

# PubPol/Econ 541

Class 22

## **Trade Adjustment Assistance**

by

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2021

# TAA: Trade Adjustment Assistance

- The US program
- Wage Insurance (ATAA)
- Arguments against

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# US TAA

- Started 1962
  - Reason (Kennedy)
    - “Obligation to render assistance to those who suffer as a result of national trade policy”
    - Costs of trade are concentrated, compared to benefits
- Latest expansion: 2002
  - New features, but few take advantage of them

# US TAA

- Types of TAA
  - Workers (since 1962)
  - Firms (since 1962)
  - Farmers and fishermen (since 2002)

# US TAA

- Eligibility: laid off due to
  - Increase in imports (most)
  - In upstream or downstream producers (secondary)
  - Shift in production abroad (2<sup>nd</sup> most)

**Table 1 Distribution of certified petitions by reason, 2002–07**

<b>Grouping</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
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

n.a. = not available

Source: US Department of Labor.

Source: Rosen (2008)

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**Table 2 Comparison of participation in TAA for Workers program before and after 2002 reforms, annual average, 1997 to 2005**

<b>Grouping</b>	<b>1997–2001</b>	<b>2003–05</b>
Number of petitions filed	n.a.	2,693
Percent certified	67 <sup>a</sup>	64
Take-up rate (percent)	19 <sup>b</sup>	43
Workers receiving income support	34,800	62,444
Workers in training	31,200	46,103
Workers in ATAA	n.a.	3,864 <sup>c</sup>
Workers receiving HCTC	n.a.	22,000 <sup>c</sup>

n.a. = not available

ATAA = Alternative Trade Adjustment Assistance

HCTC = Health Coverage Tax Credit

a. Figure is for 1994–98.

b. Figure is for 1996–2000.

c. Total is for 2003–06.

Source: US Department of Labor.



**Table 3 Reemployment and earnings experience of dislocated workers**

<b>Category</b>	<b>Manufacturing</b>	<b>Nonmanufacturing</b>	<b>High-import competing</b>
Average prelayoff weekly wage (dollars)	396.88	368.95	402.97
Share reemployed (percent)	65	69	64
Average change in earnings (percent)	-12.1	-4	-1.3
Share with no earnings loss (percent)	35	41	36
Share with >15 percent earnings loss (percent)	35	29	35
Share with >30 percent earnings loss (percent)	25	21	25
Share unemployed >26 weeks (percent)	22	13	24

*Sources:* Author's calculations based on data for 1979 to 2001 from the Displaced Worker Survey, Bureau of Labor Statistics; Kletzer (2001).

Source: Rosen (2008)

# US TAA

- Benefits:
  - Income maintenance
    - 78 weeks vs. 26 weeks under UI
  - All training expenses
  - Health Coverage Tax Credit (HCTC)
  - Job search costs (90%)
  - Job relocation costs (90%)

# US TAA

- What's wrong with TAA?
  - Workers are not informed (esp. HCTC)
  - Doesn't cover service industries
  - Certification done by firms, not industry
  - Money for training apportioned poorly
    - Some places run out, others leave \$ unspent
  - Self-employed don't qualify
  - No support for communities
  - US spends less than others (but was first)

**Table 4 Spending on active labor-market adjustment programs**

<b>Country</b>	<b>As a percent of GDP</b>	<b>Ratio of spending as a percent of GDP to the unemployment rate</b>	<b>As a percent of total spending on all labor-market programs</b>
France	1.32	0.14	44.4
Germany	1.21	0.16	38.6
Canada	0.41	0.06	36.4
United Kingdom	0.37	0.07	40.0
Korea	0.31	0.08	66.9
Japan	0.28	0.06	34.2
United States	0.15	0.03	32.9

Source: Organization for Economic Cooperation and Development, *Employment Outlook 2003*, data for 2000–2001.

