

# TRADE ADJUSTMENT ASSISTANCE

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## HEARINGS

BEFORE THE

### COMMITTEE ON FINANCE

### UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

—————  
JULY 19 AND 20, 2001  
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## TRADE ADJUSTMENT ASSISTANCE

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THURSDAY, JULY 19, 2001

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:42 a.m., in room 215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Rockefeller, Kerry, Grassley, Hatch, and Snowe.

### **OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. The hearing will come to order.

Senator Bingaman, Senator Daschle, and a number of my colleagues have been working for some time to develop legislation to extend the trade adjustment assistance program, a vital and too often overlooked part of American trade policy.

With the program approaching expiration in just over 2 months, we plan to introduce legislation today and, after 2 weeks of hearings on the program this week, I plan to mark up this legislation in September.

I want to talk a little bit more about that proposal. But, first, I want to follow-up on some of the comments made earlier in the week on fast track negotiating authority.

There has been a great deal of discussion about extending fast track in recent months. As a long time supporter of the benefits of free trade, I hope and expect to be able to mark up this legislation in September as well. Perhaps it is still possible to mark up both in September. I hope so.

Speaking frankly, however, there are a few difficulties. In a mark-up earlier this week on a number of trade matters, several of my colleagues pressed hard for a commitment to mark up fast track legislation by a certain date.

I could not, in all honesty, give that firm commitment because I am not convinced that any of the proposals thus far presented have the potential for commanding the bipartisan majority in both Houses that I believe is needed to pass a sound, workable fast track bill.

Much to my chagrin, the international trade debate has become increasingly fragmented and partisan. If there is any chance of bridging those gaps, leadership must be demonstrated by all sides.

On trade adjustment assistance, the administration promised a proposal in the President's budget, but they have yet to provide

their promised proposal. I might add that the expiration of TAA has real consequences.

It means that benefits are not sent out to workers. There are about 20,000 people, at least, in the program today. This is not an abstract concept, but rather, it is real. With the expiration in 2 months, we cannot let that expiration happen.

Unfortunately, the administration has declined to testify today to defend its proposal, or even to discuss ideas.

On the topic of fast track, the administration has produced some vague principles, but made no signs of legislative proposals. Despite promises of constructive compromise, the administration, so far, has not engaged in the hard negotiations required to make fast track a reality. I hope that changes.

In the House, there is still an effort to push forward with so-called "clean legislation" that ignores many issues, including the appropriate handling of trade and the environment.

In the Senate, some of my colleagues are opposing the U.S.-Jordan Free Trade Agreement because of very modest provisions in that agreement on labor and environment. None of this is encouraging. Some seem to forget that real compromise requires all sides to modify their positions.

In an effort to advance the debate, I have decided to make proposals of my own in the near future. But today, with Senators Bingaman and Daschle, I will introduce legislation to renew and expand TAA. This legislation must be passed before the end of September, and certainly must be passed before we pursue other major trade agreements.

At least within the Congress, I believe the consensus is much closer on trade adjustment assistance. The current program has many strengths, but it also has a number of shortcomings. With the program expiring soon, we in Congress have the opportunity to make it much better.

Surprisingly, we devote very few resources to assisting workers and their families to adjust to new competitive pressures. Last year, we spent less than \$400 million on TAA, a very small sum given the importance of the issue.

While we must dedicate more resources to TAA, that does not just mean throwing money at it. We must also be smart and make improvements. As many know, Senator Bingaman has been looking at this for a number of years. Working with the strong support of Senator Daschle, we have drafted a bill and plan to introduce that bill today.

A few key improvements include, first, we should expand TAA to cover secondary workers and workers affected by shifts in production. Second, our bill would cover family farmers. We must have a program that recognizes the different circumstances that farmers face and help them before they are forced to go out of business.

I joined Senator Conrad and Senator Grassley last month in introducing legislation that would do just that. That legislation will be included in our TAA bill.

TAA must recognize that older workers face different challenges. We have proposed a wage insurance program for older workers. This recognizes that some of the best training is on-the-job training, and encourages workers to move quickly to a new job by mak-

ing up a portion of the income difference between their old job and the new job.

We must help ensure that communities are not devastated by mass job loss. In a State like Montana, this is especially important. Training means little if there are no jobs. We need to help communities develop strategic plans and give them technical assistance so they can adjust.

Finally, we must make TAA more accessible and less confusing. Programs must be consolidated, simplified. We in Congress have a responsibility to acknowledge that, even under the best circumstances, changes in international trade and investment can result in job loss and economic hardship for some American workers and companies. We do have a responsibility to assist those people so we all enjoy the benefits of increased trade and investment.

I would now like to turn to my friend from Iowa, Senator Grassley.

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. Mr. Chairman, first of all, thank you for holding this hearing. Because I have a very long statement, I am just going to put that in the record, since we are so late getting started, for reasons beyond our own control.

I also thank you in my statement for including the Conrad-Grassley bill, expanding it to family farmers and fisherman, and also your endorsement of that bill by your co-sponsorship.

I also express in my statement the fact that President Kennedy, 35, 40 years ago when this program was first started, said that agricultural workers and farmers should be included as well.

Then I took advantage in my statement to have quite a few pages devoted to why we ought to have trade promotion authority, which is repetitive to some extent of what I said 48 hours ago in this committee. So, that is why I am not going to go through that.

I would end that part of the statement with just two points that I would make. The first one, is that I made a commitment to the President that I would do everything I could to help move along trade promotion authority. The second one is, I still hope to work with Senator Baucus so that he and I can work out a bipartisan trade promotion authority compromise, and to do it soon.

[The prepared statement of Senator Grassley appears in the appendix.]

Senator GRASSLEY. I would also put in the record, Mr. Chairman, from the American Farm Bureau Federation a statement in support of the Conrad-Grassley Trade Adjustment Assistance for Farmers Initiative, and also included in that letter are a few paragraphs about the importance of renewing trade promotion authority.

[The letter appears in the appendix.]

Senator GRASSLEY. I also will apologize to one of the three Senators who are appearing, because I do not know which one will be last, but I am going to walk out about the time the third one starts to testify and I do not want you to take it personally.

The CHAIRMAN. Thank you very much, Senator.

Do you have a very short statement, Senator?

Senator KERRY. Very short.

The CHAIRMAN. Very, very short.

**OPENING STATEMENT OF HON. JOHN F. KERRY, A U.S.  
SENATOR FROM MASSACHUSETTS**

Senator KERRY. I ask unanimous consent that my full statement be included in the record.

Look, anybody who does not acknowledge that workers get displaced by trade is not being honest in the discussion of trade. But I support trade, as do many of our colleagues here. The net benefit to consumers, the net benefit to the country, the growth of new jobs has always taken up significantly most of the dislocation.

But there is much we can do, we have learned, to assist people because of the impact of trade and we are not doing enough. Minorities, particularly, minority women, particularly, and older workers are those who feel the impacts the greatest.

Too often, our training has been focused on jobs that do not exist, or we teach in English where people are not fluent in English, or the technical applications just are not relevant to the kind of world we are going into.

Mr. Chairman, I have enjoyed working with you, with Senator Daschle, Senator Bingaman, in trying to refine the TAA process so that we are doing it more thoughtfully, intelligently, and responsibly. The wage insurance, I think, particularly from older employees, is a particularly interesting way to proceed.

There are other things we can do to make sure we are training people for jobs that really exist. If we do that, we can build the base of support for trade. I think it is more imperative than ever that we try to expand that base because right now, for obvious reasons, the dynamics are particularly difficult. So, thank you for having this hearing today. I look forward to working with you.

The CHAIRMAN. Thank you very much, Senator.

We are now very honored to have three of our colleagues before us today. I would like to just thank all of you for taking the time out of your day. I know how busy we all are. You know how busy we all are. So, thank you very much for giving us the benefit of your thoughts.

We will begin with Senator Wellstone.

**STATEMENT OF HON. PAUL WELLSTONE, A U.S. SENATOR  
FROM MINNESOTA**

Senator WELLSTONE. Thank you, Mr. Chairman.

I will say with a smile that we will save the debate on trade policy for later. I think we do agree that it needs to be fair trade and it needs to work for people, and that is a very, very important question for our country.

But today we are talking about the trade adjustment assistance legislation that you are introducing. As a Senator from Minnesota, and I know Senator Dayton joins me, and I know Senator Bayh does in speaking for his State, all of us give you our heartfelt thanks. This is a very important piece of legislation.

I am especially pleased that the legislation that you are introducing incorporates the provision of the Taconite Workers Relief Act that Senator Dayton and I introduced earlier this year.



That bill will ensure that taconite workers in our State are eligible to receive the full trade adjustment assistance. I have not read your new bill in its entirety yet—I intend to do so—but I can tell you that I expect to fully support it.

I will just make two remarks, and I think I can be very brief. As the Chairman knows, and I think the other members of the committee do as well, I am fortunate enough to be chairing a subcommittee of the HELP committee that deals with employment, safety and training.

About 2 years ago, I guess, or a year and a half ago, I worked with Senator Dewine and we wrote a workforce development bill. We are proud of it. We wanted to streamline the provision of job training services. As a result, we have a good State/Federal/local government partnership, a good private sector/public sector partnership.

As we move forward on re-authorizing trade adjustment assistance, one of the things we want to be sure to do is to make sure that we integrate the income support, and the job training, and the other services that are available through the trade adjustment assistance with the job counseling and skills development available through the Workforce Investment Act (WIA).

Senator Kerry, I think this gets in part to what you were talking about. These two programs, together, need to work in sync. They should not be going down separate tracks.

What we are talking about is not just getting the assistance to people, sort of a financial lifeline, but also enabling people to reenter the job market. So, I want to put in a real plug for ways in which we can bring this together.

I think that trade adjustment assistance is a lifeline program for many people who are hardworking, out of work, though not fault of their own. If, in fact, you combine that with the skills development and you combine that with all the ways in which we can help workers make transitions to other jobs, I think it is also key to how our country does economically, and also how we do in the international community.

Mr. Chairman, I also want to lend my voice and my support for some of what you are trying to do by way of getting additional health care or child care assistance to these families. It is so important. I know that you are trying to move in that direction, and I want to congratulate you.

Finally, Mr. Chairman, I am delighted that, as I said, this bill does contain the provisions of S. 422, which again, was the Taconite Workers Relief Act. I want to give my thanks and tell you I appreciate the colloquy that Senator Dayton and I were able to have with you, and also with Senator Grassley, which makes taconite workers fully eligible for the benefits under the trade adjustment assistance.

Right now, we have 1,400 workers out of work at Hoyt Lakes. The Secretary of Labor, Secretary Chao, has provided a lot of help for us. But it is not clear that, this will translate to trade adjustment assistance help for all other taconite workers who might be out of work.

So, what the committee bill does is incorporate provisions that clarify that taconite is directly competitive with imported slab

steel. In this way it makes the eligibility of our workers who lose their jobs clear and unambiguous.

My understanding, is that this also would result in eligibility for secondary workers, some of the employees, vendors and others, who are adversely affected by what has happened in the taconite industry.

This is so important to the Iron Range, so important to Minnesota. I applaud you for including this provision in the bill. I will do everything I can to help you move this legislation. Thanks for letting me appear here today.

The CHAIRMAN. Well, thank you very much, Senator. That's a very good statement. We deeply appreciate.

[The prepared statement of Senator Wellstone appears in the appendix.]

The CHAIRMAN. Senator Bayh?

**STATEMENT OF HON. EVAN BAYH, A U.S. SENATOR FROM INDIANA**

Senator BAYH. Thank you, Mr. Chairman, for your leadership in calling this hearing today. I salute you and Senator Grassley, Senator Kerry, and other members of the committee for your leadership on this important issue.

I am pleased to be joined today with my colleagues from Minnesota, Senator Wellstone and Senator Dayton. There is no one who cares more deeply or feels stronger about the cause of helping workers in this society, whether they are displaced by trade or otherwise, confronted by challenges, than Senator Wellstone. So, I am pleased to be here with him today once again.

Mr. Chairman, I have had a chance to review your legislation, along with Senator Daschle and Senator Bingaman, and I want to salute you for that. I am so impressed, I hope that you will add my name as a co-sponsor of your legislation.

The CHAIRMAN. We would love to. Appreciate it.

Senator BAYH. I think you are heading in exactly the right direction, particularly your emphasis on helping secondary workers, which is important in a State like mine, and older workers, Senator Kerry mentioned. Many of these individuals graduated from school 20, 30 or more years ago. The rules of the international economic game have simply changed since then.

It is important that we reach out to them and understand that the process of getting back on their feet, becoming gainfully reemployed, and sustaining their families at a level that we would like to see them be able to, is simply harder the older that you are and the longer it has been since you have been out of the education and training process. So, I think those parts of the bill, also helping family farmers, are excellent.

Mr. Chairman, these hearings are very timely. With the slowdown of the global economy, the threat of displacement in our own economy is much greater today than it was even 12 or 24 months ago.

The subject of this hearing is also very timely, not just in the short run, but in the long run. Today, \$1.5 trillion of foreign currency exchanges hands each and every day around the globe—\$1.5

trillion—showing that the process of globalization has accelerated as never before.

In our own country, trade now accounts for fully one-eighth of America GDP. That is up dramatically from even a few years ago, and is increasing. Direct investment in our economy in factories, plant, and equipment is up by 65 percent over the last few years, once again demonstrating the increasingly integrated nature of the global economy.

Now, as Senator Kerry mentioned, this process does have some benefits for the American people and the American economy. Consumers have access to higher-quality, lower-cost goods. That is helpful.

We have created thousands of jobs, many of them good paying jobs. On the average, jobs that are associated with trade pay 15 percent more than jobs in other sectors of our economy.

But, as all of us here today recognize, and as my colleague from Minnesota so persuasively indicated, there are real costs to globalization that we must recognize and address if we are going to be, not just a prosperous, but a compassionate, decent, and just society as well.

In the long run, where foreign economies have a comparative advantage, this will lead to the dislocation of American workers. In the short run, our economy is more vulnerable than ever before to external factors. Recession abroad leads to lower markets for American products and agricultural commodities. Multinational corporations, when forced to cut back overall, will also cut back in the United States.

Currency and financial markets are more interrelated, increasing the risk of contagion, and, where risk of investment increases globally, it will lead to lower investment domestically as well as overseas.

Now, as Senator Kerry mentioned, we can not, and should not, try and close our borders. It reminds me of the parable of the Greek king who, so filled with his power, decided to stand on the shore and demand the tide not to come in, only to drown in the process.

These trends have been going on now for 2,000 or 3,000 years. They cannot be turned back. But we can turn them to our advantage and empower each and every American to succeed.

I would say that we have a moral obligation—a moral obligation—to do so, to assist those who are adversely affected by the process of globalization, to be successful in the global economy, to empower everyone with the tools and the skills to be upwardly mobile.

This, Mr. Chairman, is how we truly forge a social consensus in favor of trade, not by creating a system of winners and losers, but by ensuring that everyone—everyone—can move forward together and that no one is left behind.

To help in this process, Mr. Chairman—and this is the major point of my comments today—I would like to recommend something to you and your staff for your consideration, very respectfully, called the Community Workforce Partnership Act, that is Senate Bill 1193.

The Community Workforce Partnerships, along with some at the Progressive Policy Institute I have been privileged to put together, are public/private partnerships which would combine local business, government entities, educational entities, labor organizations, and charitable organizations at the local level, combining their efforts to deal with the effects of dislocation caused by globalization and trade.

The process that I would propose would combine the funding for it. It would be two-thirds from the local level, matched one-third by Federal funding. One-half would be private funding. It would be a true public/private partnership.

This would have several advantages, Mr. Chairman. It would be comprehensive, combining all interested entities at the local level and therefore much more likely to be effective. It would leverage Federal funding with private funding and local funding, thereby getting a greater impact for our investment.

Finally, it would be proactive. I like some of the aspects of your legislation and commend you for taking a look at areas of the country geographically, and industries, by product, that are at risk of significant dislocation, acting ahead of time, thereby cushioning the dislocation, and where it cannot be avoided, ensuring that workers get back on their feet much more quickly than would otherwise be the case.

So, comprehensiveness, leveraging Federal investment, proactivity. These are all hallmarks of our Community Workforce Partnership and I would ask, respectfully, that it be considered.

Finally, Mr. Chairman, I would say that there are some notable examples. This sort of effort is all too rare in the country, but there are some notable examples of success in the garment industry in New York City. The Garment Industry Development Corporation has had very notable success in a major urban area applying this sort of model.

In a rural context, the Appalachian Center for Economic Networks in Southeastern Ohio has also had notable success. So here, in a wide variety of settings, a heavy urban area, a more remote rural area, this sort of process has been successful.

So, Mr. Chairman, again, I thank you for these hearings. I would associate myself with the remarks of our colleague from Minnesota in saying I hope that your effort will be part of a broader one, that we authorize TAA, but to go even further by looking at health care benefits, pension protection, and the other elements that are truly necessary to ensuring that our workers will not be left behind, but can have a place at the table of prosperity in the 21st century.

Thank you.

The CHAIRMAN. Thank you very much, Senator. I liked, also, the ideas that you suggested for the committee. They are new, they are interesting, very helpful. We will take them into consideration and try our very best to see if there is a way to incorporate them. Thank you.

Senator Dayton?

**STATEMENT OF HON. MARK DAYTON, A U.S. SENATOR FROM MINNESOTA**

Senator DAYTON. Thank you, Mr. Chairman.

I am honored to be here today also with my distinguished colleagues, Senator Wellstone and Senator Bayh. I will be brief. I would like to be associated with all of their remarks, and I would also like to be added, if I may, as a co-sponsor of your legislation.

The CHAIRMAN. We will gladly add your name.

Senator DAYTON. Thank you.

I compliment you and Senators Bingaman and Daschle for what you have put together. I want to join, especially with my colleague Senator Wellstone, in thanking you for including the language that provides inclusion in these programs for taconite workers in northeastern Minnesota.

I am hopeful that the House and the administration will be supportive as well. And I want to give credit where credit is due to the administration. Secretary of Labor Chao made a ruling that, as Senator Wellstone said, included 1,400 displaced workers from the Aroya Hoyt Lakes plant facility in northeastern Minnesota.

That was the culmination or the first breakthrough in what has been a 20-year struggle, undertaken first by our Congressman in that area, James Overstar, and in the last decades joined by Senator Wellstone, to provide the kind of inclusion that some have argued in previous administrations was not permitted under the old law for taconite workers, when it was clear to anybody who had any knowledge of the industry that they were directly impacted.

I would say that one of the distinguishing features of your legislation already is your inclusion of secondary workers, your inclusion of family farmers. It is very appropriate given, as you know being another northern tier State, the effects of some of these trade agreements on our farmers. So, I commend you as well for that inclusion.

Without seeing your particular language, I would hope that we could use, from the difficulty of getting workers such as taconite workers properly classified and assisted, that through the Secretary of Labor or some other designated authority, be given the flexibility to make these determinations using good judgment and common sense in the realities of an ever-changing world economy, because I agree with what both my colleagues, Senator Kerry, and yourself have observed, that trade is a fact of life. To have workers who are hardworking, committed Americans doing good work, proud of their work, wanting to continue that work, through no choice, no fault of their own to suddenly have their lives disrupted, even destroyed, and then find out that through some interpretation or some technicality they are being denied this assistance, when it is obvious to them and obvious to anybody else that they are entitled to it, I think, just is adding that kind of level of additional cruelty onto already terrible human misfortune.

So, I support, especially, your inclusiveness, Mr. Chairman. I hope that we will make sure that nobody has to go through this kind of experience again.

Thank you.

The CHAIRMAN. Well, thank you very much, Senator Dayton. I thank all the panel very much.

We will now proceed to our next panel. Thank you, all of you.

The next panel includes Hon. Clayton Yeutter, former USTR; George Becker, former president of the United Steelworkers; Gary

Kuhar, Northwest Trade Adjustment Assistance Center; and Mr. William Reinsch, president of the National Foreign Trade Council.

All right. Thank you gentlemen very, very much for your help here. I will begin with you, Mr. Yeutter. Thank you very much for coming again before our committee. We very much appreciate your continued help.

**STATEMENT OF HON. CLAYTON YEUTTER, FORMER U.S.  
TRADE REPRESENTATIVE, WASHINGTON, DC**

Mr. YEUTTER. Thank you, Mr. Chairman. It is nice to be here this morning. I appreciate the opportunity to comment on trade adjustment assistance issues.

In my view, Mr. Chairman, we ought not even sunset this legislation. We are going to need trade adjustment assistance in this country as far as I can see in the future. I further believe we should not sunset trade promotion authority, because we will be negotiating trade agreements with other countries forevermore. So we will need that authority as well. I would make both of those programs permanent.

I am not going to spend a lot of time on the essence of this issue, Mr. Chairman, because you and the committee understand it very, very well, indeed. The reason I am supportive of this legislation relates primarily to the trade agreements side. I would like to focus on that because it relates to the trade promotion authority issue that is also before this committee.

What I like about trade adjustment assistance is that it provides at least some comfort to people who may be dislocated as a result of trade agreements.

People in our society are dislocated every day for a variety of reasons, many of them—most of them—unrelated to trade. But when they are dislocated as a result of the negotiation of trade agreements, we ought to provide the traditional safety nets for them, plus an additional safety net in the form of trade adjustment assistance. That is the essence of the issue that is before us.

If we have an additional comfort factor here for people who might be dislocated as a result of trade agreements, hopefully that will lead to people being more supportive of negotiating and implementing these agreements.

We have more than a half century of an excellent track record on trade agreements. They have fostered economic growth in this country, created jobs and boosted American incomes in a whole variety of ways. We want additional winners in society, and our trade agreements have provided millions of U.S. winners.

But, inevitably, there are going to be some losers along with this, and trade adjustment assistance helps us deal with that element of the problem. We want to take those folks who are dislocated and who might lose jobs as a result of trade agreements and give them assistance to move on with their lives.

Fortunately, as you know, Mr. Chairman, we have a very resilient private sector in this country, so a lot of that dislocation is handled without government involvement. People simply move on to other jobs. Sometimes those jobs are better than the ones they had; sometimes they are not as good as the ones they had.

We have the good fortune in the United States of having resilient entrepreneurial environment in which a lot of this is self-correcting. But not all of it. We do have some folks who are going to be dislocated and are going to have difficulty adjusting, and that is where TAA comes in.

Just a couple of quick comments on what, then, we might do with the program. It seems to me that the issue before this committee, Mr. Chairman, is not whether to have trade adjustment assistance. That is definitive. The question is, what should the program look like? I know you are preparing to introduce legislation that will broaden it in a whole variety of ways.

I will defer to you and your colleagues in sorting that out because, to a very great degree, that is a budgetary/appropriations question. How much can you broaden eligibility for this program, add in secondary workers, or communities, or whatever might ultimately emerge in this legislation, and still be able to justify and defend it in terms of the budgetary appropriation process in Congress? You obviously have to compare the priorities of this program with the priorities of everything else on which we might spend American tax dollars.

Some of what is being proposed here broadens the program in a very substantial way. It seems to me that it will be incumbent upon the committee, with your leadership, Mr. Chairman, to make sure that you add sufficient specificity in all these provisions to make sure that they are not open-ended and cause you great difficulty on the budgetary/appropriations front.

I commend you for incorporating provisions relating to farmers, having been an agriculturalist all my life and knowing that that is a special and unique feature of this issue. I hope you are able to work out those provisions in fine shape.

With respect to what the bottom line here may be, Mr. Chairman, if I were to judge expenditure priorities, I would want to make this investment in people. I would be much more inclined to provide support for individuals and families who have lost their jobs than I would for strategic planning by communities, which runs the risk of going the way of some of the old great society programs (community economic development), which did not work out very well.

We need to customize trade adjustment assistance as much as we possibly can, focus on helping to prepare dislocated workers for the future jobs of a dynamic American economy. Let's make sure that we do that job really well by giving the executive branch the flexibility to do the task, and then holding the executive branch accountable for how it is done.

The CHAIRMAN. Thank you very much, Mr. Ambassador.

[The prepared statement of Mr. Yeutter appears in the appendix.]

The CHAIRMAN. We will now hear from Mr. Becker.

**STATEMENT OF GEORGE BECKER, FORMER PRESIDENT,  
UNITED STEELWORKERS OF AMERICA, WASHINGTON, DC**

Mr. BECKER. Thank you, Mr. Chairman, Senator Rockefeller. I am very pleased to be here with you today and offer some viewpoints. I am going to speak very fast. My testimony has been writ-

ten, the written testimony. I want to underscore a few points that are in there, then make some personal comments. All of these are in my testimony.

First, TAA has never had a dedicated source of funding. This has resulted in constant changes in the eligibility criteria in order to limit the program's cost. A trade adjustment fund needs to be created that will have a flexible, constant supply of money to meet the demands and the intent of FTAA. We suggest future tariff revenues, but there should be a flexible source in order to get sufficient money.

Second, in trade-sensitive industries such as steel, textile, and agriculture, if it comes under this, these should be industry-wide certifications. We get killed, our people do, in plant, after plant, after plant trying to certify the same things, and small ones. Always the argument comes up, well, they were not caused by this.

But the fact of the matter is, the pricing structure in steel, for example, has devastated the entire industry. There is no way to say, one, the steel industry that goes down is not touched by this, nor should they receive benefits.

Third, the current law does not make most so-called "secondary workers" eligible. I refer, again, to Senator Wellstone's and Senator Dayton's effort to cover the taconite workers. But this should be stretched out to foundry workers who supply the steel industry, and others that should be able to become eligible for this. We should have that coverage.

Fourth, the income support provisions of TAA need to be reviewed and overhauled. I think it is terribly inadequate. Under current law, workers do not begin to receive TAA until their unemployment insurance has been exhausted.

We had better than that back in 1981, in which you had 70 percent of the total of unemployment insurance and TAA benefits, and you could draw up to that. We need to at least restore the level that we had in 1970.

I agree with your additional comments when you talked about a new program of wage insurance. We tried to address that in the Congressional Deficit Review Commission. There are papers on that of our work in that area and the hearings that we held. We have submitted that to your committee.

We need revisions in how people become eligible. Workers under the current law are entitled up to 104 weeks of training; the FTAA allowances only last for 78 weeks. The inadequacy of that is obvious.

Second, the courses they need to take, maybe, do not even start until they would have expired, or their period of eligibility for TAA has expired. So they are required to take secondary choices in there that really are not going to do them that much good in order just to qualify for benefits on that. We need to raise the job search assistance, we recommend to a \$2,000 level, and relocation benefits to a \$1,000 level.

I want to talk, in general, about TAA. I have heard comments here at the very beginning, talk about advancing a new trade agenda in the United States. We are grateful and feel that this is the right direction you are going in order to try to arrive at TAA legis-



lation on its own basis before we consider any new legislation like fast track or any other name that they want to call this thing.

TAA, in the past, has been used sort of like the grease in order to override objections on autoworkers in order to be able to get this forward. I think we need to look at what we are trying to do for workers' rights straight up front. The fact is, a majority of the workers today, a majority of Americans, do not support the trade policies of the United States. They feel that they have been victimized by, rather than become the beneficiaries of, our trade policies.

A comment was made a little while ago that you cannot stop the tide. Well, the tide is God-made, our trade laws are man-made. I think we can do anything that we want to be big enough to be able to do. We have lost hundreds of thousands of jobs.

e have seen our plants shut down and move to other countries so that the employers can bring it back into this country and increase our profits. They leave devastation in their wake. They collapse communities. I think we can do a lot better in this.

I talk about the American dream. I talk about the ability to be able to buy a house, to buy a car, to be able to support their children, to educate them, and to participate.

You cannot do that when you lose your jobs to plants that are being moved out of this country strictly to increase the profits of the companies. That is not trade, that is transferring our work out of the country.

I think what we have done here pales in comparison to what some of the other countries have done. For example, Greece and Portugal, Spain, when they joined the economic union in Europe, pledged \$25 billion a year to be able to alleviate the job loss and to be able to train workers. I think we could do no less. We are a much wealthier and much stronger country.

Trade is going to take place. The question is, who is going to pay the price? Workers should not have to pay the price. Industry should share in the price. I do not even hear them mentioned in this. I either hear the government or workers.

We do not touch industry, who leave environmentally spoiled plants in their background and devastated communities. They have lost the very vital support systems in the community that they need, with no way to pull themselves up. I think it is long overdue that we take a look at this. I think this is a good start, what you are talking about.

But, absent that, absent us working out the protections and the considerations for workers going forward, I can guarantee, we are going to fight fast track. We are going to fight it with everything that we have got.

Labor is going to work against it and we are going to pull every bit of support that we can to stop these in their tracks, unless we can come together on some of the protections that they need.

Thank you.

The CHAIRMAN. Thank you, Mr. Becker.

[The prepared statement of Mr. Becker appears in the appendix.]

The CHAIRMAN. Mr. Kuhar?

**STATEMENT OF GARY KUHAR, NORTHWEST TRADE  
ADJUSTMENT ASSISTANCE CENTER, SEATTLE, WA**

Mr. KUHAR. Thank you, Chairman Baucus and Senator Rockefeller, for inviting me here today. I am representing the 12 trade adjustment assistance centers that administer the TAA program for firms and industries.

I just want to start by saying that we are not ready to concede job losses. I am fully aware that those occur and I applaud the labor side of the program, and even potential community assistance.

But I am here to say that the trade adjustment assistance program for firms and industries is the most effective trade remedy the U.S. has. It is the only trade remedy that does not restrict the import in any way, yet still mitigates the injury caused by those imports to select companies and firms around the country.

This is a vital assistance program that, if funded to a level that would be more useful, could be marketed to the country as an aspirin for what many U.S. citizens perceive to be a problem with foreign trade, job loss. I am here to say, we are here fighting to prevent that job loss from happening.

In the last 5 years, we have worked with 530 companies. We have helped to save and create over 59,000 jobs. The gross sales of those companies we have worked with generate, today, \$6.5 billion in annual sales.

If you take the Federal taxes that are generated by these companies and their employees, this gives a return to the Federal Government of 1,100 percent over what it is costing for the TAA program for firms and industries. This works out to be about \$884 per job saved and/or created.

I have worked in this program for 19 years and we have worked hard in the northwest, where I am executive director, to help agriculture. We are especially effective in the specialty crop fields.

We find that specialty crops are very sensitive to more modern marketing methods so, therefore, oftentimes we will end up creating special market programs for the individual companies that come within our jurisdiction.

This program has not had any funding for industries for years. So, to get creative, we have certified individual pear growers, for instance, in Oregon, then combined the assistance that we would have provided to individual companies into a larger fund to do a national marketing study, then one step further, to implement the marketing strategy for the winter pear growers.

This is being proven very effective in combatting the Chilean imported pears. The study showed that Chile delivers pears that are too green. Consumers want more ripe pears, so we have developed a strategy based on that, and now we are taking it a second step. We are helping some of these firms to develop the packaging needed to deliver those pears in a more ripened state to the market.

We are working with lumber producers, particularly since the expiration of the Canadian softwood lumber agreement. There has been an explosion of firms that are suffering tremendously, many in your State, that are in communities that, if they close, the school will close.

We have been hamstrung with having to allocate our assistance to levels that are almost ridiculous. Nationally, our funding has been \$10.5 million. My center, one of 12, gets less than \$900,000. I think that if we would put more money into this program to save jobs, there may not be as great a need for the assistance on the labor side. To me, that is being proactive instead of reactive.

I would urge the Congress to consider funding this at a more significant level. Thank you.

The CHAIRMAN. Thank you very much, Mr. Kuhar.

[The prepared statement of Mr. Kuhar appears in the appendix.]

The CHAIRMAN. Mr. Reinsch?

**STATEMENT OF WILLIAM REINSCH, PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, WASHINGTON, DC**

Mr. REINSCH. Thank you very much, Mr. Chairman. It is a pleasure to be back here.

I do want to comment on some of the specific proposals that have been made, but I want to begin with some general comments to put the program in context and to explain why the National Foreign Trade Council, an organization of over 500 businesses dedicated to open, rules-based trade, supports an effective TAA program.

I also, Mr. Chairman, need to make clear right at the beginning, in contrast to Mr. Becker, that the NFTC supports launching a new trade round and urges the committee to take up TPA 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 interstate and foreign commerce to the Congress, a responsibility that 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.

Over time, Congress has constructed a precarious bargain among its members and between itself, 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.

TAA falls into the former category, taking care of the victims. But this issue continues to have political residence, as demonstrated by recent polling on the Program of International Policy Attitudes at the University of Maryland.

For example, in late 1999, 66 percent of respondents agreed with the following 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 percent felt that it was not necessary for the government to have such programs, and another 14 percent did not favor free trade. My written statement alludes to other data along the same lines.

The obvious conclusion to draw is that broad-based 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.

Now, beyond continuing the program, there are other changes, such as some that you proposed, that merit consideration. Most that have been proposed, however, involve expansion of the range of benefits that are part of the program.

I do want to comment on some of those, but 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, a recently issued GAO report is instructive. For the period 1995 through 1999, GAO reports slightly more than \$900 million being spent on the basic and additional allowances that are essentially extended UI. In contrast, \$390 million was spent on training. More importantly, 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 4,737 received relocation assistance, and 2,802, job search assistance.

Obviously, many beneficiaries did not take advantage of these latter benefits because they found jobs and did not need further assistance. Equally obvious, 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 certifications and applications, but also fuller use of the available benefits.

It also appears, however, that another significant reason for under-utilization was the low level of general education and lack of good English skills on the part 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, as both English and a high school education are effectively requirements for most of the jobs that are available.

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, provide more services to workers, and more information on how to enter it.

Small- and medium-sized businesses, in particular, simply do not have the in-house expertise to assist workers in finding out about this program and how to enter into it. If they are fortunate to have an aggressive, well-organized union that is on top of this issue that is a different story, but that is not always the case.

Now, there are many other issues in the benefit expansion areas that come up. I think I am in Ambassador Yeutter's camp in saying that the critical question, really, for the committee, is cost rather than the merit of any particular change. The changes all have merit. The committee needs to make a decision as to how much it wants to spend on this issue.

My full statement makes more detailed comments on some of those, specifically the expansion of scope which is already addressed in the NAFTA TAA program. There is a certain logic to expanding it to secondary workers, for example, and plant closings into the full TAA program.

I also discuss in my full statement expansion of benefits, including lengthening the benefit period, and issues like expanding the benefit package to include health care insurance, child care, transportation to and from training, wage insurance, and the like.

Lengthening the benefit period, in particular, 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. So he has done the right thing, but he has run out of benefits and then does not have a lot of choices available to him.

Let me also, if I may, Mr. Chairman, point out that business itself spends substantial funds on training and education for its workers. For example, United Technologies Corporation, one of our members, has spent more than \$230 million itself in the last 5 years on college and graduate school education for its employees.

In the year 2000 alone, UTC paid for 13,449 of its employees to attend college. More than 7,000 employees have earned degrees through the program. When they do earn a bachelor's degree, UTC give them \$10,000 worth of stock.

So, there are a number of businesses, and this is not the only example, that have taken on this challenge on their own and are pouring significant amounts of money and other kinds of support into additional training.

Let me, if I may, Mr. Chairman, just say a brief word about the firm program, because I—

The CHAIRMAN. I am going to have to ask you to wrap up. Your time is up. Briefly, please.

Mr. REINSCH. Then in that case I will simply endorse Mr. Kuhar's comments on the FIRM program and say, when I worked on Senator Heinz's, then Senator Rockefeller's staff, I had occasion to work both with the Trade Adjustment Assistance Center for that region, which is in Philadelphia, and also with some turnaround specialists.

This is an enormously useful program. It helps small businesses at negligible cost, and for a very little per-job cost—peanuts, really, in the great scheme of things—it does an extraordinary amount of good work, relatively unheralded.

The communities where these businesses are saved know about it, the workers know about it. Nobody else knows about it. But I would urge the committee not to lose sight of the firm program in its work. It is an exceptionally important one. Thank you.

The CHAIRMAN. Thank you very much, Mr. Reinsch.

[The prepared statement of Mr. Reinsch appears in the appendix.]

The CHAIRMAN. I want to jump right in to the fundamental question here, and that is, generally, how to get better cooperation and trust between, for want of a better expression, American industry and American workers. The world is changing. Globalization is

here. It is, I think, going to continue and it is going to, in many respects, accelerate. I think that companies should take advantage of business opportunities. It is what has driven this country.

But I also think it is very clear that many business decisions do adversely affect American workers and employees. I tend to think that, in this era of globalization, the more educated you are and the wealthier you are, the more likely it is that you are going to be able to find an advantage and increase your economic position. Conversely, the less educated you are, the less wealthy you are, the more difficult it is to find a place in this new era.

We obviously can understand the concerns that Mr. Becker raised. They are very real and very legitimate. I know a lot of you think about this general question a lot. Certainly, TAA is part of the solution. But, even more fundamentally, what can we do to ensure more trust and cooperation?

Just to play devil's advocate, in listening to Mr. Becker, it occurred to me that perhaps there should be a dedicated source of funding for TAA. We should not have to rely upon the whims of annual appropriations. If there is some logic to it, the companies who lay off workers should contribute more to the fund, as an example. I am not advocating that by any stretch of the imagination, but it is a logical thought.

And we are all Americans. We are all in this together. We all benefit together. This is not totally on point, but Bill Gates would not be a billionaire if he were in Sri Lanka.

He is a billionaire because he is in America, where American infrastructure, American economy, American judicial system—although that sometimes is a thorn in his side—but we have a country where one can do well economically with a little bit of gumption and enterprise, and so forth.

But often people get left behind through no fault of their own. People are laid off through no fault of their own. They are trying hard, but in restructuring and rationalizing, companies lay off lots of workers to cut their costs. Stock goes up, workers are laid off, which creates a kind of strange anomaly in this country.

How do we start to bridge this gap better? Who wants to take a shot at it? Mr. Becker?

Mr. BECKER. I appreciate what you have said, Mr. Chairman. I have heard this put in a lot of different ways on, what do we do about this? TAA, obviously, is just one small part of the overall picture in there.

Workers have to feel that you are on their side. They have to feel and believe that the policymakers and the politicians of the country have their best interests at heart, that the benefits they get or whatever they get is as a result of losing their job is more than an after-thought, trying to appease them. That is why I applaud what you are doing with your legislation in going forward. It needs to be right up front, in front of everybody.

When I say something about the fast track, what I am saying is the reason workers oppose the fast track is they do not believe that there are people speaking on their behalf. They have seen industry after industry shut down.

I think we need to have a program, a comprehensive program, in place that deals with all of this before we seek new trade legisla-

tion. We are not trying to stop the tide. We are an exporting union. Our union deals with this all the time. We want trade. We are very heavily involved in trade.

But when companies shut down a plant and leave the community stripped and devastated, whether they are TAA or not, does not make a bit of difference. There are no jobs there. There is no community tax base and vital life support systems are gone.

They move that plant to Mexico, they move it to China, and they bring the same product back into the United States and sell it here. That is not trade. That is not my definition of trade. I think we need to come to grips with this.

We have talked about having certain things in trade agreements. This is being fought very bitterly. We referred to the Jordanian agreement, that this is a good step forward. We get signals that we do not want this, but we believe in free trade.

The CHAIRMAN. What would be some of the signals from, say, companies or business to workers that show that, hey, maybe this government, maybe these companies really do care about us in our future. What would be some of the things they could do?

Mr. REINSCH. If I can interject on that, Senator. I think that probably one of the best examples is the one I cited, which is corporate support for additional training and education on the part of their workers.

If you have companies that are willing to put up substantial sums to send their workers back, to get them a college degree, an associate degree, a bachelor's degree, a graduate degree, or send them to appropriate institutions for retraining, I think that is a good sign of corporate commitment, and it leads to a more enthusiastic workforce, one that feels the company cares about it, and it produces a better-trained workforce with higher productivity.

The CHAIRMAN. That is clearly true. But that does not answer the question, what if you are an employee who works for a company that does not have that policy?

Mr. YEUTTER. Mr. Chairman, if I can take a shot at that. As you know, I sit on the board of a number of major companies that are involved in international commerce as well as domestic business.

Companies with whom I have been associated, Mr. Chairman, do not want to have turnover of employees. It is costly to have your employees lose their jobs, no matter what the cause may be, whether it is international trade or anything else.

Well run companies would much prefer to have a long-term stream of stable employment with people being with the firm for years. As Mr. Reinsch indicated, many of them make gigantic commitments to training.

For example, one of my boards has been Texas Instruments. I do not recall the exact number of weeks per person of training that is offered at TI, but it is a very substantial number every year. It is a huge, huge commitment to additional training in the high-technology industry.

I would also say that, in terms of closing plants and moving them, I have not had the kind of experience that Mr. Becker was talking about where companies shut down a plant here in the U.S., move it to some other country, and ship the product back. I am

sure that happens in some cases, but in my judgment that is the exception rather than the rule.

What companies do is try to rationalize continually their production operations to keep them as efficient as possible. Therefore, they shift production, as appropriate, temporarily or permanently, depending upon the economic situation that exists at a particular point in time. That is what they should do and must do if they expect to survive.

That does not always mean shifting production elsewhere in the world. It may mean shifting some of it from Indiana to Illinois, or from Illinois back to Indiana, or it may mean shifting it temporarily to Europe or to South America, and then ultimately shifting it back.

They go through these kinds of decisions every day and every week of the year. It is much more complex than just simply shutting down a plant and transferring the jobs to Mexico.

I sit on the board of one company that moved jobs from Mexico back to the U.S. after we passed NAFTA.

The CHAIRMAN. Right. Right. I understand that. But you have got to hear and you have got to understand and have sympathy with the point Mr. Becker is making. You may be on the board of "good companies," but still, there are a lot of Americans who get laid off and are just left hanging high and dry.

I do believe that business has a greater role to play than they have thus far in trying to more generally help find a solution to that problem.

Mr. YEUTTER. I would accept that. I also believe government does have an appropriate role, which is why I am here testifying on behalf of this legislation.

The CHAIRMAN. Exactly. Exactly. Yes. Appreciate it.

Mr. BECKER. Can I offer one very quick example? It appeared in Business Week, I cannot say how far back. I would say, now, probably a year ago. Our union represents very little of General Electric, so this is not an in-house problem, or something.

But in Business Week, General Electric had transferred, I think, for whatever reason, their engine divisions to Mexico. What they highlighted in this article, it was quite an article. We ought to dig it out so that you could read it.

They held a conference of all of their suppliers from here in the United States and told them, if they wanted to continue doing business with General Electric, they were going to move their whole operations, each one of them, to Mexico. They did not want to leave the United States. They were able to deal with the profit levels that they had.

But this was a demand from General Electric, the same company that told their union, not ours, that if they could they would put every plant on a barge and they could ship it anywhere they wanted, wherever they could take care of the price advantage. They have stripped a lot of resources out of the United States, General Electric has, the largest corporation in the world.

The CHAIRMAN. I think we are all in agreement.

Mr. BECKER. So how do you deal with that?

The CHAIRMAN. Well, that is my question.

Mr. KUHAR. Mr. Chairman?



The CHAIRMAN. Yes.

Mr. KUHAR. Whenever we work with a firm we, up front, negotiate a commitment from that firm to rehire laid-off workers as they are needed. They are given priority in the rehiring. So in our program we attempt to address this issue of getting those laid-off workers back into the company that, unfortunately, had to lay them off.

In most of the firms that I work with, it is more like a large family. We are not talking labor and management, we are talking about Joe, and Sam, and Pete. It is a trauma to the company owners to lay these employees, and oftentimes friends, off. So, they are anxious to get them back on the payroll.

Mr. BECKER. Mr. Reinsch's comments a little while ago on training are right on the mark. We negotiated with the steel industry across the board following the shut-downs in the 1980's, cents per hour. We bargained this out of our package when we bargained with the steel industry to provide college benefits. All levels of training, up to and including college, is available for every steelworker. We have done that wherever we can.

If you want to provide something, provide health care for workers that are displaced. Provide pension continuity for workers that are displaced. They are wiped out. They are devastated.

What little bit they get in job training, if they have to spend this on health care for their families, what do they have to eat on and to live on, to be able to train? How can they do that?

And workers that have got, say, 20 years invested in a company, may be very shortly going to be eligible to retire. That is blown. If we want to put a price tag on a company, make them continue these benefits. These are man-made laws. This is not the will of God. This is not like the tide.

Mr. YEUTTER. I would support the essence of what Mr. Becker said in that regard. That is why I suggested that we need to customize these programs, because if you have an individual or a family who has lost a job, that person's situation may be a whole lot different from the one right next to him in terms of age, job background, experience, education, alternative job opportunities in a given community, and all of those things.

So somebody really needs to sit down and say, what do we need to do for that person and that family to make sure they can move on in a productive way?

The CHAIRMAN. This hearing is not really focused on this point, but I am curious whether you have any thoughts. That is, among people laid off due to trade and due to plants going overseas, how many of those employees are retrainable in the sense that it is fairly easy to find a new job? I know this is very difficult.

What I am really getting at, is if Congress provides some incentive, a tax incentive, or something, for companies to train while they are at the firm so they are not laid off rather than trying to find jobs or train people who have been laid off to try to fit something else, that is, try to put a square peg in a round hole somewhere.

Is there some way to give incentives to companies to keep employees, retrain more employees, in addition to those who are on their own, for good business purposes, doing it themselves?

Mr. REINSCH. The smart ones do that. They are already ahead of the curve on that because they have ongoing, constant efforts to upgrade the productivity and training skills of their employees and move them up to higher levels.

The stupid ones do not do that, and there is some shake-out in the economy. The stupid ones have a bigger problem, and they have more problems with George's colleagues when they have to shut down.

How do we get companies to be smart, in a way, is what you are asking.

The CHAIRMAN. That is what I am asking.

Mr. REINSCH. Yes. Well, there is a very interesting piece of research about globalization that is coming out that I would commend to the Chairman's attention from the Institute for International Economics that I was fortunate enough to take a look at.

It essentially is an amalgam of some research that has been done that has been reasonably obscure that suggests that what makes the biggest difference—and this is, I think, a little bit of a paradigm shift—is when a company decides to go global.

When they decide to go global, if you will—and that means exporting or importing, and it does not really make that much different statistically—they do a number of things that are different. One of the big differences it makes is in their workers' lives. It produces better-paid workers, it produces better-trained workers, and it produces more profit.

Companies that decide not to go global end up, over a long period of time, getting the short end of the stick economically. It is very interesting research. I did not do it, but I would urge you to take a look at it.

Mr. YEUTTER. To supplement that, Mr. Chairman, look at companies that do have low employee turnover rates.

There is a reason that companies have relatively low turnover; it is because they are doing good things you want them to do. They have recognized that there is a gigantic cost for turnover. A company is a lot better off if it can keep its employees happy and well-trained.

I should add that not everybody has to have a college degree, even in the high-tech society that exists today. There are an awful lot of very good jobs for people with something less than a college degree. That is why I think effective vocational training has to be a big part of this program.

The CHAIRMAN. Mr. Becker?

Mr. BECKER. Not all companies want to run. We deal with a lot of decent employers that want to operate in the United States.

As an example, Huffy Bicycle, a steelworker company for forever out in Ohio. But they were faced with heavy imports from China and they could not compete against them. So they went to the workers, not once, not twice, but I think four times for concessions and give backs. The workers did this over a period of time.

Finally, they could do more. They would do no more, because they have to make a living, too. They said, no. So the company was forced to change their operation, first, to Mexico. They still could not handle it. Then they relocated to China. Now Huffy bikes are all made in China.

That company did not want to run. It was a responsible company. Some of them are forced into this process in this. I do not see that they were hostile when they left. Now, some of this is inevitable. Some of it is sought out by other employers. So you have got a really mixed bag out there. Some of the suggestions here I think are very, very good.

Again, I would emphasize the health care and the pensions. These are two things that workers have to have today for themselves and their family. Not only have they lost their job, but they have lost a benefit that they cannot afford to lose. And anything that they can scrape together has to go to pay for that. They cannot strip themselves of that. I think this is something that you really ought to look at.

