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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

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Considerations For Adjustment Assistance Under The 1974 Trade Act: A Summary Of Techniques Used In Other Countries. *Vol. I*

Volume I

All industrialized countries operate programs to deal with large-scale economic adjustments in various industries. Under the Trade Act of 1974, the United States operates an assistance program for workers, firms, and communities affected by disruptions caused by increases in imports. Other countries, for the most part, provide assistance through existing programs rather than establishing special assistance programs.

GAO visited seven of our trading partners--Australia, Canada, France, Japan, Sweden, the United Kingdom, and West Germany--and determined that certain program techniques used in these countries would be of interest to the Congress in modifying the U.S. program.

This volume contains our summary of techniques used in other countries. Volume II, available upon request, provides detailed profiles of the techniques used in the countries reviewed.



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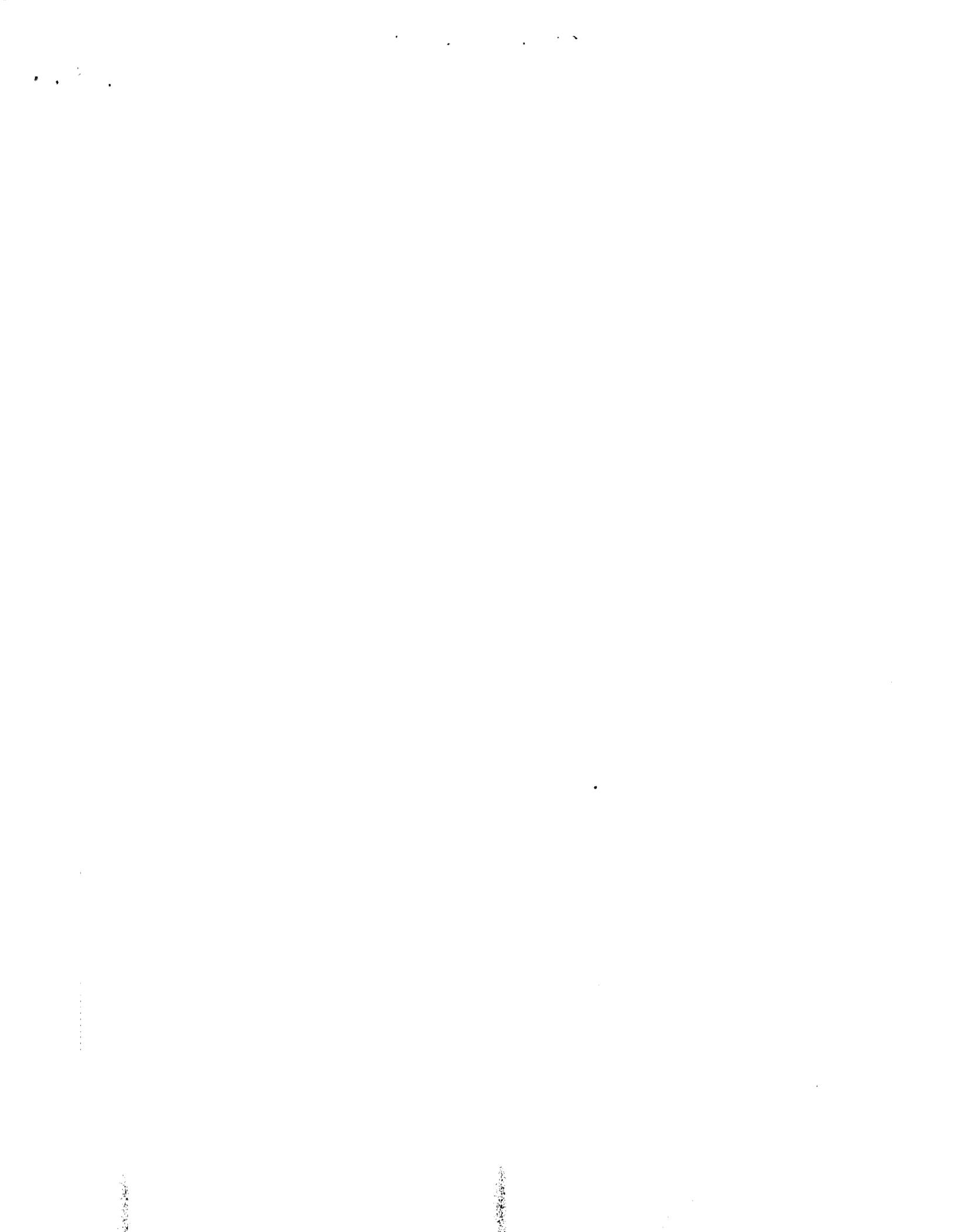


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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

To provide the Congress alternative approaches for dealing with problems found in the adjustment assistance programs under the Trade Act of 1974, we are reporting on methods used by our major trading partners in meeting problems of economic adjustment. This is one of several reports which are being issued to fulfill the legislative requirement to assess the effectiveness of adjustment assistance programs and to report our findings no later than January 31, 1980.

We made our review subject to the Budget and Accounting Act, 1921 (31 U.S.C. 53); the Accounting and Auditing Act of 1950 (31 U.S.C. 67); and the Trade Act of 1974 (19 U.S.C. 2101).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Commerce; the Secretary of Labor; the Secretary of State; and the Special Representative for Trade Negotiations.

A handwritten signature in black ink, reading "James R. Stucke".

Comptroller General
of the United States

Economic Development Administration ABC 00371

D I G E S T

Increased import competition and lost export markets can cause various industries to experience declines. In the United States, the Congress directed that assistance begun under the 1962 Trade Expansion Act be continued and expanded under the 1974 Trade Act to help U.S. workers, firms, and communities adversely affected by import competition. Previous GAO reports, however, have determined that the Departments of Labor and Commerce have experienced difficulties in administering the adjustment assistance programs.

GAO studied assistance programs in seven countries--Australia, Canada, France, Japan, Sweden, the United Kingdom, and West Germany--to determine whether these methods might be of interest to the Congress in resolving some of the problems identified in the U.S. adjustment assistance programs.

Before any of the approaches are considered for use in the United States, however, further analysis should be made to determine their feasibility and cost. GAO has recently released its report on adjustment assistance to firms and it is currently comprehensively analyzing the worker and community assistance programs in the United States under the 1974 Trade Act. As a part of these efforts, consideration is being given to identifying approaches for improving the assistance programs, some of which are presented in this report.

Of the countries included in our analysis, generally only the United States administers assistance programs based on import competition. However, programs in other countries which accomplish the same objective contain features which the Congress may wish to consider. GAO found differences in the method

of determining which workers and firms should receive assistance as well as differences in the forms of assistance provided.

WORKER ADJUSTMENT ASSISTANCE

The U.S. worker adjustment assistance program has suffered from a lack of worker awareness of the program and problems in determining worker eligibility. These problems have resulted in slowness in processing worker petitions and in providing benefits. Consequently, most workers have already returned to work by the time they are eligible to receive benefits, resulting in a limited use of employment services.

GAO found that workers in some countries were provided special assistance on an industrywide basis. Other countries did not single out specific workers for special assistance but relied on their existing unemployment programs--which all industrialized countries operate--to meet the needs of all workers. By simplifying program implementation, both methods make the determination of eligibility easier and expedite the delivery of benefits. However, both would require basic changes in the U.S. 1974 Trade Act.

GAO also found that some countries adopted mechanisms to avoid overlap and duplication of services and to provide the greatest benefits to those with the greatest need. For example, some countries extend existing unemployment benefits for workers needing special assistance. Others provide early retirement to workers 54 years of age and older who, because of a long history of job attachment to an impacted industry, would have the greatest difficulty adjusting to new employment.

To smooth implementation of the worker assistance program, some countries require that firms notify the government of anticipated layoffs. This "pre-notification" requirement expedites the implementation of assistance programs and has been credited

with assuring that government programs provide prompt assistance to workers. In addition, some countries have developed a government consultative service, which assists local officials representing workers, firms, and the community in finding solutions to employment problems and in helping them obtain Government assistance.

FIRM ADJUSTMENT ASSISTANCE

The U.S. firm adjustment assistance program suffers from a low level of program participation. This problem can be attributed to many factors, among them: (1) the firms' lack of awareness that the program exists, (2) the relatively unattractive benefits offered, (3) the difficulty experienced by the firms in developing plans for recovery, and (4) the slowness of the benefit delivery process.

Several other countries provide firm assistance on an industrywide basis. Such an approach expedites the delivery of benefits and increases program awareness by providing a focal point for Government and public attention. In such cases, assistance is provided to competitive firms, as well as marginal ones, in trade-impacted industries. By assisting competitive firms to expand and compete with foreign manufacturers, jobs are created for workers laid off from less competitive firms.

The types of assistance provided firms in other countries is similar to the assistance provided in the United States under the Trade Act. Other countries' benefits are made more attractive, however, to provide incentive for firms to participate in government programs. For example, while interest rates under the 1974 Trade Act are higher than the U.S. Treasury borrowing rate, other countries charge only nominal interest rates.

COMMUNITY ADJUSTMENT ASSISTANCE

The Department of Commerce has not implemented a separate community adjustment assistance program to assist trade-impacted communities as intended by the Trade Act. Consequently, while some trade-impacted communities are getting assistance under other programs, no communities have actually received assistance under the Trade Act of 1974.

Nonetheless, approaches to providing assistance to trade-impacted communities in other countries differ significantly from the U.S. approach under the 1974 Trade Act. Rather than using a single program to meet the needs of all communities, most foreign countries enact separate programs to meet the needs of specific communities. Other countries' assistance efforts stress the creation of new jobs, the expansion and relocation of competitive firms, and the development of new firms. Some foreign governments also provide consultative services to local officials to assist them in coordinating the assistance being provided to workers, firms, and the community. In the United States some coordination is taking place at the agency headquarters level, but better coordination at the local level would improve the effectiveness of all assistance programs.

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ABBREVIATIONS

EDA	Economic Development Administration
FmHA	Farmers Home Administration
GAAP	General Adjustment Assistance Program
GDP	gross domestic product
GNP	gross national product
IMF	International Monetary Fund
LDC	less developed countries
MITI	Ministry of International Trade and Industry
OECD	Organization for Economic Cooperation and Development
SBA	Small Business Administration
TRA	Trade Readjustment Assistance

1/Available upon request. (See inside back cover.)

CHAPTER 1

INTRODUCTION

The Trade Act of 1974 (Public Law 93-618) authorized the President to enter into reciprocal trade negotiations to promote freer trade. Freer trade has resulted in society-wide benefits--lower prices and greater product availability--but the costs of these benefits tend to center on industries which can no longer compete with imported products.

Recognizing that import competition can injure certain workers, firms, and communities, the Congress specified in the Trade Act that those adversely affected segments of the economy would receive various forms of monetary and nonmonetary assistance. This assistance is intended to help those workers, firms, and communities adjust to changed economic conditions arising from changes in the patterns of international trade.

Section 280 of the act directs the General Accounting Office to evaluate the adjustment assistance program and to report by 1980 on its effectiveness. Because of the program's complexity, several reports on specific aspects of adjustment assistance have been or will be issued. (See app. I for a listing of those issued.)

This report consists of two volumes. Volume I is an analysis of the philosophies and approaches (other than the use of tariff and nontariff trade barriers) used in industrialized countries. This report is not intended as a comparison between how the United States handles adjustment assistance and the programs of other countries but, rather, as a review of the techniques which other countries employ which may be of use to the Congress.

