

National Employment Law Project

Written Testimony of

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Presented to

**Committee on Education and Labor
U. S. House of Representatives**

On the Subject of

**How Effective Are Existing Programs in Helping
Workers Impacted by International Trade?**

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Introduction

Chairman Miller and members of the Committee, my name is Bruce G. Herman, Executive Director of National Employment Law Project (NELP). NELP is a policy and legal organization focused on issues impacting low wage and jobless workers. NELP is pleased to accept the Committee's invitation to testify today on the subject of the effectiveness of programs in helping workers impacted by international trade.

For the last two years, NELP has been working with dislocated manufacturing workers affected by the restructuring of the automotive industry, concentrating especially in the states of Indiana, Michigan, and Ohio. Our Midwest economic dislocation initiative involves working with the TAA program at the ground level. We are currently advocating for better implementation of the program with state and local agencies, advising interested parties on filing petitions for certification of eligibility for TAA, and assisting with post-certification rights and responsibilities presentations for certified workers, local unions, and community groups. In addition to my work at NELP, I have developed years of experience dealing with trade-impacted workers and creating "high road" economic development partnerships, first as the President of the Garment Industry Development Corporation in New York City, then as Executive Director of the AFL-CIO Working for American Institute in Washington, D.C.

Trade Adjustment Assistance Overview

Rising imports and outsourcing now expose much of our country's labor market to the downsides of trade. While U.S. manufacturing has borne the brunt of job losses due to trade for decades, financial, service and public sector jobs now face competitive pressures due to movement of these jobs offshore. With widespread public concern focused on job losses related to trade, globalization and its adherents are on the defensive. As in past periods when public concern about the negative impact of trade was high, Trade Adjustment Assistance (TAA) is once again garnering attention from policy makers and the media. In addition, TAA is currently up for reauthorization in this Congress. This moment offers an opportunity to make TAA a program that provides more extensive and more effective readjustment assistance for jobless workers out of work as a result of adverse impacts of national trade policy.

In the course of its work around economic dislocation, NELP has interacted with federal, state, and local officials in many states that are charged with making TAA work in the real world. As a result, we have gained extensive knowledge of the nuts and bolts of TAA implementation as well as bigger issues relating to TAA reauthorization. Based upon our first-hand experience with TAA as well as the input of other stakeholders, NELP has a number of suggestions about priorities for Congress in reauthorizing TAA.

As you know, Mr. Chairman, TAA for workers provides retraining, income support, and job search and relocation assistance to jobless individuals separated from work as a result of specified trade impacts. For those that can get certified as eligible, TAA, in some important ways, represents one of the very best programs for income support and retraining for jobless workers in the U.S.

Both opponents and supporters of free trade and globalization have promoted TAA as a promise to the victims of U.S. trade policy. In reality, TAA has never lived up to its promised role as a comprehensive vehicle for readjustment of those losing work as a result of trade. Instead, TAA has most often operated in the shadows of overall training policy. Limited TAA eligibility rules prevent certification of many manufacturing workers who cannot prove their layoffs are directly related to trade impacts. Crabbed administration by both the Labor Department and in some states impedes those certified for TAA from

taking full advantage of its best features. As a result, only about 50,000 to 70,000 workers actually participate in TAA retraining or other services in any particular year, a tiny portion of those affected by international trade and only a modest proportion of those with job losses certified as trade-impacted by the government each year.

The limited nature of TAA corresponds to its limited budget. In the last few years, TAA spending is \$1 billion or less a year, with \$220 million appropriated for TAA training and about \$700 million spent on income support for certified workers in FY 2006. In comparison, TAA assisted over 500,000 individuals in 1980 when TAA spending was \$1.6 billion (which would be \$3.9 billion in 2007 dollars). A major priority is to increase funding for TAA training so each TAA certified worker who is well fitted to retraining can access assistance. This priority arises because TAA training funds are a "capped entitlement," while Trade Readjustment Allowances (TRA) income support is an "entitlement" under current law. Despite dramatically increasing trade deficits which reached a record of \$763.6 billion in 2006, since FY 2003 the training cap has been set by Congress at \$220 million a year.

