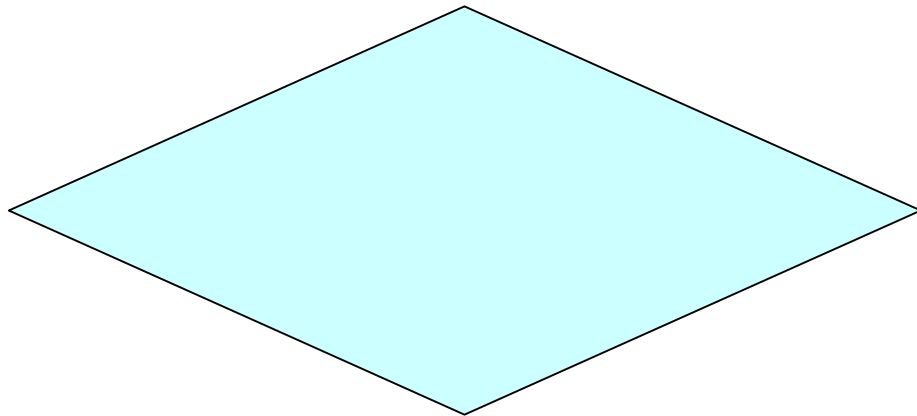




CENTER FOR NATIONAL POLICY

**TRADE POLICY: FORGING A NEW CONSENSUS
A SERIES OF DISCUSSION PAPERS**



About the Paper

This is one of a series of papers addressing U.S. trade policy from a political perspective.

It became evident during the 1990s that what once was a broad national consensus supporting U.S. efforts to liberalize world trade had eroded. In its place, an increasingly contentious and, to an extent, increasingly partisan debate emerged.

These papers look at this significant change, explore some of the factors associated with it, and consider policy implications for the future. The views expressed are solely those of the authors.

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About the Center for National Policy

CNP is a non-profit, non-partisan, public policy organization committed to identifying national issues that require action for common purposes.

CNP seeks to move the debate beyond political impasse and partisan stalemate and toward approaches that enhance our economic prosperity, strengthen our democratic institutions and meet our international responsibilities in a way that reflects the shared values of our citizens.

CNP brings together leaders in government, business, labor, and academia to explore important domestic and foreign policy issues for the purpose of finding common ground and forging productive relationships that lead to policy innovation.

About the Author

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Rosen has served as a staff economist in the Research Department of the Bank of Israel in Jerusalem and in the Bureau of International Labor Affairs in the U.S. Department of Labor. He has been a consultant for the U.S. Senate Finance Committee, the Inter-American Development Bank, the United Nations Conference on Trade and Development, the Business Roundtable and Data Resources, Inc.

Rosen received a BA and an MA in economics from the George Washington University, where he concentrated on international economics. His research focuses on issues relating to international trade and employment, macroeconomic policies, structural change and labor market adjustment.





Congress and Trade: End of an Era

By Howard F. Rosen¹

The future of "fast-track" – the process established by Congress in 1974 to authorize U.S. participation in and final approval of international trade negotiations – is in serious doubt. The most recent attempt to win what is now called "Trade Promotion Authority" – the Trade Act of 2002 – passed the House of Representatives by only three votes in 2002. The margin in the Senate was larger, but it would have been insufficient to force a vote had any Senator chosen to filibuster the debate.

Over the last 30 years, it has become increasingly difficult to win Congressional support for trade liberalization

Over the last 30 years, it has become increasingly difficult to win Congressional support for trade liberalization, despite the fact that trade – both imports and exports – has become more important to the US economy. One explanation for this difficulty is that the issues being negotiated are more sensitive than those in the past.² Another factor may be that while international trade has become more important to the US economy, it has also become more imbalanced, thus placing US industry and workers under increasing

competitive pressures, resulting in severe economic hardship.

In recent years there has been growing recognition of a linkage between trade liberalization and domestic dislocation. This linkage reached a new high in the Trade Act of 2002, which included provisions that significantly reform and expand assistance to workers and communities adversely affected by changes in international trade and investment. Although it is difficult to measure the importance of these provisions precisely, Congressional negotiations over the final bill suggest that their inclusion was critical to the Act's final passage.

ANALYSIS OF CONGRESSIONAL VOTES ON TRADE LIBERALIZATION LEGISLATION

The close vote on the Trade Act of 2002, coming on the heels of declining support over the last 30 years, places the future of the "fast-track" process in serious doubt. In order to assess the implications of the observed trend, Congressional votes on the following nine major pieces of trade legislation, passed over a 30-year period, have been analyzed:³

- Trade Act of 1974 (provided trade negotiating authority for the Tokyo Round)

- Trade Agreements Act of 1979 (implementation legislation for the Tokyo Round GATT agreement)
- Trade and Tariff Act of 1984 (provided trade negotiating authority for the US-Israel Free Trade Agreement)
- Omnibus Trade and Competitiveness Act of 1988 (provided trade negotiating authority for the Uruguay Round and NAFTA)
- US-Canada Free Trade Agreement Implementation Act of 1988
- Uruguay Round of Multilateral Trade Negotiations, 1993 (extended Uruguay Round fast track procedures)
- North American Free Trade Area (NAFTA) Implementation Act of 1993
- Uruguay Round Agreements Act of 1994 (implementation legislation for the Uruguay Round GATT agreement)
- Trade Act of 2002 (provided trade negotiating authority for the Doha Round)

Figures 1 and 2 present the Senate and House votes on these pieces of trade legislation. With the exception of the near unanimous vote in favor of the Trade and Tariff Act of 1984, there has been a general increase over time in the number of "no" votes recorded on major pieces of trade legislation in the Senate. In the House, the timing is different, but with a similar result. After a noticeable "no" vote in 1974, the House showed consistently strong support for trade liberalization until the 1993 vote on the Uruguay Round extension.

A simple least squares regression for the period suggests that each subsequent vote

on a major piece of trade legislation results in an average loss of 2.5 yes votes in the Senate and approximately 14 yes votes in the House of Representatives, representing roughly the same percentage in both houses. Based on this estimate, and considering where the two bodies stood as of 2002, the next major trade bill - implementation of the Doha Round agreement or some regional or bilateral agreement - would probably pass the Senate, but would probably not be approved by the House of Representatives.

A rough assessment of these trends suggests a focus on Democratic members of Congress, but that would miss some important elements of what has been happening. It's true that there has been a significant decline in Democratic support for trade liberalization overall, but Republican support has declined as well. Further, particularly over much of the earlier part of the period, with Democrats holding significant majorities in both houses, Democratic votes in favor of trade were key in gaining passage.

A decline in Democratic support alone does not explain the decline in overall Congressional support for legislation to liberalize trade.⁴

It's true that there has been a significant decline in Democratic support for trade liberalization overall, but Republican support has declined as well.

