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Maladjusted

The Misguided Policy of "Trade Adjustment Assistance"

by Sallie James

Executive Summary

Through much of the post-World War II era of trade liberalization, organized labor and freetraders struck a grand bargain: negotiated agreements that lower tariffs in the United States would be accompanied by extra welfare benefits available to people who lose their jobs because of import competition. As many free traders see it, such programs can help mollify the opposition to new trade agreements and as such are a sacrifice worth making. But that bargain has broken down. The new Democratic majority in Congress has given only half-hearted support for new trade agreements and has so far refused to grant President Bush new authority to negotiate and submit them to Congress without the risk of deal-killing amendments.

The Trade Adjustment Assistance program is a relic of the past that reflects a different economy in a different political setting. The very existence of trade adjustment assistance perpetuates the myth that freeing trade creates special "victims" who deserve special programs simply because of the reason for their unemployment. But for every worker who is displaced because of competition from imports or "off-shoring," 30 others lose their jobs for other reasons such as changes in technology and tastes, and domestic competition. Studies have suggested that workers displaced because of import competition were equally successful at finding new jobs as other unemployed workers. Systemic changes that help workers adjust to new opportunities, such as increasing the portability of health insurance and retirement savings, and increasing labor market flexibility to create new jobs, would be more fitting policy prescriptions for a free society and a dynamic, service-oriented economy.

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Introduction

Trade adjustment assistance for workers—taxpayer-funded benefits for those who lose their jobs because of increased import competition following trade liberalization—has been in place since the early 1960s. Enacted along with the launch of the Kennedy Round of multilateral trade negotiations, that assistance was politically integral to securing organized labor's support for negotiated trade liberalization efforts.

From the time of its inception, the rationale for the program has been to help workers adjust to trade liberalization by redistributing the gains from lowering trade barriers from the "winners" (consumers, import-using producers, and exporters) to the "losers" (those who lose their jobs as a result of import competition).[1] That strategy is, in part, a political response to public concern about the effect of trade on workers. According to an April 2006 USA Today/Gallup poll of 1,004 adults nationwide, only 30 percent of respondents felt that increased trade between the United States and other countries mostly helps American workers, compared with 65 percent who felt that trade hurts workers. Those figures compare to an earlier poll (taken in November 1999), in which 35 percent thought that trade "helps" and 59 percent said it "hurts." The perceived impact on American companies, however, was more favorable.[2]

Congress reauthorized the current Trade Adjustment Assistance program in 2002 in conjunction with the renewal of trade promotion authority (the ability to negotiate trade deals and submit them to Congress for a straight yes-or-no vote without possibility of amendment). That reauthorization was accompanied by a near tripling of TAA funding. Supporters of the program argue, however, that TAA remains underfunded and ineffective, and have called for further expansion of the program when the current authority expires on December 30, 2007.[3]

With a low unemployment rate and more workers than ever involved in the service sector, now is an ideal time to rethink the rationale behind the trade adjustment assistance program. The cost of the program has increased in recent years, and proposed changes to the program will add greatly to those costs. At the same time, the benefits of the program are falling as organized labor withdraws its support for trade liberalization efforts and Congress balks at approving even minor trade agreements already negotiated by the president. The Democratic leadership has indicated that it does not see a renewal of trade promotion authority as a priority for this Congress, and the path ahead for pending trade deals looks uncertain at best.

What's more, the very existence of trade adjustment assistance perpetuates the myth that trade creates "victims" that need special support over and above those who lose their jobs because of changes in consumers' tastes, domestic competition, or as a result of new technologies. And by implying that opening markets to foreign competition infringes on some kind of "right" that domestic firms have to market share (an infringement that therefore deserves compensation), TAA violates the very underpinnings of a free-market system that depends—indeed thrives—on the concept of competition. A free society based on a dynamic economy would do better to replace the TAA program with policies that respect individual freedom and responsibility.

The Theoretical Basis for Trade Adjustment Assistance

The idea of trade adjustment assistance is not necessarily inconsistent with a free-trade agenda. In fact, some economists support such programs with arguments drawn from welfare analysis and theorems based on standard models of international trade. Those theorems state that free trade will narrow the differences in prices for tradable goods and, in doing so, will also narrow the differences in the prices (incomes) of the factors of production used to produce the traded goods. In that sense, importing goods that use a relatively scarce factor of production intensively, such as low-skilled labor, is analogous to importing more of that factor itself, thereby reducing its "price" (i.e., wages for low-skilled workers).

Standard trade theory acknowledges that openness to trade benefits the owners of relatively abundant factors of production (in the United States, that is skilled workers and owners of capital) and hurts others (low-skilled workers). To the extent that some industries are regional (e.g., carmaking in Detroit, textiles in North Carolina), some economists have argued that redistribution would be justified if it helps workers move to new "clusters" of growing industries (e.g., high-tech development in Silicon Valley). The relocation allowance in the TAA program reflects that geographic friction.

