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HOW EFFECTIVE ARE EXISTING PROGRAMS IN HELPING WORKERS IMPACTED BY INTERNATIONAL TRADE?

HEARING

BEFORE THE

COMMITTEE ON
EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 26, 2007

Serial No. 110–15

Printed for the use of the Committee on Education and Labor

Available on the Internet:
http://www.gpoaccess.gov/congress/house/education/index.html

U.S. GOVERNMENT PRINTING OFFICE

34–138 PDF WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
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HOW EFFECTIVE ARE EXISTING PROGRAMS IN HELPING WORKERS IMPACTED BY INTERNATIONAL TRADE?

Monday, March 26, 2007
U.S. House of Representatives
Committee on Education and Labor
Washington, DC

The committee met, pursuant to call, at 1:03 p.m., in room 2175, Rayburn House Office Building, Hon. George Miller [chairman of the committee] presiding.

Present: Representatives Miller, Kildee, Scott, Woolsey, Wu, Sanchez, Loebsack, Yarmuth, Hare, Clarke, Courtney, Shea-Porter, McKeon, Wilson, Kline and Heller.

Staff Present: Aaron Albright, Press Secretary; Tylease Alli, Hearing Clerk; Carlos Fenwick, Policy Advisor for Subcommittee on Health, Employment, Labor and Pensions; Michael Gaffin, Staff Assistant, Labor; Jeffrey Hancuff, Staff Assistant, Labor; Brian Kennedy, General Counsel; Joe Novotney, Chief Clerk; Megan O'Reilly, Labor Policy Advisor; Rachel Racusen, Deputy Communications Director; Michele Varnhagen, Labor Policy Director; Mark Zuckerman, Staff Director; Robert Borden, Minority General Counsel; Steve Forde, Minority Communications Director; Ed Gilroy, Minority Director of Workforce Policy; Rob Gregg, Minority Legislative Assistant; Jessica Gross, Minority Deputy Press Secretary; Victor Klatt, Minority Staff Director; Stephanie Milburn, Professional Staff Member; Molly McLaughlin Salmi, Minority Deputy Director of Workforce Policy; and Linda Stevens, Minority Chief Clerk/Assistant to the General Counsel.

Chairman MILLER. The Committee on Education and Labor will come to order this afternoon for the purposes of conducting a hearing on, How effective are existing programs in helping workers impacted by international trade? Today, the committee will begin an examination of the U.S. trade policy and how it is affecting American workers.

The trade policy is a controversial subject with strong points of view on both sides. When free trade agreements were being proposed in the early 1990s, proponents argued that they would produce a net economic benefit for the United States and its trading partners. It is true that there have been many winners of free trade in the United States. In the United States, the average consumer can buy a wide range of goods at more affordable prices, and

in some developing countries, like China and India, the middle class is emerging.

Yet, it is becoming ever clear that the free trade process is at a standstill. More countries are objecting to signing broad agreements. Citizen opposition to free trade is widespread around the world, and there is growing evidence that wage and health inequality is growing rather than shrinking internationally. In the United States, as we will hear today, too many workers are being hurt by international outsourcing and its resulting plant shutdowns. The effects are the most severe for older workers who have greater financial obligations and more limited opportunities to start or train for new careers, tens of thousands of laid off workers who have lost their homes or livelihoods and their standards of living when the bottom fell out from under them at work.

American workers who are harmed by trade agreements are the reason we are holding this hearing. We are going to hear today about what happens to workers when their jobs go overseas and when their jobs disappear here at home. We are going to discuss the effectiveness of Federal programs that are intended to assist dislocated workers, like unemployment insurance, Trade Adjustment Assistance, the COBRA health benefits and the health care tax credit.

Everyone knows these programs are too small and lack sufficient funding to provide adequate assistance to all of the workers who need it. The weekly unemployment benefit averages slightly more than $200 a week. The TAA program helped just 70,000 workers last year but had a waiting list of approximately 50,000. The health care tax credit enacted during the last round of trade negotiations only benefited about 28,000 workers, just 11 percent of the potentially 250,000 who are eligible, and that figure is also under challenge.

When the international trade agreements cause American workers to lose their jobs through no fault of their own, we have a responsibility to make sure that they can make ends meet while they find a new job or, in the case of older workers, until they can get to retirement. If programs like Trade Adjustment Assistance are not getting the job done, then we either need to improve them or come up with new ways to support workers harmed by international trade, and we have to do it fast. The American workers and their families are already losing ground in this economy. They cannot wait around another decade for Congress to act. We all understand that the economy has undergone dramatic changes since the 1990s, and for America to retain its leadership in the global economy, we must now establish new public/private partnerships to create the industries and the jobs of the future. We must invest in educating a new generation of scientists and engineers. We must invest in cutting-edge research and development. We must make broadband access universal among other things. If we do all of these things, we can keep America's economy strong for generations to come, but even as we do these things, we must also help American workers who will be inevitably caught up in the changes and in the transitions that take place in the globalized economy. The status quo will not cut it, nor will knee-jerk reactions to ongoing globalization and ongoing international competitiveness.

The purpose of this hearing is to understand what we can do to strengthen America's middle class, to understand the impacts on America's middle class of the changing international economy, of the globalization of that economy, of new trade agreements. It is time for us to understand that no longer can these programs be an afterthought that are simply put up to secure votes for the trade agreements that are before Congress, but they must become part of a national plan to make sure that, in fact, people do not end up losing their entire middle class standard of living because of changes in the international economy and changes here at home in the local economy and in response to international trade and to globalization. We must consider these workers and their families first, and we must understand that the contract to be arrived at in the name of trade agreements must put them on the same footing as those who seek to benefit from those trade agreements. That is the challenge for this committee and for other committees of the Congress, but I think, as we have heard from so many businesses, that the time really has come to rethink that compact that has been established after more than a decade of aggressive trade agreements—bilateral, multilateral agreements—and I think it is appropriate that we have this hearing at this time.

With that, I would like to recognize Mr. McKeon, the senior Republican of the committee.

Mr. MCKEON. Mr. Chairman, thank you for convening this hearing.

Free and fair trade is the cornerstone of our Nation's economy, and its impact on our workforce is an important issue for Congress to examine. I am pleased we are able to do so today. I have always believed that free and open markets comprise a rising tide meant to lift all boats. In our rapidly expanding global economy, for the United States to remain competitive, we must have a prominent seat at the table of free trade, and in fact, our Nation's working men and women depend on us to help ensure that seat at the table. And that is not just rhetoric; it is reality. Just consider these facts.

In 2005, U.S. goods and services exports accounted for more than 10 percent of our gross domestic product and 20 percent of our economy's overall growth. U.S. jobs supported by the export of goods pay an estimated 13 to 18 percent more than the national average, and according to the Institute for International Economics, if the remaining global trade barriers are eliminated, U.S. annual incomes could increase by $500 billion, adding roughly $4,500 per household.

Let us be clear. If we relinquish our seat at the table, scores of American industries dependent on marketing their products to the international community, including manufacturing, agriculture and other key industries, will suffer, and so will their workers. And I am not about to let that happen. And I am hopeful Congress moves to extend the President's Trade Promotion Authority when it is due to expire this summer. Reducing trade barriers abroad will give our farmers, ranchers, manufacturers and service providers better access to the 95 percent of the world's customers living outside our borders. And extending this authority is an important step toward making that happen.

However, I will be the first to recognize that the impact of trade is not completely beneficial to every worker or to every economic sector whether here in the United States or with one of our trading partners, and for these reasons, we have established a number of safety nets meant to assist workers or industries who have some adverse consequences associated with trade.

Trade Adjustment Assistance, or TAA, is one of those safety nets, and I will look forward to our discussion of it later in the hearing. While I am open-minded to potential reforms in the TAA program, just as I am sure my friends on both sides of the aisle are open-minded to the benefits in extending a trade promotion authority, I believe one of the more meaningful ways we can address and help stem some of trade's more adverse consequences is by reforming programs that train and retrain our workforce.

Dr. Alford, I reviewed your testimony, your prepared testimony, and I will be eager to hear how your home State of Alabama has done this, because here in Congress, we have worked to do the same.

In 1998, through the Workforce Investment Act, we established one-stop career centers to help streamline job training and retraining services available to men and women looking to sharpen their skills and better navigate the new century's new economy. Republicans in the House have worked to strengthen this system even further, such as requiring State and local workforce investment boards to ensure their training system is dynamic and reflective of the workforce needs in the local area and allowing training for incumbent workers so employers may assist them in upgrading their skills.

Our proposal from the 109th Congress also would have consolidated the Workforce Investment Act's three adult job training programs into one consolidated adult funding stream to simplify program administration and reduce inefficiency at the State and local levels. This would mean more efficient service when workers need it most.

Mr. Chairman, in the last Congress, this committee advanced the Job Training Reform Bill early on in the first session, and I am hopeful we will again in this year. Our bill passed the House with a bipartisan vote, and as we look for ways to respond to the new realities of the 21st Century economy, including the impact of trade, I believe this set of reforms is one we all can rally around. Therefore, I hope this panel moves expeditiously on job training reform.

Once again, thank you, Mr. Chairman, for bringing us together for today's hearing, and I look forward to hearing our witnesses' testimony and the discussion that will follow.

[The prepared statement of Mr. McKeon follows:]

Prepared Statement of Hon. Howard P. "Buck" McKeon, a Representative in Congress From the State of California

Mr. Chairman, thank you for convening this hearing. Free and fair trade is a cornerstone of our nation's economy, and its impact on our workforce is an important issue for Congress to examine. I'm pleased we're able to do so today.

I've always believed that free and open markets comprise a "rising tide" meant to lift all boats. In our rapidly-expanding global economy, for the United States to remain competitive, we must have a prominent seat at the "table of free trade." And

in fact, our nation's working men and women depend on us to help ensure that seat at the table. And that's not just rhetoric; it's reality. Just consider these facts:

• In 2005, U.S. goods and services exports accounted for more than ten percent of our gross domestic product and 20 percent of our economy's overall growth;

• U.S. jobs supported by the export of goods pay an estimated 13 to 18 percent more than the national average; and

• According to the Institute for International Economics, if the remaining global trade barriers are eliminated, U.S. annual incomes could increase by $500 billion, adding roughly $4,500 per household.

Let's be clear: if we relinquish our seat at the table, scores of American industries dependent on marketing their products to the international community—including manufacturing, agriculture, and other key industries—will suffer. And so will their workers. I'm not about to let that happen, and I am hopeful Congress moves to extend the President's trade promotion authority when it is due to expire this summer. Reducing trade barriers abroad will give our farmers, ranchers, manufacturers, and service providers better access to the 95 percent of the world's customers living outside our borders, and extending this authority is an important step toward making that happen.

However, I'll be the first to recognize that the impact of trade is not completely beneficial to every worker or to every economic sector—whether here in the United States or with one of our trading partners. And for these reasons, we have established a number of safety nets meant to assist workers or industries who have seen some adverse consequences associated with trade. Trade adjustment assistance—or TAA—is one of those safety nets, and I'll look forward to our discussion of it later in this hearing.

While I am open minded to potential reforms in the TAA program—just as I am sure my friends on both sides of the aisle are open minded to the benefits in extending trade promotion authority—I believe one of the more meaningful ways we can address and help stem some of trade's more adverse consequences is by reforming programs that train and retrain our workforce. Dr. Alford, I reviewed your prepared testimony, and I'll be eager to hear how your home state of Alabama has done this because here in Congress, we've worked to do the same.

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Mr. Chairman, in the last Congress, this Committee advanced a job training reform bill early-on in the first session, and I'm hopeful we will again in this year. Our bill passed the House with a bipartisan vote, and as we look for ways to respond to the new realities of the 21st Century economy—including the impact of trade—I believe this set of reforms is one we all can rally around. Therefore, I hope this panel moves expeditiously on job training reform.

Once again, thank you, Mr. Chairman, for bringing us together for today's hearing. And I look forward to hearing our witnesses' testimony and the discussion that will follow.

Chairman MILLER. I thank the gentleman. I thank him for his comments.

Let me be clear at the outset of this hearing that the intent of this hearing and the purpose is to look at the programs that are in place today, sort of top to bottom, and I think, if you have not read the testimony and you hear the testimony, you will discover that we have created a rather complex system for people to have to navigate. Not only is it very hard on them, but I question whether it is really the best use of taxpayer dollars when you look at the complexity of it, and what I think is there is probably bipartisan

agreement about the services we are trying to provide, so I would just hope that everybody on the committee would understand that we really want to look at this in a very different light, and we are doing this, and for their part of it, the Ways and Means Committee is conducting the same effort to see whether or not we can provide a system that is more helpful and certainly more user-friendly.

You know, we are working on legislation on the student loan application, to try to reduce the complexity of this and make it user-friendly for the people who have to use it. Currently, it is easier to go to the World Bank, as Mr. Rahm Emanuel reminded us, and to get a loan from the World Bank than it is to go and get a student loan. In the case of trade, we will hear about trying to acquire the health care benefits that are supposed to go along with this economic dislocation, which can also be fairly complex to say the least.

We have a wonderful group of witnesses today. We are going to begin with Mr. David Bevard, who worked at the Maytag Refrigeration Products for 32 years. He and his wife, Pat, were two of the 2,500 people laid off when Maytag closed its Galesburg, Illinois, plant. At the time of the plant closing, Mr. Bevard was president of the International Association of Machinists, Local 2063. Mr. Bevard attended Sandburg College and Northern Illinois University.

Stan Dorn is a senior research assistant of the Urban Institute. He has focused on research on health coverage, tax credits, Medicaid, auto enrollment strategies and providing health coverage for the uninsured. Mr. Dorn previously worked at the Economics and Social Research Institute, the Children's Defense Fund and served as managing attorney for the National Health Law Program's Washington Office.

Mr. Bruce Herman is the Executive Director of the National Employment Law Project. Mr. Herman previously served as the president of the Garment Industry Development Corporation in New York City and as executive director to the AFL-CIO Working for America Institute. Mr. Herman is a graduate of Columbia University and a recipient of the Fulbright Award.

Dr. Lael Brainard is the vice president and director of Global Economy Development Center at the Brookings Institution where she has written extensively on worker assistance programs, particularly wage insurance. She previously worked for the Massachusetts Institute of Technology and in the Clinton administration. Dr. Brainard has a Ph.D. in Economics from Harvard University.

Dr. Tim Alford is the director of the Alabama Office of Workforce Development. Dr. Alford is a former teacher, principal and community college dean. He started his own consulting business designing workforce development programs and served as the founding executive director of a public/private economic development corporation in Enterprise, Alabama. Dr. Alford has a Ph.D. in Educational Leadership from Auburn University.

Ms. Thea Lee is the policy director and chief international economist at the AFL-CIO where she worked on domestic and international economic policy. Previously, Ms. Lee was the international trade economist with the Economic Policy Institute in Washington, D.C., and a netter of Dollars and Cents Magazine in Boston. Ms.

Lee received a bachelor's degree from Smith College and a master's in economics from the University of Michigan.

Welcome to all of you. Your written presentations will be put in the record in their entirety. The extent to which you can summarize would be appreciated. The light system will be, when you start testifying, there will be a green light. And then, later on, 4 or 5 minutes into it, there will be a yellow light which suggests that you may want to start summing up, but again, we will allow you to complete thoughts and sentences and paragraphs, and we look forward to your testimony. And there will be questions after all of the panel has testified.

Mr. Bevard, we are going to begin with you. If you will turn your mike on, we will get going.

STATEMENT OF DAVID LEE BEVARD, GALESBURG, IL

Mr. BEVARD. Good afternoon, Mr. Chairman and members of the committee. Thank you for giving me the opportunity to speak with you here today.

My name is Dave Bevard. For 32 years, I worked at Maytag Refrigeration Products in Galesburg, Illinois, along with my wife, Pat. We were two of the approximately 2,500 people at the plant who believed that, if you worked hard, played by the rules and made a quality product, you would be rewarded for your efforts. Instead, on October 11th, 2002, we were given a pink slip and told that our plant would close and move to Mexico within 2 years. At the time of the closing, I was president of Local IM 2063, representing the workers at the facility.

Until you have experienced it, you cannot truly appreciate the emotional devastation of knowing that the world as you know it is gone. After the final plant closing, I was able to work for the next year as a peer counselor through an outstanding AFL-CIO community service program to assist my fellow dislocated workers. In Galesburg, we were fortunate to have an excellent local workforce investment group to work with us as well as assistance from the State of Illinois who set up a facility for workers with additional programs and funding. I was able to experience firsthand and through working with my friends and coworkers the transition through job loss and into an uncertain future.

The first necessity for displaced workers is counseling. As a peer counselor, I saw many individuals who were ready to throw up their hands and completely give up. With counseling and referring them to the proper channels, we were able to assist workers through their journey. I know counseling works. Work very much defines a person. Job loss is devastating, and the feelings of abandonment, failure, fear, anger and others are often not adequately addressed. Job loss is usually unexpected, and most people are not prepared to reinvent themselves and determine what to do with the rest of their lives.

Amidst the emotional turmoil of the job loss, workers are quickly buried in a morass of bureaucracy and information that is difficult at best to sort out and comprehend. Maneuvering through the Trade Adjustment Act and other programs can be like entering a bureaucratic minefield. One wrong step and you may lose out on your eligibility for benefits. Further, it is often difficult to get clear

and consistent answers concerning eligibility and available benefits. The result is that programs are not always uniformly implemented from one area to another or even within the same area. Workers would greatly benefit from having a single point of contact and support so they can receive a clear, concise and consistent interpretation of programs and their implementation.

Since unemployment insurance is the first thing many workers seek when they lose a job, it would make sense to me that the unemployment insurance program have trained and dedicated staff to provide the outreach, intake counseling and referral help that trade-affected workers need. For those who qualify for Federal benefits, such as those available through the Trade Adjustment Act, they do provide additional assistance for displaced workers for which we are grateful, but they are not without their shortcomings.

In very general terms, TAA is supposed to provide up to 2 years of schooling or training, supplemented in conjunction with 2 years of unemployment. Unfortunately, plant closures rarely follow such a tidy schedule, and unemployment benefits and schooling rarely coincide. In our case, the plant closed in late September, so unemployment benefits began in October. However, schooling or training for most individuals did not start until the following January. Many people then must decide whether to compromise their program into something shorter or decide what they will do when their income runs out 3 months before their schooling is completed.

When workers do choose a course of study, there may not be programs available in their areas of interest. If there are educational programs available, these programs may not be in fields that are determined to be growth areas and are therefore ineligible for funding. Sometimes educational facilities are not equipped to handle the number of applicants. Also, accredited schooling and training programs can often be in a state of flux where a program may be accepted under TAA at the beginning of a semester only to be dropped by the end.

Another major problem in our area was funding. There were numerous periods of gaps in funding. When laid off, workers attempted to sign up for training only to find that that there were only enough funds for a portion of them. The others were put on hold until more funding came through, but meanwhile, their unemployment benefits are ticking away. Due to funding delays and available programs, some workers were, in effect, forced to scrap the educational opportunities that they were supposed to be entitled to. Workers should not be penalized for lack of funding.

There are two other areas of concern that should be mentioned: financial counseling and health care. With job loss and reemployment at a lower income level, financial counseling should be made available to everyone. Also, with our job loss was the loss of health care benefits. In Illinois, Governor Blagojevich has implemented a program called All Kids, which makes affordable health care available for all children in our State. This program has been a Godsend for parents. However, due to the high costs and lack of benefits from their new jobs, far too many parents go without any health care and are one catastrophic illness away from disaster.

The promise and the end result of all of the training is supposed to be workers who are trained in technical and specialized skills

and placed in better jobs. In our experience, most of the workers who have completed their training and schooling have jobs in fields not related to their training, and also, with only a handful of exceptions, the new jobs pay substantially less than the jobs lost and usually with few, if any, benefits. In many cases, workers are reemployed in jobs that pay half of what they were previously making.

As for my own personal experience, my wife had great difficulty psychologically adjusting to the loss of the job she had loved for 30 years. She was hired to work part-time in retail until she was diagnosed with cancer last September. She is currently completing her treatments. From the plant closure, I was fortunate to work for over a year as a peer counselor, working to transition my fellow coworkers into their new lives. After that, I was able to work in a contract job that lasted a few months. For a time, I stayed home after that to assist my wife through her surgery and recovery. I have applied for schooling, but our area has again been experiencing funding gaps, so currently, there is no money available. Today, I am unemployed and looking for work. And I have found that, despite my background, my age works against me. We are lucky enough to currently have health care, but the costs are severely cutting into us, and we are concerned about losing it.

While we are grateful for the programs that are available, I do not know what we would have done without them. These programs do have serious shortcomings that could be greatly improved. The plain truth is that none of these programs make up for failed trade policies or adequately compensate us for the job loss and the disruption of our lives. Trade Adjustment Assistance and other programs are no substitute for fair trade agreements. Bad trade policies are devastating our manufacturing industry and hurting millions of workers. We must have fair trade agreements and ways to create and keep good jobs so that we can keep our middle class, which is the bedrock of our democracy.

I would again like to thank Chairman Miller and the rest of the committee for this opportunity to testify, and I would be happy to answer any questions.

[The statement of Mr. Bevard follows:]

Prepared Statement of David Lee Bevard,
Former Employee of Maytag Refrigeration Products

Good Afternoon, Mr. Chairman and members of the Committee. Thank you for giving me the opportunity to speak with you here today.

My name is Dave Bevard. I worked at Maytag Refrigeration Products in Galesburg, Illinois for 32 years, along with my wife, Pat. We were two of the approximately 2,500 people at the plant who believed that if you worked hard, played by the rules and made a quality product, you would be rewarded for your efforts. Instead, on October 11, 2002, we were given a pink slip and told that our plant would close and move to Mexico within two years. At the time of the closing, I was President of I.A.M. Local 2063 representing our workers at the facility.

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The first necessity for displaced workers is counseling. As a peer counselor, I saw many individuals who were ready to throw up their hands and completely give up. With counseling and referring them through the proper channels, we were able to assist workers through their journey. Counseling works.

Work very much defines a person. Job loss is devastating and the feelings of abandonment, failure, fear, anger and others are often not adequately addressed. Job loss is usually unexpected and most people are not prepared to reinvent themselves and determine what to do with the rest of their lives. Amid the emotional turmoil of the job loss, workers are quickly buried in a morass of bureaucracy and information that is difficult at best to sort out and comprehend.

Maneuvering through the Trade Adjustment Act and other programs can be like entering a bureaucratic minefield. One wrong step and you may lose out on your eligibility for benefits. Further, it is often difficult to get clear and consistent answers concerning eligibility and available benefits. The result is that programs are not always uniformly implemented from one area to another or even within the same area. Workers would greatly benefit from having a single point of contact and support so they can receive clear, concise and consistent interpretation of programs and their implementation. Since Unemployment Insurance is the first thing many workers seek when they lose a job, it would make sense to me that the Unemployment Insurance program have trained and dedicated staff to provide the outreach, intake, counseling and referral help that trade affected workers need.

For those who qualify for federal benefits, such as those available through the Trade Adjustment Act, they do provide some additional assistance for displaced workers for which we are grateful, but they are not without their shortcomings. In very general terms, TAA is supposed to provide up to two years of training or education supplemented in conjunction with two years of unemployment. Unfortunately, plant closures rarely follow such a tidy schedule and schooling and unemployment benefits rarely coincide. In our case, the plant closed in late September, so unemployment benefits began in October. However, schooling or training for most individuals, did not start until the following January. Many people must then decide whether to compromise their program into something shorter or decide what they will do when their income runs out three months before their schooling is completed.

When workers do choose a course of study, there may not be programs available in their area of interest. If there are educational programs available, these programs may not be in fields that are determined to be "growth areas" and are therefore ineligible for funding. Sometimes educational facilities are not equipped to handle the number of applicants. Also, accredited schooling and training programs can often be in a state of flux. A program may be accepted under TAA at the beginning of a semester only to be dropped by the end.

A major problem in our area was funding. There were numerous periods of gaps in funding. When laid off, workers attempted to sign up for training only to find that there were only enough funds for a portion of them. The others were put on hold until more funding came through. Meanwhile, their unemployment benefits are ticking away. Due to funding delays and available programs, some workers were in effect forced to scrap the educational opportunities that they were supposed to be entitled to. Workers should not be penalized for lack of funding.

There are two other areas of concern that should be mentioned; financial counseling and health care. With job loss and re-employment at a lower income level, financial counseling should be made available to everyone. Also with our job loss was the loss of health care benefits. In Illinois, Gov. Blagojevich has implemented a program called AllKids which makes affordable healthcare available for all children in our state. This program has been a godsend for parents. However, due to the high cost and lack of benefits from their new jobs, far too many parents go without any health care and are one catastrophic illness away from disaster.

The promise and end result of all of the training is supposed to be workers who are trained in technical and specialized skills and placed in "better" jobs. In our experience, most of the workers who have completed their schooling have jobs in fields not related to their training. Also, with only a handful of exceptions, the new jobs pay substantially less than the job lost and usually with few if any benefits. In many cases, workers are reemployed in jobs that pay half of what they were previously making.

As for my own personal experience, my wife had great difficulty, psychologically, adjusting to the loss of the job that she had loved for thirty years. She was hired to work part time in retail until she was diagnosed with cancer last September. She is currently completing her treatments. Upon the plant closure, I was fortunate to work for over a year as a peer counselor working to transition my fellow co-workers into their new lives. After that, I was able to work in a contract job that lasted a

few months. I stayed home, after that, to assist my wife through her surgery and recovery. I had applied for schooling but our area has again been experiencing funding gaps so currently there is no money available. Today, I am unemployed and looking for work. I have found that despite my background, my age works against me. We are lucky enough to currently have health care but the costs are severely cutting into us and we are concerned about losing it due to cost.

While we are grateful for the programs that are available, I don't know what we would have done without them; these programs do have serious shortcomings and could be greatly improved. The plain truth is that none of these programs make up for failed trade policies or adequately compensate us for our job loss and the disruption of our lives.

Trade Adjustment Assistance and other programs are no substitute for fair trade agreements. Bad trade policies are devastating our manufacturing industry and are hurting millions of workers. We must have fair trade agreements and ways to create and keep good jobs so that we can keep our middle class which is the bedrock of our democracy.

I would again like to thank Chairman Miller and the Committee for this opportunity to testify. I would be happy to answer any questions.

Chairman MILLER. Thank you.

Mr. Dorn.

STATEMENT OF STAN DORN, J.D., SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE

Mr. DORN. Good afternoon, Chairman Miller, Congressman McKeon and members of the committee. Thank you for the opportunity to speak with you today, and more importantly, thank you for your attention to this issue.

As I think the opening comments indicated this afternoon, it seems to me that the plight of displaced workers is something that we all ought to be able to rally around. No matter how you feel about international trade, I think we all agree there are winners and losers. And it is critically important that those workers who suffer get the basic necessities of life, one of which is health care. Congress recognized this in 2002 in adopting an innovative Health Coverage Tax Credit, and I would like to discuss with you today the operation of that credit, how effective it has been in meeting the needs of displaced workers for health insurance, and some ways that Congress can improve the credit so that it does a better job.

The Health Coverage Tax Credit, or HCTC, pays 65 percent of the health insurance premiums for displaced workers who receive certain other forms of Trade Adjustment Assistance. The credit is fully refundable. That means that, even if you owe little or no Federal income tax, you still can receive the credit if you qualify. Its most innovative feature is that it is advance-able. You do not have to wait until the end of the year to claim your credit. You can have it paid each month directly to your insurance company when premiums are due. The credit may only be used for qualified insurance, which typically means COBRA coverage offered by a former employer or a State qualified plan or a private insurance plan arranged by your State. This program has considerable accomplishments to its credit which I discuss in my written testimony, but unfortunately, it does not do a very effective job of meeting displaced workers' needs for health care.

Mr. Chairman, as you noted in your opening remarks, the OMB data suggests that only 11 percent of eligible workers benefit from

the credit in any form, and both studies of workers and of State officials tell us the main reasons why. Number one is affordability. Many displaced workers cannot afford to pay 35 percent of health insurance premiums, which is the amount unsubsidized by HCTC. This makes sense. On average, if you are an employee with a paycheck, it costs 15 percent of the premium for coverage that only includes the worker. It is completely unrealistic to imagine that someone who loses their job is going to be able to more than double the amount they spend on health insurance, and yet, that is exactly what the HCTC program asks of many displaced workers.

In addition, you have to pay your health insurance premiums in full while you are waiting to hear from the IRS of whether you qualify for the credit. Lots of displaced workers do not have extra money to the tune of hundreds and hundreds of dollars sitting around in their family budgets that they can devote for that purpose. Affordability is an issue.

The nightmarish administrative complexity of the process, Mr. Chairman, that you noted is a huge issue. Workers have to apply to between three and five agencies to get on the program, and they have to frequently shuttle paperwork back and forth between these different agencies, so enrollment is a big problem.

In addition, the coverage that the credit provides often does not meet workers' needs for health care. Under the statute, if you are uninsured for 63 days during the several months before you try to enroll in an HCTC plan, that plan can completely exclude every treatment of preexisting conditions. In other words, everything that you know you need to meet your health problems is off the table if you have a 63-day coverage gap, but typically, it takes 6 months or more between job loss and the start of HCTC advance payment. So that means that many workers cannot get the coverage they need to meet their needs.

In addition, there are nine States where every single State-qualified plan has an individual deductible of $1,000 or more. For some of us, that is not so horrible, but if you are living on a $290-a-week-unemployment-insurance check, that means health care is not affordable to you. Most HCTC-qualified plans flatly exclude or greatly limit such basic services as prescription drugs, maternity care and mental health services. So, in many cases, you can get the credit, but that does not mean you get the access to health care that is the purpose of that credit.

Now, I am here to tell you these problems can be solved. Similar problems have been prevented or solved with other health care programs, and that gives me optimism and hope that workers like Mr. Bevard can obtain the kind of help they need with health coverage. Here are a few things I would recommend for the committee's consideration.

First, increase the percentage of the premium that the credit pays to make it more affordable for workers, and for workers who have very low incomes who depend just on that unemployment insurance check without spousal income to tide them over, they would need additional assistance, so I would recommend a supplemental credit.

