CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

August 21, 2002

H.R. 3009
Trade Act of 2002

As cleared by the Congress on August 1, 2002, and signed by the President on August 6, 2002

SUMMARY

H.R. 3009 (enacted as Public Law 107-210) extends the Trade Adjustment Assistance (TAA) programs for workers and for firms through fiscal year 2007. The authorizations for these programs expired at the end of fiscal year 2001, but the Departments of Labor, Health and Human Services, Education and Related Agencies Appropriations Act, 2002, funded these programs for 2002. The law also expands the existing TAA program, creates a new trade-related federal program designed to benefit farmers, and subsidizes health insurance for those who qualify for TAA and for certain retirees receiving pension payments from the Pension Benefit Guaranty Corporation (PBGC). In addition, this law provides the President with trade promotion authority, and extends both the Andean Trade Preference Act (ATPA) and the Generalized System of Preferences (GSP).

For fiscal years 2002-2012, CBO estimates that H.R. 3009 will increase net direct spending by about $6.4 billion and reduce revenues (i.e., governmental receipts) by about $5.9 billion. The changes in outlays and revenues that would be subject to pay-as-you-go procedures are summarized in Table 1. For the purposes of pay-as-you-go procedures, only the effects through 2006 are counted.

TABLE 1. SUMMARY OF H.R. 3009's EFFECTS ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	24	312	585	647	655	677	693	697	687	686	700
Changes in receipts	-416	-669	-781	-852	-902	-487	-344	-354	-366	-378	-390

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated effects of H.R. 3009 on direct spending and revenues are shown in Table 2. The costs of this legislation fall within budget functions 350 (agriculture), 500 (education, training, employment, and social services), 550 (health), 600 (income security), and 750 (administration of justice).

TABLE 2. ESTIMATED EFFECTS OF H.R. 3009 ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CHANGES IN DIRECT SPENDING											
Division A, Trade Adjustment Assistance											
Estimated Budget Authority	60	376	618	642	666	680	693	657	672	686	700
Estimated Outlays	0	300	573	635	655	677	693	697	687	686	700
Division E, Miscellaneous											
Estimated Budget Authority	24	12	12	12	0	0	0	0	0	0	0
Estimated Outlays	24	12	12	12	0	0	0	0	0	0	0
Total Changes in Direct Spending											
Estimated Budget Authority	84	388	630	654	666	680	693	657	672	686	700
Estimated Outlays	24	312	585	647	655	677	693	697	687	686	700
CHANGES IN REVENUES											
Division A, Trade Adjustment Assistance [a]	-1	-209	-279	-307	-319	-331	-343	-354	-366	-378	-390
Division C, Andean Trade Preference Act	-21	-44	-48	-52	-55	-15	-1	0	0	0	0
Division D, Extension of Certain Preferential Trade Treatment and Other Provisions	-394	-413	-450	-489	-524	-139	0	0	0	0	0
Division E, Miscellaneous	0	-3	-4	-4	-4	-1	0	0	0	0	0
Total Changes in Revenues	-416	-669	-781	-852	-902	-487	-344	-354	-366	-378	-390

NOTE: Components may not sum to totals because of rounding.

a. The Joint Committee on Taxation provided estimates for the health insurance tax credit in title II of Division A.

BASIS OF ESTIMATE

CBO estimates that H.R. 3009 will increase direct spending, relative to CBO's March 2002 baseline projections, by about $6.4 billion over the 2002-2012 period. The act will reduce revenues by an estimated $5.9 billion over that time. These effects are detailed below.

Direct Spending

Division A: Trade Adjustment Assistance for Workers. The bulk of the costs fall in Division A of the law, which extends and expands TAA for workers through 2007, and merges the regular TAA program with the TAA program established for workers who lost their jobs due to implementation of the North American Free Trade Agreement (NAFTA). This division also creates a TAA program for farmers and creates a health insurance subsidy for TAA beneficiaries and certain other retirees through a refundable tax credit. CBO estimates that these provisions will increase direct spending over the 2003-2012 period by $6.3 billion above spending assumed in CBO's March 2002 baseline, resulting in total TAA spending of $11.4 billion over the period. The provision in Division A also will decrease revenues by $3.3 billion over the same time frame. These costs are detailed in Table 3.