Mr. REINSCH. And one of the problems, too—and I think Mr. Becker's situation is a good example—some of the most difficult situations are industries that have substantial numbers of older workers in communities where they are all gathered together and where there are not a lot of other jobs, and the mine or the plant was the main source of employment there.

This is probably the problem, I think, in Senator Dayton and Senator Wellstone's situation, because it is almost impossible to find another job at a comparable wage, so you are asking them to make an economic sacrifice.

Second, it is very difficult to find another job without moving. And moving does not just mean moving yourself, it means your family. You may be a second, third, fourth generation steelworker, and you are being asked to leave the place where you grew up, where your parents and grandparents still live.

It is a very difficult thing for people to do, and it is an extra burden on adjustment. Retraining only goes so far to deal with emotional considerations like that.

Mr. YEUTTER. That is also true, as you well know, Mr. Chairman, in the textile and apparel industry, for all the reasons that Mr. Reinsch indicated. We have some particular industries like that in which trade adjustment assistance is simply going to be an inevitable need.

When we look at high-tech industries, we have a different story because relocation is a fact of life. It is a part of the culture of those industries and adjustment comes to them and their employees much more readily.

The CHAIRMAN. What about the idea of a dedicated fund?

Mr. KUHAR. A what?

The CHAIRMAN. A dedicated source of revenue that you mentioned. Do others agree?

Mr. KUHAR. Absolutely, Mr. Chairman. We are hamstrung every year by the lack of continuity in funding. It is very difficult to develop these recovery plans for firms when we cannot even contract beyond the end of our cooperative agreement, which is a 12-month document.

The good workers at the Department of Commerce work with us very closely, but without continuity in funding, we have a very difficult time helping these firms plan for their recovery.

The CHAIRMAN. Any other thoughts on education?

Mr. YEUTTER. I would favor that conceptually, Mr. Chairman. The caution I have is that we still have business cycles, even in an era of globalization, which means the needs in a program like this are going to ebb and flow over time.

So, if you are looking for dedicated sources, somehow you are going to have to design the program in such a way that it can handle those ebbs and flows.

Mr. BECKER. If you are looking for a dedicated source, I can offer one. The industry that shuts down in the United States and relocates in Mexico, for example, and brings a product back. I think there should be some penalty for that.

I think they should share in the responsibility for the devastation they leave in their wake, for what they have done to the workers and the community. That is a source of dedicated funds.

Mr. REINSCH. I would just say, I think it depends on how you do it. There is a good argument to be made for making the program permanent so you do not have to go through this. That would provide, I think, some additional level of confidence that it was going to be there.

I have never, in any context, been a particular fan of earmarking revenue. I think that is a slippery slope that will lead to a lot of other suggestions for earmarking revenue for other purposes.

The CHAIRMAN. Some of them are pretty good.

Mr. REINSCH. Well, yes. Your colleagues on either side will say the same thing about other suggestions that you may not agree with. I think it just opens this enormous can of worms.

But, at the end of the day, you have asked an important question. It comes down to money. The committee needs to decide how much money it wants to spend on this. I think once they make that decision—this may be backwards—I think a lot of the other things are much easier to settle.

Mr. YEUTTER. I agree with Mr. Reinsch. The more relevant question is whether or not you make trade adjustment assistance permanent, irrespective of how it is ultimately funded.

The CHAIRMAN. I appreciate all that. I think, casting modesty to the wind, we have made some significant improvements on trade adjustment assistance in this legislation.

But I also think it is only a very small part of the solution of the basic problem, namely, how to get a lot more trust so that employees and management are working better together for the sake of America.

Mr. BECKER. If I could just make one last comment. I know you are starting to get pressed for time. What I said about competence of workers, and the policymakers, and the politicians in this country, I think it is essential that this be restored.

I think they have got to believe that we all are—I put myself in that category—working on their behalf and are concerned. I think we need to get that message out. That is what is wrong with our trade laws today. They do not believe that. The evidence is staring them in the face all the time.

The CHAIRMAN. There is no doubt about it, there is a lot of mistrust and distrust among a lot of American employees about American trade policy. There is no doubt about that, it is a concern.

One way to address that—and again, it is only a partial solution—is this legislation. If we can go out and work for it, get it passed, keep working on it, make it permanent, that is going to help, at least on the margin, but in the meantime we can start addressing the deeper question that we have all been discussing here.

Thank you very much. The hearing is adjourned.

[Whereupon, at 11:59 a.m., the hearing was recessed to reconvene on Friday, July 20, 2001, with the Subcommittee on International Trade of the Committee on Finance.]



## TRADE ADJUSTMENT ASSISTANCE

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FRIDAY, JULY 20, 2001

U.S. SENATE,  
SUBCOMMITTEE ON INTERNATIONAL TRADE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 9:30 a.m., in room 215, Dirksen Senate Office Building, Hon. Jeff Bingaman (chairman of the subcommittee) presiding.

Present: Senator Rockefeller.

### OPENING STATEMENT OF HON. JEFF BINGAMAN, A U.S. SENATOR FROM NEW MEXICO

Senator BINGAMAN. Why do we not go ahead and get started here.

Let me welcome everybody. I know that each of you have other responsibilities, but I do think the subject of the hearing is important.

This is the second of two hearings that we are having on trade adjustment assistance. The one yesterday was designed to provide a broad overview of the program, to get some comments about the program in general.

Today's is a little more focused to get some specific comments and suggestions about how we can improve the program, how it has been working, how it should work.

As you know, the trade adjustment assistance program expires on the 30th of September of this year. This has been a program that has helped a lot of workers throughout this country. It is helping thousands of workers now. I believe we need to reauthorize the program before the deadline. We also need to improve the program.

That is the purpose of the legislation that we have introduced. Senators Daschle, Baucus, Rockefeller, Conrad, and others have worked with us to develop this legislation.

The legislation was introduced yesterday, so we hope we can have the mark-up in September and, with the support of the administration, get a bill signed by the President early this fall as well.

Obviously, we have got a lot of opportunity between now and the time the bill is concluded to improve on the language we introduced yesterday, and I hope we can learn something at this hearing that will help us to improve upon it.

Let me, before I introduce the first panel, just indicate that the Senate is scheduled to do three votes, starting about 9:45. So, I will plan to just keep the hearing going until we get to the end of that

first vote, then I will adjourn the hearing for about a half hour to go over there and vote three times, and come back.

So maybe before I leave we can at least give everybody a chance, on the first panel, to give their statements, then maybe get into questions afterwards.

Our first panel consists of Ms. Lori Kletzer, who is with the University of California Santa Cruz and the Institute for International Economics here in Washington; Mr. Robert Hamp, who is a small businessman and ex-steelworker from Pennsylvania. We appreciate him being here.

Mr. Loren Yager, who is the Director of International Affairs and Trade with the General Accounting Office in Washington.

Maybe I would start with Mr. Yager and just go across this way. I know the General Accounting Office has done a recent report on this whole set of issues. Why do you not take 5 or 6 minutes and summarize what you have concluded and your recommendations to the committee?

**STATEMENT OF LOREN YAGER, DIRECTOR, INTERNATIONAL AFFAIRS, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC**

Mr. YAGER. Thank you, Mr. Chairman.

Mr. Chairman, I am pleased to have the opportunity today to talk about our recent work on the Federal Trade Adjustment Assistance Programs that we have been undertaking on behalf of this committee.

These programs are designed to help dislocated workers, communities, and firms adjust to the rapid economic changes that characterize the globalization of national economies.

While globalization has increased the importance of technology and service sector jobs, it has also resulted in the loss of many manufacturing jobs as companies that cannot compete with lower-priced imports go out of business or relocate abroad.

In my testimony today, I will focus on two main issues regarding the TAA programs. First, there are a number of problems in the Trade Adjustment Assistance Programs. Second, trade adjustment assistance alone is not sufficient to solve many of the long-term challenges of the workers and the communities.

Let me discuss the first point. We heard consistent views from program administrators on a number of problems that impede effective service delivery.

One problem, is that the period of time dislocated workers receive income support versus training benefits is inconsistent and limits the training options. For example, training benefits last 24 months, while income support lasts only 18 months.

A second problem, is the instability of funding for training benefits results in delayed approval of training requests. A third problem, is that the maintenance of separate TAA and NAFTA TAA programs is administratively inefficient and confusing.

In my written statement and in our reports from last year, we make a number of recommendations to the agencies, and we also provide matters for Congressional consideration to address these problems.



Mr. Chairman, I also note that, from the information we have on your legislation, that you address a number of these issues, such as the time limits and the flexibility to the workers.

Now let me turn to the issue of the longer-term challenges to the workers and the communities. We found in our visits to case study communities that trade adjustment assistance alone cannot resolve all of the workers' or communities' long-term problems.

Based on the most recent national data, approximately 80 percent of the TAA and NAFTA TAA workers using benefits had a high school education or less, compared to 42 percent in the overall labor force.

In addition, many of these workers have been out of the educational system for 20 years and, in some communities, many have limited English skills.

Because of these and other challenges, TAA-sponsored training, which often consists of one or 2 years in a GED or a community college program, is unlikely to complete the match between these workers and the kinds of jobs available in the current economy.

Rather than returning full-time to the educational system, some of these workers may be better off with incentives to return to work or to engage in some combination of work and training.

The communities with extensive lay-offs also face long-term challenges such as improving the human capital of the people in the community. Community leaders found that there is limited Federal and State assistance to help with economic adjustment.

Of the funds that were provided to communities, much of the funding went to larger communities such as El Paso. When communities did receive funds, they were only able to begin the process of addressing long-term human capital and infrastructure challenges.

Many of these communities had relied on low-skilled manufacturing jobs, which are disappearing, and now face the difficult task of diversifying their economies.

As a result, many of these communities are attempting to replace the jobs that were lost to lay-offs, while at the same time they are trying to attract higher-paying and more stable service industry employment.

As in the case of workers, there is no single approach which is effective for all communities. Trade adjustment assistance alone is unlikely to resolve all of the community's problems.

Mr. Chairman, again, your legislation appears to recognize some of these longer-term challenges to the communities.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions you or other members of the subcommittee may have.

Senator BINGAMAN. Well, thank you very much.

Before I go on to the other two witnesses, Senator Rockefeller, who is a strong champion of doing better by adjusting payments to workers who have been dislocated, is here. Let me ask him to say anything he would like.

**OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A  
U.S. SENATOR FROM WEST VIRGINIA**

Senator ROCKEFELLER. I will just say, Chairman Bingaman, what I said yesterday at the press conference. That is, China is going through this in obviously very dramatic ways as they shut down industries. The difference is, that is just part of Chinese history. People work, they do not work, they starve, they do not starve, and it is incidental.

I do not say that to be mean to them, it is just that they have always had a lot of people and they have never had a centralized approach to anything in their 5,000-year history.

We, on the other hand, as an industrial society, pride ourselves on trying to do things right, and each and every individual counts.

As I have talked with Senator Bingaman, when I was a VISTA volunteer, I was working with individuals who did not have any future, particularly, any hope, any health insurance, any job prospects over those 2 years. But they also fed me three times a day, and they were my family.

I came to the view that each person, regardless of the circumstances under which they are born, which is totally random, are equal. They are born equal and they all deserve to have the same shot at life. That does not mean they all make it, but they deserve to have the same shot.

I think this is sort of the philosophical core of Senator Bingaman's legislation, which is that when people work hard and they are undone by things over which they have no control, which might be government subsidies and protections in other countries, which we seem to accept as a society blandly, that America has to then come in, as Canada does in many ways, and do things right and make things right for the people that are displaced, and make sure they have day care, longer-term benefits, health insurance, and a whole lot of other things.

But we do not because in America we are a culture that admires people who succeed and we forget about people who do not. That is a little general, but I do not back off that statement too much.

So this hearing, this bill, and your presence are important because what you are doing is fighting for people who do everything right in life, then because of circumstances which are absolutely beyond their control, have nothing to do with their motivation, work habits, and the rest of it, just get pushed aside.

That works in a lot of countries. That is acceptable within, let us say, a Confucian ethic. But it is not within ours. So the question is, does America care or does America not care? That is what this bill is about.

Senator BINGAMAN. All right. Thank you very much.

Mr. Hamp, thank you very much for coming. We would be glad to hear your testimony. Go ahead.

**STATEMENT OF ROBERT HAMP, SMALL BUSINESSMAN AND  
EX-STEELWORKER FROM PENNSYLVANIA**

Mr. HAMP. Thank you, Mr. Chairman.

I became a steelworker almost strictly because of the wages and benefits. I had already been working in a plant for almost 5 years for an outside contractor that was non-union. I knew how hot,

dirty, and often dangerous the work would be. But, again, the wages and benefits, to me, far exceeded the risks involved.

I spent the next 21 years working as a mechanic in the three plants that we owned. The last plant that I worked in was actually shut down in March of 1999 when no buyer could be found for it.

The loss of that job was devastating to my family's life. We based our whole lifestyle on the income that we made from that job. For the first 3 months after the layoffs, I looked for other work and held on to the hope that a buyer would be found and the plant would be reopened. That did not occur for several months.

In September of 1999, I started college. A few months later, as I say, the plant was purchased and reopened. An offer was made to me at that time to return to work and, although it was a difficult decision, I chose to turn it down.

The long-term prospects of employment in the steel industry were not very good and, as it turned out, it was a fortunate decision on my part in that several of my co-workers who did go back are now permanently laid off again.

The cost for the tuition at the college was \$11,000. I could not have afforded that, along with the associated costs to go to school, without TAA. Even with that, it was quite expensive. The college was 60 miles from my home, resulting in almost a \$200 a month gasoline bill alone. The State had refused to pay the transportation allowance, so all that money came out of pocket.

I also purchased a used car at that time to get better gas mileage. My truck was getting 10 miles to the gallon and, at \$1.50 a gallon, I was not going to be able to survive going to school and paying for the gasoline that it was using.

There were some other closer schools, but none had any of the degree programs that fit into the criteria that I wanted. Several of the trade schools offered electrical heating and air classes, other similar classes to what I had, but these fields have already flooded with unemployed, inexperienced workers. Most contractors want somebody that is younger than I am and that has at least 5 years of experience.

At the age of 47, I do not have enough years left to try to go to work for somebody and come back up to the income levels that I experienced in the mill. I have got a 7-year-old daughter that I would like to help go through college some day.

Indoor air quality is a relatively new field. It was what I chose for a degree program. There is limited competition for existing job openings and experience and age are not a factor because of the newness of the field.

When I began to look for work after school, or close to the end of school, I found that wages were higher in the field, but the school had provided me with such excellent skills and certifications that these far exceeded what potential employers actually had. So, I chose to start my own business.

TAA is an excellent program. It is a true shame that there is a need for it in this country. But, without the income support and the time that was allotted to me to attend school, I could never have finished the education or gone into business. I am most grateful that the program was there for me. Without this program, the very

discouraging prospect of losing my well-paid job would have been unbearable.

There are, however, far too many hurdles for the affected worker in this program. The major one for me, was that the State should be forced to have clearly written rules outlining the benefits and limitations of the program. No one needs a surprise around every corner. It was bad enough to lose a job, but no one needs the additional hassle of the changing rules that occurred daily.

The State should not wait until a week before school starts to inform an individual if they have been approved for the school or not. If they have not been approved by that time, it is often too late to start looking for another school, resulting in at least a three-month delay before the next classes would start.

I was luckier than most when the mill shut down. I had the age and seniority to qualify for the Rule 65. I receive a monthly pension and I am aided by health insurance for my family from my former employer. As a result of receiving the pension, my unemployment is reduced.

Health insurance costs me close to \$5,000 per year. This amounts to almost half of what I actually receive from my employment. Many former co-workers have quit school to take lesser paying jobs because they needed the health benefits and they were unable to afford them on unemployment.

People think that losing your job is the end of it. It is not, it is just the beginning. The bills that are accrued during that time linger for years. Unemployment was a significant drop in income for me, and the risk of losing your home is always there.

TAA helped, but it was not perfect. This was a terrible situation, but without the TAA it would have been much worse.

Thank you, sir.

Senator BINGAMAN. Thank you very much for that testimony and coming today to present it.

Ms. Kletzer, why do you not go right ahead with your testimony?

**STATEMENT OF LORI KLETZER, UNIVERSITY OF CALIFORNIA  
SANTA CRUZ AND INSTITUTE FOR INTERNATIONAL ECO-  
NOMICS, WASHINGTON, DC**

Ms. KLETZER. Thank you, Mr. Chairman. I am submitting my written testimony for the record.

My testimony here today addresses what we know about the cost of job displacement, specifically import competing job displacement. My focus is on workers: who gets displaced, what we know about the difficulties of the transition from one job to the next, earnings losses upon reemployment, then, lastly, how government programs can assist in the adjustment.

I would like to offer one summary point up front. Import competing displaced workers look very much like other workers displaced from manufacturing. What matters is the kind of job lost and the kind of job regained. Why the job was lost does not matter much at all.

This point is important. If workers and consequences are alike across different causes of job loss, such as increasing foreign competition, technological change, downsizing, restructuring, then ad-

justment assistance should be in place for all displaced workers, not just trade displaced workers.

I have a recently completed study on job loss in import competition that will be published in September by the Institute for International Economics.

In that study, I define a set of high import competition industries, which results in the traditional ones, and I then apply that industry definition to a nationally representative sample of displaced workers from the displaced workers surveys provided by the Bureau of Labor Statistics.

Using that data, I am going to share with you some of my findings. Again, importing competing displaced workers look like other displaced manufacturing workers. Compared to non-manufacturing workers, they are slightly older, they are notably less formally educated, they have longer job tenures, they are somewhat more likely to be members of racial and ethnic minority groups, and they are far more likely to be production-oriented.

Import competing displaced workers do differ from other manufacturing workers in one striking way: they are more likely to be women. Women dominate the group of workers displaced from import competing industries because they dominate in employment.

Labor economists such as myself estimate statistical models to understand what kinds of workers face difficult labor market adjustments following job loss. These models reveal that individual and labor market characteristics are vitally important.

These characteristics, which I will go into, are systematically related to the transition to the next job. They explain why import competing displaced workers are less likely to be reemployed.

Then if these factors are truly helping us understand these differences, I want to suggest that policy design should look at these characteristics. Some of them stand out: Age. Younger workers are more likely to be reemployed than older workers by a significant margin.

Education. Compared to high school drop-outs, workers with a high school diploma are 10 percentage points more likely to be reemployed. Workers with a college degree are 25 percentage points more likely to be reemployed. That can raise their chance of being reemployed by a half.

Job tenure. Workers with longer service on the old job are less likely to be reemployed than workers who had less service on their old job.

Lastly, the overall health of the economy matters a great deal. While it may not be enough for that older, less-educated, more tenured worker, a strong labor market certainly helps provide the necessary setting for displaced workers to find the next job.

One clear implication of what I have just told you, is that it is not import competition, per se. It is who gets displaced from the firms and industries that face import competition. What limits the reemployment of these workers is, by and large, their individual and labor market characteristics.

But the difficulties do not end with the transition to the next job. The difficulties continue in trying to recover earnings. For reemployed import competing displaced workers, the average earnings loss is 13 percent.

But two-thirds earn less on their new job than they did on their old job. A quarter have earnings losses in excess of 30 percent. The same thing is true, the same numbers would describe what happens to other displaced manufacturing workers.

The industry where workers are reemployed matters a great deal in understanding how workers differ in their earnings losses. There is considerable reemployment in manufacturing, which some people find surprising. About one-half of the group I studied—that is, one half of reemployed import competing displaced workers—end up back in manufacturing. Ending up back in manufacturing greatly reduces earnings losses.

Based on my understanding of how the consequences of job loss vary, I have some comments on adjustment assistance. I believe that the strong association between age, less formal education, long tenure, and a difficult labor market adjustment can be used to target assistance at certain groups of workers rather than offering the same services up front to all program participants. This is certainly in the spirit of worker profiling that is done by States in the provision of reemployment services.

We know that job search assistance can be offered at relatively low cost. Enhanced targeted job search assistance may well help workers minimize their earnings losses.

Expanded benefits under the proposed legislation move in the right direction. Training for reemployed workers, tax credits for workers who face the full health insurance premiums under COBRA, and then the increased capital relocation assistance.

If I can take 15 more seconds. Earnings losses upon reemployment can also be addressed most clearly and directly through wage insurance. Wage insurance, as you know, is a program of financial assistance, upon reemployment, for workers who lose jobs through no fault of their own when the new job pays less than the old. It addresses some of the criticisms that are leveled at TAA and NAFTA TAA.

Most importantly, it presents workers with an incentive to become reemployed. That is a wider opportunity for the labor market, not just a government program, to be part of a worker's adjustment and, as I said, it directly addresses the issue of earnings losses upon reemployment.

Thank you for the opportunity to speak today, and I will be available for questions.

[The prepared statement of Ms. Kletzer appears in the appendix.]

Senator BINGAMAN. Well, thank you.

As I mentioned at the first, we are starting three votes and we are close to the end of that first vote. So maybe we will recess the hearing right now, then come back and have some questions for each of you, then have the second panel.

Thank you very much.

[Whereupon, at 9:57 a.m., the hearing was recessed to reconvene at 10:37 a.m.]

Senator BINGAMAN. All right. Let us start up again here. Thank you very much for waiting. I apologize for that interruption.

Let me start, Mr. Yager, with a question or two for you. First of all, in your testimony here you mention the three problem areas. You say, "Program administrators and training officials said that

programs have structural problems and impede effective service delivery. Specifically, they said," and then you go through the three.

The second of these is, "The instability of funding for training benefits results in delayed approval of training requests." Can you tell us anything more about your suggestion for how we might fix that? What do you think is the right fix on that?

Mr. YAGER. Mr. Chairman, in the work that we did that we published in our report in October of last year, we talked about the problems with the unavailability of funds for the States to make the training commitments. We pointed out that this was a problem for the workers, as the testimony here today further detailed.

I think one of the responses that we got from the Department of Labor in their formal comments to our testimony, was that this was a problem that they had with their budget that occurred primarily in the first and the fourth quarters of the fiscal year, that they did not always have the funds available to make those commitments.

I think then it would just be a matter of trying to work out the issues with regard to making sure that they have the budget authority available to make those kind of commitments to the States so that they can then provide that to the workers.

Senator BINGAMAN. So this might just require Congress to do forward appropriations, future year appropriations. Is that what you think is the solution, or what?

Mr. YAGER. It sounds like that would help to resolve the problem. We would certainly be happy to work with the committee and the staff to see whether there are any more details that we can provide on that.

Senator BINGAMAN. Let me ask about these efforts to help communities. There is the Economic Development Administration, there is the Community Adjustment and Investment Program. These are existing programs that use different techniques to try to help communities adjust to economic impacts of one kind or another.

Have you looked at the question of whether grants, or loan guarantees, or matching funds, or which of these various techniques makes the most sense in actually helping communities? Is there a particular model that has been effective, in your view, that we ought to look to in trying to formulate this legislation?

Mr. YAGER. Mr. Chairman, one of the other reports that we did last year was on the Community Assistance and Investment Program, what we call the CAIP program. What they do through that program, is they provide both grants, loans, and other assistance to communities.

We found that it was difficult to evaluate the different types of providing that financing because there really was not sufficient performance information to make that kind of adjustment.

We did have some suggestions on the CAIP program. We made a number of recommendations, largely which were designed to ask the Treasury to provide a little bit more authority from the decisions, or of the decisions, to the local communities.

That was a very centralized program. What they called a Finance Committee, which is responsible for the CAIP program, holds a lot of those decisions in Washington.

For example, it took up to 3 years to begin to get some of the funds disbursed to the communities. So one of the clear recommendations that we have in our CAIP report from last year, is that more authority could be provided to the communities to make those kinds of decisions.

Senator BINGAMAN. All right. So decentralize the decision making.

Mr. YAGER. That is right. Much of the work and much of the loans that are provided, for example, are provided through existing government agencies such as the Small Business Administration and the Department of Agriculture, which have many field offices around the country. So the Treasury is the lead in the interagency committee, but much of the work is actually done in the field by those other agencies.

Senator BINGAMAN. All right.

Mr. HAMP, let me ask about any recommendations you would have to us about things that we ought to try to change in this trade adjustment assistance.

Mr. HAMP. I guess my biggest complaint was with the State's administration of the program. The rules are not written. There is no place for the affected worker to go to see what the actual rules are. The rules apparently change based on arbitrary decisions made within the offices. That is not fair to the worker. That is a hurdle that should not be there.

Senator BINGAMAN. Maybe this is an unfair question to ask you, but do you have any opinion as to whether this is a problem peculiar to Pennsylvania or is this a more general problem? Maybe I should ask some of the others.

Mr. HAMP. I honestly could not answer that.

Senator BINGAMAN. All right. But you think that they need to have—

Mr. HAMP. I think the worker needs to know what his benefits, and what the limitations of those benefits, are up front.

Senator BINGAMAN. Right.

Mr. HAMP. Information that we were given by State representatives in meetings did not hold up to be true further down the line.

Senator BINGAMAN. All right. All right. Well, we can certainly work on that part of it.

Let me ask you, you are to be commended for having had the initiative and courage to go try to start your own business. That is, particularly as you say, you had been employed for, what, 21 years there in the steel industry.

Mr. HAMP. Twenty-one years in the union, as part of the SWA.

Senator BINGAMAN. Right.

Mr. HAMP. And 5 years before that for an outside contractor.

Senator BINGAMAN. Then you decided that the best course was to just start your own business, and went and did that. Were you able to get any assistance in making that transition?

Mr. HAMP. Very little. The Small Business Administration and an outreach office done through the University of Pennsylvania, I believe, provided some help towards the business plan itself. But it was more, go write it, then we will review it. The only other thing I had, I did take a Small Business Administration class at the college.



Looking at going into business for myself, it would have been nice to have something that would have allowed me to start that business during the training. I believe, had I done that, then I would have been considered to have full-time employment and my benefits would have been cut off.

Senator BINGAMAN. So you would have liked to have started the business while you were still taking training.

Mr. HAMP. Yes. At least start it up, so I had an idea of who I needed to go to to ask what. I am not even sure of what questions I need to ask, let alone what answers I should be getting back.

Senator BINGAMAN. All right. So the transition from receiving the benefits and officially being unemployed to actually having the business, was a difficult one for you. You think, had the benefits continued while you were trying to get this business established, that would have been a big help?

Mr. HAMP. Yes, it would. The supplemental income actually ends the last day of classes, so you are effectively unemployed again as soon as you have finished your classes. So now you have to scramble to get the business up and going, where you could not have started it prior to that date.

Senator BINGAMAN. So the benefits really should extend for some period after the training is over with so that you can get into a job or get a business up and running, or whatever.

Mr. HAMP. Ideally. Or allow, maybe even not a start-up for income purposes, but just a start-up program that helps the small business owner get his business ready to go.

Senator BINGAMAN. All right. How long have you had your business now?

Mr. HAMP. About a month. I have not done much, about three jobs.

Senator BINGAMAN. All right. All right. But you feel optimistic about it?

Mr. HAMP. Yes. Very.

Senator BINGAMAN. That is great. I commend you for it. I think that is a great accomplishment, to put a business together and make it succeed.

Mr. HAMP. Thank you.

Senator BINGAMAN. Ms. Kletzer, you have got a lot of good suggestions in here. I gathered from the first statement that you made, or the sort of general premise, your view is that, by far, the better public policy would be to have job displacement or job loss assistance rather than trade adjustment assistance.

I mean, this program should be much broader than it is and cover a lot of workers who currently are not covered because the loss of their job does not relate to trade.

Ms. KLETZER. Mr. Chairman, yes, that is the case. While the causes of job loss are an interesting question, I do not think, in terms of assisting workers, that the causes of job loss are an interesting or meaningful distinction.

With respect to education and training and all the programmatic concerns, I very firmly believe that the cause of job loss is not an essential component. When you look at who gets displaced, whether it is trade-related or other, the differences become even narrower.

Senator BINGAMAN. Have there been studies as to cost, how much of an increase in cost it would be to the Federal Government to try to take the level of benefits we have now got in the trade adjustment assistance area and just expand those to everyone you are suggesting?

Ms. KLETZER. I have not done so. I am not aware that there has been such an estimation of what it would take to take a current program and expand it. There could be studies. I am just not familiar with them.

Undeniably, a program such as you detailed would be far more costly. However, as I pointed out, there are ways to expand eligibility on the causal dimension, that is, all displaced workers, but there are ways to then contain it based on age and earnings on the new job, or based on job tenure.

So I do not think one needs to necessarily think about expanding a program to include all displaced workers alone, but there are then other criteria that one could apply to an expanded program that would help contain costs.

Senator BINGAMAN. All right.

Did you have a thought on that, Mr. Yager?

Mr. YAGER. Yes, Mr. Chairman. The Labor Department does publish some information, it is called the Mass Layoff Statistics. Just putting this in a perspective, the dislocations of workers due to import competition and to relocation of plants abroad, I believe, are tenth and twelfth on the list of reasons for dislocated workers. So, it is really quite a ways down the list.

So, for example, if you were to expand this program, you would be moving into some areas with, say, 10 times as many workers as the number of layoffs due to these.

The top cause on the list is seasonal employment, and that is really an order of magnitude of 500,000 per year, then end of contract and some other causes rank well above the dislocation of workers due to import competition or relocation of plants abroad.

Senator BINGAMAN. Is there some subset of that very large group that is larger than the trade adjustment that people who have lost their job by virtue of a trade impact, and everybody who loses a job because of seasonal reasons or whatever, something in between that makes sense for the Congress to look at?

Mr. YAGER. That is certainly a good question, Mr. Chairman. We have not really done any work on that to try to think about what criteria might be useful to look for that subset, but we would be happy to give that some thought and talk to the committee about that in the future.

Senator BINGAMAN. Ms. Kletzer, are you suggesting that we should be providing the same level of benefits for people who lose their jobs because of seasonal layoffs, every year they get a job, every year they lose a job, kind of thing?

I would think there would be more resistance in the Congress to trying to have the government step in and solve that problem than there would be for the kind of circumstances Mr. Hamp encountered, which was essentially a permanent job loss. I mean, he had to go find another job. The one that he had had gone away.

Ms. KLETZER. Mr. Chairman, no, I am not. I would not be easily persuaded that we should offer the same assistance to workers who

lose their jobs seasonally or workers who lose their jobs contractually.

I think in both of those cases there is an anticipation that the job will end. I think that anticipation, that expectation that the job will end, is very different from when you lose a job that you have been in for 20 years. It is an unanticipated, through no fault of your own, job loss. I think they are quite different, so I would agree with you.

When you do look at the Mass Layoff Statistics data, almost half of the workers in that program are seasonal and end of a contract. So I think it is possible, when one thinks about expanding assistance, to take those workers off the top and then think about the group that remains.

Senator BINGAMAN. All right. That would make some sense and would be something I would be interested in looking at, especially if we could get dollar figures to sort of estimate how many workers are there who are in a similar circumstance in that they have lost a job they did not anticipate losing by virtue of something that occurred totally outside their control, as Senator Rockefeller was saying, and seeing, if we were to try to extend these same benefits to all of those, what would we be looking at? I think that would be useful.

I wanted to get to your thoughts, also, Ms. Kletzer, about this wage insurance provision that we have in here in the draft bill, or in the bill that we have introduced.

Could you just give us your thoughts, generally, about wage insurance and how this particular provision relates to what we ought to be doing?

Ms. KLETZER. As I said in my testimony, I think the strength of a wage insurance program is that it directly addresses earnings losses upon reemployment. Those earnings losses can be sizeable. They can also be small. But that is the harm done.

What wage insurance does, is it measures out its assistance relative to the harm that is being done. That is, in the proposal that I put forward several months ago with Robert Litan—it is in an Institute for International Economics policy brief—we suggested that half of the earnings gap could be covered by such a program, so that if earnings losses are large there is more assistance, and if earnings losses are small there is less assistance. It is a measured response to an observed labor market outcome.

I think its second strength—in this one, maybe its primary one—is that it is an incentive for workers to become reemployed. That gets the labor market more directly involved in a worker's adjustment.

There is less of an artificial bridge between the government program and the labor market, that a worker goes out and becomes reemployed with, potentially, access to on-the-job training.

There are a number of studies that note the efficacy of on-the-job training relative to training programs where a worker may have no idea if a real job exists at the end of the training program that will use those newly-acquired skills.

So I think those are the two primary reasons why I think wage insurance is a good augmentation to the existing set of trade adjustment assistance benefits.

Senator BINGAMAN. All right.

Your suggestion that we target some of these benefits, at any rate, to the groups that are hardest hit—that is how I understand your testimony.

Ms. KLETZER. Yes.

Senator BINGAMAN. You think that that does not result in an increased level of difficulty on the part of the others in getting readjusted and getting settled into new positions. I mean, you do not think we are causing ourselves as many problems as we are creating.

I was always told to build on your strengths. To an extent, you are advising us not to do that. You are advising us to work on our weaknesses.

Ms. KLETZER. Mr. Chairman, I think it depends on what you mean by “worse.” I think there are strengths out there in the labor market that, being under 45, having a high school diploma or some college experience, having recently looked for a job, so that is being able to take some job search skills out there into the labor market, those are all strengths that individual workers have.

The evidence shows that, with some of those strengths, they can navigate this transition. I am not saying that they should be navigating this transition without any assistance at all.

What I am saying is, there are a set of characteristics that I just mentioned that help people navigate it, and they turn out to do better than people who do not have those characteristics.

So that is what I am saying. Look at how people do, to the best we can, then help those who seem to have observable characteristics that are associated with more difficult transitions. I do not believe that I am saying, work against your strengths.

What I am saying is, let us identify what people’s strengths are and let them go with that and provide them some support, but let us provide more support for the people who do not have those observable characteristics that can aid in the adjustment.

Senator BINGAMAN. All right.

Mr. HAMP. Mr. Chairman?

Senator BINGAMAN. Yes, please.

Mr. HAMP. May I offer something?

Senator BINGAMAN. Sure.

Mr. HAMP. One group that has not been addressed in this are the outside contractors that were affected equally as much as we were. One particular sad situation was a small contracting mill of about six or seven people. The boss there, that is all he ever did, was the clean-up job that he had in our plant. This man took his own life at the end. There was nothing else for him to do. He had lost everything. He had no benefits.

Senator BINGAMAN. We have, in this draft legislation, extended the benefits to secondary workers. I believe that would cover people, contractors, who had job losses and had to shut down a business, or whatever, because of the loss of the factor they were working with.

Mr. HAMP. I am glad to see that.

Senator BINGAMAN. Yes. Yes, Mr. Yager?

Mr. YAGER. Mr. Chairman, one additional point to make on a question that you asked Mr. Hamp earlier about the confusion that exists in some of the programs.

One of the points that I made in my oral statement, as well as in some of the reports that we provided, is that part of this could be attributed to the fact that there are two programs that exist.

The two programs have different sets of eligibility rules for workers, they also have different sets of rules having to do with waivers for training.

Senator BINGAMAN. Right.

Mr. YAGER. So there really is quite a bit of confusion. When we went out and talked to workers in the six case study communities, we did note that there is quite a bit of confusion that does result from the existence of these two programs.

Senator BINGAMAN. Right. That is one of the main things we are trying to accomplish with this bill, is to eliminate that confusion and have a uniform set of benefits that would be available, whether you lost your job as a result of trade with a NAFTA partner or lost your job as a result of other trade.

But I think Ms. Kletzer's suggestion that it should be even broader than that is one that we need to take seriously. I do not know if we would get the support to do it, but I think it may well be something. If we could identify that group of people and get a good way to define who was in it and who was out of it, we might make a run at that.

Well, thank you very much. Let me go ahead and ask the second panel to come up. I thank this panel very much for your testimony.

Our second panel is Ms. Cindy Arnold, who is the executive director of El Puente Community Development Corporation in El Paso; Mr. Robert Rhodes, who is director of Customized Training at Eastern New Mexico University in Roswell; and Mr. Robert Carlson, who is the president of the North Dakota Farmers Union.

Well, thank you all for being here. Thank you for being willing to wait. I know this has taken a little longer than anyone expected because of those votes.

Why do we not just go right across the table here? Ms. Arnold, why do you not start? Go ahead and give us five or six minutes of what you think we ought to know, then the same for Mr. Rhodes, and the same for Mr. Carlson. We will include any written statements you have got in the record.

**STATEMENT OF CINDY ARNOLD, EXECUTIVE DIRECTOR, EL PUENTE COMMUNITY DEVELOPMENT CORPORATION, EL PASO, TX**

Ms. ARNOLD. Thank you, Chairman Bingaman.

I appreciate the opportunity to be here to provide testimony. I have provided written testimony, and want to just focus on a couple of the highlights.

First of all, being from El Paso and working with an organization that is working with displaced workers from NAFTA, frankly, I have tremendous experience at ground zero of the NAFTA impact. EL Paso has lost more than 26,000 jobs as a result of NAFTA since January 1, 1994. Based on Department of Commerce estimates

about the cost of job loss at \$50,000 a job, that is an impact of over \$1 billion to the economy.

That specifically has hit the population that our organization works with, which is Spanish-speaking, older women workers. Of the 26,000 displaced workers, 97 percent are Hispanic, two-thirds are women, a third are single heads of household. More than half are 45 years and older. More than half have less than a sixth grade education in Mexico, and the vast majority are not fluent in English.

The impact from the NAFTA on these workers has actually been two-sided. The loss of jobs was the first hit. The second, has been that they have not been able to get back into the economy, even though almost all of those 26,000 displaced workers have participated in the NAFTA TAA and TAA programs.

This, fundamentally, comes from what has happened in the economy with NAFTA. The United States' and Mexico's economies were united. It means that, locally, El Paso/Ciudad Juarez are now one economy.

Local employers understand that, with the workforce that they are looking at, they can look into Mexico for their local employment needs. Mexico has a \$1 an hour minimum wage on the northern border. So our local economy's minimum wage is not \$5.15 an hour, it is \$1 an hour.

As a result, the women that are a part of our organization in the community of displaced workers, once they lose their jobs, are not able to get back into the economy because they are not perceived to be worth, frankly, paying even the minimum wage of the United States because similar counterparts in Mexico are being paid \$1 an hour.

The challenges of the NAFTA TAA program, when it was implemented in January of 1994 and since then, did not take any of this into account. Specifically, it did not take into account the fact that, although the program was providing tuition and income support, very fundamental, important components to trade adjustment strategy, there is no support for the development of training programs. There is an assumption that there will be training programs there that connect people to jobs.

The employers are not wanting to employ these women unless they have English fluency, have a GED, have vocational experience. The training programs that existed and continue to exist have those same English and GED requirements to get into them.

So, we find women being warehoused in English programs and GED programs and never getting to vocational training because it is a sequential strategy of, you have to learn English, then you go to get a GED, then you go to get vocational training.

Our analysis is that, in looking at the legislation that you have now introduced, I have to say that we are very excited.

Frankly, I was surprised to see a lot of what we have seen in the trenches for the last 10 years in El Paso be reflected as changes that are being proposed in your legislation with regard to the impact of NAFTA and the trade adjustment needs that are not simply education impacts or employment impacts, but also on health care, on communities.

In my written testimony I highlight the pieces that we think are very important in terms of connection to helping communities readjust and get access to health care, and the continuance of income support, which is fundamental.

What we did not see that we believe is extremely important, is the investment in actual development of educational and workforce development infrastructure, particularly tied to employment opportunities.

When there are no training programs and you have warehousing, you are not moving people along. So, we have to create those training programs. The training providers are saying it costs money and they are not getting any additional reimbursement for creating new programs than the old programs.

We would like to see the development of an adult bilingual job corps. We believe the Job Corps model for youth is a good model of an integrated training program that combines teaching language and technology with vocational skills on the job. That model could be transferred to an adult bilingual setting.

In addition, we did not see any support for the questions of housing. One of the other things that workers end up losing as they lose their jobs, is many of the assets that they have accumulated, including their homes. We would like to see support for some kind of mortgage assistance or refinancing to be available for displaced workers.

Fundamentally, as the previous panel was focusing on, there is a very hard-to-serve, hard-to-reconnect-into-the-economy population, particularly along the border, that is women, that is older workers, that are workers that have not received the kind of education because they have worked all their lives.

That is the workers that need to be a focus of trade adjustment. We need to understand how we are going to put them back into the economy and build those bridges, and use this legislation. Thank you.

Senator BINGAMAN. Thank you very much.

[The prepared statement of Ms. Arnold appears in the appendix.]

Senator BINGAMAN. Mr. Rhodes, thank you for coming. Thank you for preparing testimony. Go right ahead.

**STATEMENT OF ROBERT RHODES, DIRECTOR OF CUSTOMIZED TRAINING, EASTERN NEW MEXICO UNIVERSITY, ROSWELL, NM**

Mr. RHODES. Thank you, Mr. Chairman. It is a privilege to be here to testify on this Trade Adjustment Act. I did want to personally thank you for your efforts to make these changes. They really do reflect the Roswell experience that we have.

In November of 1997, Levi Strauss announced the closing of the Roswell facility, and this affected nearly 600 individuals in the community. Eastern New Mexico University, Roswell, began working with the New Mexico Department of Labor, the Human Resource Development Institute, and CAIL to provide services to the Levi employees. We also provided training for more than 354 Levi employees.

The initial assessment process disclosed a very serious need for basic literacy and ESL training. Many individuals tested at a third

grade literacy level. Many of these same individuals also were at an ESL level one or two, which is the basic level.

Of the more than 350 former Levi employees, only 104 were able to be enrolled in any kind of academic or vocational training. The remaining were put in adult basic education or in an ESL program. Many of these same workers also had few, if any, transferrable skills.

Primarily we are a training provider, but I wanted to cover three specific areas that we experienced. The first one, is obviously the training, the problems we had with the lack of a timely and coordinated response by State agencies that create a delay in moving workers into appropriate remediation and training programs, the size of the layoff, the fact that Levi employees made up 20 percent of our enrollment at Eastern New Mexico University, and also the fact that our adult literacy program increased 70 percent and our customized training programs doubled in size. So, there was a real capacity problem.

Many of these workers had never attended any type of formal education, either in the United States or in their home country. The nature of funding for post-secondary education also makes it very hard for us to react to the immediacy of the problem, so it becomes very hard to find faculty, facilities, and equipment.

Then the lack of a clear picture that came out of the skill and the literacy problem, the lack of an economic development and community audit so we were able to make the training appropriate.

Community issues that came out of that. Primarily, in a small community, when you lose 600 manufacturing jobs, it is dramatic. The higher-skilled, the better-educated workers quickly move into other training, other jobs, but the remaining opportunities are typically in the service industries or they are in high-skilled industries that people are not qualified to move into.

The need for intensive remediation training lasted much longer than was anticipated. The available supportive services did not last that long, and many individuals had to withdraw from the program because of the economics.

The layoff also created, oddly enough, a financial windfall for these individuals. They were not properly prepared for this. They went out there and, for lack of a better way of saying it, had a very nice vacation, then the reality of losing the job struck and their ability to adjust to that and live on the supportive services was dramatic.

As the local economy slowed, many other workers were also laid off. Small retailers suffered. In rural communities, the secondary effect can almost be as great as the initial layoff.

The failure to approach the social, economic, and community development and the training in a holistic manner created diverse and disengaged results. We had a lot of activities going on, but many times they were not related or interfaced with the other problems, the other actions.

Government issues. The service and information provided at local, State, and Federal levels lacked coordination, and many times conflicted. There was a delay in making available appropriate resources to address all the problems arising from the layoff.



The few local representative agencies were over-burdened and under-supported in their efforts to provide services. In their efforts to help, many agencies provided duplicate or ineffective services.

Regulations restricting the length, the type of training, the mismatch between training and supportive services, and the boundaries and responsibilities of agencies, many times, were counter to the needs of the community and the workforce.

However, 4 years afterwards, there are some positives that came out of this. Many of the needed resources have been put in place and have become available, and we are beginning to see some effects of these programs.

The community has begun to understand and take action in underlying problem areas. Those students who were able to complete training in high-skilled technical areas were able to enter well-paid career fields. They did very well in health, aviation, electronics, and computer technology.

Our ability to react to provide services to displaced workers has increased. We have learned from our experience there are still some problems out there, but we would be much better in a layoff today than we were 4 years ago when it happened.

However, many of these same low-skilled displaced workers have yet to find quality reemployment. They either have left the labor force, entered support programs, or work in an underground employment market. Although the unemployment percentages decreased in numbers, in reality, our number employed has been reduced.

One last thing. With the change to the Workforce Investment Act, there is a reduced capacity to act in our State because the local board is 12 counties. That is an area that is the size of New York and Massachusetts combined. It is hard for them to make reasonable judgments and address the needs of the local economy.

One comment I do want to make. Everybody involved in the program really did address this from a very positive view. Even though we are talking about negatives and the tone of this is somewhat negative, the people involved in it worked very hard.

The Levi workers themselves had exceptionally strong work ethic. They worked together very well as a team. Many of these individuals have gone on to be not only well-employed in the community, but have become leaders in the community through this.

Thank you.

Senator BINGAMAN. Thank you very much.

[The prepared statement of Mr. Rhodes appears in the appendix.]

Senator BINGAMAN. Mr. Carlson, we are glad to have you here. Please go right ahead.

**STATEMENT OF ROBERT CARLSON, PRESIDENT, NORTH  
DAKOTA FARMERS UNION**

Mr. CARLSON. Thank you, Mr. Chairman.

I am here today representing the 300,000 members of the National Farmers Union of farm and ranch families that belong to that organization. Thank you for holding this hearing and for the opportunity to address you on this important issue.

Currently, the Trade Adjustment Assistance Program, as we are aware, helps provide relief to workers and firms in the manufac-

turing sector who have suffered lost jobs, wages, work hours, or product demand as a result of increased imports. I would like to focus on adjustments that farmers and ranchers make when trade affects them.

When agricultural trade agreements fail to provide for fair competition or allow adjustments to offset the impact of import surges, farmers, ranchers, and fishermen are the ones who suffer due to their inability to influence or rapidly adjust to changed market conditions.

We are deeply concerned by the level of economic losses sustained by producers due to increased, and often unfair, import competition. Action to address this situation is needed and should be taken by this Congress.

We believe extending TAA benefits to include agricultural producers is a reasonable, fair, and logical means to provide tools for U.S. agriculture to better cope and adjust to the effects of import competition.

We firmly support the Trade Adjustment Assistance for Farmers and Fishermen Act, recently introduced by Senators Conrad, Baucus, and Grassley.

This legislation establishes a trade adjustment assistance for farmers program within the U.S. Department of Agriculture to provide important and necessary relief for U.S. farmers, ranchers, and fishermen who have been adversely impacted by import competition resulting from trade agreements and liberalization.

Under this program, producers who suffer economic damage caused by import surges or unfair competition would be eligible for up to \$10,000 annually in compensation for their losses.

This assistance is particularly meaningful due to the fact that many of the losses sustained by producers because of import competition are regional in nature or affect specific commodity sectors rather than impacting all of production agriculture at one time.

I think that, Mr. Chairman, is an important point. The impact that you see in terms of imports lowering prices is most often confined to specialty crops or to relatively small areas of the country.

In 1999, the Senate approved, by unanimous consent, a TAA amendment to the Africa and Caribbean trade legislation. That amendment would have extended the Trade Adjustment Assistance program to farmers.

The National Farmers Union, along with the National Association of Wheat Growers, the National Barley Growers Association, the American Sheep Industry Association, and the Wheat Export Trade Education Committee, supported that amendment.

In 1999, the National Farmers Union also hosted an agricultural summit where the leadership of 28 various national farm organizations unanimously supported the extension of TAA benefits to agricultural producers.

Because this legislation currently under consideration includes fishermen in addition to farmers and ranchers, we believe it will have even greater support across the country.

Trade issues are always an important consideration for farmers, ranchers, and fishermen. However, they have a special significance now as producers across the country contend with historically low

prices for their commodities, significantly increase competitive import levels, and rising agricultural input and energy costs.

Farm and fishing families who are struggling through these difficult economic times should not be left unprotected in the face of increased competition from foreign sources of products that we already produce in adequate quantities because our market happens to be among the most open in the world.

