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Adjustment Policies in the United States

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Summary: Principal adjustment programs are reviewed – unemployment insurance (UI) and related long-term programs for displaced workers, and trade adjustment assistance (TAA). None of these programs has had wide application in agriculture, although the current trade act contains a new program specifically for farmers.

“What emerges from the popular debate and concerns about globalization is a clear message to policymakers that they must take account of transitional adjustment costs and distributional issues... in designing policies aimed at easing adjustments to changing economic circumstances brought about by globalization if they expect to garner popular support for further trade liberalization.” Gregory L. Schoepfl.

1. Introduction

There are programs at both the federal and state levels in the United States that address the dislocation associated with economic change. This paper focuses on the two most important types of programs – unemployment insurance and trade adjustment assistance.

2. Unemployment Insurance

Federal unemployment compensation was introduced in the United States in 1935 as part of the omnibus Social Security Act of the Roosevelt administration. It was one of a number of social programs, including agricultural support programs, developed in response to the Great Depression of the 1930s. Several individual states had previously introduced their own unemployment compensation programs. The earliest was in Massachusetts in 1916, which was modeled on one introduced by Great Britain in 1911 (Baiker et al.). A key factor shaping the federal legislation was the possibility of legal challenges to the constitutionality of a program in this area through the Supreme Court. It was this possibility that resulted in most of the detail of the implementation of the program to the states; this key characteristic of the program continues to the present day.

2.1. Basic Features of the Program

Unemployment insurance (UI) in the United States provides partial compensation for loss of wages for those who are temporarily out of work. It is not intended to provide permanent support for the long-term unemployed, such as that in “welfare” programs. Benefits are not means tested and they are of limited duration. The program is funded by payroll taxes on employers. In common with other forms of insurance, the tax rate paid by an employer typically increases if the rate of claims for unemployment for its workers rises. Employers who are required to pay the tax pay both a state and a federal component. The state component, which is administered through state employment agencies, is used to fund unemployment benefits for workers in that state. The federal component, which is administered through the Department of Labor, is used to pay administrative costs and the federal share of state programs. It also provides a fund from which states may borrow, if necessary, to pay benefits.

To be eligible for payments under the program a worker must meet both monetary and non-monetary conditions. The monetary requirements ensure that workers have a sufficient employment history to qualify for benefits. States require workers to have had a minimum amount of earnings or a minimum number of weeks worked to qualify for benefits. All states use a one year base period for employment history, although this is not necessarily the 52 weeks prior to layoff. The non-monetary conditions

typically relate to the circumstances surrounding the loss of employment. Separation does not have to be involuntary; all states allow workers who have voluntarily left employment for “good cause” to collect benefits.

The benefits paid vary across states. There is a widely held view that payments should be high enough to sustain a worker and his/her family without resort to public welfare assistance, but not so high as to undermine the incentive to rejoin the active labor force (O’Leary and Rubin). On average, states replace up to 50 percent of a worker’s former weekly wage, up to a given maximum – typically the average weekly wage in the state (U.S. Department of Labor).

To maintain their eligibility for benefits, workers must show a continued attachment to the labor market, i.e., that they are available for work. Most states require evidence of active job search. All states sanction claimants if they refuse to accept an offer of suitable work, typically through the temporary or permanent suspension of benefits.

The proportion of unemployed workers in the United States who receive unemployment benefits under state UI programs has been in decline since 1947 – the first year for which data were collected. Bassi and McMurrer use state data to analyze the characteristics of those who are most likely to receive benefits. They conclude that recipients are most likely to be male and white, have a long term attachment to the labor market, earn relatively high wages, work full time for the entire year in a manufacturing job, be a member of a union living in the Northeast, and are more likely to be a job loser than a job leaver. They note that individuals with these attributes are a declining proportion of the total labor force in the United States and that this may account for the fall in the proportion of those receiving benefits under the program.

2.2 Application in the Food and Agricultural Sector

At its inception in 1935, unemployment insurance only applied to workers in industry and commerce attached to firms with eight or more workers who were employed for at least 20 weeks per year. Workers in small firms, those in agriculture and the public sector, and seasonal workers were excluded. The program has been gradually extended to cover additional categories of workers, for example, those in state and local governments were added in 1976. Amendments in that year extended the program for the first time to some agricultural workers by covering agricultural firms with ten or more workers, employed for at least 20 weeks of the year, with a payroll of at least \$20,000 in any calendar quarter. This would exclude the vast majority of enterprises that are classified as farms in the United States. Consequently, a large proportion of agricultural workers are uncovered by the program because of the “small farm” exclusion.