It should be possible to eliminate any need to pay full monthly insurance premiums while you are waiting for the IRS to process

your application. That is how Medicaid does it, how SCHIP does it. There is no reason why HCTC cannot do that as well.

In terms of simplifying the administrative process, it seems to me Congress could ask the IRS to consult with PBGC and the Department of Labor and say, Come up with one form that a worker has to file with one place, and that is enough to start the process. There are a few other changes that I recommend in my testimony that I would be glad to talk about.

In terms of coverage, it seems to me, if a worker is uninsured because of an HCTC administrative delay that is imposed without any choice of the worker, that loss of coverage should not lead to the exclusion of preexisting conditions.

Finally, Congress could ask each State to arrange at least one comprehensive plan that would be available for all HCTC beneficiaries in that State, and if that State does not want to come forward and arrange that plan, then a Federal backup option could come to the fore, and perhaps DOL could make something available comparable to what Federal employees receive.

Mr. Chairman, Mr. McKeon, members of the committee, this is a new program, and it is unprecedented in many important ways. It is not surprising that there have been problems, but now we know the facts. Now we have a chance to fix those problems, and I look forward to working with this committee in trying to figure out how this program can do a better job of reaching the goal that so many of us share.

Thank you.

[The statement of Mr. Dorn follows:]

Prepared Statement of Stan Dorn, J.D.,
Senior Research Associate, the Urban Institute

Despite important accomplishments, Health Coverage Tax Credits (HCTCs) have been generally ineffective in providing health care to displaced workers, for several reasons:

- The credits are used by only 11 percent of eligible workers.
- The coverage for which credits may be used often leaves out the health care that workers need. When job loss is followed by a gap in coverage of 63 days or longer, plans can deny treatment of the worker's known health problems. Moreover, many states offer only plans with high deductibles that make care unaffordable for workers with limited incomes. Also, such plans often exclude or severely limit such basic services as prescription drugs, maternity care, and treatment of mental illness.
- In some states, HCTC plans increase their premiums substantially for enrollees who are older, female, or have health problems.
- When a displaced worker turns 65 and qualifies for Medicare, the worker's spouse loses HCTC, even if that spouse is too young for Medicare and has no other coverage.

Fortunately, older health coverage programs like Medicare, Medicaid, and the State Children's Health Insurance Program have already prevented or solved similar problems. This suggests that HCTC's shortcomings can likewise be addressed successfully through program changes like the following:

- Increase the size of HCTCs to pay at least 75 percent of premiums.
- When beneficiaries have low household income, provide supplemental credits that lower worker costs to no more than 10 percent of premiums. For administrative feasibility, certify low income based on prior-year tax data, current-year earnings data, recent income determinations by public assistance programs, or (as a last resort) applications by HCTC beneficiaries to Social Security offices, which already determine income for the Supplemental Security Income (SSI) program.
- Eliminate the requirement that workers must enroll in qualified coverage and pay full monthly premiums before the Internal Revenue Service (IRS) will rule on their eligibility for HCTC.

• Allow workers to apply by filing one form with one agency. Direct the IRS to share information with workers' authorized representatives who are helping with HCTC.

• In determining whether workers experience coverage gaps that permit health plans to deny treatment of known health problems, disregard periods of time during which workers are unable to access HCTC, either because they have not been sent notice of potential eligibility or because they are waiting for the IRS to rule on their application.

• Ask each state to arrange at least one qualified plan offering comprehensive benefits to HCTC beneficiaries, without large premium variations based on age, gender, and health status. If a state does not wish to assume this role, the federal government would arrange such coverage in the state.

• Continue HCTCs for otherwise eligible younger spouses when displaced workers enter Medicare.

Good afternoon Chairman Miller, Representative McKeon, and distinguished members of the Committee. Thank you for the opportunity to speak with you today about health coverage for workers displaced by international trade, with a particular focus on the effectiveness of Health Coverage Tax Credits (HCTC).

I plan to address three topics: health coverage challenges facing displaced workers; the strengths and weaknesses of the HCTC program in helping these workers retain health coverage; and policy options to improve the HCTC program so it can be more effective in meeting the health coverage needs of workers who lose their jobs because of international trade.

I have two preliminary comments. First, I would like to thank the Nathan Cummings Foundation, the California HealthCare Foundation, and, above all, the Commonwealth Fund for generously supporting our several years of research into HCTC. Much of my testimony reflects information and insights gleaned through these philanthropies' investment in learning about this important program.

Second, the views I express today are mine alone and should not be attributed to the Urban Institute, any of its sponsors, or any of the above-described funders of our prior HCTC research.

Health coverage challenges facing displaced workers

For non-elderly Americans, 74 percent of all health coverage is provided through employment (Urban Institute and the Kaiser Commission on Medicaid and the Uninsured 2006). The loss of employment thus often means a termination of health coverage—in fact, two-thirds of all uninsurance begins with job loss (Glied 2001).

For companies with more than 20 workers, the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) provides displaced workers and other laid-off employees continued access to employer-sponsored insurance. However, the displaced worker must pay for the coverage, typically at a cost of the full premium plus a 2 percent administrative fee. Not surprisingly, this cost prevents most laid-off workers from taking advantage of COBRA, even if they qualify. In 2006, the cost of worker-only COBRA coverage offered by the average employer was $361 a month, or 31 percent of average unemployment insurance (UI) payments in 2006.[1]

Of course, some displaced workers can supplement their UI checks with spousal income or enroll in health coverage offered by a spouse's employer. Other laid-off workers are fortunate to have assets they can use to pay for insurance. Still others have strong educational backgrounds and quickly find new employment that provides health benefits. But many simply lose health insurance.

For example, a Government Accountability Office (GAO) survey of displaced workers affected by trade-related layoffs in five sites found that the percentage who were either uninsured or who enrolled in HCTC and so may have lacked health coverage without assistance ranged from 38 percent at a fine paper and pulp mill in Longview, Washington, to 63 percent at a baked goods manufacturer in Hazelwood, Missouri (Government Accountability Office 2006). An earlier GAO report found that, at a knit goods manufacturer in Martinsville County, Virginia, most displaced workers lost their health coverage (General Accounting Office 2001b). A survey of displaced textile mill workers in North Carolina found that 68 percent become uninsured following their layoff (Friday 2003). The precise proportion of displaced workers who lack coverage thus varies from layoff to layoff but appears to be significant in many cases.

The Health Coverage Tax Credit program

After discussing current law, I will describe some of the program's accomplishments as well as its shortcomings.

Current law

As part of 2002 legislation giving the president fast-track authority over trade agreements, lawmakers expanded Trade Adjustment Assistance (TAA) in various ways. One important change was to help displaced workers obtain health coverage.

The Trade Act of 2002 created a Health Coverage Tax Credit (HCTC) that pays 65 percent of health insurance premiums for eligible individuals enrolled in qualified coverage, leaving the worker responsible for the remaining 35 percent. The credits are fully refundable, which means that they are paid in full to all who qualify, including those who owe little or no federal income tax. The credits can be advanced directly to health insurers when monthly premiums are due, in advance of filing tax returns. HCTCs can also be claimed at the end of the year on annual income tax forms.

The following is a general discussion of who qualifies for HCTC and what kind of coverage the credits subsidize.

Eligibility

Two basic groups qualify for HCTC: workers certified under the Trade Adjustment Assistance (TAA) program as displaced by international trade, and retirees age 55 to 64 receiving payments from the Pension Benefit Guaranty Corporation (PBGC). To qualify for HCTC as a displaced worker, an individual must either (1) receive Trade Readjustment Allowances (TRA), (2) meet all eligibility requirements for TRAs except exhaustion of unemployment insurance (UI), or (3) receive Alternative Trade Adjustment Assistance (ATAA). Dependents of eligible workers and retirees also qualify for HCTCs.

HCTCs are not available to individuals who receive disqualifying coverage. This includes Medicare as well as employer-sponsored insurance where the employer pays 50 percent or more of the premium.

Coverage that qualifies for HCTC

Typically, a health plan qualifies for HCTC if it is either COBRA coverage offered by a former employer or a state-qualified health plan. State-qualified plans are not subject to any federal requirements for covered benefits or any limitations on varying premium charges based on age, gender, and health status. Such plans may not, however, participate in either Medicaid or the State Children's Health Insurance Program (SCHIP). The HCTC statute also provides that a non-group plan can be qualified, regardless of state policy decisions, if the worker received the coverage during at least the last 30 days of employment.

The extent of state-qualified health plans' ability to vary premium charges based on individual risk factors was the subject of controversy soon after enactment of the Trade Act. Some in Congress argued that non-group coverage that varied premiums based on each enrollee's individual health history could constitute qualified coverage only for workers who purchased such plans during at least the last 30 days of employment, given the statute's specific language addressing non-group coverage. However, the Bush Administration ruled that any form of private health coverage arranged by a state can constitute a qualified plan, so long as the coverage meets certain consumer protection requirements of the Trade Act.

These protections apply to individuals who, when they seek to enroll in an HCTC plan, have had at least three months of continuous coverage, without any insurance gaps that exceed 62 days. For such individuals, a state-qualified plan must guarantee issuance of coverage, may not exclude coverage of preexisting conditions, and may not charge more or provide less than to similarly situated enrollees not receiving HCTCs.

Program accomplishments

Several accomplishments are important to note:

- The Internal Revenue Service (IRS) and the Department of the Treasury have proved effective and nimble in surmounting a number of policy challenges, including the establishment of unprecedented advance payment mechanisms less than 12 months after enactment of HCTC legislation (Dorn and Kutyla 2004).
- Unlike the country's only previous health insurance tax credit (the so-called "Bentsen child health tax credits," which operated briefly during the early 1990s and were repealed in 1993), HCTC implementation has not been accompanied by reports of widespread marketing fraud (House Ways and Means Committee 1993).
- Consumer protection requirements in the HCTC statute have not stood in the way of significant health plan participation. As of March 2006, 87 percent of potentially eligible individuals lived in the 40 states with participating state-qualified insurers, which collectively offered 280 state-qualified options (Pervez and Dorn 2006).
- In some cases, states and unions have enrolled more than half of potentially eligible workers by providing proactive, intensive application assistance (Dorn 2006).

Program shortcomings

Unfortunately, HCTC has experienced serious problems reaching its goals. I will discuss four of these problems: the failure of the credit to reach most eligible workers; the failure of some HCTC plans to cover necessary health care; some health plans' substantial increase in premium charges to workers who are older, female, or in poor health; and the termination of HCTC coverage for younger spouses when

the displaced worker turns 65 and qualifies for Medicare. A fifth major problem—namely, high administrative costs for HCTC advance payment—will be the subject of a new report the Commonwealth Fund plans to release later this week.

HCTC reaches a small percentage of eligible workers

The best-known problem with HCTC is that very few eligible workers use the benefit. According to the Office of Management and Budget (OMB), during 2004 (the most recent year for which full data are available) only 11 percent of eligible individuals used the credit either in its advanceable form or through claiming the credit on end-of-year returns.[2] From 2005 through 2007, the total volume of subsidies provided by HCTC averaged only 26 percent of the level Congress expected in passing the Trade Act, as reflected in Joint Tax Committee projections (Dorn 2006).

Several surveys of workers and state officials paint a consistent picture of the reasons for such low take-up. First, 35 percent of the premium is more than most displaced workers can afford. Workers earning a paycheck contribute an average of 15 percent of premium costs for worker-only coverage (Kaiser Family Foundation 2006). It is simply not realistic to expect that someone who loses their job and falls on hard times will be able to more than double their spending on health insurance.

Second, to obtain a determination of eligibility for HCTC, individuals must pay premiums in full, without subsidy, before advance payment begins. A number of states operate so-called "gap filler" programs that use Department of Labor (DOL) grants to pay 65 percent of health insurance premiums while workers are waiting for advance payment to start. But in other states, laid-off workers are required to "front" full monthly health insurance premiums in hopes of receiving an HCTC refund paying 65 percent of such costs after the workers file their tax forms at the end of the year. Few displaced workers have enough excess income in household budgets to make such payments.

Third, the application process for HCTC is quite complex. Workers must file applications with between three and five public and private entities, often being required to convey paperwork from one such entity to another. In addition, the underlying TAA program upon which HCTC eligibility is based has considerable complexity, with policy goals that have little to do with health coverage. Individuals can be denied TRAs for such reasons as an inability to obtain a waiver of ordinarily applicable job training requirements, the receipt of certain pension payments, etc. Whether or not such factors affect the justification for TRA receipt, they do not reduce workers' need for help purchasing health coverage, yet they can terminate HCTC eligibility.

State-qualified insurance often fails to cover necessary health care

Limited coverage offered by state-qualified plans is both the final, major cause of low take-up[3] and a serious problem in its own right. Coverage that workers view as not meeting their needs is obviously less likely to be purchased, even with a subsidy. Moreover, limits on available coverage can prevent the HCTC program from meeting its fundamental objective of providing displaced workers with affordable access to essential health care.

There are several reasons why state-qualified coverage may not meet workers' health care needs. First, if workers experience a 63-day gap in coverage between job loss and enrollment in a state-qualified HCTC plan, the plan can exclude all coverage of preexisting conditions. The vast majority of state-qualified plans do impose such restrictions, according to a 2003 survey (Dorn and Kutyla 2004).

Gaps in coverage of 63 days or longer can easily arise, through no fault of the worker. According to OMB, after job loss "it can take as long as six months before [the names of potentially eligible workers] reach the IRS," and after that information reaches the IRS and the IRS mails out an enrollment kit, the median interval until the start of advance payment is 99 days (Office of Management and Budget 2006).

To be clear, with some layoffs, 63-day gaps in coverage have been averted. These have been large layoffs, such as the bankruptcy of steel mills and the closure of textile mills, that devastated communities and received the intense attention of state officials and the media. In such cases, public and private sector leaders have sometimes cooperated to expedite the processing of applications and avoid coverage gaps. But such extraordinary efforts are the exception, not the rule. With more typical layoffs, coverage gaps often exceed 62 days, which means that HCTC-qualified plans arranged by the state can exclude the very health care that workers know is needed to treat their medical problems.[4]

Second, state-qualified plans offer limited benefits in many states. In 12 of 40 states offering state-qualified insurance in March 2006, every plan had an individual deductible of $1,000 or more (Pervez and Dorn 2006). In 11 of 15 states surveyed in 2003, every state-qualified plan either excluded or imposed severe limits on at least two of the following: maternity care, mental health care, prescription

drugs, or preventive care (Dorn and Kutyla 2004). Workers do not receive affordable access to necessary care under these plans if they cannot afford $1,000 out of pocket before coverage begins or if they need the particular services that available coverage excludes.

Premiums can vary greatly based on age, gender, and health status

Insurers offering medically underwritten, nongroup coverage can charge more for enrollees who are expected to generate large health care costs. As of March 2006, such plans were offered as state-qualified insurance in 9 out of the 40 states with state-qualified plans. In these nine states, premiums have sometimes increased substantially based on age, gender, and health history. For example, in June 2004, HCTC beneficiaries' 35 percent premium share for average state-qualified coverage in North Carolina was $357 a year for a healthy 25-year-old man, compared with $4,066 for a 55-year-old woman in the highest risk tier (Dorn, Alteras, and Meyer 2005).

This raises questions of fairness. With medical underwriting, the very people who most need coverage are least able to afford it, based on individual characteristics that are outside their control.

Basing premiums on individual risk-assessment through medical underwriting also raises issues of effectiveness, particularly when displaced workers are over age 40. Medical underwriting for displaced textile mill workers in North Carolina, for example, had a dramatic effect undermining take-up. Among the workers quoted higher premium rates after the underwriting process, fully 69 percent dropped out of the program at that point. If these individuals had instead completed their enrollment, more than 3,900 additional North Carolinians would have received coverage, increasing total national HCTC enrollment by 42 percent (Dorn, Alteras, and Meyer 2005).

Spouses lose health coverage when eligible workers turn 65

The spouse of a displaced worker or PBGC retiree receives HCTC only while the worker or retiree qualifies for HCTC. If the trade-impacted worker turns 65 and enrolls in Medicare, HCTC eligibility ends for both the worker and the spouse. This makes some sense for the worker, since the worker is receiving Medicare. However, if the spouse is under age 65, Medicare does not provide coverage. Such a spouse may have lost health insurance along with the worker when the layoff occurred. Without HCTC, the spouse may wind up completely uninsured until age 65, potentially suffering seriously impaired access to essential health care. This is a structural gap in HCTC's mechanisms for preventing trade-related job loss from terminating health coverage.

Policy options to increase HCTC's effectiveness in helping displaced workers

These problems can be overcome through intelligent redesign of HCTC. Similar problems have been prevented or solved with older health subsidy programs, such as Medicaid, Medicare, and SCHIP. This track record provides a measure of confidence that such challenges can likewise be overcome with HCTC.

Increase the number of displaced workers who receive HCTCs

Three policy changes directed at improving affordability and making the application process more user-friendly would go a long way toward increasing the number of displaced workers who receive help.

1. Raise the percentage of premium paid by HCTC

Based on input from health plan staff in states with extensive populations of displaced workers, I would recommend at least 75 percent of premiums as the basic subsidy level for HCTC, and potentially more.[5] Essential to widespread participation is lowering worker costs to amounts that would not require forgoing or postponing other basic household needs. Medicaid and SCHIP programs have repeatedly found that lowering required premium payments can dramatically increase consumer participation (Dorn, Varon, and Pervez 2005).

In addition, I would recommend a supplemental credit for eligible workers with low incomes, such as income at or below 200 percent of the federal poverty level.[6] For low-income workers, a supplemental credit, in combination with the base credit, could pay something like 90 percent of the premium.

Such a means-tested supplemental credit would face several administrative challenges. First, the IRS is ill-equipped to do "real time" means-testing for a supplemental, income-based credit. The IRS is beautifully set up to determine prior year income, not contemporaneous income.

Second, HCTC is already complex. Asking workers to take additional steps to obtain supplemental credits necessarily means that some will not complete the process and obtain those credits.

Given these challenges, if a means-tested supplement is provided, the burden of the application process on workers must be minimized, and the IRS must not be

asked to do contemporaneous income determinations. The following is one approach to reaching those goals:

• The IRS could automatically provide supplemental credits when data-matching shows that HCTC-eligible individuals have income that falls below specified levels. Such data-matching would tap into income information contained in prior-year tax records and current-year earnings records in the national New Hires Database administered by the Department of Health and Human Services for purposes of child support enforcement. The latter database includes both quarterly earnings information and new hires information from every state, including public and private sector employers.[7]

• The IRS could also provide supplemental credits to any HCTC-eligible individuals who show that they have already been found to have low household income by means-tested public assistance programs like Food Stamps, Low Income Home Energy Assistance Program (LIHEAP), etc.

• Only if these two methods failed to establish eligibility for supplemental credits would a worker need to submit an application showing low income. As mentioned above, however, the IRS would not be the right place to process such an application. Instead, workers could submit these applications to Social Security offices, which already determine current income levels in deciding eligibility for Supplemental Security Income (SSI).

With every pathway to demonstrating low income that goes beyond prior tax records, another agency's certification of low income would establish eligibility for the supplemental credit, without any independent means-testing by the IRS. Other elements of HCTC eligibility already are based on similar certification by agencies outside the IRS. Pursuant to Internal Revenue Code Section 7527(d), status as a TAA-eligible individual or a PBGC recipient is demonstrated by certification from state workforce agencies (SWAs) or PBGC, respectively. The IRS independently investigates other elements of HCTC eligibility, but not receipt of TAA or PBGC benefits. Congress could take a similar approach to the issue of affordability and use other agencies' certification of low income to direct enhanced subsidies to the lowest-income displaced workers without asking the IRS to assume any responsibility for "real time" income determinations.

2. Eliminate the requirement that workers must pay premiums in full while waiting for advance payment to start

Displaced workers cannot realistically be required to pay premiums in full while the IRS is determining their eligibility for advance payment. To eliminate this requirement, eligibility determination could be separated from enrollment in qualified coverage. Currently, the IRS makes one finding in ruling on an application for advance payment, determining simultaneously whether the individual is (a) eligible and (b) enrolled in qualified coverage. The IRS denies advance payment if the worker is either ineligible or not enrolled in a qualified plan. This requires enrollment in a qualified plan, hence payment of premiums, before advance payment can begin.

Medicare, Medicaid, and SCHIP take a very different approach. SCHIP, for example, first determines that a child is eligible. Only then is the child enrolled in a health plan offered by the state, and the family makes payments based on the child's eligibility for subsidies. The family is never required to purchase unsubsidized coverage.

HCTC could be restructured along similar lines. The IRS could make eligibility determinations for workers who are not yet enrolled in qualified plans. To avoid unnecessary administrative costs, such determinations could be limited to individuals who have applied to enroll in a qualified plan and agreed to pay their share of premiums after HCTC advance payment begins. Once the IRS finds the worker eligible and authorizes the start of advance payment, the worker would begin making premium contributions for qualified coverage, contributions that are reduced based on the subsidy provided by HCTC.[8] (As noted below, this would need to be accompanied by other policy changes that prevent the exclusion of preexisting conditions based on coverage gaps while workers are waiting for advance payment to start.)

3. Simplify the application process and let workers receive effective help navigating the system

Three policy changes would make the application process more workable for displaced workers. First, Congress could direct the IRS to develop, in consultation with DOL, PBGC, and representatives of health plans, a single, simple form that workers could use to apply for HCTC advance payment by filing the form with one public or private agency.

Second, Congress could direct the IRS to permit taxpayers to authorize state officials, health plan officials, union officials, or others to act on their behalf and receive otherwise confidential information. Such authorization would be limited to the purpose of establishing HCTC eligibility, commencement and continuation of advance

payment, and receipt of health coverage. In the past, the IRS's laudable commitment to preserving taxpayer privacy has been taken to levels that interfere with the receipt of health coverage. For example, officials in state workforce agencies have been unable to diagnose the causes of delayed initiation of advance payment because IRS staff refused to share information about workers' applications. To obtain information needed to provide coverage, state officials sometimes have had to bring workers into state offices, have workers call IRS staff, ask workers to relay state officials' questions to the IRS, ask workers to relay IRS answers to the state officials, and repeat the process until state officials understood the source of the problem sufficiently to devise a solution.

For a brief period, the IRS addressed this issue by experimenting with a consent report pilot project operated through the HCTC Customer Contact Center. Callers to the HCTC toll-free line were asked if their contact information could be shared with state officials to see if the callers might qualify for extra help. In Virginia, 83 percent of callers consented to such information-sharing. State workforce agency staff then contacted these applicants and shepherded them through the process. More than 90 percent of these displaced workers ultimately enrolled in HCTC (Dorn 2006).

Regrettably, this promising experiment was terminated after several months. Although taxpayer privacy was never breached, generalized worries about confidentiality brought the pilot project to an end. Clear congressional direction that asks the IRS to provide HCTC-related confidentiality waivers would be important in overcoming such worries and permitting displaced workers to get the help they need to navigate through even a simplified HCTC application process.

Third, the relationship between TAA eligibility and HCTC eligibility could be simplified. Instead of making HCTC eligibility depend on receipt of ATAA, TRAs, or eligibility for TRAs but for receipt of UI, HCTCs could go to workers who are certified as displaced because of trade and who either qualify for any component of TAA assistance or would qualify for such a component but for their receipt of UI.

Give HCTC beneficiaries access to health insurance that covers the health care they need, without large premium variations based on age, gender, or health status

Two policy changes would reach this goal.

1. Give each beneficiary access to at least one comprehensive plan with little or no premium variation based on individual characteristics

Congress could adjust the HCTC statute to ensure that each HCTC-eligible worker has access to at least one comprehensive health plan that does not vary premiums significantly based on age, gender, and health risk. Comprehensiveness could be defined in terms of actuarial value, an approach the SCHIP program has successfully used to preserve state and private-sector flexibility while ensuring that subsidy recipients can obtain the kind of comprehensive coverage that employers typically offer their workers. For the designated comprehensive plan, premium variation based on individual characteristics could either be limited or forbidden entirely.

Under this approach, each state could choose either (a) to offer HCTC beneficiaries at least one state-qualified comprehensive plan without significant premium variation or (b) to have a federal agency arrange for such a plan to be offered to state residents. If a state failed to arrange such coverage by a certain date, a federally arranged plan would become available to HCTC beneficiaries living in the state. For example, HCTC beneficiaries in such a state could be offered one of the national fee-for-service plans that participates in the Federal Employees Health Benefits Program (FEHBP). To protect current FEHBP enrollees, HCTC beneficiaries would need to have their own group rate, separate from the rate charged for federal employees and retirees.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) took a similar approach to federal—state responsibilities. HIPAA established statutory goals for ensuring that, at the end of COBRA coverage, people could transition satisfactorily into individual coverage. States were given three basic choices for reaching those goals:

(1) pass laws congruent with or stronger than the federal floor specified in HIPAA and enforce them using state agencies; (2) create an acceptable alternative mechanism for eligible persons in the individual market and enforce it with state agencies; or (3) decline to pass new laws or strengthen existing laws and leave enforcement of the HIPAA provisions directly to the federal government. (Nichols and Blumberg 1998)

By 2000, just four years after enactment of HIPAA, only three states left it to the federal government to set and enforce group-to-individual conversion rules; nine states and the District of Columbia adopted or supplemented the federal rules and assumed enforcement responsibility; and 38 states were operating full-blown "alternative mechanisms" for achieving HIPAA's statutory goals (Pollitz et al. 2000). By

2001, only one state remained that let the federal government enforce group-to-individual conversion rules (General Accounting Office 2001a).

This history suggests that, given the opportunity, the vast majority of states will develop their own methods to reach federally specified goals. However, the availability of a "federal fallback" in the case of HIPAA ensured that vulnerable beneficiaries did not suffer harm while states were coming up to speed. A similar approach could be taken to ensuring HCTC beneficiaries access to comprehensive coverage, without large premium variation based on factors like age, gender, and health status.

If policymakers want to give states an additional incentive to arrange their own comprehensive coverage rather than leave this task to a federal agency, HHS could provide grants to cover state administrative costs in establishing such arrangements. Under this approach, if the federal government assumed the responsibility of arranging comprehensive coverage for HCTC beneficiaries in a particular state, the state's grant would revert to the federal Treasury. Many states would be loath to surrender both authority and dollars to the federal government.

2. When coverage gaps result from factors outside the beneficiary's control, disregard those gaps in determining whether consumer protections apply

Under some circumstances, it is important to give health plans the ability to take such steps as excluding coverage of preexisting conditions. Those measures prevent consumers from waiting to develop health problems before they seek coverage.

Careful policy design can avoid that untoward result while dramatically increasing the number of displaced workers who use their HCTCs to obtain health insurance that covers treatment of known health problems. In determining whether a worker had continuous health coverage, periods of time could be disregarded when the worker was uninsured because factors entirely outside the worker's control delayed the receipt of subsidies. This disregard would encompass two intervals:

- The period between the loss of employer-subsidized health coverage and notice to the worker of potential HCTC eligibility; and
- The period between the worker's application for HCTC advance payment and the start of advance payment.

The first period could be defined as ending a certain number of days after the IRS mails the worker an HCTC Program Kit. The second period could be defined as starting when a worker has done the following:

- Applied for HCTC advance payment;
- Applied to enroll in qualified coverage; and
- Made a binding commitment to pay the worker's share of premiums for such qualified coverage after HCTC advance payment begins.

This approach seeks to be fair both to the worker and to the health plan. While the worker is without any available subsidies for health coverage, this policy would not unrealistically insist on full payment of health insurance premiums as a condition of later access to health insurance that meets the worker' known needs for health care. At the same time, this statutory change would effectively prohibit workers from intentionally delaying HCTC enrollment until they get sick and need care.[9]

Permit younger spouses to retain HCTC after the displaced worker qualifies for Medicare

Congress could modify HCTC eligibility so that, when a TAA- or PBGC-eligible worker turns 65 and qualifies for Medicare, HCTC continues to be cover family members who would otherwise remain eligible for the credit.

Conclusion

By and large, Health Coverage Tax Credits have been ineffective in providing displaced workers with affordable access to health coverage and essential health care. These problems resulted from design choices in the structure of the credit, choices that Congress could revisit. Subsidy levels could increase to make coverage affordable. Displaced workers could be spared the need to pay premiums in full while waiting for an eligibility determination. The application process could be simplified and authorized representatives empowered to help workers navigate the system and enroll in qualified coverage. Qualified health insurance could include at least one comprehensive coverage option in each state, without large premium increases for enrollees who are older, sicker, or female. And as long as workers are not dilatory in applying for subsidies and enrolling in coverage, health insurance could cover the services that workers need, without excluding coverage of preexisting conditions.

HCTCs represent the country's first attempt to cover the uninsured by using tax credits that are paid monthly to insurers when premiums are due, in advance of filing annual tax returns.[10] It is not surprising that this novel approach has encountered problems. However, now that the country has accumulated several years of experience with HCTCs, Congress has an opportunity to revise the program so it can do a much better job of accomplishing its basic objective, which surely everyone

on this Committee supports—namely, for those workers who are harmed, rather than helped, by trade liberalization, ensuring that the Trade Adjustment Assistance program offers affordable health insurance that provides good access to essential health care.

I would be delighted to answer any questions from the Committee.

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ENDNOTES

[1] The cost of COBRA coverage was calculated by the author from Kaiser Family Foundation and the Health Research and Educational Trust (2006); the percentage of UI payments was calculated from Employment and Training Administration (2007).

[2] Calculated by the author from Office of Management and Budget (2006).

[3] Another important factor involves outreach. Workers losing their jobs are assimilating both the emotional impact of job loss and a tremendous amount of incoming information about coping strategies, including but going far beyond available government benefits. It is very easy for messages about HCTC to get lost in the midst of such a storm (Government Accountability Office 2006). Coping with that kind of outreach environment would require the very best, state-of-the-art outreach and enrollment strategies, which have not yet been applied to HCTC (Dorn, Varon, and Pervez 2005).

