



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

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## Summary

Congress created Trade Adjustment Assistance (TAA) in the Trade Expansion Act of 1962 to help workers and firms adjust to dislocation that may be caused by increased trade liberalization. It is justified now, as it was then, on grounds that the government has an obligation to help the “losers” of policy-driven trade liberalization. In addition, TAA is presented as an alternative to policies that would restrict imports, and so provides assistance while bolstering freer trade and diminishing prospects for potentially costly tension (retaliation) among trade partners. As in the past, critics strongly debate the merits of TAA on equity, efficiency, and budgetary grounds. Nonetheless, TAA still appears to serve what is now a historically pragmatic legislative function: it remains important for forging a compromise on national trade policy.

TAA was most recently expanded in the American Recovery and Reinvestment Act (ARRA) of 2009, although the higher funding levels and program enhancements expired on February 12, 2011, leaving TAA programs to operate at pre-ARRA levels until February 12, 2012, when all TAA program authorizations are scheduled to expire. TAA program authorizations are set to expire on February 13, 2012, and the 112<sup>th</sup> Congress is taking legislative action to extend them. Based on an understanding between House and Senate leaders, and the White House, a compromise TAA reauthorization bill (H.R. 2832) is being considered as part of a deal for voting on three implementing bills for the proposed free trade agreements (FTAs) with Colombia (H.R. 3078), Panama (H.R. 3079), and South Korea (H.R. 3080).

The TAA extension would reauthorize the workers, firms, and farmers programs through December 31, 2013. TAA for communities would be repealed, considered duplicative of other federal programs. Many, but not all, of the enhanced programs and funding levels contained in the ARRA would be reauthorized, including extending benefits to services workers and firms, and requiring expanded evaluation and reporting requirements on the programs. The provisions of the bill would apply retroactively to the expiration date of the ARRA enhancements.

Congressional Democrats and the White House insisted that consideration of the three FTA implementing bills be contingent upon passage of TAA reauthorization legislation. To accommodate concerns on all sides over legislative procedure, an elaborate process was agreed to that ensures consideration of the four bills within a relatively short time span. The House passed a bill on September 7, 2011, reauthorizing the Generalized System of Preferences (H.R. 2832), sending it to the Senate, where it was amended with TAA reauthorization. On September 22, 2011, the Senate agreed to the amended bill, 70-27, after which it was sent to the House. In separate action, the House Ways and Means Committee favorably reported out all three FTA implementing bills on October 3, 2011.

On October 6, 2011, the House Committee on Rules issued a closed rule covering all four bills. Senate amendment to H.R. 2832 is expected to be taken up by the House on October 12, 2011, along with implementing bills for the three FTAs. H.R. 2832, as amended, will be considered under a rule that waives all points of order and allows for one hour of debate. The bill requires simple majority to pass, and having already been agreed to in the Senate, House passage would then allow it to be sent to the President for signature.

## **Contents**

|   |    |
|---|----|
| Introduction.....   | 1  |
| TAA Programs and Rationale .....  | 1  |
| Antecedents to TAA.....   | 3  |
| The Randall Commission .....  | 5  |
| Early TAA Legislation.....  | 5  |
| Trade Expansion Act of 1962 .....   | 6  |
| The Failure of TAA: 1963-1974 .....   | 7  |
| Trade Act of 1974 .....   | 8  |
| The Trade Agreements Act of 1979 and the 1980s.....                             | 9  |
| NAFTA and the Trade Act of 2002: TAA Expansion.....                             | 10 |
| The American Recovery and Reinvestment Act (ARRA) of 2009 and TAA Revision..... | 11 |
| Reauthorization in the 112 <sup>th</sup> Congress .....                         | 12 |

## **Appendixes**

|  |    |
|--|----|
| Appendix. TAA Reauthorization, 1962-2011 ..... | 13 |
|--|----|

## **Contacts**

|                                 |    |
|---------------------------------|----|
| Author Contact Information..... | 13 |
|---------------------------------|----|

