



# Trade Adjustment Assistance for Firms: Economic, Program, and Policy Issues

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## Summary

Economists generally acknowledge that trade liberalization enhances the economic welfare of all trade partners, but with stiffer global competition, many firms and workers also face difficult adjustment problems. Congress has responded to these adjustment costs by authorizing four trade adjustment assistance (TAA) programs to assist trade-impacted workers, firms, farmers, and communities. This report discusses the TAA program for firms (TAAF). The TAAF program provides technical assistance to trade-affected firms to help them develop strategies and make other adjustments to remain competitive in the changing international economy. The 111<sup>th</sup> Congress authorized the program through February 12, 2012, and it continues to operate at FY2010 levels of \$15.8 million under a continuing resolution (see CRS Report RL30343, *Continuing Resolutions: Latest Action and Brief Overview of Recent Practices*, by Sandy Streeter.)

Congress first authorized TAA in Title III of the Trade Expansion Act of 1962 (P.L. 87-794), including a new firm and industry assistance program, which is administered by the Economic Development Administration (EDA) of the U.S. Department of Commerce. It provides *technical assistance* to help trade-impacted firms make strategic adjustments, which may allow them to remain competitive in a global economy. Originally firm TAA also included loans and loan guarantees, but Congress eliminated all direct financial assistance in 1986 because of federal budgetary cutbacks and concern over the program's high default rates and limited effectiveness.

Debate early in the 111<sup>th</sup> Congress over TAA reauthorization led to a February 5, 2009, bipartisan agreement to expand and extend existing programs for workers, firms, and farmers, and to add a fourth program for communities. The agreement became part of the American Recovery and Reinvestment Act of 2009 (P.L. 111-5—the Stimulus Bill). Congress changed the TAA for Firms program in a number of important ways. It expanded eligibility for trade adjustment assistance to include services firms, authorized an extension of the program through December 31, 2010, increased annual authorized funding levels from \$16 million to \$50 million, provided greater flexibility for a firm to demonstrate eligibility for assistance, established new oversight and evaluation criteria, created a new position of Director of Adjustment Assistance for Firms, and required submission to Congress of a detailed annual report on the TAAF program.

Authorization of the TAA programs was set to expire on January 1, 2011. The Omnibus Trade Act of 2010 (H.R. 6517), which the House and Senate passed on December 22, 2010, extended the TAAF program through February 12, 2012. However, because of expiring language in the act, those expanded provisions covering eligibility for services firms and other matters passed in the ARRA all expired on February 12, 2011, although the program continues to be authorized and operate at FY2010 levels of \$15.8 million under the continuing resolution.

On February 8, 2011, S. 308, the Trade Extenders Act of 2011 was introduced in the Senate. This bill would authorize the TAA for Firms program to operate through June 30, 2013. It would also authorize appropriations of \$50 million for FY2011 and \$37.5 million for the nine months ending June 30, 2012. Because the TAA for Firms program awards grants to the eleven regional Trade Adjustment Assistance Centers (TAACs) on July 1 of the fiscal year, S. 308 would allow grants for FY2011 to be funded at the \$50 million level, if Congress fully appropriates that amount, and a nine-month pro rated share (\$37.5 million) would be available for FY2012. Funds would be awarded for the grant fiscal year July 1, 2012 through June 30, 2013.

## **Contents**

Introduction .....	1
Recent Developments.....	1
The Economics of Trade Adjustment .....	2
The Firm Trade Adjustment Assistance Program .....	3
Eligibility and Certification.....	4
Program Evaluation .....	6
Economic and Policy Issues .....	7

## **Tables**

Table 1. Firm TAA Authorizations and Appropriations, FY2000-2010 .....	3
Table 2. Trade Adjustment Assistance, Select Program Indicators for FY2003-2009 .....	6

## **Contacts**

Author Contact Information .....	8
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## Introduction

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## Recent Developments

Debate early in the 111<sup>th</sup> Congress over TAA reauthorization led to a February 5, 2009, bipartisan agreement to expand and extend existing programs for workers, firms, and farmers, and to add a fourth program for communities. The agreement became part of the American Recovery and Reinvestment Act (ARRA) of 2009 (P.L. 111-5—the Stimulus Bill). Congress changed the TAA for Firms program in a number of important ways. It expanded eligibility for trade adjustment assistance to include services firms, authorized an extension of the program through December 31, 2010, increased annual funding levels from \$16 million to \$50 million, provided greater flexibility for a firm to demonstrate eligibility for assistance, established new oversight and evaluation criteria, created a new position of Director of Adjustment Assistance for Firms, and required submission to Congress of a detailed annual report on the TAAF program.

