

## Trade Adjustment Assistance

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### Overview

The Trade Adjustment Assistance for Workers program provides subsidies to workers who lose their jobs because of import competition.<sup>1</sup> The program will cost federal taxpayers \$1.3 billion in 2011.<sup>2</sup>

Under the program, workers who lose their jobs as the result of foreign trade may be eligible for job retraining programs, relocation allowances, health insurance subsidies, and extended unemployment benefits. However, job losses from import competition represent just a tiny fraction of the overall job turnover in our dynamic market economy.

The TAA program should be abolished. It unfairly provides special subsidies to one narrow group of the nation's unemployed workers. There is little, if any, evidence that the program benefits the economy, yet it costs taxpayers about \$10,000 per participant. Furthermore, the existence of the program reinforces a false impression that international trade is a negative factor for the economy. The reality is that trade produces great advantages and opportunities for U.S. businesses and workers alike.

### About the Program

Trade adjustment assistance was proposed by the Kennedy administration as part of its trade liberalization agenda and was passed in the Trade Expansion Act of 1962. By providing benefits to workers displaced by international trade, the program was designed to help secure the political support of organized labor and other groups who might otherwise oppose freer trade.

The original TAA program had very limited benefits. However, the program was expanded by the Trade Act of 1974, expanded further in 1980, trimmed during the 1980s under President Reagan, and then expanded again in 2002 under President Bush.<sup>3</sup>

The TAA program provides the following subsidies to eligible workers:<sup>4</sup>

- Reemployment services, such as counseling, resume writing, and job referrals
- Job-search benefits of up to \$1,250 to reimburse a portion of travel costs and other related expenses
- Relocation benefits to cover moving costs and other expenses, and a lump-sum payment of up to \$1,250 to help some workers get resettled
- Job training in an approved training program for up to two years
- Trade readjustment allowances (TRAs) for up to two years, which are cash benefits for workers in training that are in addition to regular unemployment insurance. In some cases, the benefits are provided to workers who are not enrolled in training.
- A refundable health care tax credit, added in 2002, which covers 65 percent of qualified health insurance premium costs
- A wage subsidy for older workers called "alternative trade adjustment assistance," which was also added in 2002. This benefit goes to displaced workers over age 50 with moderate incomes. The benefits are based on a portion of the difference between a worker's previous earnings and earnings in a new job for up to two years.

In 2009, the economic "stimulus" legislation temporarily expanded the TAA program further by:

- Extending benefits to workers whose jobs are lost because of trade to any foreign country, not just countries with which we have trade agreements. This broke the original link of providing TAA benefits as a political bargain for the expansion of free trade agreements.
- Extending TAA to government and service workers, and not just manufacturing workers
- Increasing the level of benefits a variety of ways, such as by expanding training benefits, expanding the health care tax credit, and lengthening the period of time over which affected workers may receive trade readjustment benefits

These additional "stimulus" benefits expired in February 2011.

### Reasons to End TAA

The creation and expansion of the TAA program has been based on a misguided understanding of both trade and the market economy. Congress should repeal the program for numerous reasons.

First, with today's huge budget deficits, the TAA is one of many subsidy programs that we can no longer afford. Without spending cuts and

deficit reduction, most experts agree that the nation is headed toward a debt crisis that could cause severe economic harm to families and the economy.

Second, very few people become unemployed because of import competition. A study by labor economist James Sherk found that only about one percent of unemployment can be attributed to competition from international trade.<sup>5</sup> Instead, most people become unemployed because of lower demand for products, changes in technology and business productivity, and other non-trade reasons.

The U.S. economy is extraordinarily dynamic, with a huge amount of job losses and job gains every year. Department of Labor data show that in a typical nonrecession year, there are more than 11 million job losses from layoffs and business bankruptcies each year, and an even greater number of jobs created by new and expanding firms.<sup>6</sup> Put another way, well over 10 percent of U.S. jobs are disappearing and being recreated every single year. Thus, it doesn't make sense to provide special benefits through TAA to the small number of workers displaced by international trade when those people who are unemployed for other reasons face the same challenges in our dynamic job market.

