



Perils of Trade and Trade Adjustment

Howard Rosen untangles the latest battles over pending free trade agreements, aid for displaced workers, and the politics holding up agreement in Washington.

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Steve Weisman: The pending free trade agreements with Korea, Colombia, and Panama have become like the Perils of Pauline. Howard Rosen, senior fellow at the Peterson Institute for International Economics, is here to discuss the latest. This is Steve Weisman. The Republican senators boycotted a session yesterday that effectively blocked free trade agreements from coming to the floor of the Senate, even though there was an agreement between the Administration and House Republicans. Is this impasse permanent?

Howard Rosen: What is clear is that Trade Adjustment Assistance has now become a political football, and that the issues are much bigger than Trade Adjustment Assistance. It has to do with the president relationship with Congress, the debt ceiling, the 2012 budget. This is a much bigger fight than just Trade Adjustment Assistance, although everyone wants to make it sound like it's all about giving a billion dollars to some unemployed workers. The Democrats would like to link Trade Adjustment Assistance, and also the renewal of the Generalized System of Preferences, and the Andean Preferences, to the three free trade agreements.

Steve Weisman: And the Democrats won agreement on that from House Republicans?

Howard Rosen: Not exactly. Chairman [David] Camp [R-MI], chairman of the House Ways and Means Committee, said that he was willing to accept the deal on the specifics, but that it was up to the Republican leadership in terms of the format, if it would be linked to the actual free trade agreements.

The strategy was to bring it before the Senate Finance Committee. And I think, under good circumstances, if it got past the committee and then gone to the floor, I think that would have been favorable on the House side. And they would have done the same thing.

Steve Weisman: But the Republicans in the Senate—

Howard Rosen: Blocked it in the Senate. So the House did not want to commit that they would approve this legislation until the Senate does.

Steve Weisman: And leading the opposition in the Senate are Mitch McConnell and Orrin Hatch among others.

Howard Rosen: That is correct. And the issue besides the substance of Trade Adjustment Assistance or GSP, the core technical issue is the ability to add things to a free trade agreement piece of legislation. The precedent was in 1993; President Clinton said that he would not sign the NAFTA agreement without two side agreements on labor and environment. And it was ruled then by the Parliamentarian in Congress that it was OK to amend through the implementing legislation of NAFTA and to include the side agreements as part of the original fast track legislation. That is the precedent. And the specific language is that anything added to the legislation has to be “necessary and appropriate” to the agreement.

Steve Weisman: Right.

Howard Rosen: From a historical standpoint, Senator Hatch disagreed in 1993 with amending the fast track. But he never forced a vote within the Finance Committee or on the Senate floor. People believed that it would have passed anyway, but he did not force a vote. But he did state his opposition at the time to amending fast track.

That brings us fast forward to the current situation. We have two unique problems. First, President Obama has renegotiated the three agreements. We're in the same situation that President Clinton was with the NAFTA. What do we do? Are we allowed to amend the [legislation] — this is now called TPA [Trade Promotion Authority] -- with his additional pieces? That's the first thing. The second is, as you may remember, the Republicans actually brought the Colombia Free Trade Agreement to the floor in 2007. So they've already actually started the process. And so there's a question of what's going to happen with that agreement you have—

Steve Weisman: Which floor, the Senate or the House?

Howard Rosen: The House. The Republicans brought it to the House floor, and so there is a question of how do you redo it now. In both cases, the conventional wisdom is based on the '93 precedent that you can amend a fast track or a Trade Promotion Authority implementing legislation of a bilateral agreement under the condition that those things are “necessary and appropriate.”

The administration and, as you mentioned, the Senate Democrats and Senate Republicans, they thought had a deal that it was necessary and appropriate to add Trade Adjustment Assistance to the Korea bill, and the renewal of the Generalized System of Preferences and the Andean Preferences to the Colombia Agreement.

Steve Weisman: All right.

Howard Rosen: And that's where they were moving forward with yesterday.

Steve Weisman: Let's talk about the substance of the Republican objections. You had an opportunity to appear on a panel with Senator Hatch this week at the American Enterprise Institute. He addressed three concerns about these agreements. Tell me what they were and what your response was.