Despite its limitations, TAA offers a number of advantages for certified workers over other dislocated worker programs, including most provided under the Workforce Investment Act (WIA). In particular, the duration of income support and training (up to 104 weeks) under TAA far exceeds what is commonly available to dislocated workers that are not eligible for TAA. In addition, TAA has a limited health care component--known as Health Coverage Tax Credit--that provides a refundable tax credit to cover 65 percent of premium costs for workers receiving TRA. While this health care provision has serious structural limitations, HCTC at least recognizes that dislocated workers, as do all workers have a major need for health care coverage. By providing income support and some health care, TAA is partially addressing two pressing needs of dislocated workers that are not addressed under other state and federal dislocated worker programs in the vast majority of cases.

In this testimony, NELP will first outline major priorities regarding TAA reauthorization. We will then briefly address two issues that are intertwined with discussions of TAA reauthorization; namely, (1) why training is an important option for some dislocated workers and (2) why wage insurance is not a better option than TAA to address the impact of globalization on workers.

Main TAA Reauthorization Issues

TAA currently expires on September 30, 2007, unless reauthorized by Congress. TAA reauthorization offers an opportunity to eliminate legal and administrative barriers and make TAA available to more dislocated workers. Currently, there is a bi-partisan consensus that TAA should be improved. Positive reform bills were introduced last year in the House by Representatives Rangel and Smith (H.R. 4156), and already this year in the Senate (by Senators Baucus and Coleman, S. 122) and in the House (Representative English, H.R. 910). Although all these bills have positive features, we believe that a more comprehensive approach is needed, especially given the growing negative impact of trade on workers and the continuing loss of good jobs due to shifts overseas. We will now discuss the major issues involving TAA reauthorization.

TAA Reauthorization Issue 1: Move toward a universal TAA program by expanding certification rules for TAA eligibility.

Both Representative Rangel and Senator Baucus have spoken generally in support of what they have both termed "Globalization Adjustment Assistance." To better serve workers dislocated by international trade's impacts, TAA eligibility should be delinked from strict rules designed to require workers to show a close connection to imports or shifts in production to get TAA certification. TAA certification rules currently exclude many workers impacted by trade.

As an initial limitation, TAA certification is limited to workers "producing an article." This means that service workers and public employees that lose work due to offshoring of their jobs are not eligible for TAA because they do not make goods, but instead furnish services. A common example of this limitation is U.S. call center workers whose jobs are moved overseas to lower wage countries. These call center workers do not produce an article, so they are not eligible for TAA certification. The same can be said of computer programmers or engineering capacity that is being moved overseas. This particular problem with TAA certification is recognized by many key members of Congress and we support adding TAA eligibility for service workers and public employees as an important step during reauthorization.

Beyond fixing TAA eligibility for service workers and public employees, there are remaining limitations in current law for manufacturing workers that are less widely understood. These limitations exist despite modest changes for secondary workers made by Congress in 2002. When reauthorizing TAA in 2007, Congress should eliminate remaining barriers for trade impacted manufacturing workers under existing rules governing TAA eligibility.

Among the most important barriers is a limitation that denies TAA certification to many manufacturing workers that make component parts. This happens because parts workers, by definition, do not make articles that are "like and directly competitive" with finished products. As a result, when manufacturing parts workers lose jobs due to imports of finished products they are denied TAA in many cases. This occurs because imported final products compete with the domestic final product that their parts went into during final assembly. Only imports of parts would be "like and directly competitive" with articles manufactured by the parts workers, meaning that many of these parts workers are ineligible for TAA.

In summary, under current law, there must be a close match between products to satisfy the "like and directly competitive" test for imports. For example, domestic workers that made television tubes are not eligible for TAA if they lose work due to the imports of fully-assembled televisions. This is because imported televisions are not "like and directly competitive" with domestically produced television parts.

While some of these parts workers could theoretically gain TAA certification as "secondary" workers under the 2002 amendments to TAA, the rules for secondary workers embody other significant limitations. First of all, secondary component parts workers are eligible for TAA only if they provide parts as a 1st tier supplier. Manufacturing employees of second and third tier supplier firms impacted by international trade remain ineligible for TAA under present rules.

