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## Congressional Testimony on the Effectiveness of Trade Adjustment Assistance and Suggestions for Improving the Program

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# Congressional Testimony on the Effectiveness of Trade Adjustment Assistance and Suggestions for Improving the Program

Louis S. Jacobson  
*W.E. Upjohn Institute*

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**CONGRESSIONAL TESTIMONY ON THE  
EFFECTIVENESS OF TRADE ADJUSTMENT ASSISTANCE  
AND SUGGESTIONS FOR IMPROVING THE PROGRAM**

**(Before the House Committee on Ways and Means, Subcommittee on Trade)**

**Upjohn Institute Staff Working Paper 92-12**

**1 August 1991**

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## **Testimony on the Effectiveness of Trade Adjustment Assistance and Suggestions for Improving the Program<sup>1</sup>**

In this testimony, I will sketch key findings from research that I conducted with others, bearing on the justification and effectiveness of trade adjustment assistance.

Most economists agree that protecting workers from the negative consequences of the North American Free Trade Agreement is appropriate, since we believe that a measure is unambiguously good only when some benefit, but no one is hurt.

Even if trade liberalization is only a minor source of job loss, when many workers are hurt by imports, trade often is restricted. Thus, an effective assistance program can counter a drift toward protectionism that would be far more costly than compensating job losers. For example, in the early 1970's, quotas cost steel users \$11 billion, while removing those quotas would have cost workers, at most, \$1.5 billion.

A key problem is that gains per person are small, while the losses per person are large. Even worse, many workers not adversely affected feel threatened. Thus, losers have strong incentives to restrict trade, compared to incentives gainers have to make trade freer. This is a situation where providing all threatened workers with insurance would increase the general welfare at a modest price.

To reduce workers' fears, the TAA program must effectively compensate losers. Because the cost of job loss is high, benefits per person need to be substantial. Four years after displacement, 60 percent of high-tenure job losers typically have not found similar work and have earnings reduced by 50 percent. Even job losers who find similar work suffer reductions in earnings from 12 to 22 percent.

Job loss is common even in prosperous times, but paradoxically, even in the worst of times, roughly two-thirds of laid-off workers are recalled. In short, most workers adversely affected by trade liberalization need protection for less than 2 years, while a minority face permanent earnings reductions.

TAA extends UI payments by 26 weeks. Even in the early 1980's, UI plus TAA virtually eliminated the incidence of large losses among trade impacted workers for the first two years following jobs loss given the workers were covered by TAA. That is the good news.

The bad news is that many workers with large losses did not return to similar jobs within two years, and therefore, were not adequately protected even if covered by TAA.

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<sup>1</sup>This three-page statement was read at the hearing and reprinted in: Hearing Before the Subcommittee on Trade of the Committee on Ways and Means, House of Representatives, August 1, 1991, 102nd Congress, 1st Session, Serial 102-56, Washington, D.C.: U.S. Government Printing Office.

TAA now provides training vouchers often worth \$12,000 or more. Unfortunately, training programs targeted on dislocated workers have been shown to have very limited success. Even under highly optimistic assumptions, an investment in training of over \$100,000 would be needed to offset the costs of job loss.

The GI bill is a precedent for providing assistance of that magnitude. In 1967, the GI bill provided inflation-adjusted benefits of \$80,000. High-tenure dislocated workers are unlikely to benefit from a similar program, however. They are older than vets, already have marketable skills, and sometimes are lacking basic education.

The bottom line is that training is not a panacea for dislocated workers. In fact, placement services, other job search assistance, and counseling have been shown to be as effective as training, just much less expensive.

My research strongly supports that view. The huge earnings difference between finding and not finding similar work suggests helping job losers to locate similar jobs could be equivalent to providing a \$100,000 annuity.

Equally important, plenty of comparable jobs are available. In Pittsburgh, between 1978 and 1982, one-quarter of all manufacturing jobs were filled by new hires. Even though net employment fell by 15 percent, quits and retirement opened enough job slots, so every displaced worker could have remained in that sector.

