Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy

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Summary

Congress created Trade Adjustment Assistance (TAA) in the Trade Expansion Act of 1962 to help workers and firms adjust to economic dislocation that may be caused by trade liberalization. Although most economists agree that there are substantial national gains from trade, backers of TAA argue that the government has an obligation to help those hurt by policy-driven trade opening. In addition, as an alternative to policies that might otherwise restrict imports, it can provide assistance, while supporting freer trade and diminishing prospects for potentially costly tension (retaliation) among trade partners. Often controversial, it is still strongly debated some 50 years later, on equity, efficiency, and budgetary grounds, but may still serve a pragmatic legislative function. For those Members concerned with the negative effects of trade, it can provide a countervailing response to help maintain what is often slim majority support of highly contested trade legislation. For these reasons, it has been central to U.S. trade policy for the past half century.

Over time, the fortunes of TAA reauthorization have ebbed and flowed based in part on legislative context. When TAA remained a cornerstone of major trade legislation, as it was in 1962, 1974, and 2002, it received long reauthorizations and increased programmatic and funding support from Congress. When TAA was passed as part of budget reconciliation bills, distancing it from its main trade policy rationale, as in the 1980s, it struggled at times to achieve even short-term extensions and maintain funding levels. (See **Table A-1** for list of TAA reauthorizations.)

In the American Recovery and Reinvestment Act of 2009, Congress reauthorized TAA through December 31, 2010, and revamped the program to include eligibility for service workers and firms, a new communities program, an increase in the Health Care Tax Credit (HCTC) for dislocated workers, and additional funding for all programs. As TAA was about to expire again at the close of 2010, Congress extended it through February 12, 2012, as part of the Omnibus Trade Act of 2011. Higher authorization levels and expanded provisions of the ARRA, however, were only extended through February 12, 2011. TAA became part of the current trade debate when the 112th Congress and the Obama Administration began to consider the three pending free trade agreements (FTAs) with South Korea, Panama, and Colombia along with TAA extension. Two issues dominate the immediate discussion. First, Members disagree on the need to continue funding TAA programs. Second, they dispute whether to include TAA as part of an implementing bill for the proposed U.S.-South Korea (KORUS) FTA.

Opponents of TAA consider it a costly and ineffective response to dislocation from imports, and so would like to see it debated and voted on as a separate bill. Supporters of TAA and especially the extended ARRA benefits (now lapsed) see the implementing bill as perhaps the best, if not only opportunity, to reauthorize TAA in the near future, given resistance in a Congress intently focused on deficit reduction. Those supporting TAA and not the KORUS FTA might also prefer to see separate votes on the two issues.

Because there is disagreement over TAA, even to the point of perhaps imperiling congressional action of FTA implementing bills, the situation again points to the centrality of TAA in the long-term national trade policy debate. Key policy questions include determining if: (1) the United States still has an ongoing obligation to help stakeholders hurt by imports; (2) TAA can be an effective approach to meeting this goal; (3) a TAA budget compromise can be found; (4) TAA can still help form a consensus on trade policy, and if so; (5) how the budgetary costs of TAA

programs compare to the potential opportunity costs of possibly adopting more protectionist policies in the absence of TAA.

For details on the TAA programs for workers, firms, communities, and farmers, see other CRS reports.

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Introduction

A "national trade policy" promoting trade liberalization emerged after a period of protectionism with passage of the Reciprocal Trade Agreements Act (RTAA) of 1934. It continues to be the dominant, but hardly uncontested, trade position of the United States. The substantial and widely-recognized national gains to trade have long been recognized, yet trade liberalizing legislation often faces strong political opposition because related costs, although much smaller, affect a vocal and concentrated constituency. Congress first addressed this inherent tension with legislation that allowed for the re-imposition of tariffs and other trade barriers when domestic industries were threatened or hurt by imports. In 1962, however, Congress adopted an additional approach by providing trade adjustment assistance (TAA) directly to trade-affected firms and workers. It remains a controversial pillar of U.S. trade policy today.

In the 112th Congress, TAA is again being considered for reauthorization. As in the past, Congress is debating the cost and utility of TAA programs, but the debate has become more complicated by the possible inclusion of TAA in an implementing bill for the U.S.-South Korea Free Trade Agreement (KORUS FTA). Because Congress has established a very specific framework for consideration of trade agreement implementing bills, this is an unusual legislative option. It also combines two controversial trade policies in a single vote. Members of Congress disagree over both program and legislative procedure issues.

This report discusses the role of TAA in U.S. trade policy, from its inception as a legislative option in the early 1950s, to its core role as an alternative to import relief that many argue has served to promote the long-term U.S. trade liberalization agenda. It will also consider the extent to which TAA has been linked to both renewal of trade agreements authority,[1] and passage of trade agreement implementing legislation. TAA has become an integral part of an increasingly complex U.S. trade policy. Understanding the origins of TAA, the historical congressional debate, and legislative options taken by Congress over the past 50 years may help inform the debate over TAA in the 112th Congress.

TAA Programs and Rationale

TAA began with two programs covering workers (retraining, relocation allowances, extended unemployment benefits) and firms (loans, loan guarantees, special tax deductions). Congress added a communities program (loans and grants) in 1974, which was subsequently terminated in 1982, and a farmers program (technical assistance and cash benefits) in 2000. Congress authorized another communities program in 2009. All TAA programs are usually reauthorized at one time. This report does not address details of the four programs, which are available in other CRS reports. Rather, it takes a holistic policy approach to the issue of assistance for adjusting to

[1] Trade agreements authority refers to the authority Congress conveys to the President to enter into reciprocal trade agreements. It began in 1934, and as the negotiation process became more complex, so too did the statutory authority. This may be seen in the fast track rules created in the Trade Act of 1974, and further modifications made in subsequent trade bills, including the Trade Act of 2002, which provides for what is now referred to as trade promotion authority (TPA). For details, see CRS Report RL33743, *Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy*, by J. F. Hornbeck and William H. Cooper.

import penetration, with occasional reference to the large workers and much smaller firms programs that have formed the core of TAA since its inception in 1962.