Second, secondary certifications are dependent upon a TAA certification at the primary assembly plant for which upstream secondary workers are furnishing components or for which downstream secondary workers finishing assembly. Secondary workers, in most cases, have no ability to control whether or not a petition is filed at the primary firm and the quality of that petition. As a result of these limitations in certification eligibility, significant numbers of secondary workers are not eligible for TAA under current rules.

GAO's 2004 study of TAA noted that few workers were taking advantage of expanded eligibility for secondary workers provided by the 2002 amendments.¹ While GAO's study recommended better outreach and assistance with filing petitions for secondary workers, these steps can only partially remedy the shortfall in certifications of secondary parts workers. Congress must recognize that existing rules bar TAA eligibility for many secondary manufacturing workers.

In the automotive industry, roughly 2 manufacturing jobs in parts are lost for every job in an assembly plant closing they formerly supplied. No amount of outreach is going to help those working at 2nd and 3rd tier plants supplying Delphi, Ford, or GM assembly plants slated to close in many states. Unless Congress eliminates remaining barriers in current law for certification for manufacturing parts workers, these workers will not have TAA protections when they are laid off in coming months.

Next, significant limitations exist under current law on eligibility for workers whose jobs are lost because their employers shift production outside the U.S. In the case of such shifts in production, workers are eligible if their jobs go to a country with an existing free trade agreement OR if the resulting shift in production increases imports of the article previously manufactured by the petitioning workers. The current formulation for TAA eligibility in cases of shifts in production has significant limitations: (1) since many countries, including China, do not have free trade agreements with the U.S., shifts in production to those countries are not covered by TAA; (2) if domestic workers made products for export prior to the shift of their jobs offshore to a country without a free trade agreement with the U.S., there will be no increase in imports to support certification; and (3) even if there are increased imports after a shift in production to a country without a free trade agreement, there is frequently a delay in the onset of imports following a U.S. plant closing. In addition, monitoring those imports and properly timing and documenting a TAA petition is nearly impossible for affected workers. For this reason, we recommend that Congress eliminate the requirement that limits TAA certification for shifts in production to those countries with existing free trade agreements. Any offshore shift in production should be covered by TAA.

Finally, TAA eligibility rules require that workers at each plant separately petition for certification. Providing regional or industry wide certifications to address 2nd and 3rd tier suppliers and other non-certifiable firms in trade-impacted communities or industries has been proposed. This is a good concept, but there is a challenge in making this concept a workable reality. Some proposals for industry certification for TAA have limited the power to file these broader petitions to the International Trade Commission or Congressional committees. We support industry and/or regional certifications and would strongly recommend that Governors, unions, or affected local governments have authority to file these petitions.

In short, we are advocating for a greatly expanded reach for the TAA program. Such an expansion will require significant additional federal resources. However, even at a time when federal resources are limited, it is the obligation of the government and the society to do more to compensate those who are impacted by trade policies through no fault of their own.

Recommendation: Existing proposals for TAA reauthorization fall well short of the steps needed to reach a TAA program deserving of the Globalization Adjustment Assistance label. Here are some significant steps we recommend:

¹ U.S. General Accountability Office "Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain," [GAO-04-1012](#), September 2004

- Shift dislocated worker programs toward a model that provides income support and health care by expanding TAA eligibility to protect more manufacturing workers while adding coverage for service workers and public employees.
- Start a basic income support program for dislocated workers under TAA that is not tied to participation in training, while providing intensive job search assistance and reemployment services.
- Develop criteria to establish regional or industry wide certification for globalization impacted workers.
- Develop a new and reliable source of funding supporting significantly increased expenditures for globalization assistance.

TAA Reauthorization Issue 2: A high priority for reform in the 2007 reauthorization is to ensure that adequate TAA training funds are available to train all certified workers that wish to participate in meaningful retraining programs.

This priority arises because TAA training funds are a "capped entitlement," while Trade Readjustment Allowances (TRA) income support is an "entitlement" under current law. Despite dramatically increasing trade deficits, since FY 2003 the training cap has been set by Congress at \$220 million a year. (In recent years, there has been a \$39 million allocation for TAA administration, effectively raising the cap by 15 percent because prior to that time administrative funds were deducted from training funds.)

