, and recent proposals for reform, and how those factors are reflected in the bill. I also want to review some important points about what this bill does and does not do. Unfortunately, there is a lot of misinformation out there. I want to clear up some of the inaccuracies that have cropped up about specific parts of the bill. Last, I want to review my efforts to make this a bill with bipartisan appeal. That has been my goal - and, I think, one I share with Senator Daschle and Senator Bingaman - from the beginning. I really believe we have achieved that goal. So I want to touch on how that happened as well. First, I will start with a little history.

### History of TAA

Trade Adjustment Assistance - what we call "TAA" - was created in the Trade Expansion Act of 1962 and revised to its current form in the Trade Act of 1974. It was last revised in the 1993 NAFTA Implementation Act, which created a special program for NAFTA-impacted workers. The purpose of the TAA program is to help workers who lose their jobs and firms that face layoffs as a consequence of international trade.

In 1962, President Kennedy said that "those injured by . . . trade competition should not be required to bear the full brunt of the impact." "There is an obligation," he said, for the federal government "to render assistance to those who suffer as a result of national trade policy." When President Kennedy said those words, the United States had a trade surplus. Imports amounted to less than 5 percent of GDP. But the President and a bipartisan majority of the Congress were wise enough to realize that the benefits of increased trade are not evenly distributed. They realized that we, as a government, have an obligation to help those who are displaced by trade policy to get back on their feet.

Today, as we all know, there is a huge trade deficit. Imports as a share of GDP have tripled. These facts can lead to only one conclusion – the rationale for having a strong, effective trade adjustment assistance program are even stronger today than they were when the program was created. That’s why 66 percent of Americans responding to a recent poll agreed with the following statement: “I favor free trade, and I believe that it is necessary for the government to have programs to help workers who lose their jobs.”

Congress has regularly reauthorized the TAA program – about every five years – and always with bipartisan support. It was with that history in mind that Senator Bingaman, Senator Daschle, and I embarked on this current exercise to reauthorize and reform the program. But before turning to the specific provisions of the bill, I want to spend a moment on what the current TAA program does.

### The Current TAA Program

There are currently three TAA programs: regular TAA for workers, NAFTA-TAA for workers, and TAA for firms. The two worker programs run out of the Department of Labor. They help workers who lose their jobs due to trade to get retrained for new careers. To achieve that goal, TAA provides a very modest level of income support to tide over workers while they retrain. It also pays for training and provides job search and relocation assistance where needed.

The TAA for firms program provides technical assistance to mostly small and medium-sized businesses that face layoffs due to import competition. The program helps firms become more competitive so they can retain and expand employment. People sometimes call TAA the “Cadillac” of U.S. displaced worker programs. I find that misleading. It is true that TAA provides more benefits than other U.S. programs for displaced workers. But please remember that no one wants to be in TAA. The prospect of a government check for about \$250 a week is not an incentive to linger in this program when you have a mortgage to pay, a family to feed, and medical expenses to pay. I hope we can get past this “Cadillac” discussion and get down to the real issues.

### The Need for Reform

The TAA program has a 40-year history, and we have learned some things from experience. Over the last few years there has been a growing consensus that it was time to take another look at this program and see how it could work better. In the past two years, the GAO has done four very comprehensive studies of every aspect of the TAA program. GAO has noted some problems in the way the program operates and made some concrete recommendations for reform.

In addition, the bipartisan Trade Deficit Review Commission has looked at TAA. The Commission included our current USTR, Ambassador Zoellick, as well as Secretary Rumsfeld, former USTR Carla Hills, and others representing a wide range of views. As you probably know, they didn’t agree on much of anything. But their report contains one unanimous chapter recommending revision and expansion of the TAA program.

The GAO and the Trade Deficit Review Commission's recommendations for improving the TAA program include:

- expanding TAA to cover secondary workers
- assisting TAA participants with health insurance
- making sure income support lasts as long as training
- creating a performance evaluation system to track program outcomes
- providing wage insurance
- assisting trade-impacted communities, and
- assuring adequate funds for training

### How This Bill Was Drafted

That, in a nutshell, is how this bill began. We didn't start out trying to add as many bells and whistles as possible to this program. We didn't add too much in the expectation of negotiating down later. We simply took the nonpartisan and bipartisan recommendations of the GAO and the Trade Deficit Review Commission and wrote them into statutory language. And we tried to do it in a fair and sensible way that would make the program work better and treat all trade-impacted workers equally.