In addition, the employment service has been shown to help dislocated UI exhaustees return to work 9 weeks sooner. Initially pay is below predisplacement levels, but pay grows substantially. Yet, without outside help, dislocated workers find accepting pay cuts difficult, particularly while receiving UI.

Thus, my central policy conclusion is that the combination of UI and TAA does a good job in protecting the majority of trade impacted workers. But available funds would be better spent by helping dislocated workers find jobs, particularly by adequately funding the employment service.

Improving the coordination between EDWAA and the ES also would help, as would improving the monitoring of UI claimants' job search.

A more innovative approach, with a good chance of success, is offering wage subsidies or reemployment bonuses. Such measures should encourage more rapid return to work and at least partially offset wage reductions.

Finally, we should remember that high-tenure workers need protection against sources of job loss other than government actions. Workers should be willing to pay for that protection, and many unionized workers have done just that. The government can play a key role, by

encouraging labor and management to adopt measures to deal with job loss. As many workers learned in the early 1980's, by the time a threat is apparent, it is too late to solve the problem.

Improving TAA is difficult, but fairness suggests the threat to workers livelihoods inherent in the NAFTA should be reduced, and common sense suggests reducing the threat is the key to maintaining free trade.

I hope this testimony will contribute to making a good program better. I am very grateful for this opportunity to discuss trade adjustment assistance with you.

Thank you.

## **Prepared Statement Submitted for the Record on the Effectiveness of Trade Adjustment Assistance and Suggestions for Improving the Program**

### **SUMMARY**

There is a wide consensus among economists that protecting workers from the potential negative consequences of the North American Free Trade Agreement (NAFTA) is equitable. Even if trade liberalization is only a minor source of job loss, the history of U.S. trade policy suggests that when many workers are hurt by imports trade is restricted. Thus, in the absence of an effective trade adjustment assistance program there would be a drift towards protectionism that would be far more costly to our nation than compensating job losers.

By extending the duration of UI payments TAA has the salutary effect of targeting most of the payments on workers who would otherwise have by far the greatest losses. My research on TAA shows that UI and TAA effectively offset losses due to unemployment, but were ineffective in dealing with losses due to reduced wages while employed. Even recent changes that offer \$12,000 training vouchers would fail to offset the costs of job loss for most high-tenure workers. Realistically, an investment of over \$100,000 would be required to offset the costs of job loss.

The Viet Nam era G.I. Bill provided adjustment assistance of the magnitude needed to offset the costs of jobs loss, and much of that program's success was directly related to its encouraging long-duration, full-time training. Unfortunately, the success of the GI Bill is not likely to be duplicated if targeted on high-tenure dislocated workers. Further, there is clear evidence that less expensive training programs targeted on dislocated workers similar to EDWAA programs had only limited success.

On the other hand, there is equally clear evidence that placement services, other types of job search assistance, and counseling are as effective as training programs, just much less expensive.

My primary recommendation for improving TAA, therefore, is to place more emphasis on job search assistance, particularly by providing adequate funding to the employment service (ES), and placing less emphasis on much more costly training. Better coordination between EDWAA and the ES also is important.

Finally, the government should play a major role in educating workers and employers to recognize that the probability of job loss is high over the life of most jobs, and can result from many other factors besides import competition. Waiting until the threat is apparent will make solving the problem almost impossible.

The remainder of this statement examines:

1. The justification for TAA.
2. The effectiveness of TAA in reducing losses for workers who are recalled or find similar jobs.
3. The effectiveness of TAA and EDWAA training in offsetting losses for job losers unable to find similar jobs.
4. How TAA can be made more effective by better balancing training and transfers with direct job placement services.

### **THE JUSTIFICATION FOR AIDING WORKERS HURT BY TRADE LIBERALIZATION**

TAA is of great interest to policy orientated economists because it is one of very few attempts by government to redistribute the benefits of government action to compensate the losers. Most economists strongly believe that only when a program benefits some individuals and hurts no one is it unambiguously "good". Even among conservative economists there is growing recognition that labor adjustment costs imposed by trade liberalization can be substantial, and therefore, government should act to redistribute the gains from liberalization so nobody loses.