Tariffs aim to stifle these changes in relative income brought about by trade. In that sense, they can be thought of as equivalent to a consumption tax and a production subsidy. Barriers to trade do not create wealth—they merely redistribute it, and inefficiently at that. So protecting an industry behind a tariff wall in the long run creates nothing, even if it protects some workers from losing their jobs. That protection comes at the expense of others: consumers and employees (or would-be employees) of industries who must now use artificially expensive inputs.

According to the compensation principle of welfare analysis, removing tariffs is worthwhile because the benefits accruing to consumers from lowering tariffs are more than enough (in theory) to compensate the formerly protected industries that lose from import competition. A recent study estimated that trade liberalization efforts since World War II have boosted the average American household's income by $10,000 (and annual U.S. GDP by roughly $1 trillion) and that eliminating remaining barriers would boost the average household income by an additional $4,000 to $12,000.[4] Although lifetime costs of all worker dislocations could come to $54 billion, the annual gains from removing all remaining trade barriers would boost GDP by between $450 billion and $600 billion annually—a 10 to 1 ratio of benefits to cost.[5]

Given the United States' comparative advantage in highly skilled, physical- and human-capital-intensive industries, trade theory would suggest that highly skilled workers are more likely to support trade liberalization because they stand to gain higher wages. That prediction is not always borne out by the facts, however. In a 2004 survey conducted by the Program on International Policy Attitudes, only 44 percent of high- income earners reported a positive view of international trade in general, down from 63 percent in 1999.[6]

And contrary to the perception that European voters are more protectionist than Americans, support for increasing tariffs to protect domestic jobs, even if it meant higher prices for consumers, was higher among Americans (46 percent) than Europeans (37 percent).[7]

Import Competition Is a Minor Cause of Job Loss

At a general level, it is not clear that Americans overall should be especially concerned about trade-related unemployment, especially when unemployment is so low. A paper by Brink Lindsey in 2004 estimated that of the total "job churn" in the economy in the average year, the amount of unemployment related to trade is only modest.[8] In 2006, the Council of Economic Advisers estimated that, of layoffs of more than 50 people, fewer than 3 percent were attributable to import competition of off-shoring.[9] Research by Lori Kletzer in 2001 suggested an even smaller contribution to unemployment: she estimates that about 310,000 jobs are lost each year because of import competition, only about 1 percent of gross job losses.[10]

A recent paper from the Peterson Institute for International Economics found that domestic factors—contract completion, downsizing, financial difficulty, and domestic movement of work—were more likely causes of mass layoffs.[11] In any case, the American economy has continued to show remarkable strength in recent years and with a 4.5 percent unemployment rate, there appears to be no chronic shortage of jobs. Since 1996, the American private sector has added a *net* 15 million jobs, hardly evidence of a national crisis necessitating a federal response (Table 1).

Of course, this job churn may mask some frictional unemployment: people who lose their jobs may not be the same who are employed in growing industries. The skills mismatch between

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Table 1
National Job Turnover, Thousands of Private Sector Employees

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

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

employees laid off and employees needed is frequently used as a reason to spend on training programs, aimed at easing the transition. The transition, however, provides benefits of its own. According to Federal Reserve Chairman Ben Bernanke, the average per-hour earnings in manufacturing industries laying off workers was \$10.63 during the 1990s. Service industries, which were expanding over that period, paid average earnings of \$11.26 per hour, a 6 percent gain.[12]

Although some workers will lose more than they gain from trade liberalization, at least in the short term, their numbers are small, and other factors—domestic competition, and changing tastes and technology—are a more important source of change.

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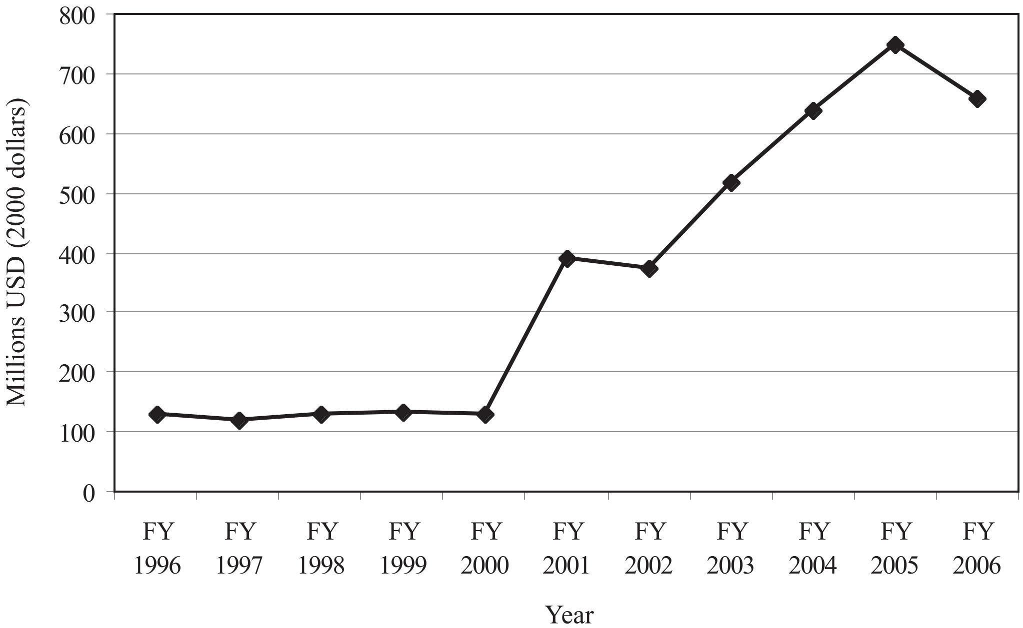
How Trade Adjustment Assistance Works