Bassi and McMurrer observe “this is the most significant remaining gap in the coverage of wage or salaried workers” (p.56). They also note that the exemption can also affect migrant workers who do a significant proportion of their work on large farms. Because the wages from work on small farms are not covered, workers may not meet the minimum earnings criterion, even though their total wages would otherwise be sufficient for them to qualify. Bassi and McMurrer indicate that there are problems created by the Federal UI legislation in that agricultural workers who are supplied by a farm labor contractor or “crew leader” can, under certain circumstances, be considered employees of that leader rather than the farm on which they are working. They state that UI reporting and taxpaying responsibilities of crew leaders have been characterized by widespread noncompliance and observe that “the crew leader provision frequently creates problems for workers who attempt to secure...benefits” (p.56).

Eight states have expanded the coverage of agricultural employees beyond the 1976 federal requirements. These include California, Florida and Texas. California provides coverage for farm workers on the same basis as other workers, resulting in virtually universal coverage. It is notable that the benefits paid out by California to farm workers typically exceed the contributions from the firms concerned. Bassi and McMurrer estimate that the extension of full UI benefits to all agricultural

workers would probably increase total benefit costs of the program by 1-2 percent. Despite the actions taken by some states, most have monetary criteria that do not accommodate the low-wage, part-time and intermittent workers that may characterize significant proportions of the hired labor in the food and agricultural system.

3. Other Programs for Workers

Unemployment Insurance only deals with short-term losses in earnings. There is an underlying assumption that displaced workers will either be recalled by their former employer, or will be able to find alternative employment within a fairly short period of time. Other programs exist for workers who face a more difficult transition to alternative employment. These programs typically focus on training.

The first program in this area was introduced under the Manpower Development and Training Act (MDTA) in 1962. The Comprehensive Employment and Training Act of 1972 expanded training options and provided access to jobs in the public sector. The Job Training Partnership Act (JTPA) of 1982 placed increased emphasis on training for private sector jobs and on a federal-state partnership in retraining and placement in which much of the responsibility was devolved to the states. Title III of the Act contained provisions for assistance for training, placement, relocation, for support with child care and transportation costs while workers were undergoing retraining.

Despite these provisions in the Act, they were not widely used. The Economic Dislocation and Worker Adjustment Act (EDWAA) of 1988 placed even greater emphasis on local implementation and increased funding for these efforts. This was replaced by the Workforce Investment Act (WIA) of 1998. One of the key provisions of the current act is the establishment of a “One-Stop” delivery system as an access point for placement and training services. Workforce investment boards have been established at the state level and states are charged with organizing the delivery of programs at the local level.

Another feature of the legislation is that 20 percent of the funding under the Act is reserved for discretionary use by the Secretary of Labor for emergency grants, demonstrations and technical assistance. National Emergency Grants are discretionary grants awarded by the Secretary of Labor intended to complement the resources and service capability at the state and local area levels by providing supplemental funding for workforce development and employment services and other adjustment assistance for dislocated workers and other eligible individuals, including those who are eligible for trade adjustment assistance. The current secretary has been very active in the use of such emergency grants.

4. Trade Adjustment Assistance

Programs to address specifically the adjustment issues created by trade policy liberalization in the United States date back the 1962 Trade Expansion Act. This provided presidential authority for the Kennedy Round of negotiations under the General Agreement on Tariffs and Trade. Adjustment assistance provisions have been an enduring characteristic of successive trade acts.

4.1 A Brief History of Adjustment Assistance

The 1962 Act contained provisions for adjustment assistance to firms or workers. A firm or group of workers (or their union) could petition the Tariff Commission to investigate their eligibility for such assistance.¹ Under section 301 of the legislation, the Commission was required to determine whether “as a result of in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article.” In making its determination the Commission was required to “take into account all

¹ The Tariff Commission was established by Congress in 1916. Its name was changed to the U.S. International Trade Commission in the Trade Act of 1974. The role of the Commission is to investigate trade issues and to report on these to the President and the Congress in order to inform trade policy.

economic factors which it considers relevant, including idling of productive facilities, inability to operate at a reasonable profit, and underemployment or unemployment.” In the event that the Commission’s investigation proved positive the President could decide to increase import tariffs on the goods involved for up to five years and/or provide firms or workers the opportunity to apply for adjustment assistance.