[4] Another implication of these coverage gaps is that COBRA plans, which typically are quite comprehensive, can become unavailable. Ordinarily, a laid-off worker has an election period of 60 days, following job loss or notice of available COBRA coverage (whichever occurs last), in which to enroll in the employer plan. However, the HCTC statute creates a second COBRA election period. This period lasts for 60 days after a displaced worker first receives TRA or would qualify for TRA but for the worker's receipt of UI. However, this second COBRA election period cannot last beyond six months following the worker's loss of health coverage. Without intensive effort, more than six months can easily pass between job loss and first receipt of HCTC, denying the displaced worker access to HCTC-funded COBRA.

[5] For example, if the underlying premium for comprehensive coverage is sufficiently high, the HCTC subsidy may need to exceed 75 percent for the remaining cost to be affordable for most displaced workers.

[6] In 2007, the federal poverty level is $17,170 for a family of three; $20,650 for a family of four; etc.

[7] Several different approaches to analyzing this data are possible. For example, eligibility for supplemental credits could be granted based on prior-year income. That approach is currently taken for purposes of low-income subsidy eligibility under Medicare Part D, where subsidies are provided automatically based on prior-year receipt of Medicaid or SSI. The Bush administration's tax credit proposals for uninsured workers without access to employer-sponsored insurance likewise would have means-tested the amount of the credit based on prior-year income. If policymakers take this approach to HCTC supplements, it would be important to leave room for displaced workers to show that their circumstances have worsened since the previous year. For that purpose, access to the National New Hires Database could be important, along with the other enrollment mechanisms I discuss.

[8] Some have suggested another approach. Under this alternative, the IRS would rapidly refund 65 percent of full premium payments workers make before the start of advance payment. While useful for some workers, this would not solve the problem for the workers who most need help. HCTC-eligible displaced workers would still be asked to come up with the money needed for full premium payments—money that many workers simply do not have in their household budgets, even for a few months.

[9] These periods could also apply to the second COBRA election period, specified in the HCTC statute. That is, in determining whether six months have passed since job loss and whether 60 days have passed since the worker first qualified for TAA, the statute could be revised to disregard the periods of time (a) between the worker's job loss and notice of potential HCTC eligibility and (b) between the worker's application for and receipt of advance payment. As with preexisting condition exclusions, this approach would require workers to move forward with dispatch but would not punish them for delays beyond their control.

[10] The so-called "Bentsen child health tax credit," mentioned above, represented the only previous attempt to use federal income tax credits of any kind to subsidize coverage for the uninsured. This earlier health insurance tax credit was not advanceable during the year—a critically important feature of HCTC. Instead, it was claimed at the end of the year, as a supplement to the Earned Income Tax Credit.

Chairman MILLER. Thank you.

Mr. Herman.

STATEMENT OF BRUCE G. HERMAN, EXECUTIVE DIRECTOR, NATIONAL EMPLOYMENT LAW PROJECT

Mr. HERMAN. Chairman Miller and members of the committee, thank you for the opportunity to address this important topic. This is a timely hearing because it is increasingly clear that the benefits of trade are not shared equally while the downside of trade is having a corrosive impact on the hard-fought gains of America's working families.

For the past 2 years, the National Employment Law Practice, or "NELP" as we are known, has been working with dislocated manufacturing workers affected by the restructuring of the auto industry, concentrating especially in the States of Indiana, Michigan and Ohio. Our Midwest economic dislocation initiative involves working with the TAA program at the ground level. One of the products that we produced is this manual that assists unions and commu-

nity groups in applying for the benefits associated with TAA. Based upon our firsthand experience with TAA, NELP has a number of suggestions about the priorities for Congress in reauthorizing TAA.

In this testimony, I will briefly outline four major priorities regarding TAA reauthorization. I will then briefly address two issues that are intertwined with the discussions of TAA reauthorization: first, why training and education is an important option for some dislocated workers; and, two, why wage insurance is not a better option to address the impact of globalization on workers.

TAA reauthorization issue number one: TAA certification rules currently exclude many workers impacted by trade. Therefore, we recommend a move toward a universal globalization adjustment assistance program by expanding certification rules for TAA eligibility. Specific recommendations include: shift dislocated worker programs toward a model that provides income support and health care by expanding TAA eligibility to protect more manufacturing workers while adding coverage for service workers and public employees; start a basic income support program for dislocated workers under TAA that is not tied to participation and training while providing intensive job search assistance and reemployment services; develop criteria to establish regional or industry-wide certification for workers impacted by globalization; develop a new and reliable source of funding supporting significantly increased expenditures for globalization assistance.

Issue number two: A high priority for reform in 2007's reauthorization is to ensure that adequate TAA training funds are available to train all certified workers who wish to participate in meaningful retraining programs. TAA training funds are a capped entitlement while Trade Readjustment Allowances, TRA—the income support—is an entitlement under current law. We suggest the following solutions.

Congress should make TAA training an uncapped entitlement. If overall limitations in TAA training funds are kept in place, ensure that added training funds flow automatically when new certifications are made. In addition, requiring the distribution of 95 percent of the reserve training funds by no later than July 1st each year is recommended to permit timely enrollment in fall semesters. Expanding eligibility to service workers without addressing the cap on TAA training funds will simply pit newly eligible service workers and public employees against manufacturing workers in a battle for scarce TAA training funds.

The other reauthorization area is the health coverage tax credit. The biggest obstacle to HCTC eligibility is affordability. We address some specific recommendations in the written testimony that I will not go into at this point.

Similarly with administration, this is a complicated program, as was discussed in the opening statements, and there needs to be some significant reforms to streamline and to make it more accessible. We have a number of recommendations in our written testimony, but we do encourage Congress to talk to the system operators, the program operators, the dislocated workers themselves who have a direct experience with the complexities of the program and address those.

In terms of the debate or the conversation around training, "is it useful for dislocated workers," claims by critics that publically funded training is not affected are no truer than competing claims that training and education are an overall answer to the decline of middle class jobs. Both are unwarranted over-generalizations. In our view, job training and education results are directly related to the investment made and the time spent in training. Given the special employment challenges facing dislocated workers, it is helpful to look at those programs that have provided more long-term investment in training and income support.

For example, Washington State provides dislocated workers with extended unemployment benefits and State-approved training. By the third quarter after leaving this program, 72 percent of the more than 8,000 participants were employed, making an average of 93 percent of the predislocation wages. Other programs that are promising, that provide promising outcomes, include the California Employment and Training Fund and the Wisconsin Regional Training Partnership.

In terms of wage insurance, we believe it is a flawed approach to addressing the needs of dislocated workers. A number of Members of Congress have proposed the development of wage insurance as a potential solution for the ills facing dislocated workers. We appreciate the concern but believe that this is not a strategy that is a viable solution for many dislocated workers.

Rather than encouraging workers to forego their long-term interest for a wage insurance job, Congress should focus on more meaningful solutions that create genuine economic security and more family-friendly, sustainable jobs in our economy. We have seen this work in the States which have created a subsidized health insurance for the unemployed that runs alongside the UI program and self-sustaining home protection funds that provide no-interest loans for laid-off families so they can cover their mortgage payments in the areas of high unemployment. We also believe there are far too many questions regarding wage insurance.

First, will wage insurance promote downward mobility for the Nation's most vulnerable workers? Wage insurance jobs are also likely to provide no health insurance and other crucial benefits. Therefore, wage insurance amounts to a subsidy to those employers and the economy to provide jobs with the worst wages and benefits.

We are also not aware of any empirical evidence that wage insurance jobs will provide transferrable skills or meaningful training. In fact, there is strong empirical evidence that lower-wage jobs require less skill and, therefore, provide little or no on-the-job training of real value let alone transferable skills. These are just some of the questions that need to be addressed in terms of the wage insurance proposals.

We thank the committee for having this hearing, and we are, of course, available to follow up with any questions.

[The statement of Mr. Herman follows:]

Prepared Statement of Bruce G. Herman,
Executive Director, National Employment Law Project

Introduction

Chairman Miller and members of the Committee, my name is Bruce G. Herman, Executive Director of National Employment Law Project (NELP). NELP is a policy

and legal organization focused on issues impacting low wage and jobless workers. NELP is pleased to accept the Committee's invitation to testify today on the subject of the effectiveness of programs in helping workers impacted by international trade.

For the last two years, NELP has been working with dislocated manufacturing workers affected by the restructuring of the automotive industry, concentrating especially in the states of Indiana, Michigan, and Ohio. Our Midwest economic dislocation initiative involves working with the TAA program at the ground level. We are currently advocating for better implementation of the program with state and local agencies, advising interested parties on filing petitions for certification of eligibility for TAA, and assisting with post-certification rights and responsibilities presentations for certified workers, local unions, and community groups. In addition to my work at NELP, I have developed years of experience dealing with trade-impacted workers and creating "high road" economic development partnerships, first as the President of the Garment Industry Development Corporation in New York City, then as Executive Director of the AFL-CIO Working for American Institute in Washington, D.C.

Trade Adjustment Assistance Overview

Rising imports and outsourcing now expose much of our country's labor market to the downsides of trade. While U.S. manufacturing has borne the brunt of job losses due to trade for decades, financial, service and public sector jobs now face competitive pressures due to movement of these jobs offshore. With widespread public concern focused on job losses related to trade, globalization and its adherents are on the defensive. As in past periods when public concern about the negative impact of trade was high, Trade Adjustment Assistance (TAA) is once again garnering attention from policy makers and the media. In addition, TAA is currently up for reauthorization in this Congress. This moment offers an opportunity to make TAA a program that provides more extensive and more effective readjustment assistance for jobless workers out of work as a result of adverse impacts of national trade policy.

In the course of its work around economic dislocation, NELP has interacted with federal, state, and local officials in many states that are charged with making TAA work in the real world. As a result, we have gained extensive knowledge of the nuts and bolts of TAA implementation as well as bigger issues relating to TAA reauthorization. Based upon our first-hand experience with TAA as well as the input of other stakeholders, NELP has a number of suggestions about priorities for Congress in reauthorizing TAA.

As you know, Mr. Chairman, TAA for workers provides retraining, income support, and job search and relocation assistance to jobless individuals separated from work as a result of specified trade impacts. For those that can get certified as eligible, TAA, in some important ways, represents one of the very best programs for income support and retraining for jobless workers in the U.S.

Both opponents and supporters of free trade and globalization have promoted TAA as a promise to the victims of U.S. trade policy. In reality, TAA has never lived up to its promised role as a comprehensive vehicle for readjustment of those losing work as a result of trade. Instead, TAA has most often operated in the shadows of overall training policy. Limited TAA eligibility rules prevent certification of many manufacturing workers who cannot prove their layoffs are directly related to trade impacts. Crabbed administration by both the Labor Department and in some states impedes those certified for TAA from taking full advantage of its best features. As a result, only about 50,000 to 70,000 workers actually participate in TAA retraining or other services in any particular year, a tiny portion of those affected by international trade and only a modest proportion of those with job losses certified as trade-impacted by the government each year.

The limited nature of TAA corresponds to its limited budget. In the last few years, TAA spending is $1 billion or less a year, with $220 million appropriated for TAA training and about $700 million spent on income support for certified workers in FY 2006. In comparison, TAA assisted over 500,000 individuals in 1980 when TAA spending was $1.6 billion (which would be $3.9 billion in 2007 dollars). A major priority is to increase funding for TAA training so each TAA certified worker who is well fitted to retraining can access assistance. This priority arises because TAA training funds are a "capped entitlement," while Trade Readjustment Allowances (TRA) income support is an "entitlement" under current law. Despite dramatically increasing trade deficits which reached a record of $763.6 billion in 2006, since FY 2003 the training cap has been set by Congress at $220 million a year.

Despite its limitations, TAA offers a number of advantages for certified workers over other dislocated worker programs, including most provided under the Workforce Investment Act (WIA). In particular, the duration of income support and train-

ing (up to 104 weeks) under TAA far exceeds what is commonly available to dislocated workers that are not eligible for TAA. In addition, TAA has a limited health care component—known as Health Coverage Tax Credit—that provides a refundable tax credit to cover 65 percent of premium costs for workers receiving TRA. While this health care provision has serious structural limitations, HCTC at least recognizes that dislocated workers, as do all workers have a major need for health care coverage. By providing income support and some health care, TAA is partially addressing two pressing needs of dislocated workers that are not addressed under other state and federal dislocated worker programs in the vast majority of cases.

In this testimony, NELP will first outline major priorities regarding TAA reauthorization. We will then briefly address two issues that are intertwined with discussions of TAA reauthorization; namely, (1) why training is an important option for some dislocated workers and (2) why wage insurance is not a better option than TAA to address the impact of globalization on workers.

Main TAA Reauthorization Issues

TAA currently expires on September 30, 2007, unless reauthorized by Congress. TAA reauthorization offers an opportunity to eliminate legal and administrative barriers and make TAA available to more dislocated workers. Currently, there is a bi-partisan consensus that TAA should be improved. Positive reform bills were introduced last year in the House by Representatives Rangel and Smith (H.R. 4156), and already this year in the Senate (by Senators Baucus and Coleman, S. 122) and in the House (Representative English, H.R. 910). Although all these bills have positive features, we believe that a more comprehensive approach is needed, especially given the growing negative impact of trade on workers and the continuing loss of good jobs due to shifts overseas. We will now discuss the major issues involving TAA reauthorization.

TAA Reauthorization Issue 1: Move toward a universal TAA program by expanding certification rules for TAA eligibility.

Both Representative Rangel and Senator Baucus have spoken generally in support of what they have both termed "Globalization Adjustment Assistance." To better serve workers dislocated by international trade's impacts, TAA eligibility should be delinked from strict rules designed to require workers to show a close connection to imports or shifts in production to get TAA certification. TAA certification rules currently exclude many workers impacted by trade.

As an initial limitation, TAA certification is limited to workers "producing an article." This means that service workers and public employees that lose work due to offshoring of their jobs are not eligible for TAA because they do not make goods, but instead furnish services. A common example of this limitation is U.S. call center workers whose jobs are moved overseas to lower wage countries. These call center workers do not produce an article, so they are not eligible for TAA certification. The same can be said of computer programmers or engineering capacity that is being moved overseas. This particular problem with TAA certification is recognized by many key members of Congress and we support adding TAA eligibility for service workers and public employees as an important step during reauthorization.

Beyond fixing TAA eligibility for service workers and public employees, there are remaining limitations in current law for manufacturing workers that are less widely understood. These limitations exist despite modest changes for secondary workers made by Congress in 2002. When reauthorizing TAA in 2007, Congress should eliminate remaining barriers for trade impacted manufacturing workers under existing rules governing TAA eligibility.

Among the most important barriers is a limitation that denies TAA certification to many manufacturing workers that make component parts. This happens because parts workers, by definition, do not make articles that are "like and directly competitive" with finished products. As a result, when manufacturing parts workers lose jobs due to imports of finished products they are denied TAA in many cases. This occurs because imported final products compete with the domestic final product that their parts went into during final assembly. Only imports of parts would be "like and directly competitive" with articles manufactured by the parts workers, meaning that many of these parts workers are ineligible for TAA.

In summary, under current law, there must be a close match between products to satisfy the "like and directly competitive" test for imports. For example, domestic workers that made television tubes are not eligible for TAA if they lose work due to the imports of fully-assembled televisions. This is because imported televisions are not "like and directly competitive" with domestically produced television parts.

While some of these parts workers could theoretically gain TAA certification as "secondary" workers under the 2002 amendments to TAA, the rules for secondary workers embody other significant limitations. First of all, secondary component

parts workers are eligible for TAA only if they provide parts as a 1st tier supplier. Manufacturing employees of second and third tier supplier firms impacted by international trade remain ineligible for TAA under present rules.

Second, secondary certifications are dependent upon a TAA certification at the primary assembly plant for which upstream secondary workers are furnishing components or for which downstream secondary workers finishing assembly. Secondary workers, in most cases, have no ability to control whether or not a petition is filed at the primary firm and the quality of that petition. As a result of these limitations in certification eligibility, significant numbers of secondary workers are not eligible for TAA under current rules.

GAO's 2004 study of TAA noted that few workers were taking advantage of expanded eligibility for secondary workers provided by the 2002 amendments.1 While GAO's study recommended better outreach and assistance with filing petitions for secondary workers, these steps can only partially remedy the shortfall in certifications of secondary parts workers. Congress must recognize that existing rules bar TAA eligibility for many secondary manufacturing workers.

In the automotive industry, roughly 2 manufacturing jobs in parts are lost for every job in an assembly plant closing they formerly supplied. No amount of outreach is going to help those working at 2nd and 3rd tier plants supplying Delphi, Ford, or GM assembly plants slated to close in many states. Unless Congress eliminates remaining barriers in current law for certification for manufacturing parts workers, these workers will not have TAA protections when they are laid off in coming months.

Next, significant limitations exist under current law on eligibility for workers whose jobs are lost because their employers shift production outside the U.S. In the case of such shifts in production, workers are eligible if their jobs go to a country with an existing free trade agreement OR if the resulting shift in production increases imports of the article previously manufactured by the petitioning workers. The current formulation for TAA eligibility in cases of shifts in production has significant limitations: (1) since many countries, including China, do not have free trade agreements with the U.S., shifts in production to those countries are not covered by TAA; (2) if domestic workers made products for export prior to the shift of their jobs offshore to a country without a free trade agreement with the U.S., there will be no increase in imports to support certification; and (3) even if there are increased imports after a shift in production to a county without a free trade agreement, there is frequently a delay in the onset of imports following a U.S. plant closing. In addition, monitoring those imports and properly timing and documenting a TAA petition is nearly impossible for affected workers. For this reason, we recommend that Congress eliminate the requirement that limits TAA certification for shifts in production to those countries with existing free trade agreements. Any offshore shift in production should be covered by TAA.

Finally, TAA eligibility rules require that workers at each plant separately petition for certification. Providing regional or industry wide certifications to address 2nd and 3rd tier suppliers and other non-certifiable firms in trade-impacted communities or industries has been proposed. This is a good concept, but there is a challenge in making this concept a workable reality. Some proposals for industry certification for TAA have limited the power to file these broader petitions to the International Trade Commission or Congressional committees. We support industry and/or regional certifications and would strongly recommend that Governors, unions, or affected local governments have authority to file these petitions.

In short, we are advocating for a greatly expanded reach for the TAA program. Such an expansion will require significant additional federal resources. However, even at a time when federal resources are limited, it is the obligation of the government and the society to do more to compensate those who are impacted by trade policies through no fault of their own.

Recommendation: Existing proposals for TAA reauthorization fall well short of the steps needed to reach a TAA program deserving of the Globalization Adjustment Assistance label. Here are some significant steps we recommend:

- Shift dislocated worker programs toward a model that provides income support and health care by expanding TAA eligibility to protect more manufacturing workers while adding coverage for service workers and public employees.
- Start a basic income support program for dislocated workers under TAA that is not tied to participation in training, while providing intensive job search assistance and reemployment services.
- Develop criteria to establish regional or industry wide certification for globalization impacted workers.
- Develop a new and reliable source of funding supporting significantly increased expenditures for globalization assistance.

TAA Reauthorization Issue 2: A high priority for reform in the 2007 reauthorization is to ensure that adequate TAA training funds are available to train all certified workers that wish to participate in meaningful retraining programs.

This priority arises because TAA training funds are a "capped entitlement," while Trade Readjustment Allowances (TRA) income support is an "entitlement" under current law. Despite dramatically increasing trade deficits, since FY 2003 the training cap has been set by Congress at $220 million a year. (In recent years, there has been a $39 million allocation for TAA administration, effectively raising the cap by 15 percent because prior to that time administrative funds were deducted from training funds.)

There is a pronounced conflict between promising trade-impacted workers training with income support while only authorizing limited funding for TAA training. As a result of this conflict, TAA certified workers interested in training are not able to get training, they are steered into shorter-term training, or they have training delayed while reserve training funds are sought from the Labor Department (USDOL). Consequently, when these certified workers eventually get into training it is of shorter duration because those weeks of potential training are lost through delays in enrollment. Certified workers also lose additional TRA (the last 52 weeks of TRA) because participation in training is a condition of eligibility for those additional TRA benefits. Since no tuition dollars are available, TRA is denied as well in these cases.

In a 2004 report to the Senate Finance Committee, the Government Accountability Office found 19 states had discontinued training enrollment due to shortages of training funds between FY 2001 and FY 2003. NELP is aware of similar issues regarding training approvals in the last two years in Illinois, Michigan, and to some degree in Ohio. In Michigan, WIA dollars are currently being used to provide TAA certified workers with training in some locations due to delays in approving and distributing reserve TAA funding. For this reason, addressing the cap on TAA training during reauthorization is vitally important.

Beyond the overall limitation on training under the $220 million cap on spending, the cap creates significant issues regarding distribution of training funds to states and interferes with the timing of funding. These issues arise because there must be an administrative mechanism to distribute limited TAA training funds to states and then on to recipients. If during reauthorization Congress ensures that training dollars flow automatically to TAA training participants, then these obstacles to training participation would be reduced or eliminated. Nonetheless, these distribution issues are very real obstacles that this Committee should understand if it wishes to better comprehend why some workers get less help from TAA than promised.

To begin, U.S. Department of Labor's formula for allocating limited training funds among the various states is seriously flawed. Beginning in FY 2003, the Labor Department began withholding 25 percent of training funds ($55 million) as a reserve. The remaining 75 percent ($165 million) is distributed to states based upon a formula that provides 80 percent of the base funding ($132 million) relying upon each state's training spending averaged over the prior three fiscal years with 20 percent of the funding ($33 million) based upon each state's average number of program participants over the prior 3 fiscal years.

An obvious result of this sort of retrospective funding formula is that states with high TAA caseloads in 2000 to 2002 were advantaged at the outset as compared to other states. In addition, because the formula includes a hold harmless element and does not take current increases in TAA certifications into consideration, the formula does not adjust quickly enough for states with high TAA caseloads. As a result, some states with rapidly increasing caseloads must rely upon TAA reserve funding to pay for training. The table below illustrates some of our concerns.

TAA BASE TRAINING ALLOCATION INEQUITIES

State	FY 04 Certifications	FY 04 Base	FY 06 Certifications	FY 06 Base
Washington	30	$13.4 million	16	$14.4 million
Pennsylvania	128	$20.6 million	97	$14.9 million
North Carolina	211	$6.3 million	180	$9.9 million
Michigan	76	$5.3 million	104	$5.8 million

Without suggesting any criticism of states with higher TAA spending levels, the outcome of the current TAA base allocation formula is difficult to understand from the perspective of equitable treatment of TAA participants. Perhaps most noticeable thing in our table is that Washington State got $14.4 million in its base training

allocation for FY 2006 with just 16 TAA certifications, while North Carolina is getting $9.9 million for 180 certifications. Certainly, we believe the cost of training and the availability of training should be roughly equivalent for workers without regard to the state of residence of certified workers.

Under the existing formula, states must increase spending and training participation to increase their base funding. But states that have a greater need now for TAA funds as compared to when the formula was started cannot keep pace by increasing their spending and participation unless they are willing to risk obligating training funds beyond levels set by their base allocations. Most states do not have sufficient confidence that they can approve training over base allocations or facing delays in distribution of reserve training funds. Conversely, if current funding levels impede approval and increases in participation, then the formula itself will never provide added base funding to a state.

Additional funding issues are created because the Labor Department withholds 25 percent of allotted TAA training funds each year. While in theory these dollars are later available to states asking for reserve funds, states with higher TAA caseloads operate on the reasonable assumption that their base TAA training allocation is largely what they have to spend for TAA training in that fiscal year. For this reason, the Labor Department's withholding of reserve funds effectively limits TAA training spending through rationing by states when they approve individual training requests by certified workers.

A second impact of withholding the training reserve is that USDOL advises Congressional staff that states have not expended all training dollars (or that there is no problem with the $220 million cap) because states did not obligate the prior year's entire training allocation. This report by USDOL is literally true, because, after paying for any approved requests for reserve funds during a year, USDOL distributes remaining reserve funds on the last day of each fiscal year. As a result, few states with higher TAA caseloads have obligated their entire training allocation during any fiscal year because they receive reserve funding on the last day of each fiscal year. USDOL then reports to Congress that few states spent their prior fiscal year's training allocation and that there is sufficient funding for TAA training. An additional issue is created because this late distribution of remaining reserve funds takes place around September 30 after enrollment deadlines for fall semesters have passed. As a result, workers laid off in the summer often wait until the next January to start training, losing potential weeks of training as a result.

Solutions:

• Congress should make TAA training an uncapped entitlement. Eliminating the overall cap on training funding would also eliminate funding distribution bottle necks at USDOL, since release of training dollars could accompany any new TAA certification. This was essentially the practice in place prior to 2002.

• If overall limitations on TAA training funds are kept in place, ensuring that added training funds flow automatically when new certifications are made and that funding will be available over the projected term of training are essential steps for reauthorization. In addition, requiring distribution of 95 percent of reserve training funds by no later than July 1 each year is recommended to permit timely enrollment for fall semesters.

• With respect to funding, we also note that TAA reauthorization bills in this Congress and the prior Congress have proposed TAA eligibility for "service" workers and public employees losing work due to offshoring of their jobs. If this is done, then expanding TAA training funds is even more critical. Otherwise, TAA certified manufacturing workers will simply compete with newly eligible service workers for scarce TAA training funds/ Expanding eligibility to service workers without addressing the cap on TAA training funds will simply pit newly-eligible service workers and public employees against manufacturing workers in a battle for scarce TAA training funds.

TAA Reauthorization Issue 3: Fix Health Coverage Tax Credit Program.

Dislocated workers frequently lose their health care coverage when they are separated from work. Maintaining health insurance coverage, along with income support, serve one of the most important needs of families experiencing job loss. Despite the importance of health care coverage to laid off workers, most dislocated workers have not been able to participate in the Health Coverage Tax Credit (HCTC) program since it was offered in 2003. Once an application is set up, HCTC works as a refundable tax credit that pays 65 percent of health care premium costs to workers eligible for Trade Readjustment Allowances (TRA). Since TAA is the only federal program offering income support for dislocated workers, fixing HCTC so it can help more TAA certified workers get health care while they search for work or take training is another important priority for TAA reauthorization in 2007.

The biggest obstacle to HCTC eligibility is its affordability. Under current rules, a jobless worker must pay 35 percent of his/her health insurance premium. If the

only health plan available is COBRA, this cost can run into hundreds of dollars a month for family coverage. A second obstacle is that initial set up of an HCTC claim requires jobless workers to pay at least 1 and up to 3 months of health coverage premiums out of pocket. Needless to say, paying 100 percent of health care costs is not something that most working individuals could afford, let alone individuals that have been laid off.

Beyond these two cost issues, the administration of HCTC is very complicated and dislocated workers cannot navigate the program without substantial assistance in completing applications and assembling the required documentation. While local unions, one-stops and community groups, and state agencies do their best to help, HCTC has had far too many administrative roadblocks. And, in some states there are no qualified health plans, other than COBRA, offered to TAA certified workers.

Recommendations: There are a number of steps required to make HCTC a more workable solution for more dislocated workers.

• Congress should change the refundable tax credit formula from 65 percent tax credit/35 percent worker paid to 90 percent tax credit/10 percent worker paid.

• HCTC should provide up front 100 percent payment until refundable tax credit is set up by IRS.

• Tie HCTC eligibility to TAA participation as opposed to TRA recipiency because TRA is denied or interrupted in some cases and verification of TRA payment is a burden on HCTC administration.

• Congress should designate the Federal Employment Health Plan as a back up plan for HCTC in all states.

TAA Reauthorization Issue 4: Remove Obstacles in TAA Program Administration.

Many in Washington are puzzled by how few dislocated workers that are separated from TAA certified workplaces participate in TAA training or get TRA. For the most part, despite numerous studies by GAO and other researchers, how this program works on the ground is largely invisible to those making the rules. In our experience, TAA is a complex program to administer and this complexity is a significant reason why more workers don't participate in TAA. What is surprising to NELP is how well the program works despite its complexity, and this is largely due to many dedicated state and local staff that work very hard to make TAA work as well as it does. In many cases, these individuals are helped by United Way and community agencies, union staff, and others that pitch in and help out.

What do we mean by complexity? During a typical dislocation involving TAA, many workers, often hundreds of workers, must be advised of their rights and responsibilities, learn about training options and enroll if appropriate, apply for HCTC or Alternative Trade Adjustment Assistance (ATAA) if desired, get training waivers if needed, and apply for unemployment insurance or TRA on a weekly or bi-weekly basis. Assessments are supposed to get done. Work search rules must be explained and job search must be documented. Class attendance must be documented and recorded. Mental health and social services needs must be addressed. The 8/16 week rule requires TAA certified workers to enroll in training by the end of the 16th week after his/her layoff from trade-affected employment OR the end of the 8th week after the week of the TAA certification decision covering his/her workplace. Many workers find out about TAA too late, especially when a certification decision is made after the plant closing and the company does not help the state agency locate the workers.

States get no added administrative dollars to handle TRA payments and TAA administration is limited to 15 percent of approved training dollars. In small states, there are only 1 or 2 individuals responsible for rapid response and TAA in an entire state. Congress has added features like HCTC and ATAA that add further complexity. Many TAA certified dislocations take place in large workplaces, sometimes located in rural communities. Most states do not use peer networks and labor-management communities to engage workers to the degree we would recommend. Most agencies running TAA do not have staff adequate to serve hundreds of workers. Some locations do not have TAA certifications each year and staff turnover or promotion eliminates institutional knowledge. Even in smaller dislocations, an office might see a dozen dislocated workers for its WIA dislocated worker program in a year and then have dozens of TAA certified workers requiring services in a month or 6-week period.

Recommendations: NELP staffers been involved with TAA to some degree since 1984. To our knowledge, those that really administer TAA in the states have never been seriously involved when TAA reauthorization takes place. For that reason, our overall recommendation is that Congress seeks input from unions, state agencies, one-stops and others involved knowledgeable with the technical aspects of TAA administration. NELP would help gladly with such an effort. At this point, a complete listing of administrative barriers is not possible, but based upon consultations with

stakeholders, NELP recommends these added measures to simplify TAA administration and increase participation by TAA certified workers.

• Adequate administrative funding is essential. There is currently no TAA funding for job search assistance, case management, and assessments of TAA certified workers. This funding should be added to existing funds for program administration.