## Introduction

When Congress passed the Reciprocal Trade Agreements Act (RTAA) of 1934, it reflected an important transition in “national trade policy” away from “protectionism” toward greater “trade liberalization.” This shift continues to be the dominant, but hardly uncontested, trade policy of the United States. The substantial national gains from trade have long been recognized, yet trade liberalizing legislation often faces strong political opposition because related costs, although much smaller, affect a vocal and concentrated constituency. Congress first addressed this inherent tension with legislation that allowed for the reimposition of tariffs and other trade barriers when domestic industries were threatened or hurt by imports. In 1962, however, Congress adopted an additional approach by providing trade adjustment assistance (TAA) directly to trade-affected firms and workers. It remains a controversial pillar of U.S. trade policy today.

TAA program authorizations are set to expire on February 13, 2012, and the 112<sup>th</sup> Congress is taking legislative action to extend them. Based on an understanding between House and Senate leaders, and the White House, a compromise TAA reauthorization bill (H.R. 2832) is being considered as part of a deal for voting on three implementing bills for the proposed free trade agreements (FTAs) with Colombia (H.R. 3078), Panama (H.R. 3079), and South Korea (H.R. 3080); see last section of report.

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

## TAA Programs and Rationale

TAA was first authorized in 1962, with two programs covering workers (retraining, relocation allowances, extended unemployment benefits) and firms (loans, loan guarantees, technical assistance, tax benefits). Congress added a communities program (loans and grants) in 1974, which was subsequently terminated in 1982, and a farmers program (technical assistance and cash benefits) in 2002. Congress authorized another communities program in 2009, but appears poised to repeal it. All TAA programs are usually reauthorized in one bill, although administered by three different federal agencies. This report does not address details of the TAA programs, which are available in other CRS reports. Rather, it takes a holistic policy approach to the economic issue of federal assistance for adjustment to import penetration, with occasional reference to the large

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

workers and much smaller firms programs, which have formed the core of TAA since its inception in 1962.

Nearly eight decades after passage of the RTAA, the pending FTAs and President Obama's National Export Initiative stand as current reminders of the importance that the United States places on trade expansion, particularly of exports. The pursuit of export growth, however, generally cannot be done without conceding to a reciprocal increase in imports, and the tradeoff does not affect stakeholders equally. While freer trade can benefit exporters, consumers, and the economy as a whole, it can place hardship on some industries facing increased competition from imports.<sup>2</sup> This is the cost of economic adjustment, and supporters of TAA argue that workers (especially the permanently displaced) and firms hurt by imports increased in part by changes in trade policy have more severe adjustment problems than others affected by different types of economic dislocation. From this reasoning, it is argued that they deserve their own category of assistance, rather than relying on broader programs designed to address all types of economic dislocation.<sup>3</sup>

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

TAA skeptics challenged the logic of these claims. They argued that economic efficiency was far from guaranteed given that subsidies can operate to reduce worker and firm incentives to relocate, take lower-paying jobs, or in other ways seek a solution to being idled. Equity issues arose because many economic groups hurt by changing economic circumstances caused by other than trade policies were not afforded similar economic assistance. A frequently cited alternative argues that if society has a responsibility to help all those dislocated by economic change, then policies should not be narrowly restricted to trade-related or other categories of harm.<sup>5</sup>

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

<sup>3</sup> The TAA debate has a long history. See, Clair Wilcox, "Victims of Tariff Cuts," *The American Economic Review*, vol. 40, no. 5 (December 1950), pp. 884-889, C. Michael Aho and Thomas O. Bayard, "Costs and Benefits of Trade Adjustment Assistance," in *The Structure and Evolution of Recent U.S. Trade Policy*, ed. Robert E. Baldwin and Anne O. Krueger (Chicago: University of Chicago Press, 1984), pp. 154-155, J. David Richardson, "Comment," in *The Structure and Evolution of Recent U.S. Trade Policy*, pp. 192-193, and more recently, I. M. Destler, *American Trade Politics*, 4<sup>th</sup> ed. (Washington, DC: Institute for International Economics, 2005), p. 327.