Adjustment assistance for firms could take the form of technical, financial or tax assistance, or some combination of these. A firm was required to submit an adjustment proposal for certification by the Secretary of Commerce. Certification was dependent on the proposal being judged to “materially to contribute to the economic adjustment of the firm”; “give adequate consideration to the interest of workers”; and “demonstrate that the firm will make all reasonable efforts to use its own resources for economic development.” Technical assistance could also be provided, on a cost sharing basis, to enable a firm to prepare its adjustment proposal. Financial assistance, in the form of loans or loan guarantees, could be made available for “acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant, buildings, equipment, facilities or machinery” or in exceptional cases “to supply working capital.” Financial assistance could only be provided if this were not available from alternative sources on reasonable terms. Tax assistance related to a carryback of operating losses against taxes paid in previous years, or the carryover of these losses against future tax liability.

The determination of eligibility for adjustment assistance for workers was the responsibility of the Secretary of Labor. Such assistance involved the payment of a trade readjustment allowance to workers who were judged to be totally or partially separated from employment due to import competition.² The allowance was 65 percent of the average weekly wage of an unemployed worker, up to a maximum of 65 percent of the average weekly manufacturing wage. If a worker received some remuneration during a week, the payment was reduced by 50 percent of that amount. Workers undergoing on-the-job training were also eligible for payments, although workers did not need to undergo training in order to receive benefits. All payments under the legislation were a “top up” for those provided through state unemployment insurance programs. Payments were limited to 52 weeks, with an additional extension of 26 weeks for a worker undergoing approved training, or 13 additional weeks for a worker aged 60 or over at the time of total or partial separation. Workers were also eligible for payments to defray transportation and subsistence expenses while undergoing retraining, and for relocation allowances.

Following the model provided by UI, payments under TAA were directed through the States, since trade readjustment allowances are essentially supplementary UI payments. States were also required to provide additional services to displaced workers such as testing, counseling, referral to training and placement services.

An Adjustment Assistance Advisory Board was created to advise the President on the implementation of the policy. The Secretary of Agriculture was one of the members of the Board.

The TAA provisions were modified in the Trade Reform Act of 1974, which provided the negotiating authority for Tokyo Round of GATT negotiations. The legislation made it easier for claimants to qualify for assistance and increased benefits for workers and firms. It also expanded assistance to “trade-impacted” communities. Interestingly, the new act made specific reference to “workers in any agricultural firm or subdivision of an agricultural firm” as being eligible to apply for adjustment assistance. There were no specific references to agriculture in the earlier legislation.

The Act led to an enormous increase in expenditures. Payments to workers alone rose from \$79 million in 1975-76 to \$1 billion in 1980. This resulted in a tightening of eligibility criteria and reduction in benefits in the 1981 Omnibus Reconciliation Act (Banks and Tumlir). The Omnibus

² Partial separation was defined as a reduction in hours of work to 80 percent or less of previous weekly hours worked, or a reduction in wages to 75 percent or less of prior average weekly wage.

Trade and Competitiveness Act of 1988 made worker training an entitlement and a requirement for receiving income support.

Under the North American Free Trade Agreement (NAFTA) Implementation Act of 1993, a specialized TAA program was established, which took effect in 1994. The program was designed to provide TAA to firms and workers affected by increased import competition from Canada and Mexico. The program provided assistance to workers in so-called “primary” firms who lost their jobs either because of increased imports, or because of the relocation of plants to those countries. In a major innovation, it also extended coverage workers in firms who were indirectly affected by increased trade with Canada or Mexico. These so-called “secondary” firms were either suppliers to primary firms or assemblers of finished components who were affected by imports or shifts in production in primary firms.