Trade Adjustment Assistance for Workers. Title I of Division A reauthorizes TAA for workers through fiscal year 2007. This program provides extended unemployment compensation and training benefits for workers who lose their jobs because of increases in imports. In addition, it expands eligibility for the program to include secondary workers and workers who lose their jobs due to shifts in production (plant relocations). Secondary workers include workers laid off from firms that supply goods to companies that experience a trade-related loss of employment as well as those that provide added value after manufacturing, such as final assembly and packaging. This title also increases the maximum number of weeks a beneficiary can collect TAA, and raises the caps on certain benefits. Finally, it creates a five-year pilot program to provide wage subsidies to certain older workers.

TABLE 3. IMPACT ON DIRECT SPENDING AND REVENUES OF DIVISION A: TRADE ADJUSTMENT ASSISTANCE FOR WORKERS

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CHANGES IN DIRECT SPENDING											
Title I											
TAA for Workers [a]											
Estimated Budget Authority	425	567	800	848	876	894	912	881	901	921	941
Estimated Outlays	425	478	752	831	865	891	912	921	916	921	941
Offsets: Spending Assumed in Baseline [a]											
Estimated Budget Authority	-425	-430	-436	-445	-455	-465	-476	-487	-498	-509	-521
Estimated Outlays	-425	-430	-436	-445	-455	-465	-476	-487	-498	-509	-521
TAA for Farmers											
Budget Authority	0	90	90	90	90	90	90	90	90	90	90
Estimated Outlays	0	68	88	90	90	90	90	90	90	90	90
Subtotal, Title I											
Estimated Budget Authority	0	227	454	493	511	519	526	484	493	502	510
Estimated Outlays	0	116	404	476	500	516	526	524	508	502	510
Title II											
Credit for Health Insurance Costs of Eligible Individuals [b]											
Estimated Budget Authority	0	89	124	149	155	161	167	173	179	184	190
Estimated Outlays	0	89	124	149	155	161	167	173	179	184	190
Promotion of Qualified High-Risk Pools and National Emergency Grants											
Budget Authority	60	60	40	0	0	0	0	0	0	0	0
Estimated Outlays	0	95	45	10	0	0	0	0	0	0	0
Subtotal, Title II											
Estimated Budget Authority	60	149	164	149	155	161	167	173	179	184	190
Estimated Outlays	0	184	169	159	155	161	167	173	179	184	190
Net Changes in Direct Spending											
Estimated Budget Authority	60	376	618	642	666	680	693	657	672	686	700
Estimated Outlays	0	300	573	635	655	677	693	697	687	686	700

Continued

TABLE 3. Continued

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CHANGES IN REVENUES											
Title II											
Health Insurance Tax Credit [b]	0	-205	-275	-303	-315	-327	-339	-350	-362	-374	-386
Title III											
Other Trade Provisions	-1	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4
Total Changes in Revenues	-1	-209	-279	-307	-319	-331	-343	-354	-366	-378	-390

NOTE: Components may not sum to totals because of rounding.

a. The act would authorize an expanded program for trade adjustment assistance for workers through 2007. However, under provisions of the Balanced Budget and Deficit Control Act, the costs of this program are assumed to continue beyond the termination date.

b. The Joint Committee on Taxation provided estimates for the health insurance tax credit in title II of Division A.

The Deficit Control Act of 1985 specifies that, for the purpose of baseline projections, direct spending programs with current year outlays greater than $50 million shall be assumed to continue beyond their statutory expiration date. Therefore, in estimating the costs of TAA under H.R. 3009, CBO assumes that TAA for workers will continue through 2012. On that basis, CBO estimates that the TAA extension and changes will cost $8.9 billion over the 2002-2012 period. This figure is $3.7 billion more than the spending projected in CBO's baseline for TAA for workers. Over 60 percent of the increase—about $2.3 billion—is for higher caseload. Another $1 billion is due to the increases in the average time allowed to draw benefits. The temporary pilot program to provide wage insurance to certain older workers makes up $0.2 billion of the increase. The remainder—about $0.2 billion—is for higher administrative costs.

