

# The hidden cost of free trade

By Jeffrey Sparshott  
THE WASHINGTON TIMES  
Published September 18, 2005

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Angel Mills worked at GST AutoLeather in Williamsport, Md., most of her adult life. She cut, inspected, packed and shipped leather upholstery until she was laid off in June 2003 as the company scaled back local operations and shifted production to Mexico.

"It's sad. It's scary. I've been a factory worker all my life, and I didn't know what I wanted to do," said Ms. Mills, a 38-year-old Williamsport resident with a teenage son.

But by March 2004 she was taking a half-year course to become a state-licensed massage therapist. A federal program that helps workers who lose jobs owing to foreign competition paid for her training and offered extended unemployment benefits.

In July, she started working at Venetian Salon and Spa in Hagerstown, Md.

"I'm glad this happened to me now, because I have a lot better life going for me, more stability knowing that with this degree, I can get a job anywhere and make good money," Ms. Mills said.

One-time factory workers like Ms. Mills have been on the front lines of the global market, often competing with lower-paid laborers in Mexico, China or other countries with large populations and weakly enforced labor standards.

In one sense, Ms. Mills was lucky -- she was eligible for federal Trade Adjustment Assistance (TAA) and a Trade Readjustment Allowance following her layoff. The programs pay some tuition costs, offer extended unemployment insurance and a health insurance tax credit so workers who lose jobs to foreign competition can learn new skills and find new jobs in growing fields.

But nationwide, most eligible workers never sign up for the program and among those who do, about one-third don't quickly find new jobs. Of those who find new jobs, roughly three-quarters don't equal their old wages.

"It is a myth that when some jobs are gone, people will just move up that [economic] ladder to another job. That is not always the case," said Peter Thomas, executive director of the Western Maryland Consortium, the state agency where GST's and other laid-off workers in the area turned when looking for new employment and training.

Costly job losses

Nationwide, the federal government has certified that more than 4 million manufacturing workers lost their jobs owing to foreign competition during the past 30 years, and offered to pay for training.

In recent years, fewer than one-quarter of all eligible workers nationwide have enrolled in TAA training or wage-assistance programs.

There are no definitive figures explaining why, though community college and work force training officials speculate that many simply find new jobs on their own, while others drop out of the job market.

GST AutoLeather has operated in Williamsport under different ownership and names since 1897, but the company has been shifting production to lower-wage countries like Mexico and China, and imports of competing products have increased.

In 2003, 222 workers were laid off and certified for trade adjustment assistance. By the

end of the month, the remaining Williamsport manufacturing jobs -- more than 400 -- also will be gone, forcing one-time factory employees to retire, hunt for scarce manufacturing work or find new careers.

Maryland now has 17 companies with 2,100 workers certified for trade-related assistance, with GST and Black & Decker the two biggest recent projects, said Patrick Baker, director of the Maryland Labor Department's Dislocated Workers Unit.

It is a small portion of all displaced workers -- about 8,400 at 64 companies statewide last year -- but trade-related assistance generally offers the most extensive set of benefits and potentially the best chance for a career change among workers.

As of June 30, the most recent complete school term, 82 former GST workers participated in a trade adjustment-related program, 53 received training and of those 18 found jobs.

Mr. Thomas said that for all trade adjustment program workers passing through the consortium, the average wage was \$14.36 an hour before the layoffs, while after retraining it was \$11.87 an hour, a decline that is common for factory workers who have to restart their lives.

U.S. Labor Department figures indicate that among the retrained, those that find new jobs end up making only 70 percent to 80 percent of their old wages on average.

"For many workers, import-competing job loss is very costly, due to difficulties finding new employment at a level of pay similar to the old job," said Lori Kletzer, a professor of economics at the University of California, Santa Cruz, in the Federal Reserve Bank of Chicago's "Economic Perspectives" publication.

About one-quarter of re-employed workers experience wage losses in excess of 30 percent, she said in the article, published in the second quarter of 2005.

Based on anecdotal evidence, typical training courses include truck driving, installation and repair of heating and cooling systems, or medical work such as nursing.

More detailed statistics on the impact of trade adjustment are scarce.

"No information is currently available to accurately measure program effectiveness," the Government Accountability Office said in a September 2004 report, though it noted the Labor Department was working to better evaluate the program.

#### Program in 'disarray'

The Bush administration acknowledges that the program has had difficulties, but says it for the first time instituted performance measures and accountability standards last year, and also that it has been better integrated with other worker training and assessment programs.

"It was really a program that was almost in complete disarray when we arrived," said a senior administration official who asked not to be named.

Others say trade adjustment programs are run largely as an afterthought.

"At the moment, this program is being badly mismanaged by the Bush administration," said Thea Lee, policy director at the AFL-CIO labor federation. "A lot of states are running out of funds, a lot of workers have no idea they are eligible, and a lot of workers are being denied [benefits] when they ought to be eligible."

