

**TRADE AND GLOBALIZATION: ADJUSTMENT FOR
A 21ST-CENTURY WORKFORCE**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED TENTH CONGRESS
FIRST SESSION

—————
JUNE 6, 2007
—————



Printed for the use of the Committee on Finance

—————
U.S. GOVERNMENT PRINTING OFFICE

47-244—PDF

WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON FINANCE

MAX BAUCUS, Montana, *Chairman*

JOHN D. ROCKEFELLER IV, West Virginia	CHUCK GRASSLEY, Iowa
KENT CONRAD, North Dakota	ORRIN G. HATCH, Utah
JEFF BINGAMAN, New Mexico	TRENT LOTT, Mississippi
JOHN F. KERRY, Massachusetts	OLYMPIA J. SNOWE, Maine
BLANCHE L. LINCOLN, Arkansas	JON KYL, Arizona
RON WYDEN, Oregon	CRAIG THOMAS, Wyoming
CHARLES E. SCHUMER, New York	GORDON SMITH, Oregon
DEBBIE STABENOW, Michigan	JIM BUNNING, Kentucky
MARIA CANTWELL, Washington	MIKE CRAPO, Idaho
KEN SALAZAR, Colorado	PAT ROBERTS, Kansas

RUSSELL SULLIVAN, *Staff Director*

KOLAN DAVIS, *Republican Staff Director and Chief Counsel*

CONTENTS

OPENING STATEMENTS

	Page
Baucus, Hon. Max, a U.S. Senator from Montana, chairman, Committee on Finance	1
Grassley, Hon. Chuck, a U.S. Senator from Iowa	2

WITNESSES

Brainard, Dr. Lael, vice president and director, The Brookings Institution Global Economy and Development Program, Washington, DC	5
Didier, Kim, executive director, Newton Development Corporation, Newton, IA	7
McDonald-Pines, Jane, workforce policy specialist, AFL-CIO, Washington, DC	8
Rosen, Howard, executive director, Trade Adjustment Assistance Coalition, Washington, DC; accompanied by Greg Mastel, senior advisor, Trade Adjustment Assistance Coalition, Washington, DC	10
Ross, Jerry Ann, current participant in the Trade Adjustment Assistance program, Eureka, MT	12

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Baucus, Hon. Max: Opening statement	1
Brainard, Dr. Lael: Testimony	5
Prepared statement	33
Bunning, Hon. Jim: Prepared statement	40
Didier, Kim: Testimony	7
Prepared statement	41
Grassley, Hon. Chuck: Opening statement	2
McDonald-Pines, Jane: Testimony	8
Prepared statement with attachment	45
Rosen, Howard: Testimony	10
Prepared statement	55
Ross, Jerry Ann: Testimony	12
Prepared statement	71

COMMUNICATION

National Association of Health Underwriters	75
---	----

TRADE AND GLOBALIZATION: ADJUSTMENT FOR A 21ST-CENTURY WORKFORCE

WEDNESDAY, JUNE 6, 2007

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

The hearing was convened, pursuant to notice, at 10:07 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Bingaman, Lincoln, Cantwell, Salazar, Grassley, Snowe, and Bunning.

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

The CHAIRMAN. The committee will come to order.

Before the committee begins its scheduled business meeting, I want to take a moment to honor our colleague and friend, Senator Craig Thomas.

Senator Thomas was a valued member of this committee since 2001. He chaired the Subcommittee on International Trade in the last two Congresses and was very instrumental in setting up a new subcommittee of this committee on Energy and Natural Resources.

As soon as he came to me and suggested it, I knew right off the top, this is the right thing to do, and we needed to do it. It is so important for our country. It is just an example of how Craig Thomas was ahead of most people, and also directly addressing problems facing our country, as well as his home State in Wyoming.

But I think many will remember him more for who he was than what he did. We will remember Craig as being a very, very principled person. He had his roots and his basis firmly grounded in the State of Wyoming, but he was also totally a gentleman, decent and kind in furthering his goals and his principles.

He was so, so wonderful to work with: no rancor, never made his arguments personal, always smiling, always forthright, and in many ways he reminded me of my father because, in the case of both Craig Thomas and my father, I do not know anybody who ever had an ill word to speak about either one of them. They are just that strong in personality and character.

Mr. Thomas was truly a man of the American West; kind of quiet, did not seek the soap box, did not seek glamour or headlines, just very much wanted to get the job done, but in a very, very solid, principled way. I know at least that is how I will remember Craig Thomas. He will always be an inspiration for me as just a wonder-

ful person, someone whose characteristics we should strive for. He is a very special person.

Now I ask for a moment of silence in honor of Craig Thomas.

[Pause.]

The CHAIRMAN. Thank you.

Forty-five years ago, President John F. Kennedy said, “Those injured by trade competition should not be required to bear the full brunt of the impact. There is an obligation to render assistance to those who suffer as a result of national trade policy.”

Congress agreed. When Congress enacted the Trade Expansion Act of 1962, that law contained President Kennedy’s new Trade Adjustment Assistance program called TAA.

But times have changed since Congress created TAA. Back then, ocean-going container ships were a new way to transport goods. Today, container ships carry 17 times the cargo in three-quarters of the time that they did half a century ago.

Factories have become more efficient. Millions of workers moved out of manufacturing and into services. And worldwide advancements in technology and communications now move boxes, services, and ideas around the globe in record time, and some at the speed of light.

Times have changed, but the government’s approach to trade adjustment has not. American workers still have to rely on a program that was crafted for a different era. It is time to change that. It is time to ask tough questions. Is today’s TAA relevant to the 21st-century global economy? Does every eligible worker have the opportunity to re-train and re-tool and find a good job with good pay? Are the benefits that the government offers, like health care tax credits, making a difference? And are American firms and farmers getting the assistance that Congress promised them?

Today we have a distinguished panel of witnesses to help us answer these questions, and more. Those answers will help guide this committee as it looks to reauthorize and expand TAA before it expires at the end of September.

So let us begin by examining the opportunities and challenges that we face in this new century. Let us learn how we can help more Americans to get ahead in today’s global economy, and let us make sure that a 21st-century TAA helps to keep President Kennedy’s promise that we render assistance to those injured by national trade policy.

Senator Grassley?

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

Senator GRASSLEY. Before I speak to the issue before us, I can only associate myself with the remarks that you gave about Senator Thomas. You spoke very accurately, representing him and how he interacted with us and the issues before the Congress.

The only thing I would add to what you said is that the issues that we are talking about in this committee today—trade issues—were one of the most important subjects that we deal with in this committee that he was most involved in, and he had strong views about them.

I think it is fair to say that he was a person who believed in free trade, but he was also a person who believed that the United States needed to be very aggressive in making sure that the United States and its workers were treated fairly, and that the government enforced laws to make sure that fairness was a result.

I remember him, on trade issues probably more than any other issue, asking the tough questions during our hearings, and maybe being the toughest negotiator on the various bills that we have had before the committee. So, he would feel right at home here if he were with us today as we discuss this issue of trade.

Mr. Chairman, I thank you for this hearing. I have an opportunity to introduce to the committee, and you will introduce to a greater extent than I will, Kim Didier, executive director of the Newton Development Corporation in Newton, IA.

Newton, IA is doing everything it can to recover from the loss of 110 years of the Maytag Corporation being there, making a very quality product in home appliances that now has been purchased by Whirlpool and is moving out of Newton.

The city is pulling together very strongly in a united way to make sure that they still are an economic power house within the State of Iowa, and I am sure that this is one of your main concerns, Ms. Didier.

In 2002, I worked with Chairman Baucus to shepherd landmark reforms to our Trade Adjustment Assistance program through Congress, and this was when Senator Baucus was then Chairman of the committee, as he is now. Since then, I have joined him in oversight of both programs and those reforms. We work together in anticipation of the need to reauthorize Trade Adjustment Assistance this year.

And particularly in the oversight capacity, I joined the Chairman in requesting a series of reports from the Government Accountability Office examining various aspects of the operation of these programs. So, I want to thank the folks at the Government Accountability Office for their many efforts, especially Dianne Blank and Sigurd Nilson.

Our Trade Adjustment Assistance programs already operate differently than they did a few years ago, and for sure differently than maybe the original way they worked in 1963 when they were the idea of then-President Kennedy.

That is due in part, of course, to operating differently because of our 2002 reforms. It is also due to administrative changes implemented by the Department of Labor. So Secretary Chao and other administrators in the Department are to be commended for their efforts in making sure that these programs are run in the most efficient way and within the intent of Congress.

I think everyone shares the goal of ensuring effective administration of appropriate services to help trade-affected workers return to the workforce. The challenge before the committee in reauthorizing these programs is to improve them in a fiscally responsible manner so that they best meet our goals. And that goal obviously is expanded by the fact that enhanced globalization has brought trade affecting more unemployed people than maybe was originally anticipated.

Today's hearing will help the committee substantially in that effort. I am interested in examining ways to simplify program deadlines. I am also interested in considering ways to hold States accountable for the quality of the data that they report to the Department of Labor. I am interested in exploring ways to better disseminate information to trade-affected workers.

Above all, I am interested in improving the programs so that they empower individual workers affected by trade to respond to their dislocation as they deem appropriate. One size does not fit all. Workers should have a sufficient amount of time to decide how best to respond to their own dislocation impact. Workers should not have to wait until they actually lose their jobs to receive appropriate benefits when there is a prospective announcement of job losses due to trade.

Workers should have the option of returning to work on a part-time basis and still have access to appropriate benefits. We need to increase the flexibility of programs so that workers can optimize their individual responses and, as I stated previously, do it in a fiscally responsible manner.

My comments thus far have been directed at trade adjustment programs for workers. In 2002, we created then a separate trade adjustment program for people of my background: farming. We need to examine how well those programs have worked as part of the review. We need to review the Trade Adjustment Assistance for farm programs as well.

One last point. From my perspective, any effort to reauthorize our Trade Adjustment Assistance programs must be linked to an extension of Trade Promotion Authority. The Doha Round negotiations in the World Trade Organization are at a critical stage, and in the next few weeks, very critical.

We need to ensure that the negotiations have a realistic chance to conclude successfully. In order for that to happen, we need to guarantee an up-or-down vote in Congress by extending Trade Promotion Authority.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator, very much.

I would like to now welcome our witnesses, a very knowledgeable and dedicated panel.

Our first witness is Dr. Lael Brainard, who is the vice president and founding director of the Brookings Institution's Global Economy and Development Program.

Dr. Brainard will be followed by Ms. Kim Didier, as already introduced by Senator Grassley. Thank you, Ms. Didier, for being here. She is the executive director of the Newton Development Corporation in Newton, IA.

Our third witness is Ms. Jane McDonald-Pines, who is also extremely knowledgeable, a specialist in workforce policy at the AFL-CIO.

She will be followed by Mr. Howard Rosen, the executive director of the nonprofit TAA Coalition, and a visiting fellow with the Peterson Institute for International Economics. I do not know anybody who knows more about the TAA program than Mr. Rosen.

I am especially pleased and proud to welcome our fifth witness, Ms. Jerry Ross, who traveled all the way from Eureka, MT. For

those of you who do not know, Eureka is pretty far north in Montana. It is far north, in the upper northwestern part of Montana, very close to the Canadian border. Thank you very much, Ms. Ross, for taking the time to be with us here today. I might say to the committee, that she is in a short break from her TAA training this week. She has a very interesting story to tell about her experience with the program and her daughter's experience with the program. I think we can learn a lot from Jerry's direct practical experience.

So let us begin with you, Dr. Brainard. Welcome back to the committee.

STATEMENT OF DR. LAEL BRAINARD, VICE PRESIDENT AND DIRECTOR, THE BROOKINGS INSTITUTION GLOBAL ECONOMY AND DEVELOPMENT PROGRAM, WASHINGTON, DC

Dr. BRAINARD. Well, it is a pleasure to be here, Chairman Baucus, Senator Grassley, and members of the committee. I certainly appreciate the opportunity to testify. I think this could not be a more important issue.

Let me make four observations, just broadly speaking. First, I think we are experiencing a globalization challenge that is different in scale, in speed, and in scope than previous challenges that we faced. If you think about China's rise, it is pursuing a growth strategy that is very much export-led, foreign direct investment-fed, and is sending ripples to manufacturing sectors around the world.

India's concurrent economic emergence has made this challenge much more complicated, I think, for American workers. India's success in exporting high-skilled knowledge services means that the challenges of competing with low-wage foreign workers has now spread to sectors of the economy that simply were not exposed to trade even 10 years ago.

And if you think about the two economies coming on-line together, it amounts to a 70-percent expansion of the global labor force, most of these workers coming in at a wage scale that is 10 percent, 15 percent of the wage scale here.

If you think about the earlier challenges associated with Japan, South Korea, the Asian newly industrialized economies, this challenge is more than 3 times as big. Any textbook economics would predict there would be a squeeze on wage earners as capital and technology investment adjust.

A second observation is that the current winds of globalization are bigger than a trade agreement. I think we have grown accustomed to thinking about globalization as something which we can negotiate the terms of, and consequently, when we think about Trade Adjustment Assistance, it has been viewed as tied to a particular trade agreement, a particular expansion of trade. But the reality today is that globalization is facilitated by trade agreements, but it is in no way confined to them.

If you think just for a minute about services offshoring, that was facilitated by the digitization and transmissibility of services and India's own choice to invest in broadband; we never signed a piece of paper or passed a law here.

So I think, if we want to maintain support for the open and dynamic economy that we have, it should not take 3 years to be able

to bring our adjustment programs into line with those new realities.

A third, quick observation is simply to echo Senator Baucus's words. When the program was put in place, I think President Kennedy stated a principle which is no less true today, that those injured by competition from trade should not be required to bear the full brunt of that impact.

The principle remains the same, but the workforce and the challenges faced by the workforce are very different. Today's workers are much more likely to transition several times. The percentage of workers who stay in jobs for 10 years is down markedly from 20 or 30 years ago.

Permanent dislocation, as we all know, can result in devastating insecurity. Across all full-time workers, permanent dislocation leads to average earnings losses of about 14 percent; in manufacturing it is more like 19 percent. As we all know, displaced workers in import-competing industries face even larger permanent wage declines.

Then the final point is, I think everybody here will agree, it is absolutely vital to continue strengthening Trade Adjustment Assistance. I think the committee is currently considering several changes to the scope and the operation of TAA that I think are vital.

As Senator Grassley said, there were landmark changes introduced by this committee in 2002. We have now had 5 years to observe them, to learn from them, and I think it is now time to again take that learning and move forward.

I think it is a poorly kept secret that the eligibility process of TAA is a serious flaw, and so we should think about automatic triggers or other ways of getting workers into TAA quickly and more proactively.

Services workers, farmers dislocated due to globalization still are not getting the access to adjustment assistance that they deserve. The cost of the health care tax credit remains out of reach for too many families.

Wage insurance should be a real option for a much larger group. Most workers still do not hear about it or they cannot qualify because of the amount of time that they need to get into a new job.

As Senator Grassley said, training benefits should be flexible. They should be structured so that you do not need to take several years off. If you need to get back to work, that you can get trained in and around your work, or you go into a training program full-time. And, of course, they should not be rationed. They should be fully funded.

Finally, adjustment assistance for farms and for communities has never been implemented with the kind of robustness and seriousness that it should be.

So I think American workers in every sector need Trade Adjustment Assistance and they need it to be stronger, more flexible. To do anything less, I think, will put at risk support for our very dynamic and open economy.

Thank you.

The CHAIRMAN. Thank you very much. Under 5 minutes, too. Thank you very much. I might say to everyone, your full statement

will be automatically included, but I encourage you to stay within 5 minutes if you can.

Thanks.

[The prepared statement of Dr. Brainard appears in the appendix.]

The CHAIRMAN. Ms. Didier?

**STATEMENT OF KIM DIDIER, EXECUTIVE DIRECTOR,
NEWTON DEVELOPMENT CORPORATION, NEWTON, IA**

Ms. DIDIER. Thank you, Mr. Chairman, Senator Grassley, and other distinguished members of the committee. On behalf of the community that surrounds Newton, IA, we appreciate the opportunity today to share our story of transformation.

We began those transformational efforts just over a year ago when residents of Newton and the surrounding area found themselves facing the impact—the direct impact—of globalization and the changing manufacturing landscape in the United States.

On May 10, 2006, the announcement was made that the Maytag Corporation would no longer have a presence in Newton, IA: within 7 months the majority of the Maytag world headquarters' operations would be closed, and by October of this year, a 113-year tradition of manufacturing washers and dryers in Newton, IA would cease. A total of 1,900 employees, from senior vice presidents, to engineers, to line production workers would eventually lose their positions.

And although we recognize that our story and the loss of manufacturing operations in the United States is not a new story, we do believe our story epitomizes the impact of globalization on our National and local economies.

Moreover, we believe that the experiences as a result of losing Maytag can help guide policymakers. Again, not only has it impacted the employees losing their positions, but it impacts the community as a whole. It is from this community perspective that I offer my comments to you today.

At its peak in the mid-1990s, Maytag Corporation employed over 3,500 individuals locally and 29,000 worldwide. Some Maytag employees commuted an hour to an hour and a half each direction. The Maytag Corporation pumped nearly \$100 million into the regional economy and provided another half a million dollars through their corporate foundation through direct grants and support to local nonprofits.

Given the significance of the Maytag organization in the community, it is understandable that the immediate response to the announced departure involved many different emotions and reactions. But very quickly the community realized that it needed to respond with a collaborative effort in creating a community vision and work toward creating it into reality.

On May 10, we created the Newton Transformation Council. It included business and community leaders and stakeholders across the State of Iowa from a group that had been working together prior to the announcement on actual retention strategies.

The Newton Transformation Council is a powerful, grassroots effort working to sustain and improve the quality of life in Newton, and taking a very integrated approach to economic development re-

covery, including education, entrepreneurs, and other economic strategies.

This approach recognizes that our greatest assets are the people—the skills, knowledge, and talents that they bring to the process—and fully developing this talent is the key to our successful recovery and a competitive economy in the global market.

The Newton Transformation partners recently secured a planning grant from the Department of Labor's Regional Innovation Grants program. Specifically, the planning resources will be used to conduct comprehensive resource mapping to understand our regional assets, and a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis to understand successful economic and talent development strategies.

These strategies will then serve as a foundation for the region's comprehensive strategic plan that will guide and sustain the region's transformational efforts.

As I indicated in the beginning of my comments, we know that our story and the loss of Maytag is not necessarily unique, so therefore, from our experiences, we believe we can offer you three recommendations as you look at not only the impacted employees, but the community as a whole and how to help them be competitive and reposition themselves: one, help prepare and equip communities and regions from major economic disruptions in advance of the event if at all possible; two, provide technical assistance to strengthen formal entities and engage grassroots participation; and three, provide targeted resources, like the Department of Labor's regional innovation grants, to help create strategic and comprehensive plans that engage all the assets of the region and create collaborative partnerships.

Comprehensive plans built on solid strategies will leverage more resources and ensure true prosperity for the communities and the regions.

Thank you very much for the opportunity to share the story of Newton and the surrounding area. I do hope that the story has provided you with additional understanding from a community perspective in what will be useful as you consider the Trade Adjustment Assistance Act and how to assist communities to be competitive in a global economy.

Thank you.

The CHAIRMAN. Thank you, Ms. Didier, very much.

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

The CHAIRMAN. We will now go to Ms. McDonald-Pines.