### Major Provisions of the Bill

Let me take a few minutes now to walk through some of the major provisions of the bill.

#### Unifying TAA and NAFTA-TAA

The first thing this bill does is unify the two TAA programs for workers – regular TAA and NAFTA-TAA. The unified TAA program pretty much adopts the existing NAFTA-TAA rules, which are the more recent. Consolidating these two programs creates a single set of application procedures, eligibility criteria, and training requirements. This makes the program a lot more user friendly for workers and easier for the Department of Labor to run. Unlike current law, the unified program will provide income support for the full length of training. That way workers can finish the training they need instead of dropping out when income support runs out. The Administration supports these changes.

#### Shifts in Production

The second thing this bill does is extend TAA coverage to workers who lose their jobs when their plants relocate abroad. Right now, these so-called “shifts in production” are covered under NAFTA-TAA, but not under regular TAA. That means that if a factory relocates to Mexico or Canada, the displaced American workers are covered. But if the factory relocates to Thailand or Chile, they are not. This is not a fair or sensible way to run a trade adjustment program. There is no difference between a worker whose job moves to Mexico and one whose job moves to China. Their adjustment needs are exactly the same. This bill cures the unfairness of current law by extending TAA to cover shifts in production to any country.

## Secondary Workers

The third thing this bill does is extend TAA coverage to secondary workers. Secondary workers are workers who supply parts to or perform finishing operations on a product produced by another so-called “primary” firm. Right now, regular TAA does not cover secondary workers. Think about a case where an auto assembly plant closes because of import competition from Japan or Korea and that forces the nearby plant that supplies tires for the cars to close. All these workers lost their jobs for the same reason. But right now, the auto plant workers get TAA benefits while the workers at the nearby tire plant do not.

In 1993, secondary worker coverage was added in NAFTA-TAA. But workers can only get the benefits when the imports are from Mexico or Canada. At that time, it made some sense to extend this coverage for trade between the three countries in the new NAFTA agreement. But now, nearly ten years later, it is time to extend the same benefits to all secondary workers. When we added secondary workers in NAFTA, it was understood that eventually it would only make sense to do it for everyone. Since then, the WTO Uruguay Round agreements have expanded trade with 145 countries, we have granted permanent normal trading relations status to China, and we have entered an FTA with Jordan and a trade agreement with Vietnam. It doesn’t make sense anymore to limit these benefits to imports from Mexico and Canada. It is time to apply them across the board.

Now there have been a lot of misunderstandings about the secondary worker coverage in this bill. You have probably heard someone say that this is a radical expansion of the concept of secondary workers -- that it will sweep in all sorts of people with very tenuous ties to the imports at issue. I have to say that the people making those claims have not read the bill very carefully. The definitions of secondary workers in the bill are based closely on the definitions used in the NAFTA. We have broadened the definition of supplier firms slightly, to catch some people we think are unfairly left out under current law. But other than that, this bill does not change how secondary workers are defined – it just makes secondary worker coverage universal.

## TAA for Firms

The fourth thing this bill does is reauthorize the TAA for firms program. This is a jewel of a little program that operates out of the Commerce Department. It has helped small and medium-sized companies in Montana and nationwide that face layoffs due to import competition. Technical assistance provided under this program helps these firms become more competitive so they can retain and expand employment. The program is very cost effective. It requires the firms being helped to pay a share of the cost of assistance, and it pays the government back in federal and state tax revenues when the firms succeed.

## TAA for Communities

The fifth feature of the bill is a new TAA program for communities.

Communities that experience mass layoffs due to trade competition are really in a bind. This is especially true in smaller and rural communities, such as we have in Montana. These communities may not have a lot of job opportunities for displaced workers, even with TAA retraining. Indeed, one of the main criticisms of the current TAA program is that it does nothing to make sure there are jobs for workers at the end of the retraining process.

There are a number of federal programs out there that might offer some help. They are all over the map - in Commerce, Treasury, Labor, Agriculture, HUD and the SBA, just to name a few. But these communities have no way to start, no go-to person or resource to guide them through this maze of potential help. And the federal government doesn't make it any easier. There is very little coordination of response among the various agencies. Finally, even if communities can find these Federal resources, most existing programs are not tailored to the special needs of trade-impacted communities.