Nearly eight decades after passage of the RTAA, the pending FTAs and President Obama's National Export Initiative stand as current reminders of the importance that the United States places on trade expansion, particularly of exports. The pursuit of export growth, however, generally cannot be done without conceding to a reciprocal increase in imports, and the tradeoff does not affect stakeholders equally. While freer trade can benefit exporters, consumers, and the economy as a whole, it can place hardship on some import-competing industries facing increased competition.[2] This is the cost of economic adjustment, and supporters of TAA argue that workers (especially the permanently displaced) and firms hurt by imports have more severe adjustment problems than others affected by different types of economic dislocation. From this reasoning, it is argued that they deserve their own category of assistance. So, while there are no categorical federal programs to address casualties of many types of specific economic change resulting from technological innovation, evolved consumer tastes, or regional relocation of businesses, there has long been a case made for supporting trade adjustment policies.[3]

The issues raised by this policy were identified early on in the postwar economic policy debate. Justification rested on arguments for: (1) economic efficiency, by speeding the adjustment process and returning idle resources to work more quickly; (2) equity, by compensating for lost income while spreading the cost of freer trade to society as a whole; and (3) political pragmatism, by defusing opposition to trade liberalizing legislation. Additionally, the costs of trade liberalization were at first managed through temporary protection (e.g., escape clause and peril point provisions—see next section) to maintain a coalition in favor of free trade. TAA was viewed as a more constructive alternative. It would provide for positive adjustment rather than negative reaction to tariff reduction, with expectations that costs would be temporary for an adjustment period, and much less than those of more protectionist measures.[4]

The logic of these claims was challenged in the past, as it is today. Opponents argued that economic efficiency was far from guaranteed given that subsidies can operate to reduce worker and firm incentives to relocate, take lower-paying jobs, or in other ways seek a solution to being idled. Equity issues arose because many economic groups hurt by changing economic circumstances caused by other than trade policies were not afforded similar economic assistance. A frequently-cited alternative argues that society may have a responsibility to help all those

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[2] For a brief but comprehensive summary, see J. David Richardson, "Uneven Gains and Unbalanced Burdens? Three Decades of American Globalization," in *The United States and the World Economy,* ed. C. Fred Bergsten (Washington, D.C.: Institute for International Economics, 2005), pp. 111-118.

[3] An early assessment may be found in Clair Wilcox, "Victims of Tariff Cuts," *The American Economic Review*, vol. 40, no. 5 (December 1950), pp. 884-889. See also C. Michael Aho and Thomas O. Bayard, "Costs and Benefits of Trade Adjustment Assistance," in *The Structure and Evolution of Recent U.S. Trade Policy,* ed. Robert E. Baldwin and Anne O. Krueger (Chicago: University of Chicago Press, 1984), pp. 154-155 and J. David Richardson, "Comment," in *The Structure and Evolution of Recent U.S. Trade Policy*, pp. 192-193, and more recently, I. M. Destler, *American Trade Politics,* 4th ed. (Washington, D.C.: Institute for International Economics, 2005), p. 327.

[4] For early renditions of TAA justification, see Richard A. Givens, "The Search for an Alternative to Protection," *Fordham Law Review,* vol. 30, no. 1 (January 1, 1961), p. 20, William Diebold, Jr., *The United States and the Industrial World: American Foreign Economic Policy in the 1970s* (New York: Praeger Publishers, 1984), p. 150 and 153, and J. David Richardson, "Comment," pp. 192-193.

dislocated by economic change, and that policies should not be narrowly restricted to trade-related or other categories of harm.[5]

Administrative hurdles and costs were also considered high. Economists, among others, pointed to the methodological difficulties in defining and measuring injury from tariff reduction, arguing that solutions would be inexact, if not arbitrary.[6] Previous studies suggest that many firms, even smaller ones, could adjust on their own, and that workers could just as well rely on more broadly available unemployment and retraining programs. In addition, over time, the costs of TAA would rise, diluting political support.[7]

Perhaps the strongest case for TAA is its potential political effect, which is difficult to estimate. Nonetheless, even many of the most ardent skeptics of TAA are reluctant to dismiss the likelihood that it may have helped garner support for important trade agreements going back to the General Agreement on Tariffs and Trade (GATT)[8] multilateral trade talks of the 1960s and 1970s. That support is often directly attributed to the TAA provisions provided in the Trade Expansion Act of 1962 and the Trade Act of 1974, which authorized the President to enter into agreements negotiated respectively in the Kennedy and Tokyo Rounds.[9] It was also a quid pro quo for providing President Bush with TPA in 2002, the most recent granting of such authority (see Appendix A for a legislative chronology).

Antecedents to TAA

TAA was a product of a time in which there was a major shift in U.S. domestic, trade, and foreign policies. The seeds were planted with the Reciprocal Trade Agreements Act (RTAA) of 1934, a response to the tariff-raising Smoot-Hawley Act of 1930. The shift from protectionism toward trade opening was rooted in a concern for domestic economic welfare, in recognition that inhibiting imports could have resulted in retaliation, possibly hurting U.S. producers, particularly at a time when the economy needed a lift out of the Great Depression. The RTAA provided time-limited authority to the President to enter into reciprocal tariff-reducing agreements, without the need for congressional approval afterward. It is the early precursor to the now-expired Trade Promotion Authority (TPA). The legislation was controversial, prompting resistance not only to the trade provisions, but to what some considered to be a concession to the President of traditional congressional authority over tariffs.[10]

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[5] Wilcox, *Victims of Tariff Cuts*, p. 889, Matthew J. Slaughter and Robert Z. Lawrence, "More Trade and More Aid," *The New York Times*, June 10, 2011, and George F. Will, “Obama and Free Trade: Appease Big Labor,” *The Washington Post*, June 8, 2011.