Thus, there is a wide consensus among economists that protecting workers from the potential negative consequences of the North American Free Trade Agreement (NAFTA) is equitable and appropriate. Although few economists question the rationale behind TAA, they do question whether TAA fulfills its appropriate mission.

On the one hand there is a major question whether TAA compensates workers hurt by government actions to liberalize trade rather than workers hurt by failures of U.S. companies to compete in world markets. On the other hand there is a major question of whether compensation paid to dislocated workers comes close to offsetting the costs of job loss.

It is difficult to produce hard evidence on whether or not workers who receive TAA are hurt by trade liberalization per se, but there is little doubt that the certification process is reasonably effective in carrying out the letter of the Trade Reform Act by isolating cases where increased imports contribute importantly to employment reductions.

Probably trade liberalization is only a minor source of job loss. But the history of U.S. trade policy suggests that when many workers are hurt by imports trade is restricted through quotas (steel) or orderly market agreements (autos and textiles). Thus, in the absence of an effective trade adjustment assistance program there would be a drift towards protectionism that would be far more costly to our nation than compensating job losers in a way that encourages firms to meet foreign competition.

A typical example of the benefits of trade liberalization comes from a DoL sponsored study of the costs of removing steel quotas in 1974 that I helped carry out. Our estimates were that the gains to domestic users of steel would exceed \$11 billion over a five year period, while the costs to workers losing jobs would be at most \$1.5 billion. (Losses in tariff revenue would equal \$3 billion, and losses in domestic steel profits \$4 billion, reducing the net gain to a "mere" \$2.5 billion.)

In short, the key problem facing Congress is that the threat from the NAFTA is widespread even though the actualization of the threat very likely will be narrow. Thus, a system that provides all threatened workers with insurance, yet only pays out benefits to a small group, should not be costly but do a great deal to increase the general welfare.

Insurance is a potent remedy because the probabilistic nature of job loss is extremely difficult for the average citizen to deal with rationally, and has caused immense problems even for experts. As Martin Gardner the puzzle editor for The Scientific American stated "In no other branch of mathematics is it so easy for experts to blunder than in probability theory." It has even been observed that occasionally a Congressman faced with a small, but non-zero, probability of job loss has become preoccupied with reducing that probability to zero. Thus, Congressmen should understand why workers who feel threatened by the NAFTA often are not reassured by accurate statements that the risks are small. Faced with this fear of the unknown the technically correct solution is to provide insurance against the potential risk!

In my view the strongest argument in favor of trade adjustment assistance is that in its absence the movement towards freer trade could be stifled. Given its low cost relative to the gains from trade, not having an effective program would be "penny wise but pound foolish" if at some point the costs of liberalized trade become so great that those adversely affected succeed in restricting free trade.

## **THE EFFECTIVENESS OF TAA IN COMPENSATING WORKERS HURT BY TRADE LIBERALIZATION**

But even if Congress finds TAA acceptable in principal, an issue of central importance is whether or not the TAA program effectively compensates losers. This is a far more concrete question, and is addressed by the bulk of my research.

In order to determine how well TAA offsets the losses imposed on workers by import competition, it is necessary to understand how firms adjust employment levels to demand shocks. Importantly, our knowledge of the adjustment process has been greatly expanded by recent research using data describing the actions of individual workers and firms. For example, much of the research I will discuss today used a data base derived from Pennsylvania UI records that covers the actions of all 450,000 firms and over one million workers from 1974 through 1990.

In the U.S., manufacturing firms faced with sudden reductions in demand tend to layoff large numbers of workers and then recall them as needed. This creates a situation where initially the costs are widely distributed and not particularly large per person, especially given that laid-off manufacturing workers are likely to receive unemployment insurance (UI).

If demand reductions are mild, the duration of unemployment will be short and few workers will lose jobs. Attrition, retirements and quits, is sufficient to reduce employment in a firm by a minimum of five percent a year in low turnover industries such as steel and autos, and by over 25 percent in high-turnover industries such as apparel.