Volume II discusses in detail the specific types of assistance programs used in the United States and the seven other countries included in our analysis: Australia, Canada, France, Japan, Sweden, the United Kingdom, and West Germany.

Because of the variety of programs and the differing economic and political philosophies, government interface, and customs in other countries, as well as the fact that we did not undertake an audit of programs in other countries, we are not making recommendations for any specific actions. Instead, this report is intended to provide some insight into the various methods used by industrialized nations to provide assistance to economically impacted workers, firms, and communities, and to relate those methods to problem

areas in the U.S. adjustment assistance programs under the 1974 Trade Act identified in previous GAO reports and ongoing reviews.

THE NATURE OF ASSISTANCE PROGRAMS

Assistance to workers, firms, and communities can be defined as a means of minimizing the impact of dislocations, such as loss of jobs and production cutbacks, resulting from trade liberalization. In the United States, this assistance is based on the concept that, since a liberalized trade policy benefits the economy as a whole, the Government has a responsibility to lessen the hardships its trade concessions bring.

The rationale for assistance in other countries is frequently different from that in the United States. Most programs are a part of overall industrial policy or general measures and are not directly related to international trade. In many European countries, for example, injury from import competition is not required to justify special assistance. However, many of the industry assistance programs in these countries are directed to those parties that may be suffering from import competition.

Assistance may take a variety of forms. Assistance to workers, for example, may include a combination of weekly cash benefits, job placement services, retraining, or job search and relocation allowances. For the most part, assistance to communities and firms takes the form of direct loans, loan guarantees, grants, tax incentives, or technical assistance. But, regardless of the form taken, the basic aim of assistance is the same--to help workers, firms, and communities adapt to a changing economic environment.

SCOPE OF REVIEW

We reviewed available program literature describing methods of assistance in Australia, Canada, France, Japan, Sweden, the United Kingdom, and West Germany. Our review included visits to each country, during which we conducted interviews with government officials involved with planning, implementing, and evaluating programs in each of the seven countries. To obtain additional evaluative comments on program results, we also interviewed labor union representatives, industry spokesmen, and representatives from individual firms participating in programs. However, we did not attempt to determine the effectiveness of these programs.

We also interviewed officials and obtained data on U.S. program activity from the Departments of Labor and Commerce. We then analyzed the wide variety of methods used by the other countries to determine how these methods might be used to resolve some of the problems previously identified in the U.S. adjustment assistance programs under the Trade Act of 1974.

CHAPTER 2

SYNOPSIS OF ASSISTANCE PROGRAMS

Although the seven countries in our review are all industrialized, they differ in a number of respects. As shown in table 1, foreign trade plays a more significant role in other countries' economies than in the economy of the United States. The growth rate of the economy and the rate of unemployment can affect the nature and success of Government programs. As shown below, although the U.S. growth rate for 1976 is second only to Japan's, our unemployment rate is highest of the group.

Table 1

Country	Exports, percent of GNP (note a)	Imports, percent of GNP (note a)	<u>Basic 1976 Statistics for Countries Included in This Review</u>			
			GNP (note b) (billions)	Growth rate (note c)	Unemploy ment rate (note d)	Labor force (note e) (000 omitted)
United States	6.7%	7.6%	\$1,706.5	6.1%	7.7%	94,773
Australia	15.4	14.6	85.5	3.3	4.4	6,075
Canada	21.0	21.2	191.9	4.9	7.1	10,308
France	17.3	19.4	331.5	5.2	4.6	22,190
Japan	12.4	12.0	542.8	6.3	2.0	53,100
Sweden	25.9	27.2	71.0	1.5	f/1.6	4,149
United Kingdom	20.9	25.3	220.6	1.4	6.4	25,160
West Germany	23.3	20.1	438.7	5.5	3.6	25,430

Source: OECD, Main Economic Indicators, March 1978; IMF International Financial Statistics, November 1977; and Bureau of Labor Statistics, Information Office.

a/Export and import figures include intra-European Community trade which comprised about 50 percent of France's and Germany's exports and imports and about 36 percent of the United Kingdom's.

b/GNP for each foreign country was converted into U.S. dollars based on 1976 yearly average exchange rate.

c/Expressed in terms of GDP (Gross Domestic Product)--GDP refers to income originating within an economy. GNP (Gross National Product) refers to income due nationals of that country from whatever source.

d/Bureau of Labor Statistics. Unemployment rates adjusted to U.S. concepts.

e/Bureau of Labor Statistics. Labor force data adjusted to U.S. concept.

f/A Department of Commerce official commented that a comparison of unemployment rates in Sweden and the United States based on U.S. concepts is deceiving since workers in training comprise a much larger proportion of the Swedish workforce than of the American workforce.

In today's highly interdependent economies, industrialized countries must frequently deal with problems resulting from rapidly changing trade patterns. As described earlier, in the United States, specific trade-related programs have been set up to deal with these problems. For the most part, other countries have not established specific trade-related programs but, instead, have dealt with these problems through their industrial policy and general measures.

How the United States and the other seven industrialized countries included in our analysis cope with the needs for assistance are detailed in Volume 2 of this report. A brief overview of these approaches is presented below.

UNITED STATES

Several programs in the United States offer help to those segments of the economy adjusting to changing patterns of international trade. General assistance programs provide help regardless of the cause of their economic problems. In addition to these, the 1974 Trade Act continues the programs begun under the 1962 Trade Expansion Act to provide special assistance to those segments of the U.S. economy adversely affected by increased import competition. These special assistance programs supplement assistance available under other Government programs.

The general Federal-State employment security program and employment and training programs authorized by the Comprehensive Employment and Training Act are the primary mechanisms for assisting unemployed workers. Through these programs, individuals may receive unemployment compensation and various employment services. These services generally should include job counseling and testing, followed by job referral and placement. In some cases, individuals may also receive training aimed at upgrading their skills. In addition to these benefits, qualified workers who are determined to have been adversely affected by imports may also receive special Trade Act benefits including: weekly trade readjustment allowances; employment services, including training; and job search and relocation allowances. As of January 1, 1978, over \$360 million had been paid to 270,000 workers under the 1974 Trade Act adjustment assistance program.

U.S. firms needing assistance can get help from several Government programs. Through the Small Business Administration (SBA), a qualified firm (firms must be independently owned and operated and not be dominant in their field) may receive loan guarantees up to \$500,000 or direct loans not to exceed \$350,000. In addition, firms may receive management assistance from SBA staff professionals and others.

However, Department of Commerce officials point out that not all firms which apply for loans receive them.

Firms of any size willing to locate in designated areas may receive loans or loan guarantees through programs administered by the Economic Development Administration. Direct loans for purchase or development cannot exceed 65 percent of the aggregate cost of the items financed; loan guarantees cannot exceed 90 percent of the loan.

Also, firms located in cities with populations of 50,000 or less may qualify for loan guarantee programs administered by the Farmers Home Administration (FmHA). Private lenders supply the capital and FmHA guarantees up to 90 percent of these loans.

In addition to these general programs, firms adversely affected by imports may qualify for special Trade Act assistance. Firms may receive technical assistance grants (up to 75 percent of the cost of these services), as well as loans (up to \$1 million) and loan guarantees (up to \$3 million), for restructuring their operations. Through June 1978, 235 firms had been certified by the Department of Commerce. Of these, 71 had received technical assistance grants totaling \$772,000 and 62 had received loans or loan guarantees totaling \$60 million.

In July 1977, a special program was initiated to provide additional help to the import-impacted U.S. shoe industry. Through concentrating program efforts on this single industry and expediting certification and delivery of technical assistance, the program is intended to help the shoe industry become internationally competitive.

U.S. communities can also receive help through several programs. Grants are offered through several Economic Development Administration programs to assist community development projects. Similarly, grants and loans are offered for public works projects through FmHA. At the same time, communities adversely affected by import competition, suffering increased unemployment or reduced production and sales, may also receive special assistance under the Trade Act. Program benefits are similar to those offered under other Government programs and include loans and loan guarantees to firms in the trade-impacted community, as well as public works grants to the community itself.

AUSTRALIA

Special assistance programs instituted by the Australian Government were similar in many ways to programs in the United

States. Special programs, for example, provided added benefits to workers and firms injured by increased import competition. However, by March 1976, benefit eligibility periods had expired and the Government did not renew them. Rather, it is relying on existing employment service and industry assistance programs to meet worker and firm adjustment needs. Special agriculture programs that were established to help farmers are still being used to provide assistance.

In early 1974, the Australian Government offered special adjustment assistance programs to help those parts of the economy adversely affected by Government actions to reduce tariffs. The types of special assistance included:

- income-maintenance benefits, supplementing weekly unemployment insurance benefits;
- relocation and retraining assistance to workers;
- closure payments to firms;
- loan guarantees and consultancy grants to firms; and
- special assistance to nonmetropolitan areas.

These programs were designed to help affected parties move out of economically depressed industries and into more competitive ones.

Australia's special adjustment assistance programs were not very successful in helping workers and firms adjust. According to Government representatives, providing special benefits to only a portion of the unemployed population made effective and fair management of the program impossible. Inequities occurred and program objectives were not met, causing public sentiment to go against the programs. As a result, the special assistance programs were not renewed. During the 2 years of the program, A\$59.3 million 1/ was paid to workers.

Only agriculture is continuing to receive special assistance in Australia. The agriculture programs were initiated to deal with problems resulting from declining export markets as well as from poor weather conditions. Assistance is offered to help marginal farmers become competitive and to help noncompetitive farmers move into other areas of opportunity. The types of assistance available include:

1/The currency conversion rate as of July 1977 was 1 U.S. dollar equals .92 Australian dollars (A\$).

- refinancing of existing debts;
- loans to purchase adjacent farmlands to increase farm size;
- general farm improvement, such as equipment upgrading;
- rehabilitation loans for those leaving their farm and facing personal hardships;
- household support to insolvent farmers to help with living expenses while deciding whether to leave their farms; and
- financing for beef and dairy farmers faced with temporary financial hardships.

Assistance provided to farmers under these measures is primarily in the form of loans; however, loans for such items as rehabilitation may be converted to grants. The three most widely used programs are debt reconstruction, farm expansion, and short-term emergency financing. Since 1971, loans totaling A\$127.2 million (debt reconstruction), A\$112.4 million (farm expansion), and A\$3.1 million (short-term emergency financing) have been approved by the Australian Government.

Australia relies on existing employment programs to meet adjustment needs of unemployed and potentially unemployed nonfarm workers. Primary programs include

- weekly unemployment insurance benefits for an indefinite period;
- retraining assistance for both unemployed and underemployed;
- relocation assistance for those unable to find adequate local employment who are willing to move for either a job or Government-sponsored training.

For areas of high unemployment, in October 1974, the Australian Government offered additional help to create new jobs. Through a Regional Employment Development Scheme, funds were provided to initiate short-term community projects. By the time the program was terminated in June 1976, an estimated 81,000 persons had been employed in about 8,000 of these projects.

CANADA

Canada's assistance efforts have come to reflect a basic Government policy of encouraging those industries most capable of competing with imports and those with potential to compete for growing export markets. At the same time, they reflect a policy of providing special program benefits to that portion of the work force likely to encounter the most difficulty readjusting to new employment. To meet the adjustment needs of the remainder of the work force impacted by imports, Canada is relying on existing employment programs available to all unemployed workers, regardless of the cause of their unemployment.