4.2 The Current Program

The current TAA program is defined by the Trade Adjustment Assistance Reform Act of 2002 (TAA Reform Act) which was signed into law on August 6, 2002. This reauthorizes the Trade Adjustment Assistance (TAA) program through fiscal year 2007. The legislation repeals the program established under NAFTA, consolidating that program into TAA; extends eligibility to additional workers; increases benefits, including the provision of tax credits to workers for health insurance coverage assistance; increases timeliness for benefit receipt, training and rapid response assistance; specifies specific waiver provisions; and establishes other TAA programs. The major features of Act in comparison to the legislation it replaced are summarized in table 1.

The Act provides for TAA to workers and firms. The provisions for firms are simply an extension of those in earlier legislation with a maximum of \$16 million per year authorized for expenditures. It continues the provisions of the NAFTA program in that those eligible for assistance include workers in firms affected by the shift of production to certain overseas countries. The legislation limits government financial exposure under this provision by specifying that the shift in production must be to a country that is party to a free trade agreement with the United States. As in the NAFTA TAA program, the Act extends potential eligibility to “secondary workers”, i.e., those employed by suppliers or downstream producers (firms performing additional value-added processes) to firms who are judged to be eligible for TAA. Again, in order to limit financial exposure, in the case of downstream producers, eligibility for TAA is dependent on an increase in imports from, or a shift in production to, Canada or Mexico.

In terms of the benefits paid to workers, the Act provides for increases in the period for which support can be paid and increases in benefits. As in previous legislation, workers are ordinarily required to undergo training to be eligible for benefits (within 16 weeks after separation or 8 weeks after certification), but six criteria are specified that allow workers to receive support without undergoing training.³ It also allows for an extension of the enrollment period for training under extenuating circumstances. The legislation also strengthens the possibilities for on-the-job training by authorizing support for training customized to a specific employer's needs. A cap of \$220 million per year is specified for training under the program.

There are several increases in worker benefits. The maximum TAA income support period is increased from 52 to 78 weeks, which together with 26 weeks of support from UI, provides for a period of potential support of two years. An extra 26 weeks of support can also be secured by workers whose training includes remedial education. Finally, caps on one-time payments for job search and relocation are increased from \$800 to \$1,250. Workers that are 50 years and older can choose, in lieu of other TAA benefits, to receive 50% of the difference between their new salary and old salary for two years, up to a maximum of \$10,000 and also may receive health care assistance. Health care

³ These are: recall to work; possession of marketable skills; approaching retirement; health reasons; enrollment unavailable; training not available.

assistance, in the form of tax credits for the cost of health insurance, is also available to other TAA participants.

An interesting component of the Act is a new TAA program for farmers to be run by the Agriculture Department is contained in the Act.⁴ A group of commodity producers, or an association acting on their behalf, can petition for TAA payments. Direct payments can be triggered if the national average price for the commodity (or a class of goods within that commodity) is less than 80 percent of the average for the previous five years, and a determination by the International Trade Commission concludes that imports “contributed importantly” to the decline in price. The Secretary of Agriculture is required to conduct a study of the number of producers likely to be eligible for assistance, and the extent to which adjustment to import competition may be facilitated through existing programs. The findings of this study are submitted to the President and made public.

In order to be eligible for payments a producer’s net farm income in the current year (as determined by the Secretary) must be less than that in the latest year for which no TAA was paid, producers must have met with an extension service employee to obtain technical assistance to improve competitiveness in the production and marketing of the affected commodity, and information on the feasibility of substituting other commodities for the affected commodity. Producers are not eligible for assistance under the program if their average adjusted gross income for the previous three years exceeds \$2,500,000.

Individual producers may be eligible for payments of up to \$10,000 per year. The size of the payment is calculated as:

$$0.5 (0.8P_b - P_m) Q_p$$

where: P_m is the national average price of the commodity in the most recent marketing year; P_b is the national price for the five preceding years; and Q_p is the amount of the commodity produced by the farmer in the most recent marketing year. TAA payments calculated in this way are also counted against the overall maximum of \$50,000 per producer for “counter-cyclical” payments applied under the Farm Act of 2002.

The TAA program for farmers is a supplementary income support program. Unlike other forms of assistance for workers, which are linked to retraining and encourage relocation, there is only a minimal active adjustment component to the program. As indicated, adjustment consultation through the extension service is required, but no specific action, for example, change in existing activities or a switch to alternative activities, is mandated as a result of that consultation. The active adjustment component of the program is therefore relatively weak.