There is a pronounced conflict between promising trade-impacted workers training with income support while only authorizing limited funding for TAA training. As a result of this conflict, TAA certified workers interested in training are not able to get training, they are steered into shorter-term training, or they have training delayed while reserve training funds are sought from the Labor Department (USDOL). Consequently, when these certified workers eventually get into training it is of shorter duration because those weeks of potential training are lost through delays in enrollment. Certified workers also lose additional TRA (the last 52 weeks of TRA) because participation in training is a condition of eligibility for those additional TRA benefits. Since no tuition dollars are available, TRA is denied as well in these cases.

In a 2004 report to the Senate Finance Committee, the Government Accountability Office found 19 states had discontinued training enrollment due to shortages of training funds between FY 2001 and FY 2003. NELP is aware of similar issues regarding training approvals in the last two years in Illinois, Michigan, and to some degree in Ohio. In Michigan, WIA dollars are currently being used to provide TAA certified workers with training in some locations due to delays in approving and distributing reserve TAA funding. For this reason, addressing the cap on TAA training during reauthorization is vitally important.

Beyond the overall limitation on training under the \$220 million cap on spending, the cap creates significant issues regarding distribution of training funds to states and interferes with the timing of funding. These issues arise because there must be an administrative mechanism to distribute limited TAA training funds to states and then on to recipients. If during reauthorization Congress ensures that training dollars flow automatically to TAA training participants, then these obstacles to training participation would be reduced or eliminated. Nonetheless, these distribution issues are very real obstacles that this Committee should understand if it wishes to better comprehend why some workers get less help from TAA than promised.

To begin, U.S. Department of Labor's formula for allocating limited training funds among the various states is seriously flawed. Beginning in FY 2003, the Labor Department began withholding 25 percent of training funds (\$55 million) as a reserve. The remaining 75 percent (\$165 million) is distributed to states based upon a formula that provides 80 percent of the base funding (\$132 million) relying upon each state's training spending averaged over the prior three fiscal years with 20 percent of the funding (\$33 million) based upon each state's average number of program participants over the prior 3 fiscal years.

An obvious result of this sort of retrospective funding formula is that states with high TAA caseloads in 2000 to 2002 were advantaged at the outset as compared to other states. In addition, because the formula includes a hold harmless element and does not take current increases in TAA certifications into consideration, the formula does not adjust quickly enough for states with high TAA caseloads. As a result, some states with rapidly increasing caseloads must rely upon TAA reserve funding to pay for training. The table below illustrates some of our concerns.

TAA Base Training Allocation Inequities

State	FY 04 Certifications	FY 04 Base	FY 06 Certifications	FY 06 Base
Washington	30	\$13.4 million	16	\$14.4 million
Pennsylvania	128	\$20.6 million	97	\$14.9 million
North Carolina	211	\$6.3 million	180	\$9.9 million
Michigan	76	\$5.3 million	104	\$5.8 million

Without suggesting any criticism of states with higher TAA spending levels, the outcome of the current TAA base allocation formula is difficult to understand from the perspective of equitable treatment of TAA participants. Perhaps most noticeable thing in our table is that Washington State got \$14.4 million in its base training allocation for FY 2006 with just 16 TAA certifications, while North Carolina is getting \$9.9 million for 180 certifications. Certainly, we believe the cost of training and the availability of training should be roughly equivalent for workers without regard to the state of residence of certified workers.

Under the existing formula, states must increase spending and training participation to increase their base funding. But states that have a greater need now for TAA funds as compared to when the formula was started cannot keep pace by increasing their spending and participation unless they are willing to risk obligating training funds beyond levels set by their base allocations. Most states do not have sufficient confidence that they can approve training over base allocations or facing delays in distribution of reserve training funds. Conversely, if current funding levels impede approval and increases in participation, then the formula itself will never provide added base funding to a state.

Additional funding issues are created because the Labor Department withholds 25 percent of allotted TAA training funds each year. While in theory these dollars are later available to states asking for reserve funds, states with higher TAA caseloads operate on the reasonable assumption that their base TAA training allocation is largely what they have to spend for TAA training in that fiscal year. For this reason, the Labor Department's withholding of reserve funds effectively limits TAA training spending through rationing by states when they approve individual training requests by certified workers.