The General Adjustment Assistance Program is one of several special programs implemented by Canada to help trade-impacted firms. Established in 1967 (though the first loan was not made until 1969), the program was initially intended to provide financial assistance to firms impacted by the 1962 Kennedy Round trade negotiations. Those injured by tariff reductions or those willing to take advantage of export opportunities resulting from tariff reductions were eligible for loans or loan guarantees. Because of difficulty in establishing a causal link to tariff reductions, the program was refocused in 1973 and is now directed only at helping firms expand their exports. From 1969 to March 1977, over \$285 million ^{1/} in loan guarantees had been approved by the Canadian Government under this program. According to Canadian officials, this program has been particularly successful in helping smaller firms (sales under \$10 million) to improve their competitive position and expand their international trade operations.

In addition to the general unemployment programs, the Canadian Government established a special program to assist workers and firms adversely affected by increased imports in the textile and clothing industry. This program provides financial benefits to laid-off workers in the form of supplementary benefits and preretirement benefits. To have their workers certified for the program, firms must submit lists of laid-off workers. These lists eliminate the need for requesting work history data on each individual applicant for supplementary or preretirement benefits.

Relatively few Canadian workers have received preretirement benefits. In the 3-year period ending in 1976, the number

^{1/}The currency conversion rate as of July 1977 was 1 U.S. dollar equals 1 Canadian dollar.

of textile workers dropped by 14,000 workers, but only 132 individuals received preretirement benefits. The limited number of applicants is attributed to the fact that workers with the highest seniority are the only ones that qualify for this program but they are the ones least likely to be laid off. Despite the limited use of the program, Canadian officials believe the concept of special benefits for those with a special need seems appropriate.

Encouraging management and labor to assume a share of the responsibility for manpower adjustment also plays a part in Canada's assistance policy. Management, labor, community representatives, and consultants are brought together through the Canada Manpower Adjustment Program to identify mutually acceptable solutions to meet specific adjustment needs on a local basis. These consultative service groups are formed to deal with specific needs resulting from production cutbacks, plant relocations, technological advances, and in some cases, increased import competition on a localized basis. Unlike other special adjustment programs, consultative services do not provide direct financial assistance to firms or workers. Rather, it aims at coordinating the delivery of benefits already available through either special programs or existing manpower and industry assistance programs.

An important feature of the consultative service is the requirement to notify the Provincial or Federal Government of pending group layoffs. According to Federal and Provincial officials, the prenotification requirement for permanent group layoffs is a major reason for the success of the program. Prefnotification assures that the Government is made aware of pending terminations and allows the consultative service to get involved before workers actually become unemployed.

From the start of the consultative service program in February 1965 until January 1977, an estimated 1.3 million workers were assisted under a total of 1,106 agreements. The cost of these agreements has been relatively low--\$4.2 million. According to Canadian Federal, Provincial, industry and union officials, the consultative service approach has been particularly successful in industries with many small facilities and substantial numbers of permanent closings--such as the textile industry.

FRANCE

Assistance to French firms, workers, and communities is provided through a wide range of programs. None of these programs base eligibility on injury from changes in international trade. However, some programs are designed to specifically

help firms and workers in designated industries which among other problems are being adversely affected by international trade. Other programs are designed to better distribute the country's social and economic resources and to assist regions suffering from declining industries.

Several declining industries--steel, shipbuilding, machine tools, and textiles and clothing--have been singled out by the French Government to receive special assistance. Special assistance to designated industries is usually based on formal plans or agreements between government and industry. Generally, these agreements call for consolidating or reducing the number of firms within the industry and improving the productivity of those remaining. As a part of these agreements, a Government/industry advisory committee may be established to administer the agreement and to interpret questions arising from its application.

Concessional loans, loan guarantees, and direct wage subsidies are among the primary types of assistance offered industries designated for special assistance. In addition, since industry restructuring may result in job reductions, Government/industry agreements may provide for job training to assist displaced workers. Other industries may also be encouraged by the Government to locate new facilities or to expand existing facilities in areas seriously affected by job reductions.

In the steel industry, for example, from 1971 to 1975, steel firms invested 20 billion francs ^{1/} and the French Government loaned between 2.2 and 2.5 billion francs to assist in the restructuring effort. The Government loaned another 1.5 billion francs to the steel industry in 1976. Likewise, from 1965 to 1970, the French Government provided loans averaging about 200 million francs a year to the shipbuilding industry. Despite these efforts, however, there is no assurance that the problems in these industries have been solved. In fact, additional Government subsidies for these industries have been proposed.

Regional development is one of France's major assistance efforts. Through a special regional development agency, financial incentives are used to encourage commercial growth in designated areas to eliminate regional economic imbalances. Direct grants, reimbursements of expenses for relocating production facilities, tax relief, and worker training subsidies

^{1/}The currency conversion rate as of July 1977 was 1 U.S. dollar equals 5 French francs.

are used to encourage firms to create or expand activities, to decentralize activities from heavily industrialized areas, and to convert or rationalize inefficient activities.

Existing employment programs supplement these special firm, worker, and regional assistance activities. They are generally available to all unemployed workers, regardless of layoff cause. Their benefits include job placement, unemployment compensation, early retirement inducements, training, and mobility incentives.

JAPAN

Japan's assistance programs to business include identifying areas of exceptional growth opportunity and attracting resources into such lines and operating adjustment programs to care for dislocations. A number of the latter programs are directed toward medium to small businesses. Japan's programs for workers build on its general unemployment insurance program. Supplementary unemployment programs are typically framed on an industry basis.

Through its industrial policy, the Japanese Government, working with business, identifies areas of high growth potential and develops programs to stimulate the movement of resources into such areas. In its postwar history, Japan has been through a series of such "identifications"--beginning with such industries as steel and shipbuilding; progressing to automobiles, "bullet" trains, and chemicals; and currently focusing on the computer industry. The consequence, as is well known, has been altogether exceptional GNP performance. The "carrots" to attract resources into such areas are credit and tax concessions.

Like other countries, Japan also operates "reactive" industry programs. What has made Japan distinctive, however, is that these have been subordinate to its growth measures. At present the Government is operating "reactive" programs in textiles, shipbuilding, and portions of the steel industry.

With its textile industry facing secular decline as LDCs not only take over Japan's export markets but make increasing penetration of the domestic market as well, the Government has developed several measures. Earlier legislation emphasized Government purchase of excess equipment and the extension of concessional loans. The 1974 legislation sought to bring about consolidation so that at least two of the three vertical stages--yarn/thread, weaving, apparel--were represented within each corporate network.

To help workers displaced in this restructuring, the Government provided payments to firms to induce new hires from this group of workers.

The long-term outlook in shipbuilding is down, and the Government has recommended a sizable reduction in operation to Japan's major yards. Further, the Ministry of Transportation has prohibited the expansion of shipbuilding capacity. If any additions are made, there must be comparable scrapping. Floor prices on exports have been set to meet foreign criticism on excessive competition. To ease transition problems for workers, the Ministry of Labor has designated shipbuilding as an industry in which workers are eligible for extended unemployment benefits.

Anticipating a sharp decline in demand for the products of the open-hearth and electric-furnace steel companies, the Government has asked each company to reduce capacity. Depression cartels were formed--one to limit output, the other to raise prices. However, since only half of the firms in this sector agreed to participate, the effectiveness, at the time of this writing, is unclear.

The Japanese Government is operating a number of programs for medium to small businesses. The Small and Medium-sized Enterprise Modernization Promotion Law of 1963 is, as its name suggests, focused on modernization of equipment and plants among industries designated for assistance by MITI. By a 1969 amendment, "international competitiveness" became an additional objective. By a 1973 amendment, facilitating the production of knowledge-intensive goods became an additional criterion for designation.

The Temporary Measure Law for Small and Medium-sized Enterprise was enacted in 1971 for medium and small businesses experiencing difficulty in exporting in consequence of yen reevaluation. Assistance available under this law included low-interest loans, interest-free loans for scrapping excess equipment, Government-guaranteed loans, and tax incentives. This law was abolished in November 1976 and replaced by the 1976 Law on Extraordinary Measures for the Conversion of Small and Medium-sized Enterprises. Under this "business shift" law, MITI is empowered to assist small- and medium-sized firms shifting to a new industry if their business has been injured by trade changes, technical innovations, raw material shortages, or antipollution/safety measures. Available assistance includes long-term, low-interest, and interest-free loans from Government-affiliated finance corporations, Government-guaranteed loans, and tax incentives.

For workers, Japan's primary reliance is on its general unemployment insurance system. While benefit amounts are calculated at 60 percent of average earnings, duration of benefits is graduated by age category--under 30, 30 to 45, 45 to 55, and 55 and over--with persons under 30 receiving benefits up to 90 days and persons 55 and over receiving benefits up to 300 days. Workers in industries or portions of industries which the Government has so designated as especially hard hit by cutbacks are able to receive benefits at a reduced level up to 15 months beyond the normal cutoff. In most instances, the receipt of such benefits is tied to the acceptance of retraining.

The severity of the recent recession has been such as to affect even that portion of the work force who are "life-time" employees: employees hired upon leaving school for their entire career. To help firms retain redundant workers, especially life-time employees, the Government has instituted a program of supplying funds to partially defray salary costs up to a maximum of 75 days in each 6-month period.

The Government of Japan also provides assistance to encourage regional development. Through low-interest loans, subsidies, and tax incentives, industries are encouraged to relocate from major population centers to areas where incomes are significantly below the national average. In addition to narrowing the economic differences between workers in major industrial centers and those from less populated areas, these regional assistance programs are aimed at decreasing the congestion in the major metropolitan centers of Japan. However, a Government official said that the program had not been as effective as desired. Additional inducements were needed in the then-slow growth period to motivate relocations.

SWEDEN

Many Government programs are being implemented to help Swedish workers, firms, and communities adjust to changing economic conditions. Some of these programs are general and are available to provide assistance regardless of the cause for their need. Still others are special programs designed to provide help in specific industries.

A major principle in Sweden's national labor policy is to safeguard employment and prevent long periods of worker layoffs and dismissals when layoffs do occur. Employment programs are the primary means through which the Government helps workers. Employment counseling and training, temporary

job creation, and unemployment insurance benefits are available to help all unemployed workers find employment.

Sweden has supplemented its general employment programs with special worker-oriented assistance programs. These are being applied to help workers who are threatened by unemployment from either industrial restructuring or downturns in the economy to stay on the job. For example, the "25 Kronor" program provides employers an hourly subsidy to retain workers in special training programs rather than lay them off. Another program provides employers with subsidies for inventory to maintain employment levels during economic slowdowns by assisting them in covering the costs of building and maintaining inventories.

The cost of these special assistance programs has been relatively high. More than 1 percent of the total work force (an estimated 95,000 workers) had participated in the "25 Kronor" program by June 1977 at an expected cost of at least SKr. 500 million. ^{1/} Inventory subsidies of SKr. 1.1 billion to 841 firms have been given final approval.

Despite these high costs, the "25 Kronor" program has been considered successful by industry and labor. Swedish Government officials also consider the inventory-subsidy program a valid mechanism but recognize that it has created problems because the recent recession lasted longer than expected.

Special programs are also being used by the Swedish Government to stimulate development of industries with a competitive advantage. Special training, technical consultation, export promotion, and Government grants, loans, and loan guarantees are being used to assist firms in the shipbuilding, textiles and clothing, steel, shoes, hand-made glass, woodworking, foundry, and metalware industries to stimulate economic growth. Through committees drawn from industry, labor, and Government, programs are being tailored to meet the specific needs of each industry and to make each industry more competitive.

Sweden has also established a national program for regional development. It is based on the premise that all parts of the country should have a fair share of material, social, and cultural welfare accruing to the nation.