For example, the U.S. apple production industry has been decimated across the northern tier of States due to imports from China that are being sold at world, so-called, "dumped" market prices to domestic processors, resulting in over-supply and reduced prices for U.S. production in both the processing and fresh apple market.

Since the ratification of NAFTA, Canadian durum, which is used to make pasta, and hard red spring wheat exports to the U.S. have increased by more than eight-fold and now represent about 12 percent of the total U.S. supply of those wheat classes, compared to less than 2 percent in the 1980's.

This has a direct impact on wheat producers in my State and on my farm, and throughout the Northern Plains region where the vast majority of those classes of wheat are produced.

In 1999, a large volume of hog imports from Canada clogged U.S. processing facilities, over-supplied the market, and drove U.S. producer prices down to their lowest level in over 50 years.

Producers were receiving quotes of less than 10 cents per pound for their market hogs, while retail prices remained at the same level that provided 35- to 40-cent per pound producer prices a few months earlier.

Traditionally, farmers, ranchers, and fishermen have been hopeful they will benefit from expanded agricultural trade. Our recent experience with trade agreements is not that.

The experience is that they allow import dumping and other unfair trade practices, fail to address exchange rate fluctuations, an important consideration. They are blind to labor and environmental standards and provide few economic benefits to producers.

In addition, the significant investments of time and capital to seek redress through our domestic trade law provisions and the dispute settlement provisions of the agreements have increased producer frustration and, justifiably, reduced the support for free trade among U.S. producers.

The right policy for rural America is to allow producers of food and fiber to receive a portion of their lost income and to assist them in planning adjustments to their business operations.

Thank you for the opportunity to be before you today. I will be pleased to respond to any questions.

[The prepared statement of Mr. Carlson appears in the appendix.]

Senator BINGAMAN. Well, thank you very much for the testimony. Thank all of you for your testimony.

Let me ask just a few questions. This idea that you mentioned, Ms. Arnold, about an adult bilingual job corps. That is an interesting concept. That is one I have not heard before.

Make the comparison a little clearer for me, if you would, between what the Job Corps now does and what this would do.

Ms. ARNOLD. The current Job Corps program focuses on young people. I am not an expert on it, but my understanding is that it basically focuses on providing an integrated education and workforce program for young people between the ages of 15 and 25, I believe. Displaced workers are not in that category, at least along the border. They are principally 40 years old and older.

The reason we talked about using the Job Corps model, is because it documents and demonstrates how an integrated education and workforce system program could work. One of the debates frequently is the debate between workforce development and education, the idea that there was something about remedial education that has to happen before one can enter a workforce system. We believe that is a false dichotomy. Education is linked to work, so education is part of workforce development and we need to create that kind of program.

For an adult bilingual job corps, then, you would have the development of curriculum and the training of teachers specifically to implement a workforce training program that integrates English learning, GED development, technology learning, and vocational learning.

Ideally, in the Job Corps model it is tied to on-the-job experience, where either the school itself is a working environment—for instance, in the El Paso Job Corps they have a construction operation, they have a restaurant operation, they have a health care facility, all that are tied to the Job Corps program.

There are also collaborations with existing private employers to provide some of that on-the-job training in conjunction with classroom training at the Job Corps center. It is those kinds of facilities that need to be focused and developed, and for which there is no funding that we have identified federally to create for adults and to create in a bilingual setting.

Senator BINGAMAN. All right. That is very useful. I appreciate you clarifying that.

Mr. Rhodes, let me ask you about this problem of rapid response or coordinated timely response from the State to these problems.

It sounds like we have both Mr. Hamp's testimony about the problems of administering TAA benefits there in Pennsylvania and the experience you had there in New Mexico with this.

There seems to be a little bit of a parallel here that the States, for whatever reason—maybe it is because of the uncertainty of the funding stream that we are providing, maybe it is other reasons—do not seem to be getting their act together on getting these benefits out.

Would you want to elaborate a little more on what you think Congress ought to be doing to fix that problem?

Mr. RHODES. Well, Mr. Chairman, when I heard their testimony I heard the same parallel as I was hearing their experience. It was very much reflective of what was experienced in New Mexico.

I am not in a position to go out there and say it was the Federal legislation that made them have the uncertainty in interacting. But what I did find out, is basically they were not, at the time, prepared to look at the difference between traditional displaced workers and trade layoffs.

So when they began to offer services there was one set of rules that applied there, then there was this other set that actually applied to the TAA, and they were unsure of how to enforce them.

So even in their set, they were not clear what they could and could not do. There was concern that, if we do this wrong, we are going to be in trouble with the Federal Government and they are going to come and pull all of our funds.

The other part, I think this was probably mentioned in there, there needs to be more clarity. That clarity is maybe the point of even training the State officials better on what can and cannot happen, so when they take the message out they know the right message to take out.

On the funding issue, I really cannot address whether it is their concern for the uncertainty of funds or not. I really do not know how that would work.

Senator BINGAMAN. All right.

Mr. Carlson, first of all, let me just say how much we appreciate Senator Conrad's help in drafting this bill. He is the main impetus for the provisions we have in there for farmers and ranchers, and we very much appreciate that.

I am unclear in my mind how we deal with this whole thing of exchange rate fluctuations. There is an awful lot that that does to our economy, generally. It is not the circumstance that you were describing where a particular commodity, a farmer who is in the business of growing a particular crop or producing hogs, or whatever, finds that his ability to sell those at the regional price has gone away because of an influx of imports. That is one circumstance.

The other, is where exchange rate fluctuations that affect the entire economy make it very difficult for the agricultural sector, generally, to remain prosperous.

What are your thoughts as to what Congress ought to be doing to deal with that problem? Assuming we are not going to change exchange rates, and I have to take that as a given, are you thinking we should be providing some kind of assistance through a program like this when the impact on the entire agricultural community is a result of exchange rate fluctuations?

Mr. CARLSON. No, Mr. Chairman. I think the impact of exchange rate changes or currency values, our dollar being high, being a negative to exports of U.S. agricultural products.

That is a larger question to be dealt with in trade negotiations beyond trade adjustment assistance, I believe. Exchange rates can be a factor, though, in provoking just the sort of incident that you described a little bit earlier in your question when you have a sudden surge of imports into this country in a particular smaller commodity, whether it is apples or durum wheat.

Those small markets, those almost specialty crops, are very vulnerable to import surges because an import surge can disrupt the price so much by increasing the supply so dramatically.

I am not an economist, thank heavens, but food, they tell me, is not price and income sensitive. In other words, we will not add a fourth meal if food gets a little bit cheaper.

So, a little bit of an import surge in some of those specialty products can really drastically lower the price, and the farmer has abso-

lutely no control over it. That type of situation, Mr. Chairman, it seems to me, would be where TAA would be appropriately involved.

Senator BINGAMAN. So do you have any concept or any vision as to how many people in the agricultural sector might wind up benefiting from this kind of a provision that we have got in our bill in an average year?

Mr. CARLSON. No, I honestly do not.

Senator BINGAMAN. I do not either.

Mr. CARLSON. Around the Nation, I would not. I can tell you how many in North Dakota, roughly, but around the Nation, no.

Senator BINGAMAN. All right. Well, what about North Dakota? If we were to enact this, say we enacted it next week and it became the law, what would you see as the benefit that this would provide? Who would actually, in North Dakota, benefit from these provisions that relate to farmers and ranchers, the way you would anticipate next year occurring?

Mr. CARLSON. Primarily, Mr. Chairman, it would be durum producers, quite likely. Durum is a specialty wheat used exclusively to make pasta. Eighty percent of the production in the United States is in North Dakota. The major competitor, another large producer, is just north of the border in Canada.

When an import surge occurs of durum, as happens occasionally, those people who depend on raising durum for a part of their livelihood and expect to receive a price in the fall based on market conditions may suddenly have that drop in half because of an import surge.

To answer your question specifically, I would take just a guess and say there would probably be, 2,000 to 5,000 producers, potentially, who would be eligible under the sort of guidelines that have been talked about here, having a 20 percent drop in price and having it documented by USDA that the price drop was caused by imports.

Senator BINGAMAN. All right. Well, that helps. I think that puts the general provisions into a little bit of a real-world context. I appreciate that very much.

I think all of your testimony is very useful. We will undoubtedly have to be in touch to get more suggestions as we move ahead. But thank you very much for coming. We appreciate the good work.

Let me also mention Randy Soderquist, who has done a lot of work on this bill here. I know he has probably been in touch with each of you and worked with you on different aspects of it. I appreciate that very much. So, thank you.

[Whereupon, at 11:32 a.m., the hearing was concluded.]

## APPENDIX

### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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#### PREPARED STATEMENT OF CINDY ARNOLD

El Paso, Texas is a city and county of nearly 700,000 residents at the western tip of Texas, and at the virtual center of the U.S.-Mexico border. With its neighbor, Ciudad Juarez, El Paso forms the world's largest border metroplex, with nearly 2 million people.

For more than four centuries El Paso has been a hub for trade moving between the United States and Mexico. At the forefront of the emerging North American economic trade bloc, El Paso/Ciudad Juarez handles 25% of current U.S.-Mexico trade.

El Paso, however, is buffeted by the global and national economic forces swirling around the community. Since NAFTA, national and international commerce has shifted focus profoundly from "East-West" to "North-South," but El Paso continues to see growth without prosperity. It is the 17th largest city in the nation, with a tax base that ranks 159th. It ranks 282nd in the country in per capita income (\$9,603), and the poverty rate is 25.3%.

Further, the lowering of trade barriers effectively removed the safety railing from the wage cliff on the U.S.-Mexico border. El Paso/Ciudad Juarez became one economy, one workforce. A seamless border means that employers can now meet their market demands while employing people for as little as \$1/hour.

As a result, over 26,000 jobs have left El Paso since January 1, 1994, creating the largest number of certified NAFTA-displaced workers in the country—a dubious distinction. Furthermore, the jobs continue to leave, such as Datamark, a data entry company, and Connections, an electronics company. The jobs that have been lost and that continue to leave are good-paying jobs, \$7–12/hour. Unemployment continues to average at 2–3 times the state and national rates, despite the net gain of jobs in El Paso's NAFTA-era economy. As a result, El Paso serves as a trampoline for businesses to gain a foothold on the border, and then move into Mexico and Latin America.

Those hardest hit by the restructuring are older Spanish-speaking women factory workers—people the marketplace has defined as worth paying \$1–2/hour, but who live, and want to work, on the United States side of the border.

The laser-sharp focus of job loss is apparent from Texas Workforce Commission statistics on NAFTA-affected workers in El Paso:

- 97% are Hispanic;
- 67% are women;
- 1/3 are single heads of households;
- The majority are 45 years old and older;
- The majority have less than a sixth grade education;
- The vast majority are not fluent in English;
- They have averaged at least ten years, working in El Paso's factories.

These workers are only the tip of the iceberg of NAFTA's impact on the El Paso economy and workforce. According to the U.S. Census, over 100,000 people in El Paso do not consider themselves fluent in English, meaning one out of every seven people risk being eliminated from the economy.

The economic contribution of these workers is also significant: For decades they have paid taxes, bought homes, become citizens, and raised their families as citizens. They have worked all their lives and want to continue to be productive.

Furthermore, the city of El Paso has estimated that each lost job costs \$50,000/year in lost wages and sales revenue, an economic impact of over \$1 billion lost by NAFTA-displaced workers alone.

The impact also has been reflected in the Census. According to recent reports of initial data from the 2000 Census, during the past decade of NAFTA and globalization:

- 26,000 people moved away from El Paso
- There was a loss of businesses, employees and payroll in El Paso during 1999 while Texas as a whole as well as the United States grew 3–5 times faster
- A growth rate in jobs over the past year of .7% in El Paso compared to Texas' rate of 2.7% (a difference of 400%)
- El Paso's \$17,216 per capita income in 1999 is 60.3 percent of the \$28,546 national average, down 1.1 percentage points from 1998, according to the Commerce Department's Bureau of Economic Analysis report. That's El Paso's lowest percentage of the national average in the 31 years the federal government has been keeping such records.
- Among metropolitan areas nationally, El Paso ranks fifth from the bottom in per capita income

The destructive impact of NAFTA and economic globalization is not confined to employment: an entire way of life and standard of living is under attack. These factory workers, mostly older, Spanish-speaking women whose lifelong work sustained up to four generations of family, have now lost their livelihood, healthcare, homes, and future. Health has deteriorated and family relations have been strained by tremendous stress, due not only to unemployment but also to the discrimination and humiliation they endure as they try to rebuild their lives.

Discrimination is also evident in the contradictions generated by NAFTA throughout the community. NAFTA brings a growing demand for bilingual speakers in all economic arenas, yet virtually no bilingual training and educational infrastructure exists for displaced workers. Neighborhoods along the border are the physical gateway to El Paso's international trade and commerce, yet few dollars remain in these neighborhoods. Instead, most border barrios are deteriorating physically because of the commercial demand on their roads, bridges, and other infrastructure. In short, NAFTA has catalyzed an acknowledgement that El Paso/Ciudad Juarez is one large, inter-dependent borderplex, spawning myriad cross-border exchanges and partnerships, yet Spanish-speaking displaced workers have become the marginalized targets of harassment and discrimination in virtually all aspects of their lives.

Even in Ciudad Juarez, growth without prosperity is clearly evident. The city has an official unemployment rate of .8%. Yet, as quoted in the New York Times on February 14th, 2001 the mayor of Juarez explained that NAFTA has been very beneficial for international corporations, but for Juarez, he stated, the city "creates more and more wealth, and becomes poorer and poorer." The city faces severe crises in terms of housing, water, sewage processing and drainage.

The impact of NAFTA has also been seen along the entire length of the Texas-Mexico border. Tremendous wealth passes through the region (over \$41.1 billion in exports to Mexico from Texas in 1999 alone) to go onto to build and enrich other parts of the state and country.

This inequality and injustice has worsened with the implementation of NAFTA and the globalization of the economy. In fact, in a report issued in March 2001 Texas Comptroller Carol Rylander called the condition of the border "a crisis," and state senators have declared it an emergency, as documented with the following statistics:

- 34% poverty rate (highest in the country in comparison to the rest of Texas and all 50 states)
- 40.5% of schoolchildren in poverty (highest in the country in comparison to the rest of Texas and all 50 states)
- 11.4 unemployment rate (highest in the country in comparison to the rest of Texas and all 50 states)
- 37.3% of adult population without a high school diploma (highest in the country in comparison to the rest of Texas and all 50 states)
- 32.7 deaths per 100,000 population as a result of diabetes mellitus (3rd highest in the country in comparison to the rest of Texas and all 50 states)
- 14.3 deaths per 100,000 population as a result of hepatitis and other liver diseases (3rd highest in the country in comparison to the rest of Texas and all 50 states)
- 14.2 % of households headed by women (3rd highest in the country in comparison to the rest of Texas and all 50 states)
- 10.3% of population with a bachelor's degree (ranked 44th out of 51 in comparison to the rest of Texas and all 50 states)
- 5.7 deaths of infants under 1 year old per 1,000 live births (ranked 47th out of 51 in comparison to the rest of Texas and all 50 states)



- 640.1 deaths per 100,000 population (ranked 48th out of 51 in comparison to the rest of Texas and all 50 states)
- \$18,390 per capita income. (ranked 51st out of 51 in comparison to the rest of Texas and all 50 states) Four of the five lowest per capita metro areas in the United States are all on the Texas-Mexico border—El Paso, Laredo, Brownsville and McAllen.

With this kind of displacement and economic loss, neighborhoods and communities must be rebuilt. The strategies must be specifically linked to creating opportunities for those who have been displaced. As El Paso situation demonstrates, a generalized economic development strategy does not trickle down to employment for displaced workers. Furthermore the gap between displaced workers and the emerging global/local economy is such that traditional workforce education and training programs are not adequate as the gap between the workers and the economy is too large to be addressed in a short timeframe. Yet public and private resources are not willing to provide the income support for the duration needed.

Furthermore, the current principal workforce development strategy for this population is to provide them first with English skills through English as a Second Language or Adult Basic Education programs, then move them into Pre-GED/GED programs, and finally place them in English-based vocational training and job placement. This sequence of training usually requires 3–5 years to complete, and few displaced workers successfully complete the circuit. A few training providers have begun to provide some “bilingual” vocational training, but the courses are predominantly in Spanish, and most graduates do not develop sufficient command of the English language in these Spanish-based courses to successfully obtain and retain employment. The end result of this current strategy is the expenditure of millions of dollars in training, adult education and program administration, and the maintenance and creation of hundreds of jobs for teachers, administrators and agency personnel, but very little demonstrated improvement in the employment and economic status of the workers

Thus, the challenge for border communities is: How do we take advantage of growing market opportunities to create employment for the workers on the U.S. side of the border, who have been defined in the marketplace as only worth paying \$1–2/hour? How do we create employment for Spanish-speaking workers who have little formal education and few English communication skills, but who have tremendous work ethic and long histories of reliable employment? How do we rebuild communities whose economic devastation as a result of globalization is the equivalent of a natural disaster?

New and creative initiatives are needed, rooted in:

- Incentivizing employers to hire and train on the job displaced workers. This is not a traditional OJT, it must include language, technology, vocational skills (both soft and hard).
- Enabling the development of bilingual, comprehensive, employment-based, integrated technical training centers and programs
- Providing a safety net of economic assistance to maximize workers’ opportunities for re-entering the workforce and retaining the assets and economic status which they had accumulated through years of hard work and sacrifice
- Supporting the creation of comprehensive community economic development and revitalization investment and infrastructure

For these reason, we are very encouraged by many aspects of the legislation introduced by Senators Bingaman, Baucus and Daschle. Some of the highlights which were particularly heartening include the sections regarding:

- Increasing income maintenance from 52 to 78 weeks
- Providing wage insurance for up to 2 years of some portion of the gap between the old and new earnings for workers over 50 years old, earning less than \$50,000
- Providing tax credit for 50% of COBRA payments
- Linking TAA recipients to childcare and health care benefits under TANF
- Allowing re-employed workers to get training for up to 26 weeks
- Retaining and expanding NADBank’s Community Adjustment Investment Program, especially the grant program
- Allowing Certification for Affected Industries
- Increasing global entitlement cap for training
- Creating Office of Community Assistance to provide technical assistance to trade impacted communities

However, with all due respect to the tremendous efforts of the Senators and their staff, we suggest that 2 additional aspects of the impact of free trade be addressed in the proposed legislation:

**1. Creation of “R&D” funds for employers and/or training providers wanting to develop innovative, employer/employment based customized training programs for “the hardest to serve” displaced workers**

The workforce system, especially along the border, needs to be overhauled and/or created. Few programs exist to meet the needs of the thousands of workers who are being displaced. Yet existing workforce development funds do not provide resources to institutions to develop these programs. Instead ineffective programs frequently continue to receive tuition and enrollees because of the pressure to enroll displaced workers in whatever program possible in order to maintain their eligibility for income support.

To break this vicious cycle of wasted federal dollars and ineffective outcomes for workers and employers, there needs to be funds available to create new employment driven workforce programs that integrate language, technology and vocational skills. For example, a similar program is currently funded for youth—the Job Corps system. On the border there needs to be funding for the development of Adult Bilingual Job Corps centers, to effectively address the needs of adult displaced workers.

**2. Support for workers faced with the possible loss of their homes as a result of displacement**

Not only do displaced workers lose their jobs and frequently their access to health care, but many face foreclosure on their most valuable, and frequently only, asset—their home. After years of sacrifice and hard work, displaced workers frequently find themselves facing foreclosure. We encourage you to include support for mortgage relief and/or refinancing as part of your legislation.

In closing, I would also like to address a few issues raised in yesterday’s hearing and testimonies. The question was raised regarding the possible role of industry and business in trade readjustment. Comments focussed on investment of business in training and workforce, as well as the limited resources of small and medium companies to assist displaced workers.

I would like to say that our experience with the existing system of certification is that very few employers, regardless of their size, make efforts to get workers whom they are laying off certified under the trade adjustment programs. Fewer still inform workers of their rights to file a request for certification. Thus frequently only those workers who are represented by a union or have access to some type of workers’ rights agency or organization get certified. As a result, the true impact of free trade on workers is significantly under-represented.

For this reason we would encourage a re-vamping of the certification program, tied to industries rather than firms, and enabling certification to be requested not only by workers, unions or employers but also workforce boards, employment service agencies and other entities linked to economic and workforce development strategies.

Furthermore, regarding sources of funding for trade adjustment programs, we believe that it is appropriate to have companies and corporations who are displacing workers to provide resources towards their re-integration into the workforce and the rebuilding of the community’s economy and socio-economic fabric.

In closing, it is imperative that displaced workers not be discarded as the “inevitable losers” in the creative destruction process of globalization. Trade adjustment resources are vital to ensuring that whole communities are not left behind in the new economy. And those resources must understand that massive job loss is the equivalent to a natural disaster; it has ramifications in all aspects of not only the workers’ lives but the community’s social and economic fabric. It is imperative that the resources be established to allow workers and communities to genuinely rebuild their futures, not simply receive a token handout. Thank you.

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# Committee On Finance

Max Baucus, Chairman

## NEWS RELEASE

[www.senate.gov/~finance](http://www.senate.gov/~finance)

For Immediate Release  
Thursday, July 19, 2001

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### OPENING STATEMENT OF SENATOR MAX BAUCUS HEARING ON TRADE ADJUSTMENT ASSISTANCE July 19, 2001

Senator Bingaman, Senator Dachle, and a number of my other colleagues have been working for sometime to develop legislation to extend the Trade Adjustment Assistance program, a vital and too often overlooked part of American trade policy. With the program approaching expiration in just over two months, we plan to introduce legislation today and – after two days of hearings on the program this week – I plan to markup this legislation in September. I want to talk a little more about that proposal, but I first want to follow up on some of the comments made earlier in the week on fast track negotiating authority.

There has been a great deal of discussion about extending fast track in recent months and, as a longtime supporter of the benefits of free trade, I hoped and expected to be able to markup *this* legislation in September as well. Perhaps it is still possible to markup both in September. I hope so. Speaking frankly, however, there are problems.

In a markup earlier this week on a number of trade matters, several of my colleagues pressed hard for a commitment to mark up fast track legislation. But I could not in all honesty give a firm commitment on that markup because I am not convinced that any of the proposals thus far presented have the potential for commanding the bipartisan majority in both Houses that I believe is needed to pass a sound, workable fast track bill.

There is blame to be placed in several quarters for the situation we are now in. Much to my chagrin, the international trade debate has become increasingly fragmented and partisan. If there is any chance of bridging those gaps, leadership must be demonstrated by all sides.

On Trade Adjustment Assistance, the Administration promised a proposal in the President's budget, but they have yet to produce that promised proposal – even though TAA expires in just two months. Unfortunately, the Administration has declined to testify today – to defend its proposal or even to discuss ideas.

On the topic of fast track, the Administration has produced some vague principles, but made no serious legislative proposal. Despite promises of constructive compromise, the Administration seems unwilling to actually engage in the hard negotiations required to make fast track a reality.

In the House, there is still an effort to push forward with so-called “clean” legislation that ignores many issues, including the appropriate handling of trade and the environment.

In the Senate, some of my colleagues are opposing the U.S.-Jordan Free Trade Agreement because of very modest provisions in that agreement on labor and the environment. None of this is encouraging. Some seem to forget that real compromise requires all sides to modify their positions.

In the effort to advance the debate, I have decided to make proposals of my own in the near future. Today, with Senator Bingaman and Daschle, I will introduce legislation to renew and expand TAA. This legislation must be passed before the end of September and certainly must be passed before we pursue other major trade agreements.

At least within the Congress, I believe consensus is much closer on Trade Adjustment Assistance. The current program has many strengths. But it also has a number of shortcomings. With the program expiring soon, we in Congress have an opportunity to make it much better.

Surprisingly, we devote very few resources to assisting workers and their families adjust to new competitive pressures. Last year, we spent less than \$400 million dollars on TAA – a very small sum given the importance of the issue. While we must dedicate more resources to TAA, that doesn’t just mean throwing money at it. We must be smart about how we make improvements.

As many people know, Senator Bingaman has been looking at this issue for a number of years. Working with the strong support of Senator Daschle, we have drafted a bill, and plan to introduce that bill today. Let me talk briefly about a few key improvements included in the bill. First, we would expand TAA to cover secondary workers and workers affected by shifts in production.

Second, our bill would cover family farmers. We must have a program that recognizes the different circumstances that farmers face – and helps them **before** they are forced to go out of business. I joined Senator Conrad and Senator Grassley last month in introducing legislation that would do just that – and that legislation will be included in our TAA bill.

TAA must recognize that older workers face different challenges. We have proposed a “wage insurance” program for older workers. This recognize that some of the best training is on-the-job training, and encourages workers to move quickly to a new job by making up a portion of the income difference between their old job and their new job. We must help ensure that communities are not devastated by mass job loss. In a state like Montana, this is especially important. Training means little if there are no jobs. We need to help communities develop strategic plans, and give them technical assistance so they can adjust.

Finally, we must make TAA more accessible and less confusing. Programs must be consolidated and simplified. We in Congress have a responsibility to acknowledge that even under the best circumstances, changes in international trade and investment can result in job loss and economic hardship for some American workers and companies. We have a responsibility to assist those people – so that we can all enjoy the benefits of increased trade and investment.

<p style="text-align: center;">Trade Adjustment Assistance: Ensuring All Americans Benefit from Trade July 19, 2001</p>
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Today, Senators Bingaman, Baucus, and Daschle introduced legislation to re-authorize and expand the Trade Adjustment Assistance program, which expires at the end of September 2001. The bill is co-sponsored by Senators Rockefeller, Conrad, Jeffords, Kerry, Torricelli, Lincoln, Breaux, and Dayton.

**Trade Adjustment Assistance Is Critical For Thousands Of American Workers.** Congress established Trade Adjustment Assistance in 1962 to assist workers whose job loss is associated with an increase in imports. Workers are eligible for up to 52 weeks of income support, provided they are enrolled in re-training. The program also provides job search and relocation assistance. Despite low unemployment through the second half of the 1990s, the number of workers eligible for TAA has increased. In 2000, approximately 35,000 workers received TAA benefits.

**The Bingaman-Baucus-Daschle Legislation Would Expand Eligibility And Improve The Existing Program.** The existing TAA eligibility requirements have not kept up with the changing times. TAA covers too few workers – and fails to address major problems that workers and communities face.

- **Broaden Eligibility.** The legislation would provide benefits to secondary workers, including suppliers and downstream producers. For example, iron ore workers who faced layoffs because of increased steel imports would be covered. TAA eligibility would also be expanded to include workers affected by shifts in production (in addition to those affected by increased imports).
- **Expand Benefits.** The legislation would increase income maintenance from 52 to 78 weeks, substantially increase funds available for training, and ensure that workers who take a part-time job don't lose training benefits. In addition, the legislation would provide a tax credit for 50 percent of COBRA payments, increase assistance for job relocation, and link TAA recipients to child care and health care benefits under existing programs.
- **TAA For Farmers, Ranchers, And Fishermen.** The legislation would recognize the special circumstances faced by family farmers, ranchers and independent fisherman, and would seek to provide assistance and consulting *before* they lose their businesses.
- **Allow Certification For Affected Industries.** In addition to current practice, the President, the Senate Finance Committee, and the House Ways and Means Committee would be able, by resolution, to initiate a TAA certification process for an affected industry.
- **Provide Wage Insurance For Older Workers.** Realizing the difficulty for older workers to change careers, this legislation facilitates on-the-job training and faster re-employment by providing wage insurance for up to 2 years for part of the gap between old and new earnings levels.<sup>1</sup>
- **Help Communities Adjust.** This legislation recognizes that communities, particularly small communities, can be devastated by job losses. As a part of TAA reform, this legislation would provide technical assistance, loans, and grants to trade-impacted communities, help communities develop strategic plans following job losses, and establish an inter-agency group to coordinate Federal assistance to workers and communities.

TESTIMONY OF GEORGE BECKER, PRESIDENT EMERITUS  
UNITED STEELWORKERS OF AMERICA  
BEFORE THE SENATE FINANCE COMMITTEE  
JULY 19, 2001

Mr. Chairman and members of the Committee, thank you for this opportunity to appear before you today to testify regarding the reauthorization of the Trade Adjustment Assistance program, including the NAFTA-TAA component.

I must tell you that while I do not represent myself to be an expert on all of the nuances and technicalities of TAA and NAFTA-TAA, I recently served on the U.S. Trade Deficit Review Commission where we spent considerable time grappling with the causes and consequences of our burgeoning trade deficits. We also examined the broad issue of worker adjustment assistance, both as it currently exists in law and how it might be changed to become more effective in meeting the needs of displaced workers.

My experience serving on the Trade Deficit Review Commission with numerous distinguished leaders (including the current Secretary of Defense and the current U.S. Trade Representative) was often enlightening and frustrating at the same time. In the process of writing our final report with recommendations to Congress, there were many points of disagreement among the members of that Commission. However, the issue of worker adjustment assistance was one where a majority of the Commission were able to find common ground on policy recommendations to Congress. I will elaborate further on this point later in my testimony.

In 1962, when Congress passed the original Trade Adjustment Assistance (TAA) program as part of the Trade Expansion Act, President John F. Kennedy expressed concern about the adverse impact of a reduction in American trade barriers on American workers and society's reaction to this reduction. In a Special Message to Congress on Foreign Trade Policy, he said:

“Those injured by that trade competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the federal government....(T)here is an obligation to render assistance to those who suffer as a result of national trade policy.”

In the recent past as Congressional support for new trade agreements and trade-negotiating authority has come under greater scrutiny, worker adjustment assistance has often been the last component of a package of proposals intended to win support on Capitol Hill. In 1993, the creation of a new NAFTA-TAA program was one of the keys to winning passage of NAFTA. In short, TAA has too often been seen as simply a device to win support for expanded trade agreements rather than as an integral part of our national trade policy. A strong and effective trade adjustment assistance program open to

every worker adversely affected by trade should be a precondition before any new trade agreements are approved.

Let me be very clear; worker adjustment assistance programs, such as TAA and NAFTA-TAA are no adequate substitute for good jobs that pay good wages with good benefits. Predatory trade practices, foreign trade barriers, and other actions by our competitors that displace jobs here in the U.S. must not be allowed to continue even with an enhanced worker adjustment assistance package in place.

According to the U.S. Department of Labor, eight million workers, or one in sixteen working Americans, were “displaced” between January 1995 and December 1997. Of those, 3.6 million workers had been with their employers three or more years. Lifetime, year-round, full-time jobs with benefits such as health insurance and pensions are in decline.

From 1994 to 2001, 773,015 workers were certified eligible for TAA. During that same period, 330,173 were certified eligible for NAFTA-TAA. From 1995 to 1999, the Department of Labor approved 64 percent of TAA and NAFTA-TAA petitions. These figures, however, only paint part of the picture. What is perhaps more interesting is to ask how many displaced workers who were eligible for TAA or NAFTA-TAA never applied for eligibility and never received any benefits because they didn’t know the programs existed? There is no way to know the answer to that question.

The most immediate consequence facing displaced workers is a loss in wages. For many workers, the wage loss they suffer when they are laid off is not only the temporary loss of income while they look for a new job but also the erosion in their earnings for a period after they land a new job as well.

According to Charles I. Schultze, in testimony submitted to the Trade Deficit Review Commission, the weekly earnings of all re-employed workers fell 5.7 percent on average between 1995 and 1997. Also, workers displaced from high-tenure jobs showed an average drop in earnings of over 20 percent after they found new, full-time jobs. Additionally, 17 percent of previously fulltime wage and salary workers were re-employed in part-time or self-employed jobs. Their earnings losses were more than those re-employed on a fulltime basis.

Another serious consequence facing workers who lose their jobs is the loss of health insurance for themselves and their families. Although no specific numbers are available, there is no doubt that dislocated workers and their dependents contribute to the more than 40 million Americans with no health insurance.

In the steel industry, we have had to confront the problem of so-called “legacy costs” head on as 19 steel companies have filed for bankruptcy protection. Because of massive foreign steel dumping and a collapse in steel prices, these companies have been forced into bankruptcy. Unfortunately, in at least one instance, a major steel producer, LTV, was threatening to use the bankruptcy court to nullify its labor contracts, including

its contractual obligations to provide health insurance to its retirees. We have since reached an agreement with LTV so that they will refrain from that extreme action, which would be devastating to LTV's retirees. When you're 75 years old, with several medical conditions which require expensive prescriptions, you do not want to learn that your former employer is terminating your health insurance.

What should be done to improve TAA and NAFTA-TAA for displaced workers?

First, TAA has never had a dedicated source of funding. This has resulted in constant changes in eligibility criteria in order to limit the program's costs. It has also led to long waiting lists for workers seeking training or simply denied training to workers. Those who lose their jobs because of trade should never be denied such training. A trade adjustment fund should be created and financed by an earmarked portion of future tariff revenues. Such a fund would provide long-term stability for the future of TAA and the workers it is supposed to serve.

Second, in trade-sensitive industries, such as steel, there should be industry-wide certification under TAA. It is duplicative and wasteful for individual companies or groups of workers to continually apply on an individual basis when there is well-established evidence and findings by government agencies, such as the Commerce Department and the U.S. International Trade Commission (ITC) of foreign trade impacts in certain industries. Unfortunately, workers in the steel industry know this fact all too well. Such workers should be presumed to be eligible to participate in TAA programs.

Third, current law does not make most so-called "secondary workers," (i.e., those who provide inputs either in the form of services or articles) eligible for TAA. In fact, only 1.3 percent of TAA-certified petitions have been for secondary workers. This oversight should immediately be corrected.

Fourth, the income support provisions of TAA need to be reviewed and overhauled. Under current law, trade-injured workers do not begin to receive TAA until their unemployment insurance entitlements have been exhausted. The amount of their cash benefit is the same as their most recent weekly Unemployment Insurance (UI) benefit (on average \$212 per-week). Prior to 1981, workers received weekly cash benefits in the form of trade readjustment allowances and UI combined that were equivalent to 70 percent of their prior pay, up to a maximum of the average manufacturing wage. Pending further improvements in UI for all unemployed workers, restoring the 70 percent wage replacement benefit for trade-displaced workers under TAA would be a significant step in improving TAA.

It is time for Congress to consider a new program of wage insurance which would be carefully coordinated with program requirements and restrictions relating to training and retaining benefits. The statistics tell us that the longer a worker remains unemployed, the less likely it is that the worker will return to employment. Wage insurance would provide earnings supplements, for a set period, to displaced workers who return to work at a wage lower than their previous employment. Such insurance would supply a



payment equal to some percentage of the wage losses they suffered as a result of their displacement.

For example, if the program insured workers for 50 percent of the difference between their current earnings and their previous earnings, a displaced worker, whose previous monthly wage was \$2,000, who accepted a new job that only paid \$1,000 a month, would receive a monthly check for \$500. Wage insurance would make that worker economically better off than if he or she stayed out of the workforce relying on unemployment insurance. Payments under a wage insurance program could be limited to a fixed period of time. While there are clear advantages to having a displaced worker quickly re-enter the workforce, the requirements of that worker's new job might limit that employee's ability to participate in training and re-training programs to acquire new skills. Any wage insurance program should include flexibility that increases the opportunities for the displaced worker to succeed.

Fifth, under current law, workers can enroll for up to 104 weeks of training, yet TAA allowances only last for 78 weeks. Predictably, when cash benefits are exhausted, workers tend to drop out of training. TAA allowances should be extended to 104 weeks in line with the maximum training period. Furthermore, the job search assistance maximum should be raised to at least \$2,000 and relocation benefits should be increased to \$2,000 as well.

Sixth, current law under COBRA allows workers to purchase health insurance at group rates for up to 18 months after they lose their job. Unfortunately, this forces most of the unemployed into a cruel choice between buying groceries or buying health insurance for themselves and their families. TAA should be modified to provide workers and their families with health insurance as a key component of their trade adjustment benefits. Alternatively, another idea would be to provide a tax credit for workers who purchase health insurance through the existing COBRA program. When unemployed workers don't need to worry about health insurance for themselves, their spouse, and their children, they are more likely to be able to focus on their training program.

Seventh, the strict time limits for enrollment in training programs under NAFTA-TAA in order to qualify for income support should be reconsidered. These deadlines limit the training options available to workers. In some cases, appropriate training courses are not even scheduled to begin within the enrollment deadline, so workers find themselves taking less suitable training programs in order to retain their eligibility for income support. In testimony before the U.S. Trade Deficit Review Commission, on which I served as a Commissioner, we received the testimony of Mike Sheridan, Executive Director of the Texas Workforce Commission, who suggested that the strict time limits for entering training under TAA and NAFTA-TAA are a hardship for workers and actually inhibit the efficient use of training.

The definition of eligible "training" should be expanded to include basic skills (i.e., language, reading, math), classroom training, as well as on-the-job training.

Furthermore, states should be required to grant waivers of the training requirement in certain circumstances, including:

- if training is unavailable or will not begin in 30 days;
- if child care, health problems, or other circumstances prevent a worker from enrolling in, or completing, training;
- if funding is not available; or
- if a job with comparable pay and benefits cannot be found.

Finally, there needs to be more aggressive outreach of TAA and NAFTA TAA. Many primary and secondary workers who may be eligible under the program are unaware of its existence and unaware that they may be eligible. There should be greater coordination between the Federal, state and local governments so that those who may be eligible to participate are made aware of that fact.

The two programs currently available to serve employers and communities (the Trade Adjustment Assistance Program for Employers and the Community Adjustment and Investment Program) provide only a modest level of assistance compared to the need which exists. Much more needs to be done in partnership between the Federal, state, and local governments in the areas of economic development, export promotion, and job retention. When a plant shuts down and moves away, dislocated workers are only the first to feel the impact. There are other impacts as well upon communities when the local tax base is diminished. These impacts can affect the quality of life in an entire community, including the ability of local governments to finance schools, roads, hospitals, and public safety. Better coordination is needed to mitigate these community adverse impacts as well.

Mr. Chairman, thank you for this opportunity to appear before your Committee today.

## Chapter 5

### Worker adjustment assistance

Since 1991, twenty-two million U.S. jobs have been created, while the unemployment rate has dropped to about 4 percent. American economic growth is the envy of other nations. This strong economic growth has been accompanied by rapid changes in the U.S. economy. Just as the assembly line virtually eliminated the small, independent, skilled craftsman, and industrial America outpaced agricultural America, America's dynamic economy is again undergoing profound changes.

The past few years have demonstrated time and again that good jobs one year can be obsolete the next year and that new jobs, often requiring different skills, replace old ones. There are few guarantees in today's economy other than that this transformation will continue and will be swift and powerful. According to the U.S. Department of Labor, eight million workers, one in sixteen working Americans, were "displaced" between January 1995 and December 1997. Of those, 3.6 million workers had been with their employers three or more years.<sup>1</sup>

Lifetime, fulltime, year-round work arrangements, where an employer provides workers with benefits, training, and a pension upon retirement, are on the decline. Alternate forms of work, including outsourcing and use of part-time and contingent workers, are on the rise.<sup>2</sup> Roughly one in ten workers already fits into this alternate arrangement, and nearly four of five employers use some form of nontraditional staffing arrangement.<sup>3</sup> In the process, job tenure has declined for many workers (see Table 5.1). While job stability declined modestly in the first half of the 1990s, it decreased more sharply for those workers who had already accumulated a fair amount of job tenure.

**Table 5.1:**

**Median years with same employer, by age, 1963-96**

	1963	1981	1987	1996	Change	
					1963-96	1987-96
<b>Age 35-44</b>						
All	6.0	5.1	5.5	5.3	-0.7	-0.2
Men	7.6	7.1	7.0	6.1	-1.5	-0.9
<b>Age 45-54</b>						
All	9.0	9.1	8.8	8.3	-0.7	-0.5
Men	11.4	11.1	11.8	10.3	-1.3	-1.7

Source: *The State of Working America, 2000-01*, p. 232

<sup>1</sup> United States Department of Labor, *Futurework: Trends and Challenges for Work in the 21st Century*, Labor Day, 1999, (Washington, D.C.: U.S. Department of Labor, 1999).

<sup>2</sup> Lawrence Mishel, Jared Bernstein, and John Schmitt, *State of Working America, 2000-01* (Cornell University Press, Ithaca, N.Y.; Forthcoming, January 2001) pp. 244-256.

<sup>3</sup> Jerry Jasinowski, "Improving the Condition of the American Worker," *Central New York Business Journal* (10 June 1996), p. B-1.

As a result, despite America's booming economy, many workers feel insecure. Rightly or wrongly, many blame globalization and the increase in imports that has resulted from the reduction of trade barriers.

- More than half (51 percent) of the American people believe "America's integration into global markets ... benefits multinational corporations at the expense of working families."<sup>4</sup>
- Nearly half of the American people would "restrict or ban foreign-made goods in order to protect American jobs."<sup>5</sup>

The impact of trade on job loss is lower than the perception. Most job displacements are a result of domestic, not foreign, competition. However, trade tends to create new jobs in export industries that are growing and put at risk jobs in import-competing industries that are experiencing increased competitive pressures. The individuals who benefit from the job creation are often different from those who bear the cost of a lost job. Consequently, there is a need to help communities and workers adjust to these changes and to ease and reduce the pain of the adjustment.

Many factors lead to job loss in a dynamic economy. This chapter reviews some of the existing efforts to assist workers displaced by trade and discusses ways to strengthen these efforts. The chapter also discusses broader-based options for improving labor market flexibility and mitigating the costs of job dislocation. We believe that responding to job dislocation should be more broadly based, that is, not limited to job losses caused by trade, and should include consideration of such innovations as examining how to close the gaps created when new jobs pay lower wages than previous jobs, expanding access to education and retraining, reducing obstacles for licensed and certified workers, and improving access to health insurance.

### **Improving the effectiveness of trade adjustment assistance (TAA)**

Concerned about the adverse impact of a reduction in American trade barriers on American workers and society's reaction to this reduction, President John F. Kennedy proposed and Congress passed Trade Adjustment Assistance in the Trade Expansion Act of 1962:

*Those injured by that trade competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the federal government.... [T]here is an obligation to render assistance to those who suffer as a result of national trade policy.<sup>6</sup>*

<sup>4</sup> Polling data by Penn, Schoen, and Berland, Associates, Inc., for Democratic Leadership Council, "New Democratic Electorate Survey," (November 1999) (material from Roper Center for Public Opinion Research's Data Base, hereafter cited as Roper Center's Poll Data Base).

<sup>5</sup> Polling data by EPIC-MIRA, for Women in International Trade, May 1998 (Roper Center's Poll Data Base). Likewise, nearly one-third (32 percent) of the American people believe that American companies "should never be allowed to build new plants and have new workers outside the United States ... regardless of how desperate the U.S. company is to be globally competitive." Polling data by Wirthlin Worldwide (Wirth), "Wirthlin Quorum Survey" (July 1998)(Roper Center's Poll Data Base). Seventy-four percent believe that the global market place is intended to benefit business, while only 8 percent said it is to benefit workers. Polling data by Gallup Organization, for Americans at Work, "State of Small Business Survey" (January 1997) (Roper Center's Poll Data Base).

<sup>6</sup> Special Message to the Congress on Foreign Trade Policy, January 25, 1962.

Services that TAA offers to workers who lose jobs due to increased imports affecting their company include

- income support, called Trade Readjustment Allowance (TRA), in the form of extended unemployment insurance payments for up to an additional fifty-two weeks after the twenty-six weeks of regular unemployment insurance payments have been exhausted, for up to a total of seventy-eight weeks of income support;
- job search assistance (a job search allowance provides reimbursement for 90 percent of necessary job search expenses);
- relocation expenses (a relocation allowance pays for 90 percent of "reasonable and necessary" expenses for moving the worker, the family, and the household effects); and
- training support (which includes tuition, related expenses, such as books, tools, and academic fees); travel or transportation expenses; and subsistence expenses.

In 1993, with passage of the North American Free Trade Agreement, Congress approved a special program, NAFTA-TAA, to provide benefits not only to unemployed workers who had worked in companies that had been affected by imports, but also to those who had worked in plants that relocated to Mexico or Canada. TAA only covers workers making finished products; it excludes workers in supplier industries. Under NAFTA-TAA, workers in supplier industries are also covered.

Under both programs, training is an integral part of the benefit structure, in recognition of the fact that dislocated workers today are often unlikely to be able to return to their previous occupations and will need upgraded or new skills.

In fiscal year 1998, thirty-six thousand workers received a total of \$230 million in Trade Readjustment Allowance benefits from the two programs. Weekly TRA benefits averaged \$207, and the average duration of TRA receipt was twenty-nine weeks.<sup>7</sup> In fiscal year 1998, an estimated 1,500 workers received job search and job relocation allowances from TAA, and another three hundred received them from NAFTA-TAA.<sup>8</sup>

The Department of Labor's Office of Trade Adjustment, in cooperation with the North Carolina Employment Security Commission and the Center for Employment Security Education and Research, recently surveyed some participants about TAA's effectiveness. In general, the study found that the program is a much-appreciated source of help and hope for trade-impacted workers.<sup>9</sup>

Others, however, have not been as complimentary. The Labor Department's Inspector General has criticized TAA's management for unclear objectives, inadequate attention to performance measures, and failure to perform follow-up analysis on participant outcomes.<sup>10</sup> Furthermore,

<sup>7</sup> Congressional Research Service, "Trade Adjustment Assistance Programs for Dislocated Workers," Report 94-801 EPW (Washington, D.C.: CRS, Feb. 11, 1999), p. 2.

<sup>8</sup> *Ibid.*

<sup>9</sup> U.S. Department of Labor, Office of Trade Adjustment, North Carolina Employment Security Commission, and Center for Employment Security Education and Research (CESER), NAFTA/TAA Customer Satisfaction Measurement and Training Project, (Washington, D.C.: CESER, 2000), pp. 95-132.

the program has been criticized for paying people not to work, as it extends unemployment compensation up to eighteen months and thus creates an incentive to delay finding a job.<sup>11</sup> A 1995 study concluded that TAA-financed training fails to produce a positive impact on earnings, at least during the first three years after displacement.<sup>12</sup>

The Commission, with the assistance of the Interstate Conference of Employment Security Agencies, surveyed state workforce agencies about the effectiveness of TAA and NAFTA-TAA. Forty-six state agencies responded, of which nineteen considered TAA and NAFTA-TAA programs "inadequate." Of the twenty-three that considered the programs "adequate," nineteen said there was a need for "improvement."

The state agencies' complaints about TAA and NAFTA-TAA focused on their operations, saying that training timetables needed to be more flexible, that TRA payments failed to cover the full period of eligibility for training, and that the rules and regulations for both programs were too complicated and strict. The complaints were implicit in the state agencies' recommendations to improve the programs. Half of the respondents (twenty-three of forty-six) did not consider federal funding sufficient for current program needs, while thirty-four of forty-four said funding did not support their administrative needs.

The Trade Deficit Review Commission-Interstate Conference of Employment Security Agencies, survey of state workforce agencies suggested a number ways to improve TAA programs.

- Thirty-nine of the forty-six states that responded to the survey recommended that income assistance be provided for two years if workers need remedial education as well as training.
- Thirty-seven states recommended that TAA and NAFTA-TAA be mandatory "partners" in "one-stop" delivery systems (one access point for employment-related and training services in which all core job search and assistance services are available as called for by the Workforce Investment Act of 1998).
- Thirty-four states recommended more federal funding to support the administration of TAA and NAFTA-TAA and recommended more federal money to support programmatic needs.

State workforce agencies also listed other ways to improve the programs, including the following:

- Payment of TRA for the full period of eligibility for training (104 weeks), regardless of whether remedial education was needed. "We can authorize up to 104 weeks of training," one pointed out, "but just 78 weeks of regular unemployment and TRA benefits."

<sup>10</sup> U.S. Department of Labor, Office of Inspector General, "Trade Adjustment Assistance (TAA) Program," Public Law 93-618, as amended: Audit of Program Outcome in Nine Selected States, Fiscal Years 1991/1992, Report No. 05-93-008-03-330, September 1993, cited in CRS, "Trade Adjustment Assistance Programs," p. 20.