A second impact of withholding the training reserve is that USDOL advises Congressional staff that states have not expended all training dollars (or that there is no problem with the \$220 million cap) because states did not obligate the prior year's entire training allocation. This report by USDOL is literally true,

because, after paying for any approved requests for reserve funds during a year, USDOL distributes remaining reserve funds on the last day of each fiscal year. As a result, few states with higher TAA caseloads have obligated their entire training allocation during any fiscal year because they receive reserve funding on the last day of each fiscal year. USDOL then reports to Congress that few states spent their prior fiscal year's training allocation and that there is sufficient funding for TAA training. An additional issue is created because this late distribution of remaining reserve funds takes place around September 30 after enrollment deadlines for fall semesters have passed. As a result, workers laid off in the summer often wait until the next January to start training, losing potential weeks of training as a result.

Solutions:

- **Congress should make TAA training an uncapped entitlement.** Eliminating the overall cap on training funding would also eliminate funding distribution bottle necks at USDOL, since release of training dollars could accompany any new TAA certification. This was essentially the practice in place prior to 2002.
- If overall limitations on TAA training funds are kept in place, ensuring that added training funds flow automatically when new certifications are made and that funding will be available over the projected term of training are essential steps for reauthorization. In addition, requiring distribution of 95 percent of reserve training funds by no later than July 1 each year is recommended to permit timely enrollment for fall semesters.
- With respect to funding, we also note that TAA reauthorization bills in this Congress and the prior Congress have proposed TAA eligibility for "service" workers and public employees losing work due to offshoring of their jobs. If this is done, then expanding TAA training funds is even more critical. Otherwise, TAA certified manufacturing workers will simply compete with newly eligible service workers for scarce TAA training funds/ Expanding eligibility to service workers without addressing the cap on TAA training funds will simply pit newly-eligible service workers and public employees against manufacturing workers in a battle for scarce TAA training funds.

TAA Reauthorization Issue 3: Fix Health Coverage Tax Credit Program.

Dislocated workers frequently lose their health care coverage when they are separated from work. Maintaining health insurance coverage, along with income support, serve one of the most important needs of families experiencing job loss. Despite the importance of health care coverage to laid off workers, most dislocated workers have not been able to participate in the Health Coverage Tax Credit (HCTC) program since it was offered in 2003. Once an application is set up, HCTC works as a refundable tax credit that pays 65 percent of health care premium costs to workers eligible for Trade Readjustment Allowances (TRA). Since TAA is the only federal program offering income support for dislocated workers, fixing HCTC so it can help more TAA certified workers get health care while they search for work or take training is another important priority for TAA reauthorization in 2007.

The biggest obstacle to HCTC eligibility is its affordability. Under current rules, a jobless worker must pay 35 percent of his/her health insurance premium. If the only health plan available is COBRA, this cost can run into hundreds of dollars a month for family coverage. A second obstacle is that initial set up of an HCTC claim requires jobless workers to pay at least 1 and up to 3 months of health coverage premiums out of pocket. Needless to say, paying 100 percent of health care costs is not something that most working individuals could afford, let alone individuals that have been laid off.

Beyond these two cost issues, the administration of HCTC is very complicated and dislocated workers cannot navigate the program without substantial assistance in completing applications and assembling the required documentation. While local unions, one-stops and community groups, and state agencies do their best to help, HCTC has had far too many administrative roadblocks. And, in some states there are no qualified health plans, other than COBRA, offered to TAA certified workers.

Recommendations: There are a number of steps required to make HCTC a more workable solution for more dislocated workers.

- Congress should change the refundable tax credit formula from 65 percent tax credit/35 percent worker paid to 90 percent tax credit/10 percent worker paid.
- HCTC should provide up front 100 percent payment until refundable tax credit is set up by IRS.
- Tie HCTC eligibility to TAA participation as opposed to TRA reciprocity because TRA is denied or interrupted in some cases and verification of TRA payment is a burden on HCTC administration.
- Congress should designate the Federal Employment Health Plan as a back up plan for HCTC in all states.

TAA Reauthorization Issue 4: Remove Obstacles in TAA Program Administration.

Many in Washington are puzzled by how few dislocated workers that are separated from TAA certified workplaces participate in TAA training or get TRA. For the most part, despite numerous studies by GAO and other researchers, how this program works on the ground is largely invisible to those making the rules. In our experience, TAA is a complex program to administer and this complexity is a significant reason why more workers don't participate in TAA. What is surprising to NELP is how well the program works despite its complexity, and this is largely due to many dedicated state and local staff that work very hard to make TAA work as well as it does. In many cases, these individuals are helped by United Way and community agencies, union staff, and others that pitch in and help out.