• We support using merit staff that administer state unemployment insurance laws, the UI work test, and Wagner-Peyser programs for implementation of TAA, and rebuilding that employment and training backbone in future years.

• The 8/16 week deadline for enrollment in training or obtaining training waivers is debilitating to the program and must be fixed. Legislation should lengthen time limits to 16 weeks and 26 weeks and automatically extend them when they are missed due to agency error or negligence. Permit waivers of 8/16 week deadline under state good cause rules.

• Permit training waivers for 90 days and allow work search waivers for those enrolled in but not yet participating in training.

Is Training Useful for Dislocated Workers?

Claims by critics that publicly-funded training is not effective are no truer than competing claims that training and education are an overall answer to the decline in middle class jobs. Both are unwarranted overgeneralizations. In our view, as with most other human endeavors, job training and education results are directly related to the investment made and the time spent in training.

In the U.S., especially in the last decade, we have mostly operated our training programs with a "work first" philosophy, and a majority of job training has been short-term and generic. This philosophy is embodied is the Bush Administration's proposed "Career Advancement Accounts," which are essentially $3,000 vouchers. These accounts are provided to workers who are then expected to choose from competing training providers in order to get retrained for new occupations.

When discussing retraining for trade-impacted workers, it is fair to narrow our focus because dislocated manufacturing workers are not the same as other workers receiving public training. In particular, dislocated manufacturing workers are older, have longer job tenures, less formal education, and have higher wages than most others getting publicly-funded training. Of necessity, many dislocated manufacturing workers are forced to look for work in new industries where their prior skills, seniority and wages are less likely to transfer. And, since trade-related economic dislocations are frequently concentrated in specific regions, a longer period of job search and intervening period of unemployment should be expected.

This means that short-term training like that commonly employed under WIA is less likely to result in comparable replacement wages. Thus, as Professor Paul Osterman of MIT argues in his study of new options for employment and training policies, "short-term training leads to small or non-existent gains" for dislocated workers, " while "more substantial long-term training does seem to improve the earnings of dislocated workers to an important degree."2 Indeed, part of the problem with TAA training, which is largely a function of limited training funds, is that the training has been mostly short-term, as documented by the GAO.3

Given the special employment challenges facing dislocated workers, it is helpful to look to those programs that have provided a more long-term investment in training and income support. For example, Washington State provides dislocated workers with extended unemployment benefits to participate in state-approved training. Those who participate are mostly workers with just a high school degree who were laid off from manufacturing jobs in aerospace and other state industries.4 85% of them participated in community or technical colleges, with the largest numbers participating in information technology programs. By the third quarter after leaving the program, 72% of the more than 8,000 participants were employed, making an average of 93% of their pre-dislocation wages.5

Other studies have shown that more extended training in community college program geared toward skills development can have a meaningful impact on the wages of dislocated workers. For example, an evaluation of dislocated workers participating in Pennsylvania's community college programs found that men earned $1,047 more per quarter by attending community college and women earned $812 more.6 Other training and education programs, like the California Employment and Training Fund and the Wisconsin Regional Training Partnership, successfully target key state industries, building partnerships between employers, unions and training providers.7 It is not just training for the sake of training. Instead, the training is demand driven by quality state and local planning and a partnership with employers that helps build a growing economy.

Professor Osterman makes a strong case for building on these and other state innovations as the framework to reform the nation's employment and training system.

He concludes that a primary element "the new programs share in common is that they make substantial investments in their clients. The new programs reject the quick and dirty training, short-term investments, and simple job search assistance models that characterize much of the traditional E & T system."8 The challenge at the federal level is to build on these state innovations that equip the nation's workers to compete successfully for good jobs. There is certainly no shortage of experience, but what is needed is the will at the federal level and a far more substantial investment of resources. As documented by the states, a meaningful investment of resources in training can generate a substantial return to local business, workers and the economy.9

Wage Insurance is a Flawed Approach to Addressing the Needs of Dislocated Workers

In the past year, a number of members of Congress have proposed the development of "wage insurance", as a potential solution to the ills facing dislocated workers. We appreciate the concern being articulated by many about the needs of workers and their families whose lives are thrown into disarray when they lose a good job and find themselves with no other options but to take a major cut in pay on a new job.

We strongly believe that wage insurance is the wrong solution. Rather than encouraging workers to forgo their long-term interests for a wage insurance job, Congress should focus on more meaningful solutions that create genuine economic security and more family-friendly sustaining jobs in our economy. We have seen it work in the states, which have created subsidized health insurance for the unemployed that runs alongside the UI program and self-sustaining "home protection funds" that provide no interest loans to laid-off families so they can cover mortgage payments in high unemployment areas. The states have also been at the forefront of new models of training that help make their local economies more competitive and save good-paying jobs.

Like the AFL-CIO and several major unions that have expressed concerns with wage insurance, we also believe that there are far too many unanswered questions that convince us it is not the right time to move ahead with a national wage insurance program.

First, it is important to ask whether wage insurance will promote more downward mobility for the nation's most vulnerable workers, since by definition wage insurance jobs pay far less. Thus, wage insurance jobs are also less likely to provide health insurance and other critical benefits. We believe that the limited federal resources devoted to the economic security of America's workers should promote good employment outcomes and quality jobs, but that is not the case with wage insurance. Wage insurance amounts to a subsidy to those employers in the economy who provide jobs with the worst wages and benefits.

We are also not aware of any empirical evidence that wage insurance jobs will provide transferable skills or other meaningful training. In fact, there is strong empirical evidence that lower wage jobs require less skill and therefore provide little or no on the job training of any real value. This fundamental weakness of a wage insurance approach is compounded since both the Alternative Trade Adjustment Assistance program and proposals to expand wage insurance are written in such a way that precludes most workers from pursuing the quality education and training they need to compete for better jobs in today's economy.

Second, does the experience with actual wage insurance programs make a convincing case that now is the time to create a new national program? What we know from the only major evaluation of a wage insurance program, the Canadian pilot program, is that it failed in most areas to achieve its intended results. Thus, the Canadians never adopted wage insurance. And we are still waiting for the results from the ATAA program which serves workers over the age of 50, although we know that participation in the trade program has been limited.

Another question that has not received enough attention is what impact will the program have on other workers who are competing for similar jobs with those collecting wage insurance? A leading researcher with the Upjohn Institute found that "virtually all the employment gains experienced by dislocated workers as a result of the wage subsidy come at the expense of other workers." Will this "crowding out" effect be even more severe in those communities in the Midwest and elsewhere where there are already large concentrations of dislocated workers?

In addition to the research questions, there is also the concern that wage insurance could undermine those federal programs that now provide some measure of economic security to U.S. workers. An expanded wage insurance program would be in direct competition with resources for long overdue improvements in the TAA program and in bedrock economic security programs. We are also concerned with the

precedent wage insurance will set when hostile groups like the Heritage Foundation are on record strongly supporting wage insurance as a "rapid reemployment" substitute to dismantle the TAA program. Will wage insurance set the stage for more attacks on TAA? And when the next recession hits, will the Heritage Foundation and others argue for a more limited federal extension of jobless benefits when workers can qualify instead for wage insurance by taking jobs that require a significant pay cut? Already, the Bush Administration and Rep. Weller have called for waivers of federal UI law to authorize states to experiment with wage insurance with their UI funds. This support points to the great theoretical weakness of wage insurance—the way it fits within a work-first philosophy of low-cost interventions that push unemployed individuals into any job regardless of its quality. You cannot deal with the damage of trade policies to workers on the cheap.

These are some of the difficult questions that leave many of us who work with these programs convinced that wage insurance could do far more harm than good.

Conclusion

Both opponents and supporters of free trade and globalization have promoted TAA as a promise to the victims of U.S. trade policy. In reality, TAA has never lived up to its promised role as a comprehensive vehicle for readjustment of those losing work as a result of trade. However, the model put forward by TAA—extended income support to workers so they can complete meaningful training courses—holds great promise for dislocated workers. We are hopeful that the United States economic and political dialogue has finally reached the point that we take seriously the damage caused by globalization and provide the real resources and support to the TAA program.

RESOURCES

For more on TAA, please see Rick McHugh and Phil Gilliam, Getting Certified for Trade Adjustment Assistance, a Guide for Unions, Workforce Agencies and Community Groups, National Employment Law Project, 2005.

ENDNOTES

[1] U.S. General Accountability Office "Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain," GAO-04-1012, September 2004

[2] Paul Osterman, "Employment and Training Policies: New Directions for Less Skilled Adults" (MIT Sloan School, October 2005), at page 14.

[3] U.S. General Accountability Office, Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, But Better Outreach Needed on New Benefits (January 2006) at page 21. In describing the results of the TAA training, which was provided to less than one-third of those surveyed, the GAO concluded "it may be too soon to know the effect of training on employment outcomes" because a large number of the workers surveyed (ranging from one-third to over 60%) were still participating in training at the time of the study. Id. at pages 31, 35.

[4] Washington State Workforce Training and Education Coordinating Board, Training Benefits Program Review (December 2002).

[5] Id. at page 8.

[6] Trutko, et al. Final Report: Earnings Replacement Outcomes for Dislocated Workers: Extent of Variation and Factors Accounting for Variation in Earnings Replacement Outcomes Across State and Local Workforce Investment Boards (Capital Research Corporation, March 2005), at page A-8.

[7] Richard Moore, et al., Training that Works: Lessons from California's Employment & Training Panel Program (W.E. Upjohn for Employment Research, 2003); Neighborhood Funders Groups, "Wisconsin Regional Training Partnership: Hooking Community Residents Up to Jobs (NFG Reports, Summer 2000, Issue Two, Vol. Seven).

[8] Osterman at page 25.

[9] Press Release, California Employment & Training Panel, "State Agency Investment Training Workers is Pay Big Dividends for California Employers, Study Says" (June 28, 2000); Kevin Hollenbeck, Wei-Jang Huang, "Net Impact and Benefit-Cost Estimates of the Workforce Development System in Washington " (Upjohn Institute: July 2003).

Chairman MILLER. We will segue to Dr. Brainard here on wage insurance.

Welcome.

STATEMENT OF LAEL BRAINARD, PH.D., VICE PRESIDENT AND DIRECTOR, BERNARD L. SCHWARTZ CHAIR IN INTERNATIONAL ECONOMICS, BROOKINGS GLOBAL ECONOMY AND DEVELOPMENT PROGRAM

Ms. BRAINARD. Chairman Miller, Congressman McKeon, members of the committee, thank you very much for the opportunity to testify before the committee today.

Clearly, today's workers face a very different labor market than did their fathers, and yet, the reality is they are still only offered the options that were available to our parents' generation in terms of the safety net. Today's workers are much less likely to be attached long-term to a particular employer and are much more likely to face the bracing winds of global competition, which is now reaching into higher and higher valued manufacturing as well as services. With increased turnover and increased competition, inevitably come increased uncertainty and, for many workers, increased economic insecurity. The question that you pose today is, How effective are existing programs in helping workers impacted by international trade? I think the answer is pretty clear.

They are not as effective as we would all like them very much to be. Too many workers face the prospects of large declines in their earnings as well as in health insurance and other important benefits when they are displaced through no fault of their own. Despite the fact that we rank second to none as a nation when it comes to turnover, we are at the bottom of the pack when it comes to safety nets among the richer economies. And I will just point to TAA. TAA, because it is so carefully constrained in terms of who ends up becoming eligible, only certifies as eligible about 75,000 new workers per year, and if you look at the outcomes of that program, I think we are all disappointed by them. Between 2001-2004, an average of only 64 percent of participants found jobs while they participated in TAA.

So my view is that we have a very brief opportunity to align the Nation's policies against the new realities facing American families. I think this is a moment to be bold. There is a lot of time to make up for, and I am not sure how long that window will be open.

In the first instance, as people have said, it means instituting a set of policies that support good jobs that pay well here at home. They range across the board from investing in education, workforce training to infrastructure and competitiveness, but we also need to acknowledge that some people are going to lose and that we need to strengthen the Nation's safety net. I think it means strengthening the income and health insurance available to workers during periods of unemployment and certainly broadening access and the quality of training to those who are unemployed, but I also think it means ensuring against sharp earnings losses for those once they get reemployed.

Mr. Herman talked about wage insurance not being a better option. I hope nobody proposes wage insurance as a better option. I think all three elements are not only compatible with each other but essential.

If you look at why strengthening income and health insurance alone are, again, essential but not sufficient, I think the evidence on earnings losses following permanent displacement are sobering.

I think they are sobering enough to make us take a serious look at additional policy instruments to help workers once they are reemployed, not just while they are unemployed.

Take those displaced workers who qualify for TAA. Even after taking advantage of the extended unemployment benefits and the relatively expansive—but with flaws—training benefits, earnings in their new jobs are, on average, 20 percent of those in their old jobs. That is quite an income shock. For permanently displaced workers who suffer earnings losses, which is about half of those reporting being reemployed full time, average earnings in the new job are about 16 percent lower than earnings in the previous job. So people are already, unfortunately, taking jobs that pay substantially less than the jobs that they had at their previous employers.

An achieved goal of wage insurance would be for that group of workers to smooth their incomes to essentially help them get a foot back up on the economic ladder, and I think it is important to say this is not or should not be construed as a trade program only. I think the eligibility requirements associated with trade programs are so narrowing that it takes way too long to become eligible, and it does not help the number of people who deserve that kind of help. I think we have some evidence from a small program that was undertaken elsewhere that it does help to broaden the job search. It does help workers perhaps move into other sectors where jobs are being created, and it can facilitate valuable on-the-job training, again, not as a replacement for but as a supplement to existing programs.

What would this cost? We estimate that a moderate program that replaces about 50 percent of losses for long-tenured, full-time, permanently displaced workers would cost roughly $3.5 billion per year on average, which is about $25 per worker as an insurance program. If you think about it, the price of $25 per worker, per year, wage insurance could be, again, one important policy tool alongside unemployment, strengthened unemployment insurance, along with health care insurance, along with improved training opportunities.

I think we are facing a unique window of opportunity to finally make progress in significantly updating the Nation's safety net, and it would be a shame not to look at all of the options on the table and to move forward boldly.

Thank you.

[The statement of Ms. Brainard follows:]

Prepared Statement of Lael Brainard,[1] Ph.D., Vice President and Director, Bernard L. Schwartz Chair in International Economics, the Brookings Global Economy and Development Program

Chairman Miller, Congressman McKeon, members of the Committee, I appreciate the opportunity to testify before your committee today.

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[1] This draws from analysis in Lael Brainard, Robert Litan, and Nicholas Warren, "Insuring American Workers in a New Era of Offshoring" Brookings Policy Brief 143, July 2005 *http://www.brookings.edu/comm/policybriefs/pb143.htm* and "A Fairer Deal for American Workers in a New Era of Offshoring," in Susan Collins and Lael Brainard (eds.) Offshoring White Collar Work (Brookings Press, 2006) *http://www.brookings.edu/es/commentary/journals/tradeforum/2005btf—brainard.pdf.*

Today's Economic Realities

American workers today face a very different employment outlook than their parents encountered back in the 1960s—when Trade Adjustment Assistance was enacted under President John F. Kennedy.

Today's workers are much more likely to transition several times between different employers over the course of their working lifetimes. According to Princeton scholar Henry Farber, men currently in the age range of 35 to 64 are almost 20 percentage points less likely to be in ten-year jobs as were males in this age range roughly 45 years ago.[2]

Today, a much larger expanse of occupations and sectors are exposed to the bracing winds of global competition—with trade now exceeding 25 percent of national income compared with less than 10 percent back in the 1960s.

With increased turnover and increased competition come increased uncertainty and, for some workers, increased economic insecurity. For permanently displaced workers who suffer earnings losses, average earnings in the new job are 16 percent lower than earnings in the previous job, while displaced manufacturing workers moving into lower paying jobs face an average 20 percent drop in earnings. The consequences of job loss are particularly damaging in import-competing industries, where displaced workers face longer spells of unemployment and greater permanent wage declines than do workers in other industries.

The causes for increased insecurity faced by American middle class households are complex, but almost certainly include globalization and changes in technology among the primary drivers. The current episode of global integration dwarfs previous expansions: the entry of India and China into the global labor force amounts to an expansion of roughly 70 percent—concentrated at the lower end of the wage scale. Textbook economics would predict a squeeze on wage earners until capital and technology investments adjust. And the data suggest inequality is once again on the rise in many of the world's richer economies.

Because China is successfully pursuing at a scale never seen before a growth strategy that is export-led and foreign direct investment fed, its rise is sending waves to the farthest reaches of the global economy. China is already deeply embedded in global manufacturing supply chains, confronting higher wage manufacturers with the difficult choice of moving up the value chain or lowering costs.

India's concurrent economic emergence has complicated the challenge. While India is pursuing a growth strategy more reliant on domestic consumption and investment than China, nonetheless its success in exporting higher skilled "knowledge" services such as software programming has expanded the scope of globalization. Many Americans in white collar occupations are confronting the reality of low wage foreign competition for the first time.

How Effective Are Existing Programs?

Today's hearing addresses the question, "How Effective are Existing Programs in Helping Workers Impacted by International Trade?" The answer is simple: existing programs are not nearly as effective as they must be in helping workers who may face the prospect of large earnings declines as well as loss of health insurance when their jobs are displaced through no fault of their own. In the face of accelerated job losses in manufacturing and white-collar offshoring in services, an ever-broader pool of American workers is finding that the nation's safety net has more holes than netting.

Despite the fact that the U.S. labor market ranks second to none when it comes to job turnover, the nation's safety net for easing job transitions remains one of the weakest among the wealthy economies. In comparison with other high income countries, not only do U.S. unemployment benefits have a shorter duration, but displaced workers in America face the prospect of losing health benefits along with income. The main federally mandated unemployment insurance (UI) program contains so many restrictions that today only about 40 percent of all jobless workers receive benefits.

The last serious overhaul of the nation's employment safety net was in 1962, when President John F. Kennedy established the TAA program to compensate workers who suffer job loss as a result of trade liberalization. But workers have long found it difficult, time-consuming, and expensive to prove that they are entitled to extended unemployment benefits under the nation's Trade Adjustment Assistance (TAA) program.

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[2] "Is the Company Man an Anachronism? Trends in Long Term Employment in the U.S., 1973-2005" forthcoming in The Price of Independence: The Economics of Early Adulthood, edited by Sheldon Danziger and Cecilia Rouse (New York: Russell Sage Foundation, 2007).

In 2002 Congress overhauled and expanded TAA, adding a health care tax credit, doubling the training budget, and substantially raising budget outlays for income support. But the TAA program continues to disappoint. Participation has remained surprisingly low, thanks in part to confusing Department of Labor interpretations and practices that ultimately deny benefits to roughly three- quarters of workers who are certified as eligible for them. TAA has helped fewer than 75,000 new workers per year, while denying more than 40 percent of all employers' petitions. And remarkably, the Department of Labor has interpreted the TAA statute as excluding the growing number of services workers displaced by trade.

Despite its laudable goals, the TAA program has repeatedly failed to meet expectations. Between 2001 and 2004, an average of only 64 percent of participants found jobs while they participated in TAA. And earnings on the new job were more than 20 percent below those prior to displacement.

Expanding Training and Insurance while Unemployed and Insuring Wages once Reemployed

I believe we have a brief window of opportunity to align the nation's policies against the new economic realities facing American families. In the first instance, this means instituting a set of policies that support good jobs and good pay here in America. They range from investing in education and workforce training to infrastructure and competitiveness policies.

But we should also seize on this window of opportunity to strengthen the nation's safety net to better insure against the economic insecurity faced by too many American families. That means strengthening the income and health insurance available to workers during periods of unemployment, broadening access and improving the quality of retraining programs, and insuring against sharp earnings losses once reemployed. Let me be clear about this: I think all three elements are not only compatible with each other but essential.

Strengthening income and health insurance and retraining programs while workers are unemployed are absolutely essential—but not sufficient when workers too often face the prospect of much lower earnings even after they secure a job following permanent displacement. Let's take trade displaced workers as an example. For those displaced workers who qualify for TAA, even after taking advantage of the extended unemployment benefits and relatively expansive training benefits that are available under TAA, earnings in their new jobs are on average 20 percent below their old jobs.

The evidence on earnings losses following permanent displacement is sufficiently compelling to warrant a serious examination of additional policy instruments to help workers once they are reemployed—not just while they are unemployed. The time has come to augment existing programs by adopting a new insurance program that insures against sharp declines in wages, not just unemployment, for permanently displaced workers.

A chief goal of wage insurance is to smooth the incomes of workers who suffer permanent displacement and declines in their earnings. Wage insurance is most likely to have overall positive economic benefits if it targets workers whose earnings would otherwise fall dramatically as forces outside their control devalue their skills.

Evidence suggests that wage insurance encourages workers to consider different types of jobs and sectors of employment and, therefore, broadens the job search. This is particularly important for displaced workers whose firm-specific skills have declined in value. And wage insurance can facilitate valuable on-the-job training; the training that a displaced worker receives on a new job provides new skills that contribute directly to his or her performance in the new job.

By replacing some of the lost earnings, wage insurance could also encourage more rapid reemployment; a Canadian pilot wage insurance program reduced unemployment durations by 4.4 percent on average.

Because the goal is to provide partial insurance against extreme income fluctuations, wage insurance should be available to all permanently displaced workers, who have at least two years of tenure at the previous job. It might also make sense to restrict the program to workers displaced from full-time jobs and reemployed full-time, so as to avoid any possible incentive to reduce hours of work. Further, the compensation period would be limited to some transition period, perhaps 2 years, long enough to help strengthen the new employment relationship.

The wage loss replacement rate, the duration of benefits, and the annual cap on compensation determine the kinds of workers who would benefit most from the program. A high replacement rate (such as 70 percent) combined with a low annual compensation cap would provide the greatest cushion to lower-income workers suffering steep losses in earnings, while a lower replacement rate (such as 30 percent) combined with a high annual cap would tilt benefits toward higher income earners.

According to our estimates, a wage insurance program that replaces 50 percent of earnings losses for long tenure full-time displaced workers up to a maximum of $10,000 per year for up to two years would cost roughly $3.5 billion per year, assuming modest offsetting savings in other programs. On a per worker basis, this cost falls midway between the current unemployment and retraining benefits available under UI and Worker Investment Act (WIA) programs and the comprehensive cost of TAA benefits.

How do we think about the price tag? The net cost of $3.5 billion per year amounts to an insurance premium of roughly $25 per worker per year.

Under such a program, an average trade—displaced worker, who earned $37,382 in 2004 and was reemployed with a 26 percent loss rate at $27,662 would instead receive $33,522 for the first two years after reemployment, thus enabling them to smooth their income while becoming more valuable in the new job.

Of course, the costs can be substantially reduced by offering more modest benefits. For a high-unemployment year such as 2003, costs could range from a low of $1.6 billion for a one-year program with a 30 percent replacement rate and a $10,000 cap to a high of $7 billion for a two-year program with a 70 percent replacement rate and a $20,000 annual cap.

Wage insurance could provide an important tool—in a broader set of policies—designed to help American middle class families insure against disruptive income fluctuations, while preserving the benefits of a dynamic economy. For the price of $25 per worker per year, wage insurance could be an important policy tool to help make work pay following displacement. Faced with a unique window of opportunity to finally make progress in updating and strengthening America's fraying safety net, it would be a shame not to move forward boldly on all fronts to provide greater economic security to American families.

Chairman MILLER. Thank you.

Dr. Alford.

STATEMENT OF TIM ALFORD, PH.D., DIRECTOR, OFFICE OF WORKFORCE DEVELOPMENT

Dr. ALFORD. Mr. Chairman and other distinguished members of the committee, it is my honor and pleasure to appear before the committee to share my views on the effectiveness of existing Federal programs in helping workers impacted by international trade.

I come here as a seeker after truth and not as one who has found it. I also do so from the vantage point of the State Director of Workforce Development who has responsibility for the leadership, oversight and coordination of all such programs. Therefore, I am a generalist and claim neither particular experience nor expertise in the minutia of regulations, eligibility criteria and other such issues related to the day-to-day administration of the TAA program.

I also come here from the convoluted vantage point of a former teacher, principal, superintendent, college administrator and instructor, economic developer, small business owner, business consultant in workforce development, and mayor. I am also a first-generation college student whose single-parent mother worked in the sweat shop shirt factories of rural south Alabama in the 1940s, 1950s and 1960s to make a subsistence living for us.

I point this out to let you know that I have real heart for those hardworking persons who are adversely impacted by international trade as well as by the escalating workplace/skill requirements in our Nation and in my State in particular. I think the Southern Regional Education Board said it best when it stated, "it is as if many of our workers dozed off by the wood stove and awakened by the microwave, unprepared or under-prepared for the skill demands of the 21st Century global innovation economy."

It is this global economy that has ushered tens of thousands of Alabama citizens out of textile, apparel and low-skilled assembly occupations. It is likewise this global economy that has bankrupted a traditional southern economic development strategy based on cheap land and cheap labor. We all know there is cheaper land and cheaper labor elsewhere in a global economy, and we have the relatively new phenomenon of having even cheaper skilled labor elsewhere around the globe.

At the same time that many Alabama citizens suffer from such job loss, globalization is bringing vast new opportunities to those in our State who are prepared for them. Although this transformation has already quietly begun, the Mercedes project brought new attention and emphasis to Alabama as a player in the global economy. Now our State is approaching almost 50,000 employees in the automotive sector alone having added more than 100,000 workers to the civilian labor force in the last 3 or 4 years. Alabama is not only creating jobs; it is creating good jobs as evidenced by our State's recent gains in relation to national per capita income. We have experienced growth not only in the automotive sector but in other advanced manufacturing sectors, such as aerospace, aviation, shipbuilding, as well as high-tech services sectors, such as health care and finance.

Practically every month brings a new record low in unemployment. Throughout my life, growing up in rural south Alabama, the question has always been, where are the jobs? Increasingly, in recent times, the question has become, where are the workers? And now the question is, where are the workers with the skills I need to do the jobs that I have? So we are engaged in a massive effort to help our people transition from that old cheap-land/cheap-labor economy to a 21st Century innovation economy of advanced manufacturing and high-tech services.

In order to compete, businesses must be more innovative and productive, which requires utilizing more technology, which requires higher worker skill levels, which requires more and better education and training on all fronts. We are attacking the education and training imperative in many ways. We are implementing what I consider to be the most comprehensive and integrative certification program in the country. We are adding State resources for Alabama Industrial Development Training, our nationally top-ranked training program for new and expanding industry. We are engaged in K-12 reforms, as everyone is, such as the Alabama Reading Initiative, STEMs initiatives. We are working with over 200 companies and incumbent worker training programs, but we definitely need the Federal Government's continued investment in our people if we are to succeed.

What would be the nature and extent of that involvement? Some general recommendations that I would make would be that all Federal workforce development programs should be developed as part of a comprehensive, integrated, holistic array of services that complement one another as opposed to isolated, stand-alone programs designed by various agencies for various populations with various purposes and various requirements.

We still have a ways to go, in my view, to achieve our Workforce Investment Act's seamless delivery system. I think we must in-

creasingly recognize and provide incentives in the development of career lattices and ladders which begin at levels commensurate with the skills that workers possess and move them up with concurrent or intermittent work and training in high-growth, high-demand, high-paying industry sectors.

Likewise, we must deliver education and training outside the normal academic calendar and delivery system. When workers at Avondale Meals lost their jobs last year, most did not have the luxury of going back to school for 2 years even if we paid for it. They had mortgages and car payments due the next week and the following week. We must compress training when possible, and we must deliver it in ways that allow people to work concurrently. These people certainly did not need a retraining schedule consisting of a 1-hour class on Tuesdays and Thursdays and a 1-hour class on Mondays and Wednesdays. That comes from a former community college administrator.

We must customize our options for individuals, and we must push decisions to the degree we can about the appropriateness of training programs and training facilities to the level closest to the customer. We must employ professionals rather than practitioners to accomplish this.

Finally, I think the public workforce system, regardless of whatever programs are being considered, must be better connected to business in meaningful ways if we are to truly meet the skill needs and the skill demands of a 21st Century economy.

I will defer my other remarks in the interest of time to the written record, and I will thank the committee for allowing me to appear before you today.

Thank you.

[The statement of Dr. Alford follows:]

Prepared Statement of Tim Alford, Ph.D.,
Director, Office of Workforce Development

Mr. Chairman, other distinguished members of the Committee: It is my honor and pleasure to appear before the Committee to share my views on the effectiveness of existing federal programs in helping workers impacted by international trade. I do so from the vantage point of a state director of workforce development who has responsibility for leadership, oversight, and coordination of all such programs. Therefore, I am a generalist and claim neither particular experience nor expertise in the minutia of regulations, eligibility criteria, or other such issues related to the day-to-day administration of such programs.

I come here from the convoluted vantage point of a former teacher, principal, superintendent, college administrator and instructor, economic developer, small business owner, business consultant, and mayor. I also come here as a first generation college student whose single-parent mother worked in the sweat-shop shirt factories of rural south Alabama in the 1940s, 50s and 60s to make a subsistence living for us. I point this out to let you know that I have a heart for those hard-working persons who are adversely impacted by international trade as well as the escalating workplace skill requirements in our nation and in my state in particular. I think the Southern Regional Education Board said it best when it stated: "It is as if many of our workers dozed off by the wood stove and awakened by the microwave * * *" unprepared or underprepared for the skill demands of a 21st century global, innovation economy.

It is this global economy that has ushered tens of thousands of Alabama citizens out of textile, apparel, and low-skill assembly occupations. It is likewise this global knowledge economy that has bankrupted a traditional southern economic development strategy based on cheap land and cheap, unskilled labor. We all know there is cheaper land and cheaper labor elsewhere in a global economy; there is even the relatively new phenomenon of cheaper skilled labor.

At the same time that many Alabama citizens suffered from such job loss, globalization was bringing vast new opportunities to those in our state who prepared for them. Although this transformation had already quietly begun, the Mercedes project brought new attention and impetus to Alabama as a player in the global economy. Now our state is approaching almost 50,000 employees in the automotive sector alone—having added more than 100,000 workers to the civilian labor force in the last 3-4 years. Alabama is not only creating jobs, it is creating good jobs as evidenced by our state's recent gains in relation to national per capita income. We have experienced growth not only in the automotive sector but in other advanced manufacturing sectors such as aerospace, aviation, and shipbuilding as well as high tech service sectors such as healthcare and finance. Practically every month brings a new record low in unemployment.