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

<sup>5</sup> Katherine Baicker and M. Marit ReHAVI, "Policy Watch: Trade Adjustment Assistance," *Journal of Economic Perspectives*, vol. 18, no. 2 (Spring 2004), pp. 251-252, Wilcox, *Victims of Tariff Cuts*, p. 889, Matthew J. Slaughter and Robert Z. Lawrence, "More Trade and More Aid," *The New York Times*, June 10, 2011, and George F. Will, (continued...)

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

Political accommodation proved to be another factor for congressional support of TAA. Those concerned with the negative effects of trade liberalization often found TAA to be an acceptable tradeoff for supporting trade legislation, and TAA skeptics often conceded to advance the broader trade agenda. TAA provisions in the Trade Expansion Act of 1962 and the Trade Act of 1974 are often cited as providing the support necessary to conclude ground-breaking trade agreements like the General Agreement on Tariffs and Trade (GATT)<sup>8</sup> Kennedy and Tokyo Rounds of the 1960s and 1970s.<sup>9</sup> TAA was also a quid pro quo for providing President Bush with TPA in 2002, the most recent granting of such authority (see the **Appendix** for a legislative chronology), and similar tradeoffs are also being debated in the 112<sup>th</sup> Congress.

## Antecedents to TAA

TAA was a product of a time of shifting U.S. domestic and foreign economic policies. The seeds for change were planted with the RTAA, a reaction to the tariff-raising Smoot-Hawley Act of 1930. The shift from protectionism toward greater trade opening was rooted partly in the prevailing belief that to escape the Great Depression, the domestic economy would be best served by boosting demand worldwide. In addition to the benefits of export expansion, trade policy embraced the idea that restricting imports ran the risk of mutually destructive global retaliation. The RTAA provided time-limited authority to the President to enter into reciprocal tariff-reducing agreements, without the need for congressional approval afterward. It was the early precursor to the now-expired Trade Promotion Authority (TPA). Still, the legislation was controversial, prompting resistance not only to the trade provisions, but to what some considered to be a concession to the President of traditional congressional authority over tariffs.<sup>10</sup>

Within a few years, trade liberalization took on a stronger foreign policy rationale, as well. By 1940, President Franklin D. Roosevelt's State of the Union address had elevated U.S. trade policy

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(...continued)

"Obama and Free Trade: Appease Big Labor," *The Washington Post*, June 8, 2011.

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

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

<sup>8</sup> GATT was the precursor to the World Trade Organization (WTO).

<sup>9</sup> Destler, *American Trade Politics*, pp. 296-298 and Congressional Quarterly, *CQ Almanac 1998*, pp. 18-3-18-9.

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

to an “indispensible part of the foundations for any stable and durable world peace,”<sup>11</sup> a view expressed in the shadows of an approaching world war that would soon devastate international commerce. As a result, the President had positioned trade policy as a key ingredient to reconstruction of the post-war economic system, both as a pillar of international stability, and a counterweight to encroaching Soviet communism. This stance took on even greater importance as the United States became the undisputed leader of the “free world” during the Cold War.<sup>12</sup>

Nonetheless, trade liberalization remained contentious in Congress because the foreign policy imperative of supporting international stability began to run headlong into concerns over protecting domestic industry from imports. Congressional testimony in the 1940s emphasized the renewed tilt toward protectionism, even as public opinion appeared more indifferent for two reasons. First, U.S. imports in a war-torn world were not large enough to present a serious threat to U.S. jobs and production. Second, trade was viewed as a key element of the Cold War strategy. And so, the lack of public concern over liberalizing commerce provided Congress with a window to take on multilateral trade negotiations (MTNs) under the newly created GATT.<sup>13</sup>