Finally, it should be noted that provisions for TAA for communities are not contained in the current legislation. Such provisions, which were originally introduced in the 1974 act, were included in earlier versions of the legislation but did not survive. The major components of the community provisions were grants to enable communities to conduct strategic planning and for economic development projects.

⁴ A report by the General Accounting Office (GAO) indicates that farmers are not excluded from pre-existing benefits under TAA and NAFTA-TAA, although it does not discuss how these benefits would apply. See GAO, table 5.

Table 1. Detailed Comparison of Current Trade Assistance Legislation with the Legislation it Replaced.

Topic	Previous Legislation	Current Legislation
Program consolidation	Two separate programs: Trade Adjustment Assistance (TAA) and transitional program under NAFTA.	Consolidates both programs under the TAA Reform Act of 2002. Extends authorization for TAA to September 30, 2007.
Parties who may file a petition	<ul style="list-style-type: none"> - A group of three workers - A company official - A duly authorized representative of the worker - A community based organization (under NAFTA only) 	<ul style="list-style-type: none"> - A group of three workers - A company official - A duly authorized representative of the worker - One-stop operators or partners - State Workforce Agencies - State dislocated worker units
Location where parties file	Requires filing at: TAA: US Department of Labor NAFTA-TAA: State TAA office	Requires simultaneous filing with State TAA office and US Department of Labor
Determination period	Determinations made on petitions as follows: TAA: 60-days from institution NAFTA: 40-days from receipt	Determinations made on petitions 40-days from receipt
Assistance for Firms	As defined under the 1974 Trade Act	As defined under the 1974 Trade Act. Authorized appropriations of \$16m per year, to remain available until expended.
Eligibility: Primary Workers	<p>TAA: those laid off from their job due to competition from imports from any country</p> <p>NAFTA: Covers workers who are laid off from their job due to imports from or a shift in production to Canada or Mexico</p>	Covers workers who are laid off from their job due to competition from imports from any country or a shift in production to another country that is party to a free trade agreement with the United States, or a beneficiary of the Andean Trade Preference Act, African Growth and Opportunity Act, or Caribbean Basin Economic Recovery Act
Eligibility: Secondary workers	Not covered under TAA but were covered under WIA	<p>Secondary workers are covered and are divided into two groups:</p> <p><u>Upstream supplier:</u> A firm that produces and supplies component parts directly to a certified primary firm. The component parts must be directly incorporated into articles that are produced by the primary firm.</p> <p><u>Downstream producer:</u> A firm that performs additional, value added production processes directly for a certified primary firm for articles that were the basis of certification. Downstream production can include</p>

		<p>final assembly or finishing.</p> <p>For approval:</p> <ul style="list-style-type: none"> - Component is at least 20% of production, OR - Loss of business with the primary firm must contribute importantly to job loss
Training: On the Job Training (OJT)	<p>Reimburses company 50 % of the prevailing wage and requires that the employer retain the worker for at least 6 months after the completion of training.</p> <p>Does not authorize customized training</p>	Reimburses company 50 % of the prevailing wage. Authorizes both OJT (employer based training) and customized training with no retention requirements.
Training: Classroom	104 weeks maximum	<p>104 weeks maximum for regular training.</p> <p>An additional 26 weeks of training for remedial education for a maximum total of 130 weeks</p>
Training enrollment period in order to collect TRA weekly benefits	<p>TAA: No deadline for basic TRA. Must be enrolled in training within 210 days of their separation date or certification date, whichever is later for additional TRA.</p> <p>NAFTA-TAA: Requires enrollment within 16 weeks of separation or 6 weeks of certification to receive any TRA.</p>	Requires enrollment within 16 weeks of separation or 8 weeks of certification. Adds 45 days for extenuating circumstances with approval
Training requirement waivers in order to collect TRA weekly benefits.	Allows waivers under broad and loosely construed criteria	<p>Allows waivers under 6 specific conditions:</p> <ul style="list-style-type: none"> A. Recall – the worker has received notice of a recall B. Marketable Skills – the worker possesses marketable skills C. Retirement – the worker is within 2 years of eligibility for Social Security retirement benefits or a private pension D. Health – the worker is unable to participate in training due to health problems. E. Enrollment Unavailable – if there are extenuating circumstances for the delay in enrollment as determined by the Secretary. F. Training Unavailable – training is not reasonably available to the worker; training is not suitable for the worker at a reasonable cost, or no training funds are available.