Congress initially created trade adjustment assistance in 1962 as part of the Trade Expansion Act and as a means of securing support for the Kennedy Round of multilateral trade negotiations. Under the original scheme, responsibility for determining eligibility and distributing benefits was shared between the (Federal) Tariff Commission and state employment agencies.[13] If a group of workers could prove that a rise in imports as a result of prior trade liberalization was a "major factor" in explaining their unemployment, they could receive cash benefits, relocation allowances, and training to facilitate "adjustment" to new jobs.

The Trade Act of 1974 loosened eligibility requirements and increased cash benefits to displaced workers. Rapid growth in the cost of the program followed those changes. The Reagan administration in turn called for reform of the system, which Congress provided in 1981 by imposing stricter tests on the link between imports and job losses, and by lowering cash benefits, although the new rules placed greater emphasis on retraining and on job search and relocation benefits. For example, the 2002 reauthorization expanded the health coverage tax credit and shortened the wait between losing one's job and receiving benefits. But the central idea behind TAA—that compensation for import competition is needed to keep the liberalization ball rolling—has stayed more or less constant.

As changes were made to the program, costs have fluctuated. As a result of the changes

Figure 1
Trade Adjustment Assistance Program Costs (constant 2000 dollars)



Source: Office of Management and Budget, budgets for fiscal years 1996–2006, Department of Labor, www.white house.gov.omb (FY04–08) and FY98–03, www. Gpoaccess.gov/usbudget.
Note: Numbers deflated using Bureau of Economic Analysis price deflator.

in 1981, for example, the cost of the program fell from $1.4 billion in fiscal year 1981 to $101.6 million in FY 1982.[14] The cost of the program peaked in FY 1980, at $1.6 billion.[15] Although they have fallen significantly from that peak, Figure 1 shows that program costs, expressed in constant 2000 dollars, have risen dramatically in recent years compared with a decade ago.

The almost doubling of spending since FY 2002 largely reflects the changes made in the Trade Act of 2002.[16] That Act reauthorized the TAA program through FY 2007 for workers (with separate programs for farmers, fishermen, and firms) adversely affected by import competition, including "secondary workers" employed at upstream producers (e.g., a parts manufacturer) who supplied a firm whose workers were deemed TAA-eligible. Benefits are available also to those workers who can prove that production has shifted to a country with which the United States has a preferential trade agreement, or to which the United States offers unilateral tariff preferences (e.g., many developing countries).

When workers believe they have been adversely affected by import competition or "offshoring," they may petition the Department of Labor for a determination of eligibility. If the petition is accepted, the workers in that group are eligible for individual benefits. Table 2 shows the approximate number of workers covered by certifications (which may be made for an individual factory or group of workers).

The most significant features of the TAA program, generally implemented at state and local levels but overseen by the U.S. Department of Labor, are as follows:

- Reemployment services, such as counseling, resume-writing, and job-search and referral assistance;
- Job search allowance, giving up to 90 percent of certain travel costs up to a $1,250 limit;
- Relocation allowances, including moving

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Table 2
Estimated Number of Workers Covered by Certifications

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

Source: Department of Labor Employment and Training Administration, http://www.doleta.gov/tradeact/taa_certs.cfm.
[a] Estimated by the companies at the time certification is issued. Workers may be reemployed, never laid off at all, or additional workers may be laid off.
[b] From "Trade Adjustment Assistance: Industry Certification Would Likely Make More Workers Eligible, but Design and Implementation Challenges Exist, Report to Congressional Requests," GAO-07-919, June 2007 (Washington: Government Accountability Office).

costs if relocation is necessary, and a lump sum equal to three times the previous average weekly wage (up to $1,250);
- Training—up to a maximum period of two years;
- Income support while the worker is in training, although it is also given in "certain circumstances" even if the worker does not enroll in training (e.g. because of ill health). That income support is generally available for two years, with the first 26 weeks coming from state unemployment insurance (available to all involuntarily unemployed workers regardless of the reason), followed by TAA for the next 26 weeks, and up to 52 weeks of additional benefits to assist the completion of "training." The amount of the income support, called "Trade Readjustment Allowance," is about the same as state-based unemployment insurance, which averages about $280 per week;[17] and
- Health Coverage Tax Credit, covering 65 percent of qualified health insurance premium costs, to those workers who have lost their employer-sponsored coverage.