Over time, however, as trade liberalization expanded, the need to address the concerns of import-competing industries also grew. Two policies at the time dominated: the escape clause, first instituted by executive order under President Truman and later established in legislation; and the peril point provision.<sup>14</sup> The escape clause allowed for the temporary reimposition of tariffs when fairly priced imports were proven or threatened to harm domestic industry. The peril point provision required the United States Tariff Commission (USTC) to evaluate the effects of tariff reductions, and determine a point at which tariffs might be reduced without doing harm to domestic producers.<sup>15</sup>

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

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

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

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

<sup>14</sup> Pastor, *Congress and the Politics of U.S. Foreign Economic Policy*, p. 100.

<sup>15</sup> Baldwin, op. cit., pp. 5-7 and Irwin, op. cit., pp 347-349.

## The Randall Commission

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

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

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

## Early TAA Legislation

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

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<sup>16</sup> Diebold, *The United States and the Industrial World*, p. 152.

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

<sup>18</sup> *Ibid.*, p. 55.

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

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



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

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

Both the Democratic and Republican platforms of the 1960 election placed foreign economic relations at the center of their agendas. The Democratic platform included a specific appeal for TAA as part of an expanded trade policy. The Republican platform, by contrast, had no such proposal, giving added weight to the escape clause and peril point provision.<sup>23</sup> The GATT Dillon Round was concluded in 1961, in which the United States agreed to cut the tariffs on 61 items below their peril point.<sup>24</sup> This development marked a departure from earlier, more cautious negotiated positions which, coupled with high U.S. unemployment, created a policy environment conducive to assisting trade-affected constituents.<sup>25</sup>

## Trade Expansion Act of 1962

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

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

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<sup>21</sup> Other bills would be introduced in the 86<sup>th</sup> Congress before becoming law in the 87<sup>th</sup> Congress.

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

<sup>23</sup> John T. Woolley and Gerhard Peters, *The American Presidency Project*, Santa Barbara, CA. Available at <http://www.presidency.ucsb.edu/ws/?pid29602>.

<sup>24</sup> Congressional Quarterly. “The Trade Expansion Act: President Receives Unique Tariff-Cutting Rights and Adjustment Program After Carefully Planned Campaign,” *CQ Almanac 1962* p. 259.

<sup>25</sup> *Ibid.*, 261.

<sup>26</sup> *Ibid.*, p. 263-264.

were well honed in the 1950s, despite pressure by the executive branch to limit their use. TAA was also a different and more highly targeted approach than the escape clause, focusing on specific firms and workers, rather than an entire industry, hurt by “concessions granted under trade agreements.” TAA was offered in the form of increased and extended unemployment benefits, retraining and relocation allowances, loans and technical assistance for firms, and special tax deductions.<sup>27</sup>

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

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

## **The Failure of TAA: 1963-1974**

TAA initially achieved one goal: greater support from labor groups for trade liberalization. By 1971, as the U.S. balance of trade turned to deficit for the first time since 1888, and perceptions of lost income and jobs to foreign competition grew, this support began to erode. The failure of TAA to provide significant relief from imports in its first decade of operation added to labor’s concerns. From 1963 until 1969, not one of the 6 worker or 12 industry-wide petitions for TAA led to assistance. The eligibility criteria were tough to meet, requiring demonstration that the imported article was increasing, that the increase “was caused in major part” by the tariff reduction, and that the increase was the “major cause” of injury to the firm or worker. The multistep process also took months to complete and was costly for the applicants.<sup>29</sup>

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

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<sup>27</sup> P.L. 87-794, Title III and *ibid.*, pp. 249, 255-256.

<sup>28</sup> *Ibid.*, p. 277.