^{1/} The currency conversion rate as of July 1977 was 1 U.S. dollar equals 4.4 Swedish kronor (SKr.).

Regional development was not designed to meet import adjustment problems. However, in providing loans, grants, and training funds to firms in development areas, regional development measures can assist workers and firms impacted by imports.

UNITED KINGDOM

The United Kingdom has no special program for trade-related injuries; assistance is accomplished primarily through the many existing employment and industry programs funded by the Government. At times, these general programs have been supplemented by special temporary measures to deal with special problems; but neither the general nor the special assistance measures were established to specifically address international trade problems. However, several of these programs provide assistance to industries, such as textiles and clothing, electronic components, and machine tools, which have been impacted by international competition.

Assistance provided to unemployed workers by general employment programs includes weekly unemployed compensation, training, and employment services. In addition, the United Kingdom has also implemented special assistance programs to help workers.

These special programs are only intended as temporary short-term measures and stress job maintenance rather than adjustment to a new or different job. Through one such program, firms willing to defer worker layoffs may receive a government subsidy to cover a portion of wage costs. In another program, the United Kingdom is creating jobs for those who would otherwise be unemployed, through Government-funded projects sponsored by service organizations, private employers, or local governments. Both the subsidy and the job creation programs are considered only temporary work assistance measures. From August 1975 to July 1977, 284,123 jobs had been approved under these temporary measures and another 58,000 new jobs had been created. United Kingdom officials consider both programs to be successful in helping to ease unemployment. The Department of Employment considers the programs successful because they cost the Government only 20 pounds a week per employee compared to 40 pounds a week paid through unemployment benefits. However, some employers question the potential for maintaining workers unnecessarily.

Government assistance may be given to either a specific firm or to a total industry. Several programs, referred to as industry schemes, have been designed for modernizing and reorganizing industries which the Government has determined as being important to the United Kingdom and which can only

survive with such assistance. As of mid-1977, there were 11 of these industry schemes operating in the United Kingdom. Several are in industries which have been pressured by imports from other countries. Industries singled out for special assistance include textiles, shipbuilding, and machine tools.

Direct payments for assistance under these schemes are limited to 5 million pounds ^{1/} for any one project. The total limit for all schemes is 150 million pounds. In textiles, for example, grants up to 50 percent of the cost of technical consultants are available to firms to study alternatives and formulate proposals for improving productivity and efficiency. Grants up to 25 percent may be offered to meet the cost of machinery if such investment is in line with the industry scheme. Concessionary rates of interest on Government loans are also available to help in reorganizing or restructuring the industry.

The success of the schemes appears somewhat questionable. Some authorities believe the schemes reflect a failure of labor and industry to coordinate their positions. The Trades Union Council contends that industry schemes have a goal of increasing productivity rather than increasing employment.

In addition to these industry schemes two organizations--the National Enterprise Board and the National Economic Development Council--have been established to stimulate economic growth. The Board operates as a commercial business. A greater part of the Board's activity has been acquiring shares of companies. In 1976, the Board, which had a financial limit of a billion pounds, reported it had an interest in 13 companies. Seven of these companies were already partially Government owned and were transferred to the Board in 1976. The Board's budget for the 1977-78 financial year totals 275 million pounds. Currently, the Board is identifying industries where its resources can be applied most effectively.

The National Economic Development Council is a quasi-private organization supported by Government funds. Its purpose is to plan for economic development in the United Kingdom. It is not involved in administering Government aid programs.

The United Kingdom also offers programs which provide firms incentives to develop or expand in certain regions of the country. These regional programs are aimed at lesser

^{1/} The currency conversion rate as of July 1977 was 1 U.S. dollar equals 0.57 pounds sterling.

developed parts of the country, including some which have been adversely affected by competition from imports.

Firms are offered grants for new buildings and equipment and reimbursement for moving expenses. In some situations, Government-owned factories are being offered as an additional incentive. Similarly, workers transferring to these new buildings receive special assistance. Included in the special benefit package are grants for startup expenses, reimbursement for moving expenses, and retraining allowances. As an additional incentive, workers may also receive financial assistance toward the costs of selling their homes and purchasing of new ones in the development area. About 6 million pounds was paid in connection with 16,143 worker moves in the 1975-76 financial year, and an estimated 11.17 million pounds was paid in the 1976-77 financial year.

Despite these expenditures, a survey of workers receiving transfer assistance showed that a high proportion (one Government official estimated about 90 percent) of them would have moved without assistance. About 40 percent of the payments went to students or graduates accepting jobs before leaving school. Because of these problems, Government officials do not consider the program to be of much success.

WEST GERMANY

The West German Government has not designed specific programs for dealing with changing patterns of international trade. Instead, West Germany is relying on existing general programs to provide any assistance needed, regardless of the cause, for specific business difficulties or worker layoffs. Within these programs, assistance is generally being directed at small- and medium-size firms to encourage rationalization (reorganization of industry to improve cost effectiveness). Employment programs are being tied to forecasts of future labor market needs.

The Kreditanstalt, a Government-owned banking institution, is a major source of assistance for firms. Most of the bank's activities focus on providing long-term loans to small- and medium-size firms. Loans may be obtained for a variety of purposes, including

- creating new jobs or apprenticeships;
- joint ventures between smaller firms;
- restructuring operations or changing product lines; and
- expanding operations in underdeveloped areas.

These loans may be granted at interest rates slightly lower than prevailing market rates. The Kreditanstalt reported a total of DM 3.7 billion ^{1/} in domestic loans for 1976. Export credits, loans, and capital aid totaled DM 4.8 billion.

A distinguishing feature of West Germany's assistance to firms is that loans are generally provided by the government through the borrower's private bank, making the private bank guarantee the loan. ^{2/} Since the private bank is responsible for loan repayment in the event of default, loans are generally made to firms that are economically healthy rather than those that are financially weak.

Like several other European countries, West Germany is also implementing a regional development policy. Through providing financial assistance on a large scale, the Government is seeking to broaden and upgrade its economic output. A joint Federal/State program has been set up to provide assistance to firms willing to establish, extend, rationalize, or convert facilities in designated areas. This assistance generally consists of a tax-free investment allowance, supplemented by combined Federal/State grants. For example, 25 percent of the investment cost of establishing a new plant could be granted under these schemes.

In addition, some States have established their own State banks similar to the Kreditanstalt. The Bavarian State Credit Bank, for example, functions much the same as the Kreditanstalt but serves only firms located in Bavaria. The Bavarian Bank uses loans at low interest rates and loan guarantees as its major forms of assistance. Loans and loan guarantees are usually for less than DM 1 million. As is the case with the Kreditanstalt, the Bavarian Bank is a profitmaking enterprise.

Most unemployed workers, regardless of the cause of their layoff, are eligible for assistance under West Germany's general manpower programs. These programs offer many of the same types of assistance found in other countries, including weekly unemployment compensation, job placement, job creation, relocation allowances, and training. As a part of this effort,

^{1/}The currency conversion rate as of July 1977 was 1 U.S. dollar equals 2.35 Deutsche marks.

^{2/}A representative of the Department of Commerce who acted as an observer to a union group investigating adjustment assistance programs in other countries said that when the group was in Germany in June 1978 it received conflicting information on this point.

specially trained staff are compiling job market statistics and preparing forecasts of future employment trends. These studies are being used to shape and direct manpower programs. Results of these studies provide data for developing training programs, apprenticeships, and educational criteria; aiding in job placement; and determining labor market needs.

Funds for the unemployment benefit program are obtained from contributions by workers and firms. However, the overall budget is approved by the West German Government. After unemployment benefits expire, the Government unemployment assistance program is used for those still unemployed.

In addition to these programs, short-time allowance payments are made to workers who are employed less than full time because of temporary business downturns. The purpose of these payments is to keep workers from being laid off for short periods of time. During 1975, short-time allowances were paid to 750,000 workers. According to West German Government officials, this program prevented unemployment in the case of 170,000 individuals. The total cost to the Government was DM 2.5 billion.

Large amounts were also paid by the Government for worker relocation programs and training programs. During the period November 1976 to May 1977, 23,000 workers were paid a total of DM 23 million for relocation premiums. An additional DM 22 million was paid for related moving expenses. In 1975, DM 3 billion was spent by the Government on retraining 140,000 individuals. In mid-1977, 123,000 persons were participating in retraining. Officials consider the retraining programs to be successful. A recent survey showed that two-thirds to three-fourths of the persons participating in these programs obtained better jobs or were making use of the training received. In contrast, the worker relocation program has not been considered particularly successful. West German officials stated that people are not very mobile especially those with low-level skills.

SUMMARY OF PROGRAMS

Assistance programs used by the United States and the seven other countries in our analysis vary considerably. However, when divided into specific types of mechanisms, we found similarities among many of the programs we reviewed. The following charts for worker, firm, and community assistance summarize (1) the mechanisms for determining which workers, firms, or communities receive special assistance and (2) the types of assistance used and the countries that use them.

Programs to Assist Workers

Method of determining eligibility or identifying workers for special assistance

Countries

- | | |
|--|--|
| 1. Certification of workers injured by import competition. | United States
Australia
(expired 1976) |
| 2. Designation of workers in specific industries. | Canada
Japan |
| 3. No assistance programs other than what is generally available to all workers. | France
Sweden
United Kingdom |
| 4. Prenotification by firms of lay-off plans. | Canada
France
Sweden
United Kingdom
West Germany |

Specific forms of assistance provided to workers

- | | |
|---|--|
| 1. Routine unemployment insurance benefits | <u>a/</u> All |
| 2. Counseling and placement | All |
| 3. Retraining allowances | All |
| 4. Relocation allowances | All |
| 5. Extended unemployment benefits beyond routine period | United States
France
Japan
United Kingdom
West Germany |
| 6. Early retirement | Canada
France |

a/ All of the eight countries in our review--the United States plus Australia, Canada, France, Japan, Sweden, the United Kingdom, and West Germany.

- | | | |
|-----|--|---|
| 7. | Short-time allowances | United States
France
West Germany |
| 8. | Special employment maintenance subsidies | Japan
Sweden
United Kingdom |
| 9. | Additional special income-maintenance benefits | United States
Australia
Sweden |
| 10. | Special coordination or consultative services | Canada
Sweden |

Programs to Assist Firms

Methods for determining which firms should receive special assistance

- | | | |
|----|---|---|
| 1. | Certification of firms injured by import competition | United States
Australia
(expired 1976) |
| 2. | Designation of firms in specific industries | Canada
France
Japan
Sweden
United Kingdom |
| 3. | No firm assistance programs other than those generally available to all firms | West Germany |

Specific forms of assistance

- | | | |
|----|-----------------------------|--|
| 1. | Loans and loan guarantees | All |
| 2. | Concessionary loans | Japan
Sweden
United Kingdom
West Germany |
| 3. | Technical assistance grants | United States
Australia
Canada
Sweden
United Kingdom |

4. Government grants	France United Kingdom West Germany
5. Closure payments or purchase of excess capacity	Australia Japan
6. Assistance to competitive firms, including export promotion	Canada Japan Sweden United Kingdom West Germany
7. Government investment	Canada France Sweden United Kingdom
8. Government support of restructuring	France Japan Sweden United Kingdom
9. Research and development grants	Sweden United Kingdom West Germany

Programs to Assist Communities

Methods for determining which communities should receive special assistance

1. Certification of communities injured by import competition	United States (no communities have yet been certified)
2. Designation of specific communities based on unemployment rates or per capita income	All

Special forms of assistance

1. Loan or loan guarantees to communities	United States
2. Direct grants to communities	United States France Japan

3. Loans or loan guarantees to firms locating in specific areas	United States Canada
4. Direct grants to firms locating in specific areas	Australia Canada France Japan Sweden United Kingdom
5. Tax benefits to firms locating in specific areas	France Japan
6. Relocation grants to workers	Sweden United Kingdom
7. Moving expense reimbursement	Sweden United Kingdom
8. Special training for workers	Sweden United Kingdom

AGENCY COMMENTS

The Department of Commerce commented:

1. Assistance provided workers and firms in other countries included in this report in many cases seems similar to assistance provided in the United States.