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The TAAF program operates by awarding grants to the regional Trade Adjustment Assistance Centers (TAACs). The grants are awarded on July 1 of the fiscal year in which appropriations are made. Therefore, TAACs are currently working off FY2010 funds and the TAACs are scheduled to be awarded FY2011 grants on July 1, 2011, so no interruption of operations in the near term is expected. However, the program is funded under a continuing resolution. The implications of S.

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<sup>1</sup> This legislation affected the workers program more, with many provisions expired on February 12, 2011. See: CRS Report RL34383, *Trade Adjustment Assistance (TAA) for Workers: Current Issues and Legislation*, by John J. Topoleski.

308 are, that if passed by Congress, grants for FY2011 would be funded at the \$50 million level, with a nine-month pro rated portion (\$37.5 million) made available for FY2012. Grants would likely be awarded to TAACs on July 1 of that year.

## **The Economics of Trade Adjustment**

Economists tend to agree that in defining the rules of exchange among countries, freer trade is preferable to protectionism. Insights from traditional trade theory (comparative advantage) point to the mutual gains for countries trading on their differences, producing those goods at which they are relatively more efficient, while trading for those at which they are relatively less so. Additional gains are realized from similar, intra-industry trade based on efficiencies from segmented and specialized production.<sup>2</sup> Firm-level evidence supports theory. Trade appears to “enable efficient producers within an industry, and efficient industries within an economy, to expand,” leading to a reallocation of resources that increases a country’s productivity, output, and income.<sup>3</sup> Consumers (both firms and households) also gain from a wider variety of goods at lower prices.

It is also true, and commonly cited, that increased competition from trade liberalization creates both “winners and losers,” presenting adjustment problems for all countries. The more efficient firms and plants may grow as they expand into overseas markets; the less efficient may contract, merge, or perhaps even fail when faced with greater foreign competition. While the adjustment process may be healthy from a macroeconomic perspective, much like market-driven adjustments that occur for reasons other than trade (e.g., technological change), it can be a harsh transition for some firms and their workers.<sup>4</sup>

Critics of free trade agreements often highlight the adjustment costs of reducing trade barriers. To avoid business closures and layoffs, trade-impacted firms often seek to weaken, if not defeat, trade liberalizing legislation. This makes economic sense from the perspective of affected industries, firms, and workers, but economists argue that in the long run it can be more costly for the country as a whole. The costs of protection arise because competition is suppressed, reducing pressure on firms to innovate, operate more efficiently, and become lower cost producers. The brunt of these costs falls to consumers, both individuals and businesses, who must pay higher prices, but the national economy is also denied higher standards of living because of forgone productivity gains.

One way to balance the large and broad-based gains from freer trade with the smaller and more highly concentrated costs is to address the needs of firms negatively affected. Congress has done so in authorizing the trade adjustment assistance (TAA) programs, including the one for firms.<sup>5</sup>

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<sup>2</sup> For an accessible summary of these effects, see Paul Krugman, “The Increasing Returns Revolution in Trade and Geography,” *American Economic Review*, vol. 99, no. 3 (June 2009), pp. 561-571.

<sup>3</sup> On how trade affects total factor productivity based on U.S. manufacturing firm and plant level data, see Bernard, Andrew B. and J. Bradford Jensen, “Exporting and Productivity in the USA,” *Oxford Review of Economic Policy*, vol. 20, no. 3 (2004). pp. 343-344, 350, 352, and 356.

<sup>4</sup> Both the benefits and costs of trade derive from resources moving from less to more productive plants (intra-industry) and firms (inter-industry). Employment dislocation is the most noticeable cost, giving rise to congressional interest in TAA programs. *Ibid.*, pp. 345 and 356.

<sup>5</sup> Howard F. Rosen, *Strengthening Trade Adjustment Assistance*, Peterson Institute for International Economics, Policy Brief PB08-2, Washington, D.C., January 2008, pp. 1-2.

Supporters justify TAA policy on grounds that (1) it helps those who are hurt by trade liberalization (the “losers”), (2) the economic costs are lower than protectionism and can be borne by society as a whole (“the winners”), and (3) given rigidities in the adjustment process, it helps redeploy economic resources more quickly, thereby reducing productivity losses and related public sector costs (e.g., unemployment compensation).

