

STATEMENT ON TRADE ADJUSTMENT ASSISTANCE
FOR THE SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
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Mr. Chairman and members of the subcommittee, I am pleased to have the opportunity to appear here today. I have been asked by the subcommittee to describe the Trade Adjustment Assistance (TAA) Program, to discuss findings from a recent evaluation of the program, and to comment on the policy implications of these findings.

The Trade Adjustment Assistance Program

The Trade Adjustment Assistance (TAA) program is intended to promote trade liberalization by compensating workers for trade-related income losses by offering extended unemployment compensation—Trade Readjustment Allowances (TRAs)—to workers who lose their jobs in the face of increased import competition. It also provides eligible workers with reemployment services to help them adjust to changes in labor market circumstances.

In 1962, when the program was initially established and, in 1974, when eligibility criteria were liberalized and benefits expanded, the compensation goal was emphasized and relatively few participants received any adjustment services. In 1981 major changes were made in the program that restricted benefits and targeted them on the long-term unemployed. More funds were also made available for training, shifting the emphasis of the program toward providing adjustment services, particularly training. A further shift toward adjustment occurred in 1988 when training was made an entitlement for eligible workers and when TRA recipients were required to participate in an approved training program, unless they received a waiver exempting them under certain circumstances.

Workers become eligible for TAA by filing a petition with the U.S. Department of Labor (USDOL) as a group of workers from a plant or firm. If USDOL determines that international trade contributed to these workers' unemployment, they are certified to apply, as individuals, for TRA benefits and reemployment services. Individual workers are then eligible for reemployment services if they were laid-off from the certified firm within the time period specified by the certification. They are eligible, in addition, for TRA benefits if (1) they worked for 26 weeks in the year before the layoff, (2) they exhausted all UI benefits, and (3) they fulfilled the training requirement (for workers applying for TRA benefits after November 1988).

Typically, a worker who has been laid off begins collecting UI benefits. Then, if the worker's group is certified for TAA, the worker will be notified that he or she might be eligible to receive benefits under the TAA program. Ideally, the worker is notified while still collecting

UI benefits, although the timing depends on when the petition was filed after the layoff. After notification, the worker applies for TRA benefits. If the worker has satisfied the training requirement, he or she begins receiving TRA benefits after exhausting UI. These benefits equal the UI weekly benefit amount and extend the duration to 52 weeks from the initial 26 weeks that is typically provided by UI. An additional 26 weeks is available for individuals in training.

The program serves a small number of displaced workers. Between FY1982 and FY1991, an average of 30,000 individuals began receiving financial assistance from TAA each year. This number dropped to about 10,000 in FY1992 and FY1993 because extended UI benefits took the place of TRA benefits. In the 1980's prior to the 1988 amendments about 11,000 individuals entered training each year. Since that time, about 18,000-19,000 individuals have entered training each year. In FY1993 program outlays were about \$130 million.

Evaluation Findings

A recent evaluation that I helped conduct describes the pre-layoff characteristics and post-layoff labor-market experience of TRA recipients,¹ based on data on nationally representative samples of TRA recipients who participated in the program either just before or just after the 1988 program changes. It also describes the training provided under the program, based on data on separate nationally representative samples of TAA trainees. Data on UI exhaustees from manufacturing industries who did not receive TRA are used for comparison purposes.

- The workers served by the TAA program (that is, TRA recipients) clearly exhibit the characteristics associated with displaced workers. In most cases, they were permanently separated from their pre-layoff employers, and in the majority of cases (70 percent) the layoffs were due to plant closings. This finding contrasts with the situation in the 1970s, when the majority of workers served by the TAA program were job attached.
- More than 85 percent of TRA recipients come from the manufacturing sector, with major concentrations in the textile and apparel, rubber and leather, primary and fabricated metals, machinery, and transportation equipment industries. In contrast, most workers in the general population of displaced workers identified by the Bureau of Labor Statistics had not previously been employed in manufacturing.
- The average pre-layoff wages of TRA recipients were higher than those of the general population of displaced workers and the population of displaced workers served under Title III of JTPA. The average pre-layoff wages of TRA recipients were also higher than those of UI exhaustees from the same manufacturing industries. This difference may be due to the fact that the job tenures of TRA recipients were considerably longer and their rates of unionization higher than those of UI exhaustees

¹ Corson, Walter et al. "International Trade and Worker Dislocation: Evaluation of the Trade Adjustment Assistance Program." Princeton, NJ: Mathematica Policy Research, April 1993.

and, indeed, the general population of displaced workers. TRA recipients also received more fringe benefits than did UI exhaustees.