<sup>11</sup> Gary Burtless, Robert Z. Lawrence, Robert E. Litan, and Robert J. Shapiro, *Globaphobia* (The Brookings Institution, Washington, D.C.: 1998) pp. 141-42.

<sup>12</sup> Paul T. Decker and Walter Corson, "International Trade and Worker Displacement: Evaluation of the Trade Adjustment Assistance Program," *Industrial and Labor Relations Review* (July 1995), 758-774, cited in *Globaphobia*, p. 143.

- Extending the period of TAA and NAFTA-TAA benefit eligibility by the number of scheduled, approved breaks in workers' training. Currently, scheduled breaks in classes count as weeks of eligibility, and breaks longer than fourteen days render the worker ineligible to receive allowances for any portion of the scheduled break. Because breaks between semesters are typically longer than fourteen days, workers are sometimes subjected to interruptions in benefits.
- Offering local control and flexibility in enrollment timetables, basing them on an assessment of worker needs and local school schedules.
- Consolidating TAA and NAFTA-TAA and unifying TAA and NAFTA-TAA rules and regulations.
- Making more and better use of computers in the administration of the program and in distance learning and retraining.

Several states stressed the need to "overhaul the administrative requirements" of the two programs. The Trade Program Director for the state of Texas stated that administrative requirements for TAA and NAFTA-TAA are so complex that "they hinder the smooth and efficient operation of the program and training of new staff."

A few states, including South Carolina and Connecticut, suggested imposing a time limit for applying for workers' benefits. Workers are able to return years later to make a claim for training, even though other companies have successfully reemployed them in the interim.

The most important factor in a successful worker adjustment program -- whether training, job placement, or wage insurance -- is the speed of the assistance. Minimizing the length of time between being laid off and providing assistance to the worker can be crucial. The longer workers have been unemployed, the more likely possible employers will discount their qualifications. However, the current system operates against speed. TAA benefits do not begin until the displaced worker has exhausted the unemployment benefits that are available for twenty-six weeks.

### **Recommendations to improve worker adjustment programs**

To improve the operation of U.S. worker adjustment programs, a substantial majority of the Commissioners recommends that

- TAA and NAFTA-TAA be consolidated into a single program, unifying and simplifying the programs' rules and regulations and providing coverage both to workers making finished products as well as to workers in supplier industries;
- a principal objective of the consolidated worker adjustment program be to enhance the skill-set of displaced U.S. workers;
- the consolidated programs provide for more local control and flexibility to improve the coordination of workers' needs and local educational and training course schedules;

- the federal government provide adequate funding for benefits and administration of this newly consolidated worker adjustment program;
- the program make more and better use of computers in the administration of the program and in distance learning and retraining; and
- income support be available for a longer period than currently, if more time is required for training. When considering lengthening the benefit period, careful attention needs to be given to the incentive effects such a change might have.

### Facing a loss in wages

The problems faced by dislocated workers go beyond just the period of unemployment between an old job and a new one. For many workers, the wage loss they suffer when they are laid off is not only the temporary loss of income while they look for a new job but also the erosion in earnings for a period after they land new employment as well. Workers develop what economists call "firm-specific" human capital in the jobs they currently hold -- a set of skills and relationships that makes them more valuable to their existing employers than to their new ones, especially in a different industry. As a result, new workers often are less valuable to new employers than they were to their previous employers for a period and are paid less.

The weekly earnings of all reemployed workers fell 5.7 percent on average in 1995-97. Also, workers displaced from high-tenure jobs showed an average drop in earnings of over 20 percent after they found new, full-time jobs. In addition, 17 percent of the previously fulltime wage and salary workers were reemployed in part-time or self-employed jobs. Their earnings losses were more than those reemployed on a fulltime basis. Table 5.4 depicts the effects of job loss on workers' wages from 1993 to 1996.<sup>13</sup>

**Table 5.4:**  
**Earnings Loss Among Reemployed Displaced Workers, by Years**  
**of Tenure on Old Jobs, 1993-96**

All reemployed workers	Years of tenure on old job				Average	
	0-5	6-10	11-15	16+	All tenures	6 years or more
Percent wage loss in new job	8	18	29	39	14	27
Percent of displaced workers	71	15	6	8	100	29
Percent due to plant closing	39	46	49	51	42	48
Workers reemployed in fulltime wage and salary jobs						
Percent wage loss in new job	2	8	21	28	6	17

Source: Charles I. Schultze, "Downsized and Out: Job Security and American Workers," *Brookings Review* (Fall 1999), p. 12

<sup>13</sup> U.S. Census Bureau, "Dislocated Worker Survey" (November 1994), cited in U.S. Department of Labor, "What's Working and What's Not: A Summary of Research on the Economic Impacts of Employment and Training Programs" (Washington, D.C.: U.S. Department of Labor, Office of the Chief Economist, January 1995), p. 47. Also see Charles I. Schultze, "Downsized and Out: Job Security and American Workers," *Brookings Review* (Fall 1999), p. 12.



Lower wages offered for a new job can be a hardship on workers and their families and serve as an incentive to keep looking for a better-paying job for at least as long as unemployment benefits are available. To reduce the incentive of unemployed workers to remain unemployed, some economists have proposed the concept of wage insurance. Wage insurance would provide earnings supplements, for a set period, to displaced workers who return to work at a wage lower than their previous wage. Such insurance would supply a payment equal to some percentage of the wage losses they suffered as a result of their displacement. For example, if the program insured the workers for 50 percent of their earnings loss, a displaced worker, whose previous monthly wage was \$2,000, who accepted a new job that paid only \$1,000 a month, would receive a monthly check of \$500. Wage insurance would make that worker economically better off than if he stayed out of the workforce relying on unemployment insurance. The payments of wage insurance could be limited to a fixed period.

Proponents of wage insurance contend that it encourages workers to find a new job quickly, as contrasted with unemployment insurance, which some suggest creates an incentive to delay looking for work. They also contend that wage insurance yields benefits for both younger workers and older workers. For younger workers, it makes it easier for them to acquire training and the new skills that will make them more employable over the course of their working lives. When a displaced worker takes an entry-level job in a new sector, the worker often obtains valuable on-the-job training that over the longer term leads to higher wages.<sup>14</sup> Wage insurance can also help address problems specific to older workers. Such workers, especially those over fifty-five, get hurt more from job dislocation than younger workers because they may not have enough years of work left in their careers to benefit from retraining in terms of regaining their prior wage level. Hence, retraining is less helpful for older workers. In such circumstances, wage insurance can enable older workers to reach retirement without having to sharply lower their standard of living or dip into retirement savings after a job loss.

Guidelines that have been suggested for implementation of wage insurance include the following:

- Insurance could only be available to workers who have reached a minimum job tenure (say two years) with their last employer.
- Total wage insurance benefits provided to a worker could be capped to prevent highly compensated workers from receiving high insurance payments; highly paid workers typically have more savings to draw upon than average or below-average paid workers.
- Earnings supplements could not be payable until a worker becomes reemployed and would cease within a specified period after displacement occurs. In other words, the clock would begin ticking for the benefit period on the day the worker is laid off. Workers who found new jobs early in the two-year period would be eligible for larger total payments than workers who delayed in accepting a new job. This is intended to provide workers with an incentive to search energetically and accept a

<sup>14</sup> One author points out that a wage insurance program would likely be very expensive and would need to be carefully targeted. Gregory K. Schoepfle, "U.S. Trade Adjustment Assistance Policies for Workers," in *Social Dimensions of U.S. Trade Policies*, Alan V. Deardorff and Robert M. Stern, eds. (Ann Arbor, Michigan: University of Michigan Press, 2000), p. 117.

new job promptly.

- The extent of wage insurance benefits should depend on the age of the worker. For younger workers, wage insurance should be available for a limited time period. For older workers, wage insurance may enable them to reach retirement while maintaining their standard of living and retirement savings.

### **Recommendation regarding loss of wages**

We recommend that Congress consider new ways to address the broader costs of job displacement. Such consideration should include assessing ways of filling in the earnings gaps created when new jobs initially pay less than previous jobs. As discussed, wage insurance is one such option. It has the advantage of encouraging displaced workers to accept new jobs as quickly as possible and removes some of the reluctance to accepting new jobs that initially pay workers lower wages than their former jobs. Further, wage insurance that is age dependent provides different benefits to workers at different stages of their careers. Younger workers who have been displaced from jobs, for whatever reason, are provided an incentive to return promptly to employment with the prospect of benefiting over the longer run from associated training. Older workers may be provided a less difficult transition to retirement.

In considering such options, Congress will need to give careful attention to the costs of any such programs. Any program initiatives in this area would need to give attention to the budgetary impact, the availability of funding, and possible adverse behavioral incentives that the Commission has not examined.

## **Education and retraining**

### **General observations**

Old training and old skills no longer suffice in the new economy. More specialized training is needed for many workers in this fast-moving environment. A Department of Commerce study in 1999 provided the following supporting data:

- In 1950, there were three unskilled jobs for every skilled position; today, jobs requiring skills are four times more prevalent than those for which manual labor suffices.
- By 2006, nearly half of all U.S. workers will be employed in industries that produce or intensely use information technology products and services.
- Since 1990, 43 percent of employment growth has been in high-knowledge occupations.

The impact of technology on revenues and wages has also been significant. For example, real

wages in high-technology industries increased 19 percent from 1990 to 1997 compared with a 5 percent average increase across the private sector. Also, the average high-tech job paid 78 percent more than the average non-high-tech job in 1999 (\$53,000 compared to \$30,000).

### Primary and secondary education

The recent Third International Math and Science Study (TIMSS) assessed the achievement levels of students in twenty-one essentially developed countries. U.S. twelfth graders lagged far behind students in most of the other countries, placing nineteenth in math and sixteenth in science. The promotion and improvement of courses in sciences and math and the integration of technology into the curriculum is a highly desirable objective worthy of more attention than it has received.

### Advanced education

Our workforce, particularly displaced workers, needs increased access to advanced education and retraining programs. One available resource is America's large community college system. There are 1,132 community colleges across the United States, and they are accessible to nearly every county. Furthermore, community colleges offer both academic knowledge and occupational skill training.<sup>15</sup> They are already involved in retraining displaced and older workers.

Older students, including displaced workers, tend to do well in community colleges. For example, veteran steelworkers in their thirties who lost their jobs in the mid-1980s and participated in a program for dislocated workers at the Community College of Allegheny County ended up making almost 10 percent more a year than those who did not enter the program.<sup>16</sup> Other studies show workers with community college degrees earning 20 percent more than workers with only a high school diploma.

Many community colleges are organized to meet the needs of displaced workers, including those who need to brush up on their basic academic skills.<sup>17</sup> It is not uncommon for 50 to 60 percent of students at community colleges to be taking remedial programs.

A good illustration of how community colleges are geared to the needs of displaced workers is Allegheny Community College, which offered free tuition to approximately eight thousand displaced steelworkers in eastern Pennsylvania. The school set up placement centers, hired counselors, provided reference books, and offered career-planning advice. The school also developed a Workforce Training Team to work with the business community, industries, professional organizations, and government agencies to develop and deliver educational and training programs that the local economy needed. Some of the students obtained federal financial aid, such as Pell grants, while others obtained special state grants. As students, the displaced workers faced the loss of

<sup>15</sup> Anthony Carnevale and Donna Desrochers, "The Role of Community Colleges in the New Economy," *Community College Journal* (April/May 1997), p.28.

<sup>16</sup> Bob Davis and David Wessell, *Prosperity: The Coming Twenty-Year Boom and What It Means to You* (New York: Random House 1998) p. 156.

<sup>17</sup> *Ibid.*, p. 153.

their unemployment insurance, so the governor of the state waived the provisions.

The director of the workforce program explained that retraining enabled the displaced steelworkers to obtain new employment. Several of the formerly displaced steelworkers set up businesses; one became a nurse.

Similarly, the Business and Industry Technical Assistance Center at Hazard Community College in Eastern Kentucky took on the mission of helping displaced coal miners start their own businesses. In its first four years, the eastern Kentucky community college helped launch 145 businesses in an eight county area. In the early 1990s, the center was helping to create sixty new businesses a year, providing an average of about four new jobs each. These businesses were filling a void left by declining manufacturing by helping to diversify what had been largely a one-industry economy.

### **Recommendations regarding education and training**

Policymakers should focus on improving elementary and secondary education and ensuring that students receive training that will enable them to work in an increasingly technological environment.

Policymakers should explore how to make better use of the community college system to deliver job training, particularly to displaced workers, and needed academic courses, particularly in the sciences, mathematics, and technology.

### **Improving the flexibility of labor markets**

#### **Removing obstacles for licensed and certified workers**

Displaced workers face many obstacles in finding new jobs. Occupational licensing restrictions and other certification barriers can restrict worker access to a variety of jobs for which they may be qualified by experience and/or other credentials. Licensing and certification requirements directly tied to the competency of the practitioner and health and safety matters are reasonable and necessary. However, when the licensing and certification requirements go beyond those reasonable standards, they become barriers to displaced workers finding good, well-paying jobs. When incumbent practitioners dominate state-level authorities that control the licensing and certification process, they have an incentive to restrict the supply of new entrants.

The ability of dislocated workers to move to where jobs are may be restricted by mortgage payments, family responsibilities, lack of finances, and the lack of information about where the jobs are. As the director of a Careers Assistance Placement Center for a tire company in the process of downsizing explained, the most difficult thing for those reentering the job market is

learning to sell themselves: "A majority of them have never mounted a job search. They got their jobs out of college or high school, or they got it through a friend or their father."<sup>18</sup>

Studies by the Congressional Budget Office (CBO) and Professor Bruce Meyer of Northwestern University show that dislocated workers who get job search assistance find new jobs more quickly than those left to cope on their own. According to the CBO, job search assistance is effective in shortening the length of time that participants receive benefits. The job search experiments, reported Professor Meyer, tried several different combinations of services to improve job search, and nearly all combinations reduced the need for unemployment insurance.

### **Recommendations to increase flexibility of labor markets**

We recommend reforming state and local occupational licensing and certifications that limit or restrict the ability of workers to find new employment. The goal of such a review should be to require licenses only for those performance capabilities that are directly linked to competency and health and safety. Eliminating extraneous requirements will make it easier for job seekers to qualify for new careers.

We also recommend improvements in programs and policies that assist workers' mobility that would help displaced workers deal with the burdens of finding new employment and relocating. Some of the obstacles to job search and relocation, like family responsibilities, are beyond the reach of policymakers. Nevertheless, TAA, previously discussed, provides job search allowances that reimburse 90 percent of necessary job search expenses and relocation allowances to pay for 90 percent of "reasonable and necessary" costs for moving the worker, the family, and the household effects.

### **Responding to the loss of health insurance**

Generally, Americans receive health insurance as an employer-provided benefit. Thus, when workers lose their jobs, they and their families frequently lose affordable health insurance as well. Although specific numbers are not available, dislocated workers and their dependents contribute to the more than forty million Americans without health insurance.

Federal law requires employers who provide health insurance to offer laid-off workers a continuation of health coverage for at least eighteen months after the date of termination. These displaced workers have the right to maintain, at their own expense, coverage under the health plan at a cost comparable to what it would be if the laid-off workers were still members of the employer's group.

Furthermore, the Health Care Portability and Accountability Act of 1996 provides additional help. Under this law, a worker who obtains health insurance is able to use evidence of past insurance

<sup>18</sup> Bruce Meyer, "Getting Help: Many Firms Offer Assistance to Employees Being Laid Off," *Rubber and Plastics* (Crain Communications, Inc. October 10, 1994), p. 47.

to reduce or eliminate any exclusion based on a preexisting medical condition that might otherwise be imposed on coverage when an individual moves to another group plan or, in certain circumstances, to an individual policy.

However, many dislocated workers cannot afford to pay for the post-layoff health benefits because employers do not subsidize the cost of the worker's participation after they leave the company. Under the 1996 federal law, the dislocated worker must pay that portion of the total premium that he previously paid when employed, plus the portion that had been paid by his employer, plus an additional 2 percent administrative fee.

Responding to our survey of state workforce agencies, the Trade Program Coordinator for Maine pointed out the high costs to the dislocated workers in his state: "The total cost to continue a family program for workers who left Northland Shoes in Fryburg, Maine, was around \$450 a month and could be maintained for up to 18 months. Workers receiving \$150 to \$200 a week of unemployment, with no other income, trying to support a family, and attend school to obtain suitable future employment, can't afford that."<sup>19</sup> Some displaced workers do not get this option, as the federal law only covers workers who were separated from a company where there is an active group health policy.

There is a need to find ways to fill the gap in health insurance coverage between the time when a worker loses one job and starts another.

One approach is being tried in several states where private insurance companies are offering Dislocated Workers Health Insurance Plans. These insurance plans are available to dislocated workers for as low as \$60 a month (in Maine). They carry a high deductible (around \$5,000 a year) but enable workers and their families to maintain health care coverage for preexisting conditions and protect families from the financial burdens of catastrophic illness.<sup>20</sup>

### ***Recommendation regarding health insurance***

Policymakers need to focus on ways to fill the gap in health insurance coverage between the time a worker loses one job and starts another, without creating incentives that discourage employers from offering health insurance or displaced workers from returning to the workforce as rapidly as possible.

## **Conclusions**

Over the past two decades, the number of available jobs grew substantially. For much of this period, however, many workers did not see compensation (wages and fringe benefits) growing to match increased productivity. Further, workers today have far greater need for marketable skills than in the past. They change jobs more frequently, and the wage differential between the

<sup>19</sup> Maine response to Trade Deficit Review Commission-Interstate Conference of Employment Security Agencies Questionnaire: Phone interview with Maine Trade Program Coordinator Ron Brodeur, May 30, 2000.

<sup>20</sup> See also the discussion in *Globophobia*, p.137.

most- and least- educated members of the workforce continues to grow. We need to find ways to help American workers adjust more rapidly to the inevitable changes they will face.

We recommend increasing private and public efforts to provide more effective worker adjustment assistance. Such efforts should extend to all workers bearing the costs of adjustment to economic change, irrespective of why they have lost their jobs or whether they are eligible for specific trade adjustment aid.

We recommend expanding the educational and training opportunities available to all Americans, because a more productive workforce is the key to our long-term international competitiveness. We recommend promoting labor mobility by reducing barriers to retraining and to taking new jobs. A majority of the Commission members urge giving serious consideration to providing wage insurance to temporarily fill some of the gap between a displaced worker's old wage and a lower wage in a new job, and addressing the problem of the loss of health insurance<sup>21</sup> coverage during periods of sustained unemployment. Members of the Commission disagree on the nature and details of how to implement these changes in labor adjustment programs.

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<sup>21</sup> The Commission did not consider the broader issue of national health insurance.

## **Additional views of Commissioners Papadimitriou, Becker, D'Amato, Lewis, Thurow and Wessel**

### **Chapter 5**

Despite the record low unemployment level in the United States and the number of jobs that have been created during the last eight years, workers across the country continue to be concerned about their own job security. Indeed, against the backdrop of a rising economy, workers are seeing increasing number of layoffs – a “pink slip recovery” is a relatively new experience in the U.S. economy.

Chapter 5 – Worker Adjustment Assistance – represents one of the few chapters where a majority of the Commissioners could agree on policy prescriptions that should be carefully considered by Congress. In light of the broad disagreements that exist on the causes and consequences of our trade deficit – and possible solutions to address that deficit, this common ground should provide powerful guidance to Congress that an aggressive program for training and retraining should be provided.

However, support for a broader and more effective program of worker adjustment assistance should not be viewed as weakening our support for efforts to minimize job dislocations through the use of appropriate policy tools. Predatory trade practices, foreign trade barriers, and other actions by our competitors that displace jobs here in the United States must not be allowed to continue even with an enhanced worker adjustment assistance package in place. We believe that it is important to make this point explicitly, because in the past, worker adjustment assistance has often been the last component of a package of proposals intended to increase congressional support for approving new trade agreements. As such, it has often been viewed simply as an afterthought rather than as an integral component of our trade policy. This is a shortsighted approach that has diminished public support for trade liberalization efforts.

In this light, an adjustment assistance package must be fully funded and should not be subject to the annual budget battles in Congress. It must be a comprehensive safety net available to all who need it. As part of this effort, the program should not include labyrinthine rules to determine eligibility: It should be a straightforward, “triggerless” adjustment approach that will provide benefits to workers who lose their jobs whether it is due to trade dislocation, technological changes, or other reasons. Our economy, and the public, will be better off with a program that prepares for changes that will inevitably occur.



As part of the recommendations on this issue, the Commission recommended that a program of wage insurance should be enacted to supplement the income of workers who are displaced and find it necessary to take a job at a diminished income. Wage insurance is an important proposal to help reduce the impact of job loss on family income.

However, a program of wage insurance must be carefully coordinated with the program requirements and restrictions relating to training and retraining benefits. While there are clear advantages to having a displaced worker quickly reentering the workforce, the requirements of that employee's new job might limit that employee's ability to participate in training and retraining programs to acquire new skills. A program of wage insurance should include the flexibility necessary to enable reemployed workers to attain the skills necessary to succeed in the future. Furthermore, any training program should be flexible enough to address the changing needs of the participants, as well as the differing types of services that must be provided. For example, benefits should be available to assist those who need not only skill training but also English language training.

The Commission recommendations focus on the needs of workers – and this should be the first effort. But, as Congress examines these policy recommendations, we urge them to also look at the adjustment needs of our businesses and our communities. All too often, a facility that closes puts not only workers out of work but also puts the communities' tax base at risk. Communities all across the country have had to try and fight their way back to prosperity after facing the loss of an anchor employer. Schools, public health and safety, transportation, and other public services might have to be cut back at a time when they are sorely needed. Businesses might benefit from assistance enabling them to enter new markets, to develop new products, or to engage in other activities that will minimize the impact on employees, shareholders, and the community. Policymakers should address these issues as part of a comprehensive review of the adjustment issue.

Additionally, a majority of the Commissioners recommended that Congress "focus on ways to fill the gap in health insurance coverage between the time a worker loses one job and starts another." The recognition of the devastating impact on families from losing health insurance is important and should be heeded by policymakers. But, this is only one component of a much greater health care crisis in America facing tens of millions of people who have no health insurance at all. Clearly, a program to provide a bridge between jobs enabling families to maintain health insurance coverage is vital. It is only a first step, however, in the broader quest for health insurance coverage for all Americans.

## Re-authorization of Trade Adjustment Assistance

## Background

Trade Adjustment Assistance (TAA) was established in 1962 to assist workers whose job loss was associated with an increase in imports. The program has been revised and expanded several times since its inception.

In addition to the regular 26 weeks of unemployment insurance, TAA certified workers are eligible for up to 52 weeks of income support, provided they are enrolled in training. Weekly income maintenance payments are set at the prevailing State unemployment insurance benefit levels. The program also provides job search and relocation assistance.

In 1993, as part of the authorizing legislation for the North-American Free Trade Agreement (NAFTA), Congress established a separate TAA program for workers whose job loss is associated with increased imports from and/or shifts in production to Canada and Mexico. In contrast to TAA, eligibility criteria for NAFTA-TAA were expanded to include shifts in production, in addition to increased imports. Benefits provided under both programs are identical. Although not required by law, in recent years the Department of Labor has provided benefits to workers employed by upstream producers and/or suppliers of NAFTA-TAA certified firms.

Congressional authorization for TAA and NAFTA-TAA expires at the end of Fiscal Year 2001.

## Recent program statistics

On average, in 1999, workers received:

- 29 weeks of income maintenance of approximately \$215 per week
- Training, which cost approximately \$2700 per worker

- Job search assistance, which cost approximately \$325 per worker
- Job relocation assistance, which cost approximately \$1700 per worker

The US Department of Labor (DOL) estimates that the average cost of TAA and NAFTA-TAA is approximately \$10,500 per participant per year.<sup>1</sup>

#### Criticisms

There is no reason to discriminate between workers who lose their job due to imports from Canada and Mexico versus from other countries. It is also confusing to have two programs addressing the same need.

The existing structure of TAA and NAFTA-TAA is completely divorced from any serious efforts to attract and/or create new jobs. The overarching objective of any adjustment program should be to get workers back into the labor market as soon as possible, with the least amount of long-term income loss. TAA and NAFTA-TAA do not directly address this objective. In fact, some analysts argue that the mere existence of training and income benefits may deter people from returning to work, thereby prolonging their adjustment process.

Since workers typically enter training before getting a new job, there is a weak link, if any at all, between training and the skill needs of the potential

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<sup>1</sup> The sum of the per worker costs of each benefit is greater than \$10,500 because the number of workers which received each benefit differ.

employers. This complicates the training process and raises the possibility that people may train for jobs that do not exist.

The problems with training are exacerbated by the fact that there are insufficient funds available for training. The time limit on training is seen as a problem, especially for those workers lacking basic skills.

Worker dislocation can have a significant adverse impact on a community. Conversely, a community's ability to respond to a large plant closing will have a great impact on workers' abilities to find new jobs. The federal government provides very little assistance for economic development at the community level. Thus it is a challenge to make people aware of these programs and help them gain access to their benefits in a timely fashion.

Only NAFTA-TAA includes shift in production as an eligibility criteria. There is no reason to believe that these workers are any worse off in the case of trade and investment flows with Mexico and Canada, than they are with trade and investment flows with any other region of the world.

Both programs do not cover secondary workers by law. Workers employed by suppliers or upstream producers are no different from other workers who lose their job due to changes in trade and investment.

Proposes Reforms

1. Harmonize TAA and NAFTA-TAA

Add shift in production to increased imports as eligibility criteria

2. Extend benefits to secondary workers

3. Expand Benefits

- a. Increase income maintenance from 52 to 78 weeks
- b. Substantially increase global entitlement cap for training
- c. Allow re-employed workers to get training for up to 26 weeks
- d. Provide subsidy for up to 2 year of some portion of the gap between the old and new earnings levels for workers over 50 years old, earning less than \$50,000.
- e. Provide tax credit for 50 percent of COBRA payments
- f. Link TAA recipients to child care and health care benefits under TANF
- g. Increase job search and relocation assistance

4. Petition process

In addition to current practice, allow the President, and the Senate Finance Committee and the House Ways and Means Committee by resolution, to initiate a TAA certification process for an industry.

5. Community Assistance

- a. Establish Office of Community Assistance to provide technical assistance to economically-distressed communities (as defined by CAIP)
- b. Expand Community Adjustment Investment Program to include loan guarantees, loans and grants to any trade-impacted community

- c. Provide communities funds to develop strategic plans
- 6. Renew TAA for firms
- 7. Industry specific
  - Farmers, fishermen, truckers and taconite
- 8. GAO study of all federal assistance for unemployed workers

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PREPARED STATEMENT OF ROBERT CARLSON

Mr. Chairman, Ranking Member Hatch, Members of the Subcommittee, I am here today on behalf of the 300,000 farm and ranch families represented by the National Farmers Union. Thank you for holding this important hearing and for your leadership on this important trade related issue.

As you are aware, the Department of Labor administers the Trade Adjustment Assistance (TAA) program that was established in 1974 to provide relief to workers and firms in the manufacturing sector who suffered lost jobs, wages, work hours or product demand as a result of increased imports.

When agricultural trade agreements fail to provide for fair competition or allow adjustments to offset the impact of import surges, farmers, ranchers and fishermen are the ones who suffer due to their inability to influence or rapidly adjust to changed market conditions. We are deeply concerned by the level of economic losses sustained by producers due to increased and often unfair import competition. Action to address this situation is needed and should be taken by this Congress. We believe extending TAA benefits to include agricultural producers is a reasonable, fair and logical means to provide tools for U.S. agriculture to better cope and adjust to the effects of import competition.

We firmly support the Trade Adjustment Assistance for Farmers and Fisherman's Act (TAA), recently introduced by Senators Conrad, Baucus, and Grassley. This legislation establishes a Trade Adjustment Assistance for Farmers program within the U.S. Department of Agriculture to provide important and necessary relief for U.S. farmers, ranchers and fishermen who have been adversely impacted by import competition resulting from trade agreements and liberalization. Under the program, producers who suffer economic damage caused by import surges or unfair competition would be eligible for up to ten thousand dollars annually in compensation for their losses. This assistance is particularly meaningful due to the fact that many of the losses sustained by producers because of import competition are regional in nature or effect specific commodity sectors rather than impacting all of production agriculture at one time.

In 1999, the Senate approved by unanimous consent, a TAA amendment to the Africa and Caribbean trade legislation. That amendment would have extended the Trade Adjustment Assistance program to farmers. The National Farmers Union along with the National Association of Wheat Growers, the National Barley Growers Association, the American Sheep Industry Association, and the Wheat Export Trade Education Committee, supported that amendment.

Also in 1999, the National Farmers Union hosted an agricultural summit where the leadership of 28 national farm organizations unanimously supported the extension of TAA benefits to agricultural producers.

Because the legislation currently under consideration includes fishermen in addition to farmers and ranchers, we believe it will have even greater support across the country.

Trade issues are always an important consideration for farmers, ranchers and fishermen. However, they have a special significance now, as producers across the country must contend with historically low prices for their commodities, significantly increased competitive import levels and rising agricultural input and energy costs. Farm and fishing families, who are struggling through difficult economic

times, should not be left unprotected in the face of increased competition from foreign sources of products that we already produce in adequate quantities because our markets happens to be among the most open in the world.

For example, the U.S. apple production industry has been decimated across the northern tier of states due to imports from China that are being sold at world "dump-market" prices to domestic processors resulting in over-supply and reduced prices for U.S. production in both the processing and fresh apple markets

Since the ratification of NAFTA, Canadian Durum and hard red spring wheat exports to the U.S. have increased by more than eight-fold and now represent about 12 percent of the total U.S. supply of those wheat classes compared to less than 2 percent in the 1980's. This has a direct impact on wheat producers in my state of North Dakota and throughout the Northern Plains region where the vast majority of these classes of wheat are produced.

In 1999, a large volume of hog imports from Canada clogged U.S. processing facilities, over-supplied the market and drove U.S. producer prices down to their lowest level in over 50 years. Producers were receiving quotes of less than 10 cents per pound for their market hogs while retail prices remained at the same level that provided 35 to 40 cent per pound producer prices a few months earlier.

On-going trade discussions between the United States and Canada provide some hope that progress can be made in several areas that currently create cross-border trade friction. However, key issues remain unresolved. While we believe reopening the trade agreement with Canada for re-negotiation would be the best way to address many outstanding trade issues, we realize such action is unlikely in the near future. In the interim, we feel the federal government has an obligation to assist producers who do not have the individual means to absorb losses caused by flawed trade agreements.

Traditionally, farmers, ranchers and fishermen have been hopeful they will benefit from expanded agricultural trade. Our recent experience with trade agreements is that they allow import dumping and other unfair trade practices, fail to address exchange rate fluctuations, are blind to labor and environmental standards and provide few economic benefits to producers. In addition, the significant investments of time and capital to seek redress through our domestic trade law provisions and/or the dispute settlement provisions of the agreements have increased producer frustration and justifiably reduced the support for free trade among U.S. producers.

The right policy for rural America is to allow producers of food and fiber to recover a portion of their lost net farm and fishing income, and to assist them in planning adjustments to their business operation to account for future increases in agricultural import competition.

We believe a TAA program for agriculture provides a targeted, cost-effective mechanism that can easily be structured to provide compensation for producers based on eligibility criteria that are comparable to the requirements for the manufacturing sector while accommodating the unique characteristics of agriculture.

Thank you for the opportunity to appear before you today. I would be pleased to respond to any questions you or your colleagues may have.

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UNITED STATES SENATOR • IOWA  
**CHUCK GRASSLEY**

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Remarks of Sen. Chuck Grassley  
Senate Committee On Finance  
Hearing On Trade Adjustment Assistance  
Thursday, July 19, 2001

I welcome this hearing on trade adjustment assistance. Last September, I announced that a top-to-bottom review of our trade adjustment assistance program was one of my top trade priorities for 2001, so I am happy to see that the Committee is following through with this initiative under your leadership.

The fundamental starting point for any discussion about trade adjustment assistance is, of course, trade. Trade is the reason the trade adjustment assistance program exists in the first place. So first, I want to say a word about the "trade" part of trade adjustment assistance, and reiterate what I said in this Committee earlier this week. Renewing the President's trade promotion authority is the single most important action this Committee can take on the trade front this year. 27 percent of our gross domestic product is trade-related. Almost \$3 trillion of economic activity in our \$10 trillion economy is derived from trade. This is higher than Japan at 19 percent, and it is more than the external trade of the European Union's collective gross domestic product. In fact, just to put into perspective how trade-dependent we are, the United States sells almost as much to Canada and Mexico alone -- about \$300 billion a year -- as Japan sells to the entire world.

We are at the leading edge of two critical trade initiatives. One is that the United States is preparing to attempt to launch a new round of WTO trade negotiations this fall in Qatar. The other is that the United States is entering the most important phase of the Free Trade Area of the Americas negotiations. The success of both initiatives is essential to maintaining America's prosperity. Launching a new round of global trade negotiations is important because we have to continue the progress we made in the Uruguay Round in reducing agricultural tariffs, and eliminating the non-tariff trade barriers that distort world agricultural markets.

Getting traction in the FTAA talks is important because we are missing tremendous trade opportunities right in our own backyard. Let me briefly explain why. Almost 50 percent of everything we export to the world is sold in our own hemisphere. We sell a lot to Canada. We sell a lot to Mexico. That's the good news. The bad news is, apart from Canada and Mexico, we are under-performing in our own hemisphere. Today, we sell less than 8 percent of our exports south of Mexico's southern border, the Yucatan. We are just not very competitive in a huge Latin American market of 403 million people. You can bet that our competitors, like the European Union, and even China, are figuring out how they can take advantage of our weak trade performance with our neighbors. This is why we need trade promotion authority, this year. So we can get back into the game. So our trade negotiators don't go into these FTAA and WTO negotiations with one hand



tied behind their back. I can't imagine why anyone would not want our negotiators to have the maximum amount of credibility right at the start of trade negotiations.

Trade negotiations have become more and more complex during the last 15 years. As a result, good trade deals are getting harder and harder to reach. If we wait one or two years to renew trade promotion authority, our negotiators could come back to this Committee three or four years from now, with a second- or third-rate trade deal, and tell us, we're sorry, this is the best we could do. I don't want to see that happen. We're not going to have a second- or third-rate trade policy in this country if I have anything to say about it. The American people expect and deserve a first-rate effort every time the President sits down to talk turkey with other countries. And I don't care if the President is Republican or Democrat. This particular president happens to be a Republican. He asked for my word that we would try to get this done this year. And I gave him my word. I still hope that Senator Baucus and I can work out a bipartisan TPA compromise soon. But if it becomes clear very shortly that we can't agree on a moderate, bipartisan compromise, I will support the Graham-Murkowski legislation. And I will work as hard as I can to get it through the Committee this year.

Finally, let me say a word about the "adjustment assistance" part of this hearing. The first trade adjustment assistance program was established almost 40 years ago. During that entire time, as far as I know, we have not had a thorough review of the TAA program. This is an important part of the Finance Committee's oversight responsibilities. It is long overdue. In addition, I thank Chairman Baucus for endorsing the effort that Senator Conrad and I launched over a year ago to extend trade adjustment assistance to America's family farmers, and fishermen.

When President John F. Kennedy designed the TAA program as part of the Trade Expansion Act of 1962, he said: "I am recommending as an essential part of the new trade program that companies, farmers, and workers who suffer damage from increased foreign import competition be assisted in their efforts to adjust to that competition."

But in spite of President Kennedy's belief that farmers should be able to get relief from trade adjustment assistance, just like other workers who suffer from trade-related job losses, the reality is that few, if any, individual family farmers are ever able to qualify for the program. Yet farmers have always been among the strongest supporters of free trade, because so much of what they produce is sold in overseas markets. I am very concerned that if we lose farm support for free trade, it will be very hard for us to win congressional support for new trade deals when they are concluded. Fairness, equity, and common sense, and the original intent of President Kennedy's program all tell us that family farmers, and fishermen, should, and must, be a part of the TAA program. That is exactly what the legislation that Senator Conrad and I sponsored will do.



**AMERICAN FARM BUREAU FEDERATION™**

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July 20, 2001

The Honorable Charles E. Grassley  
United States Senate  
135 Senate Hart Office Building  
Washington, DC 20510

Dear Senator Grassley:

The American Farm Bureau Federation thanks you for introducing the Grassley/Conrad Trade Adjustment Assistance for farmers initiative. If passed, this will provide an important safety net for our producers. We would also like to reiterate our very strong support for renewing Trade Promotion Authority for the president this year. Renewing TPA is the single most important piece of trade legislation we can pass this year. It is vitally important for our sector.

As you know, our agricultural trade balance is dwindling and our foreign market share for many commodities is decreasing. Over 96 percent of the world's consumers live outside our borders. If we do not supply their food and agricultural needs, someone else will.

At the same time, we must address a number of important trade issues concerning our sector. We cannot accomplish this task without granting Trade Promotion Authority to the president.

We urge you to pass this negotiating authority for the president this year.

Sincerely,

  
Bob Stallman  
President

PREPARED STATEMENT OF LORI G. KLETZER\*

My testimony here today addresses what we know about the costs of job displacement, specifically trade-related job displacement. My focus is on workers: who gets displaced and the consequences of that job loss.

### Summary

For most displaced workers, what matters is the kind of job lost and the kind of job regained. Why the job was lost does not matter much at all. If workers and consequences are alike, across differing causes of job loss such as increasing foreign competition, technological change, downsizing, then policymakers should consider adjustment policy for all displaced workers, and broaden program eligibility beyond “trade-displaced workers.”

### Trade and jobs: asking the right questions

I will offer one general comment before I turn to the specifics. Lost in the debate over the number of jobs created or destroyed by increased economic integration is the really important question: what kind of work will Americans do, as the dynamic American economy continues to change, with more trade and technological advance? In a dynamic economy, jobs are lost and created and workers are displaced and re-employed continuously. Rather than focus on how many jobs will be affected, we need to understand workers, who they are and how they will be affected. Specifically, who are the workers displaced from import-competing industries? What are their basic individual characteristics? Are they different from other workers who lose their jobs? What happens to them after displacement? How do workers adjust to economic change? What can we learn from the pattern of reemployment and earnings that will aid in the (re) design of government programs to assist workers?

### Defining import-competing job loss

Studies reveal that there is a set of industries facing sustained import competition, those with both high levels of import share and increasing import share, where the rate of job loss is high. Beyond these industries, the rising import share-high rate of job loss relationship is considerably weaker. This means that increasing imports play a small role in aggregate economy job loss, but a larger role in traditional import-competing industries.<sup>1</sup>

From this base, in my recently completed study of job loss and import competition in manufacturing,<sup>2</sup> I define high import-competition industries as those in the top 25 percent in a ranking by changes in import share over the period 1979–94. This top quartile contains industries with an increase in import share exceeding 13 percentage points.<sup>3</sup> Applying this definition to a nationally representative sample of displaced workers drawn from the Displaced Worker Surveys yields a sample of import-competing displaced workers.

Let me be clear that the labeling, import-competing (or import-sensitive) job loss, is by association. Although I make no strong claims about the precise cause of each worker’s job loss, I am confident that the sample captures most of the kinds of jobs Americans feel to be “at risk” to increasing economic integration.

The set of high import-competing industries includes: Apparel, Footwear, Motor Vehicles, Knitting Mills, Leather Products, Textiles, Blast Furnaces, Other Primary Metals, Tires and Inner Tubes, Cycles and Miscellaneous Transport, Radio and Television, Toys and Sporting Goods. These are the traditional import-competing industries. Import-competing job loss is concentrated in a few large employment industries: Electrical machinery, Apparel, Motor Vehicles, Non-electrical Machinery, Blast furnaces.

Over the 21-year period from 1979–99:

- 6.4 million workers were displaced from an import-competing industry; these workers represented about 38 percent of manufacturing displacement. These industries accounted for just under 30 percent of manufacturing employment.

\*The author is a visiting fellow at the Institute for International Economics, Washington DC and an associate professor of economics at the University of California, Santa Cruz. The views expressed here are solely those of the author and should not be ascribed to the trustees or staff of the Institute for International Economics or of the University of California.

<sup>1</sup>See Kletzer, Lori G. 2001. *Imports, Exports, and Jobs: What does trade mean for employment and job loss?* W.E. Upjohn Institute for Employment Research, forthcoming.

<sup>2</sup>Kletzer, Lori G. 2001. *Job Loss and competition from imports: measuring the costs.* Washington, DC: Institute for International Economics, forthcoming.

<sup>3</sup>With this cutoff as a primary guide, I made some subjective adjustments to the top group based on employment size and history of import competition. See my forthcoming Institute book for details.

- 17 million workers displaced from the manufacturing sector; these workers accounted for about 37 percent of total nonagricultural displacement, when manufacturing's average share of total nonagricultural employment was about 18 percent.

These numbers reveal that manufacturing workers are over-represented among displaced workers, as compared to their employment share and high import-competing workers are overrepresented among manufacturing displacement, relative to their employment share.

#### **Basic worker characteristics**

Compared to workers displaced from other sectors of the economy, such as wholesale and retail trade, utilities, or services, manufacturing workers are slightly older, notably less educated, with longer job tenures, somewhat more likely to be minority, and far more likely to be production oriented (just less than one-half of manufacturing displaced are lower-skilled blue collar workers-fabricators, laborers, etc.). Twenty-one percent of manufacturing displaced are high school dropouts, compared to 11.9 percent of non-manufacturing displaced. This difference widened in the 1990s as compared to the 1980s: the high school dropout share fell throughout the economy, but more so outside of manufacturing. Manufacturing workers are less likely to be college graduates: over 1979–99, workers with a college degree or higher comprised about 14 percent of manufacturing displaced and 22 percent of non-manufacturing displaced.

Import-competing workers are similar to other displaced manufacturing workers, with respect to age, educational attainment and job tenure. The most striking difference between import-competing displaced workers and other displaced manufacturing workers is the degree to which import-competing industries employ and displace women. Women account for 45 percent of import-sensitive displaced workers, compared to 37 percent of overall manufacturing displaced. Some industries stand out: women account for 80 percent of the displaced from apparel, 66 percent of footwear displaced, 76 percent of the displaced from Knitting Mills (part of the textiles industry). Women dominate the group of displaced workers from these import-competing industries as a result of their high representation in employment.

#### **What happens to workers after job displacement?**

The first outcome is re-employment. About 65 percent of manufacturing displaced workers were re-employed at their survey date, as compared to 69 percent of non-manufacturing displaced workers. This difference, 4.3 percentage points, is not large, but it is statistically significant. The likelihood of re-employment was markedly higher in the 1990s than in the 1980s. Import-competing displaced workers are a little less likely to be reemployed (63.4 percent were re-employed at their survey date) than other displaced manufacturing workers (65.8 percent re-employed). Particularly for the high import-competing group, reemployment was more difficult in the 1980s with a lower rate of 62.3 percent, than it was in the 1990s when 65.4 percent of workers were re-employed on average.

To understand what kinds of workers face difficult labor market adjustments following job loss, we need to estimate statistical models. The first is a model of the likelihood of re-employment.<sup>4</sup> Estimation of this model can tell us what characteristics of workers and industries explain the lower re-employment likelihood for high import-competing workers relative to other manufacturing displaced workers and similarly for manufacturing workers relative to non-manufacturing workers.

Consider some comparisons. A “representative” worker in our sample, a displaced worker who is 38 years old, with 5.3 years job tenure, a high school graduate with less than one year of post-secondary schooling, male, married, non-minority, who lost a full-time job in Wholesale and Retail Trade and Services in 1989, has a 68.1 percent chance of being reemployed. Our representative worker, if displaced from nondurable goods manufacturing, faces a 62 percent chance of re-employment, if displaced from durable goods manufacturing, a 65.2 percent chance of re-employment. These differences are statistically significant.

When age at displacement, job tenure, educational attainment, racial and ethnic minority status, and full-time status before displacement are accounted for, these sectoral differences narrow. The narrowing of what we might call “the industry effect” is important; it means that individual demographic and labor market characteristics are importantly and systematically related to re-employment. If these factors are truly explaining differences in re-employment, then policy design, when looking for potential signals of labor market adjustment difficulties should turn first to these worker characteristics.

<sup>4</sup>Details are in my forthcoming monograph from the Institute for International Economics.

Certain characteristics stand out:

- Younger workers are more likely to be re-employed. Workers who are 25–34 years of age or 35–44 years of age are about 11 percentage points more likely to be re-employed than workers who were 45 years of age or older at the time of displacement.
- Education matters too. Compared to high school dropouts, workers with a college degree (or higher) are 25 percentage points more likely to be re-employed, high school graduates 9.4 percentage points more likely and workers with some college experience 11 percentage points more likely to be re-employed.
- The overall health of the economy and the labor market matters a great deal. A worker displaced from nondurable goods manufacturing in the strong economy of the mid-to-late 1990s (1993 to 1999), 45 years of age or older, a high school dropout, more than 10 years tenure on the old job, full-time at the time of displacement, non-minority and married has a predicted chance of re-employment of 53.7 percent. The same worker, displaced during the deep 1980s recession (1981–83), had a 34.5 percent chance of reemployment, more than one-third (35.7 percent) lower.

While it may not be enough (particularly for older, less educated and more tenured workers), a strong labor market clearly provides the necessary setting for displaced workers to find the next job.

I offer one final illustration of the strength of these effects. We can consider the worker to whom I just referred (displaced from nondurable goods manufacturing in the mid-to-late 1990s, 45 years of age or older, a high school dropout, more than 10 years tenure on the old job, full-time at the time of displacement, non-minority and married) a representative trade displaced worker. Again, this worker has a predicted likelihood of re-employment of 54 percent. If that worker was younger, say 25 to 44 years old instead of 45 years or older, the chance of re-employment rises to nearly 66 percent. As a high school dropout, the chance of reemployment is about 65 percent. For a college graduate, re-employment jumps to 78.5 percent. These differences are a striking illustration of the importance of education (which can be changed) and age (which cannot) in getting the next job. And the effect of more formal schooling is stronger for younger workers than for older workers.

One clear interpretation of this analysis is that import competition is associated with low re-employment rates because the workers vulnerable to rising import job loss experience difficulty gaining re-employment, based on their individual characteristics. It is not import competition *per se*; it is who gets displaced from (and is employed by) industries with rising import competition. What limits the re-employment of import-competing displaced workers? The same characteristics that limit the re-employment of all displaced workers: low educational attainment; advancing age, high tenure, minority status; marital status. Married women, even those displaced from full-time jobs, are much less likely to be re-employed.

#### Earnings losses upon re-employment

Earnings are measured in the Displaced Worker Surveys as weekly earnings, and the available comparison is between weekly earnings at the time of displacement and, if reemployed, weekly earnings at the time of the survey. Earnings losses can be measured by comparing earnings on the old job to those on the new job. This measure will “miss” earnings growth that would have occurred on the old job, in the absence of displacement.<sup>5</sup> Manufacturing displaced workers experience large earnings losses on average, 12 percent at the mean, compared to a loss of just under 4 percent for non-manufacturing displaced workers.

Among the re-employed, import-competing displaced workers experience sizable average weekly earnings losses of about 13 percent. This large average loss masks considerable variation: one-third of import-competing displaced workers report earning the same or more on their new job as they earned on the old job, and one-quarter reported earnings losses of 30 percent or more. This average and distribution is very similar to what I find for manufacturing workers as a group. Older, less educated, lower-skilled production workers, with established tenures on the old job, are more likely to experience earnings losses in excess of 30 percent.

When I analyze earnings losses with a statistical model, the emerging profile of workers who experience costly job losses becomes clearer. Earnings losses rise with previous job tenure and age and are smaller for more educated workers. Among

<sup>5</sup>For some groups of workers, earnings fall prior to displacement, and the DWSs also miss this aspect of displacement-related earnings change. See Jacobson, Louis, Robert LaLonde, and Daniel Sullivan, *The Costs of Worker Dislocation*, W.E. Upjohn Institute for Employment Research, 1993.

manufacturing workers, high import competing workers do not have significantly larger earnings losses than the less import competing group.