## The Firm Trade Adjustment Assistance Program<sup>6</sup>

Congress first authorized TAA in Title III of the Trade Expansion Act of 1962 (P.L. 87-794), including a new firm and industry assistance program, which is administered by the Economic Development Administration (EDA) of the U.S. Department of Commerce.<sup>7</sup> It provides *technical assistance* to help trade-impacted firms make strategic adjustments that may allow them to remain competitive in a global economy. Originally, firm TAA also included loans and loan guarantees, but Congress eliminated all direct financial assistance in 1986 because of federal budgetary cutbacks and concern over the program’s high default rates and limited effectiveness. Congress has amended the program many times over the nearly half century it has been in existence, most recently in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5). Key changes include extending eligibility to services firms, increasing funding, and introducing greater flexibility to demonstrate eligibility for assistance.

TAA authorizations and appropriations for fiscal years 2000-2010 appear in **Table 1**. The TAA for firms program has been reauthorized through December 31, 2010, at an annual level of \$50 million. Historically, appropriated funds have fallen short of authorized spending levels, which remains the case under the most recent authorization and appropriations acts.

**Table 1. Firm TAA Authorizations and Appropriations, FY2000-2010**  
(\$ millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Authorizations	10.0	10.0	10.0	16.0	16.0	16.0	16.0	16.0	16.0	50.0	50.0
Appropriations	10.5	10.5	10.5	10.0	11.9	11.0	12.8	12.8	14.1	15.8	15.8

**Data Source:** U.S. Department of Commerce. Economic Development Administration and P.L. 111-5.

In practice, technical assistance is provided through one of the 11 Trade Adjustment Assistance Centers (TAACs), which apply for grants from EDA to operate their programs. All appropriated funds have been used to support the TAAC process; no funds go directly to firms. TAACs may operate through universities, private firms, or non-profit associations. They provide or contract for technical assistance to assist firms from the initial certification process through implementation of the adjustment proposal. TAACs are staffed by professionals with broad business expertise who can help firms develop “recovery strategies” and also identify financial resources. They are, in effect, consultants specializing in business turnaround strategies specific

<sup>6</sup> Based on 13 C.F.R. § 315, which provides details for applying for TAAF assistance. Note that many of these rules expired on February 12, 2011 and it remains to be seen if Congress will reinstate them.

<sup>7</sup> The TAA for firms program was originally administered jointly by the Tariff Commission (predecessor to the USITC) and the U.S. Department of Commerce.

to the needs of each firm, which typically faces adjustments in many areas to compete with lower-priced imports.<sup>8</sup>

## Eligibility and Certification

The process for receiving TAA unfolds in three phases. First, a firm must submit a petition to become certified as eligible. EDA is statutorily required to accept or reject the petition within 40 days of receiving all materials. The firm must demonstrate eligibility by documenting that (1) “a significant number or proportion of workers”<sup>9</sup> in the firm have become or are threatened to become totally or partially separated; (2) sales, production, or both of a firm “decreased absolutely;”<sup>10</sup> and (3) increased imports of competing articles “contributed importantly”<sup>11</sup> to the decline in sales, production, and/or workforce. Declines in these variables must be demonstrated, but may be done so in five different ways to establish “minimum certification thresholds” for eligibility:

- **Twelve-month decline**—using all three criteria, compare the most recent 12-month period for which data are available with the immediately preceding 12-month period.
- **Twelve-month versus twenty-four-month decline**—using all three criteria, compare the most recent 12-month period for which data are available with the immediately preceding 24-month period, using average annual data for sales and production.
- **Twelve-month versus thirty-six-month decline**—using all three criteria, compare the most recent 12-month period for which data are available with the immediately preceding 36-month period, using average annual data for sales and production.
- **Interim sales or production decline**—using all three criteria, but defining a base period based on sales and production figures that compares at a minimum a most recent six-month period during the most recent 12-month period for which data are available, with data in the same six-month period for the immediately preceding 12-month period.
- **Interim employment decline**— using all three criteria, but defining a base period based on employment data that compares at a minimum a most recent six-month period during the most recent 12-month period for which data are available with data in the same six-month period for the immediately preceding 12-month period.

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<sup>8</sup> P.L. 93-618, Section 253, as amended and U.S. Department of Commerce. Economic Development Administration. <http://www.taacenters.org>.

<sup>9</sup> 5% of a firm’s work force or 50 workers, whichever is less, with EDA discretion to set other parameters in special cases.

<sup>10</sup> A firm’s sales or production or both (or of any article or service that accounted for not less than 25% of total sales or production ) have declined by a minimum of 5% relative to statutory comparison guidelines below.