In addition to the standard TAA program, the Trade Act of 2002 included Alternative Trade Adjustment Assistance (alternative TAA) for older workers, a limited wage-loss insurance program, whereby displaced workers over 50 earning less than $50,000 per year may be eligible to receive half of the difference between their previous and new earnings, up to a limit of $10,000 per year for up to two years.

How the TAA Program Fails Taxpayers, Workers, and the Free-Trade Cause

Unemployment creates hardship for all laid-off workers and their families, no matter what the cause. What, then, explains the different treatment in favor of trade-affected workers? One factor may be that the former has an identifiable foreign cause, whereas, say, technology is seen as having beneficial effects that outweigh its "job destroying" nature.

There is much evidence to suggest that the trade adjustment assistance for workers program is a relic of the past that reflects a different economy in a different political setting. Its philosophical underpinning, program design and administration are badly in need of fresh thinking.

The TAA program is a relic of the past that reflects a different economy in a different political setting.

Over the past three fiscal years (2004 to 2006), the Government Accountability Office estimated that fewer than 100,000 workers sought and received benefits,[18] even though almost 400,000 were certified. The vast majority of U.S. workers laid off because of competition from imports or offshoring do not choose to seek government assistance. Workers displaced by trade appear to want to find new jobs as quickly as possible.

In FY 2006, about 54,000 people received income support, and about 80,700 participated in training, for an estimated cost to the program of $966 million.[19] At a cost of about $12,000 per training participant, it is hard to imagine that better value training would not be available. Of those who exited the program in FY2006, 72 percent were reemployed in the following quarter and were still employed six months later. Those who were reemployed earned, on average, 77 percent of their previous wages.[20]

A recent U.S. International Trade Commission Study found that between 2001 and 2005, workers displaced because of import competition were equally successful at finding new jobs as were other unemployed workers.[21] Studies using earlier data, notably a 2001 study by Lori Kletzer, found that manufacturing workers who were laid off primarily because of strong import competition were less likely to be reemployed and experienced greater losses than workers displaced from industries facing less competition from imports.[22] But that is because of the *sector* in which they were employed, not because of the reason for their unemployment. Manufacturing that is especially vulnerable to import competition happens to employ workers who are older, less educated and have longer tenure, all characteristics that make them less likely to be reemployed no matter what the reason for their unemployment. In other words, the TAA program reinforces misunderstandings about trade, in particular the mistaken belief that the "victims" of trade liberalization are special.

Although the average processing time, formerly a key criticism of the program, has fallen from 96 days in FY 2002 to 31 days in FY 2006,[23] the faster processing time seems to have had unintended consequences. A 2004 Government Accountability Office study found that the shorter deadlines to enroll workers in the TAA program, although designed to deliver assistance quickly to displaced workers, had the effect of misallocating training resources. Workers did not always enroll in the most appropriate courses, as the government agencies sought to fulfill the 40-day processing time limit imposed on them in the 2002 Trade Act.[24] In its most recent assessment, the federal government rated the trade adjustment assistance program as "ineffective" on the grounds that it serves only a subset of affected workers and outcomes fall short of performance targets.[25]

Some advocates of free trade have argued that, because the visible nature of job losses from trade might influence political decisions and halt the pace of freeing trade, these displaced workers deserve special benefits over and above what is paid to those who have lost their jobs for other reasons. While that might be a credible argument when serious trade liberalization efforts are in the balance and need a "final push," that is presently not the case. In fact, organized labor in the United States has continued to push for expanded "trade adjustment assistance" even as they strongly resist any new trade agreements on the grounds that the adjustment assistance given to workers is inadequate and that the country needs a "moratorium on new trade agreements until we can rewrite them to protect and advance workers' interests."[26] Although the AFL-CIO has said it will not lobby actively against the pending preferential trade agreements between the United States and Peru and Panama, it has not given its outright support for the pacts and will oppose the outstanding agreements with Colombia and South Korea. Another coalition of unions, Change to Win, has opposed all pending trade agreements.

With new trade agreements unlikely in the near term, the "grand bargain" argument for TAA vanishes. If these programs ever made political sense—to buy support for trade liberalization—they certainly do not when no further liberalization is in the offing.