Participation in Reemployment Services

- Both prior to and after the 1988 amendments, a substantial proportion of TRA recipients received reemployment services from the TAA program: prior to the 1988 amendments, 37 percent participated in TAA training; this proportion rose significantly (to 47 percent) after the 1988 amendments. In addition, most TRA recipients received other reemployment services from the ES, and their rates of receipt were higher than those of UI exhaustees for most services. However, very few TRA recipients received job-search payments for out-of-area job searches or moving expenses to take an out-of-area job, primarily because most recipients were not interested in moving.
- TRA recipients who received TAA training differed from nontrainees. On average, TAA trainees were younger and better educated than nontrainees. Among pre-88 recipients, the pre-layoff wages of trainees were higher than those of nontrainees, but, controlling for other factors, the reverse was true among post-88 recipients.
- The training provided to TAA participants generally sought to develop specific job-related skills in new occupations. Much of the training was long-term (longer than a year), and much of it was provided at vocational training centers or at local community colleges. About half of the pre-88 trainees entered training prior to receiving TRA benefits; this percentage rose to about 60 percent among trainees after the 1988 amendments. Seventy-two (72) percent of pre-88 trainees and 67 percent of post-88 trainees completed training. The majority of trainees felt that their training both helped them find a job and gave them useful experience for the job when they became reemployed.

The Post-Layoff Employment, Earnings, and Job Characteristics of TRA Recipients

- Our findings are consistent with the presumption that the TAA program serves unemployed workers who are likely to have difficulty in finding reemployment. The post-layoff jobless spells of TRA recipients were relatively long, and TRA recipients clearly experienced longer jobless spells on average than did other UI exhaustees from the same industries. Jobless spells were about 23 percent longer among TRA recipients than among UI exhaustees prior to the 1988 legislative changes, and about 14 percent longer after the legislative changes. This difference in the length of initial jobless spells between pre-88 and post-88 TRA recipients was mirrored in the TRA benefit rates; the average pre-88 TRA recipient received 18.4 weeks of basic TRA payments, and the average post-88 TRA recipient received 15.3 weeks.
- Our findings based on quarterly employment and earnings measures are consistent with the findings on jobless spells. TRA recipients were employed less and earned less than UI exhaustees throughout most of the three years after their initial UI

claim, and the difference was larger before than after the 1988 legislative changes. Both before and after the 1988 legislative changes, TRA recipients experienced significant earnings losses due to their layoff.

- Even the TRA recipients who held a job three years after their initial UI claim experienced significant wage and benefit losses. More than three quarters of the reemployed TRA recipients earned less in their new job three years after their initial UI claim than they did in their pre-layoff job. Wage losses were significantly higher among TRA recipients than among UI exhaustees, although much of the difference can be explained by the fact that the pre-layoff wages of TRA recipients were higher than those of UI exhaustees. The average levels of post-layoff wages among the reemployed TRA recipients and UI exhaustees were similar. The majority of TRA recipients became reemployed in a different industry or different occupation, and the industry- and occupation-switchers experienced greater wage losses than those who did not switch.

Post-Layoff Employment, Earnings, and Job Characteristics Among TAA Trainees

- As expected, employment rates and average earnings levels of TAA trainees were lower than those of other TRA recipients throughout most of the first 12 quarters after their initial UI claim. The differences partly reflect the investment decision made by trainees—to forego employment and earnings in the short run in order to train for a new job that they hope will enhance their earnings potential in the future. In addition, many trainees chose to enter training only after they were jobless for a substantial period of time. Both factors caused the lower employment and earnings levels among trainees throughout the post-layoff period.
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- Among the TRA recipients who found a job, those who had participated in TAA training received slightly lower wages on average than those who had not participated in training, but the differences are generally not significant. TAA trainees also lost more fringe benefits than did these other TRA recipients. However, this result is not surprising: TAA trainees were more likely to have switched industry or occupation on their new job, and industry- and occupation-switchers suffered greater wage and benefit losses than did stayers. Training thus appears to be part of a transition process, in which workers move from their old industry or occupation to a new industry or occupation. Among those respondents who switched industry or occupation on their new job, our estimates show that the average wages of trainees were slightly higher than those of nontrainees, other things being equal. Although these estimates are not statistically significant, they

provide some indication that TAA training may have had a positive effect on the wage rates of TRA recipients who switched to a new industry or occupation.