<sup>11</sup> A cause which is important, but not necessarily more important than any other cause. A firm must provide a list of four important customers, of which the TAAC must interview two, to help evaluate whether the firm has been “trade-impacted.” U.S. Department of Commerce. Economic Development Administration, “Program Announcement for the Trade Adjustment Assistance for Firms Program,” *73 Federal Register* 6925, February 6, 2008.

Second, once certified as eligible, a firm has two years to develop and submit its adjustment proposal. Approval of the adjustment proposal depends on EDA's finding that it (1) is reasonably calculated "to materially contribute" to the economic adjustment of the firm; (2) gives adequate consideration to the interests of the firm's workers; and (3) demonstrates that the firm will use its own resources for adjustment. EDA typically makes a determination within two to four weeks. Third, the firm has five years to implement an approved adjustment proposal. The standard time to completion tends to be within two years.<sup>12</sup>

EDA can provide technical assistance to a firm for preparation of the petition for eligibility certification, and to a certified eligible firm for developing and implementing an approved adjustment proposal. There is no cost for assistance provided in developing the petition, but the firm must pay at least 25% of the cost to prepare the adjustment proposal and at least 25% of any awarded adjustment assistance. For project assistance exceeding \$30,000, a firm must cover at least 50% of the total cost.<sup>13</sup> In practice, because technical assistance is provided in the preparation of the petition, there is a high formal acceptance rate likely because petitions are completed correctly and poor proposals or candidates can be weeded out early in the process.

The TAACs also provide detailed assistance in formulation of the adjustment proposal, which seeks to identify business planning and practices that can be enhanced to improve firm competitiveness in at least three major areas. First, since firms must be experiencing falling sales or declining production to be eligible, TAACs often focus on marketing or sales strategies to identify new markets, new products, promotional initiatives, and export opportunities. Second, production inefficiencies are corrected to reduce firm costs and improve price competitiveness. Third, TAACs can develop debt restructuring strategies and frequently act as intermediaries in finding new sources of business financing. In 2009, 65% of petitioning firms proposed projects to improve marketing-sales or production-engineering, and 35% proposed projects to enhance support services or management systems.<sup>14</sup>

Table 2. summarizes trade adjustment data for fiscal years 2003-2009. The TAAF program targets small- and medium-sized enterprises (SMEs), which is borne out in the firm data. In 2009, firms tended to have fewer than 100 employees and less than \$11 million in sales. The federal government provided 48.5% of adjustment costs, for an average \$60,123 per firm.

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<sup>12</sup> U.S. Department of Commerce. Economic Development Administration, "Trade Adjustment Assistance for Firms Program Fiscal Year 2009 Annual Report," *75 Federal Register*, January 15, 2010, p. 2495.

<sup>13</sup> 13 CFR 315.6 (c)(2) and Federal Register. *Program Announcement for the Trade Adjustment Assistance for Firms Program*. February 6, 2008. Vol. 73. No. 25. p. 6925

<sup>14</sup> U.S. Department of Commerce. Economic Development Administration, "Trade Adjustment Assistance for Firms Program Fiscal Year 2009 Annual Report," *75 Federal Register* 2492, January 15, 2010, p. 2508.



**Table 2. Trade Adjustment Assistance, Select Program Indicators for FY2003-2009**

	2003	2004	2005	2006	2007	2008	2009
Number of Firms Assisted	162	177	132	137	126	139	172
Avg Firm Sales (millions)	\$7.2	\$11.6	\$8.4	\$10.6	\$11.2	\$13.1	10.7
Avg Firm Employees	68	88	64	91	68	82	77
Govt Share (millions)	\$8.1	\$8.5	\$5.9	\$6.7	\$7.1	\$7.9	10.3
Firm Share (millions)	\$7.4	\$8.1	\$5.4	\$6.0	\$5.9	\$7.5	9.8
Total TAA (millions)	\$15.5	\$16.6	\$11.3	\$12.7	\$13.0	\$15.4	20.2
Avg TAA Per Firm <sup>a</sup>	\$50,000	\$48,023	\$44,697	\$48,905	\$56,449	\$56,827	60,123

**Data Source:** U.S. Department of Commerce. Economic Development Administration.

a. Government share of TAA Firm program divided by the number of accepted adjustment proposals.