[6] Wilcox, *Victims of Tariff Cuts*, p. 8845-889, C. Michael Aho and Thomas O. Bayard, "Costs and Benefits of Trade Adjustment Assistance," pp. 153-155, 168-169, and 177, and George F. Will, “Obama and Free Trade, Appease Big Labor,” *The Washington Post*, June 8, 2011.

[7] TAA costs rose dramatically with the automobile retrenchment in the early 1980s, providing the Reagan Administration with ample room to reduce funding significantly. Aho and Bayard, “Costs and Benefits of Trade Adjustment Assistance,” pp. 184-185. It is also an issue for the 112th Congress.

[8] GATT was the precursor to the World Trade Organization (WTO).

[9] Destler, *American Trade Politics*, pp. 296-298 and Congressional Quarterly, *CQ Almanac 1998*, pp. 18-3-18-9.

[10] Douglas A. Irwin, "From Smoot-Hawley to Reciprocal Trade Agreements: Changing the Course of U.S. Trade Policy in the 1930s," in *The Defining Moment: the Great Depression and the American Economy in the Twentieth Century*, ed. Michael D Bordo, Claudia Goldin, and Eugene N. White (Chicago: University of Chicago Press, 1998), pp. 340-346.

Within a few years, increased trade openness took on a stronger foreign policy rationale. By 1940, President Franklin D. Roosevelt's State of the Union address had elevated U.S. trade policy to an "indispensible part of the foundations for any stable and durable world peace,"[11] even as the encroaching world war was about to devastate international commerce. As a result, trade re-emerged as a key ingredient of a foreign economic policy geared toward rebuilding the post-war economic system in support of international stability, and particularly as a counterweight to encroaching Soviet communism. This stance took on even greater importance as the United States became the undisputed leader of the "free world" during the Cold War.[12]

Yet, trade liberalization was contentious because a foreign economic policy of cooperation based on minimizing international tension ran headlong into concerns over protecting domestic industry from imports. As much as congressional testimony in the 1940s tilted toward protectionism, public opinion appeared to be more indifferent for two reasons. First, U.S. imports in a war-torn world were not large enough to be a serious threat to U.S. jobs and production. Second, trade was viewed as a key element of the Cold War strategy. The lack of public reaction to liberalizing commerce made it easier for the United States to make the transition to multilateral trade negotiations (MTNs) under the newly created GATT.[13]

Despite the foreign policy imperative of trade with other nations, the success of the trade agreements program would again inspire responses to harmful imports. Two policies dominated: the escape clause, first instituted by executive order under President Truman and later established in legislation; and the peril point provision.[14] The escape clause allowed for the temporary re-imposition of tariffs when fairly-priced imports were proven or threatened to harm domestic industry. The peril point provision required the United States Tariff Commission (USTC) to evaluate the effects of tariff reductions, and determine a point at which tariffs might be reduced without doing harm to domestic producers.[15]

Although President Eisenhower would continue to receive renewed trade agreements authority that allowed him to pursue tariff-reducing agreements, domestic pressure resulted in shorter extensions and more limited tariff cuts. Trade as foreign economic policy again found itself in tension with a domestic policy aimed at securing and maintaining the economic welfare of U.S. citizens at home. This policy tension opened the door to the earliest legislative vestiges of TAA in the early 1950s. While it would take more than a decade to become law, TAA legislation would eventually serve, at least in part, to reconcile sometimes competing foreign and domestic economic policy priorities.

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[11] Robert E. Baldwin, *U.S. Trade Policy Since 1934: An Uneven Path Toward Greater Trade Liberalization*, National Bureau of Economic Research, Working Paper 15397, Cambridge, October 2009, p. 2.

[12] As quoted in, Robert E. Baldwin, *U.S. Trade Policy since 1934: An Uneven Path Toward Greater Trade Liberalization*, p. 2. In fact, President Eisenhower would later write that trade expansion meant expansion in the "free world," as a response to the Soviet Bloc. Dwight D. Eisenhower, "Document #908; To John Foster Dulles," *Department of State Bulletin*, vol. 30, no. 763 (February 8, 1954), p. 187.

[13] Robert A. Pastor, *Congress and the Politics of U.S. Foreign Economic Policy* (Berkeley: University of California Press, 1980), pp. 94-95; Diebold, *The United States and the Industrial World*, p. 151, and Destler, *American Trade Politics*, p. 7, 12-13.

[14] Pastor, *Congress and the Politics of U.S. Foreign Economic Policy*, p. 100

[15] Baldwin, op. cit., pp. 5-7 and Irwin, op. cit., pp 347-349.

The Randall Commission

At the end of the Truman Administration, the Public Advisory Board for Mutual Security (the Bell Committee) made first mention of assistance to firms and workers facing increased competition from imports.[16] Although little came from this proposal at the close of the Truman presidency, a year later TAA hit the spotlight in the report prepared by the 1953 Commission on Foreign Economic Policy, created by Congress as part of a one-year extension of the trade agreements authority legislation. Known as the Randall Commission, its appointed task was to recommend a long-term strategy for U.S. foreign economic policy. In addition to recommending a three-year extension of the Trade Agreements Act, it evaluated a proposal for "government assistance to communities, employers, and workers." The report found TAA noteworthy in theory, but criticized and ultimately rejected it as too narrow an approach to economic dislocation by limiting assistance to groups affected only by lower import tariffs.[17]

The proposal, drafted by commissioner David J. McDonald, President of the United Steel Workers, expressed concern that "unemployment caused by government action, as in the lowering of tariffs, should be of particular concern to the government," particularly in times of economic slowdown.[18] The plan called for temporary assistance to communities, companies, and workers threatened by imports, to be given in the form of technical and financial assistance. This approach would presumably encourage import-affected industries to diversify their output, and encourage communities to explore ways to expand employment opportunities with additional financing for privately-supported industrial development corporations.[19]

In a formal critique of the Randall Commission report, a group of noted economists acknowledged the historical precedent for government assistance in cases of policy-induced economic change, but reiterated a preference for responses that addressed the larger problem of economic dislocation rather than just the tariff issue. They also raised a number of pragmatic questions related to operating TAA programs.[20] Two important legislative initiatives emerged from this effort. First, a report evaluating TAA was called for in legislation extending trade agreements authority to the President. Second, the following year, the first of a series of TAA bills would be introduced in the 83rd Congress.