Throughout my life in south Alabama, the question has been "Where are the jobs?" In the past few years, it has increasingly become "Where are the workers?" and now it is "Where are the workers with the skills I need?"

So * * * we are engaged in a massive effort to help our people transition from that old "cheap land, cheap labor" economy to a 21st century innovation economy characterized by advanced manufacturing and high tech services. In order to compete, businesses must be more innovative and productive which requires utilizing more technology which requires higher worker skill levels which requires more and better education and training.

We are attacking the education and training imperative on many fronts. We are implementing what I consider to be the most comprehensive, integrated career readiness certification program in the country. We are adding state resources for Alabama Industrial Development Training—our nationally-number-one-ranked training arm for new and expanding industry. We are engaged in K-12 reforms such as the Alabama Reading and STEMs initiatives.

But we definitely need the federal government's continued investment in our people if we are to succeed. What should be the nature and extent of that involvement? I would make some general recommendations in response to that question and I will be more specific if you have questions. In my view:

1) All federal workforce development programs should be developed as part of a comprehensive, integrated, holistic array of services that complement one another as opposed to isolated, stand-alone programs designed by various agencies for various populations with various purposes and various requirements. We still have a ways to go to achieve your WIA vision of a seamless delivery system.

2) I think we must increasingly recognize and provide incentives in the development of career lattices and ladders which begin at levels commensurate with the skills that workers possess and move them up with concurrent or intermittent work and training.

3) Likewise, we must deliver education and training outside the normal academic calendar and delivery system. (When workers at Avondale Mills lost their jobs, most did not have the luxury of going back to school for 2 years—even if we paid for it. They have mortgages and car payments due next week.) We must compress training when possible and we must deliver it in ways that allow people to work concurrently. (These people certainly do not need a re-training schedule consisting of a one-hour class on Tuesdays and Thursdays and a one-hour class on Mondays and Wednesdays.)

4) I think we must customize options for individuals. In the old linear paradigm in which you learned, then earned, then retired, many of these programs sufficed. Now as constant and pervasive job churning escalates and skill requirements constantly increase, we must develop individual education plans that truly support lifelong learning in the midst of work.

5) To the degree possible, I recommend you push decisions about the appropriateness of training programs and training facilities to the level closest to the customer.

6) To put all this together, we must employ professionals, not practitioners. They should be trained, certified, evaluated and compensated accordingly. They must be connected to reliable and valid labor market information and they must help our citizens connect with jobs leading them to self-sufficiency. (I can show you Career Centers with the same programs and staffing patterns that achieve entirely different results principally because of one's dedicated, dynamic professionals.)

7) Finally, I think the public workforce system, regardless of whatever programs are being considered, must be better connected to businesses in real and meaningful ways if we are to meet their needs and thus help our people meet the skill demands of our 21st century economy.

Before coming to my current job, I was mayor of Enterprise, Alabama—a town of 25,000 people adjacent to the Army Aviation Center at Fort Rucker in south Alabama. (Yes, it's the same Enterprise that was ravaged by a tornado three weeks

ago, killing 9 people—8 of whom were high school students—and destroying an elementary school and the high school as well as 500 homes.) Once before in its history, the area's cotton-dependent economy was ravaged by the boll weevil, forcing the farmers to diversify their crops and leading them to peanuts which became a better cash crop. As a result, the City Council erected a monument to the boll weevil in middle of Main Street. On one level, it stands as a slight source of embarrassment. One another, it is a proud testimony to turning adversity into opportunity.

I think the boll weevil story is a perfect metaphor for our U.S. competitiveness as bound up in its workers. The economic transitions have brought great hardships and will continue to do so. But if we cushion that to the degree that we can while developing the national sense of urgency and political will to answer these challenges—it might just be a boll weevil.

If properly conceived and integrated, continuation of Trade Act Assistance can play a vital role in this regard.

Chairman MILLER. Thank you.

Ms. Lee.

STATEMENT OF THEA LEE, POLICY DIRECTOR, AFL–CIO

Ms. LEE. Thank you, Chairman Miller, members of the committee, Mr. McKeon, for the opportunity to come today to talk about this important issue on behalf of the 10 million working men and women of the AFL-CIO.

We are very pleased to have the opportunity to discuss ways to strengthen, reform and effectively fund the programs that help workers impacted by international trade that are so important to our members and to all American workers, but I wanted to start by making a broad distinction between two very different sets of policies. That is the economy-wide set of policies that we need to create and retain good jobs in the U.S. economy that are full-employment, macro-economic policies; strong labor market policies that protect worker rights on the job; fair trade policies to ensure that our workers, domestic producers and farmers have a fighting chance to compete and thrive in the global economy; and the appropriate tax currency, infrastructure, health care and education policies that create the solid foundation for national competitiveness with a high-road economic strategy. Those are the important job-creating policies that we need to put in place.

The second set of policies are those we are talking about here this afternoon, which are much more limited in scope but of great importance to workers as well, and those are those policies that provide a cushion of income support to displaced workers and help facilitate the transition to a new job, maybe even to a new occupation, and ideally, these programs would equip workers with the skills and training they need to move into good jobs.

What I wanted to make clear is that these two are not substitutes for each other. We cannot fund dislocated worker programs and think that we have put in place good trade policies. We need to do both of those things, and the first set of policies are crucial to achieving that, and there are two points that I wanted to make in general.

One is that both of these sets of policies should be part of a coherent, national, good job strategy. That should be the lens through which we look at all of these sets of policies: Are they helping us to create good jobs here at home?

The second part is that there are resource constraints as we think about the displaced worker and assistance training. We do not live in an ideal world with unlimited dollars to spend, so we have to be very careful about how we set priorities for the kinds of programs we put in place, and we have to make sure that these programs are as effective as possible. My written testimony covers three specific programs: the Trade Adjustment Assistance program, unemployment insurance and wage insurance. And I will just briefly go over the key points on each of those.

The TAA program, of course, is an important and useful, necessary program. It will always be a part of what we need in any modern economy, but that program needs to be expanded, reformed and fully funded, as several people here have mentioned today. In terms of the expansion of the eligibility criteria, as I think Bruce Herman and others have mentioned, we need to expand to make sure that all workers who lose their jobs due to trade are covered, including those who lose their jobs to a shift in production to a country not currently covered under the TAA program, countries that do not necessarily have a free trade agreement, like China, for example. And also, TAA should cover service and public sector workers who lose their jobs due to trade. And we have to ensure, of course, that the funding is sufficient to help all of the eligible workers.

Funding is a crucial point, as Bruce Herman also said, that funding needs to be made secure and adequate. Mr. Bevard said earlier in his testimony that he qualified for the TAA training, but the money ran out at the State level, and he, therefore, was not able to get the training that he was entitled to and that he deserved. And that is unconscionable. I think we really do need to make the TAA program an uncapped entitlement and make sure that the funds are there so that every worker who qualifies for training gets that training and is able to take full advantage of the programs that are put in place.

The program administration, of course, needs to be improved. There has been a lot of criticism of the Bush administration's Labor Department administration of this program by the Court of International Trade, where 90 percent of the cases that have been remanded to the Court of International Trade have been sent back to the Labor Department as erroneous denials of eligibility for workers. That there simply was not an adequate job done, not a competent job done in terms of determining eligibility for those workers, has created some unconscionable delays.

The Secondary Worker Program in principle exists, and yet very, very few workers have been able to take advantage of that because the program has not been well designed. Only 2 percent of workers covered by TAA were secondary workers in fiscal year 2003. That is the most recent year for which we have data because the Labor Department simply has not provided those.

We also need to ensure that there is a key role for the State employment security and the unemployment insurance system, that the outreach, counseling, case management, skill assessment, training referral and support services should be using State UI agency staff and that this program is administered using merit

civil service staff. That is very important and would ensure the quality.

We talked about timely and accurate reporting. We do not have the basic numbers we need on the TAA program, any piece of it, whether the health care piece, the alternative Trade Adjustment Assistance piece or even just what happens to the workers who go through this program, and that is something that should be fixed in the near future. There are good programs that should be expanded that promote partnerships between government employers and labor to support job retention and creation as well as regional economic and community development.

We share a lot of the concerns, just in closing, on the wage insurance program that have been discussed, and the concerns are in three categories: whether it is part of a good job strategy or whether the wage insurance program is really designed to encourage workers to take low-paying jobs with few benefits and few opportunities for on-the-job training as quickly as possible rather than help workers develop the skills they need and take the time they need to move into good jobs where there are strong career ladders and strong training opportunities.

The second piece is whether the funding of wage insurance will, in the end, come out of the existing unemployment insurance and Trade Adjustment Assistance programs. We know that is the intention of many people who have proposed this. Congressman Weller proposed a bill, H.R. 1513, just last week where that was precisely the proposal, which was to fund the wage insurance program out of the State UI trust fund. And we have a strong objection to taking funds out of the programs that need to be strengthened, improved and fully funded in order to put them into a program where we have serious questions about what we know about the wage insurance proposal, whether it promotes actually downward economic mobility, whether it subsidizes low-wage employers rather than high-wage employers and whether it really does provide workers with the kind of career ladder and training that they need. At the end of that 2 years, what happens to the workers who have been in the wage insurance program?

I thank you very much for the opportunity to come here today, and I look forward to your questions.

[The statement of Ms. Lee follows:]

Prepared Statement of Thea Mei Lee, Policy Director, AFL–CIO

Thank you, Chairman Miller, and members of the Committee, for this opportunity to testify today on behalf of the more than 10 million working men and women of the AFL-CIO on the effectiveness of programs to help workers impacted by international trade. We are very pleased to have the opportunity to discuss ways to strengthen, reform, and effectively fund these programs, which are so important to American workers. However, we also wish to note that these programs are not a substitute for good trade policies that create and retain good jobs in the United States.

We would like to address three specific programs in today's testimony: Trade Adjustment Assistance (including the Health Coverage Tax Credit), Unemployment Insurance, and Wage Insurance.

TRADE ADJUSTMENT ASSISTANCE

The TAA program should honor the promise made to workers since 1962: that the federal government will provide retraining, reemployment assistance, and income support to workers who have lost their jobs due to federal trade policies.

The Trade Act of 2002 made significant changes to the Trade Adjustment Assistance (TAA) program. TAA provides income protection, a limited health care benefit, and job training for qualified workers who lose their jobs as a result of import competition or certain shifts of production overseas.

Unfortunately, many laid-off workers are still not eligible for benefits, and others do not receive the benefits to which they are entitled. The program must be expanded and improved to ensure that trade-affected workers receive appropriate income support and training to smooth their transitions to new jobs.

TAA should be expanded to cover all workers who lose their jobs due to a shift in production, regardless of where production was shifted. The current convoluted eligibility criteria exclude many workers whose jobs have shifted to countries like China, with which we do not currently have a free trade agreement or other preference program.

TAA should also cover service and public sector workers who lose their jobs due to trade, and we must ensure that funding is sufficient to help all eligible workers.

Funding Must Be Increased

1. The lack of a dedicated source of funds has caused many problems, including long waiting lists and denial of training to displaced workers.

Workers injured by trade must not be denied benefits because of inadequate funding.

Studies have shown that many states exhaust their TAA training funds before the end of each fiscal year, preventing numerous workers from being able to take advantage of training programs to which they are entitled. According to the Government Accountability Office (GAO), 35 states expected that available TAA training funds for FY 2004 would not cover the amount they would obligate and spend for TAA-eligible workers—18 states estimated the gap at over $1 million.[1]

2. We must provide full funding for the TAA program—TAA should be an uncapped entitlement.

TAA training funds are capped at $220 million per year, while Trade Readjustment Allowances (income support) is an entitlement. Since 2004, TAA training has lost $32 million in inflation-adjusted funding (a loss of 16%).

3. The Bush Administration's proposed cuts to TAA benefits will impair opportunities for long-term training.

The FY 2008 budget proposes to decrease funding for income support benefits under TAA, assuming that fewer workers will take advantage the program next year. The 2008 budget proposes inflation-adjusted cuts of $124.7 million in TAA benefits funding compared to 2006.

There appears to be little basis for the Bush Administration's assumption that there will be a reduction in TAA participants of almost 6,000 workers in FY 2008 compared to FY 2006. The number of workers covered by TAA certifications has increased over the past two years. In 2005, 117,904 workers were certified for TAA—in 2006, there were 120,199 workers certified.[2] Certainly, the trade deficit, especially in manufactured goods, is trending up for the foreseeable future, given the enormous imbalance between current imports and exports.

4. Income support should not be reduced, but improved.

Currently, eligible trade-injured workers do not begin to receive trade readjustment allowances until their unemployment insurance entitlements have been exhausted. The amount of their cash benefit is the same as the most recently weekly UI benefit (average $260/week).

Prior to 1981, workers received weekly cash benefits in the form of trade readjustment allowances and UI combined that were equivalent to 70% of their prior pay, up to a maximum of the average manufacturing wage. Pending improvements in UI for all unemployed workers, restoring the 70% wage replacement benefit as a minimum benefit would significantly remedy this shortcoming. The average weekly earnings of production workers in manufacturing for 2006 were $690.83. Seventy percent of that is $483.58.

Program Administration Must be Improved

1. Inadequate administration of TAA denies benefits to eligible workers and causes unnecessary and unwarranted delays in delivery of benefits.

In the past five years, courts have entered numerous orders directing the Department of Labor to reconsider erroneous denials of TAA income and training assistance to hundreds of trade-affected workers. Workers have suffered protracted delays in getting assistance as a result of these errors. Many more become discouraged or lack the resources to pursue appeals.

The Court of International Trade has criticized the Labor Department for relying so heavily on employers, virtually to the exclusion of petitioning workers, for infor-

mation on TAA petitions. DOL investigators rarely contact petitioning workers to seek additional information, documentation, or clarification.

Judge Delissa Ridgway in an August 2006 opinion states that "investigators seem almost gullible in their willingness to accept at face value virtually anything an employer says—typically without even confronting the employer with other, conflicting information provided by petitioning workers (or sometimes the employer itself)."

She goes on to say that "DOL's persistent failure to verify the accuracy of the information on which it relies—as well as its pattern of turning a blind eye to obvious inconsistencies and discrepancies in the record before it—is beginning to verge on contempt for administrative and judicial process, and does a grave disservice to the hardworking men and women of this country."

"Extrapolating workers' roughly 90% 'rate of success' before the court to the hundreds of TAA petitions that are denied but not appealed every year suggests that the Labor Department's failure to properly investigate petitions is routinely depriving thousands of U.S. workers of the TAA benefits to which they are legally entitled. The Labor Department should be haunted by that fact. * * * Those statistics are a scathing indictment of the Labor Department's administration of the TAA program."[3]

2. Help for secondary workers is minimal and must be improved

In 2002, the TAA program was expanded to cover secondary workers, such as parts manufacturing workers who lose their jobs when a client-manufacturing firm moves its operations to another country. Poor program design and inadequate guidance to identify affected workers, however, have meant that few secondary workers are receiving benefits.

- Just over 2 percent of workers covered by TAA were secondary workers in FY 2003.
- No state has developed procedures to identify workers who are secondarily affected by a trade-related layoff in another state.[4]

We must enact provisions that ensure full consultation with workers and their unions in the petition process. We must also develop industry-wide certification to streamline the petition process and to ensure that all workers in an affected industry are served.

There Must Be A Key Role for the State Employment Security/ Unemployment Insurance System

1. We must ensure and fund critical outreach, counseling, case management, skill assessment, training referral and support services using state UI agency staff.

In its early evaluation of TAA implementation, Social Policy Research Associates noted that assessment is "usually limited" and "wrap around services are much less common in TAA."[5] There are no funds in current TAA to pay for counseling, testing, assessment, and support services that provide workers with the help they need to make informed decisions regarding training. In the past, when Employment Service resources were more substantial, states were expected to use these resources to pay for such services.

2. We should also ensure that the state Unemployment Insurance agency administers the TAA and TRA program using merit (civil service) staff.

This will assure greater access to services for workers, greater accountability to the public and TAA participants, and improve tracking, record keeping and program reporting.

The state Unemployment Insurance agency can identify workers whose jobs are affected by trade and offshoring; ensure that workers receive assistance in filing for the Health Coverage Tax Credit; counsel and refer workers to appropriate training; receive advance notice of a closing or layoff; and help to identify any training shortfalls.

3. We must implement timely and accurate reporting.

The Labor Department needs to provide timely, accurate and substantive data on specific TAA programs and services. We must establish a statutory requirement for monthly reporting of:

- Specific geographic locations which are the sources of imports;
- The new locations of companies who have shut down and left the United States;
- Information on the affected company, the location, the number of affected workers as well as union representation;
- State Rapid Response contacts to affected companies, workers and unions;
- Outreach, enrollment, service delivery and outcome information for workers who are eligible for adjustment services;

• Performance measures for adjustment programs that include impacts on pre- and post- program wages, earnings and benefits.

Do Not Expand the Alternative Trade Adjustment Assistance Program

1. Wage insurance is not the best way to help dislocated workers or bolster a national "good jobs" strategy.

• Wage insurance promotes "rapid reemployment" by inducing displaced workers to accept lower-paying jobs with few benefits, thereby promoting downward economic mobility.

• Wage insurance may serve to subsidize low-wage employers and is unlikely to lead to skill development or strong career ladders.

Link Training to the Creation and Retention of Good Jobs

1. We must support economy-wide strategies that focus on creating and maintaining good jobs.

Our goal should be to create jobs with good wages and benefits; match qualified workers with those jobs; and support the efforts of workers to qualify for those jobs. We must create early intervention and community adjustment programs that involve all stakeholders, including organized labor, in addressing the effects of dislocation.

2. We need to expand programs that promote partnerships between government, employers and labor to support job retention and creation, as well as regional economic and community development.

We must support training that leads to good jobs, including on-the-job training, as well as model labor-management industry/sector initiatives that have proven successful in saving jobs, improving employment outcomes and making industries more competitive.

TAA programs must be closely linked with community economic revitalization and adjustment programs, as well as early intervention efforts, including community economic planning, finance programs, technology development and deployment programs

There are many positive examples of high road labor-management sector partnerships in manufacturing (e.g. the Wisconsin Regional Training Partnership), health care (e.g. AFSCME District Council 1199 upgrade training program in Philadelphia), telecommunications (e.g. "The Alliance" administered jointly by CWA and AT&T) and aerospace (e.g. The Boeing and Machinists Union "Quality Through Training Program").

Through the collective bargaining process, these partnerships develop plans to assess employer skill needs, analyze the skills gap, and implement programs that create career ladders and train workers in high-growth, high-wage occupations.

We are particularly optimistic about the Apollo Alliance—a coalition of labor, business and environmental groups whose focus is on the development of "green collar" jobs that foster sustainable economies, energy independence, and healthier communities. The Alliance is working to create jobs in manufacturing, construction and transportation.

These "green collar jobs" produce environmentally friendly products or services, like construction of green schools, solar panel manufacturing, energy efficiency retrofits of homes, or environmental clean up and restoration. These jobs provide family-supporting wages, skill development, and career ladders.

Fro example, in Pennsylvania, Governor Rendell is promoting and developing renewable energy to attract wind, solar and battery manufacturing to the state. He has attracted companies that have taken closed steel mills and created good jobs building wind turbines.

Improve the Health Coverage Tax Credit under the TAA Program

The TAA Reform Act of 2002 created the Health Care Tax Credit (HCTC) to assist certain recipients of TAA and Pension Benefit Guaranty Corporation (PBGC) beneficiaries to receive affordable health care. The program provides an advance, refundable tax credit for 65 percent of the cost of qualified insurance. The credit can also be provided when the individual's tax return is filed. The IRS administers specific components of this credit: enrollment, payment and compliance. DOL, through ETA and state workforce agencies, and the PBGC have responsibility for determining eligibility for HCTC.

1. Problems with administration of the HCTC:

• A 2004 report by GAO[6] found that only a small portion of the workers and retirees identified as potentially eligible receive the HCTC. GAO also addressed the issue of the lag time in coverage as it impacts participation: "health coverage may not be affordable both in terms of an individual's ability to pay the entire premium

amount while waiting to receive the advance HCTC and the ability to pay the 35 percent share once payment starts."

• A 2006 GAO[7] report on five trade-related plant closures stated that no more than 12% of the workers at each site received the credit and that at 4 of the 5 sites fewer than half the workers who visited a one-stop center were even aware of the existence of the health care credit.

• An OMB Program Assessment Rating Tool (PART) assessment of the IRS's administration of the credit gave the program a "NOT PERFORMING: Results Not Demonstrated" rating. The PART cited low participation in the program and the "lack of shared or coordinated performance goals with its main partners, DOL and PBGC." The 2006 program improvement plan recommends that the participating federal agencies work together to develop goals and improve access to the tax credit for eligible workers.

• A December 2006 Urban Institute report[8] found that only 12 states as of October 2005 had "gap filler" NEG grants (a DOL/ETA program) to help workers pay for COBRA while they waited for their HCTC premiums to be subsidized.

2. Address Gaps in Coverage

Delays in TAA processing and in PBGC pension takeovers can mean laid-off workers and retirees have lapses in coverage that disqualify them from receiving consumer protections necessary to get coverage. The program should address both the requirement that workers and retirees have 3 months of coverage in the months preceding when they seek to enroll in coverage [unclear: with the credit and the HIPAA requirement that individuals have no more than a 63-day lapse in coverage]. To fix this,

• Clarify that an individual must have had 3 months coverage immediately prior to the event that gave rise to HCTC eligibility (layoff for TAA, retirement for PBGC);

• Start the 63-day clock upon receipt of HCTC eligibility notice measured five days after the notice is mailed

3. Increase Affordability

Studies have found that even with a 65% subsidy, many eligible individuals could not find affordable coverage. The subsidy must be increased and coverage must be available that is affordable both in terms of premiums and out-of-pocket costs.

To do this:

• Increase the subsidy to 90%, or less if coverage option is available that is comprehensive and affordable (e.g., FEHBP-like coverage with rating restrictions; see below);

• Clarify that individual market coverage is allowed only where enrolled in that coverage 30 days prior to layoff. "Arrangement with an insurer" was not intended to open up the individual market, as Administration has interpreted it;

• Provide fallback plan through FEHBP plans (separate pool from federal employees);

• Require community rating of state-based options.

4. Other needed improvements

• Spouse coverage—allow spouse to remain eligible when HCTC recipient qualifies for Medicare;

• Align COBRA with TAA—extend COBRA coverage to length of HCTC eligibility so that individuals don't have to change coverage in those states where HCTC eligibility exceeds COBRA's 19 months;

• Provide WIA National Emergency Grant funding—to ensure interim coverage,

• Workers who lose their jobs often lose health care. As a result, it is important to link eligibility for HCTC directly to eligibility for TAA services and benefits. A TAA eligible worker should be eligible for the HCTC program for the period that they remain eligible for any part of the TAA program, including training, TRA, job search, job relocation or ATAA.

UI MODERNIZATION

As you know, we are strongly supporting Representative McDermott's UI legislation, which would distribute as much as $7 billion from the federal UI trust funds over five years to encourage states to modernize their UI programs. For many years, the AFL-CIO has advocated for several of the specific items in this legislation, which we believe would make significant progress towards strengthening the UI system.

Under Representative McDermott's proposal, one-third of the maximum grant amount available to each state would be distributed if the state counts workers'

most recent wages for purposes of determining UI eligibility. Using such an "alternative base period" would address one of the most significant gaps in UI coverage by expanding eligibility for predominantly low-income workers who have paid into the UI system and earned qualifying wages. The AFL-CIO participated in the Advisory Council on Unemployment Compensation (ACUC), which recommended this particular reform in 1996, and since then we have consistently supported legislation to establish incentives for states to use an alternative base period.

The remainder of the maximum grant amount available to each state would be distributed if a state meets two of three additional conditions: (1) it provides extended unemployment benefits for workers enrolled in state-approved job training; (2) it provides for the UI eligibility of workers seeking part-time work; or (3) it provides for the UI eligibility of workers who quit their jobs due to compelling personal circumstances (domestic violence, caring for a disabled family member, or following a spouse who has been relocated).

First, we believe that providing incentives for states to support workers enrolled in training programs for high-demand occupations is an especially good idea that fits within a broader strategy of helping workers get good jobs. Similar programs in seven states have produced impressive outcomes with regard to employment and wage replacement.

Second, the ACUC also recommended promoting UI eligibility for workers seeking part-time work, and since 1996 the AFL-CIO has consistently supported legislation to establish financial rewards for states that adopt this reform.

Third, providing incentives for states to accommodate workers' compelling personal circumstances recognizes and rewards groundbreaking reforms that are especially important to women with families.

Finally, Representative McDermott's bill would distribute to the states a total of $100 million per year over five years for the purpose of administering these reforms and making other improvements in the administration of the UI and Employment Service (ES) system. Since 2001, federal funding for administration of the UI system has been cut by $305 million in real terms despite increasing demands on the system.

Representative McDermott's proposal correctly rewards states that have been leaders in building a stronger UI system, and incorporates some of the best UI reforms that have been pioneered in the states. We applaud the Representative McDermott for taking this initiative and we look forward to working with him to enact this bill.

While Representative McDermott's proposal is an important step forward, we realize that it does not address all the shortcomings of the UI program. For example, much more needs to be done to restore UI eligibility to a higher percentage of the workforce, to restore higher benefit levels, to repair the dysfunctional extended benefits (EB) program, and to address the severe under-funding of UI and ES administration. The National Association of State Workforce Agencies (NASWA) has recommended a special distribution of $2.4 billion over three years for administration of the ES/UI system, and this figure does not take into account the additional administrative needs arising from this legislation.

WAGE INSURANCE

Representative McDermott has also asked us to comment on proposed legislation costing approximately $3.5 billion per year that would create a universal wage insurance program for displaced workers—far larger than the small pilot program within the Trade Adjustment Assistance (TAA) program that is available only to certain workers over 50 years of age who lose their jobs because of trade. There are three main points I would like to make about this proposal.

1. Wage insurance does not fit within a "good jobs" strategy.

America is hemorrhaging good jobs, wages are stagnating, and the system of employer-provided health and pension benefits is being eroded. America is in dire need of a good jobs strategy. Such a strategy should strive to create good new jobs; to transform bad jobs into good jobs; to improve the effectiveness of programs that connect workers with the good jobs that are available; and to improve the effectiveness of job training and education programs that help workers qualify for those good jobs.

A strategy to ensure that good jobs are available in the first place must include (1) balanced monetary and fiscal policies to promote full employment; (2) robust investments in communications and transportation infrastructure; (3) a national strategy to revive the manufacturing sector, including investments in technology development and dissemination, currency policy reform, and repeal of tax subsidies that encourage off-shoring of manufacturing jobs; (4) trade policies that discourage downward competition in wages and benefits and the off-shoring of good jobs; (5) sectoral

strategies in emerging sectors of the economy, such as renewable energy technologies, building on successful labor-management models in manufacturing, hospitality, telecommunications, and health care; (6) economic development initiatives; and (7) policies that promote worker rights and collective bargaining, higher wages, and improved health care and retirement security.

Wage insurance does not help workers get good jobs. On the contrary, the most frequently invoked rationale for wage insurance is that it promotes "rapid reemployment" by encouraging workers to look for, consider, and accept lower-paying jobs they would not otherwise take.[9] Getting workers to take bad jobs does not fit within any good jobs strategy we would propose.

In fact, getting workers to take bad jobs is not a worthy objective at all. Our national focus cannot be rapid reemployment to the exclusion of job quality, because this would argue for the elimination of all assistance for displaced workers. It is undoubtedly true that eliminating all assistance for displaced workers would result in more higher-skilled workers finding reemployment more quickly at Wal-Mart and McDonald's, but this would hardly be a desirable outcome for higher-skilled workers, for the lower-skilled workers they displace, or for the economy as a whole.

Helping workers find rapid reemployment in good jobs is a worthy objective, but our priority should be job quality. It is possible to reconcile job quality with rapid reemployment: for example, the Clinton administration created a grant program to provide reemployment services for UI claimants, but the Bush administration defunded the program in its FY 2006 budget. In addition, the Employment Service (ES) provides workers with information they need to find good jobs that match their skills, and in 2000 the Labor Department noted that every $1 spent on reemployment services produces $2.15 in savings to the UI trust funds.[10] But the Bush administration cut ES funding by $256 million in real terms between 2001 and 2007.

To the extent that a wage insurance program diverts resources away from ongoing efforts to help workers get good jobs, or to improve that assistance, it amounts to giving up on workers. Even if wage insurance is funded with new revenues, this is money that could be used to create good jobs and help displaced workers get those jobs.

Proponents of wage insurance sometimes argue that the existing job training programs do not work. It is true that some job training programs—particularly the less costly shorter-term training promoted under the Workforce Investment Act (WIA)—are less effective than others, but there are also many examples of effective training programs. The answer is to improve the effectiveness of job training programs, not to encourage workers to forego job training.

Proponents of wage insurance routinely argue that wage-subsidized workers would receive on-the-job training of a higher quality than that provided by training programs.[11] We know of no basis for this argument. In fact, lower-wage employers are the least likely to offer on-the-job training that provides transferable skills.

Research has established that the probability of workers receiving workplace education is directly proportional to their wage and education levels. Workers with the highest wages and the most formal education receive the most extensive workplace education, while workers with the lowest wages and least education receive the least extensive workplace education.[12]

Workers who accept lower-wage employment because of wage insurance are likely to be no better off at the end of their eligibility period. They will have foregone any opportunities to engage in a more fruitful search for a good job or to improve their skills or education level to qualify for a good job. As a result, we are concerned that the earnings potential of many participants could be negatively affected. Oddly enough, it is often the proponents of wage insurance who emphasize that education and training are the key to ensuring that the gains from economic growth are shared more broadly.[13]

2. Advocates of wage insurance have proposed diverting resources from already under-funded programs serving displaced workers.