Advocates of TAA say that because free trade is not the status quo, changes in policy deserve compensation. In the press release to announce their new trade adjustment assistance bill (see next section), Sens. Olympia Snowe (R-ME) and Max Baucus (D-MT) asserted that "Unlike job losses due to technological advances or competi-

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tion among similarly regulated companies, which result from the initiative of private enterprise, *trade liberalization that sacrifices foundational domestic industries is a policy choice*."[27] Jane McDonald-Pines of the AFL-CIO said in recent congressional testimony that "all workers who are forced to sacrifice their livelihoods so that other Americans may benefit from federal trade policies should be made whole for their loss."[28]

Those statements are based on flawed thinking: removing trade barriers is no more a "policy choice" than allowing domestic competition or new technology to emerge, both of which can also cause job losses. In any case, when a policy choice is made to enact trade restrictions, consumers receive no compensation for their loss. And what are these "foundational domestic industries" that trade liberalization supposedly "sacrifices"? Carpet making? T-shirts? Furniture? While there may be some justification for promoting the domestic production of truly strategic industries (primarily those relating to national defense and intelligence) through subsidies, protecting textiles, clothing, and footwear would not reasonably be part of such a policy.

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Calls for Expanding TAA

One of the key arguments made by proponents of expanding TAA is that the current emphasis in the regulations on workers who make manufactured goods unfairly excludes service workers. In her testimony to a Senate Finance Committee hearing, Jane McDonald-Pines of the AFL-CIO charged that the TAA program was underfunded and badly administrated. She prefaced her remarks by declaring that TAA expansion should occur whether or not trade promotion authority is extended and/or new trade agreements are approved. According to McDonald-Pines, "Millions of workers are suffering from the displacement effects of our trade policies . . .These workers are forced to pay the price for federal policy decisions that benefit other Americans, and they deserve to be made whole for their loss."[29] She recommended extending the program to service workers and even public-sector workers and supports industrywide certification to make determinations more "equitable."

The data show that the main beneficiaries of TAA have indeed been workers previously employed in manufacturing, especially of equipment and textiles (see Table 3). Although services have been flourishing in the United States, labor-intensive manufactures, not typically seen as America's comparative advantage and therefore more vulnerable to competition from imports, comprise the majority of certifications for TAA.

Congress has responded to the call for more resources. Nine separate proposals have been submitted by members of Congress, proposing various expansions and changes to the program, ranging from a simple three-month extension of the current program to significant changes to the level of benefits and the certification process.

In the latter category, Rep. Jim McDermott (D-WA) introduced a bill—HR 2202, the Worker Empowerment Act, with a Senate companion bill introduced by Sen. Charles Schumer (D-NY)—to establish a national wage insurance program to supplement the paychecks of *all* workers who take lower-paying jobs following displacement through no fault of their own (i.e., not just as a result of import competition). The bill allows for half of a worker's lost wages to be replaced by a government check for two years, up to a total of $10,000 per year. Workers earning less than half of the median income will have slightly more than half of their wages replaced, and workers earning above the Social Security base of $94,200 will face phased-down wage replacement rates. The wage insurance would be financed by a tax on employers equal to 0.06 percent of each employee's wages until the worker earns the contribution and benefit base (currently $94,200 per year), which would cost an average $24 per year for each worker covered, with the federal government contributing $7.4 billion to the scheme.[30]

Clearly some workers in certain industries are more at risk of losing their jobs than others. The compulsory scheme proposed by McDermott and Schumer, however, prescribes the same (proportional) premium for all workers, regardless of

Table 3
TAA Distribution of Certifications by Industry, FY2006

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

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

the level of unemployment risk. Employees at a lower risk of job loss are hardly "empowered" by being forced to subsidize the insurance of those more at risk of losing their jobs. Even for the unemployed, the Worker Empowerment Act is anything but empowering. Workers are not empowered if their employer is forced to purchase insurance from the government without any oversight or choice on the part of the worker who is paying for the insurance. Worse, the insurance would act as a tax on employment, placing a further disincentive on the part of employers to hire more workers.

Sens. Max Baucus (D-MT) and Olympia Snowe (R-ME) recently introduced legislation (S. 1848) that would expand the current trade adjustment assistance to include more workers and higher benefits and extend the current program to 2012.[31] The Trade and Globalization Adjustment Act of 2007 seeks to amend the 1974 Act to "address the impact of globalization, to reauthorize trade adjustment assistance, to extend trade adjustment assistance to service workers, communities, firms, and farmers, and for other purposes."[32] The main provisions are an expanded eligibility test, so that service workers and workers whose firms shift production to countries that do not share a preferential trade agreement or nonreciprocal trade preferences with the United States (read: India and China) can claim benefits. Baucus and Snowe proposed to extend TAA to service workers despite the impressive growth in service sector employment since 1997, a sector that now employs 80 percent of the U.S. population. Moreover, many jobs within the service sector, such as professional and business services and education and health services, pay higher wages than manufacturing jobs.[33]

Baucus and Snowe would widen the category of potential beneficiaries to include "communities affected by trade" and allow for "strategic planning grants (with preferences given to rural communities)."[34] Under their bill, a worker can earn up to $60,000 (instead of the current $50,000) before becoming ineligible for trade readjustment allowances or wage insurance, and the maximum two-year benefit is $12,000, up from $10,000. The bill also requires a "coordinated Federal response to economic dislocation in communities negatively impacted by trade."[35] Granted, some costs from import competition are concentrated geographically. But even if it were a federal responsibility to direct relief efforts for communities suffering job losses—which it is not—it can hardly be said that the federal government has proven an effective "coordinated responder" in recent years.

