

The U.S. Trade Adjustment Assistance (TAA) Program: Failure has been an Option

Regulating for Globalization

26/04/2018

Robert Ireland (International Trade Analyst)

Please refer to this post as: Robert Ireland, 'The U.S. Trade Adjustment Assistance (TAA) Program: Failure has been an Option', Regulating for Globalization, 26/04/2018, <http://regulatingforglobalization.com/2018/04/26/the-u-s-trade-adjustment-assistance-taa-program-failure-has-been-an-option/>

Although the U.S. unemployment rate is currently 4.1%, which probably approximates full employment, there are still a substantial number of discouraged workers. In addition, especially in the manufacturing sector, there continues to be job insecurity and layoffs. This is due to the impact of new technology, the shift of the U.S. to a services economy, curtailed unions, and international trade competitiveness.

The plight of displaced workers

While international trade has many benefits, such as lower consumer prices, higher aggregate social welfare, and focus on a country's comparative advantages, it does create economic losers as well as winners. Some of the afflicted lose their jobs and have difficulty finding new ones. And the numbers are not tiny. Economist Paul Krugman and others have estimated that the large increase in imports between 2000 and 2007 led to the displacement of approximately one million U.S. workers.

Long-term unemployment can cause corollary problems, such as lost dignity, depression, addiction, resentment, protectionism, nativism, and more broadly, support for authoritarianism. While libertarians disagree, others contend it should be the role of government to formulate and implement sensible and ameliorating policies that reduce the plight of displaced workers.

The U.S. emphasis on trade barriers

Especially in recent times, the U.S. has over-emphasized the use of unfair trade remedies (anti-dumping and countervailing duties) and safeguards – in essence, import tariffs – to respond to the harm international trade can cause workers in certain industries. A downside of course is that such actions can have less benign impacts, such as higher costs for consumers and job losses at businesses that must purchase the now higher-priced imports. An investigation on solar panel imports is a recent example.

The U.S. Trade Adjustment Assistance program

A supplement – or alternative – are income security and retraining programs to support people who have lost their jobs because of international trade competitiveness. Many developed countries have such programs, but some are more successful than others. The U.S. Trade Adjustment Assistance (TAA) program is one of the failures.

The U.S. TAA idea bubbled to the surface in 1954 when David McDonald, the head of the U.S. steelworkers union, proposed it during the Randall Commission deliberations. The U.S. eventually implemented TAA under the Trade Expansion Act of 1962. Several scholars wrote that the TAA “could destroy the political basis of protectionism by giving the injured a way out” (Bauer, de Sola Pool, and Dexter, 1972).

The TAA contains two core programs, one for workers which includes income assistance during unemployment, retraining, and relocation allowances, and one for businesses which includes loans, loan guarantees, technical assistance, and tax benefits. Although there have been some minor and temporary modifications, the two core programs remain the center of the TAA.

The TAA was regrettably put in a damaging statutory straightjacket at birth. The level of proof to show injury is three-pronged and challenging. Applicants have to show (1) serious injury (2) caused by imports (3) resulting from U.S. “concessions granted under trade agreements.” Moreover, the TAA has since inception been starved for adequate funding. Finally, the process for applying for assistance is bureaucratic, inefficient, and can be expensive.

The number of workers supported by the TAA has been unimpressive since the outset and this continues to this day. A recent U.S. Department of Labor report reflects that In fiscal year 2016 an estimated 126,844 workers became eligible for TAA benefits and services and less than 50% (45,814 participants) were served. The total amount of funds provided to states in fiscal year 2016 for all benefits and services was a mere \$626.8 million.

Something is not rotten in Denmark

Other countries have had more success with their employment security programs and Denmark’s Flexicurity is a leading example. While it is fairly easy for employers to fire employees in Denmark, the consequences for workers are not dire as unemployment benefits can be up to 90% of lost wages for low-salaried jobs and health care is largely free for all Danes. Moreover, the government provides guidance, retraining, and other employment seeking assistance to the unemployed. Flexicurity funding is not skimpy – approximately 1.5% of Denmark’s Gross Domestic Product is spent on its active labor market policy. Denmark has low unemployment, few discouraged workers, and minimal fears regarding international trade. Moreover, Denmark is not an Ayn Rand predicted socialist inferno – the country is an entrepreneurial powerhouse in many industries, including pharmaceuticals, wind turbines, agriculture, and toys.

A U.S. mini-Flexicurity?

Even the potential of a U.S. mini-Flexicurity has limited prospects for the foreseeable future, particularly because the debate on trade is acrimonious and budgetary shortfalls are immense. The December 2017 U.S. tax cuts, which went overwhelmingly to corporations and the wealthy, are significantly increasing the annual budget deficit; one think tank projects an annual U.S. budget deficit in 2019 of \$1.2 trillion. Moreover, the lost revenue risks the sustainability of social welfare programs such as Social Security, Medicare, Medicaid, the Affordable Care Act, and yes, the TAA. Without reform and increased funding, the TAA, and U.S. trade policy generally, will continue to be modest in treating the pain of workers displaced by international trade. The ensuing side-effects will thus endure.

To make sure you do not miss out on regular updates of the Regulation for Globalization Blog, please subscribe to this **Blog**.