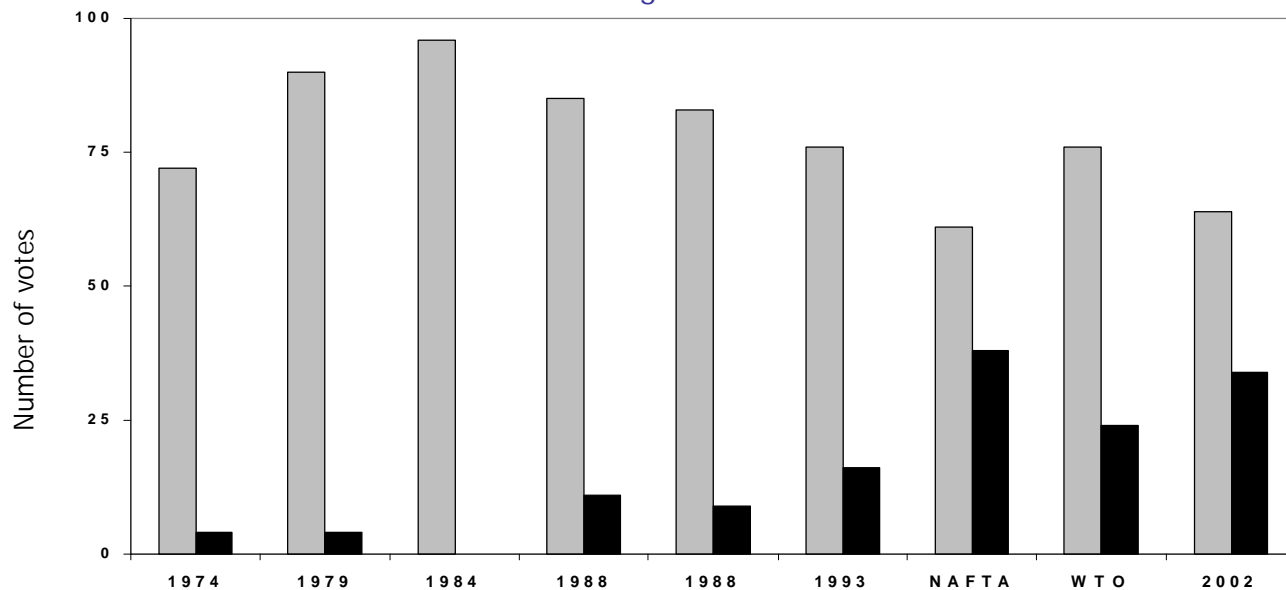
In six of the nine major votes, more than half of those Senators voting yes were Democrats. In other words, Senate Democrats were primarily responsible for passage of two-thirds of the legislation to liberalize trade over

Votes on Major Trade Legislation

U.S. Senate

1974-2002

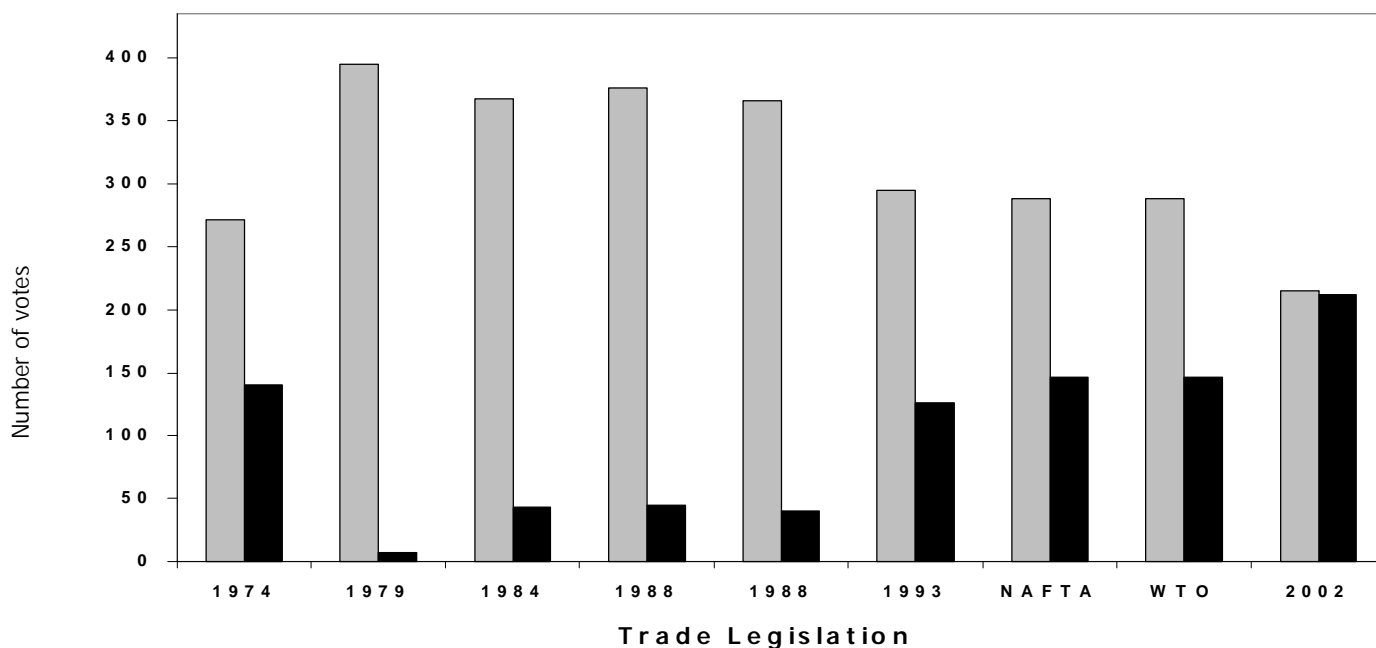
Figure 1



U.S. House of Representatives

1974-2002

Figure 2



Source: prepared from data compiled by the Congressional Research Service.
See <http://thomas.loc.gov/>

the last 30 years. In the House, more than half of the Representatives voting yes were Democrats in five of the nine major votes.

Figure 3 presents the percent of Democrats and Republican voting in favor of the nine major pieces of trade legislation in the Senate. In the first three votes, there was virtually no difference between the percent of Senate Democrats and Republicans voting yes - both well above 90 percent. The percent of Senate Democrats voting yes on trade legislation began to decline with the US-Canada FTA Implementation Act in 1988.

Five years later, with the NAFTA vote, the percent of Senate Democrats who voted in favor of trade liberalization dropped to below 50 percent for the first time. Senate Democrat support for the recent Trade Act of 2002 was even lower.

Only 29 percent of those Senators and 12 percent of those Representatives voting in favor of the Trade Act of 2002 were Democrats, a major decline from the yes pattern earlier in the period.

On the other hand, it is also the case that throughout the 30-year period, Democrats cast the vast majority of no votes on major pieces of trade legislation. In seven of the nine Senate votes, Democrats accounted for the majority of no votes.⁵ Again, as with the yes votes, this is partly a result of the fact that Democrats held large majorities at various points over this period.