What do we mean by complexity? During a typical dislocation involving TAA, many workers, often hundreds of workers, must be advised of their rights and responsibilities, learn about training options and enroll if appropriate, apply for HCTC or Alternative Trade Adjustment Assistance (ATAA) if desired, get training waivers if needed, and apply for unemployment insurance or TRA on a weekly or bi-weekly basis. Assessments are supposed to get done. Work search rules must be explained and job search must be documented. Class attendance must be documented and recorded. Mental health and social services needs must be addressed. The 8/16 week rule requires TAA certified workers to enroll in training by the end of the 16th week after his/her layoff from trade-affected employment OR the end of the 8th week after the week of the TAA certification decision covering his/her workplace. Many workers find out about TAA too late, especially when a certification decision is made after the plant closing and the company does not help the state agency locate the workers.

States get no added administrative dollars to handle TRA payments and TAA administration is limited to 15 percent of approved training dollars. In small states, there are only 1 or 2 individuals responsible for rapid response and TAA in an entire state. Congress has added features like HCTC and ATAA that add further complexity. Many TAA certified dislocations take place in large workplaces, sometimes located in rural communities. Most states do not use peer networks and labor-management communities to engage workers to the degree we would recommend. Most agencies running TAA do not have staff adequate to serve hundreds of workers. Some locations do not have TAA certifications each

year and staff turnover or promotion eliminates institutional knowledge. Even in smaller dislocations, an office might see a dozen dislocated workers for its WIA dislocated worker program in a year and then have dozens of TAA certified workers requiring services in a month or 6-week period.

Recommendations: NELP staffers have been involved with TAA to some degree since 1984. To our knowledge, those that really administer TAA in the states have never been seriously involved when TAA reauthorization takes place. For that reason, our overall recommendation is that Congress seek input from unions, state agencies, one-stops and others involved knowledgeable with the technical aspects of TAA administration. NELP would help gladly with such an effort. At this point, a complete listing of administrative barriers is not possible, but based upon consultations with stakeholders, NELP recommends these added measures to simplify TAA administration and increase participation by TAA certified workers.

- Adequate administrative funding is essential. There is currently no TAA funding for job search assistance, case management, and assessments of TAA certified workers. This funding should be added to existing funds for program administration.
- We support using merit staff that administer state unemployment insurance laws, the UI work test, and Wagner-Peyser programs for implementation of TAA, and rebuilding that employment and training backbone in future years.
- The 8/16 week deadline for enrollment in training or obtaining training waivers is debilitating to the program and must be fixed. Legislation should lengthen time limits to 16 weeks and 26 weeks and automatically extend them when they are missed due to agency error or negligence. Permit waivers of 8/16 week deadline under state good cause rules.
- Permit training waivers for 90 days and allow work search waivers for those enrolled in but not yet participating in training.

Is Training Useful for Dislocated Workers?

Claims by critics that publicly-funded training is not effective are no truer than competing claims that training and education are an overall answer to the decline in middle class jobs. Both are unwarranted overgeneralizations. In our view, as with most other human endeavors, job training and education results are directly related to the investment made and the time spent in training.

In the U.S., especially in the last decade, we have mostly operated our training programs with a "work first" philosophy, and a majority of job training has been short-term and generic. This philosophy is embodied in the Bush Administration's proposed "Career Advancement Accounts," which are essentially \$3,000 vouchers. These accounts are provided to workers who are then expected to choose from competing training providers in order to get retrained for new occupations.

When discussing retraining for trade-impacted workers, it is fair to narrow our focus because dislocated manufacturing workers are not the same as other workers receiving public training. In particular, dislocated manufacturing workers are older, have longer job tenures, less formal education, and have higher wages than most others getting publicly-funded training. Of necessity, many dislocated manufacturing workers are forced to look for work in new industries where their prior skills, seniority and wages are less likely to transfer. And, since trade-related economic dislocations are frequently concentrated in specific regions, a longer period of job search and intervening period of unemployment should be expected.