Expanded Eligibility. The law merges the regular and NAFTA TAA programs, creating one program with similar eligibility criteria. Under H.R. 3009, certain secondary workers and most workers who lose their jobs due to shifts in production (plant relocations) will be eligible for income support, training benefits, and health care subsidies. CBO estimates that these changes will increase the number of TAA-certified workers by about 50 percent, to nearly 200,000 annually. In order to provide training benefits for the additional people, the current cap on training (a combined total of $110 million per year for the regular and NAFTA TAA programs) has been doubled to $220 million annually. CBO estimates that these increases in caseload and the training cap will result in additional spending of about $2.3 billion over the next 10 years.

In the past five years, the Department of Labor (DOL) certified an average of about 130,000 workers each year (after accounting for workers who were dual-certified in the regular and NAFTA TAA programs), although there is considerable annual variation. Based on information provided by the Bureau of Labor Statistics, the DOL's Employment and Training Administration, and a report by the General Accounting Office, CBO estimates that these provisions will increase the number of certified workers by about 70,000 per year, on average. The coverage of secondary workers makes up about 70 percent of the increase in caseload, and coverage of shifts in production comprises the remainder. CBO assumes that roughly 30 percent of certified workers would ultimately draw some amount of extended unemployment and training benefits, which averaged about $10,000 per beneficiary under prior law.

Increases in Benefits. Title I increases the number of weeks that individuals can draw TAA cash benefits by up to a year in some cases (to a possible maximum of 104 weeks). In addition, it increases the maximum benefits for job search and relocation allowances to $1,250. Under prior law, each category was capped at $800 per beneficiary. The estimated costs of these benefit enhancements total about $1 billion over 10 years.

The new law allows beneficiaries to collect TAA benefits for an additional 26 to 52 weeks. Previously, TAA beneficiaries could draw up to 52 weeks of benefits after their regular unemployment compensation has expired. Under the new law, all beneficiaries can now collect up to 78 weeks of benefits. In cases where a beneficiary must undergo remedial training, H.R. 3009 provides cash benefits for yet another 26 weeks, for a total of 104. CBO estimates that these provisions will cost about $0.9 billion over 10 years. In addition, CBO estimates that subsidizing the cost of health insurance for TAA beneficiaries will result in slightly longer stays on TAA, costing roughly $100 million over 10 years. The increase in amounts permitted for job search and relocation allowances is expected to have only a minimal impact on the cost of this law.

Wage Insurance Program. H.R. 3009 requires DOL to create a five-year pilot program for wage insurance. Workers 50 years of age and older who are certified under the TAA program could be eligible to receive a wage subsidy of up to $10,000, if they take a lower paying job and meet certain other criteria. CBO estimates this program will cost up to $50 million annually through 2008. These costs are based on data from the Displaced Worker Supplement to the February 1998 Current Population Survey and information from the Office of Management and Budget.

Administrative Expenses. Currently, DOL provides to the states funds equal to about 15 percent of total training costs for administrative expenses. Although this practice is not set in law or regulation, CBO assumes that it will continue. Combined training benefits were capped at $110 million per year under prior law. The cap increases to $220 million under H.R. 3009. Thus, we estimate that administrative costs paid by the federal government will double from about $17 million per year to about $33 million annually.

Trade Adjustment Assistance for Farmers. Title I requires the Department of Agriculture to provide funds to eligible farmers when the price of an agricultural commodity is less than 80 percent of the national average price for that commodity for the five marketing years preceding the most recent marketing year, and when an increase in imports contributed importantly to the price decline. The law provides $90 million each year for fiscal years 2003 through 2007 to carry out this purpose. In accordance with the Deficit Control Act of 1985, CBO assumes that the costs for this assistance to farmers will continue beyond 2007. Thus, CBO estimates that these provisions will increase direct spending by $0.9 billion over the 2003-2012 period.