For example:

- The types of assistance available to Australian farmers are similar to those available to American farmers.
- The Australian job-creation scheme seems very similar to the short-term community projects implemented in the United States under the Local Public Works Program.
- The United States Export-Import Bank facilitates the export of products from the United States, and is in that sense similar to the Canadian General Adjustment Assistance Program; the difference being that Export-Import Bank loans go to the purchaser while the General Adjustment Assistance Program assistance goes to the manufacturer.
- The technical assistance provided to firms under the Canadian program seems very similar to technical assistance provided to firms by the Department of Commerce.

assistance provided to firms by the Department of Commerce.

We agree. However, while the assistance provided in other countries discussed in this report is, in many cases, similar to assistance provided in the United States, the techniques used in determining benefit eligibility and providing benefits often differ.

2. The British National Enterprise Board actually operates nationalized British industries--such as British Leyland. Yet, there is no mention of nationalization/rationalization schemes in the discussion of the activities of this organization. In fact, the nationalization of firms and the rationalization of industries are integral facets of adjustment assistance programs in other countries.

We agree that nationalization and rationalization are integral facets of adjustment in several countries. However, since nationalization is not apt to be viable in the United States, we did not discuss this. Our discussion does provide information on rationalization techniques employed in several countries.

We also sought comments from the Department of State, the Office of the Special Trade Representative, and the Department of Labor. The Department of State and the Office of the Special Trade Representative were in general agreement with the findings in our report. Department of Labor comments were considered in the report.

CHAPTER 3

CONSIDERATIONS FOR WORKER ADJUSTMENT

ASSISTANCE

The U.S. approach to worker adjustment assistance, as discussed in chapter 2, is, for the most part, distinctive among the countries reviewed. Other countries generally do not distinguish between adjustment needs of trade-impacted workers and the needs of workers affected by other changes in employment patterns. Instead, general income maintenance and employment programs and special industrial programs are relied on to meet the needs of unemployed workers, regardless of the cause for their unemployment. In those situations where special assistance programs are determined necessary, benefits are generally directed to all workers needing help.

Despite this basic difference in the approaches used to help workers, many of the techniques or program elements being used in other countries may offer possible approaches for the Congress to consider for improving the delivery of benefits through the worker adjustment assistance program.

This chapter reviews (1) the basic expectations of worker adjustment assistance in the United States under the 1974 Trade Act and the basic problems in meeting these expectations that we have identified in past reports and ongoing work and (2) the program mechanisms used in other countries which may be useful in the United States.

PROBLEMS IN PROVIDING WORKER ASSISTANCE UNDER THE 1974 TRADE ACT

In addition to regular unemployment insurance and employment service programs, the Congress included provisions for helping workers adjust to changing patterns of international trade in the Trade Expansion Act of 1962 and in the Trade Act of 1974. The expectations with respect to such assistance, however, seem to vary greatly.

Some expect that such assistance will help workers "adjust" by helping them change from a job in a threatened or internationally noncompetitive firm to a job in a firm which is competitive. To help workers adjust in this way, provisions in the 1974 Trade Act include (1) training allowances to help workers improve their skills or develop new ones,

and (2) job-search and relocation allowances and job-placement counseling and assistance to help workers find new jobs. 1/

Others only expect that worker adjustment assistance, when added to unemployment insurance benefits, will provide workers with a sufficient level of income to maintain their households until they can return to work. The 1974 Trade Act provides financial assistance to workers--unemployed and underemployed because of import competition--by supplementing unemployment benefits.

As we previously reported, however, problems in the implementation of the U.S. program have caused difficulties in achieving the results envisioned by the Congress when the 1974 Trade Act was passed. Due to the length of time required to determine benefit eligibility, workers have not, as a general rule, taken advantage of the job search or relocation benefits, nor have they received retraining. Most workers did not receive their trade readjustment allowance benefits until several months after their unemployment began or after they had returned to work.

Many factors have influenced the program results. Lack of worker awareness of the program, problems in determining worker eligibility, slowness in processing worker petitions and providing benefits, and limited use of employment services--all contributed to the problems in meeting program expectations. A closer look at each of these factors follows.

Many workers not aware
of program benefits

As previously reported in "Certifying Workers For Adjustment Assistance--The First Year Under The Trade Act," dated May 31, 1977, while knowledge of the program is widespread among union workers in the United States, nonunion workers have had only limited awareness of the adjustment assistance program. This limited awareness has limited usage of the program to only a portion of the workers impacted by foreign trade because adjustment assistance is available only to groups of workers who take the initiative to petition the Department of Labor. However, despite the Department of Labor's steps to improve worker awareness,

1/These expectations are based on articles written by scholars, and on statements by high government officials and union representatives.

70 percent of the 1,865 petitions filed as of September 1977 were submitted by unions even though unions represent only about 35 percent of the manufacturing workforce.

Problems in identifying eligible workers

To identify eligible worker groups, the Department of Labor determines that imports of like or directly competitive products have contributed to worker separations in a firm (or a subsidiary of a firm). Then it must determine which specific workers are entitled to adjustment assistance benefits.

Assessing the significance of imports to worker separations has proved to be an extremely difficult task for Labor. Domestic competition, economic recession, changes in customer preference, and increased import competition all affect a firm's economic well-being and the layoff of workers to varying degrees. The Department of Labor has experienced numerous difficulties with methods used to establish the relationship between increased imports and job loss.

Once the import impact on the group has been established by the Labor Department, State employment agencies then must determine which workers are a part of the injured group. The States have done this on petitions by automobile workers, for example, by analyzing which workers worked on a specific product line--compact cars, small luxury cars, etc. Using specific product lines, however, has added more problems in assuring equitable eligibility decisions. This has been particularly true in factories where workers produce parts used on many items or where there are multiple product lines. In these cases Labor has required employers to determine which workers are eligible. This has proved to be a time-consuming procedure and sometimes has resulted in inequitable and arbitrary eligibility decisions and complaints by both workers and their employers.

Slow delivery of worker benefits

Many trade-impacted workers are not receiving weekly trade readjustment allowances until several months after their layoff. In our report to the Congress entitled, "Worker Adjustment Assistance Under The Trade Act of 1974--Problems in Assisting Auto Workers," dated January 11, 1978, a sampling of 342 cases from early auto petitions showed that the process of requesting assistance, determining eligibility, and initiating benefit payments required an average of 380 days after

the layoff occurred. Similar delays were also found in our review of benefit payments to Pennsylvania apparel workers. A sample of the apparel workers who had received benefits showed that through June 1976 (the first 15 months of the program), an average of over 65 weeks elapsed from the time workers were separated until first trade allowances were received.

Delays in requesting assistance and determining eligibility of the group of workers requesting aid were primarily caused by the newness of the program and the lack of staff at Labor to handle the unexpectedly large volume of petitions. In addition, the delivery process itself causes slow payment of benefits. These delays result from requirements that States (1) assure that only eligible workers receive benefits, and (2) compute weekly benefit amounts taking into account the many factors which affect benefits.

To assure that only eligible workers receive weekly benefits, States must forward individual applications to employers for screening against their payroll records. The employer is required to determine whether the applicant worked in trade-affected employment for 26 of the last 52 weeks at wages of \$30 or more a week--the minimum eligibility requirement for adjustment assistance benefits. Further, the Trade Act requires benefits to be computed using a percentage of the applicant's average weekly wage. Employers must provide this prior wage data also.

Once work history and wage data are received and eligibility established, States must compute weekly benefit amounts. This process includes identifying layoff periods, calculating weekly allowances, reducing allowances by any unemployment insurance received during the layoff period, and preparing and delivering checks to applicants. It is further complicated by the following conditions which must be considered in arriving at the weekly benefit amount for each applicant:

- Whether any wages were received during the period of layoff claimed.
- Whether the individual was entitled to unemployment benefits which were not claimed.
- Whether the individual is involved in a training program or is age 60 or over and therefore entitled to additional weeks of TRA.

Employment services not used

Few eligible workers have taken advantage of available training or job search and relocation allowances provided under the Trade Act of 1974. As of April 1978, Labor reported that about 461,000 workers had applied for TRA benefits. Of these, about 72 percent had returned to work by the time of filing for benefits. Of the workers who were still unemployed when they received their TRA payments

--9,144 received training,

--960 received job search allowances, and

--496 received relocation allowances.

The Trade Act specifies that Labor, through the State employment agency, make every reasonable effort to assure that workers receive placement counseling and other related employment services. In addition, States can refer workers to training and pay cash allowances for expenses related to job search and relocation. However, in the case of auto workers, officials in four State agencies processing applications for TRA told us that few individuals from this industry were interested in other jobs when they applied for adjustment assistance. Rather, they were awaiting recall from their firms or had already been recalled. Consequently, officials considered these workers "job attached" and not in need of employment services.

In the case of apparel workers, we found that as of June 1977, very few had applied for employment services. This was due primarily to the fact that most of the affected apparel workers in Pennsylvania worked part time and because of such job attachment did not apply for these benefits.

ANALYSIS OF WORKER ASSISTANCE PROGRAMS IN OTHER COUNTRIES

To help identify potential approaches to solving the problems discussed above, we analyzed the worker assistance programs in other countries. We found two important differences. First, the methods of determining eligibility in some countries appear simpler and easier to implement. Secondly, the forms of assistance used by some countries do not overlap with existing unemployment insurance programs but do provide the largest benefits to those who have the greatest adjustment problem. These mechanisms and their potential for overcoming problems in the U.S. program are discussed below.

Mechanisms for determining worker eligibility

The current requirement under the 1974 Trade Act is that only workers injured by increased import competition are eligible for adjustment assistance. Assessing the contribution of imports to specific layoffs, however, is a difficult and time-consuming process.

In contrast, some of the other countries in our analysis have used two different approaches for determining which workers should receive benefits (1) providing assistance to workers on an industrywide basis and (2) using only the existing unemployment program to provide basic income-maintenance assistance to all eligible workers without regard to the cause of their layoff.

Industrywide basis

Japan and Canada have directed special financial benefits to laidoff workers in specific industries. In Japan, workers in industries particularly hard hit by the economic recession, including the steel, textiles, and shipbuilding industries, are designated for special assistance benefits. In addition, in December 1974, the Japanese Government expanded the Employment Insurance Law to include a temporary program--made permanent in May 1977--designed to retain workers on company payroll in designated industries, especially lifetime employees. ^{1/} Under this program, workers in 33 industries (including those mentioned above) are designated eligible for partial wage compensation if the firm retains the current level of employment.