Early TAA Legislation

Senator John F. Kennedy, who would eventually see TAA put into practice during his Presidency, was an avid supporter of assistance to those affected by trade. He introduced in the 83rd Congress the Trade Adjustment Act of 1954 (S. 3650), which acknowledged the importance of international trade, but also the potential for localized adjustment problems, even when trade benefited the nation as a whole. Congress did not act on the bill, and an identical version was introduced in the

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16 Diebold, *The United States and the Industrial World*, p. 152.

17 U.S. Congress, House, *Report to the President and the Congress*, Commission of Foreign Economic Policy, prepared by Chairman Clarence B. Randall, 83rd Cong., 2nd sess., January 23, 1954, H. Doc. 290 (Washington: GPO, 1954), p. 54.

18 Ibid., p. 55.

19 Ibid.

20 Klaus Knorr and Gardner Patterson, *A Critique of the Randall Commission Report* (Princeton: Princeton University Press, 1954), pp. 29-33.

84th Congress by Senator Hubert Humphrey. Originally introduced as a stand alone bill, it was offered as an amendment to H.R. 1, the bill extending trade agreements authority to the President, linking TAA to the authority of the President to enter into reciprocal trade agreements.[21]

The Kennedy/Humphrey bills, among others, proposed that where a reduction in tariffs on competing articles "have been found either to threaten or to have caused serious injury to a domestic industry," that a board consider application for assistance from firms, communities, industrial development corporations, employees, or organizations representing employees. Aid would be limited to a period of adjustment and was not to be considered a permanent subsidy. The goal was to respond to negative effects of a liberal trade policy without resorting to protectionist policies.[22] As would be the fate of future TAA bills in the 1950s, Congress took no action, but TAA became increasingly solidified as part of the U.S. trade policy debate.

Both the Democratic and Republican Platforms of the 1960 election placed foreign economic relations at the center of their agendas. The Democratic platform included a specific appeal for TAA as part of an expanded trade policy. The Republican platform, by contrast, had no such proposal, giving added weight to the escape clause and peril point provision.[23] By 1961, the Dillon Round of General Agreement on Tariffs and Trade (GATT), predecessor to the World Trade Organization (WTO), was concluded, and it was revealed that the United States had cut the tariffs of 61 items below their peril point.[24] This development marked a departure from earlier more cautious policies that, coupled with high U.S. unemployment, created an environment conducive to assisting trade-affected constituents.[25]

Trade Expansion Act of 1962

The global market expanded briskly following World War II, and the growing importance of the then-European Economic Community (EEC) nudged U.S. policy further toward trade liberalization. Forming a trade pact with one of the most important markets in the world was not only considered an economic imperative, but central to achieving lasting world peace by defusing tension over protectionist policies. The United States also faced balance of payments pressures, modest unemployment, and the growing Communist threat, so trade policy had become an essential ingredient of foreign economic policy. In this light, many considered the Trade Expansion Act of 1962 to be the most important legislative initiative of the 87th Congress.[26]

The 1962 Trade Act not only gave the President unprecedented "tariff-cutting authority," particularly with respect to a critical trade partner, but added a whole new approach to dealing with domestic resistance to trade liberalization—trade adjustment assistance. TAA stood in contrast to the escape clause and peril point (the latter dropped in the 1962 Act). These options

[21] Other bills would be introduced in the 86th Congress before becoming law in the 87th Congress.

[22] S. 3650, The Trade Adjustment Act of 1954, and Sen. Humphrey, "Extension of the Trade Agreements Act-Amendments," Senate bill introduction, *Congressional Record*, vol. 101, part 3 (March 30, 1955), pp. 3997-3998.

[23] John T. Woolley and Gerhard Peters, *The American Presidency Project* [online] Santa Barbara, CA. Available from the World Wide Web: (http://www.presidency.ucsb.edu/ws/?pid29602).

[24] Congressional Quarterly. "The Trade Expansion Act: President Receives Unique Tariff-Cutting Rights and Adjustment Program After Carefully Planned Campaign," *CQ Almanac 1962* p. 259.

[25] Ibid., 261.

[26] Ibid., p. 263-264.

were well honed in the 1950s, despite pressure by the Executive Branch to limit their use. TAA was also a different and more highly targeted approach than the escape clause, focusing on specific firms and workers rather than an entire industry. TAA was offered in the form of increased and extended unemployment benefits, retraining and relocation allowances, loans and technical assistance for firms, and special tax deductions.[27]

TAA shifted the trade debate by acknowledging more fully in legislation the costs of trade liberalization. It was also politically effective, generating support from labor constituencies without turning to more protectionist responses. It is notable that a relatively lengthy and broad "negotiating authority" was achieved in a bill that also included TAA for the first time. Despite passage with bipartisan support, it was, nonetheless, the most controversial aspect of the bill. The House mounted stiff resistance to TAA from Republicans and some conservative Democrats, who objected to special treatment for tariff-affected workers and firms, and who sought a separate vote on TAA. Despite this effort, the bill was debated under a closed rule, prohibiting amendments, and passed with bipartisan support, despite a majority of Republicans voting against it. The Senate rejected attempts to delete or modify the TAA provisions, and proceeded to pass the bill with broad support and only minor amendments.[28]

The 1962 Trade Act also changed the nature of trade legislation. In recognizing the need to address domestic concerns as part of trade liberalization, Congress and President Kennedy incorporated TAA into broader trade policy. Previously, Congress concerned itself with (1) conveying a specific trade agreements authority to the President, which in turn would (2) lead to new trade agreements, without the need for further congressional action. After 1962, it would become difficult to consider new trade agreements authority without taking up TAA, and it became increasingly likely that prospects for congressional support for new trade agreements would also hinge on such an accommodation.