This means that short-term training like that commonly employed under WIA is less likely to result in comparable replacement wages. Thus, as Professor Paul Osterman of MIT argues in his study of new options for employment and training policies, “short-term training leads to small or non-existent gains” for dislocated workers, “ while “more substantial long-term training does seem to improve the earnings of dislocated workers to an important degree.”² Indeed, part of the problem with TAA training, which is largely a function of limited training funds, is that the training has been mostly short-term, as documented by the GAO.³

Given the special employment challenges facing dislocated workers, it is helpful to look to those programs that have provided a more long-term investment in training and income support. For example, Washington State provides dislocated workers with extended unemployment benefits to participate in state-approved training. Those who participate are mostly workers with just a high school degree who were laid off from manufacturing jobs in aerospace and other state industries.⁴ 85% of them participated in community or technical colleges, with the largest numbers participating in information technology programs. By the third quarter after leaving the program, 72% of the more than 8,000 participants were employed, making an average of 93% of their pre-dislocation wages.⁵

Other studies have shown that more extended training in community college program geared toward skills development can have a meaningful impact on the wages of dislocated workers. For example, an evaluation of dislocated workers participating in Pennsylvania’s community college programs found that men earned \$1,047 more per quarter by attending community college and women earned \$812 more.⁶ Other training and education programs, like the California Employment and Training Fund and the Wisconsin Regional Training Partnership, successfully target key state industries, building partnerships between employers, unions and training providers.⁷ It is not just training for the sake of training. Instead, the training is demand driven by quality state and local planning and a partnership with employers that helps build a growing economy.

Professor Osterman makes a strong case for building on these and other state innovations as the framework to reform the nation’s employment and training system. He concludes that a primary element “the new programs share in common is that they make substantial investments in their clients. The new programs reject the quick and dirty training, short-term investments, and simple job search assistance

² Paul Osterman, “Employment and Training Policies: New Directions for Less Skilled Adults” (MIT Sloan School, October 2005), at page 14.

³ U.S. General Accountability Office, *Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, But Better Outreach Needed on New Benefits* (January 2006) at page 21. In describing the results of the TAA training, which was provided to less than one-third of those surveyed, the GAO concluded “it may be too soon to know the effect of training on employment outcomes” because a large number of the workers surveyed (ranging from one-third to over 60%) were still participating in training at the time of the study. Id. at pages 31, 35.

⁴ Washington State Workforce Training and Education Coordinating Board, *Training Benefits Program Review* (December 2002).

⁵ Id. at page 8.

⁶ Trutko, et al. *Final Report: Earnings Replacement Outcomes for Dislocated Workers: Extent of Variation and Factors Accounting for Variation in Earnings Replacement Outcomes Across State and Local Workforce Investment Boards* (Capital Research Corporation, March 2005), at page A-8.

⁷ Richard Moore, et al., *Training that Works: Lessons from California’s Employment & Training Panel Program* (W.E. Upjohn for Employment Research, 2003); Neighborhood Funders Groups, “Wisconsin Regional Training Partnership: Hooking Community Residents Up to Jobs (NFG Reports, Summer 2000, Issue Two, Vol. Seven)..

models that characterize much of the traditional E & T system.”⁸ The challenge at the federal level is to build on these state innovations that equip the nation’s workers to compete successfully for good jobs. There is certainly no shortage of experience, but what is needed is the will at the federal level and a far more substantial investment of resources. As documented by the states, a meaningful investment of resources in training can generate a substantial return to local business, workers and the economy.⁹

Wage Insurance is a Flawed Approach to Addressing the Needs of Dislocated Workers

In the past year, a number of members of Congress have proposed the development of “wage insurance”, as a potential solution to the ills facing dislocated workers. We appreciate the concern being articulated by many about the needs of workers and their families whose lives are thrown into disarray when they lose a good job and find themselves with no other options but to take a major cut in pay on a new job.

We strongly believe that wage insurance is the wrong solution. Rather than encouraging workers to forgo their long-term interests for a wage insurance job, Congress should focus on more meaningful solutions that create genuine economic security and more family-friendly sustaining jobs in our economy. We have seen it work in the states, which have created subsidized health insurance for the unemployed that runs alongside the UI program and self-sustaining “home protection funds” that provide no interest loans to laid-off families so they can cover mortgage payments in high unemployment areas. The states have also been at the forefront of new models of training that help make their local economies more competitive and save good-paying jobs.