STATEMENT OF JANE McDONALD-PINES, WORKFORCE POLICY SPECIALIST, AFL-CIO, WASHINGTON, DC

Ms. McDONALD-PINES. Thank you, Chairman Baucus, Ranking Member Grassley, and members of the committee for the opportunity to testify on behalf of the AFL-CIO on improving programs that help workers affected by trade and globalization.

Millions of workers are suffering from the displacement effects of trade, and the need to help them exists independently of the debate over our trade policies. We firmly believe that the Federal Government has an obligation to provide retraining, reemployment assist-

ance, health care, and income support to workers who lose their jobs due to Federal trade policies.

I would like to focus on four key recommendations for improving Trade Adjustment Assistance. First, no worker should be denied TAA training due to insufficient funds. Help for our laid-off workers has always been modest compared to the benefits of trade. The U.S. currently spends less than \$1 billion on TAA, while it is claimed that the U.S. economy gains \$1 trillion a year from trade.

Funding for TAA training should not be capped. Help for workers should not be nullified because of limited funding, flawed administration, the State in which the worker happens to live, or when a layoff occurs.

The current method for distributing TAA funds is deeply flawed because the formula reflects past, not current, demands. This leads to two undesirable results: some States experience shortfalls at the same time other States have unspent funds. Many States seek to ration training services to keep within the constraints of their base TAA allocation, shortchanging workers.

The second recommendation is to make TAA available to all workers displaced by Federal trade policies. The TAA program must cover the thousands of technology and service sector workers who find themselves jobless when their employers outsource their work overseas.

We also must ensure that all secondary workers are served, as promised in 2002. GAO reports that just 7 percent of workers covered by TAA were secondary workers. However, expanding eligibility without a guarantee of adequate funding is an empty promise.

Our third recommendation is to improve outreach and access to TAA training. Displaced workers need counseling, yet there are no funds available in TAA to pay for this help, and funding for programs like the Employment Service has been consistently cut.

GAO points out that in one State, Employment Service funds were able to pay for only a single case manager who had to cover three counties and serve approximately 1,000 workers.

Congress should fund outreach and case management through the State unemployment insurance and employment security agencies. These staff already provide access to UI and TRA benefits and can provide counseling and job search. Also, the State-wide system has the flexibility to respond to layoffs as they occur around the State.

We must improve the Health Coverage Tax Credit. We must increase the premium subsidy to 90 percent, include fall-back coverage and presumptive eligibility, and disregard lapses in coverage that are not the fault of the worker.

Fourth, we must provide quality training that is linked to the creation and retention of good jobs. Congress should expand the enrollment deadlines and support training that leads to good jobs, including quality on-the-job training and labor management initiatives that save jobs, improve wages, and make industries more competitive.

Programs that provide long-term training for dislocated workers can have positive results. One year of community college, for example, raises displaced workers' earnings by about 5 percent. A long-

term training program for dislocated workers in Washington State resulted in job placements that averaged 93 percent of pre-layoff earnings.

We also must consider establishing links between TAA and new opportunities in energy technology. Already, the renewable energy industry is experiencing a lack of skilled workers. The Power Alliance, which is a coalition of labor, business, and environmental groups estimates that 3 million new jobs could be created over the next 10 years through energy efficiency initiatives.

I would like to briefly address two other issues of concern. The first is unemployment insurance. We need to restore UI eligibility to a higher percentage of the workforce, increase benefits, and address under-funding of administration. We support efforts to provide \$7.4 billion over 5 years through an extension of the Federal Unemployment Tax Act (FUTA) surtax to encourage States to modernize their UI programs.

The second is wage insurance. The preceding list of TAA and UI reforms is the long one: lifting the training cap, extending outreach and access to training, expanding eligibility, improving health coverage and income support, and repairing the Employment Service and the unemployment insurance system.

These reforms cost money and it makes no sense to us to divert funding away from these improvements to pay for expanded wage insurance. Our improvements are designed to put more workers on a career path towards good jobs. We are concerned that wage insurance, by contrast, would promote downward economic mobility, take jobs away from lower-skilled workers, and subsidize low-wage employers.

Mr. Chairman and members of the committee, we look forward to the opportunity to work with you on legislation as it moves forward, and thank you again.

The CHAIRMAN. Thank you very much. We appreciate that.

[The prepared statement of Ms. McDonald-Pines appears in the appendix.]

The CHAIRMAN. Mr. Rosen?

STATEMENT OF HOWARD ROSEN, EXECUTIVE DIRECTOR, TRADE ADJUSTMENT ASSISTANCE COALITION, WASHINGTON, DC; ACCOMPANIED BY GREG MASTEL, SENIOR ADVISOR, TRADE ADJUSTMENT ASSISTANCE COALITION, WASHINGTON, DC

Mr. ROSEN. Thank you very much, members of the committee. I am joined here this morning by Greg Mastel, who is the senior advisor to the Trade Adjustment Assistance Coalition. I think he may be recognizable to some of you on this committee.

The CHAIRMAN. Indeed. Indeed.

Mr. ROSEN. Indeed.

It is a great honor testifying before you today, Mr. Chairman. Due to your leadership in 2002, which I experienced personally, tens of thousands of American workers are receiving assistance today that they would not have otherwise. Proposals that you and Senator Bingaman put forward have radically changed the program and improved a bad situation and made it a little bit better.

As you and Senator Grassley mentioned, we are at a critical junction right now. The Trade Adjustment Assistance program authorization expires in September. Again, based on experience, I would like to make this very clear: a lapse in authorization or a temporary extension of that authorization could cause havoc and serious disruption to American workers and their families. We saw this in the 1990s, and I hope Congress does not repeat that once again.

As you mentioned, 45 years ago Congress made a commitment to assist American workers and their families who lose their jobs due to international trade. Intensification of domestic and international competition make this commitment even more important today than ever before.

Assisting these workers, firms, farmers, fishermen, and communities to respond to the pressures of globalization should actually be at the center of the Nation's competitiveness strategy, something that I know the Chairman has been championing.

Our competitors understand this. Some European countries devote 5 times more than we do to helping workers adjust to economic pressures. These days, one of the poster boys in this city for labor market adjustment is the Danish "Flexcurity" system. As a share of GDP, the Danes spend 5 times more than we do on income support and 10 times more than we do on training.

I wish to make a few comments. We do not have time right now, but I hope in the discussion we can go into all of these things in more detail.

Number one, Trade Adjustment Assistance is not, and should not be, a substitute for trade policy. Number two, despite criticism that you might hear in Washington, Trade Adjustment Assistance works. The problem is, it just doesn't help enough people.

The Government Accountability Office found that almost half the applicants denied over the last 5 years were service workers. This is something that must be corrected. Trade Adjustment Assistance must address current market conditions, not just the old ones.

Trade Adjustment Assistance is not just a handout. Because of the reforms that you put forward in 2002, there has been a shift away from income support to direct flexible assistance, and two of those kinds of assistance are Wage Insurance and the Health Coverage Tax Credit.

Wage Insurance is not a panacea. Wage Insurance is also not a substitute for unemployment insurance. On the other hand, I have interviewed workers in Montana and Iowa and other States around the country who are currently enrolled in wage insurance. Universally, they tell me that wage insurance did not force them to take a low-wage job, but it was instrumental in helping them cope with the fact that those were the only jobs available.

The Health Coverage Tax Credit. Again, the Government Accountability Office found that 70 percent of workers who did not have insurance could not purchase insurance even with the Health Coverage Tax Credit because it was too expensive.

The Government Accountability Office calculated that, even with the credit, maintaining health care would cost about 25 percent of take-home unemployment insurance on average around the coun-

try. It could be more in certain States. The amount of the credit drastically needs to be increased.

Now, I know that the Chairman and Senator Grassley have questions about administrative costs and the allocation of training funds. It is much too detailed to get into right now; I hope we can do that during the questions and answers.

We devote a lot of resources to helping those who lose their jobs, but very few resources to helping try to prevent job loss. The Trade Adjustment Assistance program for firms is exactly the way to do that and has shown that it is successful in keeping jobs. The Urban Institute finds that about 90 percent of the firms continue to operate and maintain employment. The program needs to be expanded.

The Europeans devote 10 percent of their farm assistance to positive adjustment. By contrast, we spend less than one-tenth of 1 percent of our farm income support on positive adjustment. We need to correct that.

The new Farmer and Fisherman Program, which Senator Grassley introduced and has been championing, is the best way to do that. The program is very small right now. We need to build on that.

As was mentioned already, we are now understanding that communities are paying a heavy price due to economic dislocation. I would just mention that Ms. Didier's comments and recommendations were, in fact, part of the 2002 legislation proposed by Senator Bingaman. I hope Congress will once again consider those recommendations.

All public opinion surveys find that Americans are willing to pursue trade normalization if—and only if—the government assists those workers, firms and communities adversely affected by liberalization. The liberalization is taking place. We need to keep up our side of the bargain.

Thank you very much.

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

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

The CHAIRMAN. Now it is my honor to introduce Ms. Ross. Welcome, again, to the committee.

**STATEMENT OF JERRY ANN ROSS, CURRENT PARTICIPANT IN
THE TRADE ADJUSTMENT ASSISTANCE PROGRAM, EUREKA,
MT**

Ms. ROSS. Mr. Chairman, Senators, committee members, I come from Eureka, MT, which is located in the northwest corner of our beautiful State. It is 7 miles from the Canadian border.

I worked for Owens & Hurst Lumber mill for over 13 years as a plant supervisor. In the early months of 2005, there was an announcement made that the plant was going to close due to the results of competition from foreign trade, with the uncertainty of what lay ahead for us in the future: would we be able to find work in our area? Would it be enough to support our families?

Through the Job Service a Federal program, Trade Adjustment Assistance, TAA, was offered to the 87 employees who were affected by the layoff. The employees were also issued a grant under the Northwestern Montana Timber National Emergency Grant, NEG. The NEG is a grant that provides funds for other needed

items that the TAA and the TRA do not cover. The grant is presented by the State of Montana to the U.S. Department of Labor. The grant is to prove that a specific amount of funding is available for retraining or supportive services.

I chose the 2-year program with the Building Trades and Accounting Technology at the community college in Kalispell, MT. The TAA program has provided unemployment benefits and a gas allotment for the 150 miles I drive daily to attend school. It has also paid for tuition, books, and any other required material that I have needed for the classes that I am taking. It has been a dream come true for me.

The staff at the Job Service has been very exceptionally helpful. They have taken the time with each worker to explain the options available. My case worker has been very, very helpful whenever I have had any questions.

I do have a few suggestions for the TAA and the TRA programs for improvement. One issue is the time limits. There are time limits set forth to be enrolled in qualified training programs: at the end of 8 weeks in which the petition is certified, or at the end of 16 weeks after the job separation. A little more time may be needed.

There are limited training facilities in rural Montana, and most training institutes do not have open enrollment. Students can only start training at each semester, and not usually within the 8- to 16-week deadline.

Health insurance. Has the Health Coverage Tax Credit, the HCTC, been working? There needs to be improvement with this process. Fifty-five percent of the tax credit is not enough. What is needed is some form of health insurance, either something affordable or some type of insurance for the trainee and their family.

Currently, there is one man, who is a friend of mine, who is in his 30s. He just finished the program. He graduated last month. His kidneys are failing. He has no insurance and he has a wife and two children.

Unemployment and TRA benefits, to make sure that the benefits do not run out. It would be difficult to finish the training without the needed funds for financial support. Because of college start dates, participants cannot start training as soon as they are laid off. They use their unemployment during the time of waiting, which means those weeks are not available at the end of the 104 weeks of training.

Child care. There are several young families involved with this layoff who have small children. While in training, the young men who are the breadwinners are not bringing home the same amount of finances into their homes. Child care is still needed while they are in training.

Rural areas. It is hard for workers in rural areas to access training. The Owens & Hurst workers have to drive at least 100 miles a day round-trip to attend the closest community college. It would be nice to have a little more flexibility to pursue legitimate online opportunities for training.

Half of the Federal per diem, per rate. TAA can only pay 50 percent for the rate for training. ATAA deadline, which also is the wage insurance. To qualify for ATAA, a worker must obtain quali-

fying reemployment within 26 weeks of layoff. This remains true even if the certification is not issued until after the 26th week has passed.

There was a Washington employer who did not apply for the TAA within the 26-week period because he had hoped to start up again, but because of this his workers were not eligible for the ATAA wage insurance. The deadline should be 26 weeks of layoff or petition being approved, whichever is later.

In conclusion, I want to once again thank you for this opportunity to come before you. I have been very grateful for the opportunities that have been presented to me that would not have been available before.

The CHAIRMAN. Thank you, Ms. Ross, very much. Thank you.

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

The CHAIRMAN. I would like to ask you, Dr. Brainard, just generally, your thoughts of what we should do, this country should do, in response to this large wave of globalization. Alan Blinder has even suggested about 25 million jobs, service jobs, might be lost over the next 2 decades on account of globalization. He has written articles suggesting that we should get a little tougher and stronger, perhaps, even with our trading partners than we have in the past.

I would just like your general recommendations. What do we do about this globalization? Then maybe a couple of words about adjustment assistance in the context of what you think the American response should be.

Dr. BRAINARD. Well, my sense on the new wave of globalization is that we do not fully understand the scope of it or the scale of it. I, being bullish on America, have no doubt that over some adjustment period America is going to continue to be at the cutting edge of the leading industries in the world. So my sense is that there are already American corporations that are beginning from all the new opportunities.

The question is, how do we prepare a much larger group of Americans to take advantage and then create adjustment programs that are meaningful for those who are going to have to change their skill sets?

In general, I think there are three areas which comprise a competitiveness strategy. We tend to put them in stove pipes and consider them separately, but the reality is, when you look at something like offshoring, again, it is not something that we could mandate in a trade agreement. That was just a new wave of globalization.

My sense is, the first thing is investments, infrastructure, innovation, education—proactive. Some of those things take 10 years to start to yield fruit, but we need to be doing them now, looking forward.

Second is to be tougher about enforcing our trade rules—intellectual property in China is a perfect example—and be tougher about the trade rules that we negotiate. That is very much the work of this committee.

And then the third thing is adjustment. We tend to think that is sort of the lagging piece. But those are the workers who face the brunt of new waves of globalization first. That is why this hearing today, I think, is so critical. Unless Americans feel like they have

the tools to adjust, I think they are understandably going to be nervous and resistant.

The CHAIRMAN. I do not know who wants to answer this next question, but I read an article some months ago—and you, Mr. Rosen, referred to it—how Denmark contributes so much to worker retraining, et cetera.

They pay much more attention to those who are either laid off or have the potential to be laid off, so there's more of an impression in that country that you are on the same team, on the same Danish team. I wonder if any of you, whoever wants to, could address the degree to which that kind of approach is something we should look at in this country.

Mr. Rosen?

Mr. ROSEN. One of the frustrations I have is that we always delve into the discussion of Trade Adjustment Assistance in isolation. Ms. McDonald-Pines, I think appropriately, raised the context of unemployment insurance.

We have in the United States probably the weakest unemployment insurance system in the entire industrialized world. Only one-third of unemployed people get unemployment insurance. If you are lucky enough to get it, you get paid \$260 a week, which is below the minimum wage that Congress has just passed. It is embarrassing for an industrialized country that our general assistance to people is so weak.

Now you add on top of that what Dr. Brainard and you have suggested, which are the increasing pressures coming from globalization. It is getting harder to disentangle the causes of dislocation.

Now, what other countries have chosen to do—Denmark, other European countries—is to have very strong general programs. I will make it very clear: I am not advocating that the United States spend what European countries spend on their programs. But there is a big difference between spending 10 times what we do on training and what we currently spend on training.

Two other points. Senator Baucus, you have introduced the concept of a globalization adjustment program. I am actually attracted to that idea. There is a lot of debate on this issue.

We tend to separate our groups by political pressures and assist them accordingly, and that is how trade originally got isolated the way it did. Given the difficulties in trying to identify the causes of globalization, we may need to rethink this model.

Today it is service workers, immigration, other things. Do we want to have an immigration adjustment assistance? Of course not. So maybe doing a globalization program might really encompass all of that.

The CHAIRMAN. Yes. My time has expired. Ms. Ross, I am going to ask you a few questions about your experience during the next round, so you can be getting ready.

Senator Grassley?

Senator GRASSLEY. Yes. Ms. Didier, I agree with your testimony that highlights the need for communities to be proactive in addressing the realities of a globalized economy.

For example, I helped, through Federal grants, the Iowa State Education Association establish a program to educate students on the role of international trade in the U.S. economy.

The Association is teaching many students and teachers about international trade and how the global marketplace affects their daily lives. While it started in the Des Moines area, the Association is expanding the program.

I hope that this program will help prepare our future workers in Des Moines, and across Iowa, to capitalize on the opportunities presented by a globalized economy.

Ms. Didier, once again I thank you for appearing. We talked about the Maytag facility being closed. It was certified for Trade Adjustment Assistance, I think, on three separate occasions: 2003, 2004, and 2006.

As a result of those certifications, there has been, I am told, 633 participants in the program, with about \$5 million in benefits. That translates into an average of about \$7,800 per worker, with many former Maytag workers enrolled in community colleges for retraining.

How important have the Trade Adjustment Assistance programs been in helping former Maytag workers and the Newton community as a whole to recover from the loss of Maytag jobs?

Ms. DIDIER. Thank you, Senator Grassley. I think it has been a key component in our ability to actually sustain our community. I mentioned May 10 of last year somewhat being a mark in time of the actual departure of Maytag, but the decline of the Maytag organization is a story that has been happening over time. That is why you see there are two prior awards of the TAA, the most recent in 2006, which is related to the actual departure.

It has been very important to sustain the community and to actually meet some community needs. For example, across our community we had recognized that there was a lack of nurses and nurse practitioners within our medical system. Our hospital and our Des Moines Area Community College had worked together to put a program in place right in Newton.

What we have seen is that many of the impacted employees who are receiving the TAA adjustment dollars are actually choosing to use this program to then find a different career path and then fulfill that community need that we have for skilled nurses and skilled nurse practitioners.

So it has been a very important component of meeting the employment and workforce needs of our existing businesses and institutions and retraining those skilled individuals into those areas that our other existing businesses need.

Senator GRASSLEY. I suppose there is still a lot of heartache there, but I followed some of this through the Iowa press, particularly the *Des Moines Register*, and it seems like they painted a fairly positive view about how some people see this as a challenge as opposed to a problem, and are willing to bite the bullet and move on in the community as a whole. So, I compliment you and the community for your work.

In addition, for you as well, could you expand a bit on the regional innovation grant that Newton obtained from the Labor Department? Was it a difficult process to obtain the grant? What amount of accountability is there? In other words, what is Newton required to report back to Labor with respect to how the grant was used?

Ms. DIDIER. I would be happy to answer that. Actually, there is a bit of a story, if you do not mind me telling this. Last September, September 14, there were a number of Federal officials who came to Newton that Senator Grassley had organized for us to kind of tell the story about what Newton was doing in light of the announcement that happened in May.

We presented the approach that we were taking, very much as I described in my comments. But we made one request, and that was the fact that we needed some resources to really be strategic about our response.

We had some immediate responses that were more reactive that were necessary, but yet to really position our community and the whole region to be sustainable and become competitive in a global economy, we knew we needed to be strategic and put a plan together.

The Department of Labor understood what we were doing and actually related it to several principles that they were using within their own programs, and they have been working with us ever since September.

Obtaining the Regional Innovation Grant was very simple. We worked very closely with the staff at the Department of Labor and received that by March of this year. It has been a great impetus for us to strengthen our collaboration among the region and move towards developing this planning grant.