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

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

Critics called for major adjustments to the TAA eligibility criteria and administrative procedures, but the Nixon Administration offered a trade bill that actually diminished TAA. As the bill wound its way through Congress, however, both the House and the Senate not only restored all TAA benefits, but increased them and made changes that would facilitate program implementation. This was accomplished in the Trade Act of 1974, one of the most far-reaching trade bills in U.S. history.<sup>33</sup>

## Trade Act of 1974

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

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

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

<sup>31</sup> Dominic Sorrentino, “Trade Adjustment Assistance to Workers Displaced by Imports, Fiscal 1963-73,” U.S. Department of Labor, *Monthly Labor Review*, Washington, DC, January 1974, pp. 63-65.

<sup>32</sup> I. M. Destler, *American Trade Politics*, p. 140.

<sup>33</sup> Charles R. Frank, Jr., *Foreign Trade and Domestic Aid*, p. 5.

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

and firms, respectively, leaving escape clause determination to the newly named U.S. International Trade Commission (USITC). Requiring the two departments to act within 60 days versus six months for the USITC often made the TAA option preferable to escape clause action.<sup>35</sup>

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

## **The Trade Agreements Act of 1979 and the 1980s**

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

Congress extended TAA in the Omnibus Budget Reconciliation Act of 1981, but the act reduced benefits and eliminated \$2.6 billion from the budget. Detractors cited as cause a General Accounting Office (GAO) report that challenged the program’s effectiveness to bring about adjustment rather than simply pay out additional benefits.<sup>40</sup> High unemployment provided a reason for Congress to support TAA, but Congress extended it only through FY1983, again with much diminished finances and tightened standards for eligibility, particularly for unemployment benefits. By 1983, the Reagan Administration openly sought to terminate the program (as did his successor President George H. W. Bush), which was spared in reduced form by a congressional extension through FY1985.<sup>41</sup>

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<sup>35</sup> Ibid and P.L. 87-794, sec. 301.

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

<sup>37</sup> Charles R. Frank, Jr., *Foreign Trade and Domestic Aid*, pp. 63-67.

<sup>38</sup> Congressional Quarterly, Inc., “Trade Adjustment Assistance,” *CQ Almanac 1979*, pp. 327-328.

<sup>39</sup> Ibid., and Destler, *American Trade Politics*, p. 150.

<sup>40</sup> Congressional Quarterly Inc., *Trade: U.S. Trade Policy Since 1945*, Washington, DC, 1984, pp. 23-69.

<sup>41</sup> Congressional Quarterly, Inc., “Trade Adjustment Aid Cut,” *CQ Almanac 1983*, pp. 251.

After two very short extensions and a three-month lapse, TAA was finally extended for six years, through FY1991, as part of deficit-reduction legislation passed in 1986. Its programs were again trimmed with, for example, the elimination of all loans, loan guarantees, and other direct financial assistance to firms, providing only technical assistance, the basis of the firm program today. It received additional extensions first through FY1993 in the Omnibus Trade and Competitiveness Act (OTCA) of 1988, and second, through FY1998 in the budget reconciliation bill of 1993 (see the **Appendix**).<sup>42</sup> The lengthy extensions appeared to be inversely proportional to the budgetary effort in the bills.

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

## **NAFTA and the Trade Act of 2002: TAA Expansion**

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

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

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<sup>42</sup> Congressional Quarterly Inc., "Trade Adjustment Aid," *CQ Almanac 1986*, p. 351.

<sup>43</sup> Destler, *American Trade Politics*, p. 128 and Hufbauer and Rosen, *Trade Policy for Troubled Industries*, pp. 36-39.

<sup>44</sup> John M. Rothgeb Jr., *U.S. Trade Policy: Balancing Economic Dreams and Political Realities* (Washington, DC: Congressional Quarterly Inc., 2001), p. 205.