In Canada, the industry-specific worker programs have been more limited than in Japan. In 1971, Canada implemented a program to provide special assistance to textile and clothing workers because imports were claiming a greater share of the Canadian market. A similar program is planned for workers in the footwear and tanning industry. Although these programs are basically the same as in Japan, in that workers in an industry have been designated for special assistance, to be eligible for the Canadian special assistance program workers must also show they were adversely affected by import

^{1/}Lifetime employees are workers who, in the overwhelming majority of cases, are male and who are hired by large-scale enterprise directly out of school and given assurance of permanent employment. They constitute roughly one-third of the manufacturing work force.

competition. Usually the firm does this for the workers when it applies for special firm assistance with the Textile and Clothing Industry Board. At this time, the firm also lists all eligible workers which eliminates the need for requesting employment history information later.

Providing worker assistance on an industrywide basis could be a simpler approach to determining worker eligibility. Monitoring imports and their impact on domestic production and employment levels is already a part of existing legislation under the 1974 Trade Act and could, when implemented, provide a basis for identifying those industries where adjustment assistance measures may be required. Eligibility would primarily be established on the basis of worker separation from a trade-impacted industry rather than from a specific firm or production line. Difficult decisions associated with identifying import-impacted workers in facilities producing both affected and nonaffected product lines would be eliminated. Providing worker assistance on an industrywide basis may possibly also improve worker awareness of program benefits to which they are entitled and could provide a better basis for coordinating training and job placement efforts by providing a more visible focal point for Government action.

Providing worker assistance on an industrywide basis, however, is not without some problems. First is the problem of defining industries. Government agencies operating under legislation requiring industry determination have not found it simple. Secondly, by determining worker eligibility on an industry basis, some workers would be eligible for assistance even though their specific layoff may not have been the result of import competition. Also, depending on how many and which industries' workers were designated as trade-impacted and eligible for assistance, the cost of providing benefits could be significantly increased. To qualify as trade impacted, an industry would possibly have to show that import competition was the major contributor to layoffs in the industry.

Using existing income maintenance and employment service systems

Several countries--France, Sweden, the United Kingdom, and West Germany--have adopted the position that income maintenance needs for import impacted or otherwise unemployed workers should be met through existing programs rather than through the establishment of special assistance. The primary source of assistance in these countries is unemployment benefits, though other forms of help are also available. In most

of these countries the general assistance available is equivalent to the special assistance provided in the United States under the 1974 Trade Act. As shown below, maximum unemployment benefits in other countries range close to or exceed the level of assistance--70 percent of prior earnings--available under the Trade Act.

Unemployment Benefits

<u>Country</u>	<u>Benefit period</u>	<u>Amount received</u>
United States (trade readjustment assistance)	52 weeks	Supplements regular unemployment insurance benefits up to 70 percent of prior earnings
Australia	Indeterminate	\$78 plus \$7.50 per dependent per week
Canada	51 weeks	66-2/3 percent of prior earnings
France	52 weeks	90 percent of prior earnings
Japan	43 weeks	60 percent of average monthly earnings (including bonuses and overtime)
Sweden	43 weeks	91 percent of prior earnings
United Kingdom	43 weeks	85 percent of prior earnings
West Germany	45 weeks	68 percent of prior earnings

If the Congress relied on the existing systems--primarily unemployment insurance--to meet the income maintenance needs of all unemployed workers rather than setting up a special program for import-impacted workers, several problems plaguing the income maintenance benefit portion of the U.S. adjustment assistance program would be eliminated:

- the time-consuming process of petitioning for assistance;
- the difficult task of establishing that imports contributed importantly;
- the difficult task of specifically identifying those workers covered by certifications, and
- the cumbersome benefit application and computation process associated with a special adjustment assistance program.

The use of existing systems, however, may pose a different set of problems. There would be a major change in our present concept of adjustment assistance--away from the position that trade-impacted workers experiencing layoffs should be singled out for special assistance. It could also involve a change in the present approach to unemployment insurance and other existing programs. Presently, eligibility criteria and benefit rates, as well as the extent of employment services, vary substantially among States. ^{1/} The 1974 Trade Act supplements these income-maintenance benefits to provide eligible workers 70 percent of their average weekly wage, not to exceed the average weekly manufacturing wage. To pay all unemployed workers at this level would significantly increase the cost of these programs. It could also serve as a deterrent to new employment unless measures were taken to discover whether workers were actually seeking employment.

Special forms of assistance for workers

Currently, under the 1974 Trade Act, workers who qualify are eligible for trade adjustment assistance allowances which

^{1/}See GAO report, "Unemployment Insurance--Need to Reduce Unequal Treatment of Claimants and Improve Benefit Payment Controls and Tax Collections," (HRD-78-1, April 5, 1978).

supplement their unemployment insurance. These benefits are generally available for up to 52 weeks and up to 78 weeks for workers in training or workers over 60 years of age at the time of their layoff. For the most part though, the trade adjustment assistance program does not distinguish among workers' needs and program benefits overlap with benefits available through the unemployment insurance program.

In other countries, however, we found that different approaches for assisting workers are taken. First, special assistance in some countries is an extension of unemployment benefits rather than a supplement to unemployment benefits. Secondly, older workers with a long job attachment are eligible for special retirement benefits.

Extending benefit periods

The United States, West Germany, the United Kingdom, and Japan have all established special programs to continue unemployment benefits beyond regular time limits when needed. Some of these programs, such as the program implemented in the United States, provide benefits to all individuals who have exhausted regular unemployment insurance benefits. Others, such as the program in Japan, extend benefits for laid-off workers in specific industries. Although eligibility criteria vary from program to program, each has basically the same objective--to extend benefits to provide a reasonable level of subsistence to those individuals experiencing long-term unemployment, such as might be experienced by trade-impacted workers.

Of the many programs available in other countries, the program in Japan appears more closely related to the problem of structural unemployment than many of the others. As discussed above, the Japanese Government created programs to extend unemployment insurance benefit periods for workers in certain industries experiencing sharp declines in foreign and domestic markets.

Under terms of the program legislation, workers in these industries who exhaust their unemployment benefits may continue to receive weekly unemployment benefits for periods up to 2 years. These additional benefits are at a reduced level and are sometimes contingent upon the worker's participation in a vocational training program. The Japanese Ministry of Labor, which monitors employment in all industries, is presently considering expansion of the program.

Other countries have not limited their programs to specific industries. For example,

West Germany--Program benefits are available to all who exhaust regular unemployment insurance benefits. To receive benefits, which are set at 58 percent of prior earnings, individuals must register for work and be ready and able to accept employment. No time limit is set for benefit duration.

United Kingdom--Individuals who have exhausted regular benefits may continue to receive unemployment insurance at a reduced level. The program, which is similar to welfare assistance, has no limit on the number of weeks for which benefits can be claimed. However, individuals must register for work. Refusal to accept a job results in further benefit reduction.

Despite differences in program implementation, the approach being used in both countries is similar: each is relying on a system of unemployment insurance benefits to meet the income maintenance needs of most unemployed workers. And each is relying on a system for extending those benefits in the event of long-term unemployment. Together, the two programs provide a comprehensive system of worker income protection.

Lengthening the duration of regular unemployment benefits for workers identified as trade impacted would simplify the benefit delivery process. Extending regular benefits for longer periods of time permits greater use of an income maintenance system already in operation. It also eliminates the administrative overlap and the difficult set of calculations now involved in determining eligibility for adjustment assistance benefits. However, depending on the duration and level of extended benefits it could also increase the cost of benefits under the program.

Early retirement

Another form of specially designed adjustment assistance found in France and Canada is early retirement. Since mid-1971, Canada has operated a special program to assist the trade-impacted textile and clothing industry. As a part of its benefit package, the program provides financial assistance to permanently laid off workers age 54 or older. Because of their age and long attachment to this industry, these workers are considered the most likely to experience difficulty in

finding a new job. Therefore, these workers are being offered special early retirement benefits in lieu of regular employment services.

Under the early retirement program, workers between 54 and 65 years of age at the time of their layoffs, who are determined as having no immediate prospects for reemployment, are eligible to apply for benefits. Workers are eligible for benefits if they have been

--employed within the textile industry for at least 10 of the 15 years immediately preceding the layoff and

--paid by the producer for at least 1,000 hours (125 work days) in each of those 10 years.

Early retirement benefits are equal to 66-2/3 percent of prior earnings. Benefits are payable after regular unemployment insurance benefits have been exhausted and continue until pension eligibility at age 65.

A similar program is also being operated in France for somewhat different purposes. The Canadian program is directed at assisting older trade-impacted workers, but the French program aims at creating jobs for younger workers by early retirement of older workers. Under the program in France, workers who become age 60 before March 1979 are encouraged to retire rather than wait until the normal retirement age of 65. Regular unemployment insurance benefits are being supplemented to provide 80 percent of net wages until age 65, when regular retirement programs commence. It is estimated that as many as 100,000 workers may take advantage of the program.

As one means for providing adjustment assistance benefits to older workers who are unable to find employment, voluntary early retirement recognizes that reemployment in another occupation is not always a realistic expectation for older workers with a sustained attachment to a single industry. Early retirement allows for the specific tailoring of benefits to meet the adjustment needs of such workers. However, such a program should only be used as a last resort to help older workers unable to find work.

Other mechanisms for assisting workers

In addition to the above mechanisms, two general methods for administering worker assistance programs--prenotification

systems and consultative services--appear to offer potential for consideration in the U.S. adjustment assistance program under the 1974 Trade Act. Both approaches have the objective of smoothing the delivery of assistance to workers and of assuring effective assistance in helping workers adjust to changes in their economic environment.

Prenotification systems

For adjustment measures to be of maximum benefit to workers, it is essential that such measures be available at the time workers are laid off. To provide the leadtime necessary for both government and workers to prepare for layoffs, Sweden, Canada, France, West Germany and the United Kingdom have implemented systems requiring advance notification of layoffs.

As an aid to Swedish authorities in implementing worker assistance programs, employers are required to provide the Government with advance notice of impending plant closures or production cutbacks which will result in worker terminations or layoffs. The length of notice is determined by the number of workers to be affected. If fewer than 25 workers will be laid off, a 2-month notice is required. If 100 or more workers are affected, a 6-month notice must be given. If permanent job loss will result, an even earlier notice is required.

French firms are likewise required to inform the Ministry of Labor of plans to discharge workers. Length of notice depends on the number of workers to be dismissed, e.g., 10 workers, 15 days notice; 300 workers, 3 months notice.

Although similar in principle, the Canadian prenotification system differs from that in France and Sweden in that reporting requirements vary among provinces. Recognizing that it is sometimes difficult for firms to predict whether layoffs will be permanent, Canada has exempted certain types of layoffs. For example, if laid-off workers are receiving supplemental unemployment benefits from employers, the layoff is not considered permanent and advance notice is not required.

Requiring U.S. firms to issue advance notice of permanent layoff could improve the timeliness of Government programs that are designed to deal with adjustment problems. With advance warning, the petitioning process could start sooner and State agencies could prepare for the increased workload.

Consultative services

To deal with some situations identified through the prenotification system, Canada and Sweden have developed special "consultative services" programs. These programs involve bringing together all affected parties in an attempt to work out a mutually agreeable solution to the problem.

In the case of Canada, as notices of layoffs are received, Government representatives contact employers and workers' representatives to encourage the formation of a joint committee. The role of the committee is to

- assess the firm's problems,
- develop solutions,
- evaluate the impact of solutions on the workers,
and
- recommend actions necessary for workers to adapt
to the solutions.

Generally, these committees consist of equal representation from the employer, workers, Federal and Provincial governments, and a committee chairman drawn from the academic or business community.

In working out a solution to the problem, the committee serves as a focal point for identifying and delivering all available resources at both the national and local level, e.g., technical assistance, loans, loan guarantees, training, counseling, job referral, and placement. While not required to implement committee recommendations, firms are required to assess them and implement them as they deem advisable in order to facilitate adjustment.