For most high import-competing workers, the time needed to find a new job is within the usual 26-week period of eligibility for unemployment compensation. Half of these workers had unemployment spells of 8 weeks or less.<sup>6</sup> Yet a full quarter of workers were unemployed for more than 26 weeks (six months), the normal length of unemployment insurance benefits.

### **The importance of re-employment industry**

The sector in which a worker is re-employed matters a great deal for understanding the variation in earnings loss. There are a few observations. Overall one-tenth of re-employed manufacturing workers are in Retail Trade, and this percentage is similar for import-competing displaced workers. In contrast, 21 percent of non-manufacturing displaced workers are re-employed in Retail Trade.

Second, there is considerable re-employment within manufacturing. Among the re-employed, about one-half of workers displaced from high import competing industries are reemployed in manufacturing. Incorporating their 63 percent chance of re-employment, note that about one-third (32.9 percent) of all high import-competing displaced workers return to manufacturing after their job loss. Another one-third are re-employed in the non-manufacturing sectors and the remaining one-third are not re-employed.

For manufacturing workers, regaining employment in manufacturing greatly reduces earnings losses. Mean earnings losses are smallest for workers re-employed in durable goods (at 4.5 percent), and next smallest in nondurable goods (5.8 percent). Earnings losses are largest for manufacturing workers re-employed in Retail Trade (about 10 percent of the re-employed).

Displaced manufacturing workers who gain re-employment in manufacturing also experience the shortest median weeks of joblessness (6–8 weeks), as compared to workers reemployed elsewhere. This may be a result of searching first in familiar labor markets in manufacturing, and turning to less familiar markets and networks only after some period of unsuccessful search. These spells of joblessness are well within the standard period of eligibility for unemployment compensation (26 weeks).

Regaining employment in the same detailed industry is associated with small or no earnings losses, on average.<sup>7</sup> For the import-competing displaced group, half of workers who return to the same industry report no earnings losses or a gain. Mean earnings losses are around 2 percent, about \$8/week for the average import-competing displaced worker compared to predisplacement earnings. Re-employment in the same detailed industry does not guarantee that earnings will not be reduced, but it greatly reduces the average loss (from nearly 20 percent to 2 percent) and it greatly reduces the percent of workers with very large earnings losses (from 34 percent to 15 percent).

The experience of workers who change detailed industry is very different. For the import-competing displaced group, half of all workers who change industry have earnings losses greater than 10 percent, with the mean change a loss of 20 percent. Judged against old earnings, the loss is around \$81/week, or \$4200 per year. Thirty-four percent of these workers experience an earnings loss greater than 30 percent.

### **Policy Implications**

The patterns of re-employment and labor market adjustment have implications for addressing some of the holes in the existing safety net for displaced workers. We can understand more clearly the consequences of job loss vary and how some discernible transitions are better than others. Age, education and job tenure emerge as strong predictors of difficult and readjustment. Middle-aged (or older), significantly tenured, less-educated worker may be ill-prepared to enter a changed labor market. While highly skilled for production work, in many cases they may be less equipped to adapt to new production techniques or lack the educational background to transfer to well-paid service economy jobs.

The strong association between advanced age, less formal education, long tenure and difficult labor market adjustment can be used to target assistance at certain groups of workers, rather than providing the same services, up front, to all program

<sup>6</sup> Interestingly, 27 percent of workers were unemployed for less than one week (this group is included in the half with spells of less than one week).

<sup>7</sup> Industries are defined here at the 3-digit Census of Population Industrial Classification level. Examples of “detailed” industries include those listed above as high import-competing industries.

participants. This approach is in the spirit of the worker profiling used by states for the provision of reemployment services.<sup>8</sup>

We know that job search assistance can be offered at low cost. Enhanced, industry-specific job search assistance could aid (some) workers in becoming re-employed in manufacturing, where their earnings losses will likely be minimized. This type of job search assistance, focused on re-employment in the old industry, might make sense for the current generation of established workers in import-competing industries. For these workers, reemployment outside of manufacturing produces large and persistent earnings losses and (yet) the costs of retraining are high. The cost-effective approach may be to encourage reemployment where and for as long as the job opportunities exist.

At the same time, reallocation to growing sectors of the economy can be costly for manufacturing workers. With society benefitting overall from the reallocation, these private costs deserve close consideration. These costs can be addressed directly by wage insurance, a program of financial assistance, upon re-employment, for workers who lose jobs, for any reason, through no fault of their own. The goal of a wage insurance program is to get workers back to work as soon as possible, while minimizing longer-term earnings losses. A key aspect of the program, and difference between it and other adjustment assistance programs, is the employment incentive created by making benefits conditional on re-employment.

The basics of such a program are described in Kletzer and Litan (2001).<sup>9</sup> In brief, the program would be open to all workers who could provide documentation that they were “displaced” according to criteria similar to the operational definition of displacement used by the Bureau of Labor Statistics in its Displaced Worker Surveys (plant closing or relocation, elimination of position or shift, and insufficient work). Eligibility can be limited to a minimum period of service on the old job. The Kletzer and Litan proposal suggests a minimum of 2 years tenure on the old job. Workers re-employed in a new job that pays less than the old job (where both old and new job earnings can be documented through employer quarterly earnings reports that are filed with the states) would have a substantial portion of their lost earnings replaced, for up to two years following the date of initial job loss. For example, a displaced worker who once earned \$40,000 per year, re-employed in a new job paying \$30,000 per year would receive \$5,000 per year, for a period from the time of re-employment to two years after initial job loss. Annual payments could be capped, perhaps at \$10,000.

Wage insurance addresses some of the criticisms leveled at TAA and NAFTA-TAA. First, the structure of the program, with benefits available only upon re-employment, presents an incentive for workers to find new jobs quickly. Second, workers’ job search efforts may be broader, as entry-level jobs become more attractive to workers when the earnings gap is reduced. Third and relatedly, the program effectively subsidizes retraining on the job, where it is likely to be far more useful than in a training program where re-employment prospects are uncertain. Fourth, the program directly addresses the critical problem in evidence here: earnings losses upon re-employment.

Many American workers fear job loss and its consequences. There is a narrow, but significant band of workers for whom import-competing job loss is very costly. For other workers, realized costs are smaller. Wage insurance focuses precisely on these costs. It gets workers back to work and offers assistance to meet workers’ real needs.

Thank you for the opportunity to speak today. I am available for questions.

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PREPARED STATEMENT OF GARY G. KUHAR

My name is Gary G. Kuhar. I am the Executive Director of the Northwest Trade Adjustment Assistance Center (NWTAAAC). My center covers the states of Montana, Idaho, Oregon, Washington and Alaska. It is one of twelve such centers located around the country. These twelve centers deliver the assistance to the individual companies available through the Trade Adjustment Assistance (TAA) program for firms and industries. Although we report to the Economic Development Administra-

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<sup>8</sup>A first wave of states implemented the Worker Profiling and Reemployment Services (WPRS) system in 1994. This program, now operated in all states, usually employs a statistical model to identify those unemployment insurance recipients who are most likely to exhaust their entitlement to benefits. The goal is to refer these workers, early in their benefit period, to special reemployment services.

<sup>9</sup>Kletzer, Lori G. and Robert E. Litan. 2001. “A Prescription to Relieve Worker Anxiety,” International Economics Policy Brief, #PB01-2, Institute for International Economics, March.

tion (EDA) of the U.S. Department of Commerce (DOC), we are not federal employees.

Trade Adjustment Assistance is a trade remedy designed to be nonconfrontational with U.S. trading partners. Its primary mission is to help trade-injured small and mid-sized manufacturing and agricultural firms compete with imports.

The Trade Adjustment Assistance Centers (TAACs) identify and assist small and mid-sized manufacturing and agricultural firms to become certified for Trade Adjustment Assistance (TAA). TAACs assist certified, import-impacted firms to become competitive with imports. This is accomplished through cost shared technical assistance, competitively bid, with private sector consulting firms. This assistance is competitive, objective and free from special interests or motives.

Our assistance begins with helping the firm to become certified. My staff visits the client and while on site fills out the petition for certification. There is no cost to the client for this service. The petition is then sent to DOC for certification.

Once the client is certified, my staff again visits the client firm. A cost share agreement is entered into. At this point the firm begins to pay for 25 percent of the cost of diagnostic analysis and adjustment proposal. The DOC pays 75 percent.

The diagnostic analysis looks at the strengths and weaknesses of the company. Every operational aspect of the company is thoroughly investigated. Production, marketing, finance and management sections are studied to better understand the company and its needs.

The adjustment proposal is then prepared. This is a joint effort between the company and NWTAAAC staff. This becomes the company's strategic plan for recovery and improved competition with the imports. Many client company owners and managers have stated that this exercise alone was worth entering the TAA program. It is surprising how many companies have never attempted any sort of strategic planning.

The adjustment proposal is sent to DOC for approval. If the recovery strategy is reasonable and calculated to help the firm recover, it is approved. It must also take into consideration its workers.

NWTAAAC then sets out to find the expert or experts needed to implement the strategy. This is often accomplished through competitive bids. Once identified, NWTAAAC enters into a contract for 50 percent of the work to be completed. The client firm also enters into a contract for the other 50 percent and 50 percent of the TAAC staff's time to monitor the progress on these contracts.

Our involvement with the company remains until the projects are completed. This is often several years. The following is a partial list of the types of projects performed on behalf of the company.

- Strategic marketing plan development and implementation
- Brochure development (English & foreign language)
- Production engineering
- ISO 9000 preparation and registration
- Management information systems design
- Product design
- New product development
- Accounting system design

Although we are limited to technical assistance only, within that framework we are only limited by our imaginations and finances, as long as it accomplishes the needed recovery.

I have worked for NWTAAAC for over 19 years and in my opinion the Trade Adjustment Assistance (TAA) program for firms is the most effective trade remedy available to small and medium size farmers and manufacturers in the U. S. It is the only trade remedy that does not restrict imports in any way, yet effectively mitigates the injury caused to individual companies by those imports. It is designed to save the U.S. workers' jobs by making their employer more competitive with imports. Saving jobs is much more efficient than retraining workers for a job that may not even exist. The only thing that keeps this program from reaching its maximum potential is the extremely low level of funding.

In the five year period of 1996–2000, 530 companies were assisted by our program nationally. TAA for firms helped save and create over 59,000 jobs in those 530 companies. It also helped preserve and increase revenues of over 6.5 billion dollars generated by these same companies. When these figures are compared to the cost of the program, it works out to be an investment of \$884 dollars per job saved and created. Comparing the various federal taxes generated by those 530 companies and over 59,000 employees to the cost of running this program gives a return on the government's investment of over 1100 percent (See Attachment 1). Thus, for every dollar spent on this program over 11 dollars are returned to the U.S. Treasury through federal taxes paid. So much is accomplished by so few federal dollars because the



individual companies pay nearly 50 percent of their assistance. This does not take into effect the local taxes generated or costs saved, such as reduced unemployment expenses.

Numbers, although impressive, don't tell the real story of this program. To see just how truly effective this program is you must look at each company assisted on an individual basis. Every story is unique. Virtually every sector of the U.S. manufacturing economy has received assistance. I would like to focus my testimony today on just one sector, agriculture (including fishing).

More often than not, the agricultural sector of the U.S. economy is the first to feel the impact whenever the U.S. enters into a new trade agreement. This is so because agricultural products are often the most price sensitive. Invariably agricultural imports are cheaper than the U.S. produced product.

The definition of firm used in the Trade Act of 1974, as amended, specifically includes agriculture. To qualify for TAA for firms, a company must have a decline in sales and/or production and employment, and these declines have to be attributed to a significant (not exclusive) extent to increasing imports. The regulations state that "a significant number or proportion of workers (that must be terminated) means 5 percent of the firm's work force or 50 workers, whichever is less. An individual farmer is considered a significant number or proportion of workers." Thus, it is clear that our program was meant to help agriculture. The existing legislation empowers each of the 12 centers to include agriculture in its client base to be assisted.

As Executive Director of NWTAAAC I will use our experience as an example of what can be done to help agriculture.

Since the creation of our center we have helped 99 agricultural firms (See Attachment 2). Currently 21 out of 52 active clients are agricultural. Historically, ten of these clients have been in various aspects of the livestock industry. Seventeen clients have been in the seafood industry. Forty-one have been in the wood products industry. Thirty-one clients have been in the specialty agricultural products industry.

Specialty crop producers which have been assisted include:

- blueberries
- raspberries
- pears
- apples
- honey
- wool uses
- vegetable oil
- grass seeds
- alfalfa pellets
- hazelnuts
- flowers
- mushrooms and
- peas and lentils

We coordinate with the International Trade Commission (ITC) in our marketing to specific agricultural sections and other industries.

Assistance is custom made to fit each company assisted. This is a major benefit of the program. We look at the relative strengths and weaknesses of each company and then help the company customize a recovery plan to fit their individual needs. But instead of stopping here, our program finds the expert needed to implement the recovery strategy. We then monitor the implementation until it is complete to be sure it is effective. Currently, nationally, there is a backlog of over 14 million dollars (federal share) of approved, but unfunded projects.

Sometimes we can help a company reduce its cost of production by redesigning its processing floor or designing a new, more efficient piece of equipment. However, the program does not provide hard assets such as actually paying for the piece of equipment to be built. Historically, it is rare that a U.S. agricultural producer can ever compete with imports on price.

The majority of our assistance, especially in the specialty crop area is marketing related. Quality of the U.S. product is stressed along with customer service. Brand identification, web site design and brochures are very popular forms of assistance with agricultural related companies. But again, the needs of the individual company dictate the type of assistance. With the winter pear growers of Oregon that assistance took the form of a national marketing strategy which was developed from a marketing study that showed consumers want to buy pears that are riper than those currently being marketed by Chile. In another example, NWTAAAC hired an engineer to design a small hydroelectric dam for a sheep rancher. This rancher built the dam and is now selling power to his local power grid. The profits from the sale

of electricity help keep his sheep ranch in business. The expiration of the softwood lumber agreement with Canada has created a surge in lumber clients. In Montana alone NWTAAAC has had three such clients since mid April. A project we are going to do for one of these firms is the development of mill control software. This will allow this company to process small diameter logs which are available to it. This has become necessary because the supply of large diameter material has dried up and virtually disappeared.

In situations where the identity of the specific grower's crop is lost in the distribution process, marketing based on the individual grower's quality does not work. This is the case in commodity crops such as corn. Commodity crops are best dealt with on an industry-wide basis. TAA for firms is specifically empowered by statute to help firms and industries injured by imports. The Trade Act of 1974 states that up to 10 million dollars per industry per year can be spent in assistance. However, it has been several years since enough money was appropriated for this program to be able to fund industry-wide assistance projects. Again, with the pear growers, NWTAAAC combined the funds available to assist individual companies to create a fund large enough to perform a project that would ultimately help the entire U.S. industry, due to the lack of industry grant funding.

While the Trade Act of 1974 as amended, and its accompanying regulations provide the framework to help the small, family farm and the processor of its crops, it hasn't lived up to its potential. EDA allocates its very limited financial resources to each of the 12 centers based on new certifications and adjustment proposals approved. Experience has shown it is easier to qualify a small manufacturer than a small farmer, usually because of the access to better records by the manufacturer. Since each center has many more clients than it has funds to help, combined with EDA's evaluation process of each center, small family farms tend to get overlooked. Also, the limited amount of dollars appropriated for this program means more jobs can be saved with fewer dollars by focusing on non-agricultural product manufacturing.

There is one major problem with the wording of the present statute. As it now exists, the decline in sales and employment must be tied to increasing imports. The word increasing is interpreted to mean imports must be increasing over the same period a year ago. There are industries in the U.S. where imports have 98 percent of the market. It is very difficult to have imports increase over what they were last year. In this case, U.S. companies that may still exist cannot qualify for the program because imports are not increasing, even though the imports may control 98 percent of the market. The U.S. shoe manufacturing industry, what is left of it, is facing this dilemma. The word "increasing" as it relates to imports should be removed from the statute.

The biggest problem facing the operations of TAA for firms is the lack of adequate funding. Every one of the 12 centers delivering the assistance to the companies have many, many more client firms than they have money to help. Several of these centers have stopped taking new clients or have stopped actively marketing the program.

The track record of this program proves this program saves jobs by helping to make the company generating these jobs more competitive with the imports. It just makes sense to put money into the program to save the jobs. Every job saved is another worker that won't have to be retrained for a new job. It's also easier to save a job than to retrain a laid off worker for a new job. If as many jobs as possible are saved, the impact on the community will be lessened.

The labor side of this program is there to provide a much needed safety net for those jobs that simply cannot be saved. For TAA for firms to be effective we must help the company before it is ready to close its doors. Often our client firms are the primary employer in the region. If it closes, a domino effect is experienced by the community and many other businesses also end up closing. In one case in Montana, if the lumber mill closes, the local school will also close. Currently NWTAAAC has four such clients. If they close, the impact on the community will be devastating. Therefore, it is much more cost effective and efficient to save the job in the first place. If the job is saved the worker is not laid off and retraining is not necessary, plus the community is also not impacted with its resultant negative social and economic cost. The taxes raised from the increased revenue generated by the firms in our program, plus the taxes paid by the workers whose jobs have been saved more than pays for the cost of this program, arguably by over 1100 percent.

If funded adequately there would be no need for a new program aimed exclusively at farmers and fishermen. TAA for firms and industries can do the job. This would generate a savings in administrative costs. TAA for firms already have the infrastructure in place to help any farmers, fisherman or manufacturer in need of help. Lack of funding is the only thing stopping that assistance.

This program has had to learn to be lean and effective. Any additional funds over the 10.5 million dollars received this year will go to client assistance directly. Putting 24 million dollars into annual funding of TAA for firms would go a long way in meeting the existing needs of companies. It is also low enough not to be considered a subsidy by the WTO. By helping the firm to compete with the imports, jobs are saved. Workers do not have to be retrained and/or relocated and communities do not suffer the consequences of high unemployment and the social and economic costs associated with unemployment.

Thank you for the opportunity to deliver my testimony to this committee. I hope it helps in your consideration of reauthorization of the TAA program.

#### RETURN ON INVESTMENT

#### TRADE ADJUSTMENT ASSISTANCE CENTERS

##### Investment per job:

Funding, federal fiscal year 1996 to 2000 <sup>1</sup>	\$52,231,000
Total jobs impacted <sup>2</sup>	\$9,106
Investment per job	\$884

##### Economic Impact per job:

Income, average manufacturing job	\$28,000
Federal, state revenue on manufacturing @ 25.5%	\$7,140
Income multiplier <sup>3</sup>	\$13,354
Federal, state revenue on multiplier jobs	\$3,405
Annual federal & state revenue per manufacturing job <sup>4</sup>	\$10,545

##### Return on Investment

1193%

<sup>1</sup> Funding covers 60 months (federal FY 1996 to 2000), includes only federal government expenditures, and includes funding only for 12 Trade Adjustment Assistance Centers. It does not include the administrative costs of the U.S. Department of Commerce.

<sup>2</sup> Jobs impacted are those jobs retained and generated at firms completing at least one technical assistance project by December 31, 2000. It does not include the impact of assistance for firms that entered the program after December 31, 2000.

<sup>3</sup> Multiplier jobs are those jobs generated in providing goods and services required by the employed manufacturing workers. Although often estimated at 2 or 2.5, for the purpose of this analysis, a very conservative multiplier of 0.5 was used. Service job revenue is calculated at an average hourly rate of \$12.84, an annual income of \$26,707 was assumed, and the multiplier income per manufacturing job is \$26,707 x 0.5.

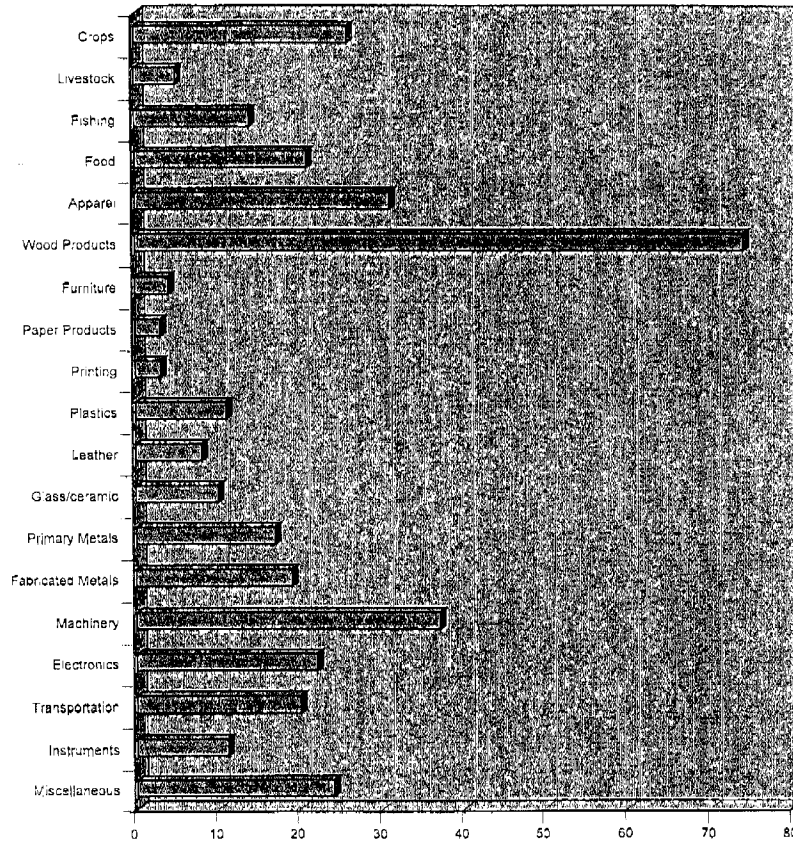
<sup>4</sup> Annual revenue per job disregards local income or property tax revenue.

ATTACHMENT 1

Effectiveness Report of TAAC Clients Responding to Survey - FY 1995 - 2000

TAAC	No. of Clients	Emp 2 yrs before Cert	Emp at Cert	Current Emp	Sales 2 yrs before Cert	Sales at Cert	Current Sales	Inc/Dec Emp 2 yrs before Cert	Inc/Dec Sales since Certification	Unlinked Approved Assistance
New England	73	3,730	6,771	10,146	\$772,126,690	\$753,062,295	\$1,186,928,460	(659)	\$435,865,195	\$1,063,500
New Jersey	40	3,735	3,505	4,021	\$377,150,000	\$327,071,000	\$484,663,000	(230)	\$127,592,000	\$1,175,382
New York	25	2,240	1,854	2,164	\$246,755,357	\$227,052,614	\$248,516,436	(276)	\$22,463,822	\$533,775
Mid-Atlantic	25	5,611	4,602	4,968	\$534,953,138	\$550,509,505	\$558,007,944	(1,029)	\$7,498,439	\$1,745,105
Great Lakes	14	1,224	1,040	1,071	\$111,184,308	\$96,467,523	\$113,910,499	(184)	\$17,442,576	\$1,052,100
Mid West	48	9,528	8,242	8,950	\$1,045,609,000	\$925,300,000	\$1,325,900,000	(1,386)	\$490,600,000	\$2,431,100
Southeastern	38	4,444	4,209	3,027	\$329,953,703	\$268,827,678	\$268,311,465	(235)	\$30,816,213	\$1,011,062
Mid-America	42	3,181	2,735	2,582	\$713,951,525	\$703,364,493	\$256,836,951	(446)	\$53,472,453	\$96,264
Southwest	48	2,025	1,611	2,583	\$158,813,376	\$150,981,898	\$221,523,509	(394)	\$70,831,611	\$1,653,673
Western	70	5,053	4,308	5,671	\$452,247,868	\$432,966,928	\$662,992,026	(745)	\$210,095,088	\$732,436
Rocky Mountain	49	4,024	3,637	3,230	\$773,957,273	\$294,553,671	\$304,407,076	(387)	\$40,853,405	\$904,814
Northwest	57	9,372	10,029	10,733	\$897,740,000	\$798,466,030	\$1,094,463,000	548	\$295,997,000	\$1,502,869
TOTAL	530	60,247	54,644	58,196	\$5,515,658,239	\$5,048,354,035	\$6,729,460,396	(5,603)	\$1,681,406,391	\$14,711,080

Northwest TAAC Firms by Industry



PREPARED STATEMENT OF WILLIAM A. REINSCH

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.

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## PREPARED STATEMENT OF ROBERT RHODES

### INTRODUCTION

The displaced worker who can quickly be provided the skills and support needed and brought back into the workforce will have a very high level of placement and retention. They are the strongest component in the available workforce. The longer the time away from work activities and training enhancement there is less chance of placement success.

### HISTORY

In November 1997 Levi Strauss announced the closing of the Roswell facility. This affected nearly six hundred individuals in the community. The actual layoff process began in April of 1998 and completed in June 1998.

Eastern New Mexico University-Roswell began working with the New Mexico Department of Labor, Human Resource Development Institute, CAEL and TAA to provide services to nearly five hundred former Levi employees. ENMU-Roswell also provided training for more than three hundred and fifty former Levi employees. Initially, before the layoff began, ENMU-Roswell provided information during forums and onsite recruiting fairs. We were able to work with many individuals who were ready to enter the traditional university programs and enrolled one hundred and four students for the spring semester of 1998. We also provided assessments in literacy and English as a Second Language (ESL) as needed for nearly five hundred of the employees. ENMU-Roswell conducted these during the initial phase through the Adult Basic Education Department. The Council for Adult and Experiential Learning (CAEL) conducted the initial advising.



During the initial assessment process, it was determined that, besides occupational skills training, a very serious need existed for basic literacy and ESL training. Many individuals tested at the third grade level or lower in all areas of basic skills, additionally many of these same individuals were at an ESL level of 1 or 2. This does not readily allow training in the traditional form. With all the information gathered we enrolled more than three-hundred and fifty of the former Levi employees in traditional and customized class as follow:

**Academic or Vocational>>>>>Total Students 104**

**Adult Literacy or English as a Second language.>>>>>Total Students 248**

- 79 in ESL training, (45 were in level 1 and 2 ESL for complete non English speaking persons)
- 124 in GED Training,
- 45 in Basic Skills classes.

The Levi employees made up approximately 20 percent of the full time students and 12 percent of the total students.\*

ISSUES

During the process, several issues arose. I have categorized them in three areas: Training, Community, and Government.

TRAINING ISSUES

- **Quality of assessments and counseling**  
The lack of a timely and coordinated response by state agencies created a delay in moving workers into appropriate remediation programs. This delay and the information provided to the university and the worker in many cases failed to provide a true picture of the workers barriers and training needs. The use of inappropriate assessment tools and nominal counseling failed to prepare the worker for the challenges of the transition. We worked with our counseling team and the New Mexico Department of Labor to administer a second level of assessments and provided resources to help the workers more clearly understand the career path and training that was appropriate for them.
- **Capacity**  
Eastern New Mexico University-Roswell is a community college with an enrollment of approximately 3000 full and part time students. We provide academic, vocational and adult literacy services for The Chaves County area. The impact of the Levi Strauss Layoff on our programs and infrastructure was very significant. A twenty percent increase in enrollment does not correctly reflect the impact to specific programs. The Adult Literacy training increased by 70% and customized training services more than doubled.  
The amount and nature of funding for post secondary education inhibits our ability to rapidly adjust to such dramatic changes. Faculty, facilities and equipment needed to provide quality training become scarce resources.
- **Capability**  
The effects of a massive layoff and the needs of the affected individuals creates many unique training needs.  
The need for comprehensive job training programs to train this workforce was compounded by the lack of a clear picture of the skill and literacy of the workforce and the lack of an economic and employment audit of the community.
- **Literacy**  
Seventy Percent of the displaced workers lacked the basic skills to begin occupational training programs.  
Over fifty percent of these workers had moderate to severe literacy and language problems.  
Many of this group had never attended a formal school in either the United States or their native country. The length of time needed to overcome this difficulty is much greater than the traditional workforce.  
*We spend twelve years to provide high school level certification for youth and we only allow a few months for adult's with a second or third grade literacy level to obtain this same certification level.*

*Community Issues**Economic development*

The impact of losing nearly 600 manufacturing jobs in a rural community is dramatic. The available comparable jobs were quickly filled by the higher skilled and literate displaced workers. The remaining opportunities were in low-end service related positions or in high skilled technical positions.

Roswell lacked the industry that would be appropriate for this workforce. Economic development efforts that focus on creating new jobs and developing existing industry are critical for the placement of these workers. Defining the jobs and industry make it easier to develop training and career paths that will lead to these jobs.

The training itself can be an economic development tool if a community can develop a trained literate workforce many companies will be attracted to the labor pool.

*Social issues*

Many of the displaced workers either were resident aliens or were in families of resident aliens. This creates an additional barrier to training and placement. The layoff created an immediate financial windfall without adequate preparation and support for the long-term financial consequences. Many individuals started their own ill-planned businesses, made questionable purchases of equipment and vehicles, or even took extended vacations that quickly depleted any nest egg and left them dependent on the supportive services available.

The need for intensive remediation and training that lasted longer than the available supportive services, caused many individual to withdraw from programs before completion. Often they only lacked one semester.

As workers transition from employment to training and new employment, the impact on the local social services was significant.

*Lack of coordinated efforts*

The layoffs started efforts, at all levels, to reduce the impact on both the community and the affected workers. Lack of coordination and direction, caused many of these well-intentioned efforts to either fail or even be counter productive.

The failure to approach social, economic and community development, and training in a holistic manner, created diverse and disengaged results.

*Government issues**Need for clear coordinated information and services*

The services and information provided at local, state and federal level not only lacked coordination but many time conflicted. There was an apparent delay in making available appropriate resources to address all of the problems arising from the layoffs.

The few local representatives of these agencies were often overburden and under-supported in their efforts to provide services.

In their efforts to help, many agencies provided duplicate or ineffective services.

*Regulations that were counter to needs of the community and workforce*

Restrictions in length and type of training

Mismatch between training and supportive services

Boundaries and responsibilities of agencies

*Results*

Four years after the original lay offs there is still ramifications in the community.

*Positive*

Many needed resources have become available and are beginning to affect the problems.

The community has begun to understand and take action in underlying problem areas.

Those students who were able to complete training in high skilled technical areas were able to enter well paid career fields, i.e., Health, Aviation, Electronics and Computer Technology

Our ability to react and provide services to displaced workers has increased.

*Negative*

Many of the low skilled workers have yet to find quality reemployment. They either have left the labor force, entered support programs, or work in the underground employment market.

There is still a need for adequate quality employment opportunities for the labor force. The growth remains in the service and retail sector with a decline in manufacturing and related jobs.

Although the unemployment percentages have decreased the number actually employed has declined over 1500 people since May of 1998\*\*

Because of the transition to the Workforce Investment Act, there is a reduced capability to react to significant layoffs. In New Mexico, where the "Local" Board oversees 12 counties and an area the size of New York and Massachusetts combined, it is a challenge to address local needs.

#### SUMMARY

Although this testimony has a negative tone, I do not want to play down the many example of positive and even exemplary efforts. All individuals involved in providing service worked toward providing effective relief for the workers.

The Levi workers had a strong work ethic and they used team efforts to resolve issues and to move toward a better future. Many of these individuals are models of how individuals can overcome challenges with training and support to become contributing members and even leaders in their community.

With adjustment to the regulations to reflect the needs of the displaced worker and their community and if a holistic or onestop approach is used to coordinate these services, individuals and communities can recover faster from layoffs.

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\*The information on students and services provided was derived from the records of ENMU-Roswell. This was used to reflect the service we provided without regard to designation by other agencies programs, therefore they may differ slightly from various other agencies' numbers

\*\*May 1998 Employed worker 24,340 Unemployment 9.3% May 2001 employed workers 22,781 Unemployment 7.0% New Mexico Bureau of Labor Statistics

#### PREPARED STATEMENT OF HON. OLYMPIA J. SNOWE

Thank you Mr. Chairman. I want to thank the Chairman for holding this hearing today as the Trade Adjustment Assistance programs are essential in providing short-term financial and re-training assistance to individuals displaced from their jobs due to imports or shifts in productions to Mexico or Canada.

Clearly, there is widespread support for these programs and a general consensus that they deserve reauthorization—as they've played an important role in mitigating the more adverse effects of our trade agreement and policies over the past few decades.

The need has been strong, as you well recognize, Mr. Chairman. Just in my own home state of Maine, for example, we've had workers who have applied for NAFTA-TAA assistance at places like Port Clyde Canning in Rockland, which moved its production to Canada, and Tree Free Fiber Company in our state capitol of Augusta, a company that I'm told was impacted by the import from north of the border of a similar product to the one they manufactured.

Or take the case of SCI Systems, a maker of computer parts that laid off over 200 workers and applied for both TAA and NAFTA-TAA assistance due to the impact of imports from Canada as well as other overseas companies. Another Maine company that manufactured semi-conductors shut down last year and literally pulled its equipment off the floor and shipped it to Mexico.

The fact is, trade results in both the formation of new jobs as well as the loss of others. These programs recognize this reality and help give the American worker the education, training and skills they need to find another job and continue in gainful employment—while at the same time allowing the financial means to pursue the necessary retraining. Since 1996, over 4900 Mainers have applied for retraining benefits.

So the rationale for these programs is as strong as ever. As this Committee looks toward reauthorizing the programs, it is critical we do so with an eye toward what has worked, what are the current realities of the effects of global trade and our global trade agreements—such as the growing trend of shifting production out of the country—and where we want to go in the future.

So I want to thank the Chairman for his efforts in this regard and for developing legislation that we will be able to consider along with legislative recommendations from the administration. I know there are already areas where there's a consensus, such as consolidating the TAA and NAFTA-TAA programs into one, more efficient program—and I support that effort.

Another issue that I know has created problems in my State has been the current budget for training assistance. Like many other states, Maine has continually run short of training funds, forcing them to apply for Department of Labor grants. At worst, a state would have to stop providing retraining assistance—so I look forward to the opportunity to address that issue.

The TAA for firms program has also proved its worth in providing technical assistance to firms *before* they reach the point of having to close to provide them the opportunity of becoming more competitive. In fact, the New England Trade Adjustment Assistance Center (NETAAC) is presently working with four Maine manufacturers, and supervising technical assistance totaling \$535,000. The companies employ approximately 752 workers. This is not a tremendous amount of money to provide the expertise to preserve the jobs of these employees.

I understand that the Chairman's proposal includes measures developed by Senator Conrad that would expand the programs to farmers and fishermen, as well as communities negatively impacted by trade. These are all issues we need to explore further, along with more technical but perhaps no less important matters such as changes in the actual *time-frame* in which the Department of Labor looks at the impact of imports as it considers TAA petitions. Looking at the impact over the course of a fiscal quarter, for example, may provide more of an accurate snapshot than over the course of two years.

Clearly, there will be honest differences on how to proceed. But one thing I think we can all agree on is that these programs provide an invaluable resource to people who might otherwise have no other option comparable to what TAA gives them—the ability to live while they retrain, and retrain to keep working.

I look forward to this hearing as it will serve to provide us with the opportunity to discuss the current TAA programs and any improvements we may make to them as the Committee discusses re-authorization language and I thank the Chairman.

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PREPARED STATEMENT OF HON. PAUL D. WELLSTONE

Mr. Chairman, I appreciate the opportunity to testify today on this important topic. Trade Adjustment Assistance has been an essential resource to the workers, employers and communities of this nation as we confront the challenges of a global economy. I commend your comprehensive review and look forward to working with you to reauthorize an even stronger program.

I am very pleased that the Committee bill to be introduced today incorporates the provisions of the Taconite Workers Relief Act that Senator Dayton and I introduced earlier this year. That bill will ensure that all taconite workers in our state are eligible to receive full TAA assistance. I haven't read your new bill in its entirety at this point, but I intend to do so, and I fully expect to support it.

As the Chairman is aware, the Health, Education, Labor and Pensions Subcommittee on Employment, Safety, and Training, which I chair, has jurisdiction over the Department of Labor's Employment and Training Administration. DOL's infrastructure for youth, adult and dislocated worker job training programs also serves essentially as the delivery system for TAA benefits. We reformed those DOL programs in the Workforce Investment Act of 1998, and I am particularly interested in ensuring that we can successfully integrate the income support, job training, job search and other services available through the TAA program with the job counseling, training and other support services available under WIA. Together these two programs provide essential resources to states and localities for workers attempting to enter or re-enter the job market after losing their jobs.

Helping workers find and prepare for new jobs is critical for addressing the increasingly challenging "skills shortage" issue. Combined with the income support provided under TAA, these services are a lifeline for working families and a key to national competitiveness. We must ensure that these programs function effectively together. Any steps this Committee might take toward helping to provide needed health care, child care and other crucial benefits, are certainly a welcome start, as well.

Finally, Mr. Chairman, I am delighted that the Committee bill being introduced today contains the provisions of S. 422, the Taconite Workers Relief Act. I appreciate the colloquy that the Chairman, Senator Dayton and I entered into on the Senate floor earlier this year. S. 422 makes taconite workers fully eligible for benefits under the Trade Adjustment Assistance Act. Although I was gratified by the determination by the Secretary of Labor earlier this year, that the 1400 LTV workers in Hoyt Lakes who were laid off by the company were eligible for trade adjustment assistance, it is not clear that the Secretary's determination is applicable to all taconite miners in my state. The legislative solution incorporated in the Committee bill

providing that taconite is directly competitive with imported steel slab, makes that eligibility clear and unambiguous. My understanding is that it also results in eligibility as secondary workers for employees of vendors and others who may be adversely affected by the impact of trade on the taconite mines.

This provision is essential to the well being of the hard working men and women of the Iron Range in my state. I applaud you for including the provision in your bill and pledge to do whatever I can to help move this important legislation.

Again, thank you for giving me the opportunity to appear here today. And thank you for the important work you are doing.

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United States General Accounting Office

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Testimony

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International Trade, U.S. Senate

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## TRADE ADJUSTMENT ASSISTANCE

### Improvements Necessary, but Programs Cannot Solve Communities' Long- Term Problems

Statement of Loren Yager, Director, International Affairs and Trade



Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity today to discuss our recent work on federal trade adjustment assistance that we have been undertaking at the Committee's request. These programs are designed to help dislocated workers, communities, and firms adjust to the rapid economic changes that characterize the globalization of national economies. While globalization has increased the importance of technology and service sector jobs, it has also resulted in the loss of many manufacturing jobs as companies that cannot compete with lower-priced imports go out of business or relocate abroad. The federal government recognizes that, while the benefits of increased trade are widely dispersed across the economy, the costs of worker dislocation effects are more localized. This has heightened concerns about the efficacy of federal trade adjustment assistance efforts.

Today I will draw on information from our earlier report on the Trade Adjustment Assistance (TAA) program, which covers workers who lost their jobs because of imports from any country, and the North American Free Trade Agreement Transitional Adjustment Assistance (NAFTA-TAA) program, which covers only those workers who have lost their jobs due to increased imports from or a shift of production to Mexico or Canada.<sup>1</sup> I will also draw on material from our ongoing work for this Committee, which has focused on case studies in six communities to learn about their experiences with trade adjustment assistance. Specifically, I will discuss (1) the nature of trade impacts on communities and the use of benefits and services under the TAA and NAFTA-TAA programs, (2) the structural problems that impede effective delivery of those services and benefits, and (3) the longer-term challenges facing trade-impacted communities.

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<sup>1</sup>See *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs* (GAO-01-59, Oct. 13, 2000). We also completed reports on trade adjustment assistance to communities and firms. See *Trade Adjustment Assistance: Opportunities to Improve the Community Adjustment and Investment Program* (GAO/NSIAD-00-229, Sept. 29, 2000) and *Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear* (GAO-01-12, Dec. 15, 2000).

Before I get into the specifics of these topics, let me provide a brief summary of our findings.

### Summary

In our ongoing review of communities' experiences with trade adjustment assistance, we found about 300 communities that had more than 500 workers certified for TAA benefits from fiscal years 1994 to 1999. Some communities lost a large percentage of their jobs in sudden plant closures, while others experienced rolling layoffs, where a series of smaller plant closures dislocated as many or more workers but did so more gradually. The number of workers covered by certifications under both trade adjustment programs averaged about 163,000 annually from fiscal years 1995 through 2000 (see the app. for 1995-2000 data about payments and service and benefit recipients).

- Apparel and textiles represented about 35 percent of all certified workers, followed by the oil and gas, electronics, and metal and machinery industries.
- In fiscal year 2000, TAA and NAFTA-TAA benefits to displaced workers included
  - \$255 million in income support for basic and extended trade readjustment allowances and
  - about \$104 million in training support.

TAA and NAFTA-TAA provide substantial assistance to dislocated workers. However, program administrators and training officials said that the programs have structural problems that impede effective service delivery. Specifically, they said that

- the period of time dislocated workers receive income support versus training benefits is inconsistent (18 and 24 months, respectively), which local officials and workers said limited training options;



- the instability of funding for training benefits results in delayed approval of training requests; and
- the maintenance of separate TAA and NAFTA-TAA programs is administratively inefficient and confusing.

We found in our reviews that providing trade adjustment assistance cannot resolve all the workers' or communities' long-term challenges—particularly those faced by lower-skilled workers and less economically diverse communities. For example, based on the most recent national data, approximately 80 percent of the TAA and NAFTA-TAA workers using benefits in fiscal years 1999 and 2000 had a high school education or less, compared to 42 percent in the overall labor force. In addition, many of these workers have been out of the educational system for 20 years, and in some communities, many have limited English skills. Because of these and other challenges, TAA-sponsored training is unlikely to complete the match between these workers and the kinds of jobs available in the current economy.

The communities face other longer-term challenges such as improving their human capital. Community leaders found that there is limited federal and state assistance to help with economic adjustment. However, even when these communities received funds, the funds were targeted and not necessarily designed to address long-term human capital and infrastructure challenges. Many of these communities had relied on low-skilled manufacturing jobs, which are disappearing, and now face the difficult task of diversifying their economies. As a result, many of these communities are attempting to replace the jobs that were lost to layoffs. At the same time, they are trying to attract higher paying and more stable service industry jobs. However, while helping dislocated workers is the immediate challenge, it does not lead to—and may even detract from—the efforts to achieve a more flexible and highly educated workforce and a more diversified economy.

At the end of my statement, I highlight several matters the Congress may wish to consider during its reauthorization deliberations.

### **Background**

The TAA and NAFTA-TAA programs assist U.S. workers displaced by foreign trade and increased imports.<sup>2</sup> The TAA program covers workers who lose their jobs because of imports from any country, while the NAFTA-TAA program covers only workers who have lost their jobs because of increased imports from or a shift of production to Mexico or Canada. In addition to the NAFTA-TAA program provided for in the North American Free Trade Implementation Act, a Statement of Administrative Action was issued that made a commitment to provide services and benefits for “secondary workers.” Such workers are employed at firms that supply or assemble products produced by directly affected firms certified under NAFTA-TAA. However, such secondary workers are not eligible for the NAFTA-TAA program but receive benefits under another dislocated worker program. Both TAA and NAFTA-TAA programs provide similar benefits such as trade readjustment allowances (extended income support beyond normal unemployment insurance benefits), services such as job training, and job search and relocation allowances. However, the two programs’ rules covering benefits and services differ.

The Department of Labor oversees both programs and makes final determinations regarding worker eligibility. Groups of workers or their representatives can petition the Department of Labor for certification of eligibility to apply for services or benefits under the program (under NAFTA-TAA, this process begins in the states). The Department then conducts an investigation to determine if increased imports have contributed to their loss of employment. Once a TAA or NAFTA-TAA petition is approved, covered workers must meet several tests

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<sup>2</sup>The current Trade Adjustment Assistance program was created by the Trade Expansion Act of 1962 (P.L. 87-794). It was substantially modified by the Trade Act of 1974 (P.L. 93-618) and the North American Free Trade Agreement Implementation Act of 1993 (P.L. 103-182).

regarding the timing of their layoff and their length of employment with the trade-impacted firm. Workers can be certified as eligible for both programs but can claim benefits from only one. The states play a major role by providing program services and benefits, such as job training and reemployment services.<sup>3</sup> The TAA and NAFTA-TAA programs together received about \$407 million in fiscal year 2001 funding. Workers who lose their jobs for nontrade reasons generally receive benefits under the Workforce Investment Act program, which will serve an estimated 927,000 workers in fiscal year 2001 and received about \$1.6 billion in funding.

Generally, TAA and NAFTA-TAA income assistance for a dislocated worker is equal to the weekly benefits of the state's unemployment insurance program<sup>4</sup> and may be paid for up to 52 weeks after the initial 26 weeks (30 weeks in Massachusetts and Washington state) of unemployment insurance benefits have been exhausted. Thus, eligible dislocated workers may receive up to 78 weeks (18 months) of cash payments if enrolled in approved training or if eligible for a training waiver. Dislocated workers also are eligible for up to 104 weeks (2 years) of training. Therefore, workers do not necessarily receive income assistance during their entire period of training.

The federal government has also established programs to assist trade-impacted firms and communities suffering job losses due to changing trade patterns. For example, the Trade Adjustment Assistance program for firms, established in 1962 and administered by the Department of Commerce's Economic Development Administration, provides assistance to firms that can demonstrate that increases in imports have contributed importantly to layoffs and declines in sales or production. The TAA for firms program was funded for \$10.5 million in fiscal year 2000. In addition, the Community Adjustment and Investment Program was

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<sup>3</sup>See *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs* for a more detailed discussion of TAA and NAFTA-TAA certification procedures and eligibility requirements.

established as a result of the 1993 North American Free Trade Agreement Implementation Act. Under the program, loan guarantees, loans, and grants are provided to businesses and grantees in eligible counties to help stimulate private sector employment and growth. Loan guarantees to local businesses have accounted for the preponderance of financing commitments to date. The program was established with an initial capitalization of \$22.5 million and has received \$20 million in additional appropriations to support and expand program activities. The Congress did not appropriate any funds for the program in fiscal year 2001.

### **Trade Affects Wide Range of Workers and Communities**

#### Worker Certification Trends—Fiscal Years 1995 Through 2000

The estimated number of workers covered by certifications under both trade adjustment programs averaged about 163,000 annually from fiscal year 1995 to 2000, reaching a high of about 228,000 in fiscal year 1999 (see table in app.).<sup>5</sup> Petitions under the TAA and NAFTA-TAA programs covered an estimated 977,611 workers during fiscal years 1995-2000.<sup>6</sup> Many worker groups file for certification under both programs, and Department of Labor officials estimate that 75 percent of NAFTA-TAA certified workers are also covered by TAA petitions. Such workers could be counted twice in the overall program totals if they had been part of the groups that filed for certification under both programs. From fiscal years 1995 through 1999, these certifications covered workers in apparel and textiles (35 percent), oil and gas (15 percent), electronics (9 percent), and metal and

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<sup>4</sup>Unemployment benefits vary widely among the states. In 1999, the average benefit was an estimated \$202 per week.

<sup>5</sup>By way of comparison, between January 1997 through December 1999, 1 million factory workers lost jobs in the United States, according to the Bureau of Labor Statistics. These job losses accounted for about one in every three job displacements in the country during that period.

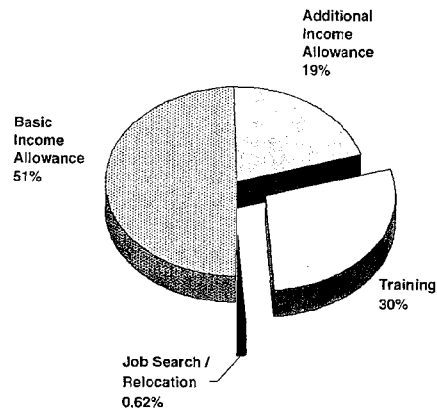
<sup>6</sup>These certifications represent potentially affected workers—not actual jobs lost. In some cases, workers certified were facing the potential loss of their job and were not laid off. Thus, program certifications are not an accurate count of job losses due to trade.

machinery (8 percent); the remaining petitions were from a range of manufacturing industries.