Both the decline in Democratic strength in Congress and a change in Democratic voting patterns have contributed to a weakening of what was once a fairly strong bipartisan consensus in favor of trade liberalization. The decline in Democratic support coincided with a

decline, albeit less pronounced, in the percent of Senate Republicans voting yes on trade liberalization legislation.

More than three-fourths of Senate Republicans voted yes in each of the 9 major trade liberalization votes. But in a trend similar in direction, if not in degree, to that of the Senate Democrats, the percent of Senate Republicans voting in favor of trade liberalization declined from the late 1980s to the late 1990s. Unlike the Democrats, though, the Senate Republican vote in favor of the Trade Act of 2002 increased back to the previous high level of around 90 percent.

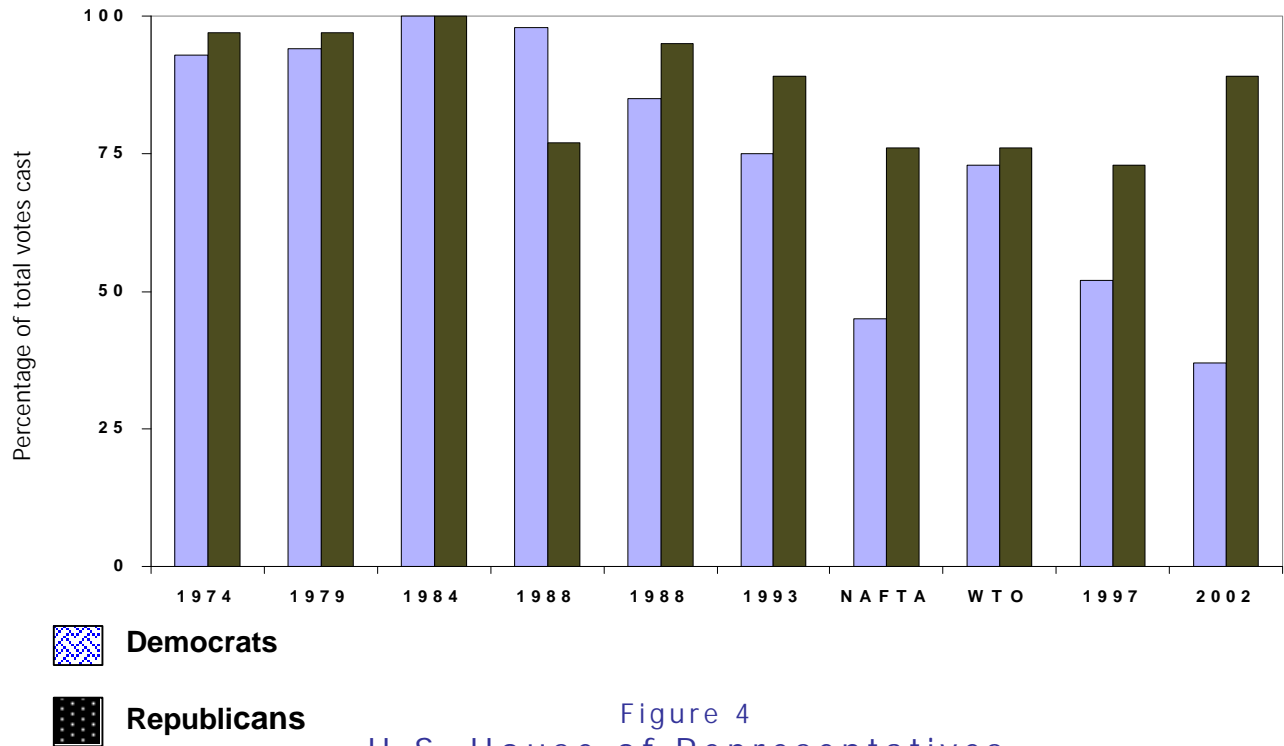
Democratic and Republican voting behavior on these 9 bills in the House was similar to that in the Senate. In the early years, the percent of House Democrats voting yes on trade legislation was very high. In fact, the percent of House Democrats voting in favor of the 1983 and 1988 legislation was higher than that for House Republicans.

As with Senate Democrats, there has been a steady decline of support among House Democrats for trade liberalization, reaching below 50 percent for the NAFTA vote. The only exception was in 1993, when the percent of House Democrats voting in favor of the Uruguay Round Implementation Act rebounded, to 65 percent. By contrast, as noted above, only 12 percent of House Democrats voted in favor of the Trade Act of 2002.

The percent of House Republicans voting in favor of trade legislation has ranged from a high of 99 percent for the 1979 legislation implementing the Tokyo Round GATT negotiations to a low of 68 percent for the 1994 Uruguay Round Implementation Act. Eighty-six percent of House Republicans voted in favor of the Trade Act of 2002.

"Yes" Votes on Trade By Party

Figure 3
U.S. Senate
1974-2002

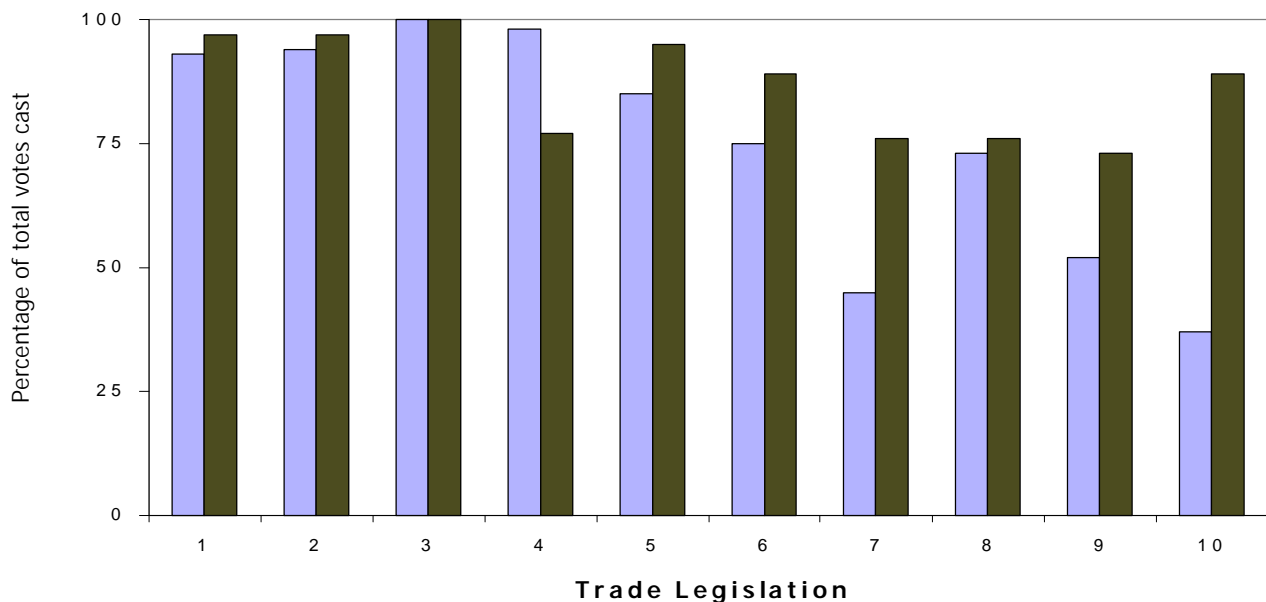


Democrats



Republicans

Figure 4
U.S. House of Representatives
1974-2002



Source: prepared from data compiled by the Congressional Research Service.
See <http://thomas.loc.gov/>

REGRESSION RESULTS: ESTIMATING THE TRENDS

Results of logit regressions performed on these House and Senate votes suggest that there is a significant relationship between party affiliation and vote.⁶ Tables 1 and 2 present these results.