If demand reductions are severe, workers will not be recalled for prolonged periods. Even these events will not necessarily be costly to most workers. Firms reduce the costs of permanent layoffs by releasing low tenure workers who can adjust most easily, and often by encouraging older workers to voluntarily leave by offering incentives to retire early.

If plants close or mass layoffs occur, the costs to many workers is likely to be great. My most recent analysis done with Robert LaLonde of the University of Chicago and Daniel Sullivan of Northwestern University suggests that high-tenure workers regardless of industry can not easily find comparable jobs, and when displaced, suffer substantial permanent earnings reductions.

Unfortunately for the NAFTA, the highest concentration of high-tenure workers is in trade-sensitive durable manufacturing industries such as steel and autos. Workers in those industries are particularly vulnerable to costly job loss because most promotions are from within, and wages are exceptionally high given that most workers have no more than a high school education.

As a result, competent workers are very unlikely to voluntarily leave these jobs, and if forced to leave they generally have to start near the bottom of the promotion ladder. We found that four years after displacement about 40 percent of durable manufacturing workers found similar jobs. Depending on how similar those jobs were, earnings ranged from 12 percent to 22 percent below what they would have been had the workers not been displaced. The losses of the workers who did not find similar jobs, however, averaged about 50 percent.

Clearly, job loss represents a major threat to the well being of an important segment of the U.S. work force. Evidence from DoL surveys shows that threat is quite real. Over a five year period about one worker in ten will be forced out of his or her job. Even in prosperous times some plants close and others experience major employment cutbacks. But the largest threat to high-tenure workers occurs during recessions.

The current recession is mild, but fresh in the memory of most workers is the unprecedented restructuring of the early 1980's when job loss among high tenure manufacturing workers was widespread. For example, steel employment plummeted almost 50 percent from

570,000 in 1979 to 303,000 in 1985. The costs imposed on most of those steel workers were huge.

Paradoxically, even during the worst downturn since the Great Depression roughly two-thirds of the laid-off workers were recalled. About half of those recalled were unemployed for less than six months. Many workers who were unemployed for a prolonged period found comparable new jobs. Perhaps one-sixth of all workers had little hope of finding comparable jobs and waited for recall. Ultimately, many of those workers were recalled.

For example, many auto workers were recalled. Auto employment plummeted 30 percent, from one million workers in 1978 to 700,000 in 1982, but rebounded to 883,000 workers by 1985. The net loss of jobs 1982-85 was about 12 percent, but some of the rebound was due to growth in new plants. Net job loss in Michigan was close to 17 percent.

Ideally, workers hurt by trade liberalization should be protected against all types of temporary and permanent dislocation. Currently, TAA extends regular UI payments by an additional 26 weeks over a two year period. When the Extended Benefit program triggers-on workers commonly are entitled to 26 weeks of regular UI, 13 weeks of EB, and 26 weeks of TAA. Although benefit levels are at best half of the weekly wage, the combination of UI plus TAA provides a reasonable cushion during periods of prolonged joblessness. During the recessions in the early 1980's many workers certified eligible for TAA received over \$20,000 from a combination of UI plus TAA benefits.

By extending the duration of UI payments TAA has the salutary effect of targeting most of the payments on workers who would otherwise have by far the greatest losses. A study I did in 1984 with Maureen Cropper of the University of Maryland examined how well UI and TAA offset the losses of workers with large losses during the two year period covered by TAA. (Large losses were defined as greater than 30 percent of prior earnings). We found that UI alone cut the fraction of trade-impacted workers with large losses from 19 percent to under seven percent. TAA further reduced the large loss group to under three percent by paying close to 60 percent of all benefits to members of that group.

That is the good news. The bad news is that a small fraction of those whose large losses were offset during the period TAA was in effect ultimately did not return to the same or similar jobs. Those workers experienced long-term earnings reductions that were not compensated by TAA.