The Canadian consultative services program is considered to be highly successful. Federal and Provincial Government representatives as well as industry and union officials involved with the program with whom we spoke provided a near unanimous opinion that the program is a very workable approach to resolving adjustment problems involving the closing of a facility or the layoff of large numbers of workers.

The program operated by the Swedish Government is similar to the Canadian program. After receiving a prenotification of closure or production cuts, a consultation group is formed to facilitate the adjustment process. As in Canada, this

group contains representation from the firm, the employees affected, and both national and local governments. The task of the group is to assist in deciding which measures to apply. These measures may include employment with existing or new firms in the community, training, or creation of temporary subsidized employment.

A consultative services approach to worker adjustment when combined with prenotification may offer potential for improving both the awareness of available program benefits and the delivery of benefits to workers. Among the advantages of this approach are

- actions can begin before layoffs occur;
- workers have a focal point for assistance, one source that can provide access to all available programs; and
- labor representation in the development of solutions helps assure consideration of worker interests.

The success of such a program, however, depends upon the willingness of labor, management, and government to work together.

CONCLUSIONS AND OBSERVATIONS

Problems in implementing the worker program have hampered the delivery of benefits and the effectiveness of the program in helping workers to adjust to changes in their economic status. Some of the considerations identified in programs used in other countries may offer some potential for resolving these problems.

Using an industrywide approach and using only existing income maintenance and employment service systems to determine which workers should receive assistance are two considerations which may simplify the determination of eligibility under the 1974 Trade Act. In addition, using extended unemployment benefits and preretirement benefits can prevent the overlap of programs and yet assure the greatest benefits to those workers with the greatest adjustment problems. Other mechanisms such as the prenotification system and the use of consultative services could also smooth the delivery of benefits and the implementation of the assistance program.

However, before any of these options are considered for use in the United States, they should be further analyzed to determine their feasibility and cost. Currently, we are

analyzing in depth the implementation of the worker assistance program in the United States under the 1974 Trade Act. As a part of this effort, consideration will be given to identifying various methods for improving the worker assistance program.

AGENCY COMMENTS

Department of Commerce

1. The Department agrees that prenotification is a valid means for expediting assistance to workers, but believes it should not be limited to the trade adjustment assistance program.

We agree that prenotification may be applied to other layoffs, but inasmuch as this report is directed to trade, we have limited our discussion to this area.

2. The Department commented that throughout this report, no mention is made of the German "guest workers." Since these workers are assured the rights and privileges of German workers, the Government has had difficulty in getting them to return to their own countries when their services are no longer needed. However, being able to "lose" at least a part of the unemployed workforce does make adjustment simpler.

While we agree with this observation, the use of guest workers seems to have limited applicability to the manufacturing sector of the United States, and, because the purpose of this report is to identify techniques of probable interest to the Congress, we did not discuss it.

3. According to the Department, the report does not discuss "codetermination," which is required in Sweden and West Germany. These nations consider codetermination to be an adjustment tool. This program, in addition to prenotification, provides labor with a great deal of knowledge concerning the operation of a particular plant. As a result, labor is able to gain time. Codetermination has not stopped the closing of a plant and the layoff of workers, but it has delayed closings. However, codetermination would most likely not be feasible in the United States due to the adversary nature of management-union relations.

We did not discuss this technique for the very reason cited by Commerce--codetermination is not and appears unlikely to become a part of the American scene.

Department of Labor

Concerning worker adjustment assistance the Department was of the opinion that certain of our conclusions did not represent a balanced viewpoint and pointed to the need for more up-to-date statistics. We acted upon these Department comments in the body of this chapter.

CHAPTER 4

CONSIDERATIONS FOR FIRM AND COMMUNITY

ADJUSTMENT ASSISTANCE

As in the case of assistance to workers, approaches to providing assistance to trade-impacted firms and communities in other countries differ significantly from the U.S. approach under the Trade Act of 1974. Rather than using a single program to meet the needs of all firms, most foreign countries enact separate programs to meet the needs of specific industries and communities. As a whole, the industry and community assistance efforts in other countries stress the creation of new jobs, the expansion and relocation of competitive firms, and the development of new firms.

The approaches being used in other countries offer features which the Congress may wish to consider for improving the implementation of the U.S. firm and community adjustment assistance programs. It is not our purpose to recommend any specific action but to identify potential methods and to provide some insight as to how they may improve the U.S. firm and community assistance programs under the 1974 Trade Act.

PROBLEMS IN PROVIDING FIRM ASSISTANCE UNDER THE 1974 TRADE ACT

In providing for firm assistance in the 1974 Trade Act, the Congress has taken the position that such assistance is needed to help firms adapt to the changing patterns of international trade. However, the expectations of what would be accomplished through such assistance vary. Some expect such assistance to be used to keep firms open within the same industry. Others expect assistance to be used not only to keep firms open but to help firms move to a new industry where they can compete with foreign trade.

Since passage of the 1974 Trade Act, few firms have received adjustment assistance through this program. According to Department of Commerce figures, through June 1978, 235 firms had been determined eligible to apply for assistance. Of these, 62 had actually been approved to receive loans and loan guarantees totaling \$60 million. Of those firms receiving assistance, most are not using the loans to adjust to other industries or to adjust within their own industry to be more competitive but, instead, are using them for repaying debts or as working capital.

The low level of program participation is attributable to several factors. Among these are the firms' lack of awareness that the program exists, the relatively unattractive benefits offered, the difficulties firms have in developing plans for recovery, and the slowness of the Department of Commerce in providing benefits.

These and other problems in the firm adjustment assistance program are detailed in our recently released report on Adjustment Assistance to Firms Under the Trade Act of 1974.

Many firms are not aware of program benefits

With the exception of the special program in the shoe industry, the Department of Commerce has made but limited efforts to publicize program benefits available to trade-impacted firms. Rather, Commerce has generally waited for firms to request information about adjustment assistance. As a result, many firms affected by imports, which are potentially eligible for adjustment assistance, are not being made aware of available program benefits.

Despite the lack of a broad publicity scheme, some firms have requested information on the program and Commerce has provided program literature to them. Although this information offers a description of assistance available, it does not adequately describe program procedures and requirements for obtaining benefits.

The major exception to Commerce's limited publicity program involves the footwear industry. Following former President Ford's April 16, 1976, decision, in which he recommended adjustment assistance in response to the import relief petition of the nonrubber footwear industry, Commerce sent program information to nearly 600 firms in the footwear industry but the response was very limited. However, after the July 20, 1977, announcement of a special footwear program and a change in attitude by the American Footwear Industry Association, Commerce again mailed program information to over 400 footwear firms. This second mailing was combined with special public relations, and the number of footwear petitions nearly doubled (from 26 to 66) in 6 months.

Unattractive program benefits

Many firms in trade-impacted industries are discouraged from seeking adjustment assistance under the program because of unattractive program benefits. The interest rates on loans are considered by many applicants to be too high. A few firms

are seeking assistance under other Government programs that offer more attractive benefit packages.

The interest rate charged for adjustment assistance loans is determined in accordance with a formula prescribed in the Trade Act. The rate is equal to the U.S. Treasury borrowing rate plus a surcharge of about 1-1/2 percent. Actual rates charged by Commerce on direct Trade Act loans have ranged from 8-3/4 to over 10 percent--higher than the 5 to 8 percent charged for loans under some other Government loan programs.

Slow benefit delivery

Firms are in weak financial condition when they apply for assistance. Slow delivery of assistance further weakens them. Of the 28 firms approved for loans and loan guarantees, many waited from 7 to 17 months from the date of certification before receiving assistance.

The first step in the two-step process of providing adjustment assistance is to determine a firm's eligibility. For a firm to be considered eligible to apply for assistance--that is, to be certified--Commerce must determine that increased imports of articles like, or directly competitive with, those produced by the firm contributed importantly to declines in sales or production and to the separation, or threatened separation, of some of the firm's workers.

Virtually all Commerce decisions to certify or deny eligibility to apply for benefits--the first step of the process--have been made within the required 60 days. However, significant delays are being encountered in the second step of the process--analyzing the firm's adjustment proposal.

In the second step of the assistance process, the firm must develop an adjustment plan which not only includes detailed financial information on how the firm will recover but shows the firm's compliance with many other Federal regulations, such as equal employment and environmental protection. Because of difficulties in developing such proposals, many certified firms have been delayed in receiving assistance, and others, unable to develop an acceptable proposal, have gone out of business. Commerce is authorized to pay up to 75 percent of the costs of technical assistance to help certified firms develop recovery plans. As of June 1978, 71 firms had received such assistance, totaling \$772,000.

DIFFICULTIES IN PROVIDING
ASSISTANCE TO COMMUNITIES
UNDER THE 1974 TRADE ACT

To supplement other Commerce programs for assisting communities, the 1974 Trade Act also directed that Commerce establish a separate program to provide adjustment assistance to trade-impacted communities. The aim of this program was to create new job opportunities by facilitating the growth of existing industry or by bringing new industry to communities economically hard hit by increased imports. To be certified as eligible to apply for assistance under the 1974 Trade Act, trade-impacted communities must show that increased imports of articles like, or directly competitive with, those produced by community firms contributed importantly to (1) the total number of separations or threatened separations of workers in the community, and (2) the decline in sales and/or production of community firms.

Commerce, however, has not implemented a separate program to provide adjustment assistance to trade-impacted communities. Rather, its policy has been to encourage communities with import-related adjustment problems to utilize other programs it administers. In justifying this policy, Commerce maintains that

- the same types of benefits available under the Trade Act are provided under other Commerce programs, and
- communities face a nearly impossible task in developing data sufficient to establish eligibility under the Trade Act criteria.

The result has been that while some trade-impacted communities are getting assistance under other programs, no communities have actually received adjustment assistance under the Trade Act of 1974.

ANALYSIS OF FIRM ASSISTANCE
PROGRAMS IN OTHER COUNTRIES

To help identify potential approaches to solving the problems discussed above, we analyzed the firm assistance programs in other countries. Mechanisms from these programs contain features which the Congress may wish to consider.

In analyzing other country programs, we found a significant difference in the way countries determine which firms

should receive special assistance and in the forms of assistance provided. These approaches and their potential for overcoming problems in the U.S. program are discussed below.

Ways of determining firm eligibility

Currently, under the 1974 Trade Act, only firms injured by import competition are eligible for adjustment assistance. To receive assistance, however, a firm must also submit a detailed adjustment plan which (1) shows how the assistance will materially contribute to the economic adjustment of the firm, (2) evidences adequate consideration of the interests of the workers of the firm, and (3) reasonably demonstrates that the firm will use its own resources for strengthening its position. It must also show that the funds required are not otherwise available and that there is reasonable assurance the loan will be repaid. Meeting these requirements and devising an acceptable recovery plan have been difficult and time consuming.

Industrywide approach

In contrast, programs in several of the other countries we analyzed are being tailored to specific industries. In France, Japan, Sweden, and the United Kingdom, specific industrywide programs have been implemented for several industries as shown below.