Table 1
PROBABILITY OF SENATE VOTES
ON MAJOR TRADE LEGISLATION

SENATE	DEM	REP.
Vote "yes"	78.8 %	91.1 %
Vote "no"	21.2 %	8.9 %

Based on all 9 votes considered Senate Republicans are more likely than Democrats – by a margin of more than 10 percentage points – to vote in favor of trade legislation. The party difference is twice as large in the House of Representatives. There is more than a 20 percentage point difference between the probability that a House Republican will vote yes and the probability that a House Democrat will vote yes.

Table 2
PROBABILITY OF HOUSE VOTES
ON MAJOR TRADE LEGISLATION

HOUSE	DEM.	REP.
Vote "yes"	68.2 %	90.2 %
Vote "no"	31.8 %	9.8 %

It is worth noting that the probability that a Republican will vote in favor of major trade legislation is very similar in the House of Representatives and in the Senate. By contrast, the probability that a Democrat will vote yes on major trade legislation is 10 percentage points higher in the Senate than in the House.

The similarity in voting patterns between House and Senate Republicans can be

seen as reflecting a consistent substantive position, i.e. Republicans tending in general to favor trade liberalization. The difference between voting patterns of House and Senate Democrats, however, seems to undermine the conventional wisdom that, typically, "Democrats are protectionists," because there has been significant Democratic support for trade liberalization over the years.

There are numerous possible factors that might account for the difference in Democrats' voting behavior between the House and the Senate. Congressional districts tend to have more concentrated industrial and demographic characteristics than states. Representatives must run for election every two years, as opposed to every six years for Senators. As a result, House members tend to be more responsive to local interests, while Senators tend to focus more on a broad mix of statewide concerns, and the "national" interest.

This suggests why the votes of House Democrats might be more likely to reflect concern about economic dislocations that are associated with changes in international trade, while the votes of Democratic Senators might tend to focus more on the benefits of trade liberalization on the wider economy.

ANALYSIS OF VOTING BEHAVIOR OVER TIME

Splitting the data set by different time periods provides further insight into recent trends in Congressional votes for trade liberalization. (See Table 3.) In the Senate, both Democrats and Republicans displayed a very high probability of support for major trade legislation in the 1970s.⁷

Even into the 1980s, the probability of voting in favor of trade liberalization was very similar for Democrats and Republicans, although the probability of support fell twice as

much from the preceding decade for Democrats as for Republicans.

Table 3
PROBABILITY OF “YES” VOTES
ON MAJOR TRADE LEGISLATION
IN THE SENATE

SEN.	DEM.	REP.
1970s	97.9 %	95.5 %
1980s	89.1 %	91.4 %
1990s	56.2 %	83.3 %

The greatest change in voting behavior in the Senate came in the 1990s.⁸ During the decade the difference between the Democratic and Republican probabilities of voting in favor of trade liberalization widened significantly. Between the 1980s and the 1990s, the probability that a Senate Democrat would vote yes on major trade legislation fell by more than 30 percentage points. Over the same period, the Republican probability fell by only less than 10 percentage points.

These regression results suggest two trends. First, there is evidence of an overall decline in support for trade liberalization by both Democrats and Republicans. Second, the difference in voting behavior between Democrats and Republicans in the Senate is a recent phenomenon.

The trends are more pronounced in the House of Representatives. Overall, as has been noted, the probability of either Democrats or Republicans voting yes on trade legislation is lower in the House than in the Senate. Second, there is a decline in the House in both Democrat and Republican support for trade liberalization. Third, the probability gap between Democrats and Republicans is much larger in the House than in the Senate.

The probability of House Democrats voting in favor of trade legislation in the 1970s

was almost 10 percentage points lower than for their Senate Democratic colleagues, and the difference in probability of voting yes between House Democrats and Republicans is twice as large as the difference between members of both parties in the Senate.⁹

Table 4
PROBABILITY OF “YES” VOTES
ON MAJOR TRADE LEGISLATION
IN THE HOUSE OF REPRESENTATIVES

H.R.	DEM.	REP.
1970s	89.2 %	93.4 %
1980s	75.1 %	88.1 %
1990s	52.3 %	79.4 %

Deterioration in House support for trade liberalization became evident in the 1980s. By contrast, this deterioration was not as pronounced in the Senate until the 1990s. The probability of a House Democrat voting in favor of major trade legislation fell by almost 15 percentage points between the 1970s and the 1980s, and by more than 20 percentage points between the 1980s and the 1990s. By contrast, the probability of a House Republican voting in favor of major trade legislation fell by less than 15 percentage points over the entire 30-year period.

Obviously, something happened over the last 30 years to make it more difficult to win Democratic support, in particular, for trade liberalization.

EFFICIENCY, EQUITY AND CHANGES IN THE STRUCTURE OF THE U.S. ECONOMY

The debate over international trade liberalization is sometimes reduced to arguments concerning efficiency and equity. From the prospective of efficiency, international trade improves consumer choice, places downward pressure on prices, and encourages productivity growth that in turn can

result in long-term improvements in living standards.

On the other hand, the gains from international trade are net gains — at a minimum, at least in the short-run, while people in general are somewhat better off, some people can be made worse off because of international trade. Workers and plants in import-competing industries face increasing pressure and possibly layoffs and closings due to increased imports.¹⁰

Thirty years ago, when the United States exported more than it imported, very little attention was paid to those people adversely affected by trade. Since then, however, not only has trade become more important to the US economy, it also has become less balanced – i.e. imports have been growing faster than exports.

...imports have grown by an average of more than 10.5 percent per year. The cumulative effect of a 1.5 percent difference over 30 years can become rather large.

In 1975 international trade was equal to 15.5 percent of GDP. Since then exports have grown at an average of almost 9 percent per year. By contrast, imports have grown by an average of more than 10.5 percent per year. The cumulative effect of a 1.5 percent difference over 30 years can become rather large. As a result of the increased importance and imbalance, more attention has been paid to the "costs" of international trade.

Over the last 30 years, along with increased trade, there have been other

significant changes in the US economy, many positive, some less so. Since 1970, the economy has grown by an average rate of about 3 percent per year. Inflation has fallen over the 30 year period by an average of 1/4 percentage point a year, from a peak of 13.5 percent in 1980 to a low of a little less than 1.5 percent in 2002.