We do know what our accountability is—they have been very clear about that—that we have our implementation plan ready within less than a year of receiving those grant dollars. Then that implementation plan becomes, really, our road map of growing the community and sustaining it through this transformation, and making it competitive within the global economy.

The CHAIRMAN. Thanks, Senator Grassley, very much.

Senator Bingaman, you are next on the early bird list here.

Senator BINGAMAN. Thank you very much. Thanks for having the hearing, and thanks to all the witnesses for your excellent testimony.

On the issue of these TAA funds for training, Ms. McDonald-Pines, I understand that your basic points are that we are providing too little funding for training by having a cap on it, and also that this system we have for distributing the funds results in States doing what you call self-rationing; because they do not know how much they are going to have, they keep it until the end of the year.

If we were to take your suggestions on the training part of this and take the cap off so that this was an entitlement that was not in any way limited, and we were to fix this problem in the way the funds are allocated—and again, I guess your suggestion there is that one solution would be to model the system.

You say, model the system for distributing TAA training funds to the States after the system for distributing unemployment insurance State administrative grants. So if we did those two things, what costs are we looking at?

Ms. MCDONALD-PINES. Senator, we have not costed it out. I think if you take a look at the current per capita cost of an individual in TAA training, I believe it is somewhere between \$15,000 and

\$20,000, depending on the nature of training and the income support, because income support is tied to, as Howard said, the unemployment insurance benefit.

So, in some States where there are more generous unemployment insurance benefits the costs would be higher than in States where there are lower unemployment insurance benefits. But we do believe quite strongly that that investment is worth it.

The data shows that individuals who stay in longer-term training have increased earnings, are able to retain their pre-layoff earnings, so we think that that is an investment worth making.

The suggestion around modeling it on the unemployment insurance system is to create a system where every State gets, if you will, a base allocation, but there is a contingency reserve that is available to meet fluctuating demands.

Right now, the Labor Department holds back on TAA training funds and they typically, according to GAO, have waited until the end of the fiscal year to distribute those training funds, which of course results in the States self-rationing the training that they have through their base allocation.

We are suggesting essentially a base for all the States, but a contingency reserve that, again, as States need it, becomes available on an immediate basis so they do not have to tell a worker, you have to wait until September to get into a training program, or, we do not have any money, you will have to wait until next year. So in our view, it makes sense to make those kind of changes.

Senator BINGAMAN. Let me ask, Howard, if you have any thoughts on those two recommendations, what the result would be. The memo we have here from staff says that there are about 36,000 people who received training in 2006 under this program.

Is there any way to estimate how many people that would be expanded to if we took the suggestions that are being made here and took the cap off and did this other way of distributing the funds?

Mr. ROSEN. Thank you very much, Senator Bingaman. First of all, let me make it very clear: there is no perfect way to do this. This is very difficult. So, no one should interpret this as some kind of criticism, that people are doing it wrong. We have to be willing to be flexible and try different things.

Many progressive States are going to the community colleges, which tend to be the vehicles for much of the training, and asking, what is the average cost for a 2-year program?

I spoke to the TAA coordinator in Iowa yesterday, and she told me that it is \$15,000 for training. Now, that is a lot more than what Ms. McDonald-Pines just said, because she put together the training and the income payments.

So in small States, in States where there is a small amount of enrollment in these programs, they can pay more for their training. And, in fact, in Iowa and in Montana, some of that training money is used for travel. So we have different situations in different States. I believe that we do not want to get into a situation where we put a universal cap on training.

Senator BINGAMAN. We have that now, do we not?

Mr. ROSEN. We do not. We allow each of the States to figure it out based on the amount of money.

Senator BINGAMAN. Well, what is this \$225 million cap?

Mr. ROSEN. That is a universal on the total 50 States. But I do not want it to be a maximum for each person.

Senator BINGAMAN. Oh. Right. All right. I understand.

Mr. ROSEN. You do not want to put a maximum on each person. That is what we do under WIA, and I think it is a complete failure.

Senator BINGAMAN. Right. So we should avoid that.

Mr. ROSEN. On the other hand, we want to give the States the flexibility to figure it out; some States pay for transportation and things like that.

So what I have argued is, we at least have to keep the training cap up with inflation and up with total demand. To answer your question specifically, we know how many waivers are given because there is no money for training.

But I have to say, over the last year my emphasis has shifted from the squeeze due to the cap to the problems with allocation. It appears that that is really where the problem is, although I believe that the cap needs to be increased on a regular basis to keep up with demand and inflation. You increased the cap in 2002, and it had not been increased for 10 years. Well, we cannot have it that way, so I think we need to do a little bit of both.

And let me just say that the allocation process is done through regulations, it is not done through legislation. So, the Department of Labor has complete discretion on how they do that, and that is a problem.

Senator BINGAMAN. So we really ought to have the Department of Labor in here explaining why they do not change this.

Mr. ROSEN. And let me just say, since you raised that, Senator Bingaman, that the Department of Labor has not yet issued regulations on the 2002 changes. It has been 5 years and we have not seen final regulations on these, so we cannot comment on what they are doing.

Senator BINGAMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Next, is Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

This is for everyone at the table, all the witnesses. Some of you have discussed the need to vastly expand our trade assistance programs so that they pay nearly all health insurance costs and extend unemployment insurance for workers in nearly every industry, even when there is no direct connection to a trade agreement. I am not sure I agree with that approach, but I do appreciate the value of TAA training, when properly administered.

For example, in 1998, Fruit of the Loom moved about 5,000 jobs to El Salvador. Campbellsville, KY lost a 50-year-old plant that employed almost 5,000 employees. Today, Campbellsville has bounced back very nicely, thanks, in part, to TAA.

I am pleased to say that I helped to make sure that these workers received training at Lindsey Wilson College and Campbellsville University. Soon after the closing, employers like *Amazon.com* moved to Campbellsville. Today, the town has erased all of its 1998 losses and gained more than 600 additional jobs.

What changes could we make to TAA to improve the likelihood of similar success stories in the rest of this country?

Mr. ROSEN. I am just going to say one word, and then I will let Jane say it, which is: early intervention.

Senator BUNNING. This was early. Immediately.

Mr. ROSEN. Well, actually, I would argue even before the layoff.

Senator BUNNING. Well, that would be wonderful, but we did not know they were going.

Mr. ROSEN. But certainly the firm knew where things were going. If there was more communication—

Senator BUNNING. It is strange, but the firm's main office stayed in Bowling Green, KY, and the production part of it all left for El Salvador.

Mr. ROSEN. Right. Well, let me just say that I believe that the rapid response system in this country is probably the most important labor market adjustment program we have, and it is the least functional.

Senator BUNNING. Both of those schools—one was a 2-year college, Campbellsville University, which then became a 4-year university, and Lindsey Wilson—are 4-year universities.

Mr. ROSEN. Let us just take that as an example. You get a large closing in a community like you mentioned, the community college may not even have enough tables and chairs for the students. The whole infrastructure needs to be prepared, and the earlier we know about this stuff the more we can prepare.

May I just give you a small example? I mean, obviously there is a lot more.

Senator BUNNING. There are some others.

Ms. McDONALD-PINES. Well, it seems to me, in keeping with Howard's discussion, certainly strengthening early intervention through strengthening the Worker Adjustment and Retraining Notification (WARN) notice so that workers do have as much advance notice as possible prior to a layoff, through rapid response, through the unemployment insurance system, marshalling all the resources in that community and the funds that are available to help those workers make that adjustment, and a community adjustment strategy that looks at, as Ms. Didier described, the available opportunities within that community that help link workers with the available skills and jobs that are growing.

It also seems to me that TAA training need not be necessarily classroom-based. There is authority in TAA to provide funds for on-the-job training and customized training with employers. We certainly think that is an option and an alternative to Wage Insurance.

The data that I have, the latest data from the Labor Department, shows that about 2 percent of workers are enrolled in TAA on-the-job training. So, it seems to me we not only want to think about classroom training, but for workers for whom returning to a classroom is not an option or not practical.

Senator BUNNING. I have one more question I would like to get in while I have my time, and it is for you. In your testimony you complained about the cap on TAA training funds, and even suggested that we should follow the lead of Denmark, a country that spends 7 percent of its GDP on unemployment assistance and labor market programs.

If we spent a similar percentage of our GDP, it would amount to approximately \$925 billion per year in spending. How do you propose we raise the additional \$1 trillion per year in taxes?

Ms. McDONALD-PINES. Well, we would love to talk to you about ways in which we think we can connect financing mechanisms and the ways in which our country benefits from trade. The data that we presented in our testimony shows that the benefit to the U.S. economy is about \$1 trillion in trade, and yet we spend less than \$1 billion in TAA.

We have to figure out a way to provide the resources necessary so that workers can make the adjustment. I think there are options. We would be happy to talk to you about ways of financing those programs through the benefits that our country, again, generates from trade.

Senator BUNNING. Well, there are some of us here on this committee who might disagree with you slightly on that. Thank you.

The CHAIRMAN. Thank you, Senator Bunning.

Dr. BRAINARD. Could I quickly just respond to Senator Bunning on your first question? You asked what works best, and you also asked, why should we generalize this out so that it is not narrowly tied to a trade agreement. Those two things, in my mind, are completely integrally related.

Early response and community-wide strategic responses are the critical components of successful adjustment. They will not happen if the eligibility process is so cumbersome that you need to make a connection to a trade agreement, and you lose weeks and weeks trying to do that. So, I do think these things are very closely connected. Thank you.

Senator BUNNING. Thank you.

The CHAIRMAN. Thank you very much.

Senator Cantwell? According to my early bird list, you are next, Senator. The two of you can decide who wants to go first.

Senator CANTWELL. I think my colleague actually came in first.

Senator GRASSLEY. You only have 4 minutes left now. [Laughter.]

Senator CANTWELL. Thank you. I am sure I could take all 4 of those minutes.

But let me just say, I thank the panelists, and particularly Ms. Ross, for being here, because I think oftentimes we hear about these policies, but you help put a picture to what it is really like in a small community to struggle with the balance of challenges in trade when it may mean the entire community goes under without the resources. So, thank you for traveling all this way. And to all the panelists, I thought you did a fabulous job.

Washington State, I think, has probably had a more intimate relationship with TAA than just about any other State in the Union. Once, when calling somebody over at the Department of Labor, they said, we do not know if we should approve your TAA application because you use more funds than anybody else in the country.

I assured them that that was an unpleasant distinction, that the fact that we have been a natural resource-based economy with fishing and timber, and seeing significant downturns in those industries, some as a result of Federal legislation, and that the aerospace industry at one point in time went from 100,000 employees down to 35,000 employees, triggering somebody to put a billboard

outside of Seattle saying, "Will the last person leaving Seattle please turn out the lights." The defense industry, the aluminum industry—I could go on and on with our history of dislocation and TAA.

So I am a big believer in putting TAA on steroids, if you will. I think each of you articulated two particular problems, the fact that we need to increase access to TAA and the flexibility of the program. I agree with your testimony.

My question is, if we are facing such a mound of demand and such a challenge in keeping pace, as Senator Bunning was saying about being prepared before you know the eventuality, how do you balance your testimony about wage insurance or a program, what I call lifelong learning accounts?

Senator Snowe and I have been working on something that would say, let us incent both employers and employees for paying into a lifelong learning account, which would then become the way an employee would protect themselves on being retrained in the future.

So my question is, to what degree do you think that we should look at TAA as the basis for a much broader access, or do you think that we should keep TAA, make it more flexible, but think more broadly about the mound of demand that we are facing given globalization?

Mr. ROSEN. Can I just start? I try to speak to TAA coordinators throughout the country, and I know not to be too selective when you are talking to Congress, but I have spoken to your TAA coordinator, I have spoken to Montana and to Iowa, and you should be very proud of the people that you have working on this.

The CHAIRMAN. Is that by design?

Mr. ROSEN. Sorry?

The CHAIRMAN. Is that by design?

Mr. ROSEN. Yes. [Laughter.] I testified before Congressman McDermott last month. I have to say, probably one of the reasons why your spending in Washington is high is because your TAA coordinator is so incredible, and he is really doing a lot of outreach.

That brings me to my next point, which is—

Senator CANTWELL. Well, but I would also add, just so somebody does not think it is just about being aggressive, we have had significant industry downturns.

Mr. ROSEN. Oh, of course.

Senator CANTWELL. The fortunate thing for us is, we also have the up side, with biotechnology, with software, with new emerging industries, so we have matched people very well.

Mr. ROSEN. I could show you States that have that much demand and the infrastructure is not helping those people. So that is number one. Number two, to your point explicitly, I believe that TAA should be the model for what we do.

Again, I want to make it very clear, that does not mean that I am saying that we should provide all TAA resources to everyone in this country. What I am saying is, it is the one that we provide so much attention to, so it really should be the model.

Senator CANTWELL. So you would say, grow TAA?

Mr. ROSEN. Definitely I would grow TAA, but I would—

Senator CANTWELL. No. But I am saying, as the principal program for addressing—

Mr. ROSEN. For example, let us put in place Wage Insurance for all unemployed people. Let us put in place a health coverage tax credit for all unemployed people. Why just for trade-related people? So, we should try things out in TAA and then use them, when appropriate, for other workers.

Senator CANTWELL. Ms. McDonald-Pines?

Ms. McDONALD-PINES. I guess I would like to address the comment you made about lifelong learning accounts. We have some real concerns about private accounts for programs, ranging from health care, obviously, to pensions, and now to learning, because very often the only people who are able to contribute to those accounts are individuals who already have resources.

For unemployed workers who are trying to pay bills with their unemployment insurance check, or even low-wage workers who are very often the victims of these layoffs, it is very hard for them to set aside any resources for basic health care and pension, never mind lifelong learning accounts. So, that needs to be a separate conversation.

In terms of TAA, you know, you used the term “TAA on steroids.” I think that that is really important. One of the things that, again, GAO pointed out and certainly we are seeing from our experience in the field, is that there is a real gap between the workers who are eligible for TAA and how they find out about it.

TAA, right now, cannot pay for case management, counseling, and outreach, so the States are faced with cobbling together the resources that they have to help pay for that. As a consequence, workers do have a hard time knowing about the program, getting into the program, and being supported while they are in the program.

So, certainly, it seems to me, one of the major improvements in TAA needs to be expanding case management and providing that counseling to workers, at which, again, Washington State does a terrific job.

Ms. DIDIER. I would just make a quick comment. I am not as versed as some of the other witnesses here on all the technicalities of TAA, but I would say to you that what we recommended and what the Department has done with the Regional Innovation Grant, and also what they have done through their Workforce Innovation and Regional Economic Development movement are the kinds of things and principles that we are suggesting are what are helpful for communities.

I would suggest, perhaps in the community that the Senator was talking about with the loss of Fruit of the Loom, that many of those same principles probably applied and we should look at why they were able to switch that as quickly. So I think there are some programs already out there helping, and trying to help, with the communities. It is just expanding those.

The CHAIRMAN. Thank you, Senator, very much.

Senator CANTWELL. Could Dr. Brainard just answer? Or if you do not want to—

The CHAIRMAN. No, no. That is fine.

Dr. BRAINARD. I will talk quickly.

The CHAIRMAN. You have an additional minute.

Dr. BRAINARD. I think if you are thinking really proactively and kind of into the future about our competitiveness, that is the question. I mean, the list of industries you went through, some of that is trade, some of it is changes in regulations, and think about changes in technology.

Why is a trade-affected worker kind of more deserving? And if we look at the numbers of permanently dislocated workers who go into jobs where they suffer earnings losses, 33 percent, on average, and that is across all industries.

But the reality is, you have political support for the Trade Adjustment Assistance programs, so ideally this would be kind of the incubator, the state-of-the-art programs. You observe them closely. If they work well, you kind of roll them out more broadly. That would be, I think, the ideal model for TAA.

Senator CANTWELL. Thank you, Mr. Chairman.

The CHAIRMAN. I believe are next, Senator Lincoln.

Senator LINCOLN. Thank you, Mr. Chairman. Thank you so much for again having such a valuable hearing for all of us. As we hear these stories, we certainly reflect back on our own communities, our own States. I know when I came to Congress in 1992, I had six shirt factories which I quickly lost in, I think, the first two years I was in the House. I had four shoe factories, Levi Strauss, Maytag, as well as so many of the others that have been mentioned. And it does devastate these communities.

I would just like to say, Dr. Brainard, your comment about timing, as you followed up with the Senator from Kentucky, how important that is, that they do not spend all of that time trying to figure out how they are going to get folks into programs and doing things, because that kind of time that is lost is valuable and those workers are living, in those weeks, without the resources that they need. The further behind they get, the harder it is to catch up.

I think a lot of that has to go to what you were talking about in terms of what is not covered by TAA: the case management, the counseling, the outreach, and the things that are so important about getting information to these workers about where their support is and what their options are. They are devastated. When you go to those places and you see those people, they are devastated. Just making that first step is so important.

Ms. Ross, we want to thank you for bringing a real face on the issue to us. That is critically important inside the Beltway. We have wonderful resources and people who provide us great information, but when there is a real face on the issue it makes a whole difference in terms of where we are going and what we are doing.

I was particularly interested in your comments about the challenges facing rural Americans, representing a predominantly rural State, and their ability to fully maximize the benefits that are provided by the TAA program.

Hopefully you might elaborate a little bit on the unique circumstances for individuals facing unemployment in rural areas. An example you used, you mentioned online training opportunities for those who are living in remote areas, and you seemed to express, I think, some concern about the legitimacy of what is currently available in that regard, whether it is the online availability or

whether it is just whether or not those communities are hooked up. We are having a field hearing in Arkansas on the availability of broadband in some of those communities and how we might improve some of those services.

Ms. ROSS. Currently, with the online training, they are limited in what is acceptable. You have to be able to be in contact with the school and you need to go to the school periodically to visit with the instructors and/or for testing.

Senator LINCOLN. So you still have to travel?

Ms. ROSS. Yes, you do.

Senator LINCOLN. And, of course, with the price of gasoline right now, it is unbelievable in terms of that 100 or 150 miles round trip that you are making.

Ms. ROSS. Yes. Every day.

Senator LINCOLN. Well, we see that with everybody, quite frankly. It is awful. We do not even reimburse our veterans when they have to travel to the veterans hospitals to the extent that we do our staff on a Federal reimbursement.

So I think that is a real important point that differentiates just a little bit in rural America, are those issues of accessibility. I know we used some Labor money to build or retrofit a motor home with a computer lab which we could then take out into the community, which was very helpful when we saw one of our plant closings, and it was really helpful in retraining.

But we had difficulty in being able to get those dollars from the Federal side. We had to really push hard on the State side and then match some of it with some Federal dollars. But those are good points, and we appreciate it.

Ms. McDonald-Pines, maybe you might elaborate, too, on why, in your view, the Workforce Investment Act fund should not be relied on to provide case management services and why reliable funding streams for these services are separate from the Workforce Investment, so important to workers? I guess particularly in situations where there has been a significant layoff.

Ms. McDONALD-PINES. Well, you did mention, and I guess a number of the panelists have mentioned, the problems that workers have getting timely access to these programs.

Senator LINCOLN. Right.

Ms. McDONALD-PINES. And in our view, the first point of contact that most workers who lose their jobs have is with the unemployment insurance system—

Senator LINCOLN. Yes.

Ms. McDONALD-PINES [continuing]. And the Employment Service which is attached to the unemployment insurance system, which is designed to help find workers jobs and connect them with employers.

And because of cuts in administrative support for both the Employment Service and for the UI system, for the most part, when you apply for unemployment insurance now you either pick up the phone or go on the Internet.