<sup>45</sup> Congressional Quarterly Inc., *CQ Almanac 1993*, pp. 137-175.

own TAA bill, and agreement was tentatively struck to keep the votes separate on the two issues.<sup>46</sup>

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

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

In the intervening years since the Trade Act of 2002, some in Congress debated TAA reform with an eye on making it more responsive to the complex economic challenges brought about by “globalization.” In the 110<sup>th</sup> Congress, a bipartisan understanding was formulated that included expansion of eligibility and funding for all TAA programs. The House passed a version of TAA expansion in December 2007, but the Senate did not take up the bill and program authorizations expired on December 31, 2007. TAA apparently also failed to move because of a Senate attempt to link TAA to an implementing bill for the proposed U.S.-Colombia free trade agreement. The 110<sup>th</sup> Congress instead provided short-term funding through consolidated appropriation bills to keep the TAA programs running.<sup>48</sup>

In the 111<sup>th</sup> Congress, consideration of TAA reauthorization coincided with the U.S. economy falling into a deep recession following an unprecedented financial crisis. Congress responded with passage of the American Recovery and Reinvestment Act (ARRA) of 2009. This act became the legislative and budgetary vehicle to move TAA revisions that had been developed over the previous few years and included in the December 2007 bill. Despite continued disagreement on TAA expansion, Congress reauthorized it as part of the large ARRA bill. It extended the programs through December 31, 2010, and revamped them using a revised version of the framework developed in the 110<sup>th</sup> Congress. This framework included eligibility for service workers and firms, a new communities program, an increase in the Health Care Tax Credit for dislocated workers, and additional funding for all programs, among other changes.

At the close of 2010, as TAA programs were about to expire again, Congress extended them through February 12, 2012, as part of the Omnibus Trade Act of 2011. Higher authorization levels and expanded provisions of the ARRA, however, were only extended through February 12, 2011. This outcome presented Congress with a controversy when the ARRA provisions expired.

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<sup>46</sup> Congressional Quarterly, Inc., “Victory for Bush on Fast Track,” *CQ Almanac 2002*, pp. 18-3 - 18-5.

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

<sup>48</sup> Inside U.S. Trade, *Stimulus Package May Include TAA Reauthorization and Expansion*, January 9, 2009.

Supporters of the expanded TAA see the ARRA-passed reforms as long-sought permanent changes needed to modernize TAA for the 21<sup>st</sup> Century. TAA detractors view the lapsed expansion of TAA reforms under the ARRA as the appropriate outcome of a limited-life stimulus bill. TAA programs continue to operate at their pre-ARRA levels until early 2012, and bills have been introduced in the 112<sup>th</sup> Congress that ranged from terminating TAA to reauthorizing it at the higher ARRA levels, reflecting these varied viewpoints.

## **Reauthorization in the 112<sup>th</sup> Congress**

TAA program authorizations are set to expire on February 13, 2012, and the 112<sup>th</sup> Congress is taking legislative action to extend them. Based on an understanding between House and Senate leaders, and the White House, a compromise TAA reauthorization bill (H.R. 2832) is being considered as part of a deal for voting on three implementing bills for the proposed FTAs with Colombia (H.R. 3078), Panama (H.R. 3079), and South Korea (H.R. 3080).

The TAA extension would reauthorize the workers, firms, and farmers programs through December 31, 2013. TAA for communities would be repealed, considered duplicative of other federal programs. Many, but not all, of the enhanced programs and funding levels contained in the ARRA would be reauthorized, including extending benefits to services workers and firms, and requiring expanded evaluation and reporting requirements on the programs. The provisions of the bill would apply retroactively to the expiration date of the ARRA enhancements.<sup>49</sup>

Congressional Democrats and the White House insisted that consideration of the three FTA implementing bills be contingent upon passage of TAA reauthorization legislation. To accommodate concerns on all sides over legislative procedure, an elaborate process was agreed to that ensures consideration of the four bills within a relatively short time span. The House passed a bill on September 7, 2011, reauthorizing the Generalized System of Preferences (H.R. 2832), sending it to the Senate, where it was amended with TAA reauthorization. On September 22, 2011, the Senate agreed to the amended bill, 70-27, after which it was sent to the House. In separate action, the House Ways and Means Committee favorably reported out all three FTA implementing bills on October 3, 2011.