Like the AFL-CIO and several major unions that have expressed concerns with wage insurance, we also believe that there are far too many unanswered questions that convince us it is not the right time to move ahead with a national wage insurance program.

First, it is important to ask whether wage insurance will promote more downward mobility for the nation’s most vulnerable workers, since by definition wage insurance jobs pay far less. Thus, wage insurance jobs are also less likely to provide health insurance and other critical benefits. We believe that the limited federal resources devoted to the economic security of America’s workers should promote good employment outcomes and quality jobs, but that is not the case with wage insurance. Wage insurance amounts to a subsidy to those employers in the economy who provide jobs with the worst wages and benefits.

We are also not aware of any empirical evidence that wage insurance jobs will provide transferable skills or other meaningful training. In fact, there is strong empirical evidence that lower wage jobs require less skill and therefore provide little or no on the job training of any real value. This fundamental weakness of a wage insurance approach is compounded since both the Alternative Trade Adjustment Assistance program and proposals to expand wage insurance are written in such a way that precludes most workers from pursuing the quality education and training they need to compete for better jobs in today’s economy.

⁸ Osterman at page 25.

⁹ Press Release, California Employment & Training Panel, “State Agency Investment Training Workers is Pay Big Dividends for California Employers, Study Says” (June 28, 2000); Kevin Hollenbeck, Wei-Jang Huang, “Net Impact and Benefit-Cost Estimates of the Workforce Development System in Washington ” (Upjohn Institute: July 2003).

Second, does the experience with actual wage insurance programs make a convincing case that now is the time to create a new national program? What we know from the only major evaluation of a wage insurance program, the Canadian pilot program, is that it failed in most areas to achieve its intended results. Thus, the Canadians never adopted wage insurance. And we are still waiting for the results from the ATAA program which serves workers over the age of 50, although we know that participation in the trade program has been limited.

Another question that has not received enough attention is what impact will the program have on other workers who are competing for similar jobs with those collecting wage insurance? A leading researcher with the Upjohn Institute found that “virtually all the employment gains experienced by dislocated workers as a result of the wage subsidy come at the expense of other workers.” Will this “crowding out” effect be even more severe in those communities in the Midwest and elsewhere where there are already large concentrations of dislocated workers?

In addition to the research questions, there is also the concern that wage insurance could undermine those federal programs that now provide some measure of economic security to U.S. workers. An expanded wage insurance program would be in direct competition with resources for long overdue improvements in the TAA program and in bedrock economic security programs. We are also concerned with the precedent wage insurance will set when hostile groups like the Heritage Foundation are on record strongly supporting wage insurance as a “rapid reemployment” substitute to dismantle the TAA program. Will wage insurance set the stage for more attacks on TAA? And when the next recession hits, will the Heritage Foundation and others argue for a more limited federal extension of jobless benefits when workers can qualify instead for wage insurance by taking jobs that require a significant pay cut? Already, the Bush Administration and Rep. Weller have called for waivers of federal UI law to authorize states to experiment with wage insurance with their UI funds. This support points to the great theoretical weakness of wage insurance—the way it fits within a work-first philosophy of low-cost interventions that push unemployed individuals into any job regardless of its quality. You cannot deal with the damage of trade policies to workers on the cheap.

These are some of the difficult questions that leave many of us who work with these programs convinced that wage insurance could do far more harm than good. .

Conclusion

Both opponents and supporters of free trade and globalization have promoted TAA as a promise to the victims of U.S. trade policy. In reality, TAA has never lived up to its promised role as a comprehensive vehicle for readjustment of those losing work as a result of trade. However, the model put forward by TAA – extended income support to workers so they can complete meaningful training courses – holds great promise for dislocated workers. We are hopeful that the United States economic and political dialogue has finally reached the point that we take seriously the damage caused by globalization and provide the real resources and support to the TAA program.

Resources

For more on TAA, please see
Rick McHugh and Phil Gilliam, *Getting Certified for Trade Adjustment Assistance, a Guide for Unions, Workforce Agencies and Community Groups*, National Employment Law Project, 2005.