The Failure of TAA: 1963-1974

TAA initially achieved one goal: greater support from labor groups for trade liberalization. By 1971, as the U.S. balance of trade turned to deficit for the first time since 1888, and perceptions of lost income and jobs to foreign competition grew, this support eroded. The failure of TAA to provide significant relief from imports in its first decade of operation added to labor's concerns. From 1963 until 1969, not one of the six worker or twelve industry-wide petitions for TAA led to assistance. The eligibility criteria were tough to meet, requiring demonstration that the imported article was increasing, that the increase "was caused in major part" by the tariff reduction, and that the increase was the "major cause" of injury to the firm or worker. The multistep process also took months to complete and was costly for the applicants.[29]

In hindsight, the inability to demonstrate injury and the laborious administrative procedures combined with strict U.S. Tariff Commission (USTC) rulings led to a deepening dissatisfaction

[27] Ibid., pp. 249, 255-256.

[28] Ibid., p. 277.

[29] Charles R. Frank, Jr., *Foreign Trade and Domestic Aid* (Washington, D.C.: The Brookings Institution, 1977), pp. 4-5 and 40-47. Other administrative relief from imports such as the escape clause and anti-dumping rules also proved to be difficult to obtain.

with TAA.[30] Although USTC adjudication would become more relaxed in the early 1970s, and the number of affirmative rulings would rise, they were still only a fraction of total petitions, and the political tide had already turned on TAA.[31] Pressure mounted to address programmatic deficiencies, but by 1972 organized labor formally rejected the program for the time being. In hearings before the House Subcommittee on Foreign Economic Policy of the House Committee on Foreign Affairs, leaders of the AFL-CIO came out against the program, as well as trade liberalization in general. The sentiment is reiterated by one trade expert: "So in the first 30 postwar years, import-affected industries that played the trade policy games by the legal rules generally lost out" and pressure mounted for Congress to intervene directly for constituents, an option that the trade remedy rules "were intended to avoid."[32]

Critics called for major adjustments to the TAA eligibility criteria and administrative procedures, but the Nixon Administration offered a trade bill that actually diminished TAA. As the bill wound its way through Congress, however, both the House and the Senate not only restored all TAA benefits, but also added to them and made changes that would help make it easier to implement the programs. This was accomplished in one of the most far-reaching trade bills in U.S. history, the Trade Act of 1974.[33]

Trade Act of 1974

Unlike in 1962, TAA was not the most controversial trade issue in 1974, although Congress still paid it considerable attention. Despite intentions to the contrary, TAA had so far done little to encourage retraining or relocation of workers, and few firms capable of recovery received meaningful assistance. Providing additional unemployment insurance was its most noted accomplishment, and not one deemed by some as particularly effective in addressing injury from imports. Although numerous bills were introduced that would address many of TAA's perceived weaknesses, Congress passed none of them until TAA was once again united with the major 1974 trade bill providing for renewal of trade agreements authority. Originally crafted by the Nixon Administration, the draft trade bill acknowledged the deficiencies of the TAA program, and effectively gutted it. Congress, however, decided to re-tool rather than terminate the program.[34]

Among the major changes, the eligibility criteria were made less stringent so that imports no longer had to be the "major cause" of dislocation, meaning more important than all other causes combined. Congress replaced this test with criteria requiring demonstration that a significant number of workers had lost their jobs, that a firm's sales had decreased, imports had increased, and that the imports "contributed importantly" to the declines. Determinations also were moved to the U.S. Department of Labor and the U.S. Department of Commerce for workers and firms,

[30] Another criticism argued that the lack of positive TAA rulings only encouraged the practice of trade-affected parties seeking relief through political contacts in both the legislative and executive branches. Gary Clyde Hufbauer and Howard F. Rosen, *Trade Policy for Troubled Industries* (Washington, D.C.: Institute for International Economics, 1986), p. 35.

[31] Dominic Sorrentino, "Trade Adjustment Assistance to Workers Displaced by Imports, Fiscal 1963-73," U.S. Department of Labor, *Monthly Labor Review*, Washington, D.C., January 1974, pp. 63-65.

[32] I. M. Destler, *American Trade Politics*, p. 140.

[33] Charles R. Frank, Jr., *Foreign Trade and Domestic Aid*, p. 5.

[34] Ibid., pp. 70-71 and Congressional Quarterly, "Congress Clears Trade Bill on Final Day," *CQ Almanac 93rd Congress*, 1974, pp. 553-562, and Pastor, *Congress and the Politics of U.S. Foreign Economic Policy*, p. 143.

respectively, leaving escape clause determination to the newly-named U.S. International Trade Commission (USITC). Requiring the two departments to act within 60 days versus six months for the USITC made TAA preferable to escape clause action.[35]

Other notable changes included adding a new program for communities, increasing worker and firm benefits, and providing special assistance for older displaced workers, or those who tend to make up a larger portion of plant closings, rather than layoffs.[36] Congress also included strong language indicating its intent that the program be used as a meaningful form of relief from imports.[37] In the end, the Trade Act of 1974, known for its dramatic changes in how trade agreements would be considered under new expedited procedures, also provided a congressional imprint of support for TAA by carefully considering ways to enhance the program, and ensuring its prominence by linking it to the major trade bill providing renewed trade agreements authority to the President.