Total employment almost doubled over the last 30 years, from 71 million in 1971 to 131 million in 2002. On average, total employment grew by almost 2 million jobs per year. Table 5 presents a comparison of economic indicators for 1974 and 2002.

Table 5¹¹
WHAT A DIFFERENCE 30 YEARS MAKES

2 YEARS PREVIOUS, ANNUAL AVERAGE	1974	2002
GDP growth	3.5 %	2.5 %
Unemployment rates	5.4 %	4.9 %
Inflation rate	6.8 %	2.5 %
Change in total employment	2,351,000	653,000
Change in mfg employment	484,670	667,000
Growth, real average weekly wages	-0.03 %	0.8 %
Growth, real av. weekly mfg. wages	0.7 %	0.3 %
ANNUAL AMOUNT	1974	2002
Mfg share of total employment	25.6 %	12.6 %
Imports as a share of GDP	8.3 %	13.5 %
Exports as a share of GDP	8.1 %	9.9 %
Trade deficit as share of GDP	-0.3 %	-3.6 %
Real average weekly wage, all sectors	\$302.27	\$278.87
Real average weekly wage, mfg. sector	\$345.31	\$346.63

During this three-decade period in which trade was being liberalized, and the trade deficit was growing, the US economy experienced significant structural change, most

noticeably, an employment shift out of manufacturing and into services.

Manufacturing employment as a share of total employment fell from close to 26 percent in 1971 to not quite 13 percent in 2002. Almost all the new jobs created in the US economy over the last 30 years have been in services, rather than in goods-producing activities.

Table 6 lists changes in net employment by sector, or major industry division, between 1974 and 2000. They are ranked according to the percentage change.¹²

Table 6
NET CHANGE IN EMPLOYMENT
1974 TO 2002

	IN THOUSANDS	% CHANGE
Services	27016	201.00
Construction	4633	115.25
Retail trade	10798	86.12
Finance, Insurance, & RE	3428	82.64
Wholesale trade	2500	56.22
Transportation	2306	48.80
Government	6532	46.10
Manufacturing – total	-1604	-7.99
Mining	-154	-22.09

Net employment in the service-producing areas - transportation, wholesale and retail trade, finance, insurance and real estate, and government - increased by 52.5 million jobs between 1974 and 2000. By contrast, net employment in the manufacturing sector declined by almost 2 million jobs over the same period, an average of 67,000 jobs per year. Table 7 lists net employment changes within the manufacturing sector, ranked by percentage change.

This shift in the composition of employment coincided with a decline in total

average real wages. (See Figure 5, Page 12.) Average real weekly wages for all employees fell by 8 percent over the last 30 years, or an average of \$1.50 per year.¹³ The average real weekly wage in manufacturing has remained relatively flat over that same period.

It is difficult to draw a direct relationship between these changes in the structure of the US economy and changes in Congressional support for trade liberalization. On the other hand, these changes may provide some explanation for the pronounced difference between voting behavior in the House and the Senate, and furthermore between Democrats and Republicans in the House of Representatives.

Table 7
NET CHANGE IN EMPLOYMENT
WITHIN MANUFACTURING SECTOR
1974 TO 2002

	IN THOUSANDS	PERCENT CHANGE
Printing and publishing	436.2	39.25
Rubber	273	36.97
Lumber and wood	103.8	14.29
Furniture	69.6	14.22
Electronic equipment	59.8	3.59
Transportation equipment	8.8	0.47
Food	-21.7	-1.27
Chemicals	-26.5	-2.50
Instruments	-40.2	-4.54
Industrial machinery	-109.2	-4.90
Fabricated metal products	-93.2	-5.71
Stone, clay and glass	-94.4	-14.03
Miscellaneous mfg industries	-69.7	-15.42
Paper	-239.9	-26.77
Primary metal industries	-390.4	-30.29
Petroleum	-70	-35.53
Textiles	-434.5	-45.03
Apparel	-729	-53.50
Tobacco	-42.8	-55.51
Leather	-200.9	-74.11

ANALYSIS OF VOTING BEHAVIOR BY STATE

Table 8 presents the list of 20 states where Senators voted consistently in favor of trade liberalization, or “yes” on each of the nine major pieces of legislation considered. Twenty four percent of Senate seat holders are in this category. No Senator has voted consistently against trade liberalization - even discounting for the near unanimous vote in favor of the Trade and Tariff Act of 1984.

The number of Senators supporting trade liberalization is included in parentheses next to the state name. The following 5 indices are presented for each state:

- Manufacturing share of total employment for 1980, 1990 and 2000
- Changes in the manufacturing share of employment between 1980 and 2000
- Percent change in manufacturing employment between 1980 and 2000
- Percent change in average weekly earnings in manufacturing, 1980 to 2000
- Unemployment rate for 1980, 1990 and 2000

In each case, the variable for the state was normalized by the national average. The table presents only those cases in which state experience was above the national average.

A simple analysis would suggest that Senators from states which experienced above average job loss in manufacturing, above average earnings losses, or an above average unemployment rate might tend to vote against trade liberalization. The data presented in Table 8 do not seem to follow this hypothesis.

Of the 20 states where Senators voted

consistently in favor of trade liberalization, 10 states had a heavy concentration in manufacturing, 5 states experienced an above average decline in that concentration of employment between 1980 and 2000, 10 states experienced an above average fall in manufacturing earnings, and 6 states experienced an above average unemployment rate. Only 3 states experienced an above average decline in manufacturing employment. Only Rhode Island scored above average in all 5 variables and Connecticut scored above average in 4 of the 5 variables.

Overall, it is difficult to see an immediate relationship between economic performance and voting behavior in this limited exercise.

TABLE 8
STATES FROM WHICH SENATORS VOTED
CONSISTENTLY IN FAVOR OF TRADE
LIBERALIZATION

State	ABOVE THE NATIONAL AVERAGE				
	Mfg share of empmt.	Change in Mfg share	Change in Mfg empmt.	Change in Mfg earnings	Average rate Of unempmt
Arizona (1)					
Connecticut (1)	X	X	X	X	
Florida (2)				X	
Georgia (2)	X	X		X	
Indiana (1)	X				X
Iowa (1)	X				
Kansas (1)	X				
Kentucky (1)	X			X	X
Louisiana (1)			X	X	X
Missouri (1)	X			X	
Nebraska (1)					
Oklahoma (1)					
Oregon (1)	X				X
Rhode Island (1)	X	X	X	X	X
Tennessee (1)	X	X		X	
Texas (1)					
Utah (1)					
Virginia (2)		X		X	
Washington (1)					X
Wyoming (2)				X	

Sixty House of Representatives districts' members, from the following 25 states, have voted consistently in favor of trade liberalization, representing only 14 percent of Congressional districts.¹⁴ Those states included Alabama (1), Arizona (1), California (6), Connecticut (1), Delaware (1), Florida (5), Illinois (3), Indiana (1), Iowa (2), Kansas (2), Kentucky (2), Louisiana (1), Maryland (2), Michigan (3), Minnesota (3), Nebraska (2), New Jersey (1), North Carolina (2), Ohio (4), Oklahoma (2), Pennsylvania (3), Tennessee (2), Texas (6), Virginia (2) and Washington (2).