TAA offered relocation allowances and helped certified workers obtain training on a voluntary basis. But the take-up rate for those services were low, suggesting these measures did not solve the problem. Thus, we concluded TAA was effective in dealing with income lost due to unemployment, but ineffective in dealing with losses due to reduced wages while employed.

## **HOW TAA CAN AID WORKERS WHOSE EARNINGS ARE PERMANENTLY REDUCED: THE EFFECTIVENESS OF TRAINING VERSUS JOB PLACEMENT**

In late 1988 the TAA program was changed to provide training vouchers that currently pay up to \$12,000, and required certified workers to sign-up for training prior to receiving TAA payments, or obtain a waiver. How effective was this change in eliminating permanent losses? The honest answer is that no one knows for sure, although we may have a better idea when results of a DoL sponsored TAA study become available in January.

Nevertheless, I can make a reasonable upper bound estimate of the ability of TAA to offset losses of a displaced worker earning \$24,000 prior to job loss, whose earnings would decline by 30 percent with no training. If that person used the full \$12,000 voucher, and enrolled in training for the entire two year period covered by TAA instead of working, he or she would forego earnings of \$33,600 ( $2 \times .7 \times \$24,000$ ). But UI plus TAA compensation would cut that loss in half, making the net investment \$28,800 ( $.5 \times \$33,600 + \$12,000$ ). A high estimate of the real return on that investment would be 7 percent. Thus, earnings would be permanently raised by \$2,016 ( $.07 \times \$28,800$ ) or 8.4 percent of prior earnings. Thus, the loss would only be reduced from 30 percent to 21.6 percent.

This is a high estimate of the value of the voucher because workers are not likely to use all of the voucher, enter full-time training programs of two year duration, or obtain such a high rate of return from the training. In addition, the bulk of the investment comes from the workers' own contribution in foregone earnings. Thus, it is unlikely that even the recent changes will offset the costs imposed on trade-impacted workers with large losses.

Realistically, an investment of over \$100,000 over four years, roughly equivalent to obtaining a bachelors degree, would be required to offset the costs of job loss for steel or auto workers. The large investment needed to offset costly job loss of high-tenure workers is an illustration of Milton Friedman's famous axiom: "There is no such thing as a free lunch".

There is a precedent for providing adjustment assistance of the magnitude needed to offset the costs of jobs loss. The most highly regarded adjustment program in U.S. history, the G.I. Bill, was much more generously funded, offering Viet Nam era veterans more than \$80,000 in today's purchasing power over a 45 month period.

Much of program's success was directly related to its generosity. A major strength of the GI Bill was that the offer of large stipends induced veterans to make equally large contributions in terms of foregone earnings. This cost sharing made it possible for vets to complete academic and vocational programs that required two or more years of full-time attendance. A study by Dave O'Neill showed that the high rate of return to the G.I. bill almost exclusively was due to participation in these long-duration, full-time programs.

Unfortunately, the success of the GI Bill is not likely to be duplicated if targeted on high-tenure dislocated workers. GI bill participants usually were young and had not established themselves in careers. Training is likely to be most potent in helping workers gain entry level positions at jobs with strong growth potential. Most dislocated workers already have marketable skills, and often lack the academic skills needed to enter programs leading to entry-level high-wage non-manufacturing jobs.

Perhaps most important until the late 1960's vets had to compete for relatively few training slots and pay high fees. Today, states have vastly expanded community college systems that dramatically expanded slots and reduced direct costs. Thus, dislocated workers usually have ample opportunities to combine low-cost study with work.

Analysis of the G.I. Bill suggests TAA training vouchers will produce only modest gains. Other evidence points in the same direction. Duane Leigh of Washington State University has surveyed studies of the effectiveness of training targeted on dislocated workers and unequivocally concluded that those programs had very limited success. All the programs studied were similar to those funded under EDWAA and all were much less generously funded than the G.I. Bill or even TAA vouchers.