We think that system needs to be fully funded and expanded so that there are staff there who can help a worker, once they, again, approach the unemployment insurance system with information, case management, and counseling about the opportunities that are

available to them, both through the Workforce Investment Act and through the Trade Adjustment Assistance Act.

That way you get at the issue of timeliness, again, because most workers will apply for unemployment insurance shortly after a lay-off, and in the case of State Rapid Response, the State tries to bring in the unemployment insurance system right away during a closing.

So we really think that is the first point of contact. We need to expand the professional staff within that system to help guide workers to their options, be they another job, training, or the like.

That is really where we see the emphasis on the need to provide case management and counseling. I think, again, GAO pointed out in one example that there was just enough money, through the State Employment Service in one State, one counselor had three counties and had 1,000 people in their caseload.

Well, you are not going to be able to guide people through the process unless you have staff. Workers need help in making decisions about their careers and their futures and what is going to happen, and you really cannot get that from a computer. You really do need somebody counseling.

The CHAIRMAN. Thank you, Senator. Thank you very, very much. Senator Snowe?

Senator SNOWE. Thank you, Mr. Chairman. And, first, I want to join you and Senator Grassley in expressing my profound loss, along with all of our colleagues in the Senate, in the loss of Craig Thomas, with whom I served for 17 years, both starting in the House of Representatives, and then we were in the same class here when we were elected to the U.S. Senate in 1994.

I think anybody who knew Craig, as we all did here on the committee, and his service throughout his career, he was true to his core beliefs and unshakable in his values that he drew from his beloved State of Wyoming, and he will be dearly missed.

I want to thank all of you very much for your testimony here today on a critically important program, certainly to my State and to the country. We received a number of job losses and we have been devastated in our State.

I have heard what you said, Ms. Ross, regarding the lumber industry in Montana. The same has been true, unfortunately, repeatedly in the State of Maine, and most recently in February we lost a furniture manufacturing industry that had been a hallmark in the State of Maine, Moosehead Manufacturing, for decades.

We have lost 26 percent of our manufacturing jobs in the State of Maine. In a rural State, that is a horrendous impact on the rural communities, the workers, and their families.

That is the first question I would like to raise with respect to Trade Adjustment Assistance and having a community support program. Mr. Rosen, I know that you mentioned it in your testimony as well. I think it is important, and I would like to know if you have had difference experiences.

But one of the issues that we face in Maine is the fact that we give the Trade Adjustment Assistance, but there are no jobs to go to, especially in rural communities where whole communities are devastated because of the loss of the lumber and logging industries, which, as I said, with 17,000 jobs that have been lost over the last

7 to 8 years, you can imagine what it has done to these communities and affected them disproportionately.

So how would you regard a community support program at this time, and how would we go about it? I will start with you, Mr. Rosen, and then Ms. McDonald-Pines and Ms. Didier as well.

Mr. ROSEN. First thing, I just want to add one thing to the last question, which is, there is no line item in WIA for administrative costs already, and the number that they have been given for WIA is declining. So to say that we want to put more responsibility onto WIA administration funds, I do not know where that is going to come from.

To your question, I spent some time and I actually went down to a community and lived with a community during a very large closing, and this is what I learned. I learned that this is a great country that has a lot of different individual programs out there, and a lot of people do not know about them.

So while I get criticized as being someone who wants to build things, I think the first thing we need to do is know what programs we have out there—like, I just learned about this program to get a grant for a mobile lab—and let people know about these things. So that is the first thing we need to do, is to coordinate all of the assistance programs that we already have and let people take advantage of them.

Number two, this has been on the books since 1974, believe it or not, which is that the Department of Defense has an excellent program on economic adjustment for communities with base closings. Back to 1974, Congress was saying we should use that as a model, and that model was very much what Ms. Didier said this morning, which is to get some money for a strategic plan, bring in technical assistance, help navigate and find out where these resources are.

So what I am saying to you is, I do not think we have to recreate anything. We have something already and we need to just borrow from it. So, I think we know what to do, we are just not doing it.

Senator SNOWE. Well, that is an interesting point about the base closures. Regrettably, I am intimately familiar with that process as well. But that is important. Maybe we ought to use that as a model.

Ms. Didier?

Ms. DIDIER. Yes. I would agree. In fact, as we were going through this process and really assessing what we needed, that is the model that we went to and came up with and thought about.

In fact, I think that is part of some of our interactions with the Department of Labor and some folks who are working on BRAC and using a similar model. So, I would agree that that is part of it.

I would also agree, though, once the community has been able to access those resources, we need to really define what they want to become and what skill sets exist within the impacted employees and where they want to go for their training, a coordination of understanding what all those programs are, and the liaison—which I know the Department of Labor has been trying to do.

I know, when they were helping us with the Regional Innovation Grant, once you have that plan, then you know which programs to go to and say, here is where our gap is. So, this is why it is appro-

priate to go to the Department of Commerce, because they have a program that helps fit the gap once we have already done our determination within the community.

I think it is very important that any program that we are doing has to rise out of the community, in the sense of, they have to be self-determinant about what their future is, what their vision is, and how they help their employers and then match up with the skill sets within their employees. So, I do agree that the BRAC model is very similar and it is probably the model we should look at.

Senator SNOWE. Well, that is very helpful.

Does anyone else want to comment?

Ms. McDONALD-PINES. Our unions have had a lot of experience with the BRAC model, and in my testimony I also talk about labor management initiatives in sectors like manufacturing, health care, and hospitality that are really looking at how to retain jobs in the community and how to deal with adjustment and create good jobs addressing the sector needs.

I also mentioned in my testimony the new opportunities we see in the kind of nascent energy efficiency area, where we are going to embark on a set of renewable energy and energy efficiency initiatives that would mean new skills and new job opportunities for workers.

Pennsylvania's Governor Rendell has created a program that uses the State energy portfolio standards to incentivize the development and manufacture of wind turbines that essentially have taken an old steel mill and, instead of producing steel, they are now producing wind turbines and creating good jobs for workers.

So it seems to me that those are opportunities that we have, again, by coordinating the multiplicity of efforts, but we have to recognize that bringing those efforts to scale is also going to require some additional funding.

Senator SNOWE. All right. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Snowe.

All right. Ms. Ross, you know better than I, certainly, just the devastating impacts of all the mill closures in Montana.

Ms. ROSS. Yes, sir.

The CHAIRMAN. And I am sure the same is true in the State of Maine, as well as other States. I mean, it is devastating, the number of communities in our State that had a drastic layoff or had to shut down, close up. Your mill that you worked at, Owens Hurst, is just one example of many.

Shutdowns are due to lots of factors. It is changes in technology, it is globalization, but also Canadian lumber, subsidized Canadian lumber which has just flooded American markets very unfairly.

Ms. ROSS. Yes.

The CHAIRMAN. It took 20 years to finally get an agreement with Canada, but even that is not sufficient. As you know, some of the problem is, they are just starting to get around to that national agreement. But that is another issue.

Your question is, if you could tell us what you and your fellow workers went through as you began to reorder your lives and the

degree to which this program was a big help, or a partial help, and how you found out about it.

And then as you describe it, if you could tell us several ideas on how we can improve. You have mentioned some of the rural problems that we have in some parts of our country, but if you could also just go through some of the ways that you say, this is all right, but it sure could have been done a lot better.

You also mentioned a little bit about the unemployment insurance not being coincident with some of the benefits, and there was not enough time to sign up, et cetera.

If you could go through a little bit and just talk about yourself and talk about your fellow employees and all that you went through.

Ms. ROSS. All right. We live in a small community. I hear these other folks talking about larger layoffs. Our community only has 2,000 people in it. With almost 100 employees, that is quite a bit impact on our small area. I think it affected our community more so than it even did us as employees because of the money that we bring into our area.

The business owners were devastated, and several of them thought they would end up going out of business. If we were not able to find employment, then they would not have employment. It is a domino effect.

I am not sure I remembered all the questions you asked.

The CHAIRMAN. Well, that is all right. That is fine.

Do you know how easy or difficult it was for the company to get certified?

Ms. ROSS. That part, I do not know. But I know the company did take care of that for us. I had never heard of the—well, I had actually, but I was not familiar with it. I have a daughter whose husband and herself had a logging business, and I believe in 2001 they went out of business for the same reasons. She also went through the TAA program to receive her schooling for a 2-year program.

At that time it was only for 18 months. Unemployment went out at 18 months. Her education, paying for that, went out within 18 months. The next 6 months, it was difficult to get her training and to be able to be self-supportive. I am grateful for at least the extended 104-week period at this time.

I know for myself, I was laid off in November. Being we are in a rural area, and I went to school at the Flathead Valley Community College, the semester did not start until the middle of January. So it was almost 2 months before my training could start, and I will finish up in December, so I will be without benefits for a period of time before I am finished.

That is what I was looking at for the extension of that, some sort of extension to allow us to finish school. I mean, I will finish school anyway, but to have those benefits still be there until we are finished with school, and even perhaps until we are able to get a job, I do not know how long that would take afterwards.

The CHAIRMAN. Could you tell us a little bit about your health insurance that you now have?

Ms. ROSS. I do not carry health insurance. My husband does.

The CHAIRMAN. And what does he do?

Ms. ROSS. He works for Plum Creek Timber Industry, which is still shaky, too.

The CHAIRMAN. Right. Very shaky. That is right. That is another issue.

Ms. ROSS. But I do know that people who have not had health insurance, like this one gentleman I spoke about who is having these health issues, who starts dialysis—I think he did last week—he has no insurance and he still has a family to support. Not that that is going to make him well, but the insurance part would help ease this process for him.

The CHAIRMAN. Right. Among those people who did not have a spouse who have insurance, what do they do?

Ms. ROSS. They do not have insurance.

The CHAIRMAN. And are they participating in TAA, Trade Adjustment Assistance?

Ms. ROSS. Some of them, yes. Yes, sir, they are.

The CHAIRMAN. So what level of insurance do you think makes sense? I mean, I think Ms. McDonald-Pines suggested that Uncle Sam should provide 90 percent, that is, about a 10 percent contribution by the individual. Does that make sense? Right now it is 35 percent.

Ms. ROSS. It would make more sense than the 35 percent. Yes, I agree.

The CHAIRMAN. I think it would, too.

Does that make a real difference, do you think?

Ms. ROSS. I believe so. I believe so. Even with unemployment benefits, they are not a large amount. They are enough to substantiate yourself while you are in training. But there were several young families in our mill where the men were laid off, and that is a large impact on their finances.

The CHAIRMAN. What about wage insurance? Is there an appropriate role for wage insurance, do you think, here?

Ms. ROSS. I am not really familiar with how that works, but I think it is appropriate, yes. I know we had a couple of gentlemen who did take that role as they were older and getting close to retirement, and for them that was a wonderful option. I was even in that age group that I would qualify for that, but I chose the training instead because I wanted to do something bigger and better than just get by.

The CHAIRMAN. Well, good for you.

And so how many people do you think would be more inclined to seek training and assistance if training were available as opposed to taking wage insurance, even if wage insurance is available?

Ms. ROSS. I am sorry. Rephrase that.

The CHAIRMAN. Say both training and wage insurance are available to people who are laid off, and let us say they are both available in a pretty significant amount. How many people would follow your example, that is, to forego wage insurance because you want to get a better job? That is, not take the easy way out, but take the more challenging way, which also creates more opportunities?

Ms. ROSS. That would depend upon the individual. I know a lot of people would have taken it had they been more eligible for the wage insurance that did not want to go to school or seek retraining.

The CHAIRMAN. And what age would they be, roughly?

Ms. ROSS. Thirties, forties.

The CHAIRMAN. Thirties. And they still did not want retraining. Now, that is interesting.

Ms. ROSS. I know. I did not understand. I was a supervisor at the plant where I worked, and I talked with several of them to encourage them to do something more. This is a chance to do something better with their lives, not only for themselves, but for their families. Two years is nothing.

The CHAIRMAN. And what did they say in response to your entreaties?

Ms. ROSS. Some did not want to travel the distance for 2 years. I said, it is only 2 years. That is nothing in the overall respect of the rest of our lives. I am one of the older ones, and for me it was not even an option. I just took that. I mean, for me, that was what I wanted to do. I know some did not want to do schooling and would have opted for the wage if it would have been there.

The CHAIRMAN. Now, if they did not have to travel, many of them still did not want to do schooling?

Ms. ROSS. I am sorry?

The CHAIRMAN. Assuming that travel is not a problem, let us say the school is right there, next door.

Ms. ROSS. Some were not wanting to go back to school. They did not like it the first time. [Laughter.]

The CHAIRMAN. I'll bet they didn't. All right.

Now, how did you learn about TAA?

Ms. ROSS. Through the Job Service. I believe Jim Hurst, who is the owner of Hurst & Owens Lumber Company, he and his wife Carol looked into these as they were painstakingly considering the layoff and the closure at the mill. For that, I am very grateful.

Like I said, my daughter had used the program, but I was not familiar with it until it was presented to us from the Job Service. I was not aware of all the benefits that were presented to us.

The CHAIRMAN. Besides the time period and the distance problem, is there anything else that comes to mind that you might change in the ideal world?

Ms. ROSS. No. The time, the benefits, and the health insurance were my three main concerns.

The CHAIRMAN. Is this the kind of job you think is a real job, that you can make a career out of and earn a living wage?

Ms. ROSS. Yes, Mr. Chairman, I do.

The CHAIRMAN. And what would that be, that job?

Ms. ROSS. What I am currently going for right now?

The CHAIRMAN. Yes.

Ms. ROSS. Eventually my husband and I are going to have our own business. He is going to get out of the mill, as the future does not look that positive for the lumber industry there. What I am being trained now for is in a supervisory capacity on construction.

I am learning to build homes and I am doing accounting so I will be able to follow up with that and be able to be accountable for the funds spent on the jobs that I am on, and for my own benefit for doing this, too.

The CHAIRMAN. Well, good for you.

Ms. ROSS. Thank you.

The CHAIRMAN. Now, do you think you are in a position to go around and tell people about TAA and what a great job this is?

Ms. ROSS. Yes. I just cannot say enough good things about the program. It has just been wonderful.

The CHAIRMAN. That is great.

Does anybody have anything to say that should be said or that has not been asked? [No response.]

All right. This has been very helpful. Thank you all very, very much, especially those who have traveled great distances.

The hearing is adjourned.

[Whereupon, at 11:45 a.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

TESTIMONY OF LAEL BRAINARD

Chairman Baucus, Senator Grassley, members of the Committee, I appreciate the opportunity to testify before the Senate Finance Committee today on the subject of Trade and Globalization: Adjustment for a 21st Century Workforce. It could not be a more timely hearing and this committee could not be better placed to address this issue.

Globalization Today

Our economy is undergoing a profound transformation. Although the individual elements feel familiar, the combined contours are unprecedented – in scope, speed and scale.

China is successfully pursuing a growth strategy that is export-led and foreign direct investment fed – at a scale that has never been seen before. As a result, its rise is sending waves to the farthest reaches of the global economy. China is already deeply embedded in global manufacturing supply chains, confronting higher wage producers with the difficult choice of moving up the value chain or lowering costs.

India's concurrent economic emergence has complicated the challenge. While India has pursued a growth strategy more reliant on

domestic consumption and investment than China, nonetheless its success in exporting higher skilled “knowledge” services such as software programming has led to a stark expansion of the scope of globalization. Many Americans in white collar occupations are confronting the reality of low wage foreign competition for the first time, and that number will grow substantially over the next decade.

The current episode of global integration dwarfs previous expansions. An economy with a labor force of 1.7 billion has been abruptly confronted with absorbing a labor force of 1.2 billion --with wages as much as 90 percent lower. The entry of India and China amounts to a 70 percent expansion of the global labor force. That is more than three times bigger than the globalization challenge of the 1970s and 80s associated with the sequential entry of Japan, South Korea, and the other Asian tigers.

Textbook economics would predict a squeeze on wage earners until capital and technology investments adjust. Indeed, the data suggests inequality is once again on the rise in many of the world’s richer economies. In the United States, profits are capturing a larger share of income and wages a lower share than at any time in the last 50 years.

Globalization: Bigger than a Trade Agreement

Many American corporations are thriving on the enormous new opportunities created by rapid growth in China and India. But other Americans are confronting the darker side of globalization – the

permanent loss of once secure jobs that provided a middle class lifestyle, health benefits, and the promise of a secure retirement.

We have grown accustomed to thinking about globalization as a choice –the terms of which can be negotiated. Consequently, the need for adjustment assistance traditionally has been viewed as directly tied to an incremental expansion of trade associated with a particular trade agreement.

Today, globalization is a dynamic process that is facilitated by trade agreements but in no way confined to them. The rise of services offshoring was facilitated by the digitization and transmissibility of services and India's investment in broadband; no international agreement was signed, no U.S. legislation was enacted. If we want to maintain support for an open and dynamic economy, our adjustment programs need to become as flexible and adaptable as the economy itself. It should not take 3 years following a profound shift towards globalization of the services sector to provide eligibility for dislocated workers in the affected occupations.

More broadly, maintaining America's preeminence in the global economy while supporting rising living standards and easing adjustment to the bracing winds of global commerce requires a seamless web of forward-looking policies –not a patchwork of uncoordinated policies that address yesterday's challenges. A more effective set of policies might include:

- Investments in 21st century education, innovation, and infrastructure that are critical to ensure that America remains the most attractive economy in the world to produce high value goods and services;
- Trade and exchange rate rules that are effectively enforced to safeguard America's comparative advantage and ensure the global playing field is fair; and
- Adjustment policies that are automatically triggered when a group of workers is adversely affected by globalization in any sector and that provide for:
 - affordable health insurance during transitions;
 - a flexible combination of income support during periods out of work;
 - wage insurance to cushion against significant wage losses during reemployment; and
 - training opportunities that are accessible, attuned to the marketplace, and can be sequenced in a flexible manner around work or between work.

The Need for Adjustment Assistance has Never been Greater

American workers today face a very different employment outlook than their parents encountered back in the 1960s – when Trade Adjustment Assistance was enacted under President John F. Kennedy.

Today's workers are much more likely to transition several times between different employers over the course of their working lifetimes.

According to Princeton scholar Henry Farber, men currently in the age range of 35 to 64 are almost 20 percentage points less likely to be in ten-year jobs as were males in this age range roughly 45 years ago.

Today, a much larger expanse of occupations and sectors are exposed to the bracing winds of global competition – with trade now exceeding 25 percent of national income compared with less than 10 percent back in the 1960s.

With increased turnover and increased competition come increased uncertainty and, for some workers, increased economic insecurity. For permanently displaced full-time workers, average earnings in the new job are 14 percent lower than earnings in the previous job, while full-time displaced manufacturing workers face an average 19 percent drop in earnings. The consequences of job loss are particularly damaging in import-competing industries, where displaced workers face longer spells of unemployment and greater permanent wage declines than do workers in other industries.

Despite the fact that the U.S. labor market ranks second to none when it comes to job turnover, the nation's safety net for easing job transitions remains one of the weakest among the wealthy economies. Not only do U.S. unemployment benefits have a short duration, but America's heavy reliance on employer-based insurance means that displaced workers face the prospect of losing health and pension benefits along with income.

Trade Adjustment Assistance is the core program for addressing dislocation associated with globalization. I put myself among those who

strongly support the need for Trade Adjustment Assistance and yet are saddened that its actual implementation falls short of the mark. Given the scope and scale of the challenges facing our workforce, it is critical that TAA be strengthened.