## Program Evaluation

Historically, program evaluation has been limited, lacking a formal evaluation process. Congress addressed this issue by requiring EDA to submit an annual report on the TAAF program by December 15 of each year. Earlier efforts to analyze the TAAF program include comprehensive studies by the Urban Institute in 1998 and the Government Accountability Office (GAO) in 2000.<sup>15</sup> Both found deficiencies with the TAAF program, such as a cumbersome certification process, long approval times, and little oversight and evaluation of projects. Many of these criticisms have been corrected. The petition and adjustment proposal approval process has been automated and streamlined. In fact, over the past two years, the time between submission of petitions for certification and acceptance has fallen from an average of 28 to 11 days. The average time between acceptance of the petition and certification has been 45 days, higher than the statutory 40 days. EDA notes that a 49% increase in petitions caused processing time to increase for 2009.<sup>16</sup>

EDA reports that TAACs are now allocated funds in part based on performance measures (number of firm certifications and adjustment proposals generated) and quality measures developed in part from a firm survey feedback mechanism. Created by Dunn & Bradstreet, it is intended to provide some indication of “successful interventions” and “program best practices.” This survey has helped reduce the time between submission of the petition and approval of final adjustment proposal.<sup>17</sup> Anecdotal evidence points to numerous “success” stories, but more sophisticated analysis is needed to estimate the effectiveness of this program approach. It is difficult to isolate the effects of the firm TAA program in determining why a particular firm might

<sup>15</sup> U.S. Department of Commerce. Economic Development Administration. *Effective Aid to Trade-Impacted Manufacturers: An Evaluation of the Trade Adjustment Assistance Program*. Prepared by the Urban Institute, Washington, D.C., November 1998 and. GAO. *Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear*. Report GAO-01-12. Washington, DC. December 2000.

<sup>16</sup> U.S. Department of Commerce. Economic Development Administration, "Trade Adjustment Assistance for Firms Program Fiscal Year 2009 Annual Report," *75 Federal Register* 2491-2495, January 15, 2010.

<sup>17</sup> U.S. Department of Commerce. Economic Development Administration, "Program Announcement for the Trade Adjustment Assistance for Firms Program," *73 Federal Register* 6926, February 6, 2008 and correspondence with EDA.

succeed in its turnaround effort. Previous studies mentioned above have suggested that many firms might have been able to do so on their own. The fact that small- and medium-sized firms are targeted, however, suggests that the program is attempting to reach that pool of firms most vulnerable to increased globalization and with the fewest resources for undertaking adjustment. Without a more in-depth analysis, however, the issue of TAAF effectiveness remains a somewhat speculative, if not open question.

## **Economic and Policy Issues**

By any measure, firm and industry trade adjustment assistance is a small federal program; it remains, nonetheless, controversial. Critics point to fundamental arguments opposing TAA that have been debated since before the program was initiated in 1962. First, if competition resulting from trade liberalization is not considered “unfair trade,” why should the federal government be involved? Second, why should federal assistance be necessary for adjustment to trade competition when there is no similar assistance for adjustment to domestic competitive pressures? Third, should not this adjustment process simply be accepted as part of a dynamic market economy working to allocate resources more efficiently and in a way that is in the country’s long-term interests?

Proponents of the program argue that TAA is only modestly funded and provides benefits to firms, owners, managers, and workers that amount to many times the value of federal expenditures. Also, if changes in national trade policy have altered the rules under which businesses compete, does not the federal government have some responsibility for assisting firms that bear the costs of adjustment?<sup>18</sup> Finally, a point in favor of firm TAA is that it focuses on adjustment, not long-term financial assistance. Firms must commit their own resources and have every incentive to adjust successfully to ensure their very survival. They are not faced with the potential for dependency on long-term cash payments, which critics charge is a problem with some federal assistance programs.

In addition to economic concerns, political considerations also define the TAA debate. Congress has accepted, with some reservations, that freer trade is in the long-term interests of the United States. While those skeptical of trade liberalization may support TAA for the assistance it provides to affected workers and firms, proponents of freer trade may also embrace TAA as a complement to an open trade policy along with other domestic economic policy adjustments.<sup>19</sup> To the extent that TAA can address some of the concerns of adversely affected firms, it may support trade liberalization as a continuing foundation of U.S. trade policy and temper calls for relief through increased tariffs, quotas, or other restrictions on trade. Advocates of trade liberalization may find support for firm TAA as compelling from a cost-benefit perspective, if it leads to broader acceptance of trade opening legislation.

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<sup>18</sup> Citing President Kennedy prior to congressional passage of the first TAA statute, “There is an obligation to render assistance to those who suffer as a result of national trade policy.” Howard F. Rosen, *Strengthening Trade Adjustment Assistance*, Peterson Institute for International Economics, Policy Brief PB08-2, Washington, D.C., January 2008, p. 1.

<sup>19</sup> *Ibid.*

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