She noted that the Court of International Trade, where workers can appeal if the U.S. Labor Department denies them benefits, often criticizes administration decisions. In a July ruling, for example, the court wrote that, "[The Labor Department's] factual

determinations are not supported by substantial evidence."

#### Decades of job help

The concept of trade adjustment dates to the Kennedy administration. It was created to help win union support for lower tariffs and expanded trade.

Trade adjustment continues to play a central role in the national debate about trade and globalization, though it is not winning union support for administration trade policy.

The current program of Trade Adjustment Assistance was started under the Trade Act of 1974. Congress mandated a NAFTA-specific trade adjustment program that started in 1994 to mitigate the effects of the trade agreement with Canada and Mexico.

Lawmakers ordered NAFTA-TAA back into the regular TAA program in 2002 as part of a revamped trade adjustment program driven by Senate Democrats. The modifications came as President Bush sought trade promotion authority to negotiate new free-trade deals and a new round of global tariff reductions at the World Trade Organization.

The 2002 changes expanded some training and cash benefits, and established a health coverage tax credit covering 65 percent of health insurance premiums. A new benefit for workers over 50 was created to pay half the difference between their old wage and the wage they are receiving at new employment.

"We've expanded trade adjustment assistance. We want to help pay for you to gain the skills necessary to fill the jobs of the 21st century," Mr. Bush said during the 2004 presidential debates.

The administration has resisted further expanding the program to cover non-factory workers and entire industries, rather than the current system of company-by-company certifications.

The Senate Finance Committee in June asked the administration to tack new benefits onto legislation enacting the Central American Free Trade Agreement, but that proposal was stripped out of the final bill.

"President Bush likes to say that trade is for everyone, and that we all share the benefits -- including workers .... This amendment presented the president with the perfect opportunity to show a real commitment to those priorities. But he let the opportunity pass him by," said Sen. Max Baucus, Montana Democrat.

Mr. Baucus has since introduced bills that would expand the program to service workers and struggling industries, but they have not advanced.

#### Taking care of workers

Reluctance to expand the program may reflect political reality -- TAA appears to have done little to win Democratic votes or union support of expanding free trade.

Ms. Lee said organized labor could not support the Bush administration's trade policy because it harms workers.

"Can we buy support for liberal trade policy? If that is the criteria, [TAA] doesn't work," said Howard Rosen, executive director of the TAA Coalition, an umbrella group for businesses, labor and academics interested in improving the program. "Does it help workers? A lot couldn't do without it."

Mr. Rosen helped write the 2002 trade adjustment bill, and says it was a step in the right direction for a country at the forefront of a global economy. But he would like to see more resources and better management for the program.

Trade adjustment accounts for about \$1 billion in Labor Department outlays. The agency's employment and training administration also runs \$5 billion in Workforce Investment Act programs, which includes basic adult employment training, almost \$3.5 billion in state unemployment-insurance funding, as well as other projects.

"The big point is, if you want to have a liberal trade policy, you should care about the domestic consequences of that policy," Mr. Rosen said.

He is not alone in his assessment.

"The basic problem that we confront is given that the advantages [of globalization] are so much greater than the deficits, how do we take care of those who are on the wrong side of this process?" Federal Reserve Chairman Alan Greenspan said in June 23 testimony to the Senate.

"And I do emphasize that what our international trade policy should be focusing on is finding how we put resources, basically much of the resources that we gain from globalization, to assist those who are on the wrong side of the adjustment to retrain, come back and if necessary to at least get a means of redress which recognizes that there are very significant problems in any competitive -- any advance in economic activity," Mr. Greenspan said.

By some estimates, the lower trade barriers, political opening and technological advances of globalization raise U.S. income by \$1 trillion a year. The payoff, about \$3,400 per person, is evident in higher wages, lower prices and better product selection, according to calculations by the Institute for International Economics, a Washington think tank that favors global trade and open markets.

But the gains are widely dispersed, while losses are sharply focused, often on individual workers. But because of budget limitations, government investment in workers is limited.

Maryland, for example, ran short of federal money last year and was forced to lower its per-student training allowance from a maximum of \$15,000 to \$3,000, Mr. Thomas said.

"What Congress has right now is reasonable, but not adequate to the global economy, and it is not well-administered," said J. David Richardson, senior fellow at the Institute for International Economics.

Aside from fiscal or statistical evaluations, workers and the officials who help place them say job loss has an emotional impact, creates a major financial disruption and destroys a long-standing social network of workplace friendships.

"It's right up there with divorce and death in terms of the emotional impact," Mr. Thomas said.

Ms. Mills, the newly minted massage therapist, concurred.

"Some of the co-workers that went with me, ... they are very bitter and very angry. Some of the people will be OK, but it's going to be very difficult," she said.

But the TAA program did benefit her, and for that Ms. Mills is thankful.

"This is a wonderful program. I hope they can help out [other workers] a little bit more -- just give us an opportunity to make our lives a little better," she said.