Source: Rosen (2008)

# Pause for Discussion

# Questions on Rosen, “Strengthening TAA”

- Who qualifies for TAA, and what do they get?
- How does US expenditure on TAA differ from expenditure on similar programs in other major countries?
- What’s wrong with US TAA?

# Questions on Lawrence, “A Numbers Argument...”

- Are the gains from trade agreements large enough to justify the expenses of TAA?
- Does Lawrence advocate for adjustment assistance only for trade-displaced workers?
- Why does Lawrence associate TAA with passing Trade Promotion Authority?

# TAA: Trade Adjustment Assistance

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# Wage Insurance

- What is it?
  - Program that replaces a fraction (usually 50%) of any cut in wage when the unemployed take a new job. Workers get it for only a limited time
  - Object is to encourage taking a new job even at a lower wage, with the hope that wage will then rise with experience
  - Widely advocated by economists, not just for trade-displaced workers

# Wage Insurance

- ATAA: Alternative Trade Adjustment Assistance
  - Part of 2002 expansion of TAA
  - Available only to workers who are
    - Over 50
    - Earning less than \$50,000 a year
    - If they get new employment within 26 weeks
  - Payment is
    - 50% of drop in wage for at most 2 years
    - Not to exceed \$10,000 per worker over the 2 years

# Wage Insurance

- Brainard and Litan argue
  - Wage insurance is needed for all workers
  - But especially for trade-displaced workers
    - Their unemployment lasts much longer
    - Their drop in wage is somewhat larger
    - TAA does very little
  - Advantage of wage insurance
    - Speeds re-employment
    - Subsidizes training (on the job)
    - Encourages workers to consider alternative jobs

**Table 1**  
**Displaced Workers:**  
**Prior Earnings, Earnings Losses, and Unemployment Durations,**  
**2001-2003 Averages**

	Full-Time Workers Displaced	Average Earnings on Lost Job	Change in Earnings in New Job	Average Weeks without Work
Trade Displaced (TAA)*	71,000	\$32,505	-21%	80**
Manufacturing Displaced	693,000	\$40,154	-20%	14.1
Services Displaced	953,000	\$45,479	-13%	10.5
Services Potentially Affected by Offshoring	205,000	\$60,535	-14%	13.1

Note: Table Refers to Full-Time Workers with at least 2-year tenure.

\* TAA displaced worker estimate based on entire TAA population. Earnings estimates of TAA displaced workers based on those that completed the program.

\*\* Author's calculations based on TAA data.

Source: Department of Labor, BLS.

**Table 2**  
**TAA Certification, Denials, and Enrollment, 2000–2004**

	2000	2001	2002	2003	2004
Petitions	1,382	2,353	2,404	3,564	2,918
Percent Petitions Certified	61%	44%	69%	53%	59%
Number of Workers Certified	98,007	139,587	225,072	197,264	147,956
Number of Workers Denied	53,433	59,067	74,760	91,585	55,295
Percent of Newly Certified Receiving Income Support	34%	23%	16%	22%	51%
Percent Newly Certified Receiving Training	23%	18%	16%	22%	31%
New ATAA Recipients*	NA	NA	NA	288	1,115

Note: Not all workers certified under an approved TAA petition are individually eligible for TAA benefits and services.

\*Authors' calculations based on DOL data.