Howard Rosen: He said at the end of the day, Trade Adjustment Assistance is unpopular, ineffective, and expensive. Unpopular -- I don't know how to address that. It's certainly not unpopular with a couple of hundred thousand people who are in the program, and also not unpopular with the people who advocate for the program and see it as a necessary element of moving forward as part of our trade policy.

But I want to address the two specifics, which is the ineffective and the expensive. You know, the critics constantly raise this issue of the program being ineffective. But I have yet to hear anyone bring any documentation, or data, or statistics, to prove their point. I use three criteria in measuring a labor program.

One is the speed of re-employment. The second is what happens to earnings of those workers. And number three is what's the cost of the adjustment, and who bears that cost. Under the “speed of return to work,” we have data that says that two-thirds of the workers

who finish the program find a job within the first three months of leaving the program, and that 90 percent of those people stay at those jobs for at least a year. It seems pretty good to me. We can always use higher numbers, but it seems pretty good to me.

In terms of the earnings, this is actually complicated by the fact that real earnings in the United States have been falling or stagnant for the last 20 years. It is ridiculous to argue that it is the fault of TAA, or any labor market program, that if someone gets out and takes a job at lower wages, that it's the fault of the program. This is what's happening in the economy.

Steve Weisman: Right.

Howard Rosen: It is a very high probability that someone leaving TAA will take a loss in earnings. Furthermore, we also know that those workers start out with higher earnings than other people. So the probability that not only their taking a loss is large, but they're probably going to take a large loss of earnings. Again, it is true that people who go through TAA take jobs that pay less in general on average, but I can't understand how that's a fault of the program. It's something's going on with the economy.

In terms of expensive, I guess there are two issues. One is, people who say it's expensive never tell you that it's a billion dollars. I mean, if that's their level of what is expensive, I mean I'm not trying to say that every dollar counts. But let's keep things in to perspective. I would look at the cost of the program in relative terms. Number one, trade and investment and globalization benefits the economy by some estimates -- Gary Hufbauer suggested -- up to a trillion dollars. So putting a billion dollars towards helping those workers adversely affected by it, I think, as I've seen people in the business community quoted as saying, is a pretty small price. That is on one hand, and that is relative terms.

In terms of people or the critics are making it sound like we are spending loads of money on training programs for workers. We spend about \$7 billion a year on a workforce of 130 million people. It comes to about a dollar a week, per week, per worker in this country that we spend on training. I think the American people should think about it themselves. Is it worth \$1 of their tax money every week to help train workers so that we have a skilled workforce?

Steve Weisman: What are the prospects for resolving this before the end of the summer?

Howard Rosen: You're actually asking two questions. What's the prospect of resolving it? And second, can it be done before the end of the summer? We're hearing a lot of noise right now, and I think this was always a fear, that the closer this debate got to the debt ceiling debate and the budget debate that, this was all going to be confused.

It is possible, that if the Republicans come back to the table to this Finance Committee, that they could vote the bill out and it can go to the floor and then go to the House and then it could pass. So there is still a possibility that all this could be done before the end of the summer.

But since it's now looking like it's getting all tied up in the debt ceiling issue and other issues, I probably put it at about 50-50 chance that this could linger on until the Fall, until after we resolve some of these others, or this could become part of a big deal, a big agreement, that includes the debt ceiling, the 2012 budget, and other things like the free trade agreements, Trade Adjustment Assistance, and GSP.

The bottom line is, at the end of the day, this is all going to pass. And that's why I think that this delay is unfortunate, because it is going to pass. But I think the optimal of the optimistic scenario that it would pass before the end of the summer I think is looking less likely. I also want to add that we can't just look at this from the U.S. perspective. The longer we wait on these agreements, the more things that can be happening around the world. There's opposition on this agreement in Korea. We can take seven or eight months now to decide to agree to sign this agreement and the Koreans may decide to change their mind.

Yesterday, the agreement between Korea and the Europeans went into effect. So that agreement is already into effect. The longer we wait, the more we jeopardize our Korean agreement. I think what we hope the wiser minds will prevail and they'll say we need to do it and do it soon.

Steve Weisman: Thanks, Howard.