<p>Trade Readjustment Allowances (TRA)</p>	<p>To be eligible the worker had to have worked at least 26 weeks in the 52-week period prior to their separation date.</p> <p><u>Under TAA:</u> Basic TRA: 52 times the weekly UI benefit amount minus the sum of UI the worker was entitled to.</p> <p>Additional TRA: 26 additional weeks of TRA benefits if the workers had requested training within 210 days of separation or certification date, whichever was later. Must be in training to receive additional TRA.</p> <p>Maximum of 78 weeks of benefits possible.</p> <p><u>Under NAFTA:</u> Only eligible for TRA if enrolled in training within 6 weeks of the certification date or 16 weeks of their separation date. Worker is eligible for both Basic TRA and additional TRA.</p> <p>Maximum of 78 weeks of benefits possible.</p> <p>No waivers of training to collect TRA under NAFTA.</p>	<p>To be eligible the worker had to have worked at least 26 weeks in the 52-week period prior to their separation date.</p> <p>Basic TRA: 52 times the weekly UI benefit amount minus the sum of UI the worker was entitled to.</p> <p>Additional TRA: 52 additional weeks of TRA benefits. Worker must be in training to receive additional TRA benefits.</p> <p>Remedial-additional TRA: up to 26 additional weeks if the worker requires remedial education. One week of remedial additional TRA is paid for each week of remedial education up to a maximum of 26 weeks.</p> <p>Maximum of 104 weeks of TRA while in regular training.</p> <p>Maximum of 130 weeks of TRA benefits if remedial education is required.</p>
<p>TRA and breaks in training:</p>	<p>Can continue to receive TRA payments if the break in training is less than 14 days excluding weekends or holidays.</p>	<p>Can continue to receive TRA payments if the break in training is less than 30 days not including weekends or holidays.</p>
<p>Job search allowances</p>	<p>Reimburses 90% costs up to \$800</p>	<p>Reimburses 90% costs up to \$1,250</p>
<p>Relocation Allowance</p>	<p>Pays 90% of the reasonable and customary costs to move the workers household goods and personal belongings. Pays 90% of the transportation costs for the worker and their family to move to the new location. Worker is eligible for a lump sum payment of up to \$800</p>	<p>Pays 90% of the reasonable and customary costs to move the workers household goods and personal belongings. Pays 90% of the transportation costs for the worker and their family to move to the new location. Worker is eligible for a lump sum payment of up to \$1,250</p>
<p>Wage supplement</p>	<p>Not provided</p>	<p>Establishes a program called Alternative Trade Adjustment Assistance (ATAA).</p>

		<p>Workers in firms with a significant number of workers over age 50 without easily transferable skills may choose to receive payments of 50 percent of the difference between pre-layoff wages and their reemployment wages.</p> <p>Up to \$10,000 over a two-year period.</p> <p>The ATAA program will be implemented August 6, 2003.</p>
Health care provisions	Not provided	<p>Creates a tax credit of 65% of the cost of health coverage for eligible individual and qualified family members. Tax credits may be advanceable beginning August 1, 2003 or may occur at the end of the year beginning December 1, 2002.</p> <p>Eligible individuals include TAA participants receiving TRA or who are eligible to receive TRA but receive UI, ATAA participants, and Individuals age 55 receiving pension benefits paid by the Pension Benefit Guaranty Corporation.</p>
Supportive Services	Not provided	<p>It is the "Sense of Congress" that supportive services such as childcare be provided through WIA. Therefore, co-enrollment is necessary in order to provide supportive services.</p>
Adjustment Assistance for farmers	Not provided	<p>Authorizes a new program, run by Department of Agriculture. Entitles certified farmers to training under TAA. Authorizes appropriation of \$90m per year.</p>
Performance Management and Accountability	Required administratively	<p>USDOL will place greater emphasis on performance reporting and outcomes.</p>

Source: Based upon Alaska Department of Labor <http://www.jobs.state.ak.us/taa/comparison.htm>

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