We understand that Representative McDermott has no intention of substituting wage insurance for existing programs that assist displaced workers. However, this is precisely what other advocates of wage insurance have proposed.

Wage insurance has repeatedly been proposed as a substitute for the UI program.[14] At a May 4, 2006 hearing of this subcommittee, the Bush administration proposed legislation that would permit the diversion, without limitation, of state UI trust funds to pay for wage insurance.[15] In fact Representative Weller has introduced legislation, H.R. 1513, that would do just that.

Then last September a paper commissioned by the Hamilton Project proposed diverting two-thirds of aggregate UI funding to pay for wage insurance.[16] And just last month the Bush administration again included the same legislative proposal in its FY 2008 budget.[17]

Wage insurance has also been proposed as a substitute for the TAA program. The conservative Heritage Foundation has proposed replacing the TAA program in its entirety with wage insurance.[18] Sen. Baucus (D-MT) alluded to such proposals in May 2002: "There are those who would like to abandon traditional TAA entirely in favor of wage insurance. If this experiment [the TAA pilot program] succeeds, that may be just the course we decide to take in a few years."[19]

We are concerned that resources may be diverted away from TAA and the UI-WIA system if workers' choices are structured so that they "choose" wage insurance over alternative forms of assistance. This choice will not be a meaningful reflection of worker preferences, however, if the alternatives to wage insurance are rendered unattractive or inaccessible. Already, workers who want to enroll in TAA job training are being denied access due to funding shortfalls, and the Bush administration's proposed TAA regulations would restrict access even further. Funding shortfalls and the Bush administration's emphasis on rapid reemployment are already limiting access for non-trade-affected workers who want to enroll in quality WIA job training, and the administration's proposed WIA regulations would restrict access even further.

The supposed cost advantages of wage insurance would create an incentive to structure workers' choices in this way. Some advocates of wage insurance argue that it would be less costly per worker than TAA.[20] Others conclude that wage insurance would be less costly per worker than UI.[21]

We are especially concerned that workers' choices would be structured in this way because of the known philosophical preference, on the part of some, for promoting rapid reemployment without any consideration of job quality. Critics of the UI-WIA system and TAA have traditionally argued that the availability of income support and job training creates a "moral hazard" that encourages workers to stay unemployed longer. By contrast, the leading argument for wage insurance is that it would counter this "moral hazard" by encouraging workers to take lower-paying jobs that they would not otherwise search for, consider, or accept, and thereby reduce the duration of their unemployment spell.[22]

The issue of rapid reemployment is certain to arise when Congress next considers extending federal unemployment benefits during a recession. We know exactly what these debates look like. In 2001, 2002, and 2003, opponents of an extension argued that unemployment benefits prolong unemployment, and used inflated numbers to claim that laid-off workers already receive generous amounts of assistance. If this pattern repeats itself, the existence of a wage insurance program designed to promote rapid reemployment will be used as an argument against extending jobless benefits. And if this argument is successful, wage insurance will substitute for, rather than complement, unemployment benefits.

We fully appreciate that Representative McDermott has no intention of financing his wage insurance proposal through the unemployment payroll (FUTA) tax system. Instead, his proposal would be financed through a new dedicated payroll tax of 0.1 percent of wages up to the taxable wage base of the Social Security program, which is currently $94,000 per year. But if there is bipartisan agreement on the design of a wage insurance program, we question whether it is realistic to expect defenders of the UI system to prevent the diversion of UI resources by insisting on an increase in payroll taxes.

It would be especially unfortunate if wage insurance were financed by revenues from extension of the 0.2 percent FUTA surtax. The FUTA surtax is scheduled to expire in December 2007, but for the last two years the Bush administration has proposed a five-year extension. The surtax generates $7.4 billion over five years. We believe that any additional revenues from unemployment payroll taxes should be used solely to fund modernization of the UI system, and not for wage insurance.

3. Further study would be necessary to resolve the many unanswered questions about a universal wage insurance program—including potential harm to workers.

There has been remarkably little research into the possible consequences of a universal wage insurance program, and the empirical data on wage insurance is scarce. Our only real experience with wage insurance is with two pilot programs—one a short-lived pilot in Canada and the other an ongoing pilot with the TAA program. Further study would be necessary to resolve the following issues:

To what extent would a universal wage insurance program shorten unemployment spells? Although rapid reemployment is the leading rationale for wage insurance, there has been relatively little study of this question. The Canadian pilot program showed only a small impact on unemployment spells.[23]

To what extent would a universal wage insurance program induce workers to accept lower-wage employment they might otherwise refuse? In 1995 the Upjohn Institute performed the only economic modeling to date on wage insurance and con-

cluded that it "would induce dislocated workers to search harder for jobs and accept employment that they might otherwise refuse."[24]

Would these lower-paying jobs lack benefits such as health insurance? We know that workers who collect unemployment benefits, by contrast, are more likely to find a new job with employer-provided health insurance.[25]

What portion of wage subsidy recipients would have taken lower-paying jobs even without the subsidy? Some proponents of wage insurance argue that its purpose is to provide income support for workers who would take lower-wage jobs even without the subsidy, while acknowledging that it will induce some workers to take lower-paying jobs.[26] However, it is unknown what portion of subsidy recipients would take lower-paying jobs even without the subsidy. The smaller the portion of recipients induced to take bad jobs, the less the potential harm to workers.

To what extent would the employment of wage-subsidized workers displace other workers? The Upjohn Institute's economic modeling found that the employment gains from wage insurance came almost completely at the expense of employment for other workers.[27] If wage insurance turns out to be simply a game of musical chairs, encouraging workers laid off from highly-paid jobs to take lower-paying jobs that would otherwise go to workers with less skill and experience, then it raises serious equity concerns.

To what extent would employers provide subsidized workers with on-the-job training? Proponents of wage insurance regularly argue that wage insurance acts as a subsidy for employers to provide on-the-job training.[28] But Representative McDermott's proposal contains no requirement that employers provide any on-the-job training at all. Wage insurance is a particularly poor policy choice for subsidizing on-the-job training. The Job Training Partnership Act (JTPA) required that on-the-job training lead to a progression of job skills and higher wages, with protection against displacement of other workers, and that labor organizations be consulted so that subsidized training met quality standards and linked workers to good jobs.

To what extent would any on-the-job training given by employers provide transferable skills? Again, we know of no basis for the claim that employers of wage-subsidized workers would provide better on-the-job training with transferable skills. Representative McDermott's proposal contains no requirement that on-the-job training lead to a progression of skills or higher wages.

To what extent would a large-scale universal wage insurance program subsidize low-wage employers such as Wal-Mart? If wage insurance advocates are correct that wage insurance acts as a subsidy to employers, recipients of the subsidy would be, by definition, lower-wage employers. And the amount of the subsidy would be greater for employers such as Wal-Mart that pay lower wages than their competitors, such as Costco.

To what extent would employers be able to capture the subsidy by paying subsidized workers less than they would otherwise? Wage insurance can act as a subsidy for employers only if employers are able to pay program participants, or other employees, less than they would otherwise pay. It is sometimes assumed that employers will not know the identity of workers who are eligible for wage insurance, but this assumption is questionable. Any employer would be able to identify former Boeing workers after a Boeing layoff in Seattle, or former Delphi workers in Flint, Michigan, or former employees of any large employer whose layoffs are publicized.

To what extent would wage subsidies lower wages for non-recipients? Subsidized employers might further benefit from a reduction of wages resulting from an increase in the total labor supply[29] or from an increase in the number of workers willing to work for lower wages.

To what extent would the availability of a program designed to promote "rapid reemployment"—such as wage insurance—be used as an argument against strengthening programs serving displaced workers that have historically been attacked for prolonging unemployment? To what extent would it enable critics of programs serving displaced workers to make them less accessible or less attactive?

CONCLUSION

We strongly support Representative McDermott's proposal to strengthen and modernize the UI system, and we look forward to working with him to enact this legislation. We believe available budgetary resources should be dedicated on a priority basis to a good jobs strategy, which includes strengthening the UI program and other severely under-funded programs that provide assistance for displaced workers. But we believe it makes little sense to divert scarce budgetary resources away from a good jobs strategy towards proposals that are specifically designed to induce workers to take lower-paying jobs. And further study would be necessary to determine

whether a universal wage insurance program adversely affects workers by promoting downward economic mobility, diverting resources away from severely underfunded programs that serve displaced workers, subsidizing lower-wage employers such as Wal-Mart, and causing job loss for lower-skilled workers.

ENDNOTES

[1] GAO, Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain, GAO-04-1012, 9/22/04.

[2] Congressional Budget Justification Fiscal Year 2008

[3] Judge Delissa A. Ridgway Slip Op. 06-132 UNITED STATES COURT OF INTERNATIONAL TRADE

[4] GAO, Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain. GAO 04-1012. 9.22.04.

[5] Social Policy Research Associates. What's Up with the National Evaluation of the Trade Adjustment Assistance Program, *www.spra.com*

[6] GAO-04-1012. September 2004

[7] GAO-06-43. January 2006

[8] Stan Dorn, J.D. Take-Up of Health Coverage Tax Credits: Examples of Success in a Program with Low Enrollment. Urban Institute, December 2006

[9] See, e.g., Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) ("Wage insurance is specifically designed to encourage people to return to work sooner than they might have otherwise"); Robert Litan, Lael Brainard, and Nicholas Warren, "A Fairer Deal for America's Workers in a New Era of Offshoring," Brookings Institution (May 2005) ("A main purpose of wage insurance is to accelerate the pace at which permanently displaced workers are reemployed").

[10] Stephen Wander and Jon Messenger, Worker Profiling and Reemployment Services Policy Workgroup: Final Report and Recommendations, U.S. Department of Labor (2000).

[11] See, e.g., Lael Brainerd, Testimony Before the Joint Economic Committee (February 28, 2007) ("The retraining that a displaced worker receives on a new job provides new skills that contribute directly to his or her performance in the new job and is thus directly useful not only to the worker but also to the new employer"); Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) ("In addition, it is hoped that the new employer will provide on-the-job training, which has proven to be the most effective form of training"); Robert Litan, Lael Brainard, and Nicholas Warren, "A Fairer Deal for America's Workers in a New Era of Offshoring," Brookings Institution (May 2005) ("The retraining that displaced workers receive on a new job is the best kind * * * in sharp contrast to generalized training programs such as those available under TAA").

[12] See Ahlstrand, Bassi, and McMurrer, Workplace Education for Low-Wage Workers, W.E. Upjohn Institute for Employment Research (2003).

[13] See, e.g., Prof. Lawrence Summers, Testimony Before the Senate Finance Committee (March 8, 2007) ("It is particularly important that investments [in education] be made to ensure all of our citizens have a chance to fully participate and share in our prosperity * * * I believe it is also appropriate that consideration be given to thinking about methods of wage insurance"); Deputy Assistant Secretary of Labor Mason Bishop, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) ("the data * * * shows the gap that is emerging in our country between those that have post secondary educational attainment. That is not just 4-year degrees. It may be 2-year degrees, industry-recognized certifications, licenses, et cetera, apprenticeship programs * * * That is how people's wages are going to rise * * * We have many, many individuals who, with better access to post secondary education and training, could get higher wages").

[14] See, e.g., Robert Reich, "Despite the U.S. Boom, Free Trade Is Off Track," Los Angeles Times (online) (June 18, 1999) ("Turn unemployment insurance into wage insurance. Unemployment insurance was originally intended as temporary income support during economic downturns, until the old jobs returned. But it is less relevant today, when most workers who lose their jobs never get them back. Their major worry is that the new job will pay less"); Timothy Kane, Heritage Foundation, Transcript of Hearing of the Ways and Means Subcommittee on Human Resources (May 4, 2006) ("I would want to encourage the states to experiment with radical freedom on how they do UI and wage insurance").

[15] Unemployment Compensation Program Integrity Act of 2006 (May 3, 2006) ("The Secretary of Labor may waive the requirements of * * * the Social Security Act to permit an exception to the requirement that money withdrawn from the unemployment fund of the state be used solely for the payment of unemployment compensation" if the waiver will assist in "accelerating the reemployment of individuals who establish initial eligibility for unemployment compensation"); "Administration Wants UI Income Maintenance Strategy Waivers," Employment and Training Reporter (May 15, 2006) ("The Bush administration is asking Congress for authority to grant waivers of federal unemployment insurance policies that would allow states to implement novel strategies aimed at accelerating claimant reemployment * * * Deputy Assistant Secretary for Employment and Training Mason Bishop told the subcommittee * * * 'Perhaps states would subsidize new-hire wages through wage insurance,' he said")

[16] Jeffrey Kling, "Fundamental Restructuring of Unemployment Insurance," The Hamilton Project (September 2006).

[17] U.S. Department of Labor, "FY 2008 Budget Justification of Appropriation Estimates for Committee on Appropriations," (February 2007), at SUIESO 25-26.

[18] Denise Froning, "Trade Adjustment Assistance: A Flawed Program," The Heritage Foundation (July 31, 2001) ("The current TAA program has failed to provide effective assistance, one of the crucial factors for a successful adjustment program. If the aim of such programs is to

help workers find new jobs, then the TAA should be eliminated over time and replaced by a program that provides incentives, not disincentives, for workers to do just that. Wage insurance is one such proposal that has won widespread support").

[19] Sen. Baucus, Congressional Record (May 2, 2002), at S3795.

[20] Lael Brainerd, Testimony Before the Joint Economic Committee (February 28, 2007) ("On a per worker basis, this cost falls midway between the current unemployment and retraining benefits available under UI and Worker Investment Act (WIA) programs and the comprehensive costs of TAA benefits"); see also Sen. Baucus, Congressional Record (January 4, 2007) ("Wage insurance * * * can even save money over traditional Trade Adjustment Assistance.")

[21] Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) ("Wage insurance is also a less expensive form of assistance than unemployment insurance").

[22] See, e.g., Lori Kletzer, "Hamilton Project Media Call on Income Stability Among American Families" (September 12, 2006) ("Part of its genesis came around in thinking about unemployment insurance itself. That is, unemployment insurance has a recognized distortion in the sense that you only collect UI if you remain unemployed. So there's a whole labor supply disincentive. Well, if one becomes eligible for wage loss insurance, only when you become reemployed, then there's a counter to that distraction * * * So it can counter the disincentive * * * More jobs look interesting or possible in the presence of wage insurance because if somebody who is making under $50,000 a year has to think about going from a job with tenure to a reentry job, with wage insurance, those jobs start to look a little more attractive. Jobs that were spurned won't be so spurned * * * it's a program that actually addresses in very important ways some issues that are out there regarding unemployment durations and job search"); Howard Rosen and Lori Kletzer, "Reforming Unemployment Insurance for the 21st Century Workforce," The Hamilton Project (September 2006) ("Wage-loss insurance has some clear roots in the literature of optimal UI policy design, most clearly as a response to moral hazard concerns arising from a UI-recipient worker's reduced incentive to leave unemployment due to a reduction in the net return to securing a job"); Jeffrey Kling, "Meeting the Challenges of the Global Economy," Brookings Institution Transcript (July 25, 2006) ("Receipt of UI benefits encourages longer unemployment spells * * * The new system [of wage insurance] would also introduce incentives to reduce unemployment * * * by creating stronger rewards for finding another job quickly").

[23] Bloom, et al. "Testing a Reemployment Incentive for Displaced Workers: the Earnings Supplement Project," Social Research and Demonstration Corporation (May 1999), at 39.

[24] Carl Davidson and Stephen Woodbury, "Wage-Rate Subsidies for Dislocated Workers," Upjohn Institute (January 1995).

[25] Heather Boushey and Jeffrey Wenger, "Finding the Better Fit," Economic Policy Institute (April 2005).

[26] Jeffrey Kling, "Meeting the Challenges of the Global Economy," Brookings Institution Transcript (July 25, 2006) ("The new system [of wage insurance] would also introduce incentives to reduce unemployment * * * by creating stronger rewards for finding another job quickly").

[27] Carl Davidson and Stephen Woodbury, "Wage-Rate Subsidies for Dislocated Workers," Upjohn Institute (January 1995) ("But the simulations also raise the possibility that the gains for dislocated workers could come at the expense of other groups of workers; that is, other groups of workers could experience small increases in employment duration, and decreases in employment levels, that almost fully offset the gains for dislocated workers").

[28] Joint Economic Committee, "Meeting the Challenge of Household Earnings Instability" (March 2007) ("Perhaps most importantly, wage insurance would subsidize the hiring and training of workers who transition into new jobs or sectors"); Lael Brainerd, Testimony Before the Joint Economic Committee (February 28, 2007) ("Wage insurance can act as a subsidy of on-the-job training for the worker's new employer"); Robert Litan, Lael Brainard, and Nicholas Warren, "A Fairer Deal for America's Workers in a New Era of Offshoring," Brookings Institution (May 2005) ("The second critical value of wage insurance is that it acts like a training subsidy for the new employer"); Sen. Baucus, Congressional Record (January 4, 2007) ("Wage insurance provides an incentive for employers to hire lower-skilled and older workers and train them on the job").

[29] Jeffrey Kling, "Responses to Questions About 'Fundamental Restructuring of Unemployment Insurance'" (September 2006) ("increases in total labor supply from wage-loss insurance may reduce wage levels, in the same manner as any other policy that encourages work").

Chairman MILLER. Thank you very much, and thank you to each of the panelists for your recommendations, your suggestions and, in some cases, in your papers, the history of what may have gone wrong in a number of these programs in terms of implementation. I think that is very helpful to us.

Again, Ms. Lee, I think you hit it on the head that we are trying to view this as one—there is a whole set of issues about growing the American economy and how the American economy responds to international competition and trade and what we need to do to meet that competition. And obviously, this committee is dealing with a lot of that in terms of education and the rest of it, but there also is, I think, a very clear feeling, I would certainly say in our

caucus on the Democratic side of the House, that the current system simply is not sufficient to justify another round of, essentially, the status quo trade agreements; that that bargain will not be reentered into and that we have got to look at the impact of any of these trade agreements on workers' families and their communities. So that is sort of the setting here, but let me begin with a question.

Mr. Dorn, we have two large, relatively easily accessible programs in health care. One is Medicare, and the other is Medicaid. Why do we make people chase all around looking for a health care program that may or may not meet their needs and, in one of which, if you do not do it in exactly the right sequence, you could lose your coverage for preexisting conditions, which could be devastating to an awful lot of families, certainly, you know, older families?

Why do we do this? Why don't we just plug people into either Medicaid, or if they are 55 and over, why don't we plug them into Medicare, and if they turn out not to be eligible, we will deal with that down the road? Why are we making people chase around?

I mean, I think the intent of the health care tax credit and paying for the premiums and all of that is helpful, and it is a different situation because there are already Federal dollars in a number of these programs, but the complexity to me just has to be devastating to a recently unemployed, long-term unemployed, job-disappearing family to then start to run through and try to negotiate all of these various gatekeepers, and again, if you do not do it in the right sequence, you go back to "go," and you have been deeply prejudiced as a result of that.

Mr. DORN. Well, at the time that this passed in 2002, it was not easy to get bipartisan agreement on the health coverage tax credit. And I cannot imagine there would have been bipartisan agreement around a Medicaid expansion to cover these folks. Keep in mind that Medicaid is a categorical program for adults. For kids, if you are low-income, you get Medicaid. But if you are an adult, you have to be pregnant, currently caring for a dependent child, severely and permanently disabled or elderly. You could create a new Medicaid eligibility category, but the problem is, you would need to think about, how are those States going to come up with their share of the matching funds? During times of economic downturn, States have to live with balanced budget requirements, and when you have a State like, you know, North Carolina, for example, where they had the pillow textile mills close down, it was devastating. The State was not in a position where they could come forward with their share of the funds. So, certainly, you could go through and create a new Medicaid eligibility category for displaced workers, but I do not know how realistic it would be to expect a State to come up with its share of the dollars. You might want to have an enhanced Federal match or even a 100-percent Federal match.

In terms of Medicare, you certainly could go that route, but the problem is the benefits are not so great in terms of Medicare. I mean, you have very high copayments for doctor visits, for hospital care. You know, we do, thankfully, have a prescription drug package right now. You could go down those routes, but you would need to tinker with those programs some, and so, in thinking about how

to proceed, I would encourage the committee not to give up on the health coverage tax credit. It is a problem, but I think it is a fixable problem.

Chairman MILLER. Thank you.

Ms. Brainard, why don't you describe how you think wage insurance fits into this scheme? The question was raised whether it would allow for a continuation of the health care tax credit. I think in your testimony, you suggested that it should be coupled with that, and the question is whether it is paid for out of the UI fund, the question of whether or not this is an add-on or this is a choice or this is a substitute to TAA.

Ms. BRAINARD. Yes. I think it is really important that, if a wage insurance program were instituted, that it would be seen as an additional benefit, that it would be integrated along with the other available benefits and available through the one-stop shopping system that could be greatly improved as everybody has suggested because, if it is not, I think we are forcing workers to make choices that will potentially lead to more adverse outcomes.

When this proposal was originally developed, it was prior, actually, to the existence of the health care tax credit under TAA, and the original version of it actually did include a health care tax credit that would then carry over to the new employer with the new employer potentially picking up the employee part of the premium, so there are ways of integrating it with health care which, I think, would greatly strengthen it. Again, I think it is critical that it not come out of existing funds. I agree wholly with that point. I think we are probably talking about different classes of workers, some of whom will opt for training because they will benefit a great deal from it and others of whom, for reasons that were described, need to get back to work, who are already getting back to work much more quickly and are experiencing—this is not a program that is going to cause people to take lower-paying jobs; 50 percent of permanently displaced workers who are going back into jobs are experiencing average declines in wages of 20 percent. That is, unfortunately, the economic reality. So I think it is very important to add it as another option.

Chairman MILLER. But Mr. Herman raised the issue about eligibility under TAA, that we have got to look at the service sector; we have got to look at the people whose job impact is related to the loss of, maybe, a primary industry and all of the associated parts that are impacted.

You would assume that those eligibility changes are also part of wage insurance?

Ms. BRAINARD. I think the kinds of improvements that have been suggested to TAA are ones that I very much support. I have looked at the TAA program in some depth. The eligibility issue is a very serious constraint on it at the moment. As to services in particular, as we see off-shoring in the services sector, the anomaly that TAA does not cover services, I think, is glaring. So, again, I do not see the wage insurance program in any way being a substitute for improvements to TAA along the lines that have been suggested.

Chairman MILLER. You would have the same eligibility requirements?

Ms. BRAINARD. No. I am sorry. I did not understand your question.

I, actually, do not think, ultimately, that wage insurance should have a trade test associated with it. I think it should be available to all permanently dislocated workers, workers whose jobs have permanently gone away and are certified as having done so by the Department of Labor for reasons that are no fault of their own. I think, by having it tied narrowly to trade, you end up with the same very burdensome eligibility process where, as Thea Lee was saying earlier, the Department of Labor ends up kicking out a lot of the petitions for eligibility; the process is extremely long-winded. I think the case for all permanently dislocated workers to be eligible is as strong as for trade displaced workers to be eligible.

Chairman MILLER. Unfortunately, I suspect I am just under my red light time, so I am going to ask just one more question.

Mr. Dorn, and I think, Mr. Herman, you would have presumptive enrollment. If the jobs disappeared, as to this business of your paying the premiums for what could turn out to be 6 months and all of these other things, you would both have sort of presumptive eligibility and enrollment or enrollment as a case for seeking permanent eligibility; is that right?

Mr. DORN. Well, I do not know about presumptive eligibility. I would have to think about that. We do that in the Medicaid program.

What I was suggesting is, do not force workers to pay health insurance premiums in full before their eligibility is determined. Right now, Medicaid, SCHIP, all of these programs take time to determine whether somebody is qualified, but you do not have to shell out-of-pocket the full insurance premium while you are waiting for Medicaid or SCHIP to determine your eligibility. I was recommending that we should take the same approach with HCTC.

Mr. HERMAN. We are in favor of presumptive eligibility because one of the really big hurdles—and this is what leads to so few people entering the program—is that upfront cost associated with covering those premiums while your eligibility is determined. That is an enormous barrier. All of the studies have pointed to that. That should be addressed.

Chairman MILLER. I will do this in the second round, but on a number of occasions in a couple of papers, you talk about people who in some instances are getting laid off from $7.00-, $8.00-, $9.00-an-hour jobs. There is not a lot of savings in that household, and so the idea that you are going to come up with this money—I do not know, Dr. Alford, what you have found, but we will let you address that. I will come back to you in the second round.

I would like to recognize Mr. McKeon.

Mr. MCKEON. Thank you, Mr. Chairman. It is okay with me if you forget to set the clock.

This has been an educational experience for me. I have been in Congress here 4 years. I don't think we have ever held a hearing on TAA because the major part of the jurisdiction, to my understanding, falls under Ways and Means and around here people don't like to give up any power.

Now I talked to the chairman. He said that the chairman of the Ways and Means Committee wants him to be involved with this.

So this is something that I look forward to because if we are going to have some jurisdiction we are going to have the ability to weigh in on this a little bit. It should be an interesting process.

I was very involved in the WIA, Workforce Investment Act. In writing the law and in the reauthorization, we haven't quite gotten it done yet because when we pass it, it goes to the other side, and then that is the final, final resting place for, I hope, a lot of legislation that is being proposed now. But we have had that problem with it over the years. But one of the visions that I had for the Workforce Investment Act, the one-stops, was to give a place where somebody could go if they lost their job or if they wanted to get a better job or they wanted to get training for career enhancement or advancement, and as I visited one-stops I see some really good things happening.

Now it looked to me like where people are falling through the cracks there should be a real coordination between these two rather than, like I say, the first time it has even come before us as a committee in 14 years. And I thought we were doing all of this wonderful stuff for workers, and I find out that there are a lot of things that we are not doing.

Dr. Alford, in your testimony, you have got the most experience in the Workforce Investment Act, the workforce development, do you think that they should be a part of a comprehensive, integrated and holistic array of services that would—that we would be able to work together with the TAA?

Dr. ALFORD. That is absolutely my primary message in being here, is that whatever education and training services are provided to help these people transition to a new economy, if that is one of the major purposes of our education and training programs, we have to consider the array of administrivia that is provided. We have to consider the consumer and that vantage point. We have to consider the business as a customer and that vantage point in this, and we have to consider how are those education and training providers providing this training in innovative ways that meet the needs of today's workers.

Because as I say in my testimony, it is my view that the old linear aid cycle where you learned and then you earned and then you retired and rotted is just not how it works anymore. And if we can get people who have been dislocated back into employment in high growth, high demand and high paying sectors, and in many cases if they go under those sectors, these issues such as insurance and replacement wages, although there may be short-term reductions, if we could deliver their education and training in such a way that they could get into construction trades without being an electrician, as an example, but could begin by pulling conduit or something and then start delivering on-the-job training or apprenticeship training or on-line training or training at the end of the shift or training at night and on the weekends and those kinds of activities to build career ladders, whether we are talking about automotive or aerospace or whatever high growth sector it could be in any regional economy, I think we have got to approach it from all three of those vantage points to create a good holistic program that really meets workers' needs because if aren't meeting employers' needs it is not

going to matter what we do on the supply side of any of this, in my view.

Mr. MCKEON. That is why we have employers sitting on the council so that you know what jobs are available so you might as well, as long as you are going to be training somebody, it makes sense to train them for a job that is going to be there.

If I may, Mr. Chair.

You know, the Federal Government is big and to think that we have got the Workforce Investment Act, which comes under our committee and then this TAA, which comes mostly under Ways and Means and sounds like both are attempting to do some of the same jobs, but it would sure be nice if we could work together. This might, might be an envelope here where there is some opening where we could work together because from what I hear, each of you have the same goal in mind. Somebody that loses their job, that is a traumatic thing, that in and of itself. I mean, I can't imagine you spend 30 years with a company and the next day it is not there. When you started out 30 years ago thinking the job was there forever, by the end of 30 years you probably thought it was going to be there forever. And the trauma that that would cause, if we could have a seamless program that would really help people to transition into something else, I think that would be our ultimate goal. That would be a wonderful thing to be able to work together and enhance both of these programs.

So I am hopeful to be able to do something like that, Mr. Chairman.

Chairman MILLER. That is our hope.

I view this—when I said—when I became chairman of the committee, I said this is a committee that is deeply involved with, hopefully, the strengthening and the growing of the middle class, and obviously we cannot have a policy where people and their families crash to the ground because of circumstances that were beyond their control that they lose that status while they are trying to get to the next, I don't know, to the next income, to the next career. And we are all looking for that seamless approach in that effort. And I think this is rather new that the two committees would be working together.

We obviously administer the Department of Labor, which runs these programs, and I worry about a lot of the glitches that have been present in the testimony today, and we will hear from them later.

But, you know, the Speaker has been asked very often how was she prepared to be Speaker of the House of Representatives. She reminds people all the time she was the mother of five and she has asked the chairmen to all get along here and help one another out. So here we are.

Mr. MCKEON. Mr. Chairman, years ago, Mr. Hoekstra and I did a study and we found one-third of the education programs under the study comes under the jurisdiction of this committee. The rest of them go under 39 different bureaucracies. Maybe if we can make some headway in this one, we can reach out for the education programs, too.

Chairman MILLER. You bait that hook a little bit and right away they are on the way. That is what scares the hell out of every other chairman.

Mr. Kildee.

Mr. KILDEE. Thank you very much.

If anyone wants to see the effect of our trade policies in the 30 years that I have been in the Congress, let them come to Michigan, particularly let them come to Flint, Michigan. Flint, Michigan had 190,000 people, now has about 118,000 people. Creates many problems. When people move out of town, they don't take their homes with them. So we have abandoned homes which are targets for arson. The town is nothing like it was when I was growing up and why dad joined the UAW back in 1936. Michigan has really suffered. There are about 12,000 individuals eligible for TAA there.

Let me ask this question to Mr. Herman.

I would like to touch on the disconnect that seems evident between the USTR that should be taking care of the workers who are negatively impacted by our trade policies or at least be concerned about them, a disconnect between that USTR and the TAA program.

Are there any efforts to formalize a relationship between the Office of USTR and the Department of Labor so they can work together to ensure that TAA reflects where we want to go with our broader trade policy?