Thus, TAA training should be more effective than EDWAA training, and certainly would be viewed much more favorably by workers. The basic structure of TAA and the GI Bill is identical. TAA provides relatively generous training vouchers and subsistence payments. EDWAA does not provide subsistence payments making it much harder to attend full-time programs, and typically does not spend as much per person on training. Perhaps most important, the TAA voucher gives workers the flexibility to enter EDWAA programs, or choose alternatives programs they feel would be better. Finally, TAA is an entitlement program while EDWAA receives a fixed amount of money. The availability of EDWAA training could be limited in periods when it is most needed.

One advantage of EDWAA is that it provides services in addition to training, including programs to teach workers how to search for jobs on their own, direct job placement services, and counseling. Even if the EDWAA training component is less effective than the TAA training component, EDWAA's total package could be more effective. The value of direct placement services and counseling under EDWAA could be particularly important because state employment security agencies which administer the TAA program and run the state Employment Service (ES) are strapped for funds. Thus, they have had to cut services in recent years.

My view, and that of the majority of analysts who have closely examined the options, is that placement services, other job search assistance, and counseling have been undervalued by the Department of Labor and Congress. Research clearly shows programs featuring job search assistance are as effective as training programs, just much less expensive.

For example, Duane Leigh has written:

*"The recommendation that emerges most strongly from the empirical evidence analyzed ... is that job search assistance should be the core service on the menu of adjustment services offered displaced workers. ... If offered at all, skill training provided in a class room setting should be limited to carefully screened trainees whose specific needs can be adequately matched with local training resources."*

Much of my research strongly supports the view that job search assistance should be far more effective than training. One key piece of information has already been mentioned and merits reemphasis. Dislocated manufacturing workers who find comparable jobs experience relatively modest losses, while similar workers who can not find comparable jobs incur huge losses. We believe the reason for the difference is that workers who find comparable jobs use the skills and talents they developed over their lifetime, those who enter most service sector jobs are not nearly as productive.

Equally important, research suggests that plenty of comparable jobs are available. I examined the flow of workers into and out of manufacturing in Pittsburgh. As amazing as this might seem, even at the height of one of the greatest declines in U.S. history when durable manufacturing employment fell 14 percent between 1978 and 1982, workers hired into durable manufacturing equaled 25 percent of 1978 employment.

That hiring was necessary because attrition, quits and retirements, would have reduced employment by 39 percent. About half the outflows were due to retirements or exits from the Pittsburgh labor market. Thus, there was plenty of opportunity for workers displaced from durable manufacturing to remain in that sector. Even if every displaced worker remained in that sector, there would have been a need to hire many workers with no previous experience in manufacturing.

Finally, Arnold Katz of the University of Pittsburgh and I examined the effectiveness of the employment service's (ES's) labor exchange in aiding dislocated workers. Our results show that dislocated workers who exhaust UI and seek assistance from the ES return to work nine weeks sooner than did similar non-users. Given that the average cost of these services is only about \$75, the program very likely pays for itself in increased taxes. In addition, we found that direct placement by the ES reduced the joblessness among UI exhaustees by 18 weeks. Initial pay at the jobs found by the ES was considerably lower than pre-displacement pay. But after four years the pay levels grew substantially, and exceeded levels obtained by similar workers who did not use the ES by about 20 percent.

That pay levels rose substantially is extremely important. This is evidence that available jobs offer growth potential and taking those jobs is a superior alternative to continuing to search while unemployed. Yet without counseling and other services dislocated workers find it very difficult to accept jobs that pay substantially less than the jobs they lost. The disinclination to accept those jobs is particularly great when UI is available.

To counter those disincentives the UI system has experimented with cash bonuses. Stephen Woodbury and Robert Spiegelman of the Upjohn Institute showed that bonuses were especially effective when UI benefits are extended beyond 26 weeks, as they are in the TAA program. Thus, a bonus as an alternative to training makes sense. Delays in certifying workers eligible for TAA, however, could weaken the bonus's effectiveness. An even more promising approach is offering wage subsidies. A key advantage of a subsidy is that it could pay benefits for a long period offsetting permanent wage reductions. For low income workers the Earned Income Tax Credit has received wide praise and a similar program for trade-impacted workers could be highly effective.