The indices presented in Table 8, along with the names of states from which Senators have consistently voted in favor trade liberalization are not useful when analyzing House votes, since they are based on data for the entire state, not any specific Congressional district. This can make a significant difference in large states.¹⁵ Similar to the Senate, the Representatives from no districts voted consistently against trade liberalization on all nine pieces of legislation.

TRADE ADJUSTMENT ASSISTANCE

Increases in trade-related dislocations over the last 30 years have introduced a link between trade policy and worker assistance. For example, a poll conducted by the Program on International Policy Attitudes in 2002 suggested that Americans would be more willing to support "free trade," if the government assisted workers who lost their jobs. Sixty-six percent of respondents agreed with the statement, "I favor free trade, and I believe that it is necessary for the government to have programs to help workers who lose their jobs." Only 18 percent of respondents said that they favor free trade and do not think it is necessary for the government to help workers who lose their jobs. By contrast,

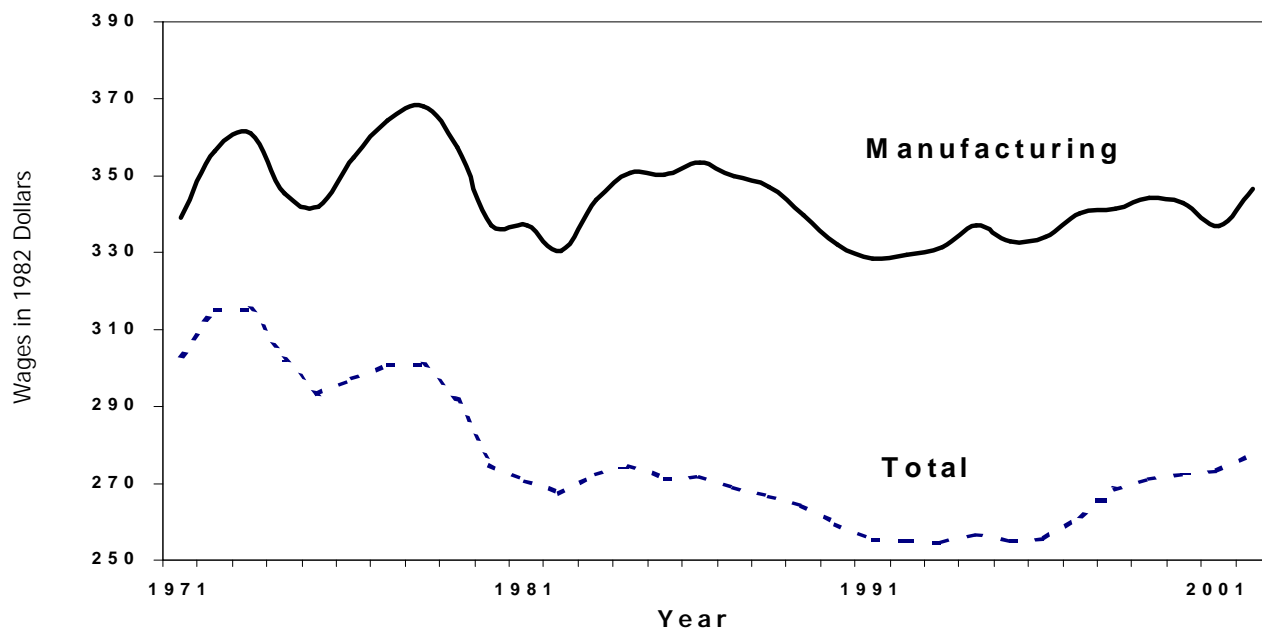
fourteen percent of respondents did not favor free trade.¹⁶

In 1962, President Kennedy proposed the first legislative linkage between Congressional approval of trade negotiating authority and government assistance to workers whose job loss was associated with changes in international trade. The Trade Expansion Act of 1962, which provided the President the authority to enter into the Kennedy Round GATT negotiations, established the Trade Adjustment Assistance program. Initially, the program was designed to provide extended income maintenance, beyond the traditional unemployment insurance, to workers who lost their jobs due to an increase in imports.

From an economic perspective, it can be argued that it is appropriate for the government to help redistribute the "gains" from trade liberalization to those adversely affected by that liberalization.

There are three motivations for assisting those workers adversely affected by changes in international trade. From a political perspective, assisting those workers may be a relatively small price to pay in order to win Congressional support for trade liberalization. From an economic perspective, it can be argued that it is appropriate for the government to help redistribute the "gains" from trade liberalization to those adversely affected by that liberalization. On ethical grounds, it can be argued that the government has a responsibility to compensate those workers who lose their jobs due to no fault of their own, but rather because of some government action, in this

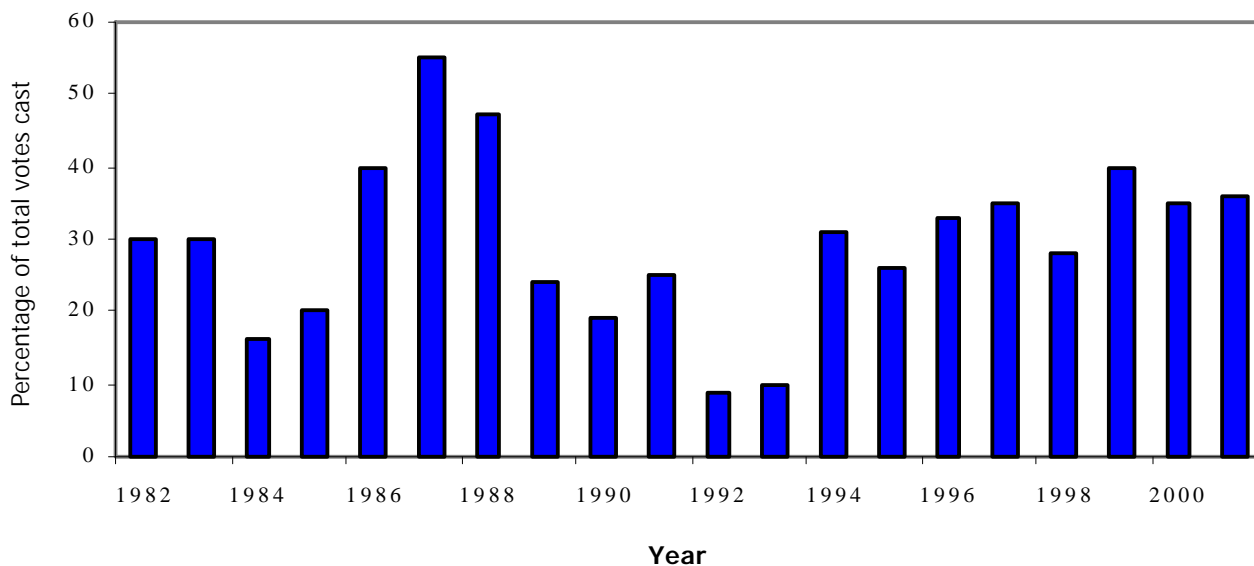
Real Weekly Wages



Source: Department of Labor, Bureau of Labor Statistics. See <http://data.bls.gov/cgi-bin/surveymost?ee> and <http://data.bls.gov/labjava/outside.jsp?survey=ce>

Figure 6

TAA Enrollment



Source: Division of Trade Adjustment Assistance, Employment and Training Administration, Department of Labor. See www.doleta.gov

case entering into international trade liberalizing agreements.