The Trade Agreements Act of 1979 and the 1980s

In 1979, U.S. trade policy took a major step with ratification of the GATT Tokyo Round of multilateral trade negotiations. For TAA, however, it marked the beginning a long period of decline. Separate legislation to extend and expand the program passed the House, but failed to move through the Senate.[38] Although Congress eventually reauthorized the program, by the early 1980s, TAA had become a victim of its own growth, negative program evaluations, and changing political and economic priorities. The declining automobile industry proved to be one catalyzing factor in its demise. The slowing economy and increased Japanese imports led to large layoffs and related "explosion of TAA claims," which at the time resulted in historically generous benefits. This combination multiplied TAA program costs, so that President Carter, generally a supporter, expressed concern over the budgetary impact. Although he agreed to a two-year extension, TAA could not escape the impending deep budget cutting of the incoming Reagan Administration.[39]

Congress extended TAA in the Omnibus Budget Reconciliation Act of 1981, but the Act reduced benefits and eliminated $2.6 billion from the budget. Detractors cited as cause, a General Accounting Office (GAO) report that challenged the program's effectiveness to bring about adjustment rather than simply pay out additional benefits.[40] High unemployment provided a reason for Congress to support TAA, but Congress extended it only through fiscal year 1983, again with much diminished finances and tightened standards for eligibility, particularly for unemployment benefits. By 1983, the Reagan Administration openly sought to terminate the program (as did his successor President George H. W. Bush), which was spared in reduced form by a congressional extension through fiscal year 1985.[41]

[35] Ibid.

[36] Plant closings do not discriminate among employees, and so capture older and more experienced workers who often make up much of the work force. Layoffs, by contrast, tend to affect younger workers disproportionally because layoffs are generally based on seniority.

[37] Charles R. Frank, Jr., *Foreign Trade and Domestic Aid*, pp, 63-67.

[38] Congressional Quarterly, Inc., "Trade Adjustment Assistance," *CQ Almanac 1979*, pp. 327-328.

[39] Ibid., and Destler, *American Trade Politics*, p. 150.

[40] Congressional Quarterly Inc., *Trade: U.S. Trade Policy Since 1945*, Washington, D.C., 1984, pp. 23-69.

[41] Congressional Quarterly, Inc., "Trade Adjustment Aid Cut," *CQ Almanac 1983*, pp. 251.

After two very short extensions and a three-month lapse, TAA was finally extended for six years, through fiscal year 1991, as part of deficit-reduction legislation passed in 1986. Its programs were again trimmed with, for example, the elimination of all loans, loan guarantees, and other direct financial assistance to firms, providing only technical assistance, the basis of the firm program today. It received additional extensions first through fiscal year 1993 in the Omnibus Trade and Competitiveness Act (OTCA) of 1988, and second, through fiscal year 1998 in the budget reconciliation bill of 1993 (see Appendix A).[42] The lengthy extensions appeared to be inversely proportional to the budgetary effort in the bills.

In short, beginning in the 1980s, TAA came under severe pressure. Evaluations criticized the program's effectiveness and rising costs, making it more difficult to support, even as a form of leverage to promote trade liberalization. TAA was also caught up in the deficit reduction negotiations, losing much of the clout it may have had years before, when it was part of finding compromise in broader trade and foreign policy debates. Two of its longest extensions were for much reduced program commitments, both done in budget rather than trade bills, where it was divorced from its primary policy rationale. But even within the trade policy debate, emphasis was shifting back toward import relief, as seen in the rise of special protection in the form of voluntary export restraints (VERs), and countervailing duty (CVD) and antidumping (AD) petitions. These became core negotiating objectives during future GATT rounds, effectively relegating TAA to the back seat of trade policy.[43]

NAFTA and the Trade Act of 2002: TAA Expansion

The major trade events of the 1990s, occurring relatively early in the decade, were passage of the North American Free Trade Agreement (NAFTA) and the GATT Uruguay Round. Negotiations to implement NAFTA were well underway during the 1992 presidential campaign and were highlighted in the debates. Newly-elected President Clinton oversaw the implementation of NAFTA, but did so only after a number of conditions were attached, including TAA.[44] NAFTA reinvigorated TAA by producing a separate program (NAFTA-TAA) that applied to dislocation related to increased trade with Mexico and Canada. This limited case was the only time that TAA was directly linked to a specific FTA implementing bill, which Congress passed in December 1993. Four months earlier, Congress had already extended the general TAA program for a five-year period as part of the omnibus budget reconciliation bill.[45]

In 1999, TAA was extended through 2001, at which point it lapsed until reauthorized for five years as part of the Trade Act of 2002. TAA played a major role again in the 2002 debate over the extension of trade agreements authority (renamed Trade Promotion Authority—TPA) to President Bush. President Bush and the Republicans pushed hard to renew long-expired trade agreements authority. The Democrats were unwilling to provide such authority unless TAA was reauthorized. With the apparent need for a quid pro quo, the House Ways and Means Committee, under

[42] Congressional Quarterly Inc., "Trade Adjustment Aid," *CQ Almanac 1986*, p. 351.

[43] Destler, *American Trade Politics*, p. 128 and Hufbauer and Rosen, *Trade Policy for Troubled Industries*, pp. 36-39.

[44] John M. Rothgeb Jr., *U.S. Trade Policy: Balancing Economic Dreams and Political Realities* (Washington, D.C.: Congressional Quarterly Inc., 2001), p. 205.

[45] Congressional Quarterly Inc., *CQ Almanac 1993*, pp. 137-175.