Health Insurance Coverage Options. Title II of Division A creates a 65 percent refundable tax credit for the purchase of health insurance by certain individuals certified as eligible for adjustment assistance. Retired workers whose pensions are paid by the Pension Benefit Guarantee Corporation and who are not eligible for Medicare also are eligible for this refundable tax credit. The Joint Committee on Taxation (JCT) estimates that the refundable portion of this credit will total $1.6 billion over fiscal years 2003 through 2012. The JCT estimates these costs will be roughly evenly split between the TAA and PBGC beneficiaries.

Promotion of Qualified High-Risk Pools and National Emergency Grants. The act appropriates $60 million for 2002, $60 million for 2003, and $40 million for 2004 to provide grants to states for programs to expand health insurance coverage, including:

- $10 million for 2002 for grants to states to assist certain individuals who have lost health insurance coverage with the process of enrolling themselves and their families in qualifying health insurance, such as continuation coverage under COBRA or a state-based health insurance program;

- $50 million for 2002 for grants to states to provide income support and other services (including transportation, child care, and dependent care) to enable certain individuals who have lost health insurance coverage to obtain and pay for qualifying health insurance;

- $20 million for 2003 for $1 million grants to states to establish "qualified high-risk pools"—those pools offer at least two health insurance options that do not exclude coverage of any preexisting conditions and charge a premium that is not more than 150 percent of the premium for standard-risk rates; and

- $40 million for each of fiscal years 2003 and 2004 for grants to states to subsidize qualified high-risk pools.

CBO estimates that those provisions will increase direct spending by $95 million in 2003 and by $150 million over the 2003-2007 period. The estimate assumes that all of the funds appropriated will be spent, with the exception of the grants to establish high-risk pools. About 20 states currently do not have qualified high-risk pools; the estimate assumes that half of those states will obtain the $1 million grants and establish a high-risk pool.

Division E: Miscellaneous Provisions. Division E of H.R. 3009 provides mandatory appropriations of $60 million over the 2002-2005 period for the U.S. Customs Service to make payments to certain manufacturers of selected wool articles. Based on information from the Customs Service, CBO estimates that this provision will increase direct spending by $24 million in fiscal year 2002 and by $12 million in each of the fiscal years 2003 through 2005.

Revenues

H.R. 3009 will decrease federal revenues by an estimated $5.9 billion over the 2002-2012 period, as shown in Table 4.

Division A: Trade Adjustment Assistance for Workers. As discussed above, the refundable tax credit for the purchase of health insurance by trade-displaced workers and certain other beneficiaries will cost $3.2 billion in lost revenues through 2012, the Joint Committee on Taxation estimates.

In addition, H.R. 3009 raises the duty exemption for travelers returning from abroad from $400 to $800. Travelers will continue to pay a 10 percent duty on goods brought back into the United States worth more than the exemption and up to $1,000. For returning travelers carrying in goods worth over $1,000, the amount in excess of $1,000 is assessed at the appropriate rate under the Harmonized Tariff Schedule. CBO estimates that the increase in the duty-exemption cap will reduce revenues by about $1 million in 2002 and by about $4 million in each of the years 2003 through 2012.

TABLE 4. ESTIMATED IMPACT OF H.R. 3009 ON FEDERAL REVENUES

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CHANGES IN REVENUES											
Division A: Trade Adjustment Assistance											
Health Insurance Tax Credit [a]	0	-205	-275	-303	-315	-327	-339	-350	-362	-374	-386
Other Trade Provisions	-1	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4
Subtotal	-1	-209	-279	-307	-319	-331	-343	-354	-366	-378	-390
Division C: Andean Trade Preference Act											
Extension	-9	-21	-23	-25	-27	-7	0	0	0	0	0
Expansion	-11	-23	-24	-26	-28	-7	0	0	0	0	0
CBERA and AGOA	-1	-1	-1	-1	-1	-1	-1	0	0	0	0
Subtotal	-21	-44	-48	-52	-55	-15	-1	0	0	0	0
Division D: Generalized System of Preferences	-394	-413	-450	-489	-524	-139	0	0	0	0	0
Division E: Miscellaneous											
Nuclear Boilers	-1	-4	-4	-4	-4	-1	0	0	0	0	0
Wool Refund	1	1	0	0	0	0	0	0	0	0	0
Subtotal	*	-3	-4	-4	-4	-1	0	0	0	0	0
Total Changes	-416	-669	-781	-852	-902	-487	-344	-354	-366	-378	-390

NOTES: * = Less than $500,000.