Third, the TAA program isn't particularly effective. An Office of Management and Budget assessment in 2003 rated TAA as "ineffective."<sup>7</sup> A Heritage Foundation study finds that academic research shows that TAA job training tends not to increase wages.<sup>8</sup> Similarly, a GAO study found that most workers in the TAA program earned less in new jobs than they had earned in their previous jobs.<sup>9</sup>

The reality is that the vast majority of job training and job search is done by individuals and businesses in the marketplace without government help. There is no need for the federal government to operate bureaucracies to perform functions that private markets already perform. Besides, when you read about the complex details of TAA administration, it is evident that a substantial share of program spending remains in the hands of federal and state administrators rather than actually going to workers.<sup>10</sup> For the few—if any—benefits it provides, the TAA program costs taxpayers roughly \$10,000 per participant.<sup>11</sup>

Fourth, TAA subsidies may create perverse economic incentives for workers. Academic studies generally find that increased unemployment benefits lengthen the duration of unemployment because individuals often become serious about job search only when their benefits will soon run out.<sup>12</sup> A [related essay discusses](#) these sorts of distortions caused by unemployment subsidies.

Fifth, the existence of TAA sends the wrong message about trade liberalization. It is a myth that freer trade creates special victims who deserve taxpayer-funded subsidy programs. While some people—relatively few, according to Bureau of Labor Statistics data—lose their jobs when trade becomes more free, having a special program for trade-affected workers gives the impression that trade presents a larger unemployment problem than it really does. It reinforces the false "zero-sum" conception of trade, where imports should be minimized because they are costly.

Sixth, the historical arguments for trade-related subsidies are less valid today. TAA was originally sold as a way to get those harmed by import competition to go along with trade liberalization. But even though TAA has been greatly expanded over the years, many members of Congress still try to block beneficial trade agreements, such as those with Colombia, Panama, and South Korea.

Finally, subsidy programs such as TAA assume that individuals shouldn't be responsible for saving money for a rainy day on their own or gaining extra skills through their own initiatives. If a worker is in a business that faces intense domestic or foreign competition, he or she should be planning ahead in case they get laid off. Unfortunately the availability of government subsidies often deters individuals from making proactive and responsible economic decisions.

The TAA program should be abolished. While increased trade creates challenges to U.S. businesses and workers, those challenges are little different than the market pressures created by domestic competition and technological change. The best thing that the federal government can do to help displaced workers is to remove the many government barriers to robust economic growth in the United States. A dynamic economy that is continually creating new jobs and new industries is the best way of providing opportunities to the unemployed.

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<sup>1</sup> Other federal departments operate related programs. The Department of Commerce operates TAA for firms and the Department of Agriculture operates TAA for farmers.

<sup>2</sup> *Budget of the United States Government, Fiscal Year 2012, Analytical Perspectives*, Table 33.1.

<sup>3</sup> The program's history is discussed in Katherine Baicker and M. Marit Rehavi, "Policy Watch: Trade Adjustment Assistance," *Journal of Economic Perspectives* 18, no. 2 (Spring 2004): 239–55.

<sup>4</sup> An official description of benefits is at [www.doleta.gov/tradeact/benefits.cfm#2](http://www.doleta.gov/tradeact/benefits.cfm#2).

<sup>5</sup> James Sherk, "Congress Should Allow Trade Adjustment Assistance to Expire," Heritage Foundation, February 4, 2011.

<sup>6</sup> U.S. Bureau of Labor Statistics, "Annual Business Employment Dynamics Data," Charts 1 and 2, [www.bls.gov/bdm/bdmann.htm#total](http://www.bls.gov/bdm/bdmann.htm#total).

<sup>7</sup> U.S. Office of Management and Budget, "Trade Adjustment Assistance Assessment," 2003, [www.whitehouse.gov/omb/expectmore](http://www.whitehouse.gov/omb/expectmore).

<sup>8</sup> David Muhlhausen, "Trade Adjustment Assistance: Let the Ineffective and Costly Program Expire," Heritage Foundation, February 4, 2011.

<sup>9</sup> Government Accountability Office, "Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, but Better Outreach Needed on New Services," GAO-06-43, January 2006.

<sup>10</sup> To get a sense of the program's complex administration, see Government Accountability Office, "Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain," GAO-04-0102, September 2004.

<sup>11</sup> Office of Management and Budget, "Trade Adjustment Assistance Assessment," 2003, [www.whitehouse.gov/omb/expectmore](http://www.whitehouse.gov/omb/expectmore).

<sup>12</sup> A summary of the literature is in Katherine Baicker and M. Marit Rehaui, "Policy Watch: Trade Adjustment Assistance," *Journal of Economic Perspectives* 18, no. 2 (Spring 2004): 239–55.

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