Republican leadership, offered a TAA bill first. The Senate Finance Committee drafted its own TAA bill, and agreement was tentatively struck to keep the votes separate on the two issues.[46]

After a lengthy and exhaustive legislative process, however, the final bill that would become the Trade Act of 2002 incorporated TAA, TPA, and a host of other trade issues. Despite some Republican opposition to the TAA language, a revised TAA program was reauthorized for five years. Among the key new features, the bill merged NAFTA-TAA with the general program, provided government-subsidized health insurance for dislocated workers, altered eligibility criteria to include secondary or downstream workers affected by imports, and added a new program for farmers. The bill as a whole passed in a tense, close, but bipartisan vote.[47] At this juncture, TAA had once again worked its way into the center of the trade policy debate and trade-related legislation.

The American Recovery and Reinvestment Act (ARRA) of 2009 and TAA Revision

In the intervening years since the Trade Act of 2002, Congress debated TAA reform with an eye on making it more responsive to the complex economic challenges brought about by "globalization." A bipartisan understanding was formulated, but in the absence of a major trade bill, TAA faced short-term extensions and program authorization expired on December 31, 2007. The 110th Congress provided short-term funding through consolidated appropriation bills.

In the 111th Congress, consideration of TAA reauthorization coincided with the U.S. economy falling into a deep recession in the aftermath of an unprecedented financial crisis. Congress responded with passage of the American Recovery and Reinvestment Act (ARRA) of 2009. This bill became the legislative vehicle and budgetary opportunity to move the TAA revisions. Congress reauthorized TAA through December 31, 2010, and revamped the program to include eligibility for service workers and firms, a new communities program, an increase in the Health Care Tax Credit (HCTC) for dislocated workers, and additional funding for all programs.

As TAA was about to expire again at the close of 2010, Congress extended it through February 12, 2012, as part of the Omnibus Trade Act of 2011. Higher authorization levels and expanded provisions of the ARRA, however, were only extended through February 12, 2011. This outcome presented Congress with a controversy when those provisions expired. Supporters of TAA see the ARRA-passed reforms as long-sought permanent changes needed to modernize TAA for the 21st Century. TAA detractors view the lapsed expansion of TAA reforms under the ARRA as an opportunity to rescind them and the additional funding. TAA programs continue to operate at their pre-ARRA levels, and legislation has been introduced in the 112th Congress that ranged from terminating TAA to reauthorizing it at the higher ARRA levels.

[46] Congressional Quarterly Inc., *CQ Almanac 2002*, pp. 184-185.

[47] Ibid., and U.S. Congress, House Committee on Ways and Means, Subcommittee on Trade, *Trade Act of 2002*, Conference Report to accompany H.R. 3009, 107th Cong., 2nd sess., July 26, 2002, H.Rept. 107-624 (Washington: GPO, 2002), pp. 14-25.

Outlook

Congress created TAA in 1962 to help workers and firms adjust to dislocation that may be caused by increased trade liberalization. It is justified now, as it was then, on grounds that the government has an obligation to help the "losers" of policy-driven trade liberalization. In addition, TAA is presented as an alternative to policies that would restrict imports, and so provides assistance while bolstering freer trade and diminishing prospects for potentially costly tension (retaliation) among trade partners. Often controversial, it is still strongly debated some 50 years later, on equity, efficiency, and budgetary grounds, but may still serve a pragmatic legislative function. For those Members concerned with the negative effects of trade, it can provide a countervailing response to help maintain what is often slim majority support of highly contested trade legislation. For these reasons, it has been central to U.S. trade policy for the past half century.

Nonetheless, the fortunes of TAA have ebbed and flowed. When TAA remained a cornerstone of major trade legislation as it was in 1962, 1974, and 2002, it received long reauthorizations and increased programmatic and funding support from Congress. When isolated from its main policy rationale, as was the case during the budget-cutting 1980s, TAA fared much worse, struggling at times to achieve short-term extensions with diminished resources from Congress. This raises a number of longer term policy questions about TAA, in addition to the immediate challenges facing the 112th Congress.

TAA in 112th Congress

TAA became part of the current trade debate when the Obama Administration and the 112th Congress began to consider the three proposed FTAs with South Korea, Panama, and Colombia along with TAA extension. Two issues dominate the discussion. Members disagree first on the utility and need to continue funding TAA programs. Second, they dispute whether to include TAA as part of an implementing bill for the proposed KORUS FTA. The Senate Finance Committee completed a "mock markup" of the KORUS FTA draft implementing bill on July 7, 2011 that included TAA. The House, in a simultaneous mock markup, approved a draft bill without TAA.

While there is some evidence of agreement for reauthorizing TAA, procedural issues over how to move TAA legislation are unresolved because of two possible controversies. One, the appropriateness of adding provisions to an implementing bill that may be challenged for not meeting the "necessary or appropriate" criterion as defined in TPA legislation. Two, because Members disagree over whether to support TAA, some are pressing for separate votes on the two issues.[48]

Because there is strong disagreement over TAA, even to the point of perhaps imperiling the movement of implementing bills for the three FTAs, the situation again points to the centrality of TAA as part of U.S. national trade policy. Historically, TAA has been reauthorized separately from trade agreement implementing bills. On occasion, attempts have been made to include TAA provisions as amendments to draft implementing bills during "mock markups," but generally they have not been reported out of committee. In 2005, TAA amendments were offered in the Senate to

[48] *Washington Trade Daily*, "Some Progress on FTAs," July 14, 2011.

a draft implementing bill for the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), but it was not included by the Bush Administration when it submitted the final implementing bill to Congress. The TAA programs, however, had already been reauthorized through fiscal year 2007, so they were not in immediate peril.