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The fact that we take bad trade policy for granted distorts our perceptions about who deserves to be compensated. Freeing trade is undoing the damage done by prior policy choices.

The Baucus-Snowe bill increases TAA's health insurance tax credit from 65 percent to 85 percent of the premium and "improve[s] coverage of spouses and dependents."[36] And, as if the eligibility criteria were not widened enough, the bill would allow for *industrywide* certification. In other words, if the Secretary of Labor certifies more than three petitions from an industry (e.g., three separate factories within the same industry), laid-off workers from that industry could immediately enroll in the TAA program without their cases being assessed separately. The Baucus-Snowe bill more than triples the allowance for trade adjustment assistance to firms that can prove a decline in their sales of 20 percent over five years. The alternative TAA program would become available for workers as young as 40 (the current eligibility age is 50), with wage replacement of up to $6,000 available if they are reemployed at a lower wage. It doubles the training funding to $440 million per year and inserts an automatic funding reauthorization, even if the previous year's authorization is left partially unspent.

Senator Baucus is also the cosponsor of the Trade Adjustment Assistance Improvement Act of 2007, S. 122, which proposes new channels for initiating a petition for TAA. The bill also ties the granting of TAA to trade remedies cases such as antidumping or countervailing duties and could lead to industrywide certification of workers for TAA. It would also establish yet another administrative office to oversee TAA.

Some academic economists have also proposed changes to the way trade-displaced workers are treated, ostensibly to stem the tide of protectionism. Kenneth F. Scheve of Yale University and Matthew J. Slaughter of Dartmouth have proposed a substantial redistribution of income through changes in the tax system. They suggest eliminating the payroll tax for workers earning less than the national median income. The authors calculate that the 67 million workers earning below the median income would receive a tax cut of about $3,800 each.[37] The shortfall in taxes (about $256 billion) would be paid for by raising the payroll tax on workers earning above median income, increasing the income point (currently $94,200) at which the Social Security tax rate goes down, or both.

Soaking the rich is not a new idea. But it is especially misguided when the solution could have worse consequences than the initial problem. While Scheve and Slaughter argue that "current ignorance about the exact causes of the skewed income growth is not reason for inaction," it is precisely the unknown nature of the rise in inequality—not to mention its disputed extent—that cautions against harsh fiscal action.[38] Their proposal is not conditioned upon further trade liberalization, nor is the tax break given to only those who lose their jobs because of import competition. The risk is that the tax changes would be pocketed by organized labor, yet not placate their demands for a halt to trade liberalization or further expansions in TAA.

Scheve and Slaughter's plan is based on the flawed premise that inequality is inherently unjust. As long as property is acquired legally and not through fraud, inequality is not unfair. Compulsory redistribution of income does not necessarily create a more just society, and in fact is an affront to private property rights. The progressive taxation system already in place in the United States has not appeared to alleviate concerns about income inequality, whether because of trade or other causes, and it is not clear that Scheve and Slaughter's proposal would create a groundswell of support for trade liberalization.

Although their individual policy prescriptions vary, all of the above proposals have a few things in common. First, they advocate an expansion in the size of federal government rather than a fresh look at how individuals can be more free to arrange their own affairs. Second, they rely on the old thinking that trade creates victims, and those victims need extra help (although the potentially very expensive McDermott/Schumer bill would extend wage insurance to all workers).

Third, they are all based on a misguided sense of the proper role of government. Sen. Baucus best summarized this flawed thinking by quoting President Kennedy, who said that "there is an obligation to render assistance to those who suffer as a result of national trade policy."[39] That sentiment is based on two fundamental errors. First, no such obligation exists, at least not in the U.S. Constitution. Second, even if such an obligation existed, consumers are surely well overdue for government assistance in compensation for the injury that they suffer every day as a result of national trade policy, through higher prices and restricted choice. The fact that we take bad trade policy for granted distorts our perceptions about who deserves to be compensated.

Adjustment Assistance for a Free Society

Some of the proposals discussed above are preferable to more extreme actions such as slowing the pace of globalization and withdrawing from current trade liberalization commitments. But a wider discussion would also consider the steps that the government (and others) could take to hold the line against protectionism while still respecting private property and freedom.