This Committee is considering a number of proposed changes to the scope and operation of TAA that I believe are vital. It is a poorly kept secret that the time-consuming and excessively restrictive eligibility determination process of TAA is one of its main flaws; automatic triggers need to be introduced into the eligibility determination to ensure adequate breadth and timeliness of coverage. Secondary workers, services workers, and agricultural workers dislocated due to globalization deserve access to adjustment assistance no less than manufacturing workers. The cost of the health care tax credit remains out of reach for most workers and should be reduced. Wage insurance should be a real option for a much larger group of workers – and made easily accessible in contrast to the current situation where even eligible workers are not informed of its availability. Training benefits should be fully funded – not rationed – and made more flexible so that those who must go back to work sooner are able to upgrade their skills at a later date or in parallel with work. Adjustment assistance for firms and for communities should be greatly strengthened.

The bracing winds of global competition and technological advance are much bigger than the contours of any individual free trade agreement. No one would argue we should invest in 21st century skills for our workforce or a 21st century innovation infrastructure only in response to the signing of a new trade agreement. It is equally short sighted to believe that American workers should be given the critical tools to regain productive employment, health coverage, and a decent standard of living only if their dislocation can be traced to a trade agreement. American workers dislocated by globalization in every sector need transitional income support and health insurance, wage insurance, and flexible training in the face of the rapid advance of globalization. To do anything less puts at risk support for America's open, dynamic economy at a critical time.

**Statement of Senator Jim Bunning
June 6, 2007**

Thank you, Mr. Chairman.

I am glad we are taking time today to take a closer look at the Trade Adjustment Assistance (TAA) program. As I have said in this Committee in the past, I take my responsibility to examine trade legislation and how it affects Kentucky businesses, workers, and communities very seriously. When implemented appropriately, programs such as TAA are important tools to help workers rebound from the downside effects of free trade.

The TAA program was initially authorized by the Trade Act of 1974 as a way to provide labor training assistance to those who are unemployed as a direct effect of import competition or shifted production of goods to certain countries. When Congress last reauthorized the TAA program in 2002, it was expanded to include workers whose jobs were moved to other countries, not just Mexico or Canada, and secondary workers who lost their jobs because of the loss of business with a firm that directly lost business due to trade or outsourcing. The TAA program also now allows older workers to choose a wage supplement instead of TAA and entitles eligible TAA workers to a refundable health coverage tax credit.

As Congress is about to reauthorize TAA, I understand there are concerns on both sides of the aisle. The Finance Committee must objectively assess the performance of this program, and whether it can be implemented more effectively. The Department of Labor and Government Accountability Office have been in the process of evaluating this program, and there are areas that need reform before we consider increased funding or expansion of the program. As TAA currently exists, it provides a negative incentive for workers to proactively seek job training before collecting unemployment or to seek interim employment during training. To truly help trade-affected workers transition into jobs in the new economy, we must make sure this program helps these workers gain new skills, not just more entitlement payments.

I look forward to our witnesses' testimony.

Thank you.



NEWTON DEVELOPMENT CORPORATION
600 N. 2nd Ave. W., Suite P. Newton, IA 50208
(Phone) 641.787.8212 (Fax) 641.787.7314
www.experiencenewton.com

Testimony of

Kimberly M. Didier
Executive Director
Newton Development Corporation

Committee on Finance
United States Senate

Trade and Globalization: Adjustment for a 21st Century Workforce

June 6, 2007

Introduction

Mr. Chairman and distinguished members of the committee, on behalf of the community that surrounds Newton, Iowa, we appreciate the opportunity to share with you the story of the Newton area's transformation. We began our transformational efforts just over one year ago when the residents of Newton and the surrounding area found themselves facing the direct impact of globalization and the changing manufacturing landscape in the United States.

On May 10, 2006, the announcement was made that the Maytag Corporation, the American icon of dependability, would no longer have a presence in Newton. Within 7 months of the announcement, the majority of the Maytag world headquarters operations would be shut down. By October 2007, a 113-year tradition of manufacturing washers and dryers in Newton would cease. A total of 1900 employees from senior vice presidents to engineers to line production workers would eventually lose their Maytag employment in Newton.

Although we recognize that our story and the loss of manufacturing operations in the U.S. is unfortunately not a new story, we do believe our story epitomizes the impact of globalization on our national and local economies. Moreover, we believe that our experiences as a result of losing Maytag can help guide public policy makers in understanding the resources a community needs to reposition regional economies to be competitive and succeed in a global marketplace. It is from this community perspective that I offer my comments to you today.

Transformation

In 1893, Fred L. Maytag and a group of entrepreneurs went into business producing a safer threshing machine feeder, and by 1902, the company was the largest feeder manufacturer in the world. In 1905, manufacturing expanded to include automobiles, corn huskers, and, eventually, washing machines. Newton, Iowa has never been the same.

In many ways, Newton is typical of small, rural America. Newton is located right off of Interstate 80 just 45 minutes from Des Moines. Residents of Newton number just under 16,000 and enjoy a high quality of life with admirable community amenities including numerous parks, a YMCA, 29 sited public art pieces, a Teen Center, excellent public schools, and state-of-the-art medical facilities. Many of these amenities exist in part to the presence of Maytag and its long heritage of exemplary corporate citizenship.

At its peak in the mid 1990s, Maytag Corporation employed over 3,500 people locally and over 29,000 worldwide. Some Maytag employees commuted 1 to 1 ½ hours each way to work at Maytag. Maytag payroll pumped nearly \$100M dollars annually into the regional economy while the Maytag Corporate Foundation provided approximately \$500,000 in direct grants and support to local non-profits annually.

This long and generous history of the Maytag Corporation and its close association with the Newton area cultivated a community dependence and identity with this one manufacturing employer. Many families in the area proudly spoke of the generations of family members who helped build the organization into a Fortune 500 company. Maytag's presence in Newton had an effect on not only the economy but the characteristics, structures, and culture of the community.

Given the significance of the Maytag organization in the community, it is understandable that the immediate response to the announced departure of Maytag was filled with many different emotions and reactions. But very quickly, the community realized that it needed to respond with a collaborative effort to create a community vision and turn it into reality by

- Developing dynamic regional partnerships
- Creating a core group of key regional leaders
- Implementing strategies to stimulate positive growth
- Capitalizing on workforce capacity
- Providing the necessary infrastructure to promote and create diverse economies.

On May 10, 2006, the same day of the announced Maytag departure, community and business leaders plus other stakeholders across the state of Iowa formed the Newton Transformation Council (NTC) from based on a group of partners that had been working on retention strategies prior to the announcement.

The Newton Transformation Council is a powerful grass-roots force working to sustain and improve the quality of life in the greater-Newton region. Taking a very integrated approach to economic development (which involves education, entrepreneurship, and other economic strategies), NTC reached out to strategic partners and resources in order to begin leveraging existing regional assets. This approach recognizes that a region's greatest assets are its people and the skills, knowledge, and ideas they bring to the process, and that fully developing this talent is the key to our economic recovery, sustainability and ultimate transformation.

However, regional economic transformation is most effective when there is a comprehensive, strategic plan guiding the transformational change required in a community and region. The NTC conveyed this message to delegates from numerous federal departments on September 14, 2006, in a meeting held in Newton. Before accessing any federal programs and receiving any

federal program funds, the community and surrounding area wanted to first create a plan. A comprehensive, strategic plan capitalizing on regional assets that once implemented would lead to sustainable economic vitality in a global market place. Securing planning resources for the community and surrounding region was imperative.

The NTC partners and the community recently secured the planning resources it sought through a demonstration grant from the U.S. Department of Labor's new Regional Innovation Grants program. Specifically, the planning resources will be used to conduct comprehensive resource mapping to inventory key regional resources and undertake a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis to help identify successful economic and talent development strategies.

These strategies will then serve as the foundation for the region's comprehensive strategic plan that will guide and sustain the region's transformational efforts. In the short-term, the plan counteracts the immediate impacts of the Maytag departure and helps to leverage more public and private resources for the area. Resources follow innovative strategic planning. In the long-term, it repositions the regional economy to succeed in a global economy through comprehensive, systemic change that ensures a well educated, trained regional workforce employed by competitive industries.

Conclusion

In communities and regions across America, the closing of a major employer impacts not only those that lose gainful employment but communities and region as a whole. The announced departure of Maytag, a Fortune 500 company in the rural heartland, is reverberating throughout the community, the region, and the state. Through the grassroots efforts of the NTC, key decisions were made early that have assisted the community through this transformation:

- A leadership group began developing dynamic partnerships early
- The whole community was invited and encouraged to become a part of the transformation
- The community created a vision of its future to guide its actions
- Resources were sought to assist in the identification of regional assets and key economic and talent development strategies to sustain the transformation efforts.

As I indicated in the beginning of my comments, we know that our story with the loss of Maytag is not necessarily unique. Therefore, we would make the following 3 recommendations to you and other policy makers in understanding the resources a community needs to reposition:

- Help prepare and equip communities and regions for major economic disruptions in advance
- Provide technical assistance to strengthen formal entities and engage grass-roots participation
- Provide targeted resources for comprehensive strategic planning that engages all assets and encourages collaborative regional partnerships

Comprehensive plans built on solid strategies will leverage more resources and ensure true prosperity for the communities and regions. We also believe that planning and other resources should be available as close to the community as possible. Truly it is the communities and

regions themselves that must determine their future in a global market place and how best to achieve economic viability.

Thank you very much for the opportunity to share the story of Newton and the surrounding area's transformational efforts. I do hope that the story has provided you with additional understanding from a community perspective that you will find useful as you consider the reauthorization of the Trade Adjustment Act and how to assist communities and regions across America become competitive in a global market place.

Testimony of
Jane McDonald-Pines
Workforce Issues Specialist, AFL-CIO
Before the Senate Finance Committee
“Trade and Globalization: Adjustment for a 21st Century Workforce”

June 6, 2007

On behalf of the more than 10 million working men and women of the AFL-CIO, thank you, Chairman Baucus, Ranking Member Grassley and members of the Committee, for this opportunity to testify on our recommendations for improving programs designed to help workers affected by federal trade policies.

While programs such as Trade Adjustment Assistance (TAA) are important, it must be emphasized that they are no substitute for good trade policies that create and retain good jobs in the United States. This is why the conversation about improving these programs should be separate from the debate over Trade Promotion Authority and trade agreements. Millions of workers are suffering from the displacement effects of our trade policies. The need to help them exists independently of the debate over these trade policies.

The TAA program must honor the promise made to workers since 1962: that the federal government will provide retraining, reemployment assistance, and income support to workers who lose their jobs due to federal trade policies. These workers are forced to pay the price for federal policy decisions that benefit other Americans, and they deserve to be made whole for their loss.

We believe that TAA's greatest strength is that it supports long-term, intensive training and extended income support. Unfortunately, many laid-off workers are still not eligible for these benefits, and others are not receiving the benefits to which they are entitled.

Today I would like to focus on four key recommendations for improving and expanding TAA.

1. No Worker Should be Denied TAA Training Due to Insufficient Funds

Funding for TAA training should not be capped

To meet the commitments made to workers who are displaced because of federal trade policy, TAA must be accessible and available to any worker who qualifies. Specifically, there is no reason why any worker displaced because of federal trade policy should be denied TAA training due to a lack of federal funding.

Yet we know this is happening. Eligible workers who want and need TAA training are being turned away or put on waiting lists because their state training allocation has been exhausted. According to a 2004 GAO study 35 states expected that available TAA training funds for FY 2004 would not cover the amount they would obligate and spend for TAA-eligible workers -- 18 states estimated the gap at over \$1 million.¹ The most recent GAO report confirms that this continues to be a problem in many states.²

The current cap on TAA training makes no sense. Why should the commitment to trade-impacted workers be nullified simply because of bad program design, or bad planning by

¹ GAO, *Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain*, GAO-04-1012. September 2004.

² GAO, *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability to Provide Benefits and Services*, GAO-07-701. May 2007.

program administrators, or insufficient appropriations from Congress, or the state in which the worker happens to live, or the timing of the worker's layoff?

Competition for scarce budgetary resources is no excuse for failing to lift the cap on TAA training. Help for laid-off workers has always been modest compared to the gains claimed for trade. The U.S. currently spends less than \$1 billion on TAA, while it is claimed that the U.S. economy gains \$1 trillion a year from trade. The U.S. ranks last among 21 high and median-income OECD countries in terms of the share of GDP devoted to active labor market policies such as job search and training. Only .14 % of the nation's GDP was devoted to these programs in 2003, compared to Denmark, which spends more than 5% of its GDP on unemployed assistance and 2% of GDP on active labor market programs. We spend about 1/10th as much as France and Germany do on active labor market programs.³

The flawed system for distributing TAA funds must be reformed to improve efficiency

The most recent GAO report confirms that the current method for distributing TAA training funds is inefficient and deeply flawed because the Department of Labor uses a formula that reflects past, not current, demand.⁴

This basic flaw leads to two undesirable results: (1) some states experience funding shortfalls at the same time that other states have unspent funds at the end of the fiscal year; and (2) many states seek to ration training services to keep within the constraints of their base TAA allocation.

The lack of a dedicated funding stream encourages states to husband their funding until the end of the fiscal year. While this incentive to self-ration has kept down the cost of TAA training in recent years, these savings are achieved by shortchanging workers.

This self-rationing is confirmed by the fact that training costs have been held down in recent years since states do not know what future resources they will receive. We have seen states like Michigan and Illinois experience shortfalls in training funds due to the extraordinary demand for help. Ohio has had to limit the duration of training due to funding shortages.

As the recent GAO report confirms, the incentive to self-ration training is that some states have unspent training funds left over at the end of the year. This inefficiency would not occur if states did not have to worry about running out of funding. DOL compounds the problem by withholding national reserve funds until the end of the fiscal year which skews the amount of unspent training funds.

Short of allowing workers to draw down from an uncapped federal TAA training fund, one alternative would be to model the system for distributing TAA training funds to the states after the system for distributing Unemployment Insurance (UI) state administrative grants. Each state would receive an annual base allocation for training, case management, and administration, which could be based on recent certifications. This base level of funding could be supplemented by a contingency/reserve that is responsive and readily available to meet fluctuating demands. Under this system, states would have less incentive to deny workers training and would be less likely to have unspent funds at the end of the fiscal year.

³ Organization for Economic Cooperation and Development, *Employment Outlook*, 2003.

⁴ GAO, *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability to Provide Benefits and Services*, GAO-07-701. May 2007.

2. Make TAA Available to All Workers Displaced by Federal Trade Policies

All workers who are forced to sacrifice their livelihoods so that other Americans may benefit from federal trade policies should be made whole for their loss, regardless of whether they were employed in the manufacturing sector. But **we cannot emphasize enough that expanding eligibility without a guarantee of adequate funding is an empty promise.**

Cover service and public sector workers.

The TAA program does not currently cover the thousands of technology and service sector workers who find themselves jobless when their employers outsource their work overseas. TAA should be expanded to cover service and public sector workers who have been displaced by trade policy.

Ensure that all secondary workers are served

In 2002 the TAA program was expanded to cover secondary workers, such as parts manufacturing workers who lose their jobs when the primary firm moves its operations to another country.

However, few secondary workers are receiving benefits. According to the latest GAO report, just 7 percent of workers covered by TAA were secondary workers in FY 2004 - 2006.⁵ In an earlier report, GAO found that no state has developed procedures to identify workers who are secondarily affected by a trade-related layoff in another state.⁶

Improve TAA certification

Many potentially eligible workers are not able to access TAA because the Department of Labor has erroneously denied workers' request for TAA certification.

In the past 5 years, courts such as the Court of International Trade have issued numerous orders directing the Department of Labor to reconsider erroneous denials of TAA to hundreds of trade-affected workers.⁷ Workers have suffered protracted delays in getting assistance as a result of these errors. Many more workers become discouraged and give up, or lack the resources to pursue appeals.

While the Department of Labor has made some changes, Congress must require that the TAA certification process include a thorough review of TAA petitions – including full consultation with all affected parties, most specifically affected workers and their unions.

Industry-wide certification, in addition to improved outreach, would reduce some of the difficulties workers face in accessing and qualifying for TAA, and would make eligibility determinations more equitable, faster, and more predictable.

3. Improve Outreach and Access to TAA Training

Since 2001 we have lost 3 million manufacturing jobs, many of them as a result of U.S. trade policies. Clearly only a fraction of eligible dislocated workers are being served by the current TAA training program. Many of the workers most in need of TAA training are already eligible, but are not able to access the program. In addition to ensuring that no eligible worker is denied training

⁵ GAO, *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability to Provide Benefits and Services*, GAO-07-701. May 2007.

⁶ GAO, *Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain*. GAO-04-1012. September 2004

⁷ Judge Delissa A. Ridgway. Slip Op. 06-132. United States Court of International Trade.

due to insufficient funds, much more needs to be done to improve outreach and access and make TAA training a more viable option for dislocated workers.

Fund outreach, case management, assessment, referral and support services through state Unemployment Insurance (UI) and Employment Security (ES) agencies

As the most recent GAO report points out, there are no funds available under the current TAA program to pay for outreach, job matching, case management, and support services to provide workers with the help they need to transition effectively and make informed decisions about training.

It is not surprising that there has been a decline in TAA participation when resources to help workers enroll and participate in the program are so limited. The GAO report notes that in one state administrative funds were exhausted by the end of the first quarter. In another state Wagner-Peyser ES funds were able to pay for only a single case manager who "had to cover three counties and serve approximately 1000 workers."⁸

In past years, when resources were more substantial, states were expected to use state agency personnel in the Wagner-Peyser employment service to provide such services. This program, a companion to the state unemployment service, uses state civil service employees to provide labor exchange services, including job matching, counseling, skills assessment, and other services for job seekers and employers, statewide. However, in real dollar terms, Wagner-Peyser employment service state grants have dropped by \$200 million since 2001. The decline is close to \$700 million since 1985 in inflation adjusted dollars.

Neither Wagner-Peyser ES funding nor WIA funding should be expected to provide these needed services for TAA participants. This is robbing Peter to pay Paul. To divert these already limited funds to help trade-affected workers means providing less help for non-trade affected workers.

Increasing TAA funding for outreach, case management, assessment, referral and support services through the state Unemployment Insurance and Employment Service agencies is the most effective and efficient way to help trade impacted workers for several reasons. First, since TAA eligible workers are most likely to be identified first when they file for unemployment benefits and then Trade Readjustment Allowances (TRAs) with the state agency, strengthening the state agencies' ability to assist them with job search and other services as early as possible is important. Second, maintaining this function at the state level will help facilitate TAA coordination with the WIA state rapid response program. And, third, this statewide structure provides the flexibility to quickly move resources from one part of a state to another as circumstances change and to ensure a professional workforce to provide the complex services that workers need on a uniform and impartial basis.

Improve the Health Coverage Tax Credit (HCTC)

Most TAA participants will find it very difficult to participate in sustained training unless they have health insurance coverage for themselves and their families. In 2002 Congress created the Health Care Tax Credit (HCTC) to assist TAA recipients to receive affordable health care. However, Congress must improve HCTC if it is to be fully effective.

⁸ GAO, *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability to Provide Benefits and Services*, GAO-07-701. May 2007.

Increase Affordability

In its most recent report, GAO states, "the high cost of the health coverage benefit to participants is the greatest barrier to participation."⁹ Congress should increase the subsidy to 90% and provide fallback coverage through plans like the Federal Employee Health Benefit plan or Medicare.

Address Gaps in Coverage

Delays in TAA and HCTC processing can mean laid-off workers have lapses in coverage that disqualify them for consumer protections necessary to get coverage. Congress should allow for presumptive eligibility so that workers who are TAA eligible are HCTC eligible and disregard lapses in coverage that occur through no fault of the worker.