The situation is perhaps different in the 112th Congress. Many of the expanded portions of TAA have expired, and supporters see the implementing bill as perhaps the best, if not only opportunity, to reauthorize TAA in the near future given resistance to TAA in a Congress intently focused on deficit reduction.

Policy Issues

Congress may once again reconsider both the effectiveness and political utility of TAA. Support for TAA may be eroding under a deficit conscious Congress, as it has before. Its fate may hinge on renewed efforts to demonstrate that TAA materially assists those hurt by imports, as well as the extent to which it helps form a political consensus on U.S. trade policy.

Currently, Congress requires reporting from the various agencies on TAA program use and effectiveness. It is relatively simple to document demand and use. Agencies regularly provide statistics and anecdotal evidence. It is far more difficult to demonstrate that TAA has made a significant difference to the recipients of assistance, relative to those facing similar problems that do not receive TAA. Carefully constructed studies with control groups can provide valuable evidence as to the marginal effects of TAA on workers, firms, communities, and farmers, but they are costly and time consuming to conduct. Earlier studies of this type, as referenced in this report, raised questions about TAA program effectiveness in some cases.[49]

The nature of trade in a “globalized” world has also made it more difficult demonstrate that imports are injurious. While the standard economic arguments for trade, including the benefits of imports, have long been made, the structure of global production complicates the analysis. Manufacturing, for example, now often involves value-added chains, where a good is the product of specialized operations in multiple locations. Many of the operations that go into a final good, such as U.S. inputs from management, technology, and innovation, are not captured in import statistics because they document only the latest movement of merchandise trade. To some extent, trade data may overstate perceived detrimental effects of imports on the U.S. economy. This situation may not mean that TAA is no longer needed or desired, but it complicates further the difficult task of making calculations of net injury from imports.

Also, if TAA functions more to pay out benefits rather than accomplish real adjustment, alternatives such as broader programs aimed at all types of dislocation may once again be reconsidered. Another issue with the possible erosion of support for TAA may be that it becomes less influential in bringing about a consensus on trade policy. Labor continues to support TAA, but more as a necessary rather than sufficient response to reciprocal trade agreements. If TAA cannot help bridge the gap in the trade agreements debate, TAA and the U.S. FTA model may both be in need of review.

[49] A more recent review of these issues raises the same concerns highlighted in the 1950s, see Katherine Baicker and M. Marit Rehavi, "Policy Watch: Trade Adjustment Assistance," vol. 18, no. 2 (Spring 2004), p. 251.

For example, one important consideration may be the extent to which future reciprocal trade agreements can be struck. It is difficult to meet both the needs of U.S. constituents and Members of Congress who want to see more "forward looking" agreements that address labor among other issues, with those of many countries who may be unwilling to consider such measures. The United States has succeeded in implementing bilateral FTAs that go beyond multilateral agreements on many issues, in large part because of an asymmetrical bargaining power. It has not been able to replicate that result in large regional and multilateral negotiations. TAA may still be an important element of meeting the needs of labor with respect to FTAs where agreement may be lacking in other areas.

Congress may eventually contemplate providing renewed trade agreements authority to the President, as well as consider implementing future FTAs. It may wish to consider how TAA can best serve its constituencies in these debates. TAA may need to be revamped or perhaps combined with other broader assistance programs to leverage resources and expertise. Other options may also be possible. In any case, economies will have to continue to adjust to the changing dynamics of international trade. For this reason, as well as more pragmatic concerns over budgetary constraints and program effectiveness, Congress may wish to consider if or how TAA can best be designed and operated to meet the challenges facing U.S. trade policy.

Appendix A. TAA Reauthorization, 1962-2011

Table A-1. TAA Reauthorization, Extension Date and Length

Year	Bill	Public Law	Extension Date	Length
1962	Trade Expansion Act of 1962	P.L. 87-794	Permanent	
1974	Trade Act of 1974	P.L. 93-618	Sept. 30, 1982	8 years
1981	Omnibus Budget Reconciliation Act of 1981	P.L. 97-35	Sept. 30, 1983	1 year
1983	A bill to Amend the International Coffee Agreement Act of 1983	P.L. 98-120	Sept. 30, 1985	2 years
1984	Deficit Reduction Act of 1984	P.L. 98-369	Nov. 15, 1985	10 weeks
1985	Emergency Extension Act of 1985	P.L. 99-107	Dec. 19, 1985	5 weeks
	Lapsed until March 1986			
1986	Deficit Reduction Amendments Act of 1985	P.L. 99-272	Sept. 30, 1991	6 years
1988	Omnibus Trade & Competitiveness Act	P.L. 100-418	Sept. 30, 1993	2 years
1993	Omnibus Budget Reconciliation Act of 1993	P.L. 103-66	Sept. 30, 1998	5 years
1998	District of Columbia Appropriations		June 30, 1999	9 months
1999	Consolidated Appropriations Act of 2000	P.L. 106-113	Sept. 30, 2001	2¼ years
	Lapsed until August 2002			
2002	Trade Act of 2002	P.L. 107-210	Sept. 30, 2007	5 years
2007	TAA Extension Act	P.L. 110-89	Dec. 31, 2007	3 months
2008	Consolidated Appropriations Act of 2008	P.L. 110-161	Dec. 31, 2008	1 year
2009	Consolidate Security, Disaster Assistance, and Continuing Appropriations Act of 2009	P.L. 110-329	Feb. 2009	2 months
2009	American Recovery & Reinvestment Act (ARRA) of 2009[a]	P.L. 111-5	Dec. 31, 2010	2 years
2010	Omnibus Trade Act of 2010	P.L. 111-344	Feb. 12, 2012	13 months

Source: CRS from various sources.

Note: Expanded benefits funding authorized in P.L. 111-5 expired on February 12, 2011. Programs reverted to levels in place prior to P.L. 111-5.

a. Appropriations only, authorization lapses until February 2009.

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