#### Trends in Benefit Utilization

The largest benefit delivered to trade-impacted displaced workers in 1995 to 2000 was in the form of income support, primarily to allow workers partial wage replacement while taking training. The TAA and NAFTA-TAA programs paid a total of \$843.7 million during this period for basic income allowances. The two programs also paid \$314.5 million in additional income allowances. Training courses cost \$494.2 million, and job search and relocation allowances totaled \$10.3 million over the 6-year period. Most state officials we surveyed said job search and relocation benefits have not been heavily utilized, because workers are reluctant to move to new areas, primarily because of family commitments or ties to the community. Figure 1 depicts the breakout of major TAA and NAFTA-TAA services and benefits for fiscal year 2000.

Figure 1: Trade Adjustment Assistance Benefit Utilization, Fiscal Year 2000



Totals may not add up to 100 percent due to rounding.

Source: GAO analysis of Department of Labor data. The Department of Labor still considers data for fiscal year 2000 preliminary.

#### Trade-related Layoffs Hurt Case Study Communities

As part of our work on trade adjustment assistance, we identified about 300 communities that had 500 or more workers certified for TAA benefits between fiscal years 1994 and 1999. Based on our case study examination of six of these communities, we found that trade-related layoffs occurred in a variety of ways. In some communities, a single large plant closing led to the layoff of more than 500 workers. For example, Tultex, an apparel manufacturer and one of the largest employers in Martinsville, Virginia, declared bankruptcy in December 1999 without prior notice and immediately closed all operations. This left more than 2,000 workers without jobs and caused the city's unemployment rate to rise from about 9 percent to almost 20 percent that year. In other cities—such as El Paso,

for example—a series of layoffs occurred that have contributed to their relatively high unemployment rates.

We also observed that many of the communities that we visited were concerned about additional trade-related layoffs and plant closures. In Washington, North Carolina, and Martinsville, Virginia, community leaders said that they expect their textile and apparel industries to continue to decline because of increased foreign competition. Martinsville leaders also fear that the furniture industry, another large employer in their community, will begin to feel the impact of increased furniture imports.

### **Delivery of TAA Services and Benefits Hampered by Program Structure**

#### Length of Time for Income Support Limits Training Options

Program administrators, training providers, and workers in training consistently said that the TAA and NAFTA-TAA programs needed to close the gap between extended income support payments, which are provided for up to 18 months, and training, which is provided for up to 24 months. Although there are mixed views and little data on the outcomes associated with shorter and longer training programs, the gap in income support is believed to create difficulties for workers in 2-year training programs. This situation occurs because when income support payments stop, dislocated workers generally drop out of training because they cannot afford to remain in classes without financial assistance. This choice often precludes them from pursuing a 2-year Associate of Arts degree program, which could result in higher earnings or better skills, or any 2-year course of study involving initial remedial courses.<sup>7</sup>

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<sup>7</sup>Department of Labor program data show that about 12 to 16 percent of those entering training took remedial courses during fiscal years 1995-2000.

Funding Problems Lead to Training Delays

Another problem with program structure cited by local program administrators was the lack of a stable funding stream for training benefits. Although training is a key part of a worker's benefits, some states had difficulties providing consistent funding for training due to administrative problems in the Department of Labor. Generally, federal funding is provided to states quarterly and is based on prior expenditures. Because TAA and NAFTA-TAA certifications fluctuate, in some cases states may not have received sufficient funding to cover workers enrolled during a quarter. In addition, state and local officials reported that insufficient federal funds are available for the programs toward the end of the fiscal year (Department of Labor officials said these problems primarily occur in the first and last quarters of the fiscal year). High levels of certifications from unanticipated layoffs and plant closures have resulted in states—Texas and North Carolina, for example—with large numbers of workers enrolled in training at the same time that program officials were informed that no additional federal funds remained.<sup>8</sup> As we noted in our recent report,<sup>9</sup> although the Department of Labor has issued formal guidance that states should not stop enrolling workers in program services and benefits when funding is temporarily unavailable, agency officials report that few states have done so. In some cases, when federal training funds are depleted, states use Workforce Investment Act<sup>10</sup> or other state monies.

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<sup>8</sup>When this happens, states may apply for funding, such as National Emergency Grants from the Secretary of Labor, put workers on waiting lists, or suspend the training program.

<sup>9</sup>*Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs.*

<sup>10</sup>The Workforce Investment Act of 1998, title I, provides assistance to persons who have been laid off due to plant closures or mass layoffs and/or meet the eligibility requirements outlined in the act. There is no special category of causation, such as that for trade-impacted workers under TAA and NAFTA-TAA.



### Difficulties Stemming From Maintaining Separate Trade Adjustment Assistance Programs

Maintaining separate TAA and NAFTA-TAA programs results in a basic structural problem that confuses participants and causes problems for program administrators. Dislocated workers we interviewed in Texas and Michigan stated that the explanations that program officials provided about the programs before workers choose a program were inadequate and did not sufficiently clarify workers' questions. For example, while a worker can obtain a waiver from training under TAA and still receive income support, waivers are unavailable under NAFTA-TAA. Explaining this difference and others to dislocated workers unfamiliar with federal programs can confuse workers— particularly because many workers are certified for benefits under both programs and must select one under which to take benefits.

Officials in the 20 states we surveyed and in the states and localities we visited believed that differing certification and training enrollment procedures of the two programs hinders effective program administration. Under current law, TAA petitions are received and processed by the Department of Labor, while NAFTA-TAA petitions are submitted to the state agency in which the affected plant is located. Officials in every state administrative office and case study community we visited consistently supported the consolidation of the TAA and NAFTA-TAA programs. These officials believed that consolidation would simplify program administration and be more efficient.

### Other Program Requirements Hinder Delivery of Benefits and Services

Other program requirements can impede dislocated workers from successfully completing training, according to state program administrators and program participants. State officials were critical of the enrollment deadlines to qualify for income support in the NAFTA-TAA program. To qualify for transition

readjustment benefits under NAFTA-TAA, a worker must enroll in an approved training program by (1) the last day of the 16<sup>th</sup> week of their most recent qualifying separation or (2) the last day of the 6<sup>th</sup> week after publication of the certification in the *Federal Register*, whichever is later. The TAA program does not have this requirement. According to some state officials, the stringent NAFTA-TAA requirement limits the training options for workers who only qualify for this program. In some cases, appropriate training courses are not scheduled to begin within the enrollment deadline, so workers choose to take less suitable courses to retain eligibility for income support. The TAA and NAFTA-TAA programs also prohibit dislocated workers from receiving income support if there is a break in training exceeding 14 days. Program administrators we interviewed explained that community colleges generally have semester breaks lasting longer than 14 days, which means that dislocated workers cannot receive any financial assistance during that period.

Other factors complicating service and benefit delivery include certification delays at the Department of Labor and federal paperwork requirements. As noted in our recent report, Department of Labor delays in certifying TAA and NAFTA-TAA petitions or state program administrative office delays in approving workers' training plans can limit workers' options.<sup>11</sup> Department of Labor officials said that nearly all states have centralized approval of workers' training plans because local officials have less experience with TAA and NAFTA-TAA regulations.

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<sup>11</sup>We found that in fiscal year 1999, 58 percent of NAFTA-TAA investigations exceeded the 40-day statutory requirements and 34 percent of the TAA investigations exceeded the 60-day limit. See *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs*.

**Trade Adjustment Assistance Cannot Solve Communities' Longer-Term Problems**Education Seen as Key to Successful Adjustment

One challenge consistently cited by government and civic leaders in the communities we visited was the issue of human capital. They said that they needed to improve local educational systems, which often had high school dropout rates much higher than the national average. In several communities, local leaders said that school facilities and curricula need to be improved to better prepare students for high-skilled jobs and to develop a more attractive environment for companies that they would like to recruit. In some communities, local officials said that they were caught in a difficult situation in which local residents who graduate from college leave for better jobs elsewhere. At the same time, they were hampered in recruiting firms that needed a college-educated workforce, in part because they had low numbers of such workers in their area.

Worker Profile Indicates Potential Training Challenges

The profile of dislocated workers that emerged from our case study discussions with program administrators, training providers, and small groups of dislocated workers is consistent with the Labor Department's available national data on TAA and NAFTA-TAA dislocated workers. The Department's data on these programs illustrates the human capital challenge facing trade-impacted communities (see table 1). The table compares trade-dislocated workers nationwide to the total U.S. workforce. While 42 percent of the nation's total workforce has a high school education or less, 80 percent of trade-dislocated workers fall into this category. Among trade-dislocated workers, the average age was 43, and 59 percent were over the age of 40. In addition, 64 percent of these workers were women. These data suggest, and community leaders we interviewed in our case studies confirmed, that trade-impacted workers tend to be less mobile and face difficulties reentering a workforce that increasingly requires more skills and

training. As a result of these factors, moving these workers further along on the educational or job skill continuum is a challenge. Our discussions with training providers and workers indicated that enormous sacrifices are necessary for dislocated workers—many of whom have been out of school for 20 years or more—to be successful in an educational system that has become more challenging while maintaining family and other responsibilities. Given these factors and the maximum 2 years of training available, earning an Associate of Arts degree would represent a considerable achievement yet may still leave these participants short of the skills required for many technology and service sector jobs.

Table 1: Profile of TAA and NAFTA-TAA Participants Compared to Total U.S. Workforce, Fiscal Years 1999-2000

Worker characteristics	Nationwide TAA and NAFTA-TAA participants	Total U.S. workforce
Gender		
Male	36%	53%
Female	64	47
Average age	43 years	NA
Limited English proficiency	12%	NA
Average old wage	\$12.13 per hour (at separation)	\$13.36 per hour (current wages for production workers)
Average new wage	\$10.31	Not applicable
Median tenure	7 years (at separation)	3.5 years
Education		
Less than high school	25%	10%
High school graduate	55	32
Some post-high school	17	28*
College graduate	4	30

Notes: TAA and NAFTA-TAA participant data based on data from 36,000 workers who left the TAA and NAFTA-TAA program in fiscal years 1999-2000 and filled out a survey. Total U.S. workforce data are from Bureau of Labor Statistics Employment Situation Report for May 2001, except for average wage and average tenure data, which are Bureau data for February 2000.

NA=Not available

Totals may not add up to 100 percent due to rounding.

\*"Some post-high school" for total U.S. workforce includes some college, no degree, and associate degrees.

Sources: GAO analysis of TAA and NAFTA-TAA participant data from Department of Labor and data from Bureau of Labor Statistics.

Differing Economic Adjustment Strategies May Be Needed to Facilitate Adjustment to Trade Impacts

Communities recovering from adverse trade impacts are struggling with difficult choices needed to rebuild their economic base and retool to better compete in the national and global economies. The assistance available for communities' economic adjustment efforts is limited, targeted, and generally short-term. Three of the communities where we conducted our case studies are adopting strategies that aim for economic diversification by preparing their workforce for the high-skilled, well-paying jobs that they hope to attract. However, these communities realize that they still need jobs suitable for low-skilled, displaced workers who will not qualify for jobs in the new economy.

The communities we visited as part of our case studies had received some assistance from federal and state governments to facilitate their economic adjustment efforts. The federal government provided a total of \$59.5 million in economic adjustment assistance funding to these six communities from fiscal year 1995 to the present, mostly in federal loan guarantees. Of this amount, the largest amount was \$42.3 million in loan guarantees to businesses provided by the Community Adjustment and Investment Program, most of which were made in El Paso, Texas (\$38.7 million). The second largest source of funding was from the Department of Commerce's Economic Development Administration, which provided \$10.5 million in grant assistance to these six communities from fiscal year 1995 to early fiscal year 2001. Community officials believe they are limited in their ability to obtain such federal assistance, which is spread across many federal agencies, because there is no central source of information on available programs and because they often lack the financial resources to meet grant matching requirements. Local officials also believe that the programs targeted at trade-impacted areas are too limited to make a significant difference in their communities' adjustment efforts.

Those involved in worker adjustment assistance programs in the communities pointed to the need for training programs linked to the employment needs of local businesses. One of the fundamental challenges facing trade-impacted communities is helping dislocated workers—generally older workers with a high school degree or less—adjust to an increasingly globalized economy that requires different skills than those needed when these individuals first entered the workforce. In fiscal year 1999, occupational training was the most common type of training provided under the TAA and NAFTA-TAA programs. Computer and information system skills and office and business administration were the most popular training programs, with 14 states of 20 listing them in their top three occupational course offerings to trade-impacted workers. Medical skills, including nursing, were listed among the top three training courses by nine states; and six states listed English as a second language or remedial education in the top three training courses offered. However, these relatively short-term training programs may not bridge the gap between these workers' current skills and the skills they need to enter a workforce more focused on technology and services.

#### **Matters for Congressional Consideration**

As a result of the work that we have performed for the Committee, we have several matters that the Congress may wish to consider as part of its current deliberations about consolidating or restructuring the trade adjustment assistance programs. With regard to the TAA and NAFTA-TAA programs, the Congress may wish to simplify the administration of the TAA and NAFTA-TAA programs by standardizing (1) time frames for workers to enter training, (2) training waiver policies for certified workers, and (3) time frames for completing certification investigations. Congress may also wish to consider whether workers who experience an unavoidable break in training of more than 14 days (such as semester breaks) should continue to receive income benefits.<sup>12</sup>

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<sup>12</sup>Our prior reports also contained recommendations to improve the effectiveness of the trade adjustment assistance programs. See *Trade Adjustment Assistance: Trends, Outcomes, and Management Issues in Dislocated Worker Programs*; *Trade Adjustment Assistance: Opportunities*

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I will be happy to answer any questions the Committee members may have.

**Contacts and Acknowledgments**

For future contacts regarding this testimony, please call Loren Yager or Phillip Herr at (202) 512-4128. Individuals making key contributions to this testimony included Sigurd Nilsen and Leyla Kazaz.

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*to Improve the Community Adjustment and Investment Program; and Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear.*



## Appendix

**Trade Adjustment Assistance and North American Free Trade Agreement  
Transitional Adjustment Assistance Payments and Service and Benefit  
Recipients, Fiscal Years 1995-2000**

Dollars in millions

	1995	1996	1997	1998	1999	2000	Total
Total workers certified <sup>a</sup>	118,837	166,310	165,898	153,804	227,650	145,112	977,611
Basic allowance							
Payments	\$109.5	\$127.8	\$148.0	\$119.2	\$159.1	\$180.1	\$843.7
Recipients	25,641	32,856	34,158	26,241	36,910	32,368	188,174
Additional allowance							
Payments	\$41.6	\$43.6	\$53.6	\$50.2	\$50.7	\$74.8	\$314.5
Recipients	5,856	7,132	15,215	7,736	8,166	10,010	54,115
Training							
Costs	\$60.9	\$68.5	\$83.4	\$79.9	\$97.3	\$104.2	\$494.2
Recipients	28,645	32,971	26,865	25,235	32,120	24,106	169,942
Job search							
Costs	\$0.3	\$0.3	\$0.2	\$0.1	\$0.1	\$0.1	\$1.1
Recipients	927	752	520	289	314	359	3,161
Job relocation							
Costs	\$2.8	\$1.8	\$1.7	\$0.8	\$1.0	\$1.1	\$9.2
Recipients	1,678	940	875	473	771	731	5,468
<b>Total service and benefit payments</b>	<b>\$215.1</b>	<b>\$242.0</b>	<b>\$286.9</b>	<b>\$250.2</b>	<b>\$308.2</b>	<b>\$360.3<sup>b</sup></b>	<b>\$1,662.7</b>

Note: Readjustment allowance and training recipients may appear in quarterly reports spanning more than one fiscal year. Likewise, workers could have received more than one type of benefit in a fiscal year. "Recipients" means the number of people receiving a first trade readjustment allowance payment and the number of people who entered training.

<sup>a</sup>These figures include workers certified under both programs.

<sup>b</sup>Data for 2000 are preliminary.

Source: GAO analysis of Department of Labor data collected quarterly from the states.

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United States General Accounting Office

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**GAO**

Report to the Chairman and Ranking  
Minority Member, Committee on  
Finance, U.S. Senate

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October 2000

**TRADE  
ADJUSTMENT  
ASSISTANCE**

**Trends, Outcomes, and  
Management Issues in  
Dislocated Worker  
Programs**



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### Abbreviations

NAFTA	North American Free Trade Agreement
TAA	Trade Adjustment Assistance



United States General Accounting Office  
Washington, D.C. 20548

October 13, 2000

The Honorable William V. Roth, Jr.  
Chairman  
The Honorable Daniel Patrick Moynihan  
Ranking Minority Member  
Committee on Finance  
United States Senate

Concerns about the effects of the globalization of national economies and the rapid pace of economic change have focused attention on federal programs designed to assist U.S. workers displaced by foreign trade and increased imports. Federal efforts to provide such assistance began with the Trade Expansion Act of 1962. They were enhanced by the Trade Act of 1974 and the North American Free Trade Agreement Implementation Act of 1993. The Trade Adjustment Assistance program covers workers who lose their jobs or are threatened with job loss because of imports from any country, while the North American Free Trade Agreement Transitional Adjustment Assistance program covers only workers who have lost jobs because of increased imports from, or shift of production to, Mexico or Canada. Workers can be certified under both programs but must choose one from which to claim benefits.<sup>1</sup> These programs aim to help workers to obtain new jobs by providing benefits such as trade readjustment allowances (extended income support), job training, and job search and relocation allowances. The Department of Labor administers both programs and makes determinations regarding worker group eligibility. The states play a major role by providing program services and benefits, such as job training and reemployment services.

For fiscal year 2000, Congress provided \$349 million for the Trade Adjustment Assistance program and \$66 million for the North American Free Trade Agreement Transitional Adjustment Assistance program. There have been recent congressional and administration proposals to merge these programs and extend coverage and increase funding for job training.

You asked us to assess how these two programs have met the needs of workers affected by greater foreign trade and increased imports and to identify potential program improvements. Our specific job objectives were

<sup>1</sup>Certification establishes eligibility for workers to apply for services and benefits under these programs.

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to examine (1) the recent trends in worker certifications and the extent to which program services and benefits have been used, (2) the extent to which the program helped workers become reemployed and maintain prior wages, (3) the budgetary implications of extending program benefits to new groups of workers, and (4) program structure and management issues affecting the delivery of assistance to trade-impacted workers.

To address these objectives, we surveyed 20 states representing about 76 percent of all workers certified under these programs between October 1, 1994, and December 31, 1999; analyzed available Department of Labor program data on services and benefits provided to certified workers; and identified the potential impact of expanding the program under different economic assumptions. For further information on our scope and methodology, see appendix II.

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## Results in Brief

The industry with the largest number of trade adjustment certifications from fiscal years 1995 to 1999 was apparel and textiles. During this period, the estimated number of workers certified under the Trade Adjustment Assistance and the North American Free Trade Agreement Transitional Adjustment Assistance program generally trended upward and reached a high of about 228,000 in fiscal year 1999. Program services and benefits payments during these five fiscal years totaled \$1.3 billion, about 70 percent of which was used to pay for trade readjustment allowances (extended income support), 30 percent for training, and less than 1 percent for job search and relocation benefits. Training participation rates under the Trade Adjustment Assistance program fell from 31 percent of eligible beneficiaries in fiscal year 1995 to 18 percent in fiscal year 1999 though the number of actual participants in the program increased. While the declining trend in the training participation rate may be due in part to the low overall U.S. unemployment rate and high economic growth during the late 1990s, some states also reported that they have established training waiting lists or have suspended training due to Department of Labor funding delays.

Limited data on program outcomes regarding reemployment and wage maintenance during and after program participation make it difficult to evaluate the programs' effectiveness. The programs' goal is that 72 percent of participants will find employment upon leaving a program. Labor Department data gathered from about 6,000 individuals who left a program in fiscal year 1999 indicate that 75 percent found employment. However, our analysis found that only 56 percent of those workers earned 80 percent or more of their preseparation wage. Wage and employment outcomes for

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workers who received training, however, were better than for participants who had training waivers<sup>2</sup> and did not take training.

According to our analysis, expanding the Trade Adjustment Assistance program to include two groups currently not covered—secondary workers who supply inputs to firms adversely affected by trade or workers who lose their job because an employer shifted production to any country outside the United States (as opposed to Mexico or Canada only)—could add an estimated 34,000 to 211,000 workers annually between 2001 and 2005 and cost from \$89 million to \$554 million per year. These estimates are highly sensitive to changes in the assumptions about the rate of growth in the programs, the level of training enrollment, the definition of “secondary workers,” and the potential impact of recently approved trade legislation.

We identified three issues that affect the delivery of assistance to trade-impacted workers: standardizing worker eligibility rules, placing time limits on training enrollment, and improving program administration. Standardizing eligibility rules was consistently cited by state and federal officials as likely to make the programs easier to administer and less confusing to workers. For example, the programs currently have different rules for qualifying for income support (time frames to begin training, and obtaining training waivers) as well as for conducting certification investigations. As a result, workers’ transition and training options may be limited in some cases. In addition, certification investigations are not always completed within required time frames, potentially delaying workers’ transition to employment and retraining opportunities. We also identified internal control weaknesses that may have resulted in states providing \$2.3 million in benefits to ineligible workers from fiscal year 1997 through fiscal year 1999.

This report contains matters for congressional consideration regarding the standardization of benefits. It also contains recommendations to the Secretary of Labor to improve program management. In written comments on a draft of this report, the Department of Labor generally agreed with our findings.

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<sup>2</sup>Training waivers may be provided to workers when training is unavailable, inappropriate, or for other reasons.

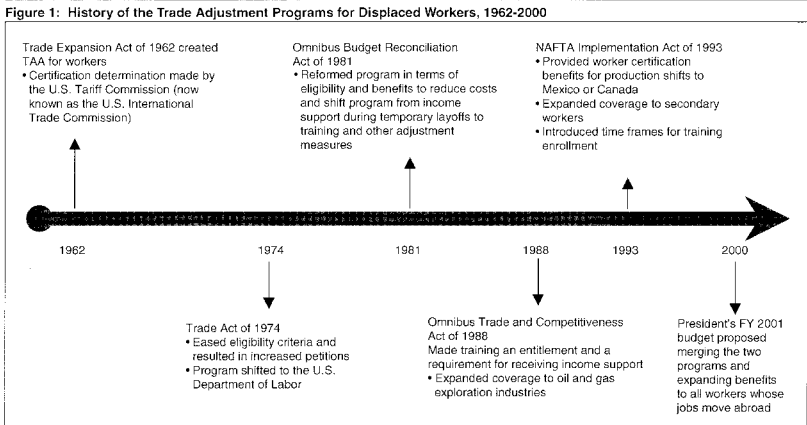
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## Background

The current Trade Adjustment Assistance program (TAA) was created by the Trade Expansion Act of 1962 (P.L. 87-794) and substantially modified by the Trade Act of 1974 (P.L. 93-618). The North American Free Trade Agreement Transitional Adjustment Assistance program (NAFTA-TAA) was created by the North American Free Trade Agreement Implementation Act (P.L. 103-182). Both are entitlement programs. Since it began, TAA has shifted from a program that was little used in the 1960s to a program covering manufacturing, particularly steel and automobile industries in the late 1970s to early 1980s, and light industry and apparel workers in the mid- to late-1990s. The estimated number of workers covered by program certifications peaked at almost 705,000 in fiscal year 1980, largely a reflection of layoffs experienced in the auto and steel industries. Figure 1 presents a time line showing key program milestones since 1962.





Legend  
 FY= Fiscal year  
 Source: Gregory K. Schoenle, "U.S. Trade Adjustment Assistance Policies for Workers," in *Social Dimensions of U.S. Trade Policies*, A.V. Deardorff and R.M. Stern, eds. (Ann Arbor, MI: University of Michigan Press, 2000), pp. 100-103.

**Certification Procedures**

Becoming certified to receive TAA benefits requires meeting several criteria specified in the law. The process begins when a group of workers or their representative petitions the Department of Labor for certification of eligibility to apply for services and benefits under the program. The Department then conducts an investigation to determine if increased imports have contributed to the loss of employment. The investigation focuses on whether (1) a significant number of workers have lost their jobs or are threatened with job loss, (2) the company's sales or production has decreased, and (3) imports of articles "like or directly competitive" have increased and "contributed importantly" to both the total or partial separation of workers and to the decline in sales or production.

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The NAFTA-TAA certification process is similar to that of TAA, but there are some important differences. To be certified for benefits, workers generally must have lost their job or be threatened with job loss because of (1) increased imports from Canada or Mexico or (2) a shift in production by the workers' firm to Mexico or Canada. After NAFTA-TAA was implemented in 1994, the administration issued a Statement of Administrative Action in which the administration made a commitment to provide adjustment services to workers in firms that are indirectly affected by imports from Mexico or Canada. These "secondary" workers receive assistance under the Workforce Investment Act.<sup>3</sup> In addition, family farmers may apply for NAFTA-TAA certification.

According to Department of Labor officials, the most complex aspect of the TAA and NAFTA-TAA certification investigation is determining whether imports have "contributed importantly" to sales and production declines. To evaluate whether this certification criterion has been met, Department investigators may survey up to six of the firm's major declining customers to determine whether their reduced purchases from the firm were accompanied by increased imports of like or directly competitive products. These investigations go back to the 2 most recent full years, and the year-to-date statistics are compared to the same period of the previous years.<sup>4</sup> A certification petition may be approved if a firm's customer or a firm's own imports increased either absolutely or relative to production in either the most recent years or in the year to date compared to the same period of the previous year. According to Department of Labor officials, only in cases where firms are no longer in business or surveys are impractical are overall import data consulted to make certification decisions.<sup>5</sup>

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<sup>3</sup>PL 105-220, Sec. 173, August 7, 1998. If Labor makes a determination that the worker group is secondarily affected, the workers receive the same services and benefits as provided under NAFTA-TAA though they receive benefits under the Workforce Investment Act.

<sup>4</sup>For more information on certification procedures, see *NAFTA-TAA Program: Certification Criteria, Procedures, and Activity* (GAO/NSIAD-98-51R, Nov. 4, 1997).

<sup>5</sup>There is some concern that economic changes have made it more difficult to apply the legislative test that imports have contributed importantly to real or threatened job loss, particularly in industries with a high level of import penetration and in which imports are no longer increasing. Department of Labor officials said focusing on import competition faced by individual firms rather than macroeconomic indicators such as import penetration alleviates the difficulty of applying the test that imports contributed importantly to job losses.

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<b>Eligibility Requirements</b>	Once a TAA or NAFTA-TAA petition has been approved, covered workers must meet several tests in order to be eligible for benefits: (1) the worker must have been laid off for lack of work on or after the date that imports first led to separations at the firm as determined in the certification investigation and on or before the expiration of the certification; and (2) in order to qualify for the trade readjustment allowance, the worker must have had at least 26 weeks of employment at wages of \$30 or more a week with an affected firm or a subdivision of a firm in the year prior to separation. Workers certified as eligible for both programs must choose only one as a source of services and benefits.
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<b>Program Services and Benefits</b>	The programs provide a range of services and benefits to help displaced workers find jobs. The trade readjustment allowance under both programs is equal to the weekly benefits of the state unemployment insurance programs <sup>9</sup> and may be paid for up to 52 weeks after the regular unemployment benefits have been exhausted. Thus, a worker certified for trade adjustment assistance can receive up to 78 weeks of cash payments if enrolled in approved training. Under both programs, an individual can also receive a total of 104 weeks of training. Job search (\$800 maximum benefit) and relocation allowances (90 percent of allowable charges, with no dollar limit) are also available.
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<b>Recent Trends in Trade Adjustment Certifications and Use of Services and Benefits</b>	In fiscal years 1995 through 1999, the estimated number of workers covered by certifications under both trade adjustment programs averaged about 167,000 annually and reached a high of about 228,000 in 1999. During this period, about 40 percent of workers certified had been employed in the apparel and textile sectors, and relatively few secondary and agricultural workers were certified under NAFTA-TAA. Payments made for adjustment benefits available under the programs—trade readjustment allowances, training, relocation, or job search—totaled just over \$1.3 billion. Overall, higher numbers of workers took basic trade readjustment payments than enrolled in training, while job search and relocation benefits were used by fewer than 1 percent of certified workers.
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<sup>9</sup>Unemployment benefits vary widely among states. In 1999, the maximum weekly unemployment insurance benefits ranged from \$133 in Puerto Rico to \$410 in Washington State. The average benefit that year was estimated to be \$202.

**Worker Certification Trends—Fiscal Years 1995 Through 1999**

As shown in table 1, petitions under the TAA and NAFTA-TAA programs covered an estimated 833,000 workers during the fiscal year 1995-99 period (573,000 under TAA and 260,000 under NAFTA-TAA).<sup>7</sup> Department of Labor officials said they were surprised by the increase in certified workers in 1999 but unsure of its cause. Many worker groups file for certification under both programs. Department of Labor officials estimate 75 percent of NAFTA-TAA certified workers are also covered by TAA petitions. Such workers would be counted twice in the overall program totals.

**Table 1: TAA and NAFTA-TAA Petitions Determinations, Approvals, and Certified Workers, Fiscal Years 1995-99**

	1995	1996	1997	1998	1999	Total
Petition Determinations	2,092	2,318	2,115	2,230	3,450	12,205
Petitions Approved						
Number	1,491	1,575	1,311	1,343	2,155	7,875
Percent	71%	68%	62%	60%	62%	64%
Total workers certified	118,837	166,310	165,898	153,804	227,650	832,499

Source: GAO analysis of Department of Labor data.

The Department of Labor made a determination of certification eligibility for a total of 12,205 TAA and NAFTA-TAA petitions under these programs during this period (8,554 TAA petitions and 3,651 NAFTA-TAA petitions). Combined, the Department of Labor approved 64 percent of the petitions. Most certified petitions were initiated by worker groups, followed by employers and unions. From fiscal years 1995 through 1999, these certifications covered workers in apparel and textiles (35 percent), oil and gas (15 percent), electronics (9 percent), and metal and machinery (8 percent); the remaining petitions were disbursed among a range of manufacturing industries. Secondary workers, who produce products indirectly affected by imports, can also receive benefits. Since the program was implemented in 1994, the Department of Labor has approved 58 secondary petitions (more than 2,000 NAFTA-TAA petitions were approved during this period) covering a total of 3,718 workers.

<sup>7</sup>These certifications represent potentially affected workers—not actual jobs lost. In some cases, workers certified were facing the potential loss of their job and were not laid off. Thus, program certifications are not an accurate count of job losses due to trade.

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While certifications have been spread broadly across the country, the states with the most worker certifications during fiscal years 1995-99 were North Carolina, Texas, and Pennsylvania, accounting for 22 percent of TAA and 27 percent of NAFTA-TAA certifications, respectively.

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**Trends in Benefit Utilization**

As shown in table 2, the largest benefit delivered to displaced workers was in the form of extended income support, primarily to allow them partial wage replacement while taking training. The two programs paid a total of \$663.6 million over the 5-year period for basic allowances, which are payments made in the first 26 weeks after unemployment benefits have been exhausted, and \$239.7 million in additional allowances, which are payments made after the basic allowance has been exhausted. Training courses, which can last up to 104 weeks, cost \$390 million, and job search and relocation allowances totaled \$9 million over the 5-year period. Most state officials we surveyed said job search and relocation benefits have not been heavily utilized because workers are reluctant to move to new areas, primarily because of family commitments or ties to the community.

Table 2: TAA and NAFTA-TAA Payments and Service and Benefit Recipients, Fiscal Years 1995-99

Dollars in millions						
	1995	1996	1997	1998	1999	Total
Total workers certified <sup>a</sup>	118,837	166,310	165,898	153,804	227,650	832,499
Basic allowance						
Payments	\$109.5	\$127.8	\$148.0	\$119.2	\$159.1	\$663.5
Recipients	25,641	32,856	34,158	26,241	36,910	155,806
Additional allowance						
Payments	\$41.6	\$43.6	\$53.6	\$50.2	\$50.7	\$239.7
Recipients	5,856	7,132	15,215	7,736	8,166	44,105
Training						
Costs	\$60.9	\$68.5	\$83.4	\$79.9	\$97.3	\$390.0
Recipients	28,645	32,971	26,865	25,235	32,120	145,836
Job search						
Costs	\$0.3	\$0.3	\$0.2	\$0.1	\$0.1	\$0.9 <sup>b</sup>
Recipients	927	752	520	289	314	2,802
Job relocation						
Costs	\$2.8	\$1.8	\$1.7	\$8.8	\$1.0	\$8.1
Recipients	1,678	940	875	473	771	4,737
Total service and benefit payments	\$215.1	\$242.0	\$286.9	\$250.2	\$308.2	\$1,302.3

<sup>a</sup>These figures include workers certified under both programs.

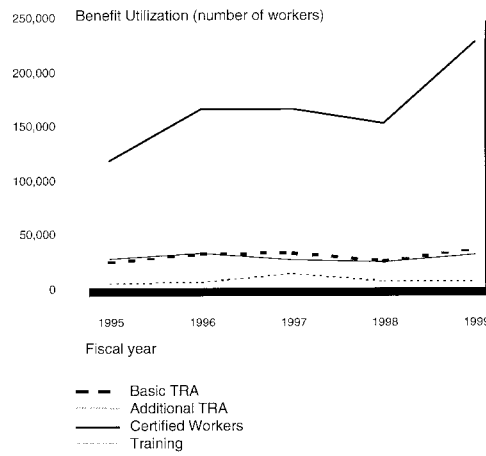
<sup>b</sup>Does not add due to rounding.

Sources: GAO analysis of Department of Labor data collected quarterly from the states. Readjustment allowance and training recipients may appear in quarterly reports spanning more than one fiscal year. Likewise, workers could have received more than one type of benefit in a fiscal year.

Figure 2 presents trends in service and benefit utilization for fiscal years 1995 through 1999. From fiscal years 1995 through 1999, the total number of workers receiving trade adjustment assistance services and benefits generally increased. However, due to a sharp increase in the number of eligible workers in fiscal year 1999, the percentage of workers using benefits available to them declined. TAA training enrollment, for example, declined from 31 percent in fiscal year 1995 to 18 percent in 1999.

Department of Labor officials said they were surprised by the increase in TAA-certified workers in 1999, but they were not sure of its cause.

Figure 2: Trade Adjustment Assistance Benefit Utilization, Fiscal Years 1995-99



Legend  
 TRA= Trade Readjustment Allowance  
 Source: GAO analysis of Department of Labor data.

Workers' Training Needs Vary

In fiscal year 1999, occupational training was the most common type of training provided under the two programs. States we surveyed enrolled eligible workers in different types of occupational training. Computer and information system skills and office and business administration were the most popular training programs, with 14 states of 20 listing them in their top three occupational course offerings to trade-impacted workers; medical skills, including nursing, was listed among the top three training courses by 9 states; and 6 states listed English as a second language or remedial education in the top three training courses offered. State officials said that much of this training was provided by community colleges, which have lower costs than private training vendors.

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Some states have large numbers of program beneficiaries who require English as a second language or high school equivalency training before they are prepared to undertake occupational training or reenter the job market. Department of Labor data indicate that about 20 percent of workers who left these programs in fiscal year 1999 described themselves as having limited English proficiency at time of layoff, and 75 percent had a high school degree or less at time of layoff (see app. I for additional data on program participants). In San Fernando, California, state employment officials told us that most of the available jobs require a high school degree. Since most of the trade-impacted workers served by the San Fernando office do not speak English well and have low education levels, they also require English as a second language and high school equivalency classes before they can qualify for available jobs. Texas officials told us that most program beneficiaries—who had primarily been employed in the apparel industry—mainly require training such as English as a second language before they can be admitted to occupational training.

#### Factors Contributing to Low Training Enrollment

We identified several possible factors influencing the use of the trade adjustment training benefits from the mid- to late-1990s, focusing on training waivers, funding shortfalls, and recent economic conditions. Under TAA, workers can obtain a training waiver, which permits them to collect cash payments without enrolling in classes. For example, states can grant temporary waivers if training is unavailable or will not begin within 30 days, or if funding is not available. States can also issue waivers to workers with marketable skills for whom jobs are thought to be available. According to Department of Labor data, 38 percent of TAA participants who left the program in 1999 received some type of waiver. Training waivers are not permitted in NAFTA-TAA. A prior review of TAA<sup>8</sup> by the Labor Department's Inspector General in 1993 uncovered training waiver abuses and, in response, the Department of Labor has tightened controls over the waiver granting process, although the effect of these controls have not been evaluated. In a survey of 12 states conducted by the Department in early 2000 regarding TAA and NAFTA-TAA, 11 said that they were conducting training waiver reviews. The Department does not systematically collect information on the number of training waivers issued to individuals and their duration, however.

<sup>8</sup>Trade Adjustment Assistance (TAA) Program, Audit of Program Outcomes in Nine Selected States, Fiscal Years 1991/1992 (Washington, D.C.: U.S. Department of Labor, Office of Inspector General, Sept. 30, 1993.)



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Some state officials we surveyed said that training can be influenced by funding shortfalls. New Jersey, for example, said that the state has had to shut down the training program at the end of quarters until new funding arrived. According to a 2000 Department of Labor survey conducted with 12 states regarding the trade programs, 4 states have waiting lists for training. Some states also said that the Department of Labor does not provide enough funding for them to adequately administer the training programs. The Department currently allocates 15 percent of a state's total annual training budget to administer the program. About one-third of the state officials we surveyed said that this was not enough to cover program administrative costs. State officials also noted that training funds are sometimes exhausted before the end of the quarterly disbursement period (Department of Labor officials said these problems primarily occur in the first and last quarters of the fiscal year). When this happens, states may apply for funding, such as National Emergency Grants made available by the Secretary of Labor; put workers on waiting lists; or suspend the training program. Although the Department has issued formal guidance that states should not stop enrolling workers in program services and benefits, agency officials report that a few have done so.

Another reason for training enrollment declines in the mid- to late-1990s may have been the strong U.S. economy during this period. In the late 1990s, the United States experienced the lowest unemployment rates in 30 years, as reported by the Bureau of Labor Statistics, which indicates that workers are finding new jobs quickly. Thus, it seems plausible that under these circumstances, enrollment in training under TAA and NAFTA-TAA for some workers has been less necessary to secure new employment.

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### Limited Performance Data Indicate Some Reemployment Success

It is unclear whether the TAA and NAFTA-TAA programs have met the Department of Labor's reemployment and wage retention goals for all workers, due to limited data on program outcomes. The Department and states have had long-standing problems in tracking and using information on trade adjustment assistance services, benefits, and results. Available data for workers who left the program in 1999 and for whom states submitted information, indicate that 75 percent were reemployed, exceeding the program goal of 72 percent. However, our analysis indicated that many of these workers earned less than 80 percent of their prior wages.

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**Program Tracking Systems  
Do Not Adequately Measure  
Results**

The Department of Labor and states have had long-standing problems in tracking TAA and NAFTA-TAA benefits and results. In 1993, we reported that the TAA program lacked the basic tracking system needed to ensure that assistance is provided effectively and efficiently.<sup>9</sup> We noted that the program had no performance goals, so there was little impetus for states to track participant progress or program performance. That same year, the Department's Inspector General recommended that objectives and performance standards be developed to evaluate program effectiveness.

The Department of Labor and the states have made progress in addressing the deficiencies noted by the Inspector General and us. In 1999, the Department established performance goals for the TAA and NAFTA-TAA programs. It also instituted a system for states to track assistance provided to participants as well as their employment and wages after leaving the program. Some problems persist, however, in the Department of Labor's tracking of program performance. Several states did not submit information on participants in fiscal year 1999, and many other states submitted only partial information.<sup>10</sup> Several state officials indicated that they do not collect the necessary information from participants as the data were not readily available and there were no additional resources for expanding data collection efforts. Many of the records in the 1999 database lacked information for measuring program results such as whether a worker found a job. Two states' officials told us that they are unable to submit complete employment and wage information because they rely on worker surveys for much of this information, and workers often do not return the surveys. In addition, many states do not validate the participant information submitted to the Department of Labor.<sup>11</sup>

In managing their programs, state and local employment officials often did not use information from the participant tracking system. For example, in a 2000 survey of 12 states, the Department of Labor found that 6 did not provide participant data to state management and program staff and to

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<sup>9</sup>See *Dislocated Workers: Trade Adjustment Assistance Program Flawed* (GAO/T-HRD-94-4, Oct. 19, 1993).

<sup>10</sup>Department of Labor officials told us in September 2000 that only one state currently does not submit participant tracking data.

<sup>11</sup>The contractor that manages the system performs simple edit checks on the data. However, this editing process is only designed to identify data that do not fit into established parameters, such as extremely high hourly wages.

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local office staff for review and feedback. At a local state employment office in San Fernando, California, that serves a large number of trade-impacted workers, officials were not aware of how many of its clients had found jobs and at what wages, even though the workers had submitted such information to California's participant tracking system.

The Department of Labor intends to institute a new participant tracking system for all displaced worker programs in fiscal year 2001, including TAA and NAFTA-TAA, that will rely on data in the states' unemployment insurance wage database. The Department believes that the new system will eventually eliminate the gaps in NAFTA-TAA and TAA participant reporting. In our state survey, we found that four do not have the systems in place to extract employment and wage information from wage records for the new participant reporting system. Representatives from the Interstate Conference of Employment Security Agencies suggested that states may not have sufficient funds to develop these new systems.

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#### Reemployment and Wage Maintenance Results

The Department of Labor's goal in 1999 for TAA and NAFTA-TAA was that 72 percent of program participants will be employed upon termination from the program. For the 10,036 participants who terminated (were no longer using any program benefits or services) either program in fiscal year 1999, states submitted wage information on employment status for 5,969. Of the participants for whom employment data are available, 75 percent obtained jobs upon leaving the programs, and only 56 percent obtained jobs earning at least 80 percent of their pre-separation wage. Table 3 provides additional data on outcomes for workers who participated in training or had training waivers.

**Table 3: Trade Adjustment Assistance Program Outcomes for Workers Who Participated in Training or Had Waivers, Fiscal Year 1999**

Program outcomes for participants in training or had waivers	TAA	NAFTA-TAA
<b>Participants who completed training</b>		
Entered employment	2,195 (76%)	763 (80%)
Average hourly wage	\$9.82	\$9.73
Percent meeting wage goal	56%	58%
<b>Participants who received but did not complete training</b>		
Entered employment	602 (69%)	152 (69%)
Average hourly wage	\$9.52	\$8.36
Percent meeting wage goal	55%	61%
<b>Participants who had training waivers and received training</b>		
Entered employment	287 (83%)	N/A
Average hourly wage	\$9.63	N/A
Percent meeting wage goal	45%	N/A
<b>Participants who had training waivers and did not receive training</b>		
Entered employment	543 (63%)	N/A
Average hourly wage	\$7.96	N/A
Percent meeting wage goal	56%	N/A

**Legend**

N/A - Training waivers are not available under NAFTA-TAA.

Note: Average hourly wages were calculated for workers who reported an hourly wage and at least 35 hours of work a week in their new job.

Source: GAO analysis of Department of Labor data.

As shown in table 3, participants who received training entered employment at a higher rate and had higher average hourly earnings than participants who did not participate in training. The difference in average hourly wages among participants who completed training and those who received only some training is relatively modest. TAA participants with training waivers and who did not receive any training had the lowest average hourly wage when reemployed, just under \$8 an hour, although 56 percent of these workers did earn 80 percent of their prior wages. These data should be interpreted with caution because of the limited numbers of participants they represent, however.

**Budgetary Implications of Extending TAA Benefits to New Groups of Workers**

We estimate that there could be significant budgetary implications if the eligibility criteria for TAA were changed to include secondarily impacted workers and workers whose companies relocate to countries other than Mexico or Canada. We developed these estimates in consultation with federal government experts.<sup>12</sup> (This section briefly presents key assumptions and methods; see app. II for a more in-depth discussion of these issues).

As shown in table 4, expanding the Trade Adjustment Assistance program to include secondary workers and all workers whose companies relocate abroad could add an estimated 34,000—211,000 workers annually between 2001 and 2005 and cost from \$89 million to \$554 million per year. Our analysis shows that extending TAA coverage to secondary workers could result in an increase of approximately 2,000—149,000 certified workers per year between 2001 and 2005. The annual costs of adding these workers (assuming approximately 25 percent of certified workers take up training and other services and benefits) during this period would range from approximately \$5 million to \$392 million.

**Table 4: Estimates of the Impact of Extending Trade Adjustment Assistance to New Worker Groups—Projection 2001-2005 Annual Average**

Dollars in millions				
Extending coverage to include	Estimated annual number of additional certified workers		Estimated annual cost <sup>a</sup>	
	Low	High	Low	High
Secondary Workers	2,000	149,000	\$5	\$392
Production relocation	32,000	62,000	\$84	\$162
<b>Total</b>	<b>34,000</b>	<b>211,000</b>	<b>\$89</b>	<b>\$554</b>

<sup>a</sup>Costs are based on Department of Labor estimates that approximately 25 percent of certified workers take training and other benefits at an average cost of \$10,500 per worker.

Source: GAO analysis.

<sup>12</sup>We discussed the assumptions we used with officials from the Department of Labor, the Congressional Budget Office, and the Office of Management and Budget.

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In developing our estimate of the number of additional secondary workers that may be certified, we noted that under NAFTA-TAA only 1.3 percent of certified petitions have been for secondary workers (58 petitions covering 3,718 workers). If worker certification under TAA follows a similar trend, the impact of extending TAA coverage to secondary workers will be closer to the lower-end estimate of about 2,000 workers per year. Our high estimate was based on Department of Labor calculations of labor use in manufacturing, which assume that each manufacturing job supports another 0.95 of a job in a supplier industry. Our discussions with Department of Labor and state officials indicate that many secondarily impacted workers may not be aware that they may qualify for NAFTA-TAA benefits. A broader interpretation of "secondary" or a more aggressive outreach effort on the part of the Department of Labor to identify and certify secondarily affected workers could increase the number of eligible workers.

Also, as illustrated in table 4, extending TAA eligibility to workers who lose jobs solely due to the relocation of production to countries other than Mexico or Canada would expand the program, but to an uncertain degree as well. Such a change in eligibility criteria could add an estimated 32,000—62,000 workers each year between 2001 and 2005, resulting in potential cost increases between \$84 million and \$162 million annually. The high and low estimates depend on assumptions of different rates of growth in the programs. These estimates are based on recent trends in program certification and Bureau of Labor Statistics data on mass layoffs due to plant relocation abroad. They are highly sensitive to the rate at which firms move manufacturing jobs abroad in search of less expensive labor and other inputs. For example, recent trade legislation could increase imports of apparel and other manufactured goods from China, sub-Saharan Africa, and the Caribbean basin, but it is difficult to anticipate how many firms will relocate to these countries. However, prior to this legislation, Bureau of Labor Statistics data indicated that there is an increasing trend toward relocation to countries other than Mexico and Canada. Thus, extending TAA benefits to workers who lose their jobs due to relocation of production to other nations can be expected to have at least a moderate impact on the program.

Department of Labor officials said that based on their experience with NAFTA-TAA certifications, they believe that many workers certified under shifts in production would at a later time be certified as affected by imports. Thus, in their opinion, certification under the original criteria actually covers many of the workers who are laid off due to relocation.

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They estimate that increases in TAA certification due to changing the criteria will be about 8,000 workers per year (less than our low-end estimate of 32,000 additional certified workers).

Several state officials we surveyed expressed support for expanding TAA coverage to more groups of workers. They emphasized that this could only be done if TAA funding is increased. For example, Kentucky officials estimate that extending TAA coverage to secondary workers would more than double training costs. They noted that their allocation for training programs from the Department of Labor has been inadequate for covering existing eligible workers.

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### Issues Regarding Delivery of Program Services and Benefits

In reviewing the TAA and NAFTA-TAA programs, we identified three issues that affect the delivery of assistance to trade-impacted workers. These issues are the following: (1) differences in the programs' statutory requirements governing certification and training enrollment complicate program administration and prevent some workers from entering suitable training; (2) the absence of a statutory time limit on training in TAA and some other benefits means that workers may collect benefits many years after being certified as trade impacted; and (3) internal control weaknesses may result in workers getting benefits that they are not eligible to receive. Table 6 provides a comparison of the TAA and NAFTA-TAA programs and highlights some of the key differences in the programs.