On a practical level, TAA initially was a part of a package to win AFL-CIO support for, or at least soften opposition to the Trade Expansion Act of 1962. It was also thought that TAA would make it easier for members of Congress to support trade liberalization.

Until recently, workers participating in TAA could receive up to 52 weeks of income maintenance (beyond the standard 26 weeks of unemployment insurance), training, and job search and relocation assistance. Income maintenance is considered an entitlement for budgeting purposes, i.e. Congress must appropriate sufficient funds to provide income support to all eligible workers.

On the other hand, training is a “capped entitlement,” i.e. Congress fixes the total amount of funds appropriated for training, but every eligible participant is entitled to enroll in some government-sponsored training.¹⁷ TAA also provides funds for job search and relocation assistance, although not many workers request this assistance.

In 1981, Congress greatly curtailed the provision of assistance under TAA. First, the program was changed to require workers to enroll in training in order to receive income maintenance.¹⁸ Second, the amount of income maintenance, which had been set at the average manufacturing wage, was significantly reduced to match each state’s unemployment insurance payment. This constituted more than a 50 percent cut in assistance to individual workers.

In 1993, Congress established a separate program for workers whose job loss was associated with increased imports from and/or shifts of production to Canada or Mexico. Workers eligible for NAFTA-TAA received assistance that was almost identical to

that provided under the general TAA program, although there were some differences in coverage. In addition to covering workers who lost their jobs from import-competing industries, NAFTA-TAA provided assistance to workers who lost their jobs due to shifts in production to Canada or Mexico.

In addition, over the last few years, the Department of Labor has been providing assistance to “secondary workers” – workers who lost their jobs because they worked for suppliers or downstream producers for firms that faced increased import competition from Canada or Mexico, on a discretionary basis.¹⁹

Since 1975, over 3 million American workers have been certified as eligible for assistance under TAA, and approximately 2 million workers have received assistance. (See Figure 6.) In FY 2000, 33,000 workers received assistance under TAA and 2,000 workers received assistance under NAFTA-TAA. The average worker received weekly income maintenance payments, equal to approximately \$220, for about 35 weeks. The average weekly income maintenance payment was less than half of the total average weekly earnings (\$474.38) and considerably less than the average weekly earnings in manufacturing (\$598.21). Total budgetary outlays for the 2 programs together in FY 2000 were about \$400 million.

Interest in reforming TAA tends to be highly correlated with Congressional consideration of trade liberalizing legislation.²⁰ Trade Adjustment Assistance has often been seen as a *quid pro quo* for support on trade liberalizing legislation. On the other hand, significant weaknesses in the program over the years have depreciated its value in “buying” that support.

Table 10 presents the legislative history of TAA and its relationship to major pieces of

trade legislation. Until 2002, the only major changes in TAA occurred in 1981, when income support was made conditional on enrollment in training, and in 1994, when Congress created a separate program related to NAFTA.

Promotion Authority provisions. The following are some of the specific elements included in the final legislation.

TAA and NAFTA-TAA Merged – Both programs are merged into a single program.

Secondary workers – TAA eligibility is expanded to include workers who lose their jobs from plants producing parts that are inputs into import-competing final goods.²¹ This provision alone could result in a doubling in the number of workers eligible for assistance.

Shift in production – A growing number of American workers are losing their jobs due to shifts in production to overseas, as opposed to direct import competition. Congress agreed to expand TAA eligibility to include workers who lost their jobs due to shifts in production to only those countries which have bilateral agreements with the United States or “where there has been or is likely to be an increase in imports from that country.”

Refundable tax credit for health insurance – Workers will receive a 65 percent “advance-able,” refundable tax credit to offset the cost of maintaining health insurance during the period of unemployment, for up to two years.

Wage insurance – Workers over 55 years old and earning less than \$50,000 a year may be eligible to receive 50 percent of the difference between their old and new wage for up to 2 years, if the new wage is lower than the old wage.

Training appropriation – Congress doubled the legislative cap on the training appropriation, from \$110 million to \$220

Table 10
CONGRESSIONAL VOTES ON TRADE
LEGISLATION AND TRADE ADJUSTMENT
ASSISTANCE

YEAR	BILL	ROUND	TAA
1962	Trade Expansion Act	Kennedy Round	Established TAA
1974	Trade Act of 1974	Tokyo Round	Liberalized eligibility criteria to “contributed importantly”
1981	1981 Budget Act		Reduced income maintenance to state UI levels and added training requirement
1988	Omnibus Trade and Competitiveness Act	Uruguay Round	Established plant closing advance notification and rapid response assistance
1993	NAFTA		Established NAFTA-TAA
2002	Trade Act of 2002	Doha Round	Expanded eligibility to include secondary workers and shifts in production, provided “advance-able” refundable health insurance tax credit, established wage insurance

TAA REFORM AND TRADE PROMOTION AUTHORITY

In July 2001, Democratic Senators Bingaman, Baucus and Daschle introduced legislation to significantly reform and expand Trade Adjustment Assistance.

This legislation later became part of the Trade Act of 2002, which included the Trade

million. Congress will still have to agree to an annual appropriation for training.

Extend income maintenance by 26 weeks

– Prior to the changes, workers could be enrolled in training for up to two years, but could only receive income support for a maximum of 1½ years. Under the changes workers will be able to be enrolled in training and receive income support for up to two years.

Increase in job search assistance and relocation assistance – The assistance was updated for changes in inflation, since the number was set more than 20 years ago.

TAA for farmers and fishermen – a program is established to provide assistance to farmers and fishermen when the international price of a commodity falls more than 20 percent below the previous five-year average.

Increased funds for TAA for firms – Congress raised the appropriation cap on this very small program.

President Bush's FY 2004 budget requests \$1.4 billion for Trade Adjustment Assistance, a 50 percent increase over estimated expenditures for FY 2003 and a three-fold increase over actual FY 2002 expenditures.