Components may not sum to totals because of rounding.

CBERA = Caribbean Basin Economic Recovery Act; AGOA = African Growth and Opportunity Act

a. The Joint Committee on Taxation provided estimates for the health insurance tax credit in title II of Division A.

Division C: Andean Trade Preference Act. Division C of H.R. 3009 consists of three components: the extension of the Andean Trade Preference Act, an expansion of the products eligible to receive preferential treatment under ATPA, and the expansion of the Caribbean Basin Economic Recovery Act (CBERA) and the African Growth and Opportunity Act (AGOA). Combined, these components will decrease revenues by $21 million in 2002 and $236 million over the 2002-2012 period, CBO estimates.

ATPA expired on December 4, 2001. The Trade Act of 2002 extends the agreement through December 31, 2006, retroactively. Based on information from the International Trade Commission and other trade sources, CBO estimates that extending the program will decrease revenues by $9 million in 2002 and by $112 million over the 2002-2012 period.

Previously, ATPA did not extend preferential treatment to footwear that is ineligible for treatment under the generalized system of preferences, tuna packed in cans, petroleum and certain products derived from petroleum, watches and watch parts containing material that was the product of countries not receiving normal trade relations treatment, certain sugars and molasses, and certain leather goods. H.R. 3009 permits the President to extend duty-free treatment to those products. CBO expects that all imports of these products will receive duty-free treatment.

Under ATPA, certain apparel articles produced or manufactured in an ATPA beneficiary country have been entitled to preferential treatment. H.R. 3009 expands coverage to allow apparel articles assembled from fabrics formed or knit-to-shape in the United States and certain other apparel articles to receive duty-free treatment. Apparel articles assembled from fabrics produced in the ATPA region will also receive preferential treatment if they do not exceed certain percentages of imports on apparel articles. All preferential treatment will expire after December 31, 2006. Based on information from the International Trade Commission, the Office of Textiles and Apparel in the Department of Commerce, and private-sector sources, CBO estimates that all provisions that expand ATPA treatment to new products will reduce revenues by $11 million in 2002 and by $119 million over the 2002-2012 period.

The Trade Act of 2002 expands the list of items receiving preferential treatment to include apparel articles formed from components knit-to-shape in the United States for beneficiary countries under CBERA and AGOA. It also increases the amount of certain apparel articles assembled from regional fabrics that may receive preferential treatment. Preferential treatment for the beneficiary countries is scheduled to expire on September 30, 2008. Based on information from the International Trade Commission, the Office of Textiles and Apparel, and private-sector sources, CBO estimates that these provisions will reduce revenues by $1 million in 2002 and by $5 million over the 2002-2012 period.

Division D: Generalized System of Preferences. Section 505 of the Trade Act of 1974, which provided duty-free treatment under Title V, expired on September 30, 2001. H.R. 3009 retroactively extends GSP through December 31, 2006. Based on information from the U.S. Treasury and the International Trade Commission, CBO estimates the extension will decrease revenues by $394 million in fiscal year 2002 and by $2.4 billion over the 2002-2012 period.

Division E: Miscellaneous Trade Provisions. H.R. 3009 provides duty-free treatment to certain steam or vapor generating boilers used in nuclear facilities through December 31, 2006. Based on information from the International Trade Commission and other trade sources, CBO estimates this provision will reduce revenues by $1 million in 2002 and by $19 million over the 2002-2007 period. The new law also alters a program that has provided refunds of duties to certain wool manufacturers. (This change is described above in the "Direct Spending" section.) CBO estimates that revenues will increase by $1 million in 2002 and by $3 million over the 2002-2012 period as the result of this provision. In total, the provisions contained in Division E will have a negligible effect on revenues in 2002 and decrease revenues by $16 million over the 2002-2012 period.

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