**Table 5: Comparison of the TAA and the NAFTA-TAA Programs**

	NAFTA-TAA	TAA
<b>Certification</b>		
What legislative time frames have been established for completing certification decisions?	A preliminary eligibility ruling is made by the state Governor within 10 days of filing, and a final DOL decision is required within 30 days of receiving the state decision, for a maximum of 40 days	A DOL decision on eligibility is required within 60 days
Are secondary workers eligible?	Yes, under the Workforce Investment Act	No
Are workers eligible whose company relocates abroad?	Yes, if the company moves to Mexico or Canada	No
Are farmers eligible?	Yes	Yes
<b>Training and other benefits</b>		
Can training be waived?	No	Yes, under certain circumstances
Are there training enrollment deadlines to qualify for trade readjustment allowances?	Yes. Claimant must start training by the 16th week to be eligible for income support after their initial unemployment insurance eligibility or the 6th week after eligibility certification	No
Are benefits paid during breaks in training longer than 14 days?	No	No

Legend  
DOL = Department of Labor  
Source: TAA and NAFTA-TAA program regulations and legislation.

**Rules for Certification and Training Enrollment Not Standardized**

State officials we contacted believe that administering these programs is hampered by the separate certification procedures and different training enrollment requirements. Several state officials said that requiring separate and distinct certification procedures for TAA and NAFTA-TAA was administratively inefficient and slowed the certification process. Under current law, TAA petitions are received and processed by the Department of Labor, while NAFTA-TAA petitions are submitted to the state agency in which their plant is located. The states are required to make a preliminary determination regarding eligibility before forwarding their findings to the



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Department of Labor for a final determination. State officials said this process burdens petitioners and delays certifications.

Certification delays have been a problem for both programs, according to our analysis of Department of Labor certification data. NAFTA-TAA and TAA certifications are required by law to be completed in 40 and 60 days, respectively. In 1999, NAFTA-TAA investigations on average took 54 days, with 58 percent of investigations exceeding the 40-day requirement. That same year, TAA investigations averaged 51 days, with 34 percent exceeding the required 60 day limit. Department officials stated that NAFTA-TAA certifications take longer because the Department's phase of the investigation cannot begin until the states submit their preliminary determinations. Department officials also noted that completing customer surveys necessary to determine if imports have contributed importantly to layoffs adds time to investigations.

State officials were critical of the enrollment deadlines to qualify for income support in the NAFTA-TAA program. Under NAFTA-TAA, in order to qualify for transition readjustment benefits, a worker must enroll in an approved training program by (1) the last day of the 16th week of their most recent qualifying separation or (2) the last day of the 6th week after publication of the certification in the Federal Register, whichever is later. The TAA program does not have this requirement. According to some state officials, the stringent NAFTA-TAA requirement limits the training options for workers who only qualify for this program. In some cases, appropriate training courses are not scheduled to begin within the enrollment deadline, so workers choose to take less suitable courses to retain eligibility for income support.

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#### TAA Training Benefits Lack Enrollment Deadlines

Training provided under the TAA program is "open ended" in that workers covered by a certification can take their training any time—as long as they meet all six criteria for approval of training.<sup>13</sup> Department of Labor officials said this policy is consistent with the Trade Act of 1974, which does not specify training enrollment time lines. Further, workers may

<sup>13</sup>The six criteria specified in the TAA program regulations are the following: (1) there is no suitable employment available, (2) the worker would benefit from appropriate training, (3) there is reasonable expectation of employment following training completion, (4) training is reasonably available to the worker from either government agencies or private sources, (5) the worker is qualified to undertake and complete such training, and (6) such training is suitable for the worker and available at a reasonable cost.

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receive 26 weeks of “additional” trade readjustment payments during that training, as long as they complete a training plan within 210 days of the certification, or if later, within 210 days of separation.<sup>14</sup> In fact, Department data show that some workers have taken TAA-sponsored training many years after being certified as trade impacted. For example, we found that the states reported almost \$2.7 million in training expenditures and almost \$340,000 in income support payments from fiscal years 1997 to 1999 for workers whose TAA petitions were certified in 1992 or earlier. We also found that expenditures were reported in the same period for workers certified as early as 1978. These data suggest there can be a considerable lag between layoff and the use of program benefits such as training.

Officials in six of the states we surveyed also believed that trade readjustment assistance payments should be provided to workers during their entire training period. Under current law, workers can be approved for training up to 104 weeks but are only entitled to cash benefits for a maximum of 78 weeks, including unemployment compensation. According to Georgia officials, workers are likely to drop out of training when their cash benefits are exhausted.

Program Consolidation May  
Provide Standardization

State officials included in our survey believe that consolidating the NAFTA-TAA and TAA programs—as proposed in the President’s fiscal year 2001 budget and two bills introduced in Congress<sup>15</sup>—could help standardize the rules governing certification and enrollment requirements. All 20 states we surveyed favor consolidation of TAA and NAFTA-TAA. Specific reasons cited for supporting consolidation were because it would make program management easier and make it less confusing for workers to apply for certification and benefits. According to Florida officials, consolidation would result in “one set of rules, less confusion in training of program staff, [and it would make it] easier to report budgets because currently the programs are considered as two separate grant programs.”

Many of the state officials we surveyed believe consolidation would only be acceptable if the less restrictive TAA rules on training deadlines were adopted. Some of these state officials also indicated that some rules

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<sup>14</sup>Labor officials said that the additional trade readjustment allowance must follow exhaustion of the basic trade readjustment allowance or, if the basic allowance was never paid, the start of the approved training program.

<sup>15</sup>Proposals were introduced in the first session of the 106th Congress by Senator Daniel Patrick Moynihan (S.220) and Representative Bob Matsui (H.R. 1491).

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governing training enrollment in both programs should be changed to allow workers to receive trade readjustment assistance payments for longer periods of time during breaks in training. Under current law for both programs, workers are not entitled to these payments for breaks in training exceeding 14 days. The officials noted that many training providers, such as community colleges, have breaks that last for longer periods. This lag can pose financial hardships for workers who are dependent on this assistance during training. State officials suggested extending the break period to around 30 days.

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#### Internal Control Weaknesses

Our review of the state data found that during fiscal years 1997-99, there were expenditures of almost \$1.7 million for training, trade readjustment allowances, relocation, and job search allowances that were reported for 185 TAA and 28 NAFTA-TAA petitions that, according to the Department of Labor database, were not certified. We also found there were reported payments of more than \$600,000 in trade readjustment allowances to TAA-certified workers when eligibility for these benefits should have expired. These inconsistencies could be due to data entry errors and may have resulted in payments to ineligible workers. This reveals an important internal control weakness that, if not corrected, could mean that workers collect benefits for which they are ineligible.

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#### Conclusions

The TAA and NAFTA-TAA programs have spent more than \$1.3 billion in the past 5 years to help workers make the transition to new jobs, but it is unclear how effective these programs are in achieving their goals. Program management issues we identified—limited program data, slow certification processing, and internal control weaknesses—suggest that Departmental oversight could be strengthened. Improving the Department of Labor's timeliness in processing certification petitions needs to be addressed because such delays can influence workers' decisions about training or career choices. The absence of internal controls such as cross-checks between state and Department of Labor data may have resulted in ineligible workers receiving benefits under the programs. In addition, other challenges facing these programs stem from statutory requirements. Under current law, workers who experience breaks in training of more than 14 days lose their benefits, which state officials report as a barrier to effective service delivery.

The two trade adjustment assistance programs are also administered under differing rules that make program administration challenging for state

officials and confusing to workers. The current deliberations regarding program consolidation offer the opportunity to consider making program improvements. With regard to standardizing rules, worker retraining, perhaps the key program benefit, is believed by state officials to be hampered by tight time frames for qualifying for income support under NAFTA-TAA, while there are none under TAA. Individuals can also delay training for years after being laid off under TAA, raising questions not only about the timeliness and usefulness of adjustment assistance but also leaving open the possibility that some people could return for training years later. Training waivers, available under TAA, are believed by state officials to give workers important flexibility, yet there is concern that waivers may have been abused. In addition, workers with waivers had poorer wage and employment outcomes than workers without them.

### Recommendations for Executive Action

To improve the effectiveness of the TAA and NAFTA-TAA programs in helping workers displaced by international trade adjust to changed economic conditions, we recommend that the Secretary of Labor

1. establish an effective performance measurement system to track participant outcomes and then disseminate that information to the states and localities so they can better serve participants,
2. establish procedures that will enable the Department to certify workers for TAA and NAFTA-TAA within required time frames, and
3. establish more effective internal controls and improve oversight with regard to benefit payments by states in order to prevent workers ineligible for benefits from receiving them.

### Matters for Congressional Consideration

As part of its current deliberations about consolidating or restructuring the TAA and NAFTA-TAA programs, Congress may wish to consider whether workers who experience an unavoidable break in training of more than 14 days (such as semester breaks) should continue to receive income benefits.

Congress may also wish to simplify the administration of the TAA and NAFTA-TAA programs by standardizing

- time frames for workers to enter training,

- 
- training waiver policies for certified workers, and
  - time frames for completing certification investigations.

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### Agency Comments and Our Evaluation

We received written comments on a draft report from the Department of Labor, which are reprinted in appendix III. The Department of Labor generally agreed with many of the report findings but did not respond to our recommendations. Labor said in its letter that it supported congressional efforts to harmonize the statutory requirements of the Trade Adjustment Assistance and the NAFTA Transitional Adjustment Assistance programs and indicated that many of the issues identified in the report would be corrected by the passage of such legislation. In addition, the Department of Labor provided technical comments, which we incorporated in the report as appropriate.

The Department of Labor expressed some concerns about our presentation of the trends in service and benefit utilization and indicated that the total number of program participants has increased by 15 percent from 1995 to 1999 even though the participation rate of eligible beneficiaries declined over the same period. Labor believed that taken out of this context, the low percentage of program participation could be misleading. Labor also noted that during good economic times the takeup rate (rate of eligible workers seeking program services and benefits) would likely be lower as eligible workers are able to find jobs more readily. We agree with the Department of Labor that the number of program participants increased between 1995 and 1999 and have included this information in our report. We agree, as noted in our draft report, that during good economic times the rate at which eligible workers seek program services and benefits are likely to be lower as eligible workers may find it easier to obtain new jobs.

The Department of Labor also asserted that our report missed some key points in our discussion of the limited performance data used by Labor to demonstrate reemployment success. Labor emphasized that there is no statutory basis for gathering performance information. Despite this "omission," the Department indicated that it has developed and implemented a program performance reporting system and program performance goals drawing on the 1993 Government Performance and Results Act (GPRA). Labor said the data collected are preliminary, and it has taken steps to ensure that states are reporting program information to Labor. We believe this is a positive step as this is a concern that we have identified for a number of years. However, as Labor notes in its letter, the system is still being developed and refined. Therefore, it is too early to

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determine whether the new systems will provide the necessary information to states and localities to better serve program participants.

The Department of Labor said our estimates of the impact of extending the TAA program to workers whose companies shift production to countries other than Mexico or Canada are higher than the Department's estimates because we did not include an adjustment for instances where production is shifted overseas but the articles produced there are subsequently imported back into the United States. We did not include such an adjustment in our analysis because of the methodological difficulties associated with modeling the effects of this scenario. Although Labor included the estimated impact of such an adjustment in their comments, the Department could not describe the analytical basis used to support their estimates. We included the Department of Labor information in our report with the caveat that it is a Labor estimate. However, we do not explain or comment upon the methods used to derive it.

The Department of Labor also said it was particularly concerned that in our discussion of internal control weaknesses, we did not discuss new procedures that the Department established in fiscal year 2000 to review and cross-check reported petitions, and to deal promptly with any discrepancies. While the Department told us that they have instituted new procedures to cross-check expenditures to petitions, they did not provide us with any supporting documentation of these new procedures in response to our request, i.e., when they were specifically implemented and the extent to which they cover these transactions. Therefore, we are unable at this time to determine if these new procedures will adequately address the shortcomings we raise in this report.

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We are sending copies of this report to appropriate congressional Committees and to the Honorable Alexis Herman, Secretary of Labor. We will also make copies available to other interested parties upon request.

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Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Other GAO contacts and staff acknowledgments are listed in appendix IV.

*Susan S. Westin*

Susan S. Westin  
Managing Director  
International Affairs and Trade

Appendix I

## Characteristics of Trade Adjustment Assistance-Certified Workers Who Received Program Benefits, Fiscal Year 1999

Worker characteristics	TAA	NAFTA-TAA
Gender		
Men	35%	34%
Women	65	66
Race		
White	62%	43%
Black	15	9
Latino/Hispanic	20	47
Limited English proficiency	21%	30%
Average wage at separation	\$11.33	\$10.45
Average age	43	41
Education		
Less than high school	26%	34%
High school graduate	51	44
Some post high school	15	17
College graduate	4	4
Average tenure at separation	8.7 years	7.5 years

Source: GAO analysis of Department.



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## Objectives, Scope, and Methodology

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The Chairman of the Senate Committee on Finance and the Ranking Member of the Committee asked us to examine (1) recent trends in worker certifications and the extent to which program services and benefits have been used, (2) the extent to which the program helped workers become reemployed and maintain prior wages, (3) the budgetary implications of extending program benefits to new groups of workers, and (4) program management issues. To address the first and second objectives we obtained and analyzed several types of Department of Labor data. These included quarterly data from fiscal years 1995 to 1999 on services provided to participants under each Trade Adjustment Assistance (TAA) and North American Free Trade Agreement Transitional Adjustment Assistance (NAFTA-TAA) program certified petition. We then matched this information with the Department's database of certifications in order to check on internal controls. We focused on data from fiscal years 1995 to 1999 because Department officials said information from earlier years had not been carefully collected or reviewed. We also obtained participant outcome data collected by the Department for 1999 and analyzed it, focusing on demographic characteristics, wages, training, and reemployment.

We addressed our third objective, regarding the potential budgetary impact of expanding benefits to secondary workers and workers whose job relocates to countries other than Canada or Mexico under TAA, by first consulting with officials from other agencies about assumptions used in making prior estimates of program expansion. These included representatives from the Congressional Budget Office and the Office of Management and Budget and Department of Labor officials from the Employment and Training Administration and the Bureau of Labor Statistics. In order to estimate the impact on changes in TAA eligibility criteria, we first had to project potential growth in the programs that may occur without changing the existing criteria. We assumed a high and a low growth rate in the programs to yield a range of estimates. Our projected growth rates for these programs are based on methodologies developed by agencies that traditionally estimate the future costs of federal programs. The low growth rate estimate assumes that 2000-2001 certifications will equal the 1997-99 average annual certifications and a return to the lower 1996-98 program average rates of certification (110,000 TAA certified workers and 53,000 NAFTA-TAA certified workers per fiscal year for fiscal years 2003-05). Our high-end estimates assume sustained growth rates in the programs of 6.5 percent per year for TAA certifications and a 10-percent annual growth rate for NAFTA-TAA.

To estimate the possible impact of extending TAA coverage to workers whose firms relocate to countries other than Canada or Mexico, we first consulted the Bureau of Labor Statistics' annual data on mass layoffs due to plant relocation outside the United States (mass layoffs are defined as 50 or more workers separated from a firm during a 5-week period). These data indicate that about 50 percent of the mass layoffs reported in 1997-99 were due to relocation to Mexico and Canada; the remaining 50 percent were due to firms' relocating to other countries. Since experience with NAFTA-TAA certifications showed that about 60 percent of the certifications under the program were due to relocation of firms to Mexico and Canada,<sup>1</sup> we assumed that the same number of workers could be expected to be certified under TAA if coverage were extended to workers laid off due to plant relocation to other countries.<sup>2</sup> This method gives us a high of 62,000 additional workers per fiscal year and a low estimate of 32,000 per fiscal year. Some officials whom we consulted at the Department of Labor thought that the method above may lead to an overestimation of additional TAA workers when relocation of production is part of the eligibility criteria.

In estimating the effect of extending eligibility to secondary workers, we again formed our high- and low-end estimates based on projected growth rates in the program. Then, we gave two scenarios in terms of how many workers would be identified as "secondarily impacted." The first scenario, based on the experience of the NAFTA-TAA program (fiscal year 1994 to the first quarter of fiscal year 2000), estimated that secondary workers covered by TAA would represent 1.3 percent of all certifications. The second scenario, based on Department of Labor calculations using Bureau of Labor Statistics data on labor use in manufacturing, assumed that each manufacturing job supports another 0.95 of a job in a supplier industry. The first assumption gives a minimal expected increase of approximately 2,000 workers (even in an environment of high program growth), and the second assumption practically doubles the number of TAA-certified workers each year. Unless the Department of Labor significantly increases its outreach to secondarily affected workers and broadly interprets the meaning of

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<sup>1</sup>Although this ratio increased during 1995-99, we assume that it will stabilize to about 60 percent in future years.

<sup>2</sup>The proportion of layoffs due to relocation to countries other than Canada and Mexico has been growing since 1997, and 50 percent may represent a conservative estimate for the 2001-05 period.

“secondarily affected,” it is likely that the number of secondary workers that would be certified would be closer to the low-end estimate.

To address our fourth objective regarding program management issues, we surveyed 20 states. We selected these states using the following method: we ranked them based on the number of workers certified as eligible for both programs from fiscal year 1994 through the first quarter of fiscal year 2000. Then, for each program, we choose the 15 states with the greatest number of certified workers. There was some overlap between the TAA and NAFTA-TAA lists, resulting in 19 states (one state that fell outside this range received a survey, and we included this response in our analysis). We had a 100-percent response rate for the survey.

In order to have a better sense of how these programs are operating in the states, we also visited local program offices in El Paso, Texas, and San Fernando, Los Angeles County, California. El Paso has had many trade-related job losses in the mid- to late-1990s and provided an example of the challenges facing trade adjustment assistance programs more generally. The San Fernando community was visited by our staff from our Los Angeles, California, office after consulting with state officials. We also reviewed prior evaluations by GAO,<sup>3</sup> the Department of Labor’s Inspector General, and government contractors. In addition, we obtained the Department of Labor’s certification data in order to analyze the time needed to review petitions. This part of the analysis focused on certification timeliness.

To understand TAA and NAFTA-TAA certification procedures, regulations, and data, and how the Department has addressed previous recommendations, we met with Department of Labor program administrators. We also reviewed a sample of 20 TAA and NAFTA-TAA certification files to verify the procedures and data used. We selected the files for broadwoven fabric textile petitions considered in fiscal year 1999 and the first quarter of fiscal year 2000 because there were relatively equal numbers of certified and denied cases, and both TAA and NAFTA-TAA primary and secondary certifications were represented. This provided the opportunity to review cases from the same sector with different outcomes. We also analyzed the Department of Labor’s 1999 participant data report to determine whether it contains reliable information that can be used to measure program results.

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<sup>3</sup>See Related GAO Products section.

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Appendix II  
Objectives, Scope, and Methodology

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We conducted our work from March through August 2000 in accordance with generally accepted government auditing standards.

Appendix III

## Comments From the U.S. Department of Labor

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. Department of Labor

Assistant Secretary for  
Employment and Training  
Washington, D.C. 20340



OCT 5 2000

Ms. Susan S. Westin  
Associate Director  
International Relations and  
Trade Issues  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Ms. Westin:

Thank you for the opportunity to comment on the draft report - Trade Adjustment Assistance: Trends, Outcomes and Issues in Dislocated Worker Programs. The following are Employment and Training Administration's (ETA) comments:

First, we would generally concur with many of the draft report findings. We would like to point out that the Department of Labor participated in the development of the legislation introduced by Congressmen Matsui and Bonior and Senator Moynihan. The Administration proposed, in its budgets for fiscal years 1999, 2000, and 2001, the changes that harmonize the statutory requirements of Trade Adjustment Assistance (TAA) and the NAFTA - Transitional Adjustment Assistance (NAFTA-TAA) programs. We feel strongly that many of the issues identified in the report would be corrected by the passage of such legislation. It would standardize the processing of petitions including a standard time for issuance of decisions. It would establish standard enrollment in training requirements for obtaining trade readjustment allowances and provisions for waivers of training requirements. Additionally it would provide for an increase of training dollars that could alleviate what has become added pressure on the statutorily imposed cap on training funds which, we feel, has caused States to establish waiting lists or otherwise limit access to training. It would raise the statutorily-imposed 14 day break in training requirement to 30 days, and it would establish a statutory basis for performance reporting, something which does not exist in the current statute.

Pages 4 and 16 of the draft report indicate that States encounter training waiting lists or they shutdown training programs due to delayed funding for training from DOL, and that this may be a quarterly fund disbursement issue. The report needs to recognize that funding delays have occurred either primarily in the first quarter of the fiscal year or the last quarter of the fiscal year.

See comment 1.

Appendix III  
Comments From the U.S. Department of  
Labor

See comment 2.

In the first quarter, we have occasionally had to deal with Continuing Resolutions rather than receiving full appropriations, which has limited the funds we are able to make available to the States until full appropriations are received. During the last quarter of the fiscal year, we begin to approach the statutorily-imposed cap on training funds, which has not been increased for the TAA program since 1988. In the last few years, we have received State requests for training funds early in the fourth quarter which, coupled with the funds allocated in prior quarters, exceed the statutory cap. Consequently, full funding actions must be delayed until the new fiscal year. States are encouraged to seek other funds through the Workforce Investment Act (WIA) National Emergency Grant process to prevent shutting down the program or putting eligible participants on waiting lists because of shortfalls in trade program training monies.

Pages 12 through 14 of the draft report discuss the trends in benefit utilization. The report states that the percentage of workers using benefits available to them declined because of a sharp increase in the number of eligible workers in 1999. We believe that looking at the numbers without some context may be misleading. While the sheer numbers do show the declines as reported, the number of participants in the program actually increased by 15 percent from 1995 to 1999. Additionally, we would expect that during good economic times the take-up rate (rate of eligible workers seeking program services and benefits) would likely be lower as eligible workers are able to find jobs a lot more readily.

See comment 3.

On pages 14 and 15, the draft report discussion on training needs highlights the significant emphasis on English as a second language (ESL) classes for many trade affected workers. (We believe this reference may relate primarily, if not solely, to the State of Texas which has stringent State ESL requirements.) The implication of the discussion is that utilizing training time and dollars for the ESL classes may not allow for occupational training. It should be noted that the DOL has recognized this as a concern and has worked with areas, such as El Paso, to allocate dollars from the Joint Training Partnership Act/WIA dislocated worker program to assure that eligible dislocated workers get occupational training in conjunction with and not in lieu of ESL.

See comment 4.

On pages 17 through 19, the report cites that limited performance data indicate some reemployment success. The section goes on to discuss DOL's problems in tracking TAA and NAFTA-TAA benefits and results. While noting that DOL has made progress in addressing

Appendix III  
Comments From the U.S. Department of  
Labor

deficiencies reported by GAO and OIG previously, it misses some key points. First, the current programs do not have any statutory basis for gathering performance information. However, despite this omission, DOL, drawing on the Government Performance Results Act (GPRA), developed and implemented a program performance reporting system and program performance goals. We worked with States in developing such a system which began gathering program results information for the first time in Fiscal Year 1999. Next, the data gathered in Fiscal Year 1999 should be treated as preliminary because, as with any system operating for the first time, reporting system bugs will need to be worked out. Third, during Fiscal Year 1999, the ETA Office of the Assistant Secretary sent letters to those States that were delinquent in reporting program outcomes data. As of Fiscal Year 2000, all but one State is reporting program information to us. Lastly, we would note that the proposed trade reform legislation would make performance reporting a requirement to be done in conjunction with other dislocated worker reporting pursuant to the WIA.

See comment 5.

The Section beginning on page 22 through 25 of the draft report deals with the estimated costs of extending the TAA program to new groups of workers - secondarily impacted workers and workers whose companies relocate to countries other than Mexico or Canada. On the issue of shift in production, we would note that GAO's estimates are much higher than estimates that were calculated in connection with the budget proposal for the trade reform legislation. Our estimates totaled \$22 million annually to cover shift in production to countries other than Canada and Mexico based on an estimated 8,000 workers impacted. While page 24 provides a range of costs for broadening the shift in production certification criterion, that range is not adjusted for those instances where production is shifted overseas but the articles produced there are subsequently imported back into the US. In industries such as apparel, this is a very common occurrence and without an adjustment for this factor we believe GAO's estimated cost range is too high.

See comment 6.

On page 27 of the draft report, there is discussion about the time frames for petition completion for TAA and NAFTA-TAA in Fiscal Year 1999. The discussion, however, does not mention the huge increase in the number of petitions that occurred in Fiscal Year 1999. The number of petitions increased by 79 percent from 1998 to 1999 and was the third largest number of petitions in a single year since the program began. Additionally, the increased caseload of petitions was handled by the same staff resource levels in 1999 as existed in 1998.

Appendix III  
Comments From the U.S. Department of  
Labor

It should be acknowledged that the investigation times for Fiscal Year 1999 were in some way impacted by this large caseload increase.

See comment 7.

On page 28, regarding the numbers shown for the cost related to some workers receiving training and income support payments many years after being certified (\$1.6 million and \$1 million, respectively), the report needs to recognize the insignificance of this number. It represents 0.3 percent of total expenditures during this period. We would also disagree with your conclusion on this finding on page 32 where you note that such training delays could have significant budget implications. First, we think the numbers are/or would be minimal and secondly the existence of statutory caps on Trade program training funds would prevent any significant budget issues.

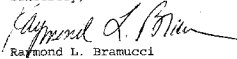
See comment 8.

We are particularly concerned that in the internal control weaknesses discussion on page 30, the draft report cites that no internal control process to cross-check expenditures to petitions could lead to misexpenditures of funds. In Fiscal Year 2000, the Division of Trade Adjustment Assistance instituted procedures to timely review and cross-check reported expenditures to petitions and promptly deal with any discrepancies by going back to the States to determine if data entry errors occurred or mispayments were made. In the latter case, the States will be required to seek refunds of any payments to ineligible workers.

Our technical comments have been discussed with your staff and have been transmitted under separate cover.

If you have questions regarding these comments, please contact Jaime G. Salgado at (202) 219-5731 ext. 111.

Sincerely,

  
Raymond L. Branucci





The following are GAO's comments on the Department of Labor's letter dated October 5, 2000.

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### GAO Comments

1. We revised the report to indicate that the Department of Labor believes the funding disbursement problem with states primarily occurs at the beginning and end of the fiscal year.
2. We agree with the Department of Labor that the number of program participants increased between 1995 and 1999 and included this information on page 14 and 15 of our report. We also agree that during good economic times the rate at which eligible workers seek program services and benefits are likely to be lower as eligible workers may find it easier to obtain new jobs. We noted this in our draft and in this report.
3. Our report notes the significant emphasis on English as a second language (ESL) or remedial instruction for many trade affected workers. Although the Department of Labor suggested that this reference may relate primarily, if not solely, to the State of Texas which has stringent State ESL requirements, the information in our report was based on information we gathered from several states. Specifically, as noted on page 15 of the report, 6 of the 20 states we surveyed said that ESL or remedial instruction is among their top 3 course offerings to dislocated workers. Moreover, we did not intend to imply in our report that eligible dislocated workers receive ESL instruction in lieu of occupational training.
4. We agree that in 1999 the Department developed and implemented a program performance reporting system drawing on the Government Performance Results Act (GPRA). We believe this is a positive step as this is a concern that Labor's Inspector General and we previously identified. However, as Labor indicates, the information provided by this system should be considered preliminary because system "bugs" still need to be worked out. Thus, it is too early to determine if the new system will provide complete information necessary to judge program results. Labor did not indicate if this new system would provide outcome data to states, which is a current deficiency we discuss in this report.
5. We recognize that the criteria for TAA program eligibility currently covers a proportion of workers who were originally displaced when their firms shifted production abroad (these workers would be certified

as eligible when imports of the same product entered the United States). However, we do not have sufficient data or a methodology to account for how many TAA certified workers would be covered by this scenario. Although we included the Department's revised estimate in our report, we cannot explain or comment upon the methods used to derive it.

6. We disagree with the Department of Labor's assertion that the 1999 caseload increase influenced investigation times. Our analysis of the Department's data indicates that certification review times in fiscal year 1999 did not differ significantly from prior years. For TAA petitions, the average determination time has exceeded the 60-day limit in 4 of the past 5 fiscal years. Additionally, while the percentage of determinations that exceeded the 60-day limit reached a high of 34 percent in 1999, in fiscal years 1997 and 1998 over 25 percent of determinations also took longer than 60 days. For NAFTA-TAA petitions, investigations have also consistently exceeded the statutory limit of 40 days each fiscal year since 1997, and timeliness has been decreasing since the program's inception, not just in 1999. In fiscal year 1996, for example, 82 percent of the NAFTA-TAA determinations were completed in 40 days or less; this proportion decreased to a low of 38 percent in fiscal year 1998 and increased slightly to 42 percent in fiscal year 1999.
7. We agree that this is a small portion of the overall budget and revised the text by removing the references to the budgetary implications.
8. The Department of Labor told us that it has introduced new internal control procedures and identified \$2.5 million in questionable payments. However, it was unable to provide us with any specifics on these internal controls at our exit conference on September 27, 2000, i.e., when exactly they were put in place and how they are used. Thus, we believe that more time is needed to judge whether they have fully corrected the internal control problems that we identified.

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## GAO Contacts and Staff Acknowledgments

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### GAO Contacts

Stephen Lord, (202) 512-4379  
Phillip Herr, (202) 512-8509

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### Acknowledgments

In addition to those named above Samantha Roberts, Edward Laughlin, Larry Thomas, Rona Mendelsohn, and Mary Moutsos made key contributions to this report.

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## Related GAO Products

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*NAFTA-TAA Program: Certification Criteria, Procedures, and Activity*  
(GAO/NSIAD-98-51R, Nov. 4, 1997).

*Dislocated Workers: An Early Look at the NAFTA Transitional Adjustment Assistance Program* (GAO/HEHS-95-31, Nov. 28, 1994).

*Dislocated Workers: Trade Adjustment Assistance Program Flawed*  
(GAO/HRD-94-4, Oct. 19, 1993).

*Dislocated Workers: Proposed Re-employment Assistance Program*  
(GAO/HRD-94-61, Nov. 11, 1993).

*Dislocated Workers: Comparison of Assistance Programs*  
(GAO/HRD-92-153BR, Sept. 10, 1992).

*Dislocated Workers: Improvements Needed in Trade Adjustment Certification Process* (GAO/HRD-93-36, Oct. 19, 1992).

*Information on the 1974 Trade Act Worker Adjustment Assistance Program Certification Process* (GAO/HRD-82-121, Sept. 10, 1982).

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United States General Accounting Office

GAO

Report to the Chairman and Ranking  
Minority Member, Committee on Finance  
U.S. Senate

December 2000

TRADE  
ADJUSTMENT  
ASSISTANCE

Impact of Federal  
Assistance to Firms Is  
Unclear



GAO-01-12

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<b>Abbreviations</b>		
EDA	Economic Development Administration	
TAA	Trade Adjustment Assistance	

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United States General Accounting Office  
Washington, D.C. 20548

December 15, 2000

The Honorable William V. Roth, Jr.  
Chairman  
The Honorable Daniel Patrick Moynihan  
Ranking Minority Member  
Committee on Finance  
United States Senate

Congressional concerns about the impact of foreign trade on U.S. manufacturing have focused attention on federal programs designed to help domestic firms that have been adversely affected by imports. One such program, the Department of Commerce's Trade Adjustment Assistance program, aims to help U.S. firms adopt strategies to become more competitive in a global economy. Commerce's Economic Development Administration administers the program, which was established in 1962. The agency is responsible for certifying firms' eligibility to receive assistance and approving the certified firms' business plans for economic recovery. To become eligible to receive assistance, a firm must demonstrate that increases of imports have contributed importantly to decreases in sales or production and in its number of employees. Twelve regional Trade Adjustment Assistance Centers, which operate under cooperative agreements with the Economic Development Administration, help firms with the certification process, assess the viability of firms, and develop business recovery plans. The Centers also provide funding for and oversight of the work done by third-party consultants, who implement the projects detailed in the business recovery plans. Certified firms generally pay 25 percent of the cost of developing a recovery plan and no less than 50 percent of the total cost of the technical consulting services for projects that cost more than \$30,000. The Economic Development Administration's fiscal year 2000 Trade Adjustment Assistance appropriation is \$10.5 million.

You asked us to review the nature and extent of Trade Adjustment Assistance as well as the outcomes of this assistance. Specifically, we (1) identified how the funding was used and the number and type of firms participating in the program and (2) examined the impact of the program assistance received by firms, including the views of participating firms and Center directors about the quality and impact of program services.

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To answer these objectives, we collected data on program operations from the Centers and the Economic Development Administration for the time period covered by the Centers' cooperative agreement years 1995-99.<sup>1</sup> To determine the impact of program services received by firms, we relied on data provided by the Economic Development Administration and Center directors and also conducted interviews of 72 firms that were certified by the Economic Development Administration to receive program assistance. These firms fell into three categories: (1) 18 firms that were certified in 1998 but later withdrew from the program; (2) 28 firms that were certified in 1998, had approved business recovery plans, and had one or more projects implemented; and (3) 26 firms that were nominated as "success stories" by their respective Trade Adjustment Assistance Center. Because our sample was small and not random, the results are not projectable and do not permit us to draw conclusions about all firms participating in the program. However, the interviews provide insight into the program and illustrate how firms used the Trade Adjustment Assistance program to help them meet their competitive challenges. We also interviewed Trade Adjustment Assistance program officials, including the 12 directors of the Centers, to obtain additional perspectives on the program. For a more complete discussion of our scope and methodology, see appendix I.

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<sup>1</sup>The annual time periods covered by the cooperative agreements vary among the Centers and do not necessarily correspond to the fiscal year.

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**Results in Brief**

The 12 regional Trade Adjustment Assistance Centers spent an annual average of about \$9.8 million for cooperative agreement years 1995 through 1999. Although Centers' expenditures varied, most of these funds (61 percent) were used to fund operational and administrative costs, including the cost of helping firms become certified and developing their business recovery plans. The remainder—an annual average of about \$3.8 million, or approximately 39 percent of the total—was used to fund direct technical assistance to firms through the implementation of business recovery plans. For fiscal years 1995 through 1999, Commerce's Economic Development Administration certified, on average, 157 firms annually as eligible for trade adjustment assistance and approved business recovery plans for about 127 firms each year. The median sales for certified firms was \$3.2 million and the median number of employees was 45. The three industries most frequently represented among certified firms for cooperative agreement years 1995 through 1999 were industrial machinery and computers (14 percent), electronic equipment (13 percent), and apparel manufacturers (12 percent).<sup>2</sup> Examples of projects funded and implemented in conjunction with the business recovery plans included marketing, Web site development, standards certification, and production process improvement.

The impact of the program on firms is inconclusive because the Economic Development Administration does not formally monitor and track program outcomes of program recipients. Rather, the agency sets annual numerical goals for certifications and approved business recovery plans (outputs) for each of the Centers. As a result, the Economic Development Administration does not have the information necessary to systematically assess Center performance in helping firms adjust to import competition. Most (40) of the 54 firm managers we interviewed who used Trade Adjustment Assistance funds to implement projects reported that the assistance had a positive impact on their firms' gross annual sales, and most (31) reported that the assistance had had a positive impact on employment. However, some (7) managers pointed out that the Trade Adjustment Assistance was small relative to the firm's overall investments, and most (31) firm managers that had implemented projects told us that they had finished projects with their own funds. Eight of the directors of

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<sup>2</sup>The data from one Center were not available for this analysis. Other categories included fabricated metals (10 percent), miscellaneous manufacturing (7 percent), and rubber (6 percent).

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the regional Centers were generally satisfied with the Economic Development Administration's overall management, but all 12 directors identified limited program funds as a problem affecting the Centers' ability to deliver program services. In allocating the limited funds for project implementation, Centers use different mechanisms, such as "first-come, first-served" or funding at least one project in all recovery plans. This inconsistent approach to project funding raises questions about whether scarce resources are being used effectively. This is important because the 12 Centers currently have a combined backlog of about \$12 million in approved, but unfunded, projects. At the current rate of recovery plan funding at the Centers, it will take more than 3 years to fund these projects if no new companies are taken on as clients.

This report contains recommendations to the Secretary of the Department of Commerce to improve program management by (1) developing better measures of program outcomes and (2) applying these outcome measures to evaluate the effectiveness of the Centers' delivery of services to make the best use of the limited funding of this program. In written comments on a draft of this report, the Department of Commerce generally agreed with our findings and the recommendations.

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## Background

The Trade Adjustment Assistance (TAA) program for firms was established by the Trade Expansion Act of 1962<sup>3</sup> to assist firms that have been adversely impacted by import competition; and the program was expanded under the Trade Act of 1974, as amended.<sup>4</sup> Commerce administers the program through the Economic Development Administration (EDA). Although Congress originally authorized Commerce to assist firms by providing technical assistance, direct loans, and loan guarantees, the direct loan and loan guarantee provisions were eliminated in 1986.<sup>5</sup> The program lapsed in June 1999, but Congress reauthorized it in November 1999 through September 30, 2001.<sup>6</sup> EDA receives a separate appropriation for TAA, which it uses to fund 12 regional Trade Adjustment Assistance

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<sup>3</sup>Public Law 87-794, 19 U.S.C. 2341 to 2356.

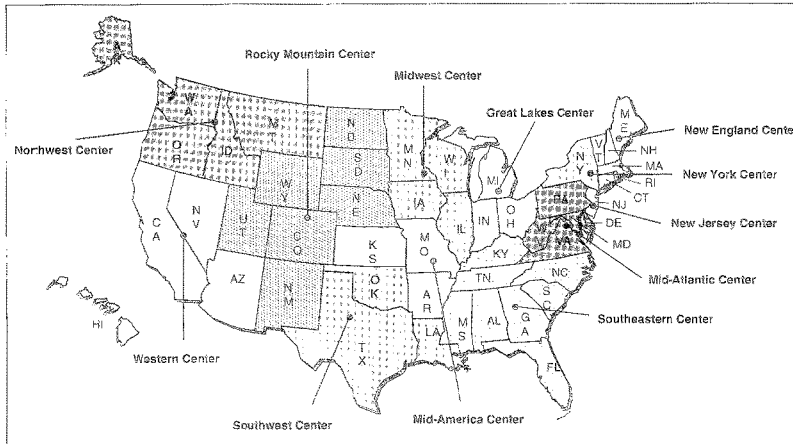
<sup>4</sup>Public Law 93-618.

<sup>5</sup>19 U.S.C. 2344 (d).

<sup>6</sup>Consolidated Appropriations Act of Fiscal Year 2000, Public Law 106-113, H.R. 3421, which was enacted into law by reference in H.R. 3194.

Centers, under renewable cooperative agreements. As shown in figure 1, the Centers cover geographical areas of different sizes. Funding for individual Centers varied from \$660,000 to \$1 million for cooperative agreement year 2000. Each Center funds technical assistance to firms within its region that have received EDA certification of eligibility and whose business recovery plans have been approved by EDA.

Figure 1: TAA Center Locations and Regional Coverage



Source: GAC derived from Department of Commerce information.

A firm that seeks TAA benefits must petition EDA for certification of its eligibility. To be found eligible, a firm must demonstrate (1) that a significant number or proportion of the firm's workers have become totally or partially separated from their employment, or are threatened to become totally or partially separated; (2) that sales or production overall have decreased, or that sales or production of a product that represents at least 25 percent of its total production has decreased during the preceding

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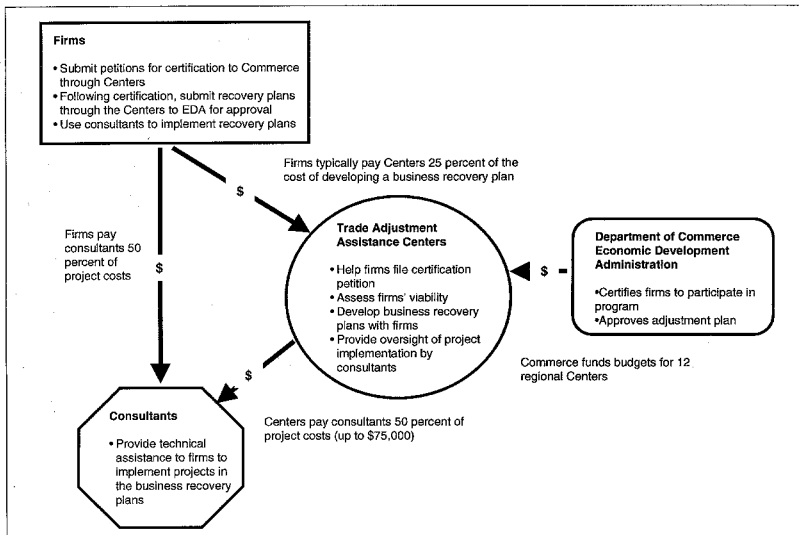
12-month period; and (3) that increases in imports of articles like or directly competitive with the firm's product contributed importantly to the employment separations (or threat thereof) and the declines in sales or production. Trade Adjustment Assistance Centers' staffs work with firms to develop the documentation. EDA requires firms to support claims of declining sales and employment and increases of imports competing with the products they produce. EDA is required to determine the firm's eligibility within 60 days of receiving a petition.

Once certified, a firm has 2 years during which it is to develop a business recovery plan in consultation with the regional Center. This recovery plan should detail the firm's fundamental business operations, assess its competitive problems, and propose specific projects to be implemented by one or more competitively selected third-party consultants. After EDA approves the plan, the Center funds specific projects within the plan, subject to the Center's available funds. Projects are limited to technical assistance such as marketing strategies, technical standards certification, product and process development, and computer system upgrades. TAA funds may not be used for capital expenditures such as physical plant improvement or machinery upgrades. Firms are permitted to receive up to \$75,000 in TAA funding but are required to match federal funds dollar-for-dollar to implement the technical assistance projects.<sup>7</sup> (See fig. 2 for a summary of the TAA process.)

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<sup>7</sup>For projects budgeted to cost less than \$30,000, Centers may fund up to 75 percent of the total cost.

Figure 2: Flowchart of the TAA Process



Source: GAO derived from Department of Commerce information.

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**Less Than Half of  
Center Expenditures  
Were Used to Fund  
Project  
Implementation by  
Consultants**

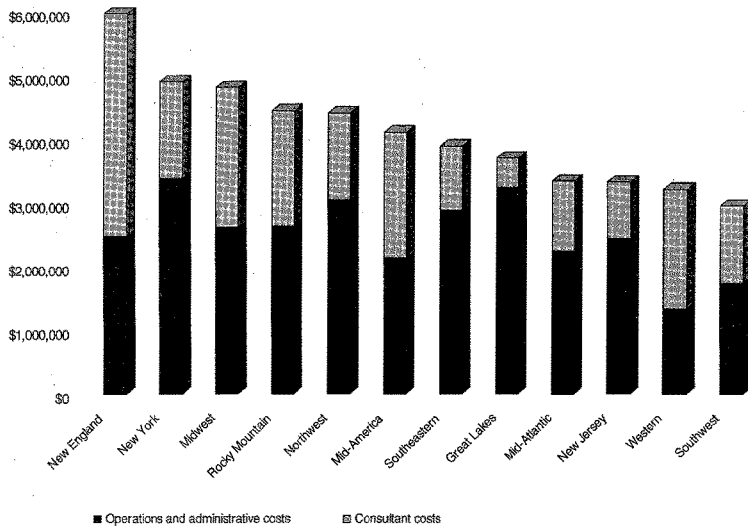
Expenditures by the 12 regional Centers during cooperative agreement years 1995-99 totaled about \$49 million, or an annual average of \$9.8 million. Between 1995 and 1999, the 12 regional Centers used about 39 percent (about \$3.8 million annually), on average, of TAA funding to fund technical assistance from third-party consultants to eligible firms with approved business recovery plans. During the same period, Centers spent about 61 percent (about \$6 million annually), on average, to fund operational and administrative costs associated with helping firms with the initial certification process, developing business recovery plans for certified firms, and funding the day-to-day operations of the Centers.<sup>8</sup> However, the proportion of funds spent to fund consultants varied across Centers. As shown in figure 3, the New England and Western Centers spent over half of their program funds (about 59 percent and 58 percent, respectively) on technical assistance provided by consultants to eligible firms, while the Great Lakes Center spent about 12 percent. EDA officials told us that the Great Lakes Center is currently on probation due to its relatively few certifications and business recovery plans submitted to EDA in the last 2 years.

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<sup>8</sup>According to Center directors' estimates, about 64 percent of their staffs' time is spent on working with firms on developing certification documentation and business recovery plans.



Figure 3: Trade Adjustment Assistance Centers' Total Expenditures, Cooperative Agreement Years 1995-99



Note: Operations and administrative costs include staff time spent assisting firms with the certification process and preparing adjustment plans, in addition to the cost of funding day-to-day operations.  
 Source: GAO derived from TAA Centers' data.

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Between fiscal years 1995 and 1999, EDA certified a total of 784 firms (about 157 firms annually, or about 13 each year for each of the 12 Centers) as eligible to receive trade adjustment assistance. EDA approved the business recovery plans for 633 certified firms (about 127 firms annually, or an average of 11 firms per year for each Center).<sup>9</sup> Firms participating in the program represent a broad array of industries that produce manufactured products. Such firms include manufacturers of auto parts, agricultural equipment, electronics, jewelry, circuit boards, textiles, log homes, and many others. Based on the data provided by the Centers for firms certified between cooperative agreement years 1995 and 1999, we found that about 14 percent of firms produce industrial machinery and computers, about 13 percent manufacture electronic equipment, and 12 percent produce apparel. For the 5-year period, firms had annual sales (at the time of certification) that ranged from a low of \$1,563 to more than \$219 million, with median sales of \$3.2 million. The number of workers employed at the time of certification ranged from 1 to more than 3,000, but the median number of employees was 45. See appendix II for a statistical profile of firms that EDA certified as eligible to receive TAA benefits in cooperative agreement years 1995-99.

Certified firms receiving trade adjustment assistance developed business recovery plans that included a broad range of projects, including marketing, Web site development, standards certification, improvements to production processes, inventory control, and others. These projects, which were customized to meet each firm's specific needs, were implemented by third-party private sector consultants selected jointly by the firm and the Center, and some firms used more than one consultant in the course of implementing its recovery plan. For more detail on types of projects undertaken at one Center, see appendix II.

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### Impact of TAA Program for Firms Unclear

The impact of the TAA program for firms is unclear, based on our review of EDA's data, our interviews of program participants who received TAA benefits, and our interviews of the 12 regional Center directors.

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<sup>9</sup>According to EDA data, EDA rejected only 2 of the total number of business recovery plans submitted for EDA approval between fiscal years 1995 and 1999.

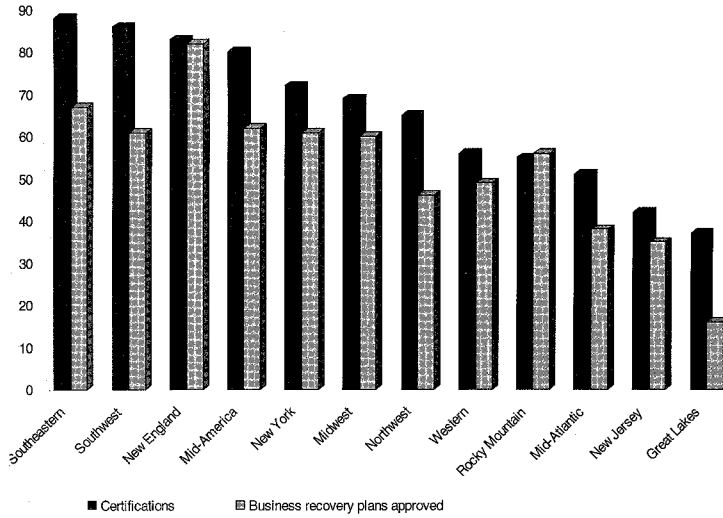
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**EDA Does Little to Monitor Program Outcomes**

Although EDA funds the Trade Adjustment Assistance Centers, it has not formally monitored and tracked program results. EDA establishes goals for each Center regarding the number of certifications and business recovery plans to be completed annually for EDA review (outputs). In addition, EDA program officials told us that they conducted site visits in the past but discontinued them in fiscal year 2000 because of budget constraints. However, EDA provides no oversight of project implementation and does not track the outcomes of firms receiving TAA funding. Additionally, we found that the Centers do not always collect the same information on clients and funded projects. Furthermore, not all Centers were able to provide us with information on the type of projects included in each client's recovery plan, the status of each project, and changes in sales and employment. This lack of standardization and of a systematic collection of basic data hinders EDA's ability to assess program effectiveness. As a result, EDA is unable to use any performance measures other than numbers of approved certifications and recovery plans to evaluate the performance of the Centers and of the program overall. According to the data EDA does collect, certifications by Center for fiscal year 1999, the last fiscal year for which data are available ranged between 6 and 24, while the number of approved recovery plans ranged between 2 and 22. As shown in figure 4, the number of certifications and business recovery plans approved varied across Centers for the fiscal year 1995-99 time period that we reviewed.