Abandoning misguided mercantilist rhetoric and openly acknowledging the true costs of trade restrictions would allow a proper examination of whether TAA is needed at all. Free trade advocates clearly must improve their efforts to promote the benefits of trade and the costs of protectionism, as an antidote to the flawed commentary gaining ground in the public sphere. We should make clear that freeing trade is undoing the damage done by prior policy choices.

Some commentators have attributed Americans' fear of globalization to the importance of employer-provided health care. A relatively large proportion of health insurance is linked to employment in the United States, compared with many countries in, say, Western Europe where socialized medicine is more common. A major change that the government could make in that regard is to reform the tax code so that workers are not penalized for purchasing individual health insurance rather than purchasing their insurance through their employer. That would go a long way toward alleviating the anxiety felt by American workers that if they lost their job, their health insurance would follow.

If workers are able to open portable health savings accounts (HSAs), for example, they could build up reserves in their HSA while they were employed. Those reserves would provide a financial buffer for the time between jobs. It is, of course, a good idea to level the playing field between employer-based and individually purchased health insurance for its own sake, not simply because it would also ease fears about the effects of globalization.[40]

That U.S. companies have more freedom to hire and fire surely accounts for a significant part of the impressive dynamism and flexibility to respond to change exhibited by the United States in recent decades. One only has to compare the U.S. with Germany (unemployment rate in August 2007—9.0 percent) to see that a relatively unfettered labor market is an asset to the economy, and attempts to increase government intervention through new payroll taxes would be counterproductive to efforts to create jobs.

While increased trade necessarily changes the type of skills demanded by employers, government is by the GAO's own admission not the best provider of training or even the most knowledgeable source of the type of training that would best suit workers. In any case, worker training is not a proper governmental responsibility. Education and training are better suited to the more responsive private sector and the government would do best to leave workers free to choose the type of continuing education and training that suits them best.

Conclusion

Trade has been a net boon for Americans, even if it no longer makes economic sense to continue producing certain goods and services on U.S. soil. Opinion polls cannot be ignored, however, especially to the extent that they influence policymakers. Americans' fear of globalization, especially when it threatens jobs, should be acknowledged and confronted. It should be possible, however, to promote free trade and open markets as a matter of principle and without yielding to demands for more income distribution based on a misguided sense of entitlement.

It should be possible to promote free trade and open markets as a matter of principle, without yielding to demands for more income distribution based on a misguided sense of entitlement.

Americans who lose their jobs because of domestic competition, changing consumer tastes, or technological advances are no more or less worthy of government support than those whose jobs are displaced because of rising imports. The changes recommended above should be extended to all workers rather than a selected subset, to reflect the fact that trade accounts for a relatively minor source of unemployment. The government should allow people to adjust to new opportunities, rather than attempting in vain to preserve the status quo.

Certainly it is preferable to harness and redistribute the dynamic, ongoing gains from freeing trade rather than to deny them altogether by protecting chosen domestic industries, especially because the costs associated with adjusting to trade are one-time charges. But a third option exists that would promote freer trade and open markets while limiting the role of government: By making systemic changes—leveling the playing field for individually funded health insurance and increasing labor market flexibility to aid the creation of new jobs—policymakers can enable a more prosperous and free society to emerge.

Notes

1. The government also loses some revenue from trade liberalization. But in the United States, tariffs are not a significant source of government revenue, accounting for only 1 percent of revenue ($24.8 billion in customs duties and fees out of $2.4 trillion in total federal receipts) in FY2006. Council of Economic Advisers, *Economic Report of the President* (Washington: Government Printing Office, 2007), Table B-81.

2. Polling data from http://www.pollingreport.com/trade.htm.

3. The program was originally slated to expire on September 30, 2007. Congress approved a three-month extension to allow more time to work on broader changes.

4. Scott C. Bradford, Paul L. E. Grieco, and Gary Clyde Hufbauer, "The Payoff to America from Globalization," *World Economy* 29 (July 2006): 893-916, July 2006.

5. Ibid., pp. 893–916.

6. Program on International Policy Attitudes, *Americans on CAFTA and US Trade Policy*, July 11, 2005, http://www.pipa.org/OnlineReports/Globalization/CAFTA_Jul05/CAFTA_Jul05_rpt.pdf.

7. German Marshall Fund of the United States, *Perspectives on Trade and Poverty Reduction: Key Findings Report 2005*, http://www.gmfus.org/doc/Final%20Survey%20Report%201205.pdf

8. Brink Lindsey, "Job Losses and Trade: A Reality Check," Cato Institute Trade Briefing Paper no. 19, March 17, 2004.

9. Council of Economic Advisers, "The History and Future of International Trade," *2006 Economic Report of the President* (Washington: Government Printing Office, 2006).