Improve Administration

HCTC is a complicated program to administer. The Department of Labor and the Internal Revenue Service must work with the states to find ways to improve access to the tax credit for eligible workers.

Expand training deadlines

We know that one academic year of community college raises displaced workers' earnings by about 5 percent over and above what they would have been without further education.¹⁰ Yet many TAA participants cannot enroll in training because deadlines for enrollment in training are too restrictive, Congress should extend the training enrollment deadlines to make it easier for workers to access training.

Improve TAA income support

In many states income support is not sufficient to enable workers to enroll in long-term training. The amount of the TRA is the same as the most recently weekly UI benefit – a national average of approximately \$260/week.

Prior to 1981, workers received TRA and UI combined that were equivalent to 70% of their prior pay, up to a maximum of the average manufacturing wage. Pending improvements in UI for all unemployed workers, restoring the 70% wage replacement benefit would significantly remedy this shortcoming and provide the economic foundation for workers to engage in long-term training.

4. Provide Quality Training That Is Linked To The Creation and Retention of Good Jobs

Improving access to TAA training and expanding eligibility are necessary, but not sufficient by themselves to make dislocated workers whole for job loss caused by U.S. trade policies. TAA training must be improved to put more workers on a career path towards good jobs with good wages and good benefits.

Support strategies that focus on creating and maintaining good jobs

A good jobs strategy must include policies designed to create and retain good jobs with good benefits. Congress should create early intervention and community adjustment programs that involve all stakeholders, including organized labor, in addressing the effects of dislocation and globalization. The Steel Valley Authority in Pennsylvania, for

⁹ Ibid.

¹⁰ Robert Lalonde. *The Returns of Going Back to School for Displaced Workers*. University of Chicago. Winter 2002. <http://harrisschool.uchicago.edu/About/publications/research-report/winter02/displaced-workers.asp>

example, is directly engaged in layoff aversion efforts to help retain good manufacturing jobs.

Expand programs that promote partnerships between government, employers, and labor to support job retention and creation, as well as regional economic and community development

Congress should support training that leads to good jobs, including properly structured on-the-job training, as well as model labor-management sectoral initiatives that have proven successful in saving jobs, improving wages, and making industries more competitive. We believe such high-road initiatives offer a stark contrast to wage insurance, which promotes downward economic mobility and subsidizes low wage employers, with no guarantee of on-the-job training that provides transferable skills.

There are many examples of high-road labor-management partnerships in manufacturing, health care, telecommunications, and hospitality. Through collaboration with government and community organizations, these partnerships assess industry skill needs, and implement programs that create career ladders and train workers in high-growth, high-wage occupations.

Establish links between TAA and new opportunities in energy technology

We are particularly excited about the opportunities presented by the potential for "green collar" jobs in the renewable energy and energy efficiency sector.

The Apollo Alliance -- a coalition of labor, business and environmental groups -- focuses on the development of "green collar" jobs that create sustainable economies, energy independence, good wages and benefits, and healthier communities. The Alliance estimates that as many as 3 million new jobs could be created over the next 10 years if the country launches a comprehensive effort to build a renewable energy future.¹¹

These jobs would produce environmentally-friendly products and services such as construction of green schools, solar panel manufacturing, energy efficiency retrofits of homes, and environmental clean up and restoration.

Already, the renewable energy and energy efficiency industries are experiencing a lack of skilled workers. A 2006 study from the National Renewable Energy Lab (NREL) identified shortage of skills and training as a key business constraint. In particular, the NREL identified a number of critical unmet training needs, including lack of reliable installation, maintenance, and inspection services, the shortage of key technical and manufacturing skills, and failure of the educational system to provide adequate training in new technologies.¹²

As an example of one state's response in Pennsylvania, Gov. Rendell is using state policies to promote and develop renewable energy to attract wind, solar, and battery manufacturing to the states. He has attracted companies that have taken former closed steel mills and created good union manufacturing jobs in building wind turbines.

Invest in quality training programs

Proponents of wage insurance sometimes argue that the existing job training programs do not work. This is a broad and simplistic statement. While some retraining programs have not always provided a smooth transition to equivalent employment, there is

¹¹ Apollo Alliance. *New Energy For America: Apollo Jobs Report*. www.apolloalliance.org.

¹² Margolis and Zuboy, *Nontechnical Barriers to Solar Energy Use: Review of Recent Literature*. National Renewable Energy Laboratory, 2006.

substantial evidence that retraining programs have benefited workers and can serve as the template for successful transitions for workers affected by federal trade policies.

We need to better understand how factors like economic conditions and, participant characteristics play an important role in determining outcomes for training. Workers participating in retraining programs often train for a new occupation and a new industry. Skills that are specialized for their previous jobs may not be compatible with a new employer.

Careful design of programs is essential. The answer is to improve the effectiveness of job training and education programs, not to encourage workers to forego job training. As noted earlier one academic year of community college raises displaced workers' earnings by about 5 percent over and above what they would have been without further education. Programs that provide long-term training for dislocated workers can have positive results and a significant return on the investment. For example, a long-term training program for dislocated workers in Washington State resulted in job placements that averaged 93% of the pre-layoff earnings.¹³

At this point, I would like to briefly address two other policy options targeted at dislocated workers – Unemployment Insurance and Wage Insurance.

Unemployment Insurance

Since TAA is directed at a very narrowly defined set of workers who lose their jobs due to federal trade policy, other unemployed workers who lose their jobs due to trade policy or other causes must continue to rely on the Unemployment Insurance (UI) program as a critical safety net.

The UI system is in a state of disrepair and demands our urgent attention. Much more needs to be done to restore UI eligibility to a higher percentage of the workforce, to restore higher benefit levels, to repair the dysfunctional extended benefits (EB) program, and to address the severe under-funding of UI and ES administration.

We now have an opportunity to make a down payment on much-needed repairs to the UI/ES system. The Bush Administration supports extension of the FUTA surtax, which will generate \$7.4 billion over five years. The FUTA is a dedicated payroll tax whose purpose is to fund the UI system and we see no reason why this \$7.4 billion in additional revenue should not be dedicated to repairing the UI system.

For this reason, we very strongly support H.R. 2233, a UI reform bill recently introduced in the House of Representatives by Representative McDermott, as well as companion legislation to be introduced in the Senate. These bills would allocate as much as \$7.4 billion over five years to encourage states to modernize their UI programs. Among other things, both bill would provide incentives for states to support workers enrolled in training programs for high-demand occupations, which is an especially good idea that fits within a broader strategy of helping workers get good jobs. For more details about his legislation I refer you to the testimony of Thea Lee, Policy Director for the AFL-CIO, at the Ways and Means Income Support Subcommittee hearing on March 15, 2007.

Wage Insurance

The preceding list of critically needed TAA and UI reforms is a long one: lifting the cap of TAA training; expanding outreach and access to TAA training; expanding TAA eligibility; making TAA

¹³ Washington State Workforce Training and Education Coordinating Board, *Training Benefits Program Review*. December 2002.

training a more viable option for dislocated workers by improving HCTC and TRA income support and repairing the ES/UI system.

We know these reforms cost money, and it would be optimistic to think that all these reforms could be funded today. So given the difficulty of the challenge, we believe it makes no sense at all to divert available funding away from this reform agenda to pay for wage insurance – either as an expansion of the current Alternative Trade Adjustment Assistance (ATAA) program, or as a larger-scale program available to non-trade impacted workers.

All of the TAA and UI reforms we propose are designed to put more workers on a career path of good jobs with good wages and good benefits. We are concerned that wage insurance, by contrast, would promote downward economic mobility, take jobs away from lower-skilled workers and subsidize lower-wage employers, as explained by AFL-CIO President John Sweeney in his recent letter to Senator Schumer (attached).

For a more detailed explanation of our concerns about wage insurance, I refer you to the testimony of AFL-CIO Policy Director Thea Lee before the Ways and Means Income Support Committee on March 15, 2007.

In short, we believe that the arguments for wage insurance are seriously flawed. The most commonly invoked argument for wage insurance is that it promotes “rapid reemployment” by inducing dislocated workers to consider and accept lower-paying jobs that they would not otherwise want.¹⁴ If this is true, then we believe the intended outcome may not be good for workers’ long-term job prospects.

Helping workers find “rapid reemployment” in good jobs is a good thing, and programs such as the Employment Service (ES) that promote rapid reemployment by matching workers with appropriate employment need much more funding. But promoting “rapid reemployment” by getting skilled workers to take bad jobs rather than retrain for good jobs may not be good for workers.

To the extent that wage insurance does induce workers to take lower-paying jobs, it may also harm other workers who otherwise would have gotten those jobs. This was the finding of the only economic modeling on wage insurance that has been performed to date. Since the workers displaced by wage insurance would be lower skilled workers, this displacement raises serious equity concerns.

Some advocates of wage insurance claim that rapid reemployment is not their intention. They claim their intention is to mitigate hardship for dislocated workers who are already being forced to accept lower paying jobs. This argument ignores the fact that wage insurance is likely to induce workers to take lower paying jobs that they would not otherwise take, regardless of anyone’s intentions. And this rapid reemployment effect would cause displacement of lower skilled workers, regardless of anyone’s intentions. Advocates of wage insurance cannot say what proportion of the participants in a wage insurance program would accept lower-paying employment even without the wage subsidy, but it is clearly less than 100%.

The second most commonly-invoked argument for wage insurance is that it would subsidize employers to provide on-the-job training, which is claimed to be more valuable to workers than traditional TAA training, so that inducing worker to take lower-paying jobs might not harm their

¹⁴ See, e.g., Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) (“Wage insurance is specifically designed to encourage people to return to work sooner than they might have otherwise”); Robert Litan, Lael Brainard, and Nicholas Warren, “A Fairer Deal for America’s Workers in a New Era of Offshoring,” Brookings Institution (May 2005) (“A main purpose of wage insurance is to accelerate the pace at which permanently displaced workers are reemployed”).

long-term job prospects.¹⁵ However, there is no requirement that employers use any subsidy derived from wage insurance to give workers any kind of training, much less valuable training. This stands in contrast to employer requirements under the on-the-job training (OJT) program of traditional TAA.

Research tells us that lower-wage employers are the least likely to offer training that provides workers with transferable skills so this argument is more wishful thinking than anything else. Workers with the highest wages and the most formal education receive the most extensive workplace education, while workers with the lowest wages and least education receive the least extensive workplace education.¹⁶

To make matters worse, the employers that would derive a subsidy from wage insurance are, by definition, lower-wage employers. Wage insurance advocates need to explain how payments to individual workers would act as a subsidy for employers. One possibility is that wage insurance could subsidize employers by allowing them to pay lower wages to participants in the program. Another possibility is that it could operate to lower wage levels for non-participants.

Finally, advocates of wage insurance argue that dislocated workers are already suffering income loss upon reemployment, and this program cannot be ignored. We agree that the problem of income loss for dislocated workers is very real and cannot be ignored. But the question is what to do about it. We think the best response is to use available resources to prevent as many workers as possible from having to accept income loss, not to induce more workers to take bad jobs that they would not otherwise want.

Though information on the Alternative Trade Adjustment Assistance (ATAA) program is quite limited it is worth noting a story that appeared in the Los Angeles Times recently. The story described two workers who received wage insurance and are now employed by *Target* and *Krispy Kreme* respectively.¹⁷ Though they are receiving wage insurance currently they are also worried about what will happen when their wage insurance runs out next year. What answer can we give them?

We do not accept that the problem is the unwillingness of stubborn workers to take bad jobs, so the solution is not to get worker to take bad jobs they would otherwise want. The problem is that there are not enough good jobs available and there are not enough resources available to help workers find and qualify for the good jobs that are available. It follows that limited budgetary resources should be dedicated to helping workers find and qualify for good jobs with good benefits, and for making sure those jobs are available in the first place. They should not be diverted to induce workers to take bad jobs.

Mr. Chairman and members of the Committee, we appreciate the opportunity to present our views on these vitally important issues and look forward to the opportunity to continue working together as the legislation moves forward.

¹⁵ See Lael Brainard, Testimony Before the Joint Economic Committee (February 28, 2007) The retraining that a displaced worker receives on a new job provides new skills that contribute directly to his or her performance in the new job and is thus directly useful not only to the worker but also to the new employer"); Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) ("In addition, it is hoped that the new employer will provide on-the-job training, which has proven to be the most effective form of training"); Robert Litan, Lael Brainard, and Nicholas Warren, "A Fairer Deal for America's Workers in a New Era of Offshoring," Brookings Institution (May 2005) ("The retraining that displaced workers receive on a new job is the best kind...in sharp contrast to generalized training programs such as those available under TAA")

¹⁶ Ahlstrand, Bassi, and McMurrer, *Workplace Education for Low-Wage Workers*, W.E. Upjohn Institute for Employment Research. 2003.

¹⁷ "Aid plan for unemployed workers gains support." Los Angeles Times. April 9, 2007.

May 3, 2007

The Honorable Charles E. Schumer
United States Senate
Washington, D.C. 20510

Dear Senator Schumer:

I am writing to express the AFL-CIO's concern about proposed legislation to establish a large-scale permanent wage insurance program, about which we have testified recently before two subcommittees of the House of Representatives.

In our testimony, we explained our concerns that such a wage insurance program would promote downward economic mobility by encouraging workers to take lower-paying jobs; that this would displace lower-skilled workers who otherwise would have gotten those jobs; and that wage insurance would subsidize lower-wage employers such as Wal-Mart.

We have also expressed concerns that funding for wage insurance would come at the expense of unemployment insurance (UI) and Trade Adjustment Assistance (TAA). TAA, especially since the Bush administration has proposed using state UI trust funds to pay for wage insurance and the conservative Heritage Foundation has proposed abandoning traditional TAA in favor of wage insurance.

We are told there is not enough money to uncap TAA training, which runs out of money every year. But if there is not enough money to uncap TAA training, how can billions of dollars be made available for a new large-scale wage insurance program? And how can wage insurance be truly voluntary if the funding cap prevents workers who want TAA training from getting it?

In addition, the Bush administration has proposed extending the unemployment payroll surtax, which will generate \$7.4 billion over 5 years. We believe that this dedicated funding stream should be used to reform and repair the frayed UI program. If it is not, any additional funding for wage insurance would effectively come at the expense of UI.

In short, we believe that wage insurance promotes downward economic mobility, takes jobs away from lower-skilled workers, and subsidizes low-wage employers. We also believe scarce budgetary resources should not be diverted away from much-needed improvements to UI, TAA and other programs designed to help displaced workers get good jobs with good benefits, which should have first claim on any newly available funding.

Thank you for your consideration of our views.

Sincerely,

John J. Sweeney,
President

JS/WS/mrt

**Strengthening the Commitment to
American Workers, Firms, Farmers and Fishermen and Communities
Adversely Affected by Globalization**

Testimony by
Howard Rosen
Executive Director, TAA Coalition
Before the
Senate Finance Committee
June 6, 2007

In 1962, when the United States was running a trade surplus, imports were barely noticeable in the economy, and manufacturing employment was increasing, Congress made a commitment to assist American workers, firms and communities hurt by international trade, by establishing the Trade Adjustment Assistance (TAA) program. This commitment is based on an appreciation that despite their large benefits, widely distributed throughout the economy, international trade and investment can also be associated with severe economic dislocations.

Forty-five years later, as the trade deficit approaches 6 percent of GDP, imports as a percent of GDP are five times what they were in 1962 and manufacturing employment is falling, this commitment is more important than ever before.

The US economy is currently facing significant pressures due to an intensification of domestic and international competition. These pressures affect every aspect of the US economy – all industries, occupations and regions. No sector of the US economy is immune from the effects of globalization.

There is no “magic bullet” to deal with the pressures resulting from globalization. More worker training alone will not be sufficient to address the large adjustment burden placed on workers and their families. A comprehensive set of integrated efforts is necessary to help the economy adjust to the enormous pressures due to globalization. These efforts should not be hand-outs, but rather targeted, yet flexible assistance aimed at raising productivity and enhancing US competitiveness.

The TAA for Workers, TAA for Firms and TAA for Farmers and Fishermen programs are part of this strategy. Although the impact of globalization on the US economy calls for strengthening these programs, sound economic policies are the most important prerequisite for responding to the pressures resulting from

globalization. In that regard, TAA is a compliment to trade policy, not a substitute for it.

Why Targeted Assistance for Those Affected by Globalization?

There are several economic rationales for assisting workers who lose their jobs due to increased imports and outward shifts in international investment.

Over the years, workers employed in industries facing import-competition have tended to be older, minorities and less educated than workers employed in non-trade-related industries. Although these differences have somewhat eroded over the years, workers who lose their jobs from import-competing industries continue to face greater difficulty in finding new jobs with the least amount of financial disruption. This is primarily due to the fact that it is highly unlikely that these workers will be able to return to their previous occupation or industry.

Assisting workers move from declining, inefficient industries to growing, highly efficient industries, although painful to workers and their families, can contribute to increasing national productivity and raising living standards. Efforts aimed at encouraging this adjustment are central to any effort at enhancing US competitiveness.

There is also an ethical rationale for assisting those workers adversely affected by increased competition due to liberalization of trade and investment. Recent studies suggest that the benefits related to trade liberalization on the US economy are large and widely distributed.¹ Although the costs associated with opening the economy to increased international competition are significant to those incurring them, relative to the size of the economy, they tend to be smaller and highly concentrated. TAA is one means of sharing some of the benefits of trade liberalization with those workers and communities paying a heavy price for that policy.

The high concentration of the adverse affects of trade and investment liberalization on workers, firms, farmers and fishermen and communities introduces political concerns. Making a commitment to address these distributional consequences may reduce opposition to adopting policies aimed at further liberalization of trade and investment. This rationale has taken on increased importance in recent years, as opposition to trade liberalization has grown.

TAA for Workers

The TAA for Workers program is the largest of the 3 existing programs. Under the program, workers can currently receive income support, training, job

¹ Bradford, Scott C., Paul L.E. Grieco and Gary Clyde Hufbauer, "The Payoff to America from Global Integration," in C. Fred Bergsten, ed. *The United States and the World Economy*, Washington: Institute for International Economic, January 2005.

search and relocation assistance. A limited wage insurance program and the Health Coverage Tax Credit (HCTC) were added in 2002.

In order to receive assistance, workers must show that they lost their jobs due to any one of following 3 eligibility criteria:

- An increase in imports
- Laid off from an upstream or downstream producer
- A shift in production to another country

Each of these criteria must have "contributed importantly" to a firm's decline in production and sales. Table 1 presents the distribution of certified petitions by reason. In contrast to estimates made during the Congressional debate over the 2002 reforms, the number of certified petitions related to shifts in production is much larger than the number of certified petitions for secondary workers.

Table 1
Distribution of Certified Petitions by Reason

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

Source: US Department of Labor

Although the TAA for Workers program has been the subject of some criticism over the years, the program has and continues to provide critical assistance to millions of workers and their families as they face probably the most severe financial burden of their lifetime. More than 25 million workers have received assistance under the program since it was established in 1962.

The TAA for Workers program works: the problem is that it does not help all workers in need.