Figure 4: Certifications and Adjustment Plans Approved, by Trade Adjustment Assistance Center, Fiscal Years 1995-99



Source: GAO derived from Department of Commerce data.

EDA officials have recognized some of the shortcomings in the available performance data, and, building on the requirements of the Government Performance and Results Act of 1993 (P.L. 103-62), have begun to collect client satisfaction data from participating firms. As of October 1999, these data are being collected through a one-question survey provided to program participants by the Centers. According to a Commerce TAA program official, the results of these surveys are not yet available. Although client satisfaction is one important dimension of program effectiveness, other measures of economic recovery, such as changes in sales,

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employment, and earnings, could potentially provide more meaningful indications of program impact. One Center Director told us that in October 1999, he began to collect more extensive data from client firms. This Center has designed and implemented an electronic questionnaire to measure client satisfaction with the Center project manager and the private sector consultant. It also asks firms about changes in sales, employment and capital expenditures as a result of the project that was implemented by the consultant. According to the Director, the results are not yet available, but he expects to use them to report to EDA and his state government on the economic impact overall of projects that his Center funds. Although the Director has presented this questionnaire to other directors, the questionnaire is not used by all Centers because some Centers lack the necessary technology to implement the survey.

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**Although Views of Private Sector Firms Are Positive, Overall Program Impact Is Uncertain**

We were unable to conclusively assess the impact of the TAA program because EDA does not track changes in the business condition of assisted firms. To obtain insight into program operations and effectiveness, we interviewed 72 firms certified by EDA. (See app. III for the questionnaire.) Table 1 shows the distribution of the types of companies we interviewed by Center and category of the firms' participation in the program.

Table 1: Distribution of Firms Interviewed, by Center and Category of TAA Participation

TAA Center	Firms designated as "success stories" by Centers	Firms that were certified and had approved business recovery plans	Firms that were certified, but withdrew from the program	Total
Great Lakes	2	2	1	5
Mid-America	2	2	2	6
Mid-Atlantic	2	4	0	6
Midwest	2	2	2	6
New England	3	1	1	5
New Jersey	3	3	1	7
New York	2	2	2	6
Northwest	2	3	2	7
Rocky Mountain	2	3	2	7
Southeast	2	2	1	5
Southwest	2	2	2	6
Western	2	2	2	6
<b>Total</b>	<b>26</b>	<b>28</b>	<b>18</b>	<b>72</b>

Of the 54 firm managers we interviewed that had implemented one or more projects, 53 indicated they were satisfied with the services they had received from the Centers, and 51 said they were satisfied with the third-party consultants. Most of these managers also indicated that TAA had had a positive impact on increases in sales and employment (40 and 31, respectively). For example, one firm manager said that TAA funding helped the firm to redesign a key product. According to the manager, the TAA-funded project led to increases in gross annual sales and employment levels. However, we also found that some (5) of the 18 firms we interviewed that dropped out of the program after becoming certified also reported increases in sales and employment.

Despite these positive views of the program, firm managers also identified other factors that contributed to the successful recovery of their firms. Seven managers noted that the amount of TAA funding was small relative to the firm's overall investments in its business recovery. For example, one manager explained that the firm's business recovery project cost \$5.5 million, of which \$50,000 came from TAA funds. According to the Director of the Center serving this firm, the TAA funding facilitated the financing of the overall project but was not the only factor in its success.

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Some firm managers also said that other factors not related to TAA, such as a strong domestic economy or physical plant investments, had also contributed to increased sales and employment.

Thirty-one firm managers said that they had finished approved projects with their own funds, and four firm managers specifically noted that the lack of funds from their respective Center impaired the timely implementation of projects. For example, one firm manager said that TAA program funding for the firm's projects ran out several times during implementation and that the projects had to be delayed until the following year. The manager further noted that delayed funding for scheduled projects creates problems for businesses that must implement changes quickly in order to remain competitive in today's economy.

The 18 firm managers we interviewed that withdrew from the TAA program cited a variety of reasons for dropping out of the program, including the lack of funds to cover the firm's portion of the business recovery plan, or a decision that the firm did not want the type of technical assistance funded by the TAA program. Another firm withdrew after the manager responsible for overseeing the TAA process left the firm.

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#### Center Directors Identify Issues Affecting Program Implementation

A majority of the directors of the 12 Centers we interviewed said the Trade Adjustment Assistance program provides an excellent model for assisting firms but expressed concerns about a number of program issues. Although 8 were generally satisfied with EDA's program management, all 12 directors reported frustration with current funding levels. According to the directors, they cannot fund all projects in approved business recovery plans due to the limited program funding. Six of the directors told us that they ration scarce funds across all approved business recovery plans, trying to fund at least one project of every approved plan. However, the other six directors indicated that they use predominantly a "first come", "first-served" approach to fund projects.

The 12 directors reported a combined backlog of \$12 million for projects in business recovery plans approved by EDA that the Centers are currently unable to fund. Using the current rate of Centers' funding of projects in approved recovery plans (\$3.8 million annually over the 5-year time period we reviewed), it will take more than 3 years to fund all projects slated for implementation to help firms respond to the business pressures associated with import competition.

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**Conclusion**

We identified two overall issues in the TAA program that suggest a need for reexamining how the program operates. First, Commerce's Economic Development Administration has not developed appropriate outcome measures to conclusively demonstrate the value of the program in achieving its goal of assisting firms adversely affected by imports. This, combined with the lack of standardized data collected by the Centers, makes it difficult to judge the outcomes of the program. Second, there is a current backlog of about \$12 million in approved but unfunded projects, and Centers use different approaches to allocate limited program resources. These variations among the Centers in how they allocate limited funds, combined with the lack of outcome measures, raise questions about whether available funds are being used in the most effective manner.

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**Recommendations for Executive Action**

To improve the effectiveness of the Trade Adjustment Assistance program in helping firms that are adversely affected by imports, we recommend that the Secretary of Commerce

- establish more effective measures of desired program outcomes and
- apply these outcome measures as criteria to evaluate the effectiveness of the Centers in making the best use of the limited program funding to help trade injured firms adjust to import competition.

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**Agency Comments and Our Evaluation**

We received written comments on a draft of this report from the Department of Commerce (see app. IV). Overall, the Department of Commerce agreed with our findings and recommendations and said that the Department is committed to implementing the most effective program in order to help U.S. trade-injured firms adjust to import competition. The Department of Commerce also provided technical comments, which we incorporated in the report as appropriate.

The Department of Commerce cited the finding in our report that 39 percent of the program funds go to provide technical assistance to trade injured firms from third party consultants while the remaining 61 percent of the funds are used for operational and administrative costs, including the costs of certifying firms and developing business recovery plans. Commerce stated that the Economic Development Administration is confident the majority of administrative and operational costs actually support Center staff technical assistance to the trade injured firms and are not overhead costs as implied by sections of the report. We agree, as noted



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above and in our draft report, that the Centers use a portion of the administrative and operational costs to provide technical assistance to firms and believe that the Center's role in assisting firms is clearly stated in our report. We acknowledge this fact in our report by characterizing these expenditures as administrative and operational—not overhead. However, we maintain that it is essential to note that less than half of the program's expenditures are used to fund the implementation of business recovery projects for firms adversely affected by import competition. Because the Centers' budget data only identifies expenditures for technical assistance provided by consultants, we reported the available data and cannot comment on Commerce's view that the majority of the Centers' operational and administrative expenditures are used to provide technical assistance to firms.

The Department of Commerce also stated that it was disappointed that the positive findings from our interviews with firms cannot be used to support conclusions about the overall program. Commerce cited a November 1998 Urban Institute study commissioned by the agency that found statistically significant improvements in sales, employment, and survivability for firms receiving Trade Adjustment Assistance when compared to firms certified as eligible but which did not receive implementation assistance. Commerce also pointed to an "effectiveness report" prepared by the Centers annually that has consistently shown substantial increases in sales and employment for firms assisted by the Centers in comparison to the declines the firms reported prior to entering the program.

Neither the Urban Institute study<sup>10</sup> nor the Economic Development Administration's "effectiveness report" demonstrates the impact of the trade adjustment assistance program. The Urban Institute study has some methodological shortcomings that served to undermine the validity of the study's conclusions, including selection bias—an inherent bias in favor of the TAA-assisted firms. In order to receive Center services, eligible firms have to invest their own time and resources as part of the assistance. In addition, at least some Center directors further screen firms to select those most likely to succeed. As a result, firms qualifying for Center assistance

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<sup>10</sup>The Urban Institute study, prepared in November 1998, compares firms that actually received Center assistance with those that did not on three outcome measures: firm termination rate, firms' total employment, and sales growth. Both groups of firms were certified as eligible to receive Center assistance. The study observed significant differences between the two groups of firms on all three outcome measures. These observed differences are attributed to the positive effect of the Trade Adjustment Assistance program.

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are likely to be stronger, healthier, and more committed than the firms not participating in the program. While this may be an appropriate strategy for delivering scarce program funds, it complicates efforts to independently evaluate results as treatment and comparison groups must be selected in a manner that rules out any inherent bias in favor of either group. The design of the Urban Institute study did not do this. In addition, the study did not measure and test for other explanatory variables, such as the availability of other federal or state assistance, firms' own investment in capital improvements or technology, or changes in human resource strategies that may account for or influence positive outcomes. Consequently, the study cannot attribute any observed differences between the groups compared—those receiving TAA assistance and those that did not receive assistance—exclusively to the TAA program. Regarding the "effectiveness report" generated by the Centers, we note that it reports changes in sales and employment for all clients for each Center on an aggregate basis without reference to differences in firm size, number of employees, or phase of recovery for each client. As such, its usefulness in assessing effectiveness of trade adjustment assistance is limited.

The Department of Commerce stated in its letter that the Economic Development Administration has undertaken several efforts to monitor the TAA program and its impacts. Commerce points to a 1998 Urban Institute evaluation study, regular visits to Centers by EDA staff in fiscal year 1999 to monitor Center progress, and the use of a satisfaction query of assisted firms to demonstrate its monitoring efforts. We agree that Commerce has completed some monitoring efforts in the past and have included this information in our report. However, we still believe that the Economic Development Administration needs to introduce more systematic and focused monitoring to better judge program outcomes. In our view, effective monitoring should include establishing appropriate measures of success for each firm assisted, regular tracking of program outcomes by the Department of Commerce, and using that information to evaluate the success of each Center.

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We are sending copies of the report to interested congressional committees and to the Honorable Norman Y. Mineta, the Secretary of Commerce. We will also make copies available to others on request.

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If you or your staff have any questions about this report, please contact me on (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix V.

*Susan S. Westin*

Susan S. Westin  
Managing Director  
International Affairs and Trade

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## Objectives, Scope, and Methodology

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The Chairman of the Senate Finance Committee, William V. Roth, Jr., and the Ranking Member, Daniel Patrick Moynihan, requested that we review the Trade Adjustment Assistance (TAA) program for firms. We (1) identified how the funding was used and the number and type of firms participating in the program and (2) examined the impact of the program assistance received by firms, including the views of participating firms and Center directors about the quality and impact of program services.

To determine how TAA funding was used and the number and type of firms participating in the TAA for firms program, we collected data from the Department of Commerce's Economic Development Administration on certifications and approved adjustment plans from fiscal years 1995 to 1999. We also contacted the 12 regional Trade Adjustment Assistance Centers, which provided data on their program expenditures and information about client firms, including gross annual sales, number of employees, and industry information made under their cooperative agreements years 1995-99.<sup>1</sup> To identify the nature of the assistance provided, we asked Centers to indicate projects contained in each client firm's approved business recovery plans. Some Centers provided detailed information on actual projects, while others told us that they could not pull together this information for all clients in time for our analysis. Because the data on projects are limited, we present (in app. II) project information from a single Center to illustrate the variety of projects and the combinations of projects undertaken by firms to implement their business recovery plans.

To assess the impact of the program, we conducted interviews with EDA officials responsible for the program and reviewed EDA program files. We conducted on-site visits at three Centers in Atlanta, Georgia; San Antonio, Texas; and Los Angeles, California. We chose these sites because they represented different regions, and we were able to combine these visits with other TAA-related audit work.

To report on the views of certified firms and the Center directors on program operations and the quality and impact of program services, we conducted telephone interviews with 72 certified firms, and interviewed the 12 Center directors. GAO selected about two-thirds of the firms that we interviewed, and the Centers chose the remaining third. For the

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<sup>1</sup>The annual time periods covered by the cooperative agreements vary among the Centers and do not necessarily correspond to the fiscal year.

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Appendix I  
Objectives, Scope, and Methodology

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GAO-selected firms, we identified companies that had received TAA assistance from each of the 12 Centers. We selected companies certified in calendar year 1998 to ensure that the companies had sufficient time to become certified as eligible by EDA, decide whether to proceed with assistance, develop a recovery plan, and have some experience with implementing the recovery plan. We attempted to interview at least two companies from each Center that had developed an approved recovery plan and two companies that withdrew from the program. Based on data provided by the Centers, we attempted to identify four of each type of company to attempt to contact. When a Center's number of clients that fit our specifications exceeded four, we chose companies randomly for our interviews. However, not all Centers had four firms in each category. One Center did not have any candidates for our "certified but withdrew" category. In those cases, we interviewed more firms in the "certified with recovery plan" category. For a few Centers, our interview strategy produced more than four interviews when more firms returned our calls than expected. For the Center-selected cases, we asked each Center to nominate companies that they considered "success stories," and we interviewed at least two companies in this category for each Center. Because we did not select the firms that we interviewed randomly, the results do not permit us to draw conclusions about all firms participating in the program. However, the interviews allow us to illustrate how firms used the Trade Adjustment Assistance program to help them meet their competitive challenges.

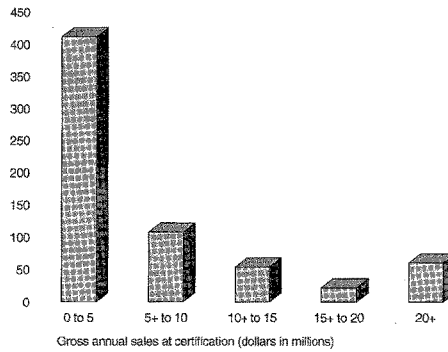
We conducted our work from February through October 2000 according to generally accepted government auditing standards.

## Statistical Profile of Firms Certified to Receive Trade Adjustment Assistance

We present in this appendix a series of figures and tables that provide statistical details of firms that were certified between cooperative agreement years 1995 and 1999, including a profile of firms by sales, employment levels, and Standard Industrial Classification code. Similar data are also provided for the firms that participated in our interviews. We also present information about projects of certified firms at one Trade Adjustment Assistance Center.

Figure 5 shows the distribution of certified firms by gross annual sales at the time the firm was certified to participate in the TAA program for calendar years 1995-99. Figure 6 shows similar data for the firms that participated in our interviews. The firms we interviewed had median sales of about \$3.5 million, and ranged from \$3,229 to \$90.9 million. The total population of certified firms had median sales of \$3.2 million, and the sales ranged from \$1,563 to \$219.2 million.

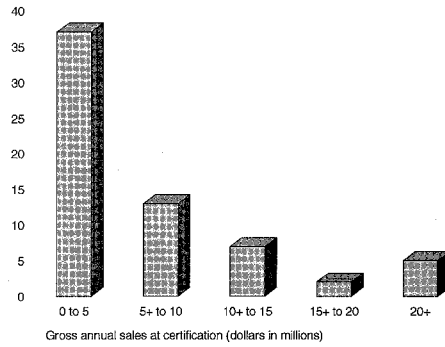
**Figure 5: Distribution of Certified Firms, by Gross Annual Sales, Calendar Years 1995-99**



Note: Sales data were provided by the TAA Centers for 655 firms.  
Source: GAO derived from TAA Centers' data.

Appendix II  
 Statistical Profile of Firms Certified to  
 Receive Trade Adjustment Assistance

Figure 6: Distribution of Certified Firms GAO Interviewed, by Gross Annual Sales

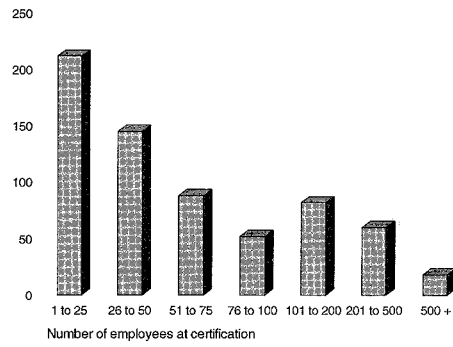


Note: Data were provided by the TAA Centers for 64 of the 72 firms we interviewed.  
 Source: GAO derived from TAA Centers' data.

Figure 7 shows the distribution of certified firms by number of employees at the time the firm was certified to participate in the TAA program for calendar years 1995-99. Figure 8 shows similar data for the firms that participated in our interviews. The median number of employees was 44 for the firms we interviewed, and the number of employees for interviewed firms ranged between 4 and 648. The median number of employees for total population of firms was 45, and the number of employees ranged between 1 and 3,089.

Appendix II  
Statistical Profile of Firms Certified to  
Receive Trade Adjustment Assistance

Figure 7: Distribution of Certified Firms, by Number of Employees, Calendar Years 1995-99

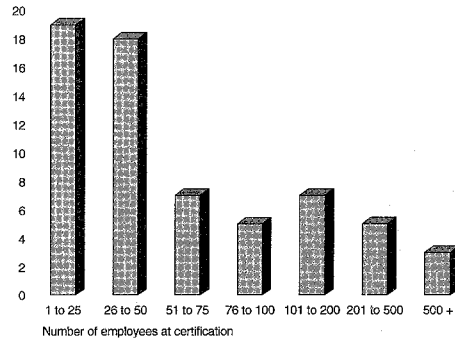


Note: Employment data were provided by the TAA Centers for 657 firms.  
Source: GAO derived from TAA Centers' data.



Appendix II  
Statistical Profile of Firms Certified to  
Receive Trade Adjustment Assistance

Figure 8: Distribution of Certified Firms GAO Interviewed, by Number of Employees



Note: Data were provided by the TAA Centers for 64 of the 72 firms we interviewed.  
Source: GAO derived from TAA Centers' data.

Table 2 shows the distribution of Standard Industrial Classification codes for firms certified for calendar years 1995-99. Table 3 presents similar data for the firms included in our interviews.

Appendix II  
 Statistical Profile of Firms Certified to  
 Receive Trade Adjustment Assistance

Table 2: Standard Industrial Classification Codes for Certified Firms, Calendar Years 1995-99

Industry grouping	Standard Industrial Classification codes (2-digit)	Number of certified firms	Percent
Agricultural production	01	10	1.4
Agricultural services	07	1	0.1
Food manufacturing	20	20	2.8
Textile mill	22	32	4.5
Apparel	23	82	11.5
Lumber	24	28	3.9
Furniture	25	23	3.2
Paper	26	10	1.4
Printing/publishing	27	5	0.7
Chemicals	28	12	1.7
Petroleum refining	29	1	0.1
Rubber	30	41	5.8
Leather	31	23	3.2
Stone/clay	32	16	2.3
Primary materials	33	17	2.4
Fabricated metals	34	68	9.6
Industrial machinery/computer	35	100	14.1
Electronic equipment	36	89	12.5
Transportation equipment	37	31	4.4
Instruments	38	39	5.5
Misc. manufacturing	39	50	7.0
Electrical services	49	1	0.1
Wholesale-durables	50	1	0.1
Wholesale-nondurables	51	4	0.6
Apparel stores	56	1	0.1
Eating and drinking	58	1	0.1
Business services	73	3	0.4
Public administration	95	2	0.3
<b>Total</b>		<b>711</b>	<b>100*</b>

\* Total does not add to 100 percent due to rounding.

Source: GAO derived from TAA Centers' data.

Appendix II  
 Statistical Profile of Firms Certified to  
 Receive Trade Adjustment Assistance

**Table 3: Standard Industrial Classification Codes for Certified Firms GAO  
 Interviewed**

Industry grouping	Standard Industrial Classification codes (2-digit)	Number of certified firms interviewed	Percent
Agricultural production	01	1	1.5
Agricultural services	07	0	0
Food manufacturing	20	0	0
Textile mill	22	1	1.5
Apparel	23	3	4.6
Lumber	24	4	6.1
Furniture	25	1	1.5
Paper	26	0	0
Printing/publishing	27	1	1.5
Chemicals	28	1	1.5
Petroleum refining	29	0	0
Rubber	30	1	1.5
Leather	31	3	4.6
Stone/clay	32	3	4.6
Primary metals	33	1	1.5
Fabricated metals	34	5	7.6
Industrial machinery/computer	35	11	16.7
Electronic equipment	36	7	10.6
Transportation equipment	37	5	7.6
Instruments	38	10	15.2
Misc. manufacturing	39	7	10.6
Electrical services	49	0	0
Wholesale-durables	50	0	0
Wholesale-nondurables	51	0	0
Apparel stores	56	0	0
Eating and drinking	58	0	0
Business services	73	0	0
Public administration	95	1	1.5
<b>Total</b>		<b>66</b>	<b>100<sup>a</sup></b>

<sup>a</sup> Total does not add to 100 percent due to rounding.

Note: TAA Centers provided Standard Industrial Classification code data for 66 of the 72 firms we interviewed

Appendix II  
 Statistical Profile of Firms Certified to  
 Receive Trade Adjustment Assistance

Source: GAO derived from TAA Centers' data.

Table 4 lists projects funded by one Center—the Midwest TAA Center—for a sample of 10 firms. The example illustrates the breadth of projects funded and shows the combination of projects included in each of these firms' business recovery plans. Some of these projects have been funded and completed. Others are still in the implementation phase, while other projects are awaiting funding.

**Table 4: Example of TAA Projects at Midwest TAA Center, October 1995-May 2000**

Client	Project 1	Project 2	Project 3	Project 4	Project 5
Firm #1	Technical certification consulting	New equipment selection	Market research	Technical certification registration	Information system upgrade
Firm #2	Promotional materials	Sales representative development	Productivity improvement		
Firm #3	Strategic marketing	Promotional materials	Process consulting		
Firm #4	Manufacturing technology study	Information system upgrade	Marketing materials	Implement price quoting software	
Firm #5	Market development	Promotional materials	Export market study		
Firm #6	Strategic marketing	Information system upgrade	Product design project	Software upgrade	
Firm #7	Web site and online catalog development	Manufacturing representative search	Strategic planning		
Firm #8	Facility layout evaluation	Software upgrade	Strategic planning	Strategic planning	
Firm #9	Paint process improvement	Dealer development	Information system upgrade		
Firm #10	Information system upgrade	Market research	Distribution consulting	Manufacturing technology	

Source: GAO derived from Midwest TAA Center information.

## GAO Questionnaire for Certified Firms

Note: Frequency of responses by category for closed-end questions are shown in brackets next to each category.

1. How did you learn of the Trade Adjustment Assistance program for firms?

*(ASK Q.2 IF THE TAA CENTER INITIATED CONTACT WITH THE FIRM, OTHERWISE GO TO Q.3)*

2. How satisfied or dissatisfied were you with the TAA Center's outreach activities?

[8]	Very satisfied
[14]	Generally satisfied
[1]	As satisfied as dissatisfied
[0]	Generally dissatisfied
[0]	Very dissatisfied
[2]	Do not recall
[1]	Do not know

### CERTIFICATION PHASE

3. How satisfied or dissatisfied were you with the overall certification process?

[23]	Very satisfied
[34]	Generally satisfied
[8]	As satisfied as dissatisfied
[3]	Generally dissatisfied
[0]	Very dissatisfied
[1]	Do not recall
[1]	Do not know

*(IF GENERALLY OR VERY DISSATISFIED, ASK Q.3a, OTHERWISE GO TO Q.4)*

3a. Why were you dissatisfied with the certification process?

4. What is the status of your Adjustment Plan (business recovery plan)?

[52]	Submitted, approved <i>(GO TO Q.6)</i>
[2]	Submitted, approval pending
[15]	Not submitted <i>(CONTINUE TO Q.5)</i>
[0]	Other

5. Do you plan to submit an Adjustment Plan (business recovery plan)?

[0]	Yes <i>(GO TO Q.2)</i>
[16]	No <i>(CONTINUE Q.5a)</i>

Appendix III  
GAO Questionnaire for Certified Firms

[1] Have not decided

5a. If not, what are your reasons?

5b. If not, under what circumstances would you submit an Adjustment Plan (business recovery plan)?

*(GO TO Q 20 IF FIRM DOES NOT PLAN TO SUBMIT PLAN OR HAS WITHDRAWN FROM THE PROGRAM)*

**IMPLEMENTATION PHASE**

6. Briefly describe the types of projects your firm has implemented to date.

7. How involved were you in the selection of the project consultant(s)? ("Consultant" refers to any individual(s) that provided technical assistance or were otherwise contracted by the TAA Center to implement a project).

- [50] Very involved
- [1] Somewhat involved
- [1] Not very involved
- [0] Had no role in the selection

8. Based on your overall experiences with the project consultant(s), how satisfied or dissatisfied are you with the following aspects of their services?

#	TYPE OF SERVICE	VERY SATISFIED	GENERALLY SATISFIED	AS SATISFIED AS DIS-SATISFIED	GENERALLY DIS-SATISFIED	VERY DIS-SATISFIED	NO BASIS/DO NOT KNOW
1	Knowledge of subject	[35]	[15]	[0]	[0]	[0]	[11]
2	Able to communicate their knowledge effectively	[36]	[17]	[1]	[0]	[0]	[11]
3	Understands your firm's particular needs	[34]	[16]	[3]	[0]	[0]	[11]
4	Timeliness (appointments, follow-up, completion)	[32]	[17]	[2]	[1]	[1]	[11]
5	Provides all deliverables outlined in project proposal	[40]	[10]	[2]	[1]	[0]	[11]
6	Usefulness of final recommendations	[34]	[19]	[0]	[0]	[0]	[11]
7	Overall satisfaction with consultant(s)	[36]	[16]	[1]	[1]	[0]	[11]

Appendix III  
GAO Questionnaire for Certified Firms

8	Overall satisfaction with the project(s)	[38]	[12]	[0]	[0]	[0]	[1]
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8a. Why were you very satisfied / very dissatisfied with (1-8)?

9. Did your project(s) cost less than the amount originally approved by the Department of Commerce?

- [8] Yes (CONTINUE to Q.9a)
- [41] No (GO TO Q.10)
- [2] Do not know / other (GO TO Q.10)

9a. If so, why was that?

10. Regarding your firm's Adjustment Plan (business recovery plan), have you decided to fund some of the tasks yourself without federal financial assistance?

- [51] Yes (CONTINUE to Q.10a)
- [20] No (GO TO Q.12)
- [2] Do not know / other

10a. If so, how much investment have you made so far?

10b. If so, why did your firm decide to make the investment?

11. Would you have been able to implement the project(s) without trade adjustment financial assistance?

- [14] Yes
- [38] No
- [2] Don't know / other

Comments:

12. How satisfied or dissatisfied are you with the following aspects of TAA Center's services?

#	TYPE OF SERVICE	VERY SATISFIED	GENERALLY SATISFIED	AS SATISFIED AS DIS-SATISFIED	GENERALLY DIS-SATISFIED	VERY DIS-SATISFIED	NO BASIS
1	Timely and responsive assistance	[47]	[6]	[1]	[0]	[0]	[0]
2	Center staff assistance and expertise	[45]	[9]	[0]	[0]	[0]	[0]
3	Making an appropriate diagnosis of your firm's situation	[45]	[9]	[1]	[1]	[0]	[0]
4	Recommended projects are doable and practical	[41]	[11]	[1]	[0]	[0]	[0]

Appendix III  
GAO Questionnaire for Certified Firms

(i.e., when your financial means, resource capacity, etc)						
5 Fair and reasonable fees, if charged	[34]	[16]	[1]	[0]	[1]	[3]
6 Overall satisfaction with the Center	[46]	[7]	[1]	[0]	[0]	[0]

12a. Why were you very satisfied / very dissatisfied with (1-6)?

OUTCOMES/GENERAL SATISFACTION

Note: Frequency of responses for Q.13 and Q.14 include the responses from firms that were certified and had approved business recovery plans. See Q.20-Q.22 for frequency of responses from firms that were certified but withdrew from the program.

13. How have gross annual sales changed at your firm since (business recovery plan approval date)?

- [43] Increased
- [4] Decreased
- [7] No change

13a. In your view, what impact did trade adjustment assistance have on the changes in gross annual sales?

- [15] Significant impact
- [25] Some impact
- [11] No impact
- [3] Don't know / No basis to judge

Comments:

14. How has the number of employees at your firm changed since (business recovery plan approval date)?

- [94] Increased
- [11] Decreased
- [9] No change

14a. In your view, what direct impact did trade adjustment assistance have on the changes in the number of employees?

- [10] Significant impact
- [21] Some impact
- [20] No impact
- [3] Don't know / No basis to judge



Appendix III  
GAO Questionnaire for Certified Firms

Comments:

15. How have overall wage levels at your firm changed since (*business recovery plan approval date*)? By "overall wage level," we mean the pay structure you use to attract new hires and/or retain current workers. If wage levels have changed, please describe the circumstances and factors contributing to the changes.

15a. In your view, what direct impact did trade adjustment assistance have on the changes in wage levels?

- [2] Significant impact
- [17] Some impact
- [12] No impact
- [2] Don't know / No basis to judge

Comments:

16. Has trade adjustment assistance impacted your firm in other ways? (For example: .. profitability, downtime, new processes, new products, annual savings in labor, inventory, materials, energy, increased capital spending, or other things)

17. In terms of the money you paid for the services you received, how valuable was the assistance?

- [28] Worth much more than you paid
- [16] Worth somewhat more
- [5] About equal to the amount you paid
- [0] Worth somewhat less
- [0] Worth much less
- [2] Do not know / other

18. How could this program be improved?

19. Would you recommend this program to another firm experiencing difficulties due to import competition?

- [62] Yes
- [1] No
- [8] Do not know / other

END

Appendix III  
GAO Questionnaire for Certified Firms

ADDITIONAL / SKIP QUESTIONS FOR FIRMS THAT HAVE WITHDRAWN FROM THE PROGRAM

Note: Frequency of responses for Q.25 is included in the responses shown for Q.19.

20. How have gross annual sales changed at your firm since (certification date)?

- [5] Increased
- [6] Decreased
- [7] No change

Comments:

21. How has the number of employees at your firm changed since (certification date)?

- [5] Increased
- [7] Decreased
- [6] No change

Comments:

22. How have overall wage levels changed at your firm since (certification date)? If wage levels have changed, please describe the circumstances and factors contributing to the changes.

23. In your view, have there been any other significant changes at your firm since (certification date)? (For example: profitability, new processes, products, inventory, capital spending, etc.)

24. How could the trade adjustment assistance program be improved?

25. Would you recommend this program to another firm experiencing difficulties due to import competition?

- Yes
- No
- Do not know / other

END

Appendix IV

## Comments From the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



THE SECRETARY OF COMMERCE  
Washington, D.C. 20230

NOV 27 2000

Ms. Susan S. Westin  
Managing Director  
International Affairs and Trade  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Ms. Westin:

Thank you for the opportunity to comment on the draft report, *TRADE ADJUSTMENT ASSISTANCE: Impact of Federal Assistance to Firms Is Unclear*. The Department of Commerce and the Economic Development Administration (EDA), which manages the Trade Adjustment Assistance (TAA) program, are committed to implementing the most effective program in order to help United States trade-injured firms adjust to import competition.

Overall, we concur with the strongly positive findings of the report, which contains a great deal of evidence demonstrating the effectiveness of the TAA program. As part of this study, 54 firms that received implementation assistance under the program were interviewed. Forty-three of the firms were "very satisfied" and nine firms were "generally satisfied" with the TAAC's diagnosis of the firm's situation. Forty of the 54 firms reported the program had a positive impact on increases in sales. Thirty-one of the 54 firms reported the program had a positive impact on increases in employment. Forty-four of the firms thought the assistance under the program was worth more than they paid. Even more impressive, when the investigators asked those 54 managers, as well as 18 managers of firms that were certified but dropped out of the program, if they would recommend the program to firms experiencing difficulties due to import competition, an overwhelming majority (62) said they would.

While we recognize the positive findings of the report, we feel it inadequately reflected appreciation for the importance of the technical assistance provided directly by TAAC staff to the client firms. The single most important component of the TAA program is the joint TAAC/firm development of the adjustment plan (business plan in the draft report), which lays out the strategy the firm is to follow to regain the ability to compete in the global marketplace. It must be remembered that the firms included in this review were certified as trade injured, so they had demonstrated loss of sales and employment during a period of unprecedented economic growth in the United States. The positive results reported above after the firms received assistance from TAAC staff with the development of a successful business strategy demonstrates the importance of that strategy to the adjustment process.

Given the overall positive findings of the report, we were also disappointed that the report then goes on to state these positive findings cannot be considered indicative of the overall program because the 54 firms were not randomly selected by the reviewers. We agree it would have been preferable that the review be conducted with a methodology that would support findings relative

See comment 1.

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to the overall program, and we are confident such a review would have produced similar results. For example, in its 1998 evaluation of the TAA program, the Urban Institute found statistically significant improvements in sales, employment, and survivability for firms assisted under the TAA program when compared to firms certified as eligible, but which did not receive implementation assistance. Also, the "effectiveness report," a chart the TAACs prepare annually to summarize sales and employment changes for TAA-assisted firms, has consistently shown substantial increases in sales and employment for firms assisted by the TAACs in comparison to the declines the firms reported prior to entering the program. These overall increases in sales and employment are even more impressive when the most appropriate adjustment strategies for some trade-injured firms may be to further reduce the scope of their operations.

The report states, in several places, that only 39 percent of the program funds go to provide technical assistance to trade-injured firms from third party consultants while the remaining 61 percent of the funds are used for operational and administrative costs, including certification and business recovery plan assistance. EDA is confident the majority of the operational and administrative costs actually support TAAC staff technical assistance to the trade-injured firms. Besides the certification and business recovery plan assistance already noted, the administrative and operational costs also help pay for preparing, soliciting, and monitoring competitive bids with the private consultants that provide the implementation technical assistance. The great majority of the TAA program funds are used for direct technical assistance to trade injured firms, not overhead costs as implied by sections of the report.

See comment 2.

The report implies that the TAA program's impact may not be as significant as it first appears because for some firms the program's share of implementation assistance was small relative to that of the firm. Given the realities of the TAA program budget and the importance of developing an effective business strategy, this is another indicator of the success of the program because it leverages significant firm investment in their own recovery. The report also notes that some TAACs provide funds for technical assistance implementation through private consultants to firms on a first-come, first-served approach, while others attempt to fund at least one project in each firm's recovery plan. The report asserts these different approaches raise questions as to whether the implementation funds are being used most effectively since the combined backlog of approved, but unfunded, technical assistance is about \$12 million. This broad statement, however, is difficult to assess, since the report provides no discussion or examination of this issue.

See comment 3.

EDA notes that it has undertaken efforts to monitor the TAA program and its impacts. As previously mentioned, EDA commissioned the Urban Institute in 1997 to evaluate the TAA program. This is a significant example of EDA's commitment to monitoring the TAA program and one that is consistent with GAO's recommendation that Federal agencies routinely commission outside evaluations to judge the effectiveness of their programs. EDA staff have also made regular visits to the TAACs to monitor their progress and operations. In FY 1999, for example, EDA staff made monitoring visits to nine TAACs. An extremely light administrative

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budget prevented EDA from continuing that pace in FY 2009, but EDA is committed to resuming these visits when its administrative budget improves. At the beginning of FY 1999 EDA instructed all TAACs to ask each assisted firm, as it completes the implementation of its adjustment plan, to rate its satisfaction with the TAA assistance on a 1 to 10 scale (10 best). EDA currently uses these ratings as a performance measure for the TAA program.

Finally, I would like to mention that EDA, the International Trade Administration (ITA), and the Department of Labor (DOL) have also undertaken an initiative to refer workers and communities identified in antidumping and countervailing duty petitions for immediate counseling about trade adjustment benefits and programs. We are in the process of drafting a brochure explaining the respective programs of each agency. We will also establish a link among the DOL, EDA, and ITA Web sites so that users can access all relevant information in one search. This will also solidify the mechanism for sharing information among the various agencies. We are also considering bringing the International Trade Commission, the Department of the Treasury, and the Small Business Administration into this effort so that the outreach is even more comprehensive.

The Department of Commerce welcomes the opportunity to expand its dialogue, particularly with the Congress and GAO, in fully achieving the congressional objectives of the TAA program in today's global economy. EDA also welcomes the opportunity to further its partnerships with Congress and GAO, as well as the Office of the Inspector General and other Commerce agencies in developing improved ways and means for implementing the TAA program, in establishing greater capabilities to more effectively measure program outcomes, and in using those outcome measures to evaluate the Trade Adjustment Assistance Centers' achievements.

Sincerely yours,

  
Norman Y. Mineta

The following are GAO's comments on the Department of Commerce's letter dated November 27, 2000.

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### GAO Comments

1. As we stated in our report, we conducted interviews with a small number of TAA participants to gain a better understanding of the program and to learn more about the firms' perspectives on TAA program operations. The number of interviews that we conducted with client firms receiving assistance was small (72 firms), and the selection of those firms interviewed was confined to firms certified as eligible in 1998 and those nominated by the Centers (with no constraint on the certification date), and not random. Thus, their responses can not be treated as representative of the views of all TAA participants.
2. Our report relates what TAA participants told us about factors other than TAA assistance that they said contributed to the overall success of the firms. We believe that, for these firms, factors other than TAA assistance also contributed to their ultimate success. Our report does not draw any conclusion about the TAA program's success overall.
3. We highlighted this issue because Centers use inconsistent approaches in their efforts to allocate the limited program funds. We think this raises questions about whether program resources are being used effectively across all Centers.

PREPARED STATEMENT OF CLAYTON YEUTTER<sup>1</sup>

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you this morning. This is a busy time for trade policymakers and it is most appropriate for you to place trade adjustment assistance (TAA) on that agenda.

The implementation of trade agreements will inevitably provide winners and losers, for *every* signatory country, not just the U.S. What makes this often traumatic process worthwhile is that winners will typically outnumber losers, usually by a very large margin. That has been the history of post-World War II negotiations, both multilateral and bilateral. We've experienced more than half a century of unprecedented economic growth, and trade agreements have been a huge contributor to that outcome. Their track record is outstanding, far better than most people realize. Literally millions of people in the world owe their jobs today to the economic progress emanating from trade agreements negotiated since World War II. Those agreements have been a locomotive for economic growth and job creation, and the U.S. has been the greatest beneficiary of all.

Nevertheless, we must always remember that this reflects a *net* gain in jobs, meaning gross job increases minus job losses. It is the latter subject, *i.e.*, job losses, which merits our attention here.

Since trade agreements have traditionally provided a net economic benefit to society, it should be theoretically possible—and hopefully feasible—for society to compensate the losers. That, of course, has been the intent of our own trade adjustment assistance programs through the years. But this is not an easy task, for it asks governments to (1) identify the losers as trade agreements are implemented, and (2) quantify their economic losses. That calls for an intricate examination of cause and effect relationships, a formidable task indeed.

There are winners and losers in the American business sector every day of the week. That is the nature of our dynamic capitalist society. Some of those shifts in economic wellbeing are attributable to trade agreements, but most are not. They're simply the workings of our entrepreneurial economic system, and of the historic willingness of Americans to be risk takers in their quest for a better future for their families. We ask government to cover some of those risks, but only a fraction of them. Most are borne by individual members of American society, and by the institutions with which they are associated.

Consequently, one decision to be made by the Congress in dealing with trade agreements relates to the risks attached thereto. Who is to bear those risks? U.S. business firms and their employees? Or their government? Or is the risk somehow to be apportioned between them? In recent years we've asked our government to bear part of that risk, where we've been able to identify and quantify those who merit the additional protection.

#### *Defining the Boundaries*

Just what is a "trade agreement" in the context of adjustment assistance? Is it an agreement negotiated by the Office of the U.S. Trade Representative? Or any agreement negotiated by representatives of the U.S. government where trade is the principal subject (landing rights at airports, *e.g.*)? Or where trade is an "important" or "significant" element of such an agreement?

Could it be a "trade agreement" negotiated by and between other governments where the U.S. is adversely affected? Adversely affected "in a major way?" Could it be a trade dispute between the U.S. and one or more other nations, where American jobs are, or may be, at risk even though no "agreement" is involved? Should differences in antitrust laws, which may or will have an impact on American employment, trigger trade adjustment assistance? Will an altered interpretation of an existing trade agreement do so?

Questions of this nature merit continuing oversight by the Congress, for this is an ever-changing world. And our involvement in international commerce will unquestionably expand over time. With 96 percent of the people of the world living outside the boundaries of the U.S., we have no other choice. Those non-U.S. consumers will provide much of our demand growth in the future. We must, therefore, play on that field, which means we'll take some hits from time to time even if we're winning the trade battles. That's when adjustments must be made, and government help would be in order.

My caution is that we approach this issue with care and circumspection. We assuredly wish to be responsive and helpful to those who have been dislocated by trade agreements, however Congress defines that term now and in the future. But

<sup>1</sup>Mr. Yeutter served as U.S. Trade Representative from 1985–1989. He is currently Of Counsel to Hogan & Hartson, L.L.P., a Washington, D.C., law firm.

we should not create a costly entitlement program where a legitimate need has not been identified, documented, and persuasively presented to the Congress and the Executive Branch. We should not attempt to achieve, through trade adjustment assistance, a risk-free society. By attempting to do too much for some, we run the great risk of doing too little for all. So let's use reason, common sense, and a lot of solid economic analysis in determining eligibility for adjustment assistance.

#### *Designing the Program*

Once we do determine that adjustment assistance is appropriate, the next challenge is one of designing a program or programs responsive to that need. As a nation, we haven't been particularly good at that. In my view, our track record for trade adjustment assistance has been much less auspicious than our track record for the agreements themselves. In disciplining the design of such programs, we've often made them complex, difficult to understand, inordinately bureaucratic, and frustrating to potential recipients. We ought to be able to do better, without generating abuses of the spirit of those programs.

Aside from the administrative challenges of adjustment assistance, and the financial commitments we make to such programs, we still have major issues relating to "adjustment." Just what is it that we expect to do for those who have lost their jobs from adversity relating to international commerce? Are we just to help financially, or will we try to prepare those folks for the rewarding tasks of the economy of the future? The latter is the obvious choice, but there is still plenty of subjectivity involved in determining what those "rewarding tasks" may be. We must simply apply our best judgment at a given point in time, hoping that we'll be proven correct in our assessment of the future.

The good news is that this country has lots of fine vocational training and other such institutions which can provide guidance to adjustment assistance recipients on an individual case basis. Even in a high-tech world we need not push everyone into college degree programs. There are loads of excellent jobs on the horizon where a college degree is not required, though those jobs assuredly may be different from the ones abandoned in situations such as this.

#### *Trade Promotion Authority*

Is trade adjustment assistance of any relevance or importance to the negotiating strategy of the Office of the U.S. Trade Representative? Of course. Will it foster, within Congress, the effort to grant Trade Promotion Authority (TPA) to our negotiators? Let's hope so.

The presence of an adjustment assistance program provides comfort, not only to those individuals and families who might need it, but also to our trading partners. It demonstrates that we, as a nation, are serious about negotiating mutually beneficial trade agreements with others. If we're willing to commit significant financial resources to those who may lose jobs, we're obviously also willing to engage in negotiations that will provide job gains and greater income opportunities for even more American families. Hence, adjustment assistance sends a good signal, and provides positive vibes, everywhere—to the American work force, which might otherwise feel insecure as trade negotiations commence, and to other countries, who know that with a combination of TPA and TAA we're engaged.

#### *Conclusion*

Most Americans handle job dislocations on their own. Whatever the reason for the dislocation, they simply find another job. Sometimes it may even be a better job than the one they've lost; in many cases, it may not be.

Why haven't they taken greater advantage of government "safety nets" such as trade adjustment assistance? There are many reasons—embarrassment, not knowing of the program's existence, paperwork intimidation, a bad experience with those who administer the program, disinterest in further education/training activities, and many others.

We'll never get every eligible person into TAA or any other safety net program. But that does not suggest we should abandon such programs. Our objective should be to improve them—to make them more effective and efficient. Adjustment assistance has been an integral part of our U.S. trade negotiating strategy in the past, and should be in the future. If we can design TAA better, and administer it more skillfully, American workers will feel a lot more secure as we move forward with trade agreements. Those workers and their families all aspire to higher incomes and an improved quality of life over time, and many of those opportunities will arise from trade. So, let's be compassionate and helpful to those who lose jobs in our society, while also making sure we follow policies and take actions that create new jobs, improve incomes, and boost our nation's economic growth.

I will be pleased to answer any questions the Committee may have.



## COMMUNICATIONS

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### STATEMENT OF THE AMERICAN APPAREL AND FOOTWEAR ASSOCIATION (AAFA)

[SUBMITTED BY STEPHEN LAMAR, VICE PRESIDENT]

Dear Chairman Baucus: On behalf of the American Apparel and Footwear Association (AAFA)—the national trade association of the apparel and footwear industries—I am writing to express support for renewal of the Trade Adjustment Assistance (TAA) program.

This is an important program that provides needed worker retraining resources for employees whose jobs are affected by international trade. As two of the industries on the frontlines of globalization, the footwear and apparel industries have been frequent users of this program in recent years. We urge its reauthorization so that it not expire at the end of the current fiscal year.

I would like to raise several points that I hope you will consider as you examine this program and develop a consensus on reauthorization for the coming year. In particular, we would encourage you to address the implicit bias against trade that the program exhibits.

For example, in order to qualify for TAA, a firm has to show that job losses are caused by imports. This creates an incentive to blame trade factors for every job loss, because to do otherwise would deny employees of needed retraining assistance. Even though trade may be a significant factor leading to a job loss, other factors such as technological change may have also contributed. We think it is important that worker retraining programs address the totality of causes that lead to job disruption, rather than give preference, and thus assess blame, to trade effects.

Correcting this bias is important because TAA statistics are often cited by those who oppose trade agreements to show that various trade programs have led to job losses. Compounding this problem is the fact there is no comparable program to certify that jobs have been created by trade whether they be imports or exports. As a result, the Federal Government appears to be certifying only the disruptive effects of globalization.

One approach may be to draw upon a provision, written by Senator Strom Thurmond (R-SC), which was approved by the Senate as Section 402 of the Senate-passed version of the African Growth and Opportunity Act in 1999. That provision reads:

Notwithstanding any other provision of law, workers in textile and apparel firms who lose their jobs or are threatened with job loss as a result of either (1) a decrease in the firm's sales or production; or (2) a firm's plant or facility closure or relocation, shall be certified by the Secretary of Labor as eligible to receive adjustment assistance at the same level of benefits as workers certified under subchapter D of chapter 2 of title II of the Trade Act of 1974 not later than 30 days after the date a petition for certification is filed under such title II.

Because this provision assigns a non-trade specific rationale to job losses, training resources can be provided even though trade was not the primary factor contributing to the job loss.

Please contact me if you require additional assistance or input.

Thank you for your consideration.