Source: Department of Labor

**Table 3**  
**Costs per Worker Under Alternative Adjustment Programs**

Program	TAA	UI and WIA	ATAA Wage Insurance	Brainard Litan Warren Proposal	Bush PRAs	Skill-Improvement Tax Credit
Maximum Duration	1-1/2 Yrs	1/2 Yr	2 Yrs	2 Yrs	1 Yr	5 Yrs
<b>MAXIMUM/AVERAGE BENEFIT PER WORKER</b>						
Employer-Sponsored Training	—	—	—	—	—	Max. of \$5,000
Total Average Income Maintenance Payments	\$19,300	\$6,800	—	—	—	—
Income Subsidy	—	—	Max. of \$10,000	Max. of \$20,000	—	—
One-time Job Search Allowance	Max. of \$1,250	—	—	—	—	—
One-time Relocation Allowance	Max. of \$1,250	—	Max of \$1,250	—	—	—
Reemployment, Training, or Support Services	—	—	—	—	Max. of \$3,000	—
Training	\$4,800	\$5,000–\$9,000	—	—	—	—
Average Health Coverage Tax Credit	\$6,100	—	\$8,100	—	—	—
<b>Total</b>	<b>\$32,700</b>	<b>\$11,800–15,800</b>	<b>\$19,400</b>	<b>\$20,000</b>	<b>\$3,000</b>	<b>\$5,000</b>

Sources: Authors' calculations based on data from DOL, GAO, and Economic Policy Institute.

Source

**Table 4**  
**Reemployment Rate and Earnings Loss for**  
**Displaced\* Workers, 2000–2003 (thousands of workers)**

	2000	2001	2002	2003
Unemployment Rate (%)	4.0	4.7	5.8	6.0
Total Displaced	2,667	3,465	3,615	5,050
Total Displaced from Full-Time Job**	1,191	1,985	1,903	2,318
Total Reemployed***	1,917	2,461	2,507	2,581
Total Full-Time Reemployed**	654	1,126	1,030	925
Total Full-Time Reemployed at Lower Wages****	258	514	452	375
Average Wage Loss (\$)	\$12,706	\$17,463	\$15,473	\$14,792

\* Workers are classified as displaced if they reported the reason for their job loss as: plant or company closed down or moved, insufficient work, position or shift abolished.

\*\* Displaced from permanently lost, full-time jobs with at least 2-years tenure.

\*\*\* Displaced within the last 52 weeks.

\*\*\*\* Those holding fewer than 4 jobs since reemployment.

Source: Authors' calculations based on BLS data.

**Table 5**  
**Wage Insurance Program Costs for 2000–2003 (millions of dollars)**

ONE-YEAR PROGRAM												
	2000			2001			2002			2003		
Total Eligible	258,000			514,000			452,000			375,000		
Replacement Rate	30%	50%	70%	30%	50%	70%	30%	50%	70%	30%	50%	70%
\$10,000 Cap	864	1,249	1,529	1,984	2,606	3,033	1,776	2,469	2,907	1,381	1,803	2,104
\$20,000 Cap	968	1,496	1,945	2,462	3,535	4,340	2,001	3,080	3,995	1,606	2,436	3,026
TWO-YEAR PROGRAM												
	2000			2001			2002			2003		
Total Eligible	503,000			772,000			966,000			827,000		
Replacement Rate	30%	50%	70%	30%	50%	70%	30%	50%	70%	30%	50%	70%
\$10,000 Cap	1,854	2,592	3,112	2,848	3,854	4,562	3,760	5,074	5,939	3,158	4,272	5,011
\$20,000 Cap	2,087	3,219	4,135	3,430	5,030	6,286	4,463	6,615	8,335	3,607	5,517	7,021
Source: Authors' calculations based on BLS data.												

Source: Brainard et al. (2005) Class 22: Trade Adjustment Assistance



# Pause for Discussion

# Questions Brainard & Litan. “Insuring America’s Workers”

- Why is wage insurance more likely to encourage reemployment than unemployment compensation?
- Why do the authors argue that it should be given to all displaced workers, not just those displaced by trade?
- Why does wage insurance lead to more effective retraining than TAA?

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# Arguments against TAA

- Arguments against US TAA (see James)
  - Note free-market orientation: “As long as property is acquired legally and not through fraud, inequality is not unfair”
  - Argument in favor was to get support for trade. That’s hasn’t worked.
  - Trade-impacted workers do not suffer more than other unemployed.
  - Program is not very effective or well-run.