SUMMARY

Congressional support for future trade liberalization is seriously in doubt. Over the last 30 years, opposition to the authorization and implementation of multilateral and bilateral trade agreements has been growing. An analysis of Congressional votes on nine major pieces of trade legislation suggests several trends:

- In the 1970s and much of the 1980s, Democrats and Republicans in both the House and Senate strongly supported legislation to liberalize international trade.
- Since then there has been an overall decline in support for trade liberalization among *both* Democrats and Republicans, although the decline among Democrats has been more pronounced than that among Republicans. By the 1990s, the probability that a House or Senate Democrat would vote in favor of trade legislation was just above 50 percent, 25 percentage points less than that for House and Senate Republicans.
- The decline in Democratic support for trade liberalization is more prevalent in the House than in the Senate.
- There does not seem to be any apparent relationship between voting behavior and the concentration of manufacturing employment or average unemployment rate, at least not at the state level.

The US economy has experienced structural change over the last 30 years, resulting in considerable economic gains and losses. The impressive number of new jobs created in the service sector does not mitigate the fact that millions of American workers lost high paying jobs in traditional manufacturing industries.

- Between 1971 and 2001, despite an increase in total net employment by 60 million, or an average of 2 million per year, net manufacturing employment fell by 2 million, or an average of 67,000 per year.
- Since 1971, the average real weekly wages for all employees fell by 8 percent, or an average of \$1.50 a year. The average real weekly wage in manufacturing has remained relatively unchanged over the same period.

- Over the last 30 years international trade has become more important to the US economy. At the same time, that trade has become more imbalanced. Since 1975, the last time the United States experienced a trade surplus, exports have grown at an average of almost 9 percent per year. By contrast, imports have grown by an average of more than 10½ percent per year.

...Congress and the President may have to significantly increase the resources devoted to assisting those workers adversely affected.

In an attempt to explicitly link Congressional authorization of further negotiations with the recognition that some workers and communities may be adversely affected by the resulting trade liberalization, President Kennedy established the Trade Adjustment Assistance program in 1962.

Program participation and budgetary outlays have been relatively small over the last 30 years. In the Trade Act of 2002, Congress enacted major changes in the program, aimed at significantly expanding eligibility and assistance.

The increasing difficulty in winning Congressional support for trade liberalization has led some to give a sigh of relief after each vote. This ignores the fact that “fast-track” is a process – one vote leads to future votes. For example, passage of the Trade Act of 2002

authorized a series of negotiations – multilateral negotiations under the Doha Round, as well as numerous regional and bilateral negotiations. Each of these agreements must face Congressional approval.

The Congressional voting record of the last 30 years suggests that there is growing opposition to trade liberalization. In fact, based on that trend, the House of Representatives is highly unlikely to approve legislation that either authorizes or implements major trade agreements.

One possibility is that it may be easier to win Congressional approval for more targeted agreements, like bilateral or sector specific agreements. This may help explain the recent shift in emphasis in US trade policy toward bilateral free trade agreements. Another possibility is that Congress and the President may have to significantly increase the resources devoted to assisting those workers adversely affected by changes in international trade and investment.

Future efforts to win Congressional support for further trade liberalization – including ratification of any agreements resulting from the negotiating authority provided in the Trade Act of 2002 – may well depend in part on full implementation of these reforms and further expansion of that assistance.

NOTES

¹ The author is grateful to Elizabeth Gottschalk and Ben Goodrich for their valuable research assistance for this paper. Shara Aranoff, Robert Baldwin, Gary Hufbauer, Lori Kletzer, and Maureen Steinbruner provided constructive comments.

² Scher, Peter L. 2003. "Challenges of the New Global Trading System," Washington, D.C.: Center for National Policy.

³ The Senate vote on Fast Track in 1997 is not included, since the House of Representatives did not hold a vote.

⁴ Following a several-decade period of Democratic control, the partisan make-up of Congress has shifted back and forth for several cycles, with the balance remaining quite close. Voting discipline among Republicans, now in the majority, has been strong in recent years, stronger than that typically exhibited by Democrats during the prior period. The statistical analysis presented here does not take this dynamic into account, nor does it reflect the impact of party change in the Executive Branch, although this clearly has had an impact.

⁵ The exception is the Trade Act of 1974 that included the Jackson Vanik provisions, which effectively imposed trade sanctions on the former Soviet Union.

⁶ Dummy variables were used for each state and each vote.

⁷ The two major Congressional trade votes during the 1970s were to authorize and implement the Tokyo Round GATT negotiations.

⁸ There were four major Congressional votes on trade during the 1990s—Uruguay Round extension and implementation, NAFTA implementation, and the vote authorizing the Doha Round negotiation.

⁹ In fact, the probability of Democratic support for trade liberalization was greater than Republican support in the Senate in the 1970s.

¹⁰ Kletzer, Lori G. 2003. "Imports, Exports, and American Jobs: Understanding the Links and What They Mean for U.S. Workers," Washington, D.C.: Center for National Policy based on research reported in Lori G. Kletzer, *Imports, Exports and Jobs: What does trade mean for employment and job loss?* Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2002; and Lori G. Kletzer, *Job Loss from Imports: Measuring the Costs*, Washington, DC: Institute for International Economics, 2001.

¹¹ Source: Author's calculations based on data from:

U.S. Department of Commerce, Bureau of the Census.

U.S. Department of Commerce, Bureau of Economic Analysis

U.S. Department of Labor, Bureau of Labor Statistics

¹² These data do not represent total job gains or losses, but rather gains minus losses.

¹³ Based on a 40-hour week, this decline amounts to \$60 a year, in real terms.

¹⁴ Although none of the Members are from districts that did not exist in 1974, some Members are from districts whose borders have changed over the last thirty years.

¹⁵ This is an area that requires additional research. Since it is argued that House Members tend to be more responsive to constituent concerns, it would be interesting to determine if there is any relationship between the manufacturing and unemployment indices, calculated at the Congressional district level, and Members' votes on trade liberalization.

¹⁶ 87 percent of respondents agreed (56% strongly) with the statement, "I would favor more free trade, if I were confident that we were making major efforts to educate and retrain Americans to be competitive in the global economy. Only 11 percent disagreed. See Program on International Policy Attitudes, October 1999. http://www.americans-world.org/digest/global_issues/intertrade/overwhelm.cfm

¹⁷ By contrast, the Workforce Investment Act (WIA)—the program that provides assistance to all dislocated workers regardless of cause—is not an entitlement. Most states exhaust training funds under WIA well before the end of the year, denying many workers the ability to enroll. In addition, the state can deny training, if it is determined a worker can find a job, which pays a subsistence wage.

¹⁸ This change was contrary to the notion of TAA as compensation for government action.

¹⁹ A downstream producer is defined in the bill as: "A firm that performs additional, value-added production processes, including a firm that performs final assembly, finishing, or packaging of articles produced by another firm."

²⁰ Over the last thirty years, TAA reauthorization has often been postponed in order to combine it with Congressional fast-track authorization.

²¹ Some secondary workers have already been receiving assistance under NAFTA-TAA.