### **MAKING TAA MORE EFFECTIVE BY MAKING DIRECT PLACEMENT SERVICES AND OTHER FORMS OF JOB SEARCH ASSISTANCE MORE AVAILABLE**

Despite the wide acceptance among labor economists of the powerful evidence that job search is an effective, low-cost means to reduce the costs of jobs loss, training remains far more popular "inside the beltway". One of my main interests in testifying today is to describe the facts that are needed to reach an objective view of the appropriate balance among training, transfer payments, and job search assistance.

In the past, Congress and the Administration has favored training at the expense of job search assistance. Thus, in my view the central issue is should Congress spend additional money on training targeted on one specific group, given the large amount of public and private money already spent on training? I do not doubt that training is very valuable under the right circumstances, only whether spending more money on training is the most effective way to aid dislocated workers.

Perhaps the best reason to begin to redress the balance between job search assistance and training is that high-tenure dislocated workers place training very low on the list of actions they want taken to offset the cost of job loss. At the top of the list is transfer to comparable jobs in the same company, followed by assistance to locate comparable jobs in the same community, and if that proves difficult, programs to cover the costs of relocation to areas where comparable jobs can be found.

In my view dislocated workers are in the best position to evaluate what services will help them most. And their view is realistic given the marketability of present skills versus their ability to acquire new skills that can lead to high-wage jobs.

Importantly, dislocated workers match their words with actions. The UAW-Ford and UAW-GM "nickel" and "dime" funds offer substantial training benefits, but have not been widely used or proven able to provide skills needed for auto worker to find comparable paying jobs outside of manufacturing. The most effective use of these programs, and similar programs in

other industries, is to coordinate the upgrading of skills with major investments in new equipment within the same plant or same company.

## CONCLUSION

Much of this testimony has focused on a particularly thorny problem--how to aid high-tenure trade-impacted workers who lose jobs. It is important to remember that the combination of UI and TAA does an effective job in offsetting losses from the vast majority of trade-impacted workers.

But my central point is that because of the probabilistic nature of job loss, every worker feels some threat of job loss from the NAFTA. Even if only high-tenure workers are deeply disturbed by this threat, fairness suggests that threat should be reduced, and common-sense suggests reducing that threat is a key to maintaining free trade.

Reducing the cost of job loss for high-tenure workers probably is beyond the means of government action alone. Offsetting the earnings losses could cost over \$100,000. But available funds could be better spent by placing more emphasis on job search assistance, particularly by providing adequate funding to the ES, and placing less emphasis on much more costly training. Improved coordination between EDWAA and the ES also could increase the effectiveness of current expenditures by reducing duplication and increasing access to counseling and job development services. In addition, the UI and ES systems could do a better job of focusing benefit payments on those most in need by monitoring claimants job search more closely.

Finally, it might appear my assessment is a gloomy one--failure to more generously fund trade adjustment assistance might ultimately lead to a retreat from free trade. The probabilistic nature of job loss, however, provides strong justification for workers and firms joining with government to put in place the "safety net" needed to aid dislocated workers.

Of central importance, import competition is not the only source of job loss, only one of very few causes where there is even reasonably widespread agreement the government should offset the costs. High-tenure workers should be willing to insure themselves against other sources of job loss. Unionized workers in autos, steel, communications and other industries have taken action to do just that by providing severance pay, training funds, and early retirement packages.

Government could expand the UI system to provide severance pay for all high-tenure workers, and make loans available so workers can retrain both on the job and after they are dislocated. But both of these steps would cost money and might not be necessary. Perhaps the best step government can take is to help workers and employers recognize that the probability of job loss is high over the life of most jobs, and waiting until the threat is apparent will make solving the problem almost impossible.

Clearly, there are very substantial problems in designing an effective program to aid workers adversely affected by trade liberalization given resources are limited. I hope this testimony has provided some information that will make a very difficult task at least a little easier. I am very grateful for the opportunity to discuss TAA with you.