**Table 1**  
**National Job Turnover, Thousands of Private Sector Employees**

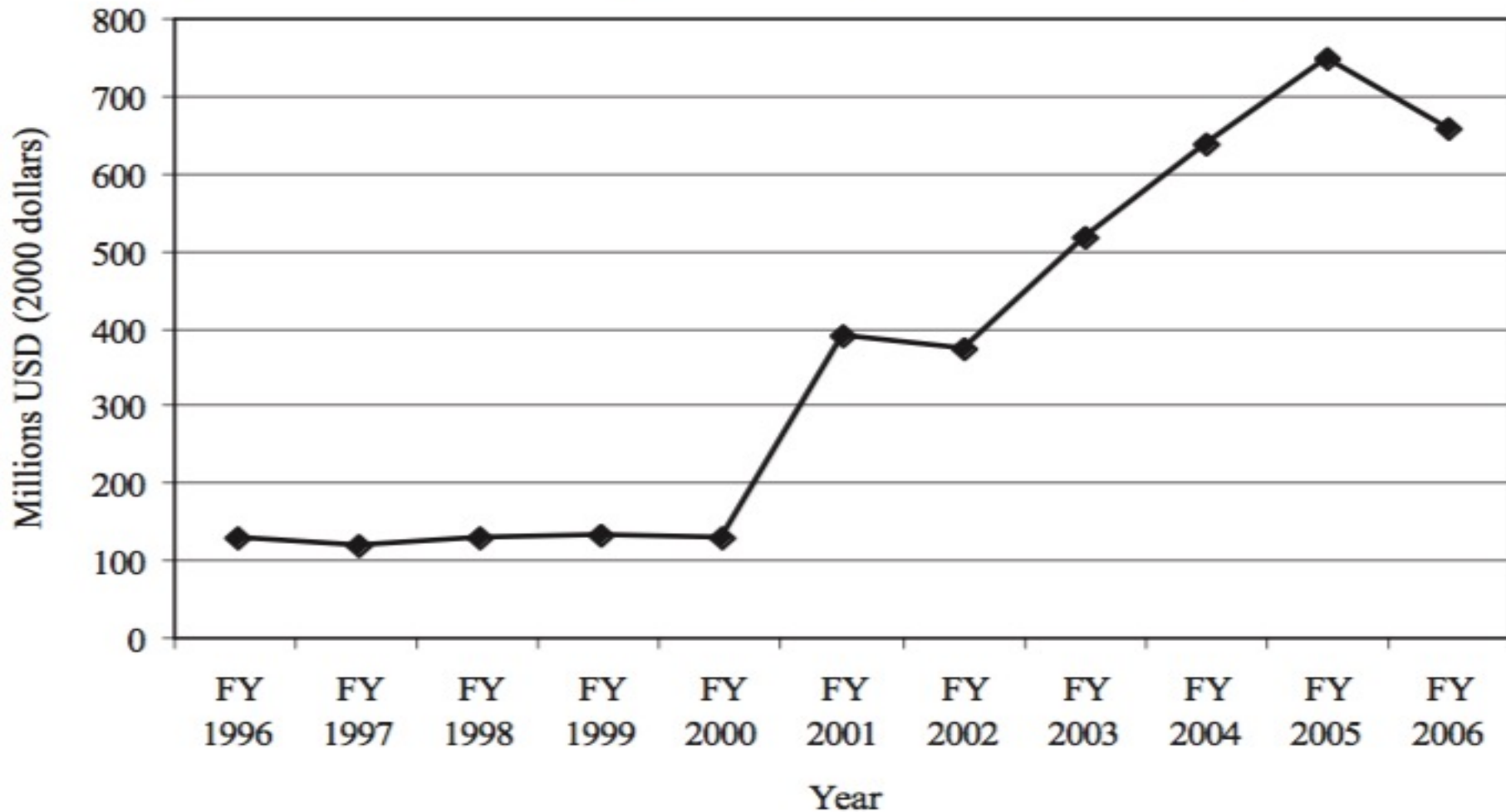
Year	Job Gains (gross)	Job Losses (gross)	Net change
1996	32,490	29,895	2,595
1997	33,714	30,765	2,949
1998	34,625	31,794	2,831
1999	35,505	32,903	2,602
2000	35,084	33,243	1,841
2001	32,451	35,574	-3,123
2002	31,643	32,110	-467
2003	30,074	30,204	-130
2004	31,472	29,383	2,089
2005	31,440	29,362	2,078
2006	30,415	28,630	1,785
Total	358,913	343,863	15,050