10. Lori Kletzer, *Job Losses from Imports: Measuring the Costs* (Washington: Institute for International Economics, 2001), cited in Ben Bernanke, Remarks to the Fuqua School of Business, Duke University, March 30, 2004, http://www.federalreserve.gov/boarddocs/Speeches/2004/20040330/default.htm.

11. Jacob Funk Kirkegaard, "Offshoring, Outsourcing, and Production Relocation—Labor-Market Effects in the OECD Countries and Developing Asia," Peter G. Peterson Institute for International Economics Working Paper WP 07-2, Washington, April 2007, http://www.petersoninstitute.org/publications/interstitial.cfm?ResearchID=730.

12. Bernanke.

13. The focus of this study is on trade adjustment assistance for workers. Trade adjustment assistance for firms and for farmers is provided by separate programs. Until 2002, workers displaced because of the effects of the North American Free Trade Agreement were treated separately. The 2002 reauthorization of TAA repealed the NAFTA-TAA program and merged it with the regular TAA program.

14. James A. Dorn, "Trade Adjustment Assistance: A Case of Government Failure," *Cato Journal* 2, no. 3 (Winter 1982): 865–905.

15. Paul J. Graney, "Trade Adjustment Assistance for Workers: Legislation in the 107th Congress," Congressional Research Report, October 4, 2002.

16. The 2002 Trade Act was a "package deal": it also renewed trade promotion authority, extended tariff preferences given to some developing country products, funded the U.S. International Trade Commission and Office of the United States Trade Representative, and outlined various other trade and customs provisions.

17. Council of Economic Advisers, *Economic Report of the President*, February 2007, Table B-45.

18. Lori Montgomery, "Aid May Grow for Laid-Off Workers: Service Jobs Lost to Global Trade Are Focus of Bills," *Washington Post*, July 23, 2007.

19. U.S. Department of Labor, "Trade Adjustment Assistance (TAA) Program Overview," Employment and Training Administration, http://www.doleta.gov/tradeact/docs/FactSheet.pdf.

20. Ibid.

21. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints: Fifth Update," Investigation no. 332-325, Publication 3906, February 2007.

22. Kletzer.

23. United States Department of Labor, "Overview of Trade Adjustment Assistance (TAA) Program," November 15, 2006, http://www.doleta.gov/tradeact/taa/ProgramOverviews.cfm.

24. U.S. Government Accountability Office, "Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain," Report to the Committee on Finance, U.S. Senate, September 2004, GAO-04-0102, www.gao.gov/cgi-bin/getrpt?GAO-04-1012.

25. U.S. Office of Management and Budget, "Trade Adjustment Assistance Assessment (2003)," http://www.whitehouse.gov/omb/expectmore/detail/10000340.2007.html accessed September 20, 2007.

26. AFL-CIO Executive Council, "Time for Bold Action on Trade," February 27, 2006, http://www.aflcio.org/issues/jobseconomy/globaleconomy/upload/Exec.Council.Statement.Trade.doc.

27. U.S. Senate, "Baucus, Snowe Unveil Bold Proposal to Refine, Expand Trade Adjustment Assistance," Press release, July 23, 2007, http://www.senate.gov/~finance/press/Bpress/2007press/prb072307.pdf

28. Jane M. McDonald-Pines, Workforce Policy Specialist, American Federation of Labor and Congress of Industrial Organizations, Testimony before the Senate Committee on Finance, June 6, 2007.

29. Ibid.

30. Average annual cost per worker based on calculations provided by Rep. Jim McDermott at the seminar "Workers and Globalization: The Need for a New Deal," Carnegie Endowment for International Peace, Washington, April 24, 2007.

31. Rep. Charles Rangel circulated a discussion draft bill in October 2007 that contains many similar provisions to those proposed by Sens. Max Baucus and Olympia Snowe.

32. Trade and Globalization Adjustment Act of 2007, S. 1848, July 23, 2007, preamble.

33. Dan Griswold, "Trading Up: How Expanding Trade Has Delivered Better Jobs and Higher Living Standards for American Workers," Cato Institute Trade Policy Analysis no. 36, October 25, 2007.

34. U.S. Senate press release.

35. Ibid.

36. U.S. Senate press release.

37. Kenneth F. Scheve and Matthew J. Slaughter, "A New Deal for Globalization," *Foreign Affairs*, July/August 2007. The authors' calculations were based on 2005 data.

38. Scheve and Slaughter.

39. "Trade and Globalization: Adjustment for a 21st Century Workforce," Opening Statement by Sen. Max Baucus, June 6, 2007, http://www.finance.senate.gov/press/Bpress/2007press/prb060607.pdf

40. For more on the benefits of portable health savings accounts, see Michael F. Cannon, "Health Savings Accounts: Do the Critics Have a Point?" Cato Institute Policy Analysis no. 569, May 30, 2006, http://www.cato.org/pubs/pas/pa569.pdf.

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