The Costs of Work Dislocation and TAA Expenditures

- The costs of displacement among TRA recipients, as measured by earnings losses, equal approximately \$46,000 during the first three years after the initial UI claim. Quarterly earnings losses tended to fall towards zero over time, but the losses were still large even three years after the initial claim. In quarter 12, the earnings losses averaged nearly \$3,000 dollars.
- Because TRA recipients must exhaust UI benefits before they can collect TRA benefits, these earnings losses are higher than those found for more general populations of displaced workers, some of whom will become reemployed prior to exhaustion. But TRA recipients had even higher average losses than UI exhaustees—about \$10,000 higher than during the three years after the initial claim. The differences were highest near the end of the first year after the initial UI claim, after which they declined gradually.
- TRA recipients receive assistance from the federal government in the form of UI benefits, TRA payments, TAA job-search allowances, TAA relocation allowances, and TAA training. The total value of these benefits was about \$10,603 per TRA recipient in our post-88 sample, which falls far short of the average earnings losses, or total costs of displacement, among TRA recipients. However, the TAA program provided more than half the assistance received by TRA recipients, demonstrating the importance of TAA benefits for those who qualify.

Policy Implications

These findings demonstrate that the TAA program is currently well-targeted—the TAA program serves workers who are permanently displaced from their jobs and who have greater difficulty in becoming reemployed than do similar UI exhaustees. Both before and after the 1988 legislative changes, TRA recipients experienced significant earnings losses due to their layoff. Even the TRA recipients who found a job after their initial UI claim experienced significant wages losses relative to their pre-layoff wages.

The most recent changes in the TAA program made training an entitlement and also required that TRA recipients participate in an approved training program unless they received a waiver exempting them under certain circumstances. A training requirement might affect TRA recipients in at least two ways. First, it might increase the training participation rate among TRA recipients. The findings show that, while there was substantial participation in training prior to the requirement, the requirement increased training participation even further, to approximately half of all TRA recipients. A training requirement can also affect TRA recipients by targeting TRA payments at those who need training and by discouraging long spells of TRA receipt among those recipients who have no need or desire to participate in training. The findings are consistent with this interpretation. They suggest that the training requirement reduced weeks of

TRA receipt among the average recipient, despite the fact that the average duration of training increased. In addition, the training requirement led to a decline in the duration of the initial jobless spell and to an increase in earnings due to more rapid reemployment.

Whether training is required of TRA recipients should depend primarily on how successful it is at increasing employment and earnings. Our findings, which are consistent with the findings of other studies of training for displaced workers, suggest that TAA training did not have substantial positive effect on earnings of TAA trainees, at least in the first three years after the initial UI claim. Given this uncertainty about the returns to training, I believe that training participation should be voluntary rather than mandatory for TRA recipients. Even if training were made voluntary, a relatively large proportion of TRA recipients would still probably participate in training; more than a third of the members of the pre-88 sample of TRA recipients, for whom training was voluntary, participated in training. At the same time, the training requirement could be replaced with a requirement to participate in a job search program. This strategy was attempted in the TAA program between 1986 and 1988, but the job-search services were never fully implemented due to a lack of adequate funding. Recent research suggests that requirements to participate in a job-search program can increase employment and reduce the receipt of unemployment benefits among recipients.

An alternative approach would be to offer TRA payments only to those individuals who actively participate in training. Targeting TRA payments only at trainees would ensure that resources go to individuals who are actively attempting to adjust to a new industry or occupation. But that approach would deny TRA payments to displaced workers who cannot or choose not to participate in training. The findings presented above indicated that these nontrainees will experience severe earnings losses after their layoff. Denying them the additional unemployment benefits might be socially undesirable.

The above recommendations are based on assumption that the TAA program continues in some form. Whether this is the case should depend on whether Congress thinks that it is appropriate to provide more income support and reemployment services to trade-impacted workers than to other displaced workers. Clearly these workers suffer large income losses as a result of their job loss, but so do some other workers who lose their jobs for other reasons.