On October 6, 2011, the House Committee on Rules issued a closed rule covering all four bills. Senate amendment to H.R. 2832 is expected to be taken up by the House on October 12, 2011, along with implementing bills for the three free trade agreements. H.R. 2832, as amended, will be considered under a rule that waives all points of order and allows for one hour of debate.<sup>50</sup> The bill requires simple majority to pass, and having already been agreed to in the Senate, House passage would then allow it to be sent to the President for signature.<sup>51</sup>

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<sup>49</sup> For details on the large workers program, see CRS Report R42012, *Trade Adjustment Assistance (TAA) for Workers*, by Benjamin Collins.

<sup>50</sup> U.S. Congress, House Committee on Rules, *Providing for Consideration of the Senate Amendment to the Bill (H.R. 2832) to Extend the Generalized System of Preferences and for Other Purposes*, Report to accompany H.Res. 425, 112<sup>th</sup> Cong., 1<sup>st</sup> sess., October 6, 2011, H.Rept. 112-240 (Washington: GPO, 2011), pp. 1-3.

<sup>51</sup> As for the FTA implementing bills, it is expected that the Senate Finance Committee will report them out on October 11, 2011, with the full Senate taking them up the following day.

## Appendix. TAA Reauthorization, 1962-2011

| Year | Bill   | Public Law   | Extension Date | Length    |
|------|--|--------------|----------------|-----------|
| 1962 | Trade Expansion Act of 1962  | P.L. 87-794  | Permanent      |           |
| 1974 | Trade Act of 1974  | P.L. 93-618  | Sept. 30, 1982 | 8 years   |
| 1981 | Omnibus Budget Reconciliation Act of 1981  | P.L. 97-35   | Sept. 30, 1983 | 1 year    |
| 1983 | A bill to Amend the International Coffee Agreement Act of 1983                                     | P.L. 98-120  | Sept. 30, 1985 | 2 years   |
| 1984 | Deficit Reduction Act of 1984  | P.L. 98-369  | Nov. 15, 1985  | 10 weeks  |
| 1985 | Emergency Extension Act of 1985<br>Lapses until March 1986   | P.L. 99-107  | Dec. 19, 1985  | 5 weeks   |
| 1986 | Deficit Reduction Amendments Act of 1985   | P.L. 99-272  | Sept. 30, 1991 | 6 years   |
| 1988 | Omnibus Trade & Competitiveness Act  | P.L. 100-418 | Sept. 30, 1993 | 2 years   |
| 1993 | Omnibus Budget Reconciliation Act of 1993  | P.L. 103-66  | Sept. 30, 1998 | 5 years   |
| 1998 | District of Columbia Appropriations  |              | June 30, 1999  | 9 months  |
| 1999 | Consolidated Appropriations Act of 2000<br>Lapses Sept. 30, 2001, to August 6, 2002                | P.L. 106-113 | Sept. 30, 2001 | 2¼ years  |
| 2002 | Trade Act of 2002  | P.L. 107-210 | Sept. 30, 2007 | 5 years   |
| 2007 | TAA Extension Act<br>Lapses Dec. 31, 2007, to Feb. 17, 2009  | P.L. 110-89  | Dec. 31, 2007  | 3 months  |
| 2008 | Consolidated Appropriations Act of 2008 <sup>a</sup>   | P.L. 110-161 | Dec. 31, 2008  | 1 year    |
| 2009 | Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009 <sup>a</sup> | P.L. 110-329 | Feb. 2009      | 2 months  |
| 2009 | American Recovery & Reinvestment Act (ARRA) of 2009 <sup>b</sup>                                   | P.L. 111-5   | Dec. 31, 2010  | 2 years   |
| 2010 | Omnibus Trade Act of 2010  | P.L. 111-344 | Feb. 12, 2012  | 13 months |

**Source:** CRS from various sources.

- a. Appropriations only.
- b. Expanded provisions under the ARRA expired on February 12, 2011. Most TAA programs were authorized at pre-ARRA levels until February 12, 2012.

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