<u>France</u>	<u>Japan</u>	<u>Sweden</u>	<u>United Kingdom</u>
Textiles	Textiles	Textiles	Clothing
Steel	Steel	Steel	Ferrous foundry
Shipbuilding	Shipbuilding	Shipbuilding	Shipbuilding
Machine tools		Shoes	Machine tools
Data processing		Handmade glass	Non-ferrous foundries
Aerospace		Foundry	Electronic components
Nuclear energy		Metal-ware	Paper, cardboard
Telecommunications		Woodworking	Poultry processing
			Printing machinery
			Textile machinery
			Red meat processing
			Wood textiles

In the above cases, each country has identified specific industries needing assistance and has developed specific forms of assistance for these industries without regard to the cause of the problem. Because these countries base eligibility for assistance on an industrywide approach, they are not involved in determining the eligibility of individual firms.

The use of the industrywide approach in the United States may offer an additional way of identifying and certifying firms needing assistance. It would help focus attention on the problems of specific import-impacted industries and expedite the identification and certification process. However, eliminating the measurement of import injury on a specific firm would depart from current U.S. adjustment assistance legislation. In addition, some difficulty may also arise in defining an industry or identifying which industries should receive assistance. One way of implementing such a program would be to limit assistance to industries for which imports have been the major cause of production cutbacks and layoffs.

Assistance to competitive firms

Under the 1974 Trade Act, firms must be injured to be eligible for adjustment assistance. Some of the other countries--Sweden, Canada, West Germany, and Japan--have taken a more liberal approach to helping firms in troubled industries by providing assistance to economically healthy as well as marginal firms. Major objectives of this approach are to create new jobs in the industry and thereby provide employment in the same industry for workers laid off from less competitive firms.

The program developed by Sweden to help its ailing textile industry become more internationally competitive illustrates how competitive firms within the same industry are being helped. In the late 1960s the Swedish Government felt that changes resulting from textile imports were taking place too quickly. Certain sectors of the industry had limited capacity left to supply Sweden's needs in the event import sources were cut off. These conditions led to the formation of two Royal Commissions to suggest measures for dealing with the industry's problem. Results of the Commissions' efforts led to the establishment of a program to facilitate adjustment and assure preparedness through helping textile firms which are competitive.

Results indicate that benefits have improved profitability and competitiveness and have stimulated investment which would not otherwise have materialized. The program has

been extended for 5 years and levels of financial assistance have increased.

Canada likewise extends assistance to firms which are competitive within industries affected by international trade. In 1967, the General Adjustment Assistance Program was set up to provide help to firms injured by increased import competition as well as to help firms wanting to capture a greater share of the international market. Since the program began, however, assistance has not been given to marginal firms injured by imports. Rather, it is being directed at those firms willing to take advantage of expanding international market opportunities.

Unlike the program in Sweden, the Canadian program is not limited to firms within a specific industry but is available to all eligible firms involved in international trade. Firms may apply for assistance if they require a loan to

- improve their international trade position through reorganization,
- take advantage of new opportunities for production of goods for international trade, and
- increase efficiency in order to compete with imports.

Canadian Government officials consider the program a success, especially in helping smaller firms--those with sales under \$10 million annually--to enhance their international competitive position. Because Canadian banking institutions have been extremely conservative in their lending practices, smaller firms wishing to expand their international trade operations would likely have experienced difficulty obtaining financial assistance without the Government's program.

If the present U.S. Trade Act requirement that individual firms be certified as injured by import competition before being eligible to receive assistance were eliminated, healthy as well as marginal firms in import-affected industries could be assisted. This could provide stronger firms an opportunity to expand production capability, increase their overall competitive position in the international market, and create jobs for those laid off from other less competitive firms within the impacted industry especially where there is a concentration of firms in the same line of business. Currently, competitive firms in trade-impacted industries have difficulties obtaining assistance under other

Government programs because of restrictions on other Government loans in industries faced with overcapacity. The cost of providing benefits to competitive firms could be very high, depending on how industries are defined and which industries are designated for assistance.

Special forms of assistance for firms

Most of the same mechanisms for assisting firms used in the United States under the 1974 Trade Act--loans, loan guarantees, and technical assistance--are also used in other countries. The difference in the assistance provided in the other countries is that other countries' benefits are more attractive and thus provide greater incentive for firms to participate in Government programs.

In contrast to programs under the U.S. Trade Act where interest charges are above the U.S. Treasury borrowing rate, several of the other countries we reviewed make interest rates on Government loans lower than prime commercial rates. The use of more attractive interest rates for firm assistance in the United States would likely provide more incentive for U.S. firms to take advantage of the Government assistance available. It would also make repayment of loans obtained through Government programs easier for marginal firms.

ANALYSIS OF COMMUNITY ASSISTANCE PROGRAMS IN OTHER COUNTRIES

Community programs in other countries are not based upon problems arising out of trade as in the case of the U.S. Trade Act community program. Generally, those programs assist all eligible underdeveloped areas.

An important characteristic of regional development programs in other countries is that they generally provide a coordinated approach to resolving community problems. As illustrated by programs in Sweden and the United Kingdom, all elements of the community--workers and firms--share in the benefits offered.

Regional development in Sweden

The Swedish Government has been making loans to encourage plant location in economically depressed areas since 1965, and adopted a policy for regional development in 1972. The purpose of the policy is to support the establishment and expansion of enterprises in places and regions where employment and the economy need reinforcement.

Sweden's regional development policy draws on many Government assistance techniques and programs to provide a comprehensive package of benefits. Major forms of assistance are:

- Aid for the establishment of new firms through grants and low-interest or interest-free loans for investment in buildings, machinery, and equipment as well as for geographic transfer of firms.
- Employment subsidies for net increases in employment equaling about 15 percent of annual wage costs for 2 years and 7 percent for an additional year.
- Transport subsidies to firms in order to bring down freight charges.
- Training grants to cover costs of training and wage subsidies for the first 6 months after workers are hired by a firm.
- Loans, guarantees, and grants for industrial expansion and product development.
- Relocation grants to unemployed persons who migrate from areas where there is a lack of job opportunities to regions where employment is available.

Regional development
in the United Kingdom

The United Kingdom is also operating a comprehensive regional development program. There are four types of designated areas in the United Kingdom: (1) special development areas, (2) development areas, (3) intermediate areas, and (4) Northern Ireland. Area classification is determined on the basis of unemployment rates, age distribution, and immigration data.

Like Sweden, the United Kingdom program provides incentives to both firms and workers to achieve regional development:

- Grants for purchase of new buildings and machinery, ranging from 15 percent to 30 percent of investment.
- Low-interest loans for general capital purposes which provide additional employment.
- Interest relief grants for projects which provide additional employment.

- Removal (relocation) grants covering 80 percent of the costs of moving an operation into one of the four designated areas.
- Providing Government facilities for rent or for sale on favorable terms.
- Free training services at Government-owned training centers and at employer premises.
- Worker assistance, including resettlement grants, separation allowances, and travel and moving expenses allowances.

The program is considered by the United Kingdom's Department of Industry to be quite successful. According to the Department's study, regional programs significantly increased employment in designated areas, especially during the period 1965 to 1971. According to a Department official, the program has not been nearly as successful since 1972 because industry has been much more reluctant to move to expansion areas. However, a study at Cambridge University indicates that the regional policy is getting industry to move and that capital intensive industries more than other industries are shifting to designated development areas.

Under the 1974 Trade Act, worker, firm, and community programs are being coordinated at the headquarters level in Washington; however, there is only limited local coordination among these programs. As discussed above coordination of benefits going to a particular community significantly improves program effectiveness. Programs under the Trade Act could otherwise be improved with better coordination at the local level.

CONCLUSIONS AND OBSERVATIONS

Problems in implementing the firm and community programs and the lack of attractive program benefits for firms have hampered the effectiveness of the programs in assisting firms and communities to adjust to changes in their economic status. Some of the mechanisms identified in programs used in other countries may offer some potential for resolving these problems.

The supplemental use of an industrywide approach for determining which firms should receive assistance and providing assistance to competitive firms as well as marginal ones are measures that may strengthen the firm assistance program under the 1974 Trade Act. In addition, providing more attractive

benefits would provide better incentive for firms to participate in the adjustment assistance program. Improved local coordination of all assistance programs going to a community could improve the effectiveness of the assistance programs.

However, before any of these approaches are considered for use in the United States, further analysis should be made to determine their feasibility and cost in the United States. Our comprehensive report on adjustment assistance to firms was released December 1978, and currently, we are analyzing in depth the implementation of the community assistance programs in the United States under the 1974 Trade Act. As a part of these efforts, consideration is being given to identifying methods for improving the community assistance programs, some of which are presented in this report.

AGENCY COMMENTS

Department of Commerce

1. The Department observes that "firm adjustment is the best form of worker adjustment assistance."

While in a measure we agree with this perception, it rests on the assumption that there is a one-to-one relationship between the worker and firm programs. In other words, it assumes that if a firm's workers qualify for adjustment assistance, the firm itself will qualify for assistance. This does not necessarily follow. For example, automobile company workers have been the single largest group in the worker adjustment assistance program. No automobile company qualifies for firm adjustment assistance.

2. The Department observes that the use of the assistance as working capital (see p. 43) is, of itself, not bad. Working capital has some appropriate uses in enabling a firm to adjust to imports (i.e., advertising, hiring an engineer, marketing, instituting a system of records and accounts, etc.).

We agree that using the assistance to increase working capital is not bad. When working capital is used to enable a firm to adjust to import competition, it is accomplishing the objectives of the program. But unless the working capital is used in conjunction with loans for capital investment the assistance provided by EDA may, in many instances, have only limited success in adapting the firm to increasing imports.

3. The Department states that the large amount of time required to provide benefits is not entirely the fault of the Department of Commerce. The firms themselves are responsible for a great deal of the delay.

We agree that firms do contribute to the delay in the problems they experience in drawing up their adjustment plans.

4. The Department believes that the discussion of the community adjustment assistance program lacks balance. While it may be true that no community has received assistance through the Trade Act program, communities are being assisted through programs under Title IX of the Public Works and Economic Development Act. This should be discussed at length in the report.

We believe the discussion in the section entitled, "Difficulties In Providing Assistance to Communities Under the 1974 Trade Act," adequately addresses this issue.

5. The Department agrees with our view that more attractive interest rates for firm assistance in the United States would provide more incentive for U.S. firms to take advantage of Government assistance and make repayment of loans obtained through government programs easier for marginal firms.

6. The Department observes that nationalization of firms should be included among those programs and techniques used by the Swedish Government to assist industries and regions.

We agree that nationalization is an important facet of assistance programs in Sweden. However, since nationalization is not a realistic option in the United States, we did not discuss it.

OTHER GAO REPORTS ON ADJUSTMENT ASSISTANCE

Assistance to Nonrubber Shoe Firms	CED-77-51	Mar. 4, 1977
Certifying Workers for Adjustment Assistance--The First Year Under the Trade Act	ID-77-28	May 31, 1977
Letter Report to Congressman Charles A. Vanik, Chairman, Subcommittee on Trade, House Committee on Ways and Means, on the Need to Improve Coordination of Trade Adjustment Assistance Programs for Workers, Firms, and Communities	ID-78-5	Dec. 6, 1977
Worker Adjustment Assistance Under the Trade Act of 1974 --Problems in Assisting Auto Workers	HRD-77-152	Jan. 11, 1978
Adjustment Assistance Under the Trade Act of 1974 to Pennsylvania Apparel Workers Often Has Been Untimely and Inaccurate	HRD-78-53	May 9, 1978
Worker Adjustment Assistance Under the Trade Act of 1974 to New England Workers Has Been Primarily Income Maintenance	HRD-78-153	Oct. 31, 1978
Adjustment Assistance to Firms Under the Trade Act of 1974-- Income Maintenance or Successful Adjustment?	ID-78-53	Dec. 21, 1978

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