Source: Bureau of Labor Statistics, Business Employment Dynamics survey, available from <http://data.bls.gov/cgi-bin/surveymost?bd>.

Source: James (2007)

**Figure 1**

**Trade Adjustment Assistance Program Costs (constant 2000 dollars)**



Source: Office of Management and Budget, budgets for fiscal years 1996–2006, Department of Labor, [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb) (FY04–08) and FY98–03, [www.Gpoaccess.gov/usbudget](http://www.Gpoaccess.gov/usbudget).

Note: Numbers deflated using Bureau of Economic Analysis price deflator.

Source: James (2007)

**Table 2**  
**Estimated Number of Workers Covered by Certifications**

Fiscal Year	Number of Certifications	Workers Covered <sup>a</sup>
2001	1,029	139,587
2002	1,647	235,072
2003	1,890	197,359
2004	1,806	149,240
2005	1,545	117,345
2006	1,407 <sup>b</sup>	123,000 <sup>b</sup>

Source: Department of Labor Employment and Training Administration, [http://www.doleta.gov/tradeact/taa\\_certs.cfm](http://www.doleta.gov/tradeact/taa_certs.cfm).

<sup>a</sup> Estimated by the companies at the time certification is issued. Workers may be reemployed, never laid off at all, or additional workers may be laid off.

<sup>b</sup> From “Trade Adjustment Assistance: Industry Certification Would Likely Make More Workers Eligible, but Design and Implementation Challenges Exist, Report to Congressional Requests,” GAO-07-919, June 2007 (Washington: Government Accountability Office).

**Table 3**  
**TAA Distribution of Certifications by Industry, FY2006**

Industry	Number of Certifications
Textile mill products	180
Apparel and other products made from fabric	170
Electronic equipment/components, excluding computer equipment	134
Industrial and commercial machinery and other equipment	106
Transport equipment	92
Fabricated metal products	92
Measuring, analyzing, and controlling instruments	87
Rubber and miscellaneous plastic products	75
Primary metal industries	65
Chemicals and allied products	51

Source: U.S. Department of Labor, Employment and Training Administration, "Trade Adjustment Assistance (TAA) Distribution of Certifications by Industry Fiscal Year 2006," [www.doeta.gov/tradeact/certs\\_2006.cfm](http://www.doeta.gov/tradeact/certs_2006.cfm).



# Arguments against TAA

- Arguments against EU TAA (see Beattie)
  - EU TAA is European Globalisation Fund since 2007
  - Problems with it
    - Complicated to administer
    - Fails to provide much compensation
    - Contributes to the perception that trade is harmful.
  - Better would be “a Nordic-style comprehensive welfare and education system”

# Pause for Discussion

# Questions on James, “Maladjusted”

- What has been the primary motivation for enacting and extending TAA?
- What sectors of the US economy have had the most certifications for TAA, according to the FY2006 data presented?
- Are trade displaced workers more in need of help than workers displaced by other causes?

# Questions on Beattie, “Flaws of Trying...”

- Does the author mention any examples of successful compensation of producers hurt by imports?
- Does TAA achieve the aim of compensating losers from trade?
- Does TAA achieve the aim of making trade agreements politically acceptable?
- Why should advocates of globalization be opposed to TAA?

# Questions on Beattie, “Flaws of Trying...”

- Does the EU have a program analogous to Trade Adjustment Assistance?
- How much money does TAA hand out, and to how many workers?
- Does the author favor doing nothing to help those who lose from trade? p