This bill tries to make federal economic assistance work better for trade-impacted distressed communities in a few simple ways. It creates a single office responsible for coordinating the federal response. And it creates a single point of contact for the community throughout its recovery process. It gives communities the technical assistance they need to develop a strategic plan - basically a roadmap for economic recovery. That helps ensure that Federal resources are being used in the most coordinated and cost-effective way possible. Finally, it makes sure that there are expertise and resources tailored to the special needs of trade-impacted communities.

#### TAA for Farmers, Ranchers, and Fishermen

The next real innovation in this bill is the TAA program for farmers, ranchers, and fishermen. Family farmers, ranchers and fishermen are nominally covered by the current TAA programs for workers. But hardly any have participated. They usually can't qualify, because they don't become unemployed in the traditional sense and they often don't qualify for unemployment insurance - two TAA prerequisites.

In NAFTA-TAA, there was an attempt to shoe-horn family farmers into the program by waiving some of the eligibility requirements. But even that has not worked to bring trade-impacted farmers into the program. After several decades of trying with little success to squeeze farmers into eligibility rules designed for manufacturing workers it is time to try something new.

What this bill does is create a TAA program better tailored to the needs of farmers, ranchers, and fishermen. Basically, the program creates a new trigger for eligibility. Instead of having to show a layoff, the farmer, rancher or fisherman has to show commodity price declines related to imports.

The trigger is different, but the program serves the same purpose. It is basically a hybrid of the TAA for workers and TAA for firms programs, using parts of each that make sense for agricultural producers. It assists the farmer, rancher or fisherman to adjust to import competition, to retrain, to obtain technical assistance, and to have access to income support to

tide them over during the process. And the income support is capped and is subject to gross income limitations to make sure that the program is not being abused.

## Health Insurance

The last important innovation in this bill deals with health insurance. One common criticism of the existing program is that it does nothing to help workers with health insurance. It is virtually impossible for a worker to pay the mortgage, feed his family, and pay health insurance premiums on \$250 a week. The worker faces a terrible choice. He can retrain under TAA in the hope of a better job – but risk going without health insurance for his family for up to two years. Or he can pass up the opportunity to retrain for a better future and take a dead-end job right away to make ends meet.

The bipartisan Trade Deficit Review Commission concluded that lack of assistance with health insurance is a significant disincentive to complete TAA training. As I said before, this group unanimously recommended that the government help workers bridge the insurance gap between the old and new job. And that is what we have done in this bill.

The bill before us today includes a 73% advanceable, refundable tax credit for COBRA premiums for workers eligible for TAA benefits. TAA participants who are not eligible for COBRA can use the tax credit to purchase health insurance from various state-sponsored group plans. This issue has been surprisingly controversial. I am not saying that there is only one right way to address this issue. What has shocked me is the number of voices suggesting that we should do nothing at all. That's just not acceptable. I hope we are past that now and headed toward a reasonable compromise and that we can move forward constructively on this important issue.

## Bipartisanship

Now that I have gone over the main parts of the bill, I want to speak a little about the tradition of bipartisanship on TAA. Since its inception, the TAA program has always enjoyed wide bipartisan support. As I said before, a lot of work has gone into making sure this bill is no exception. Before the bill was drafted, we consulted widely with our colleagues on both sides of the aisle. We have continued that outreach throughout the process. I have already thanked Senator Bingaman and Senator Daschle for their leadership on this issue. But I also want to thank Senator Grassley, whose proposal with Senator Conrad for a TAA for farmers program became the core of the farmers and fishermen portions of this bill. And I want to thank Senator Snowe, who has made some important contributions to the bill dealing with fishermen, small businesses, and other issues. Her support and co-sponsorship are very much appreciated.

We have also talked with the Administration. They raised some technical and not-so-technical issues, and we have been able to come to understandings on many of them. The Administration wanted us to tighten up training waivers and we did. They wanted us to cap the wage insurance program and we did. They wanted us to revise TAA's on-the-job training provisions to work more like WIA. We did. They wanted us to clarify the definition of

secondary workers and to make sure DOL has enough time to consider secondary worker petitions. We did that too.

## Conclusion

This process of give and take has been healthy and useful. And I think the result is a good, solid, thoughtful bill. One that will make this program fairer, more efficient, and more user friendly. If we want to rebuild the center on trade, improving Trade Adjustment Assistance is the right thing to do. I urge all my colleagues to support this bill and the larger trade package when we proceed to consider it later this week.