I looked at all of these trade policies as I have been here, and I have served with six Presidents and none of them have been right on this trade policy as far as I am concerned. Democrat or Republican, they have all been wrong. Is there any connect between the TAA people who are concerned about trying to retrain people, if there are jobs in the area to train them for, and the USTR.

Mr. Herman, would you comment? I know you have been to Michigan a lot and your people have been there a lot.

Mr. HERMAN. We certainly don't see that connection on the ground, which is where we have been in Michigan, and it is devastating for the communities like Flint and other communities in Michigan.

The reason that we are advocates for a new and improved TAA is we think it is a more robust system that is more in sync with the current economic conditions than a lot of the elements of the safety net that were developed when losing a job was—you needed temporary income support while you transitioned to a job kind of like the one you lost. Those days are gone. And Michigan clearly reflects that.

What is needed is that longer period of income support, 2 years which is possible under TAA, which will allow you to enter programs like the community college programs to get an associate's degree to really become totally skilled in a new industry. That is one of the essential sort of links that is a positive aspect of TAA.

In terms of that program, TAA, and this relationship to overall trade policy, we don't see much of a connection on the ground and, in fact, it is pretty evident that there is a rather stark disconnection.

Mr. KILDEE. And will that be helpful if we could establish that somehow or encourage it somehow.

Mr. HERMAN. It would be useful in order to understand the impact on local and regional economies that come about as a result of trade policies. I think those linkages are not sort of identified in a very comprehensive way during the negotiation and establishment of trade policies. And in some ways the programs, then, that we have to work with, like TAA, are sort of asked to fix the negative impacts. But often those negative impact are not foreseen with any kind of advanced notice and we are playing catch-up very much, and that is certainly the situation that we are seeing in Michigan.

Mr. KILDEE. One of the disadvantages that Congress has, it is its own fault because it gives up its own authority, is the so-called fast track. And fast track is up this year for reauthorization, where the President sends the trade agreement, which the USTR negotiates without input from even the Department of Labor, and we can't even amend it. And I think that Congress, it should reassert itself and say we would like to be able to amend and put some of these things into these trade agreements because they lack them right now.

I don't know how—I have talked to the various Trade Representatives, and even those who think they are really sensitive people don't realize, really, what they are causing with Maytag there in Illinois, what they are causing in Michigan. And I think we have an opportunity this year to turn down the fast track. But if you can help us in other ways to encourage some cooperation between Department of Labor and USTR when these things are being negotiated, that would be helpful to this committee.

Thank you, Mr. Chairman.

Chairman MILLER. Thank you. Mr. Kline.

Mr. KLINE. Thank you, Mr. Chairman.

Mr. Chairman, I can't help but notice that we have, in our practice of your side selecting some witnesses and our side selecting some witnesses, we have skewed the normal balance here a little bit. I trust these are all very fine witnesses, but I hope this isn't a sign of things to come.

Dr. Alford, I was looking briefly at the notes that we have, and I see you are from Enterprise and apparently were a teacher, instructor, and principal and so forth. I note that Enterprise has suffered from pretty horrific damage in the schools there. I don't know if that was close to your home. I hope not. I certainly hope that you and your family came through that well. That was pretty horrific and just heart wrenching to see what happened to the high school there.

I also notice that you are from Auburn. If you are anything like my son-in-law, it is pretty obvious when you walk in the house—I keep trying to counsel him on that.

We are trying to—we are exploring a lot things here. Mr. Kildee talked about trade policy itself, and his opposition to trade promotion authority, of course, is a reason he is on that side of the aisle and I am on this. I very much hope that we do have trade promotion authority, fast track. And certainly in places like Minnesota and your State of Alabama and Tennessee and others, the economy and job situation is quite different than what he has described in Michigan.

Dr. Alford, we have heard some testimony today about the value of career counseling and we talked about a one-stop shop. Could you tell us how if someone is a dislocated worker in Alabama, what do they do if they want access to career counseling? How do they get it?

Dr. ALFORD. Well, we have created what we have called the Workforce Development Planning Council, which is an interagency council that develops our comprehensive plan for workforce development in cooperation with the workforce and State Workforce Investment Board and ultimately goes to the Governor. And one of the things we strive to do within that is to determine where people are falling through the cracks to the degree that we can, and see if there are ways we can close those gaps.

On career counseling, for instance, we now have—our WIA career counseling component is administered by the community colleges. And for those who find themselves in circumstances where they need career counseling and they are dislocated workers or workers otherwise in distress, whether they are eligible for intensive services or any of those kinds of terms that we tend to invent and these kinds of things, we can get them to a career counselor who is an employee of that community college in whatever district the worker lives.

And so it is—interagency partnerships are the way that we are addressing those kinds of issues so that we can't require everyone to come and have meaningful career counseling.

But in our rapid response activities to workers' dislocations, we let them know that that is available to them either through WIA—and we have the community colleges in that region there to let them know that if they are not eligible under any of these programs, you can still get good career counseling based on good labor market information from a career counselor at the community college itself.

Mr. KLINE. So it would be all dislocated workers would have that access, at least?

Dr. ALFORD. All Alabama citizens.

Mr. KLINE. A rapid response.

Dr. ALFORD. Yes.

Mr. KLINE. How does that work?

Dr. ALFORD. When there is a significant layoff or plant closing, they require the—the bases are required to notify our office. We have a team of people who go out and meet with the leaders of that business. If there is union representation, the union leadership is included. We then schedule small group meetings with those employees who are going to be affected by the layoff, in which we tell them all about their benefits and what will be available to them and how they can convert their health insurance—whether that is effective as a means of conversion is another question—but unemployment insurance and how to access all of those kinds of things and the programs and activities that this committee and others of Congress provide for.

And as a part of that, we would introduce them to community college people in that district and let them know what services are available there, including career counseling.

Mr. KLINE. Thank you very much.

Mr. Chairman, I see my time has expired.

Chairman MILLER. Thank you. Mr. Hare.

Mr. HARE. Just for the record, I think we have a group of wonderful witnesses. So thank you, thank you all for coming.

I just want to, if I could, single out Dave Bevard. Dave is from my district and Gail is from my hometown. And thank you, Dave, for getting up at 2:30 this morning to fly out from the airport on a very bumpy ride with me.

I talked a lot about Maytag in my hometown because I am extremely troubled at what poor treatment that workers at Maytag has. And I agree with Mr. Kildee in terms of trade agreements. We have to get something that starts standing up for ordinary people. And I think that Congress has a responsibility, a moral responsibility to you and your family and those 2,500 workers, to have a say in what happens.

I would like to talk to you about something that we talked about on the plane coming in, and I know that Dr. Alford talked about the high-growth sectors that you and I were talking about. People were encouraged to go into health care, fields that were growing, and you were explaining to me some of the problems that people had in Maytag in going through some of that growth into those high-growth things.

And I wonder if you would care to elaborate, share with the committee a little bit about that.

Mr. BEVARD. The first critical thing is what are you going to do with the rest of your life. And to be honest, the retraining is all great; and the question everybody asks is, what am I retraining for? And there are not a lot of good answers. They will tell you, in our instance, health care is a growing field and I know that that is the case. Not in our area. But it is a growth field. So you sign up for the schooling, and in our case there were like 400 people that wanted to go into health care. And a lot of communities, they wouldn't have the educational facilities to be able to accommodate 400 people. In our case, we were lucky that they did.

The problem was once you get through the training, the actual classroom part, you go in for the clinicals where you actually go on the job somewhere, and due to the available facilities there are openings for 25 people.

So there are 375 people that have signed up for a job growth area that can't get into it. And once you sign up for a TAA program, you are locked in. You don't switch. You are locked into that program.

So, again, the question is where am I going. What am I transitioning into, because every area that they tell me—you know, first it was the computer industry, then it was the health care, and every one of those things we are seeing outsourced almost as fast as they can tell us it is a growth area. And, again—so there is just a problem with the training that is available.

I know, for example, there is a great shortage of nurses in the country right now, over 1 million nurses that we are going to be needing over the next year. So they are saying it is a growth industry, and that is great, except in most areas, the United States as a whole, we don't have enough classroom facilities to be able to accommodate that.

However, right now in India, they are putting out nurses like no tomorrow through their educational classes and training, and then giving them crash courses in English and sending them over to take our jobs again.

So where am I going? You know, point me in a direction where there is a job that I don't have to play leapfrog every 2 or 3 years.

Mr. HARE. If you could, maybe for the committee and to remind me again, you were talking about a woman who came out at the plant that trained and wanted to go into a field and——

Mr. BEVARD. Sure. Again, since the unemployment benefits and the training don't coincide in our case, you started off 3 months behind. So now what program do I compromise myself? And for example, there was one young lady—unfortunately, all of the educational institutes just take it as an opportunity to collect some quick money. She wanted to go into child development which is usually a 2-year associate's. Her clock was ticking so she tried to get into a 1-year certification. When we called the educational—one of the facilities there, they said we don't have that 1-year certification there. In fact, they dropped most of theirs. They said, How about we suggest cosmetology? We said, That is all well and good, but that is a far cry from child development. Why cosmetology? They said, Well, it is a 1-year certification; sign her up.

So, you know, all too often we just herd them through the classes so we can say that we did. It looks good on paper.

Mr. HARE. So let me conclude by asking you, if you had one or two things that you would recommend this committee do and this Congress do, given what you have seen in your peer counseling and what you have seen happen to yourself and your wife, what would you have us do?

Mr. BEVARD. First of all, where are the jobs? I keep hearing about the technical and the skilled and the specialized jobs. And I am hearing, like in Alabama, the auto industry and things, a lot of the things, the technical jobs, aren't that technical; they really aren't. But where are those jobs and where do we go to find this work?

The other thing, you know, we need the facilities that are available for that, and the other thing is the gaps in funding. That is major. When you are forced to just sit and wait hopefully while the clock—while the clock is ticking away, and what do you do? So you are compromising yourself just from the get-go.

Chairman MILLER. If I just might.

Dr. Alford, if you might, this question of plants make decisions to close or jobs change, what have you, they really don't do it with knowledge of the other cycles. One of which, of course, is the education cycle and the availability of classes, and Mr. Bevard laid out some of that. How do you address that? Because, again, you say the linear model in education sometimes doesn't work with what is going on in people's lives after they receive this news that the job has disappeared.

Dr. ALFORD. Well, we don't have the authority to dismiss those requirements so we suffer from those same issues, because academic years and calendar years and when the time starts ticking are often at variance.

One of the things we have done as a State, which doesn't solve the problem but mitigates to some extent, our community college system has granted a 50 percent tuition waiver to all dislocated workers. And once they are declared eligible—and we have several thousand of our citizens that took advantage of that last year. I was just reading a news letter that related that on the plane on the way up here.

So that is why that happens to be on my mind. But there are some things at the State level that you can do. But I think that is probably a regulation. I don't know if it is statutory or regulatory, but that is something that needs to be brought into consideration to begin that cycle of time with the next traditional academic year and extend it a couple of years. I think that would be remedied rather easily.

Chairman MILLER. Thank you.

Mr. MCKEON. Mr. Bevard, how much notice did you have that the plant was going to move?

Mr. BEVARD. It was a curse and a blessing. They gave us a 2-year phaseout.

Mr. MCKEON. So 2 years. Do you have a one-stop in your community? A Workforce Investment Act?

Mr. BEVARD. Yeah.

Mr. MCKEON. In communities I have seen, like my area, aerospace, is what has really been hit. And the companies will go work with the one-stop and they will set up programs, 2 years. They could do a lot in 2 years if they—if you had a good functioning workshop. And if you could work to bring these programs together, I think we could make some real advancement here.

Chairman MILLER. Mr. Heller.

Mr. HELLER. Thank you, Mr. Chairman. I certainly do appreciate you putting this panel together, and I am learning a lot as a freshman Member of this body, discussing some of these issues.

I think that the issues—I represent Nevada and I think our issues are a little bit different in a State like Nevada than some of my other colleagues are talking about their concerns in their States, maybe more mature northeastern States or some of these other States that have a more mature manufacturing sector, whereas in Nevada we kind of benefit from the Pacific Rim and some of these trade policies, and Nevada being so close to California, Oregon, and Washington and the ability to be a hub as a distributor—I think, Dr. Alford, you were the one that said the question isn't where are the jobs, the question is where are the workers. And that is what our concern is in our State is we can't find the workers. In fact, to the point where entry-level jobs are paying double digits now, $10 to $12 an hour. Even fast food chains are paying that kind of level because they are competing so heavily to get these employees. In fact, our state is advertising nationally to get people to come to Nevada to work because we don't have enough employees.

So I guess my question is, we passed a ballot question during the last election cycle that pegged our minimum wage to—index to inflation. It is a dollar above the Federal minimum wage and, that being the case, we are looking at the minimum wage being some-

where within the next 3 to 5 years, somewhere from $12 to $15 an hour.

I guess I need to be—understand the difference between minimum wage and wage insurance, if you are talking minimum wage of that height, because I don't think wage is the problem in Nevada. I think health insurance is the problem in Nevada. If you could address that, anybody on the panel, I would appreciate it.

Ms. BRAINARD. Wage insurance would be a program that would only be available to workers who are, because of permanent dislocation, because of permanent displacement of their jobs, would be available only if they experienced a decrease of a significant amount in their wages in the subsequent job. So it would help to ensure the different minimum wage——

Mr. HELLER. Could you define that, what a sharp earnings loss is?

Ms. BRAINARD. For those workers currently who are getting reemployed following permanent displacement on average, those who lose—which is about 50 percent on average lose about 16 percent of their income. In manufacturing it is about 20 percent, and in services it is about 13 percent. But that is sort of a national average.

So in Nevada, you may not have the same kind of statistics. You may not, in fact, have declines. But that is from a national point of view, the averages are about 16 percent overall 20 percent for manufacturing.

Chairman MILLER. Anyone else?

Mr. HELLER. Thank you.

Chairman MILLER. Thank you. Mr. Loebsack.

Mr. LOEBSACK. Thank you, Mr. Chair, and thanks for having these witnesses here today. It has been very informative, there is no doubt about it. I want to make a couple of comments.

I am happy there is such a wide range of folks here today. I really appreciate Ms. Cole's comments too, as the Chair does, about sort of looking at the macro picture as well as specifically TAA in this case because I have no doubt that we have got to deal with this macro level, too.

I am also very appreciative of Mr. Kildee's comments about fast track or trade promotion authority, whatever you prefer to use, whatever term you prefer to use, because as a new Member of Congress, and as someone who wasn't academic before I came here and was very used to sort of looking at things in sterile terms and statistics and not really, until I was on the campaign trail, did I begin to talk to people like Dave Bevard and quite honestly hear the stories of individuals who we—we talk about workers being displaced. That is a very clinical term, to say the least.

There are real people out there suffering; the losers, if you will, which I think is a horrible word to use as well. These are real people who are suffering. And we can talk about auto jobs being created in Alabama, and I do want to ask about that, Dr. Alford, or we can talk about wages in Nevada being $10 to $12 an hour.

But my understanding is that 30 years ago there were workers in manufacturing industries in the United States who were making 10 to $12 an hour 30 years ago. What kind of real wages do we

have now relative to 30 years ago? I think that is a really important question that we need to be thinking about.

We can create new jobs in various States, but how much are those workers making per hour, and how does that compare to the previous period in American history, even 10 years ago?

I think what we have seen over time and the statistics bear it out, the cold, hard statistics, that we see real declines in wages and, obviously, we are talking about different States here. Iowa wasn't doing particularly well in the manufacturing sector as probably many of you—some of you on this panel is aware.

We have seen a lot of outsourcing of jobs. We have seen a lot of jobs that have left Iowa and not necessarily gone to other parts of the United States, but have certainly gone to other parts of the world.

I do want to ask Dr. Alford, when you talk about these 50,000 new auto jobs that have been created in Alabama, what kind of wages are we talking about, first of all?

Dr. ALFORD. I have some data related to that that is actually from a presentation that I did a year or so ago, and wage records are usually in arrears. We are talking about a couple of years ago. But I think the relative picture would be the same. Transportation equipment, manufacturing at that time in Alabama had an average monthly wage of $4,367. I don't know how that compares, relatively speaking, to the other parts of the country. But that would translate into $50-60,000 on the average for an automotive production worker in our State, which is good wages for our State, and that is about four times the wages for food services and drinking places, which is a DOA designation—and about twice the wages for trade contractors and about twice, almost twice, for hospitals as a category.

So specifically talking about automotive, you know, we have industrial maintenance technicians at Mercedes, and their H.R. Director is on my panel that I referred to earlier, who are making $120,000 a year. They have an associate's degree as a multicraft technician.

So I don't know on a national scale whether these are good wages or not, but for our State, which has traditionally been economically depressed and still has a long, long way to go to be otherwise, these are good jobs and good salaries.

Mr. LOEBSACK. Are those plants unionized in Alabama?

Dr. ALFORD. They are not. Some have had union votes and they are—they have some effort to do so. As I understand at this time, Mercedes has had more than one vote. I am not sure exactly how many and——

Mr. LOEBSACK. My time is almost expired.

I also want to ask you about the success story in Alabama. Is that primarily due to Alabama's policies, or did the TAA programs, for example, have anything to do with this?

Dr. ALFORD. Well, this would be primarily conjecture on my part. I don't have any real research related to that, but I think it is a combination of factors: the bids climate and the regulatory climate, the availability of workers, the training programs for new and expanding industries, the incentives that were provided to lure these companies, and aggressive State leadership, particularly in the

Governor's Office, to recruit and track those companies. I think there is a combination of other things.

Mr. LOEBSACK. My time has expired.

Thank you, Mr. Chair, for letting me go over.

Chairman MILLER. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

Dr. Alford, you used a word in your statement before, the word "adminstrivia."

Dr. ALFORD. I am not sure if that is a word either. I apologize for that.

Mr. YARMUTH. I was intrigued.

Dr. ALFORD. What I meant by that is often times we get so much junk in these regulations and one program versus another, I call it administrivia because many times it doesn't really speak to the true issue; like if you started within 16 weeks and the company didn't notify us to notify you and it is through no fault of your own, that is administrivia.

Mr. YARMUTH. That is a great word.

Dr. Brainard, you talked about the fact there are only 75,000 workers a year in TAA. And I was wondering if you could elaborate on why you think that is. I mean, I know there is a lot of controversy over how many jobs are actually lost because of trade policies and so forth. But is this a factor that relates to certification processes or criteria? Would you elaborate on why you think that there are so few?

Ms. BRAINARD. Yeah. I think the eligibility criteria, first of all, are overly restrictive. We have talked a little bit about that. Services is one of the most glaring examples. But then I—the way that those eligibility criteria are interpreted by the Department of Labor leads to, and I may have the number slightly wrong, but to about 40 percent of employers that apply for eligibility don't make it. And then beyond that, even of those companies where they are certified as eligible, a large majority of the workers associated with those often are not certified as eligible even when the companies are.

So if you look at the recent GAO report that tracked, I want to say six plant closings, of those, they talked about a particular plant closing where there was a large number of workers that were losing their jobs, but only about a fifth of them were going to be eligible for TAA even though the closing itself had been certified by TAA. So the process is extraordinarily cumbersome. And at the end of the day, very few workers, relative to what just any commonsense persons might think should be eligible, end up actually being eligible.

Mr. YARMUTH. Is this something that you think relates to vagueness in the way the statute was written or the way the legislation was drafted, or is there something that we should be doing to try to clarify the criteria? Is that an issue or not?

Ms. BRAINARD. I don't know if others want to speak to that. I think it is both. I think it is both that eligibility criteria should be written more broadly, and secondly, that implementation by the Department of Labor should get some oversight and encouragement, so that this is a program that is actually easily accessible through the one-stop shopping mechanisms and that all of the benefits that are available through TAA should be clearly put on the

table right away; because the other problem you have is that workers come in and they may get their—they may get their income supplements, but they may actually never make it to the training piece or they may not get their health care piece because it is complicated.

And there is a small wage insurance program as part of TAA. And it is a very small number of workers that ever qualify for that because a lot of the State agencies aren't even aware of the specifics of that program.

Ms. LEE. I would agree with what she has said. But there is a combination of eligibility criteria that can very easily be expanded to include the workers who work in the service sector of the public sector, to include the secondary workers, expand the definition of secondary workers. But also the program has been administered poorly, and it has also been administered very unevenly.

One of the things that you see is that different States have very different levels of takeup rates, and some States are very aggressive in going out and informing workers of what their rights are, and they actually have staff whose job it is to help workers get into the program. And other States don't spend the same resources. And that is one of the reasons we have said we would like to see the UI system administered more uniformly at the national level with the merit staff and so on.

So I think there are a lot of ways you could very easily increase the number of workers who are able to take advantage of the TAA program.

Mr. YARMUTH. Just for the record, Mr. Chairman, I am reminded by the fact that Maytag is represented here, that in Louisville we have a General Electric plant that makes dishwashers, and because of the threat being posed by trade agreements and the threat to the loss of that plant, we didn't lose those jobs. They just renegotiated, forced a renegotiation in which the union went from an average salary—the employees went from an average salary of $17 to $18 an hour and agreed to go to $13 an hour to keep the plant open. We just skipped right to the 20 percent losses in salaries and voided all of the intermediary steps.

Thank you, Mr. Chairman.

Chairman MILLER. Thank you. Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman.

About HCTC, this ridiculously complicated process is just one more example why this country, the wealthiest Nation in the world, must have a national health care system. Period. I mean, then we wouldn't be going around and around in circles like this.

I have a question and it is about training. When I was a human resources consultant, I did a lot of job placement for high-tech companies and I also would advise—did career counseling for people. It was a good way to make some extra money. And in our community, we had a university, it is still there, and they trained people. They have this wonderfully fun, wonderful course and degree in family counseling. Well, everybody would come to me, all of these bright and wonderful young students, with their resumes and would say, Now what can I do? And I would say, You go back to school and get a degree in something where you can make a living or get your master's or your doctorate and become a counselor.

That school did such a disservice to these kids. They got a new president and all, and they changed.

So who is deciding in these communities, who is deciding what to train for? What are the jobs that need to be filled? And, I mean, we are paying for this training; who is making these decisions?

Mr. Dorn, with your—I mean, you do your research and analysis. Does anybody have any answers of how we are deciding what jobs to train for?

Mr. DORN. My focus is more on the health care side of things. I think other panelists are better able to answer it.

Ms. WOOLSEY. Okay, Alabama, have at it.

Dr. ALFORD. In Alabama, those decisions are made by the individual. We hope that they are informed decisions, but our attitude is this is America: You have a right to be wrong. And we try to counsel for training for the occupations where you are likely to get a job and be able to have self-sufficiency for a family.

But a lot of people make emotional decisions. One of the high-growth training areas for colleges now is forensic science, because everybody watches CSI. Well, there aren't five forensic science jobs in Alabama, probably, you know, that are available.

So people make a rational decision, but—and we try to counsel them away from those, but they have a right to do that from our philosophical perspective.

Ms. WOOLSEY. But if it is Federal taxpayers that are paying for their training, I would think there would be, Mr. Chairman, to have something put together to know what jobs are available, and where, and what those jobs pay.

Dr. ALFORD. We are doing comprehensive—the Integrated Workforce on Economic Development, strategic plans around regional economies, because economies are neither local nor State. So we have to do it at the regional level because we are producing, as a part of that, what the high-growth, high-demand, high-paying jobs are in that region. And we are making those who do career counseling within that aware of that.

I think it is something that there probably needs to be some debate in our Nation about, just as you see it. This is America. You have a right to choose whatever profession you would like. However, if the taxpayers are going to pay for that, then maybe it should be one of these top 10—that is a matter of philosophy, and we need to talk about that.

Ms. WOOLSEY. Ms. Lee, you have something you wanted to add to that. And while you are doing that, I had a question for you and it relates to Alabama.

Are the jobs in California going—California jobs moving to Alabama because they pay less, or is Alabama doing better now in having successes because the economy is improving?

Ms. LEE. Okay. Thank you for the question.

Let me pick up first on this question of how the choices are made about where the training is. Some of the programs that we have found to be most successful are the ones where you have a partnership between management, labor, and government—the Wisconsin Regional Training Partnership where the employees are part of the conversation about which skills are going to be needed, where the

jobs are going to be. And sometimes this is done in a collective bargaining setting, sometimes not.

But I think Washington State and Wisconsin State, those are the areas that we found that take the best of all of the different programs that you get, the combination of the employer involvement and the on-the-job training, but that you also have the workers and the unions involved and targeting towards particular sectors like health care, telecommunications, aerospace, where there can be some jobs.

In terms of the question of Alabama versus California, I think that is a tough question. You certainly see some of the same—this is an age-old story about mobility of jobs within a country and between countries, whether the lack of unions or the lower wages becomes the draw, in and of itself. And obviously you have to have a combination of things. It is not just low wages, but it is also not just the high skills or the infrastructure that is important.

I think you need to find that balance. Certainly we would like to see a situation where you never see competition between either States or countries on the basis of offering up workers who don't have the right to organize a union, who don't have the basic human rights protected on the job.

We would like to see that as sort of a minimum set of criteria. And then beyond that, the competition that takes place is, one, to some extent, normal and healthy and natural.

But the other thing I think that can be problematic is something I think Dr. Alford did mention, which is the tax incentives that different State governments offer to attract jobs and whether that gets to be a somewhat destructive competition where States and localities offer huge tax incentives and tax breaks to companies to locate jobs there, and then at the end of the day, they don't get enough out of it; that the jobs don't always stay around, that they aren't the same kind of jobs that were promised. And so that is something that I think there could be some national guidelines and limitations on that would be useful.

Chairman MILLER. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Bevard mentioned nurses coming from other countries. I was at the community college the other day and they noted there is a long waiting list for people to get into nursing, and we haven't funded the slots and that is a problem. And I appreciate that.

Is college tuition generally reimbursable as assistance if you want to go back to college?

Mr. BEVARD. Like I say, under TAA, it is not really a cap, but kind of a general amount that is allocated per worker, and it is for college for a training vocational program, for whatever. But it has to be in what they consider a growth industry.

Mr. SCOTT. You can't go back to the liberal arts college and go into——

Mr. BEVARD. Right.

Mr. SCOTT. My colleague from California mentioned kind of what we are training people for. When a plant closes, there are many types of loss. It is not just one job skill set. In selecting what people ought to be training for, isn't there some private sector involvement, like private industry counsel, that helps indicate to people

what jobs are going to be available and what they ought to be trained for?

Anybody want to—Dr. Alford?

Or Mr.——

Mr. HERMAN. Well, one of roles of the WIA is, indeed, to inform through labor market information where the jobs are. It is challenging because, again, there are many communities where we don't see a lot of job creation, or where we see job creation, we see it in industries that don't have family-sustaining wages and benefits. Retail, food services, these are jobs growing in every community. That is why we need to address those jobs that have a ways to go to provide family-sustaining wages and benefits like manufacturing was addressed two generations ago.

Two generations ago, manufacturing jobs were not good jobs in the country. They were dangerous, low in pay, and dirty. They became better through public policy, around health and safety, through unionization and through support in terms of overall national policies in investing in those industries. That is the trajectory that needs to be applied to some of the other industries, particularly service-sector industries where we don't see the quality of jobs that are sufficient. WIA is the place where that information is supposed to come forward through the business involvement.

We also advocate for, as Thea Lee mentioned, a much more significant engagement in specific industries with labor, with management, with public sectors, with high-road partnerships that can address some of these shortcomings, build career ladders.

That is part of the reason of the success in Nevada with the hospitality industries. Those jobs in Nevada and in Las Vegas, through the work of the Culinary Training Institute, have career ladders that allow workers to enter and achieve middle-class status in a relatively short period of time.

That is not the case in a number of the industries in the service sector that are now driving our economy.

Mr. SCOTT. Dr. Brainard and Ms. Lee suggested there are good programs and bad programs in terms of placement rates. Is a placement rate more of a function of the job training or the job availability? I mean, if you have an area of low—of high unemployment, you can train everybody you want, but they are going to have trouble getting jobs. And if there is low employment, you don't have to do much at all. People are going to grab them and train them. Is a placement a function of unemployment, unemployment rates, or quality of the program?

Ms. LEE. Both. I think it is both. Clearly if you don't have a job, you can't get blood from a stone. There is no kind of training you can get that will create a job out of nothing. But on the other hand, you also need good training in many cases, particularly with folks who are making a huge career shift. They are going from a different kind of sector.

The training is important. I think what Bruce Herman said in his testimony is also important; that what the research does show is that the long-term training tends to have a much higher wage per placement rate than short-term training. It is not something that is done easily. It is not something that is generally done cheaply; that investing in a deeper set of skills tends to pay off.

Mr. SCOTT. Should that training—I think Dr. Alford suggested that training really should be part of the overall job training program and not a trade-specific program.

Dr. Alford?

Dr. ALFORD. Well, we believe that one of the things we should do within all of these programs, and we have redirected our adult education, our WIA youth programs, our TAA dislocated worker programs, Department of Rehabilitation, all across the board, in addition to any job-specific skills that may come out of those, we are requiring a career readiness certificate based upon work key scores which are developed in the workplace—reliable, valid, proven over a number of years.

So we in effect want to help our people and ensure our employers that they have learned how to learn, so that when this constant job turning that is bound to occur in this kind of economy—that we can make those transitions more easily, and that they can acquire new job-specific skills based upon these underlying job readiness skills.

So that is one issue.

Another issue that is related to the previous question that I think is worthy of consideration by national policy around all of these issues is "make a job" versus "take a job." I think, as Ms. Lee said, you can't take a job that is not there. But I think one of the things we need to help our people learn sometimes in these transition processes is that one option might be in a more entrepreneurial vein of making your own job in those kind of circumstances rather than just the mindset—as an option—rather than just a mindset of I am going to take another job and in a similarly situated environment. That may not be an option.

So I think entrepreneurial training should be one of the array of options that we consider as we move towards reconsideration of these issues.

Chairman MILLER. Thank you.

Ms. Clarke.

Ms. CLARKE. Thank you very much, Mr. Chair.