The TAA for Workers program has had a rocky history, including liberalization of eligibility criteria in 1974, cutbacks in assistance in 1981 and the establishment of a special program just for workers affected by trade with

Canada and Mexico, i.e. the NAFTA-TAA for Workers program.² In 2002, Congress enacted the most expansive set of reforms in the TAA for Workers program since it was established. The reform, first introduced by Senators Baucus and Bingaman, included:

- The TAA for Workers program and the NAFTA-TAA for Workers program were merged. The eligibility criteria and the assistance package under both programs were harmonized and unified in one program.
- Eligibility criteria were expanded to include workers who lost their jobs from companies producing inputs for goods that face significant import competition, and workers who lost their jobs due to shifts in production to countries with bilateral free trade agreements with the United States and “where there has been or is likely to be an increase in imports....”³
- The HCTC was established. The credit provides a 65 percent advance-able, refundable tax credit to offset the cost of maintaining health insurance for up to two years.
- A limited wage insurance program, called the Alternative Trade Adjustment Assistance (ATAA) program, was established. Workers over 50 years old and earning less than \$50,000 a year may be eligible to receive half the difference between their old and new wages, subject to a cap of \$10,000, for up to two years. In order to qualify, workers must find a new full-time job and enroll in the ATAA program within 26 weeks of job loss. Workers enrolled in ATAA cannot receive other assistance under the TAA program.
- The total training appropriation cap was increased to \$220 million.
- Income support payments were extended by 26 weeks so that workers can be enrolled in training and receive income maintenance for up to two years.
- Workers undertaking remedial education can postpone their entry into the TAA for Workers program for up to 6 months.
- The amounts provided for job search assistance and relocation assistance were increased to keep up with inflation.

Table 2 provides a comparison of program participation data before and after the 2002 reforms. Despite a significant increase in imports and outward investment over this period, the number of petitions filed has not changed much since 2002. Recent studies by the Government Accountability Office (GAO)

² See Rosen, Howard, “The More We Change the More It Stays the Same,” C. Fred Bergsten in the World Economy, Institute for International Economics, 2006 for a more detailed discussion of the history of the TAA for Workers program.

³ Public Law 107-210, Section 113(a).

suggest that this may be due to a lack of public awareness of the program. On the other hand, there has been a significant increase in the share of eligible workers participating in the program. This may be a "mixed blessing," as it might be a reflection of the increasing difficulties workers face in finding new jobs.

Table 2
TAA for Workers
Performance Data
1997 to 2005

	1997-2001	2003-2005
Number of petitions filed	na	2,693
percent certified	67 percent (a)	64 percent
Take-up rate	19 percent (b)	43 percent
Workers receiving income support	34,800	62,444
Workers in training	31,200	46,103
Workers in ATAA	na	3,864
Workers receiving HCTC	na	22,000

Source: US Department of Labor, (a) 1994-1998; (b) 1996-2000

ATAA and HCTC are two examples of how assistance under the TAA for Workers program has shifted from traditional income transfers to more targeted, cost effective assistance. Despite the benefits associated with these new forms of assistance, enrollment in ATAA and the HCTC are disappointingly low. A 2006 GAO study of 5 large plant closings found that less than half of those TAA eligible workers who visited one-stop career centers were even informed of the HCTC during their visits to one-stop career centers. A little over half of eligible workers were aware of the ATAA program.

Wage Insurance (ATAA)

Workers who lose their jobs due to import competition and shifts in production pay a heavy price in terms of short-term and long-term earnings losses. According to the Dislocated Worker Survey (DWS) only two-thirds of unemployed workers find a new job within 1 to 3 years after layoff. (See Table 3.) Only approximately one-fourth of workers experience no earnings loss or an improvement in earnings after re-employment. More than 40 percent of workers experience earnings losses. Wage Insurance is designed to provide some assistance to these workers.

Table 3
Re-employment and Earnings Experience of Dislocated Workers

	Manufacturing	Non-Manufacturing	High-Import Competing
Average pre-layoff wage	\$396.88	\$368.95	\$402.97
Share reemployed	0.648	0.691	0.635
Average change in earnings	-0.121	-0.038	-0.132
Share with >30% earning loss	0.252	0.212	0.253
Share unemployed >26 weeks	0.221	0.127	0.24

Source: Displaced Worker Survey, Bureau of Labor Statistics, author's calculations based on data for 1979 to 1999. Based on Kletzer, Lori G. 2001. *Job Loss from Imports: Measuring the Costs*. Washington: Institute for International Economics.

Wage insurance is not a substitute for the traditional Unemployment Insurance (UI) program. The two programs serve two distinct populations, i.e. UI serves those workers seeking employment and wage insurance assists those workers who have found new jobs.

Current labor market conditions suggest that there is a high probability that workers will face the prospect of accepting a job that pays less than their previous job. Workers enrolled in ATAA unanimously report that financial pressures dictate that they return to work as soon as possible. ATAA helps cushion the potential losses workers face in taking anew job.

For example, the average weekly wage before layoff for workers displaced from high import-competing manufacturing industries was \$402.97 between 1979 and 2001. Those workers who found new jobs faced, on average, a 13 percent loss in earnings. Under a wage insurance program, these workers would be eligible to receive an additional \$5,532 for the first 2 years after re-employment, an 8 percent increase in their new wage.

Despite its benefits, wage insurance is not a perfect solution to addressing the costs associated with unemployment. The 26 week deadline for eligibility and the inability to enroll in training while receive wage insurance are two examples of shortcomings in the current program. One option to address these problems would be to remove the 26 week requirement and allow workers to enroll in training while receiving wage insurance. A more ambitious proposal would be to enable workers, with the approval of their one-stop career counselor, to design a mix of income support, training and wage insurance over a 2 year period. The benefits of the program suggest that eligibility should also be expanded to those less than 50 years old.

Health Care Tax Credit

The Henry J. Kaiser Family Foundation reports that the average cost for health insurance for a family of 4 in 2006 was \$11,500.⁴ This equals 85 percent of the average amount of annual income support provided under the TAA for Workers program. For many workers, maintaining health insurance can be one of the largest, if not the largest expense during unemployment. As a result many workers forego health insurance. Unemployed workers and their families comprise one of the largest groups of uninsured people.

The HCTC, established as part of the 2002 reforms, provides workers a 65 percent advance-able, refundable tax credit to offset the cost of maintaining health insurance for up to two years.

The Internal Revenue Service (IRS) reports that since 2003, approximately 22,000 workers have used the credit, or about 500 to 600 new enrollees per month.⁵ This constitutes only a small percent of eligible workers. According to a study of workers from 5 plant-closings, the GAO found that between 3 and 12 percent of eligible workers used the HCTC.⁶ Between 39 and 60 percent of workers claimed they were not aware of the credit.

Of those workers who did not use the credit, the GAO found that between 50 to 82 percent of workers were covered by other health insurance, i.e. from a spouse. Forty-seven to 79 percent of respondents claimed that they could not afford to maintain their health insurance, despite the credit. Fifteen to 33 percent of workers found the credit too complicated.

In contrast to the Department of Labor (DOL), the IRS attempts to inform each worker directly about the HCTC. Despite this effort, it appears that additional efforts are necessary to ensure that all workers are aware of the credit. Congress should consider raising the amount of the credit in order to make maintaining health insurance more affordable to unemployed workers and their families. Technical problems relating to waiting periods and health insurance options for workers not covered by their previous employer's health insurance need to also be addressed.

The Next Round of Reforms

For the most part, the 2002 reforms "fought the last battle" and did not fully address more recent economic developments, such as the phenomenon of international outsourcing of services. In addition, there are several technical

⁴ The Henry J. Kaiser Family Foundation, *Employee Health Benefits: 2006 Annual Survey*. September 26, 2006.

⁵ The number of people covered by the HCTC rises to 37,000 when family members of TAA eligible workers are included.

⁶ US Government Accountability Office (GAO) 2006. *Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, but Better Outreach Needed on New Benefits*. GAO-06-43. Washington: Government Accountability Office.

problems that were discovered while implementing the 2002 reforms that need to be addressed. The following is a list of the major issues that in my view still need to be addressed:⁷

- *Service Workers.* The service sector is increasingly under pressure from outward shifts in investment and international outsourcing.⁸ Based on its current interpretation of the statute, DOL denies assistance to workers who lose their jobs from the service sector. DOL argues that workers in the service sector do not produce items that are “similar or like an imported *good* (emphasis added).” Although the law does not specifically restrict TAA eligibility to workers employed in manufacturing industries per se, over the years DOL’s interpretation of the law has de facto resulted in such a restriction. A recent GAO study finds that denying assistance to service sector workers currently account for almost half of petition denials.⁹

In response to several recent appeals brought before the Court of International Trade, DOL partially reversed its position and announced that software workers who met the general eligibility criteria could receive assistance under TAA.

The law governing the TAA for Workers program needs to be updated to cover workers who lose their jobs from service industries. A simple change in legislative language alone will not be sufficient to achieve this goal, since data do not currently exist to measure the importation of services. A new methodology for determining trade-impact may need to be developed to expand eligibility to cover workers who lose their jobs from service industries.

- *Industry Certification.* Petitions for TAA eligibility are currently filed according to firm-related layoffs, meaning that multiple petitions can be submitted by different groups of workers employed in the same firm as well as in the same industry. In an effort to streamline the petition process and remove arbitrary discrimination between workers from the same firm and industry receiving assistance, industry-wide certification should be added to the existing firm-related layoff certification.

⁷ See Kletzer, Lori G., and Howard Rosen. 2005. Easing the Adjustment Burden on US Workers. In *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, ed. C. Fred Bergsten and the Institute for International Economics. Washington: Institute for International Economics for additional recommendations.

⁸ Alan Blinder recently estimated that as many as 42 to 56 million jobs, or 30 to 40 percent of total US employment, could be under pressure from possible off-shoring. This estimate includes 14 million manufacturing workers and 28 to 42 non-manufacturing workers, primarily workers employed in the service sector. See Blinder, Alan, “How Many U.S. Jobs Might Be Offshorable?” Draft March 23, 2007.

⁹ GAO, 2007. *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States’ Ability to Provide Benefits and Services.* GAO-07-701. Washington: Government Accountability Office.

For example, if the apparel industry was found to experience a decline in employment related to an increase in imports or outward shift in investment, then any worker laid off from the industry, regardless of cause, would be immediately eligible for TAA without needing to go through the bureaucratic petition process.

In discussing this idea, Senator Baucus recently commented that all workers laid off from a specific industry should be covered by a single certification, the same way that all producers are covered by a single granting of import relief by the International Trade Commission.¹⁰

Given the data limitations concerning the service sector, industry certification would facilitate eligibility determinations for workers displaced from service industries.

- *Training Appropriations.* Allocating training funds to states to meet the needs of workers has been a challenge to DOL under successive administrations. GAO recently reported that on average, states spent or obligated 62 percent of their training allocations in 2006.¹¹ On the other hand, there is a rather large range among the states. The GAO found that 13 states spent less than 1 percent of their training allocation while 9 states spent more than 95 percent of their training funds in 2006.

Currently, DOL allocates 75 percent of TAA training funds according to a formula based on states' spending over the previous 2½ years. Thus states that experience large lay-offs in a subsequent year may receive an inadequate amount of training funds to meet the needs of all TAA eligible workers. Conversely, states that experience large lay-offs in previous years may receive more training funds than needed in a subsequent year. GAO also reported that DOL allocates a significant amount of funds at the end of the fiscal year, making it difficult for states to utilize those funds. Since existing legislation does not address this issue, DOL has complete discretion in setting the method by which training funds are allocated to the states.

Currently the law sets a global cap \$220 million for training expenditures under the TAA for Workers program. The cap is not adjusted for inflation or major plant closings. At a minimum, the training cap needs to be raised over time. Ways to better link the training appropriation to the needs of TAA eligible workers should also be explored.

- *Health Coverage Tax Credit (HCTC).* GAO's survey of workers involved in 5 layoffs found that almost 70 percent of those workers without alternative health insurance reported that they could not afford to maintain their previous health insurance, despite the HCTC.¹² In a subsequent report, GAO estimated that even with the 65 percent tax credit, the cost of

¹⁰ TAA Coalition meeting, April 13, 2007.

¹¹ GAO (2007)

¹² GAO (2006)

maintaining health insurance in 4 sample states was equal to approximately 25 percent of a worker's average monthly UI payment. Although the HCTC appears to have been an important addition to the package of assistance provided workers, the amount of the credit needs to be increased in order to enable more workers to use the credit.

Currently, workers must receive income maintenance (or participate in ATAA), which means that they must be enrolled in training, in order to be eligible to receive the HCTC. This restriction severely limits the number of displaced workers who can receive the credit. GAO found that this requirement has forced workers to either enroll in training and to request income maintenance payments or request a training waiver.¹³ Some argue that requiring a worker to undertake training promotes "real adjustment," while others contend that it results in workers getting expensive assistance that they may not need or want. One proposal would be to provide the HCTC to all TAA-certified workers for up to two years or until the worker finds a new job, regardless of enrollment in training.

Other technical issues concerning the HCTC, such as the waiting period before enrollment, require immediate attention.

- *Wage Insurance (ATAA).* The current program is restricted to workers over the age of 50. Although there is some evidence that older workers may have a harder time finding a new job, ATAA can potentially benefit all workers. It is a cost-effective means of cushioning the costs associated with taking a new job. The age requirement for ATAA should be lowered so that all workers are eligible.
- *Self-employed.* Under the current program, workers are discouraged from pursuing self-employment. One option would be to continue providing income support and training to workers starting their own businesses.
- *Outreach.* GAO has consistently found that many workers are unaware of the assistance provided by the TAA for which they are eligible.¹⁴ This may help explain why program take-up rates are so low. It is unclear if DOL performs any significant outreach to make employers and employees aware of the program. More resources need to be devoted to informing workers about TAA and other forms of assistance for dislocated workers.
- *Data Reporting.* The Department of Labor under successive administrations has been extremely reluctant to release data related to TAA, despite the fact that these data, which were widely available in prior years, do not appear to include any sensitive information. Participation data are crucial to determining how well TAA is working and which aspects of the program need to be improved, eliminated, or expanded.

¹³ GAO (2006). Some states have issued training waivers in order for more workers to receive the HCTC.

¹⁴ GAO (2006)

Public access to TAA program data is therefore critical to monitoring and evaluating the program.

The TAA for Workers program is currently financed through general revenues, without any dedicated revenue offset.¹⁵ One proposal would be to dedicate custom duties to finance a further expansion of the program. Custom duties equaled approximately \$20 billion in FY 2003, and they are expected to rise to \$25 billion over the next few years.¹⁶ Since funds collected from custom duties are considered general revenue, diverting them to finance these proposals would contribute to the federal budget deficit. A more limited proposal would be to dedicate only the *increase* in custom duties over the next few years to offset the costs associated with expanding adjustment programs. This would also exacerbate the fiscal deficit and might not be sufficient to cover the total costs of the more ambitious proposals outlined above. Nonetheless, it might be a good way to jump-start the reform process.¹⁷

Deb Buxbaum, TAA Coordinator for the State of Montana, summed up the general impression of the TAA for Workers program by saying,

This program has been a godsend, helping workers move out of dying industries and into growing industries, while staying in Montana. The program helps workers enjoy a quality of life and gives them hope for the future. The program helps workers move on with their lives.¹⁸

TAA for Firms

Congress also established the TAA for Firms program in 1962 to help American firm respond to the pressures resulting from increased import-competition and *avoid* possible cutbacks and layoffs. Initially the program provided technical assistance, loans and loan guarantees. Congress eliminated the loans and loan guarantees in 1986. Technical assistance is currently provided to firms by 11 Trade Adjustment Assistance Centers (TAAC) located around the country. Eligibility criteria mirror, although are not exactly the same as those for the TAA for Worker program.

The TAA for Firms program has historically been quite small. Between 2001 and 2006, the program assisted approximately 150 firms a year covered some 16,000 workers. Average spending over the last 9 years has been \$11 million per year.

¹⁵ Section 245 of the Trade Act of 1974 called on the Department of Treasury to establish a trust fund, financed by all custom duties, from which to finance TAA, but this trust fund has not been established.

¹⁶ Multilateral agreements are likely to reduce tariff rates over the coming years. On the other hand, increases in the volume of imports could increase the amount of tariff revenues collected.

¹⁷ It should be noted that there is long-standing opposition among economists to dedicated funding schemes.

¹⁸ Interview with Deb Buxbaum, May 31, 2007

A recent evaluation by the Urban Institute found that firms that participated in the TAA for Firms program had a higher survival rate (84 percent) than eligible firms that did not participate in the program (70 percent), 5 years after certification. According to Gary Kuhar, director of the Northwest Trade Adjustment Assistance Center (NWTAAAC), since 1984, there has been an 80 percent survival rate for firms assisted in his region. This rate may be conservative, since it does not include firms that have been sold to other companies or operate under a new name. According to their internal cost-benefit analysis, this survival rate translates into a returned of \$234 for every federal dollar managed by the NWTAAAC.

Congress should explore ways to expand the program, while maintaining its effectiveness. Existing eligibility criteria should be liberalized to meet current economic conditions. In addition, program funding and the capacity of the TAAACs will need to be expanded if TAA eligibility criteria were expanded to include the service sector. Congress might also explore ways to integrate the TAA for Workers and TAA for Firms programs by automatically making all workers employed by firms participating in the TAA for Firms program eligible for the TAA for Workers program, and visa versa.

TAA for Farmers and Fishermen

Congress established the TAA for Farmers and Fishermen program as part of the 2002 reforms, based on legislation introduced by Senators Conrad and Grassley in the 106th Congress. Farmers and fishermen whose crops face a precipitous drop in their international price can receive minimal cash payments, if they participate in technical assistance programs. Financial assistance is calculated as half of the difference between the most recent year's crop price and 80 percent of that price over the previous 5 years, subject to a limit of \$10,000 per year.

Between 2004 and 2006 nine crops were eligible for assistance – avocados, catfish, concord grapes, fresh potatoes, lychees, olives, salmon, shrimp and wild blueberries. The program's experience over this period suggests that cash payments have been very small, making the program somewhat unattractive to farmers and fishermen. On the other hand, there is evidence that the technical assistance has been useful in helping farmers and fishermen diversify their crops and/or improve the yield and sales of their existing crops. Enrollment in technical assistance seminars has been encouraging, although it is too early to measure their effectiveness.

An evaluation by the Western Center for Risk Management Education found that 40 percent of participants undertook changes to adjust to import competition as a result of the program.¹⁹

The program is handicapped by two related problems. First, eligibility criteria are too restrictive, thereby denying assistance to farmers and fishermen

¹⁹ Annual spending on the CAP is estimated to be \$45 billion.

in need of assistance. Second, due to the formula used, the amount of income assistance provided is very small, thereby making the program, and any subsequent adjustment to import competition, financially unattractive.

Annual spending on the TAA for Farmers and Fishermen program has been uneven, averaging \$10 million annually over the last 5 years. Spending reached a peak of \$21.3 million in FY 2005, before falling to \$4.7 million in FY 2006 and less than \$1 million in FY 2007.²⁰

The European Union devotes 10 percent of the amount it spends on the Common Agriculture Program (CAP) on positive adjustment in the farming and fishing. FY 2006 spending on the Farmer and Fishermen program equaled a less than one-tenth of 1 percent of total US farm income support.²¹ Expanding the TAA for Farmers and Fishermen program, in a responsible and effective way, could contribute to reducing farm income support, which places pressure on the federal budget and continues to stand in the way of multilateral trade negotiations.

TAA for Communities

The impact of globalization on the US economy is not limited to workers, farmers and fishermen. All of these people are located within communities, which also feel the consequences of massive lay offs and earnings losses. Workers who lose their jobs cannot afford to purchase non-essential goods or eat in restaurants, thereby causing the effects of a plant closing to ripple across a community. Plant closing can also contribute to eroding a community's tax base, making it more difficult for the community to provide important functions and attract new investment.