This has certainly been a very informative and timely hearing. And I appreciate the witnesses here today bringing forth all of these nuances that really need to be addressed. And I think it was quite a valiant effort that the Congress has made with the TAA. But in all safety net cases that I found, these holes and gaps, you know, can be just as dangerous to families that are looking for some security during the time of crisis, particularly when it is not a time of their own. And one of the things that I am concerned about are the nuances.

I am concerned about seasoned employees, individuals who have been working for companies for years, and what their requirements are versus newcomers to the employment arena. You know, you just got into the company as a bright-eyed college student. You have been there for maybe 2 or 3 years and, bam, the economic climate changes.

What are their needs versus, you know, someone who is just about to get the gold watch and now they are in their mid-fifties and somebody is saying, We have got to retrain you. Your kids are going off to college. What is it that we embed in this policy that

begins to look at those nuances in a real, real way, in addition to all of the other pieces that we are talking about, because this is not a one-size-fits-all at all, which is what you are all experiencing; and which is what, unfortunately, when you are doing Federal policy, we kind of gloss over.

I think it takes information from folks on the ground, like you folks, to really look at those nuances as we look towards reauthorization, bringing them forward so we can look at the management, labor, government structure, which seems to be the partnership that would ultimately give us some of the answers we are looking for and address those types of issues.

Let me just ask a couple of questions.

Coming from New York—and it is good to see you, Mr. Herman. I know of your work. I want to know whether the TAA, as it stands, is available to all workers. And when I say that, I mean is it available to individuals who are in the workforce who may be residents of the United States or may be in between status? And how do the pressures with respect to the holes in the gaps impact on that population, and have we begun to address it?

And then, finally, what would trigger the Department of Labor—when we know that a trade agreement has been signed, it looks like the climate for a particular industry is in a downward spiral—how do we react with respect to the individuals who are within those industries to begin the conversation around you might want to start looking at some options in terms of your career or your job.

And then just finally, one more thing with that where that is concerned. You know, we have had to deal with a lot of corporate reorganization and downsizing, which has a very similar effect—or corporate corruption—where all of a sudden the whole corporation collapses.

How does TAA address that? How are your organizations addressing those issues, and how can we address that through the reauthorization we are up to?

Thank you very much.

Mr. HERMAN. In terms of the overall, how does the program deal with the diversity of individuals who are trade impacted? Well, right now, it doesn't do it very well. As you know, I worked in the garment industry in New York, which was before the program was reauthorized in 2002, and we were confronted with significant layoffs on behalf of new immigrants, predominantly women, sort of middle-aged. And it was very difficult to bring them into the program. The program was improved at the last reauthorization, but I don't think that a lot of the barriers that those individuals had—non-native English speaking, very limited in terms of overall skill development, limited levels of formal education—are indeed taken into account even by the current configuration of the program.

That is why in my testimony we advocate for globalization adjustment assistance, which would be a more universal program recognizing that all workers depending on—notwithstanding the point at which they are in their career, new entrants, middle career, or more senior, are impacted, and sometimes surprisingly, impacted by trade. And so they need to have these programs available to them, that a longer period of income support is absolutely essential, because the transition requires entire new skill development,

new careers. And also that training, that important element, you need to have the training support, the resources for at least 2 years of education that would allow folks at least to get the associate's degree, if that is where they are in terms of their educational attainment.

So it is very challenging, in part because globalization is impacting us universally, if you will, and the program is still very sort of too nuanced in that regard.

Mr. DORN. Could I add a comment about the older workers that you referenced?

The Health Coverage Tax Credit program says it is up to the State to arrange whatever private insurance the State wants to arrange. And in a number of States, that means individually medically underwritten nongroup insurance, where the older you are the more you get charged, and the sicker you are the more you get charged.

So, for example, in North Carolina in 2004, if you were a healthy young man at age 25, you would have to pay $357 a year for average State-qualified coverage. That is not bad. If you were a 55-year old woman, who was a breast cancer survivor in complete remission, you would have to spend $4,000. That is a 35 percent share.

So factors over which individuals have no control determine what they get charged, and that is something I would encourage Congress to examine in this upcoming opportunity to revise the TAA program.

Chairman MILLER. Thank you very much.

If we can just impose on your time a little bit more if you—oh, excuse me.

Ms. Lee, yes.

Ms. LEE. Thank you very much, Mr. Chairman.

I wanted to answer the last part of your question about the coordination between the trade policy and the labor market policy, and it goes back to what Mr. Kildee also asked earlier on. There is very little coordination, and in fact I think there is almost a denial that there are going to be any jobs lost, because the whole point of selling the trade agreements is to say that everybody is going to be a winner and we are going to create new jobs, we are going to be exporting lots of goods to Mexico or to Guatemala or wherever it is. And so that prevents us from doing the proactive planning that might be needed to say, Well, this industry is probably in the cross hairs, or, This region might lose a whole bunch of jobs, and let's get ready early on to deal with it.

And one of the issues that we have raised is industry-wide certification that might make it quicker; that when you know a whole industry is going to lose a lot of jobs because of trade policy, then you could facilitate that instead of waiting for each individual plant and each individual worker to receive that certification. So I think that would be one improvement, and it goes back to—and the question you asked about the coordination.

The Bush administration budget for this year assumes that there will be 6,000 fewer workers receiving TAA next year than there were this year. Now, that is at a time when the trade deficit is growing every year and is likely to grow for the foreseeable future. So how the Labor Department comes up with that estimate, when

we know that the trade policy is going in the other direction, is another baffling piece.

Thank you.

Chairman MILLER. Thank you very much.

One of the more remarkable paragraphs, Mr. Herman, was written by you when you asked the question: What do we mean by complexity "during a typical dislocation involving TAA, many workers, often hundreds of workers, must be advised of their rights and responsibilities, learn about training options, enroll if appropriate, apply for HCTC or an alternative trade adjustment assistance; if desired, get training waivers if needed; apply for unemployment insurance, or TRA, on a weekly or biweekly basis. Assessments are supposed to get done. Work search rules are explained, and a job search must be documented. Class attendance must be documented. Recorded mental health and social services needs must be addressed. The 8- to 16-week rule requires TAA-certified workers to enroll in training by the end of the 16th week of his or her layoff from the trade-affected employment or the end of the 8th week after the week of the TAA certification decisions covering his or her workplace. Many workers find out about TAA too late, especially when the certification decision is made after the plant closing, and the company does not help the State agents locate the workers. That is like jacks or better to open to play in the system. You know, now you get to play, but that is the beginning of how you run in this system."

I would like to ask you and, I think, Mr. Bevard and Dr. Alford the question as to what extent have we put in time lines that just do not work when you are on the ground for the consumer, so to speak, for the person who has to run this gauntlet, or for those trying to design helpful programs and access for workers.

Just in your sort of practical experience, Mr. Herman, you obviously have some recommendations which I will get to later.

Mr. HERMAN. You read from my testimony, and that was just one sort of indication of the complexity of this program. Workers can get tripped up, of course, anywhere along that trajectory; and many, in fact the majority, of workers do. So there is a disconnect between when you are eligible for income support, when you have to enroll in training. If you miss the training deadline, then you become ineligible for the income support that also affects HCTC.

So this is the overcomplexity of the program, and that is why you see such low takeup rates. So that is something that certainly needs to be addressed. It needs to be simplified and streamlined, and you need to recognize that the sequencing of a layoff notice, when you get income support, when you are eligible for assistance in terms of education, is often not in alignment with the formal education system. That is why, you know, if you get laid off in the middle of the fall and you cannot enroll until the next semester, that puts you at risk in losing some of the other benefits.

So those sort of basic alignment issues are very much present in the current system, and that is part of the reason why it is just not working very well.

Chairman MILLER. Mr. Bevard.

Mr. BEVARD. Yes. I mean, like you said, the alignment is poor in regards to the coordination of benefits. It was interesting Mr.

McKeon talked about the WIA, which we did have, but in all honesty, they did not address any of the concerns that I brought up other than that it provided some additional funding sources, but even that was not available to compensate.

Again, you know, hearing that we had 2 years to prepare, that was a curse and a blessing because, again, the question is where do you go. When they made the announcement, they were telling us, okay, growth industries are in areas like computers and all this kind of thing, but by the time we were actually going out the door, now that has changed. So I have got my mind set on here is where I am going to go, but now I cannot go in that direction anymore, and so there is just a myriad of things that do not line up. You know, it all sounds good on paper, but in practicality it is very rare for the stars to line up to your benefit.

Chairman MILLER. Dr. Alford.

Dr. ALFORD. I think that it is true for a number of reasons. One is that often when people are in the formative shock of losing a job, they are not at a readiness level to even hear about these programs and activities. They are worrying about where my kid's going to be tomorrow and how I am going to pay for child care and those kinds of more immediate issues. And so it is not because they are bad people or anything; they just are inundated with so many decisions to make and so forth that it may be much later before they can get ready to start thinking about what do I do next and what kind of education and training will I need to do that. And so that is part of the issue. That is what I meant when I said decisions about those kinds of issues should be pushed down to the people who are working with those people to the extent possible.

The other issue, as I mentioned earlier, is often now it is not a matter of you lose a job, you go get training, you get another job. So often it is a matter of going into some kind of entry level for some kind of career ladder where you have to have interspersed education and training and intermittent certification to get through various levels there; because you can start in the hospitality industry and work your way up to a career, but you can take that job and get that health insurance immediately and have some kind of subsistence wage until you make those connections.

So I think as you consider the reauthorization of WIA, and this program as well, that we should look to see if there is some way we could provide those kinds of options within the framework of what we are about here.

Chairman MILLER. Thank you. Your answer has raised a whole series of questions for me.

Mr. Herman, in your statement you also make a very strong recommendation that Congress ought to seek some input from the union State agencies, one-shops, and others knowledgeable in this field. And we will take you up on that effort because, clearly, this hearing demands a follow-on to this as we look at how we might be helpful in making these programs more user friendly. I am always struck how complex we make programs for the most vulnerable people in our society. It is just quite amazing.

Do any of my colleagues have another question that they—Mr. Kildee.

Mr. KILDEE. Just one clarification first.

I mentioned the figure 12,000 in Michigan. That is really 12,000 certified since October 2005.

Let me just say one thing, if I may, Mr. Chairman.

This is a capped entitlement, so you have to tell people, Well, the cap has been reached, and therefore, you cannot get in this program. If Congress were to take the cap off, that would relieve one of the problems there, and I think we could take it off. You know, we could take it off by—we could fund it just by getting a little bit of that $2 trillion tax cut, which the President signed into law about 5 years ago, and put that into the entitlement. But a capped entitlement to my mind is rather cruel, particularly when that entitlement exists because of a sad situation caused by a sad trade agreement. But I just think we should take that cap off.

Thank you, Mr. Chairman.

Chairman MILLER. Thank you.

Mr. Hare.

Mr. HARE. I just had one other thing, Mr. Bevard.

We were talking about—again, you also went to Herrin, Illinois. I know Maytag closed a factory there.

Mr. BEVARD. Yes.

Mr. HARE. And how many jobs?

Mr. BEVARD. About 1,000.

Mr. HARE. About 1,000 there.

Could you just briefly touch on the concern you had, too, because in Galesburg the workers there at least had an opportunity to go up to my hometown to work for John Deere or for Caterpillar. But in Herrin, Illinois, that is coal country basically, so for several hundred miles around, there is little for those folks to train to do unless you want to work in a mine.

Mr. BEVARD. Yes. Again, you are being educated for what? Again, in our area, like you said, you know, there were—you can drive 15 miles in either direction, and there are some jobs at a couple of factories that are open, but you run the risk of do I want to go through the same thing all over again,, but in Herrin, Illinois, while it is very deep in Southern Illinois and there are 1,000 people who have excellent educational opportunities, just outstanding, the problem is there are no jobs, absolutely no jobs. Coal is king. And if you want to work in the coal mines, that is fine, but there is not much else down there.

So what do you do? You know, I have heard about entrepreneurial types of things, and that is all well and good. How many of those will be sustained in an area like that? Again, it all comes back to where do you train.

In our facility, we had a gentleman who worked at one facility that was closed. He went to the next one, and they closed and moved to South America. Then he came to Maytag, which closed and moved to Mexico. He is 62 years old. He should be in the ballpark of retirement age. He has built up literally no pension because of all of the places he has been at. He can go through all of the training that he wants, but at age 62, nobody wants to hire him. So what do you do?

Mr. HARE. That is a very sad commentary, Mr. Bevard.

Thank you, Mr. Chairman.

Chairman MILLER. Thank you.

Any other members?

Last question. I promise.

Mr. Herman, in your paper again, this question of—back to deadlines again—sort of the 8- to 16-week deadline on enrollment and training. Again, Dr. Alford has made the point and, I think, Mr. Bevard has made the point, you know, in many instances for these events for these families, they appear to be catastrophic. And I assume that it takes a while to kind of stabilize your thinking and think of a plan, but I would suspect your first concern is about income and how you are going to hold things together and not lose your house or your car or whatever it is that is pending.

Shouldn't then the next question be independent of your first decisions you make—I mean whether you chose—if you had a wage insurance option or you had a TAA option or whatever income support options, shouldn't you then be able to say, Look, I have figured it out now. I am working at this job. I am getting wage insurance, but what I would really like to do is go off and get training in this area.

I mean it seems to me, to force people to make a series of decisions here when almost all of us would be reeling from that kind of—I mean it happens to Members of Congress every 2 years every now and then. Wow. You know, try and retrain one of those puppies, but—excuse me. Excuse me. Stop.

Mr. HERMAN. As I said in my testimony, they are cumbersome, they are arbitrary, they trip up a lot of workers. But one thing we know—and this relates to the relationship between or to the lack of relationship often between WIA and TAA—is advance notice and advance counseling help. A peer-to-peer program that Mr. Bevard went through is very important. That takes place in some places, not everywhere, in part because it is part of the rapid response system, so it is WIA funded, and it is part of rapid response and peer counseling; also layoff aversions. These are elements that we advocate for that need to be beefed up, because not all of these facilities, particularly when you get to second- and third-tier suppliers, necessarily have to close the way the overall assembly plants do. So that is one aspect.

But as to the specific, you know, aspects that we identify in my testimony, the 8-16 rule is a really cumbersome one. It is quite arbitrary. We recommend just basically putting in a much longer time frame where workers can make decisions about what to select from a menu of options, because they need that time to sort things out. They also need counseling. They need support. They need advice.

Very often, workers are confronted with these choices in isolation. You got the warn notice. You know your plant is going to close. Sometimes you have a union to help you out. Sometimes you do not. You are bombarded with just a plethora of information that you cannot even sort through on a timely basis, let alone make decisions that are going to influence the rest of your career and your family.

So those issues, particularly lengthening the time frame in which workers have to sort through the options available to them, are very important and would make the system a lot more user friendly and would probably increase the takeup rates.

Chairman MILLER. Mr. Dorn.

Mr. DORN. I think implicit in your question is a fascinating paradigm shift for the system, and I make this comment a little nervously because I am more into the health coverage side of things than into the training side of things. But during this initial period of time when workers are reeling and are being bombarded with all of these messages about different benefits and about how to cope emotionally and so forth, I wonder whether there could be, as you said earlier, some kind of presumptive eligibility, some sort of initial coping period where you say to the worker, you know, for the next month, or however long that period is, you are going to have health insurance; you are going to have unemployment insurance payments; you are going to get certain basic things to hold your life together while you sort through the system and figure out where to go.

I wonder whether that sort of presumptive eligibility system might be something worth considering.

Chairman MILLER. That and other questions will be answered by this committee in the future.

Thank you so very much for all of your testimony. It has, I think, been very helpful to the members and to this debate. Thank you so much.

Without objection, the members will have 14 days to submit additional materials or questions for the hearing record.

With that, the committee will stand adjourned.

[The prepared statement of Mr. Altmire follows:]

Prepared Statement of Hon. Jason Altmire, a Representative in Congress From the State of Pennsylvania

Thank you, Mr. Chairman, for holding this critical hearing on how effective existing programs are in helping workers impacted by international trade.

I would like to extend a warm welcome to all of our witnesses. I appreciate the time you took to be here today and I look forward to your testimony.

I would like to begin my statement by reading from a letter sent to me by Mr. John Bolas, a constituent of mine, who is currently using Trade Adjustment Assistance benefits and asked that I share his story with the members of this Committee.

"Members of Congress: I am soon going to finish an accelerated 18-month training program under the Trade Adjustment Assistance program. With the help of the TAA program I am moving from a dead end manufacturing job with few skills to having the skills to get a good job helping other people get back from sickness and injury to their former everyday lives.

"It has been a hard two years since I lost my job at the former Phoenix (now Anchor Hocking) glass plant in Monaca PA. In 2005 half the workforce was cut as my former employer faced cheap imported glass competition. Fortunately my union was able to get my workplace certified for the TAA program so I had enough training funds to go into the healthcare field to become a Certified Occupational Therapy Assistant. I expect to make $33,000 to start and I only made $25,000 in the glass plant.

"With a disabled wife and two young kids it was hard living on Unemployment and TRA weekly checks-they pay about 1/2 my former wage. My in-laws had to help us out and I took out a few loans to cover my family's living expenses. But without the checks, especially the TRA (Trade Readjustment Allowance) checks that started when my 6 months of state benefits ran out, I couldn't have made it at all.

"Not only was my tuition covered, but books and supplies were paid for by the TAA program. And if I can't find a job locally I understand that the TAA training program will help me look for work and move if I find it in another part of the state or country. I don't want to move my family but it helps to know I could get some help to move if I have to.

"For some of my co-workers it was hard to figure out what they wanted to train for their future jobs. It seems like most good paying manufacturing jobs are disappearing. For me it was easy because I saw my dad get through a stroke and then

cancer. He got physical therapy but no real help getting back to his regular life. I wanted to help others do that and this training is directed to help people learn to use different ways to accomplish the things they need to get back to driving themselves, learning to use new tools like computers, to get back to their old jobs whenever possible.

"The TAA/TRA program worked pretty well for me. There were a lot of hoops I had to get through, deadlines that would have stopped my eligibility for benefits. They seemed unfair since I was doing my best to get on with remaking my life. State officials and a local group that helps unemployed people were there for me when I needed a little assistance getting things straightened out along the way.

"Thanks for listening to my story. I hope you keep this program for people who lose decent jobs and have to get trained for new kinds of work."

As you can see, Mr. Bolas was able to use Trade Adjustment Assistance to successfully transfer from a career in manufacturing to a career in health care. While Mr. Bolas was able to use the TAA effectively, he noted the difficult bureaucratic process he had to go through to qualify for and receive TAA benefits.

The TAA program is a valuable tool for those who lose their jobs due to cheaply imported goods or job relocations outside of the United States. However, there are some serious issues that make TAA less useful than it should be. One of which is the failure to cover workers in service industries. For example, when USAir reservation jobs were relocated to El Salvador, many of my constituents lost their jobs. None of these workers, however, qualified for TAA. This is clearly unfair and we need to examine how best to address this as the program is reauthorized.

There are many other issues that if corrected could make the TAA work better and more fairly for workers. I look forward to raising these issues as the reauthorization of the TAA program comes before Congress.

Thank you again, Mr. Chairman. I yield back the balance of my time.

[Additional submissions by Dr. Brainard follow:]

[Internet address to Brookings Institution commentary, "A Fairer Deal for America's Workers in a New Era of Offshoring," dated September 14, 2005, follows:]

http://www.brookings.edu/dybdocroot/es/commentary/journals/tradeforum/2005btf—brainard.pdf

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[Internet address to the Commonwealth Fund's issue brief, "Limited Take-Up of Health Coverage Tax Credits: A Challenge to Future Tax Credit Design," dated October 2005, follows:]

http://www.commonwealthfund.org/usr—doc/Dorn—limited—take-up—tax—credits—869—ib.pdf?section=4039

[Internet address to the Economic Policy Institute's briefing paper, "Globalization That Works for Working Americans," dated January 11, 2007, follows:]

http://www.sharedprosperity.org/bp179/bp179.pdf

[Wall Street Journal article, "Federal Aid Does Little for Free Trade's Losers," dated March 1, 2007, follows:]

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PAGE ONE

OFF THE JOB

Federal Aid Does Little For Free Trade's Losers

Health Subsidies Reach Few Laid-Off Workers; Hurdle for Bush Agenda

By DEBORAH SOLOMON
March 1, 2007; Page A1

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GALAX, Va. -- For more than 80 years, the people of Webb Furniture crafted wooden dressers and other furniture here at the foot of the Blue Ridge Mountains. In January, under pressure from Chinese imports, Webb shuttered its Galax plant and fired all 309 employees.

[1] RELATED STORY

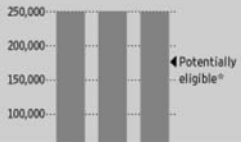
• Read more[2] about the town of Galax, Va., and how it's dealing with economic challenges.

Tonya Graber lost more than her job painting furniture. The single mother also lost health insurance for herself and her 12-year-old son. Under a government program aimed at helping workers harmed by trade, Ms. Graber was eligible for federally subsidized health insurance, but she couldn't afford it.

She isn't alone. The Health Coverage Tax Credit, tucked into a 2002 trade bill to win support in Congress, is supposed to cushion the blow to factory workers hurt by imports by paying 65% of the cost of health insurance. (The subsidy is also available to workers whose companies have dumped their pension plans on the government's pension insurer.) More than four years after the program began, just 11% of those potentially eligible for the subsidy are taking it -- or about 28,000 of the roughly 250,000 people the government estimates may qualify in a given year.

Idle Program

A federal health-insurance subsidy, partly created for laid-off workers in industries hurt by imports, is getting limited use.



"It's just not realistic to say that a laid-off worker who's uninsured is going to come up with 35% of the premium," says Stan Dorn, who has studied the program at the Urban Institute think tank. Even those who can find the money say they're struggling to figure out the rules and deal with as many as five state and federal agencies.

The troubles illustrate the shortcomings of a program pivotal to the debate over free trade and the globalization of business. A common political compromise in Washington involves keeping trade barriers low in exchange for programs compensating those hurt by imports. Free-trade advocates are

generally happy to make such a compromise. They figure the winners from trade -- principally consumers who save money on imported goods -- can afford, through the government, to help compensate the losers. (See related article.[3])

The problem is that compensation programs often add bureaucracy without helping many people. Even if the health-insurance assistance program were working well, it would aid only a fraction of those who lose their jobs. The Labor Department must certify that workers have lost their jobs to imports from certain countries or to a shift in production there. Most workers in call centers or other service industries whose jobs are sent overseas don't qualify.

Another struggling program is wage insurance, designed for workers over 50 who lose their jobs because of trade and then take a lower-paying job. The government makes up half the difference in wages, up to $10,000 a year, but it requires that workers prove they don't have "easily transferable skills." Some can't do that.

The issue: Should Washington give up on such programs, or should it expand them and try to make them work better? For the moment, people on both sides on Capitol Hill say President Bush will need to beef up programs for those hurt by imports if he wants congressional backing for new trade legislation.

Mr. Bush wants Congress to extend his authority to negotiate trade deals and put them to an up-or-down vote in Congress. The administration also is trying to restart the Doha Round of global trade talks.

The White House has promised to offer legislation to "extend and improve" the Trade Adjustment Assistance program, which includes both the health-insurance assistance and wage insurance. However, it didn't include many specifics in its budget for the year beginning in October. Several Democrats and Republicans in Congress are proposing to expand TAA to cover more workers, including those in service industries.

"There has to be more cushioning for people caught in the maws of free trade," says Sen. Charles Schumer, a New York Democrat who has criticized China's trade policy. "The fact that TAA has not done the job gives those who want to build walls around the U.S. greater currency."

Town's Lost Jobs

The issue is on vivid display in Galax, population 6,800. More than 2,000 jobs in this western Virginia town have been eliminated over the past two years as several furniture manufacturers and textile plants either closed or reduced their work forces in the face of cheaper imports, mostly from China.

Almost all of the displaced workers were eligible for the federal health-insurance subsidy, yet only about 100 have signed up, says Linda Nuckolls, who works in Galax for the Virginia Employment Commission. "These people have worked in a furniture factory for $7 or $9 an hour and they just don't have the money," she says.

Results were similar in a January 2006 survey by the Government Accountability Office, the investigative arm of Congress. The GAO looked at five trade-related plant closures and found that no more than

12% of workers at any site were taking the credit. Among those who knew of the program but didn't use it, the most common complaint was that they couldn't afford to pay their part of the premium, the GAO said.

Laid-off employees usually can buy insurance through their old employers, who are required by federal law to offer it temporarily but not to pay for it. Another option in many states is to buy insurance through a health plan arranged by the state. On average, according to the Internal Revenue Service, the insurance costs $720 a month, with the federal government picking up $468, or 65%, of the cost and the former employee paying the $252 remainder. Although the program is officially called a tax credit and is run by the IRS, in practice it works like a federal subsidy.

Law's Constraints

David Williams, who oversees the program at the IRS, says the agency is working hard to make eligible people aware of it. He notes that the law Congress passed includes constraints that mean some of the 250,000 or so people reported each year as potentially eligible actually aren't. "Some may be ineligible if they may be entitled to Medicare, may not meet the age requirements, may be using a spouse's insurance or may be in a plan that doesn't qualify," he says.

The administration acknowledges problems. The White House Office of Management and Budget has called the program "not performing," and cited as a reason "the affordability of coverage to potential recipients." Mr. Bush's budget for fiscal 2008 proposes several changes to the program, though none to make it cheaper.

Ms. Graber, 32 years old, followed her family into the furniture mills. Factory jobs, like the hardwood used in furniture, were long plentiful here. Ms. Graber says it was hot and dirty work, but the $7.66-an-hour job came with health benefits, which were a big draw since her son has asthma and needs medication. "The reason I held on to that job was because of the health insurance," she says.

Tonya Graber

At Webb, Ms. Graber paid about $200 a month for insurance, which included dental and vision care. She looked into the tax credit and discovered that coverage for herself and her son would run about $400 a month, not including dental or vision. After the government picked up 65% of the tab, her portion would have been $140 a month -- plus a $500 annual deductible and $20 co-payments for doctor's office visits and medication.

"It was way too much with what I was drawing in unemployment," she says. She gets an unemployment check of $404 every two weeks, meaning her monthly income is under $900.

She enrolled her son in a children's health program that falls under Medicaid, the state-federal program for low-income families. She didn't qualify for Medicaid herself -- she says she was told her income is too high -- so she goes without health insurance. "I just pray to God and try not to get sick," says Ms. Graber, who is training at Wytheville Community College near Galax to become a respiratory therapist. Her tuition is paid through the TAA program.

Larry Kenny of Galax was making $45,000 a year as a maintenance mechanic at National Textiles LLC when he was laid off in May 2006. Mr. Kenny, 61, took the tax credit, in large part because

his wife has lupus. His portion of the insurance bill takes $240 of the $1,200 a month he draws in unemployment benefits.

"I told my wife the only way we could afford it is if we don't owe anything to anyone," Mr. Kenny says. He cashed out $43,000 in his 401(k) retirement plan, sold his truck for $6,000 and used the money to pay off his mortgage and his car loan. "It's kind of scary because I was always used to having $20,000 in my savings account and now when I look there's just $200, if that much," he says.

Some in Congress argue it's unreasonable to expect someone who lost a job to pay 35% of his health-insurance bill. Those who get health coverage on the job typically pay closer to 15% to 25% of the total cost of their insurance. The Senate Finance Committee chairman, Max Baucus of Montana, says he plans to introduce legislation this year "to make this benefit work better."

Workers who seek the health-care tax credit must bear upfront costs. The federal subsidy often doesn't begin until 60 days after they lose their jobs because of a government-imposed waiting period before they are eligible to apply for benefits, so any insurance they hold in the interim is their responsibility.

Also, IRS paperwork often holds up final approval until well after the 60-day period. While waiting for the official sign-off, people must continue to pay the full cost of insurance. Some states have received grants from the Labor Department to help people with the upfront costs.

If laid-off workers decide to let the dust settle for a few months before doing anything about their health care, they may lose out. Forty-three states offer group plans that may have better terms than the insurance available from the former employer, but workers must apply for the state plans quickly. Under the Bush administration's interpretation of the law, workers applying for the new insurance must have three months of continuous health coverage prior to enrolling in the tax credit, with no more than a 63-day gap. Otherwise they can be rejected for pre-existing health conditions.

Applicants 'Overwhelmed'

The health-care tax credit "is a program you can be overwhelmed by," says Ms. Nuckolls of the Virginia Employment Commission. "The people we deal with don't have the education level to understand it."

Last April, Virginia Gov. Tim Kaine established the Galax Strike Force to help displaced workers navigate the bureaucracy. On a recent Monday morning, dozens of people crammed into the Strike Force's office in a strip mall with questions about the tax credit.

John and Barbara Farmer, who both lost jobs at National Textile, said they got a letter informing them their premiums would be increasing in 2007 and asking them to fill out a form they didn't understand. Ralph Ellis, who lost his job at Webb Furniture in January 2006, said the Strike Force helped him each of the three times his tax credit was canceled and when he was denied coverage because of earlier heart surgery.

However, privacy rules prevent state officials from talking directly to the IRS about individual clients. Ms. Nuckolls says she'll often dial the IRS from her desk and then put the client on the phone to relay information.

"On more than one occasion I've wanted to pull my hair out because the IRS would say, 'We can't tell you that,' " says Anna Rice-Wright, who oversaw administration of the health coverage tax credit in Virginia. "I would ask something as simple as, 'Can you tell me when their packages are going to be mailed out?' and they'd say, 'No.' " The IRS says it needs strict rules to ensure the confidentiality of financial information.

Other states offer less assistance. John Lewia, 62, was laid off in August 2004 from his job at the Eastern Paper Mill in Brewer, Maine. His wife, Sheila, says she got plenty of information from state and federal agencies but could make little sense of it, and had nowhere to get help. Her husband, who worked in the mill for 23 years, isn't able to read, she says.

The couple is going without health insurance for now, although Ms. Lewia suffers from diabetes and recently battled breast cancer. They try to avoid going to the doctor, and pay out of pocket when they do. "I think we paid $300 or something like that the last time we went," she says.

Write to Deborah Solomon at deborah.solomon@wsj.com[4]

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[Whereupon, at 3:21 p.m., the committee was adjourned.]

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