In addressing any job loss, the primary objective should be to get the person back to work, as soon as possible, with the least amount of financial loss. The TAA for Workers program only takes a small step toward helping workers meet that objective. The 2002 reforms began to transform the TAA for Workers program from one focusing almost exclusively on income support and training to one that aims toward re-employment. The most important ingredient of any re-employment program is the availability of jobs, preferably high paying jobs.

Several members of Congress have recently called for a TAA for Communities program.²² This proposal is based in part on a growing awareness that the effectiveness of any training program is limited by the availability of jobs that utilize the skills acquired in that training. Under these circumstances, job creation requires shifting to composition of existing investment and attracting new investment.

²⁰ Foreign Agriculture Service, US Department of Agriculture.

²¹ Total US farm income support amounted to \$16 billion in FY 2006.

²² Senator Bingaman first introduced this proposal in 2001.

The Economic Adjustment program at the Department of Defense (DOD) has been successful in helping communities in the aftermath of a military base closing. Under the program, the Department of Defense provides intensive technical assistance and funds to help communities prepare strategic plans for economic development. A limited experiment of, borrowing from DOD's base closing program was tried in New Mexico in 1998.²³

One proposal would be to temporarily assign a technical advisor to those trade-impacted communities willing to undertake certain activities. The advisor could help the community leaders design a strategic plan for economic development, which could be an important contributor to identifying, applying for and eventually receiving federal assistance. This program need not be expensive. At a minimum, the program can serve to help communities identify existing public and private assistance and coordinate that assistance.

International Comparisons

As mentioned above, programs aimed at enhancing economic adjustment to the current realities associated with globalization should be part of any nation's competitiveness strategy. In that regard, our major trading competitors are devoting much more resources to labor market adjustment programs than the United States.

US spending on active labor-market adjustment programs, such as training, job search assistance, and wage subsidies, is also modest compared with other countries (see Table 3). Relative to six other major industrialized countries, the United States spends the least on active labor-market adjustment programs, even after taking into account each country's unemployment rate. France and Germany each devote about five times more to their active labor-market programs than does the United States.

Much is currently being made of the Danish "Flexicurity" system. There is no magic to this program. In addition to differences in hiring and firing policies, the OECD estimates that Denmark spends 8 times more in public funds, as a share of GDP, to labor market programs than the United States.²⁴ The Danes spend 10 times more public funds, as a share of GDP, to training and 5 times more, as a share of GDP, to income support than the United States.

²³ Rosen, Howard. 2001. A New Approach to Assist Trade-Affected Workers and Their Communities: The Roswell Experiment. *Journal of Law and Border Studies* 1:1.

²⁴ Danish labor laws are more protective of workers than US labor laws.

Table 3
Spending on Active Labor-Market Programs

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

Source: OECD, *Employment Outlook 2003*, data for 2000-2001.

Immediate Steps

The 5-year authorization of the entire compliment of TAA programs – TAA for Workers, TAA for Firms and TAA for Farmers and Fishermen – is scheduled to expire at the end of September 2007. Based on past experience, any lapse or temporary extension of the program's authorization could cause serious disruption to those workers, firms, farmers and fishermen participating in the program. Without the ability to disperse federal funds, the pressure to maintain assistance could fall upon the states. Most states do not have the resources or legal ability to continue the assistance under the various programs.

In previous cases, income support was terminated, causing considerable financial distress on workers and their families. Funding for training programs was also cut off, forcing workers to forego training. It is crucial that Congress move to re-authorization the compliment of TAA programs, for at least another 5 years, without any lapse.

Conclusion

All public opinion surveys find that Americans are willing to pursue trade liberalization IF the government assists those workers, firms and communities, adversely affected by that liberalization. Despite significant changes in the US economy over the last 45 years, including an increase in import penetration and a decline in manufacturing employment, efforts to assist workers adversely affected by increases in imports and shifts in production have remained modest at best. Efforts to reform and expand the program in 2002 were extremely useful in breathing new life into that commitment. Implementation of those reforms has been uneven at best. More effort must be undertaken to insure that all workers, firms, farmers and fishermen receive the assistance they so desperately need.

Several pieces of legislation have already been introduced and several others are likely to be introduced to continue the efforts begun in 2002 to reform and expand TAA. These proposals include extending eligibility criteria to cover

workers who lose their jobs from service industries, establishing a process for certifying entire industries, increasing the budget cap on training expenditures, and expanding the HCTC and wage insurance programs. Congress should seriously consider enacting these proposals.

It would seem that the increased importance of international trade to the US economy and the growing concern over economic dislocations would make assistance to workers, firms and communities facing these pressures more of a pressing issue in 2006 than it was in 1962. Yet despite public support for this kind of assistance and rhetoric on the need to increase worker training, expanding labor market adjustment programs remains a low priority in the United States. This will need to change if the United States wants to pursue a competitiveness strategy that results in increasing productivity and raising living standards.

Trade and Globalization

(Adjustment for 21st Century Workforce)

June 6, 2007

Submitted by: Jerry Ann Ross

My name is Jerry Ross. I live in Eureka, Montana, located in the northwestern corner of the state, 7 miles south of the Canadian border. I worked for Owens & Hurst Lumber Mill Inc. for over 13 years, which produced lumber products. I worked as a supervisor in the plant.

In the early months of 2005 it was announced the mill was forced to close its doors after 25 years of business due to the result of competition from foreign trade.

With the uncertainty of what lay ahead for the future decisions would have to be made. Where would work be found? Would it be possible to earn enough money to make a living in the immediate area? Would moving out of the area be necessary?

Thru the Job Service a federal program, **Trade Adjustment Assistance (TAA)** was offered to the 87 affected employees. The employees were issued a Grant under the **Northwestern Montana Timber National Emergency Grant (NEG)**. The NEG is a grant that provides funds for other needed items that the TAA and the TRA may not cover. The grant is presented by the State of Montana to the US Department of Labor. If the grant is approved then a specified amount of funding is made available for retraining and supportive services.

I chose a 2-year program in the Building Trades, and Accounting Technology offered at Flathead Valley Community College. The TAA program has provided Unemployment benefits and gas allotment for the 150 miles I drive daily roundtrip to attend school. All my books, tuition, and required materials have been paid for. I cannot say enough good things about the program. It has been dreams come true for me to attend college.

The staff at the Job Service has been exceptionally helpful. They have taken the time with each worker to explain the options available. I know I can contact my caseworker with any questions I may have and that she is quick to respond with the options available.

I do have a few suggestions for improvement to the TAA and the TRA programs listed below.

SUGGESTIONS FOR CHANGE:

A.) Time Issue:

1. There are time limits set forth to be enrolled in a qualified training program.
2. The end of 8 weeks in which the petition is certified, or the end of the 16th week after the job separation.
3. Perhaps more time is needed to decide what the individual would like to do.

4. There are limited training facilities in rural Montana and most training institutions do not have open enrollment. Students can only start training at each semester and not usually within the 8/16-week deadline.

B.) Health Insurance:

1. Has the Health Coverage Tax Credit (HCTC) been working?
2. There needs to be improvement for this process. 65% of a tax credit is still not enough.
3. What is needed is some form of health insurance. Either something affordable or some type of insurance for the trainee and their family while they are in training. Currently there is one man in his 30's who has been in the program for 2 years. His kidneys are failing. He has no insurance and he is starting dialysis as we speak. He has a wife and 2 children.

C.) Unemployment/TRA Benefits:

1. Make sure these benefits do not run out before the training is completed.
2. It would be difficult to finish the training without financial support.
3. Because of college start dates, participants cannot start training as soon as they are laid off. They use their unemployment during this time of waiting which means those weeks are not available at the end of the 104 weeks of training.

D.) Childcare:

1. There were several young families involved with this lay-off who have small children. While in training, the young men who are the bread winners are not bringing home the same amount of finances into the household. Childcare is still needed while they are in training. Some sort of aid in this area would be helpful.

E.) Rural Areas:

1. It is hard for workers in rural areas to access training. The Owens & Hurst workers had to drive over 100 miles every day to get to the closest Community College. It would be nice to have a little more flexibility to pursue legitimate on-line training opportunities.

F.) Half of the Federal Per Diem Rate Limit

1. While most people can eat modestly for \$22/day, it is almost impossible to find a motel for \$36.50/night in the off-season in Kalispell, Montana. (Federal Per Diem rates for Kalispell September to May are \$73/lodging and \$44/meals; TAA can only pay 50% of that rate for training.)

G.) ATAA Deadline (Wage Insurance):

1. To qualify for ATAA a worker must obtain qualifying reemployment within 26 weeks of layoff. This remains true even if the certification is not issued until after the 26-week has passed. We had a Washington employer who did not apply for TAA until after the 26 weeks because they hoped to start back up again, so all

their workers WERE NOT eligible for ATAA. This was due to the fact the employer did not file in time. The deadline should be 26 weeks of layoff or petition being approved, which ever is later.

In conclusion, I want to once again state how pleased I have been with the training offered to me. It has been a life-changing event. We do not have the opportunities that larger areas present; with a few adjustments I believe the TAA and the TRA programs can be made better. I would like to personally thank-you for providing these programs to dislocated workers as myself who have suffered job losses due to foreign trade. This brings hope not only to our future but also for the future of our nation. This allows us the opportunity to once again to be part of our nation's work force.

Respectfully,

Jerry Ann Ross

COMMUNICATION

Statement for the

**United States Senate
Committee on Finance**

June 6, 2007, Hearing On:

Trade and Globalization: Adjustment for a 21st Century Workforce

Submitted by



**Janet Stokes Trautwein
Executive Vice President and CEO
National Association of Health Underwriters
2000 North 14th Street
Suite 450
Arlington, VA 22201
(703) 276-0220
(703) 841-7797 FAX
jtrautwein@nahu.org
www.nahu.org**



National Association of Health Underwriters

America's Benefits Specialists

June 6, 2007

The National Association of Health Underwriters (NAHU) is a trade association for health insurance agents and brokers, representing more than 20,000 health insurance producers nationally. Our members help millions of Americans find affordable health insurance every day and assist them in making that coverage work in the best possible way.

As the leading professional association for health insurance producers, our two principle public-policy goals are (1) reducing the number of uninsured Americans through private health insurance market solutions and (2) making sure that Americans have as many affordable and accessible private health insurance options available to them as possible.

As such, we were strong advocates of the Health Care Tax Credit when it was included in the Trade Adjustment Act of 2002 (TAA). Our association worked directly with many states regarding the implementation of the credit and the establishment of their purchasing options, and our members have helped many beneficiaries use the credit to obtain coverage. Over the course of the past five years, while working with the TAA health care tax credit, we have noticed a few issues that have hindered the success the success of the credit that could be improved when TAA is reauthorized.

State-Elected Purchasing Options

TAA provides a refundable tax credit to help eligible individuals purchase health coverage from a number of different sources. The legislation specifies that automatically, in all states, beneficiaries can use the credit to purchase health insurance through three sources—COBRA, a spouse's group health plan, or individual coverage if in force at least 30 days prior to separation of employment. The legislation also specifies seven additional purchasing options a state can choose to elect, like coverage through a high-risk pool or state-based continuation coverage. To date, 39 states plus Puerto Rico and the District of Columbia have elected additional options, leaving 11 states with only the automatic options or only the automatic options plus state-based continuation coverage.

Unfortunately, while the legislation does specify three automatic purchasing options, all beneficiaries do not have those options available to them personally. Individual coverage is not an option for the vast majority of recipients because they did not have it in-force prior to their job loss, and there are many beneficiaries who do not have access to coverage through a working spouse.

Many people assume that an individual who has lost coverage always has a COBRA option. This is not the case. Many TAA-eligible individuals worked for employers that have gone out of business. Since COBRA is an employer law, if there is no employer, there is no COBRA. The same holds true for state-continuation options. Also, many other eligible individuals worked for small employers for

whom COBRA does not apply, and not all states have mandated continuation of coverage options for smaller employers. Individuals who are eligible for the TAA credit because they receive benefits from the federal Pension Benefit Guarantee Corporation (PBGC) may have long since lost their employer-sponsored coverage.

Because many individuals do not have one of the automatic options available, this means that many individuals may be eligible for a tax credit but have no place to spend it. NAHU recommends that, during the reauthorization process, Congress revise the purchasing options to allow eligible individuals to purchase coverage available and approved in their state, without requiring a special state election.

Separate Guaranteed-Issue and Preexisting Condition Requirements for Each Purchasing Option

If a TAA-eligible individual has been previously insured for three months and has less than a 63-day break in coverage, any coverage option(s) selected by the state must provide coverage on a guaranteed-issue basis without application of a preexisting condition waiting period and at benefit levels and premiums that would be customary for a non-TAA-eligible individual purchasing the same type of coverage.

These provisions for guaranteed issue and waiver of preexisting conditions apply separately to each state-elected option, therefore, any option selected by the state must on its own provide for coverage to be guaranteed to qualified individuals, with no limitation for preexisting conditions. Even if a state elects both a high-risk pool and an arrangement to provide coverage through an insurance carrier, each option must separately provide for guaranteed issue and a pre-existing condition waiver for eligible individuals, even though the very purpose of a high-risk pool is to guarantee coverage for those who do not meet underwriting guidelines in the individual health insurance market.

This lack of flexibility has resulted in fewer coverage options for eligible individuals, and has many eligible individuals paying far more for their share of premiums than they should. This has resulted in reports that the 35 percent share of premiums is too high for some eligible individuals to afford. In fact, the problem is that the rigid nature of the purchasing options is forcing a higher premium level than may be appropriate for the majority of those eligible under the program. This lack of flexibility does not improve choice or access, but rather limits it by making coverage unaffordable for some eligible individuals.

Lack of flexibility in the program also impacts the federal government in an even bigger way as the government is picking up 65 percent of the cost of coverage when the cost of that coverage could be significantly lower. It seems fiscally irresponsible for the United States government to pay an unnecessarily inflated price for health insurance coverage under the tax credit when other simple solutions exist.

The best situation would be to completely revise purchasing options to allow eligible individuals to purchase coverage available and approved in their state without requiring a special state election. At a minimum, it would make sense not to reinvent the wheel and have TAA requirements follow HIPAA portability law, which has a longer prior-coverage requirement and allows states to use their high-risk pool to guarantee access. Even under HIPAA, insurance carriers in states without high-risk pools estimate that they lose 18 dollars for every one dollar they receive in premiums from those who purchase coverage under HIPAA rules. Considering that the TAA requirements are significantly more restrictive on insurance carriers than those under HIPAA, it's easy to understand why participation by carriers under TAA has not been as robust as would have been preferable.

The reasoning for requiring that each option meet the provisions separately was that insurance carriers might turn down high-risk individuals and force them to obtain their coverage at a higher price through a high-risk pool or some other state guarantee mechanism. Yet, because of this rigid requirement, we've seen 15 states elect their high-risk pool as the ONLY option for anyone of any health status, even though far more affordable rates and more choices in coverage could be made available to eligible individuals through the traditional market. While high-risk pools provide critical access to health insurance for individuals in poor health, they were never designed to accommodate healthy individuals and their pricing structure is not designed for individuals in good health. If states with high-risk pools could make arrangements with one or more carriers to use their normal pricing and underwriting structure for eligible individuals and guarantee access to coverage for uninsurable individuals who meet prior-coverage requirements through the high-risk pool, it would be far better than the current arrangement for health insurance tax credit purchasing options. It would provide more choice for most individuals at a better price, which would also result in a better price for the United States government. And those who are uninsurable would have the same options they have now in the 13 states that have already elected a high-risk pool as their purchasing option and that could be elected as an option in the other 21 states with functioning high-risk pools.

Expansion of TAA

While expansion of the health care tax credit to other groups may seem like a logical next step, there are challenges in taking this course. First, while a number of states have elected options, not all of the options would be suitable if the eligible population grew from its current number to several million. For example, state high-risk pools, elected as the only option in 15 states, are not designed to handle large populations.

Second, cost will likely dictate that any expansion is limited to select populations and, with each possibility of limitation, specific issues arise. For example, if a person's period of eligibility was tied to being on unemployment compensation, then that would mean that a person would be eligible for the credit for a six-month period. A short-term risk like this is not attractive for insurance carriers with the current structure of guaranteed issue and preexisting conditions waivers in the TAA law and many might choose not to participate in the program. Third, even with a generous credit like the TAA credit, individuals and families who have substantially reduced income due to the loss of employment are significantly less able to come up with their own 35 percent share of the premium, particularly if the cost of coverage is artificially high as is the case with the current purchasing options.

An alternative solution would be to simply target low-income working individuals who make too much to qualify for Medicaid but not enough to afford health insurance on their own. We have seen over the years that the government's cost of some proposals for subsidizing the cost of health insurance coverage for low-income individuals can be very high. These costs can be made lower in several ways. First, credits or other subsidies can be phased out for the "higher" low incomes, although reduced subsidies can significantly reduce the ability of some individuals to come up with their share of the premium. If take-up rates are low, measures of the relative success of the program may appear low, simply because people in this income category for the most part live paycheck to paycheck and may have little to spend for health insurance.

Another way to control the cost is to make the subsidy available only to those who are currently uninsured. While this does have the down side of penalizing those who are already doing the right thing financially and buying coverage, it does measurably reduce the number of those who are actually uninsured. The period of uninsurance to determine eligibility should be fairly long, at least 12 months, so as not to create an incentive for those who are already insured to drop their current coverage in order to qualify.

Another way to control cost is to limit the duration of the subsidy. If this is done, the benefit should be at least two to three years (assuming that someone meets the income requirements for that length of time). Shorter periods are less-attractive risks for insurers and may invite adverse selection.

It should be noted that many people in this income category already have access to employer-sponsored coverage but can't afford to pay their share of premiums. This is particularly common with dependent coverage where the employer may pay some or all of the employee premium but none of the dependent premium. This employer/employee cost-sharing structure is quite common in small businesses that employ primarily low-income workers, as well as in certain areas of the country. Allowing employer-sponsored coverage, where the employer makes only a minimal contribution to be considered a qualified purchasing option, would help these employees maximize all sources of funding to better enable them to afford coverage. This could be combined with a qualifier that the individual have been uninsured for a period of time to limit cost.

Finally, if it is decided not to allow employer-sponsored coverage (other than COBRA) to be an allowable purchasing option, it is important to establish eligibility parameters that do not create incentives for employees to leave employer coverage to use the subsidy in the individual market. This could create a real problem particularly for small employers as insurers have participation requirements that can be difficult to meet if all employees don't participate. It could be a really big problem for employers whose workforce, however small, is highly concentrated towards low-income employees. The end result could be loss of coverage for those employees who are already insured as a result of inability of the employer to meet participation requirements. This can be avoided if language is included that says that if people are "eligible" for employer-sponsored coverage, then they are not eligible for the subsidy, as opposed to language that says that if they are "participating in" employer-sponsored coverage, they are not eligible.

With any of these eligibility choices, adequate flexibility in purchasing options is essential for success. Coverage must be affordable even for those with a subsidy or the program will not achieve its desired objective.

NAHU sincerely appreciates the opportunity to provide comment on the Committee on the Trade Adjustment Assistance Act and how its Health Care Tax Credit could be improved upon. If you have any questions, or if NAHU can be of further assistance, please do not hesitate to contact me at (703) 276-3800 or jtrautwein@nahu.org. You can also contact our vice president of congressional affairs, Peter Stein, at (703)-276-3801 or pstein@nahu.org.

Respectfully submitted,



Janet Trautwein
Executive Vice President and CEO