



AN ANALYSIS OF NAFTA AND TEXTILE CLOSINGS IN NORTH CAROLINA

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ABSTRACT

This article looks first at the purposes and benefits of the North American Free Trade Agreement Transition Adjustment Assistance (NAFTA-TAA) program. Additionally, we note the method of application and the criteria for eligibility for these benefits. The second part of the article considers data on textile industry closings and layoffs provided by the North Carolina Department of Commerce, and data on TAA petitions filed by North Carolina textile companies, worker groups and unions, provided by the U. S. Department of Labor. We find that there are inconsistencies in the data from these two sources and find that almost 70% (68.8%) of closings and layoffs reported to the State of North Carolina are not followed by an application for TAA benefits. We conclude that the effects of NAFTA on layoffs and closings in the textile industry is difficult to assess. The number of applications for TAA benefits do not appear to support the notion that NAFTA has had a profound impact on the textile industry. If NAFTA has, in fact, had such an impact then either the State of North Carolina is not fulfilling its obligations under the law of informing workers and companies of the benefits available or companies are, for whatever reason, failing to file petitions for the benefits which might retrain their former employees. Finally, we suggest that the substantial number of job losses in the textile industry in North Carolina might also be related to the exposure to free trade after decades of protection.

KEYWORDS: NAFTA, TAA, labor, textile, layoffs

One of the inevitable by-products of increased trade is job loss. The United States, in recognizing this inevitability, built into its trade laws the means of assisting American workers to reposition themselves in better paying competitive jobs. In 1974, the U.S. Congress passed legislation called The Trade Act of 1974 which not only recognized the negative impact of trade on some jobs, but also the need for displaced workers to prepare for new jobs. Specifically the Act provided for assistance

to workers adversely affected by trade and trade agreements. Continued concern for those who may lose their jobs as a consequence of trade agreements prompted the extension of benefits from The Trade Act of the 1974, to the Omnibus Trade and Competitive Act of 1988 and ultimately to the North American Free Trade Agreement Implementation Act of 1993. The program providing benefits to displaced workers is now called the NAFTA-TAA Program, or Transition Adjustment Assistance Program.

PURPOSE OF TAA

TAA is designed to assist individuals who become **adversely affected** by trade shifts with Canada or Mexico by providing services and allowances in helping them to adjust. **Adversely affected** is defined in two ways: adversely affected employment and adversely affected worker.

- (b) Adversely affected employment means employment in a firm or appropriate subdivision of a firm, including workers in any agricultural firm or subdivision of an agricultural firm, if workers of such firm or appropriate subdivision are certified under the Act as eligible to apply for TAA
- (c) Adversely affected worker means an individual who, because of lack of work in adversely affected employment:

- (1) Has been totally or partially separated from such employment, or
- (2) Has been totally separated from employment with the firm in a subdivision of which such adversely affected employment exists (20 Code of Federal Regulations. Ch. V. 2001, 98).

BENEFITS OF TAA

The adverse impact may be defined for a primary firm which produces the finished product replaced by trade with Mexico or Canada or a secondary firm which supplies the primary firm the materials necessary to complete the finished product. Workers in the primary firms are eligible to receive NAFTA-TAA benefits while "...workers in secondary firms receive assistance under Title I of the Workforce Investment Act" (U.S. Department of Labor Employment and Training Administration Fact Sheet, no date) TAA benefits include:

1. **Re-employment Services** such as career counseling, job placement assistance services, supportive services,

skill's assessment, job development and job search assistance and referrals.

2. **Training** for employment in another job or career. Workers may receive up to 104 weeks of approved training in occupational skills, basic or remedial education, or training in literacy or English as a second language.

3. **Income Support** known as trade readjustment allowances (TRA) are weekly cash payment available for 52 weeks after a worker's unemployment compensation (UC) benefit is exhausted and during the period in which a worker is participating in an approved full-time training program. Income Support is a combination of UC and TRA benefits for a maximum of 78 weeks (26 weeks for UC and 52 weeks for TRA).

4. **Job Search and Relocation Allowance**, which provide reimbursement for approved expenses while job hunting and/or for relocating to a new job (U.S. Department of Labor Employment and Training Administration Fact Sheet, no date).

METHOD OF APPLICATION

Applying for TAA is not difficult, and the State is mandated by Federal law to assist adversely affected workers in the application process. The only constraint is that application or petition for benefits must be made by "...three or more workers, their union, or other duly authorized representative..." on petition forms obtained from the local State employment security office or any other State agency designated by the Governor to provide re-employment services under the TAA program. The petitioners may also file directly with the U.S. Department of Labor, Employment and Training Administration, Division of Trade Adjustment Assistance in Washington D.C. Regardless of the method of filing, an official notice of decision as to eligibility will be given within 60 days after receiving the petition.

ELIGIBILITY

The following requirements must be met to be eligible for TAA.

- (1) that workers have been totally or partially laid off, and
- (2) that sales or productions have declined, and
- (3) that increased imports have contributed importantly to worker layoff (U.S. Department of Labor Employment and Training Administration Fact Sheet, no date).

TAA AWARENESS

The law is very clear on employer obligations and TAA benefits. Employers are required to inform the appropriate state agency responsible for employment issues and job loss.

Where workers are separated, employers are required to furnish the agency promptly, either upon agency request or upon such separation, a notice describing the reasons for and the circumstances of the separation and any additional information which might affect a claimant's right to benefits. Where workers are working less than full time, employers are required to furnish the agency promptly, upon agency request, information concerning a claimant's hours of work and his wages during the claim periods involved, and other facts which might affect a claimant's eligibility for benefits during such periods....it is essential that the employer required to send the notice to the agency with sufficient promptness to insure that, if a claim is filed, it may be processed promptly (20 Code of Federal Regulations, Part 617, Appendix B,155).

Additionally, employers are obligated to provide affected workers information and instructions on the possibility of their eligibility to obtain TAA benefits. Instructions need to be adequate enough that workers adversely affected know the potential of obtaining benefits. Fundamental instructions on what the worker is to do and where to go are essential. Approved

methods of advising adversely affected employees include:

- a. Posters prominently displayed in the employer's establishment....
- b. Leaflets....
 1. Individual notices... (20 Code of Federal Regulations, Part 617, Appendix B, 155).

The Act states that once notified, the State must provide whatever assistance is necessary to inform the affected workers about TAA benefits and assist them to prepare petitions or applications for benefits. Once the workers are certified by the U.S. Department of Labor to be eligible for TAA benefits, the State must then notify the affected workers through written and newspaper notices explaining what the benefits are and how to apply for them (20 Code of Federal Regulations, Ch. V. 2001, 100).

DEFINITIONS AND RESEARCH QUESTIONS

1. Textiles

The Standard Industrial Classification (SIC)¹ was used to define the field of textiles. It was selected because both the U.S. Department of Labor, Employment and Training Administration and the North Carolina Department of Commerce classify their data using SIC numbers². The textiles industry is included within seven two-digit fields: 22, 23, 27,32,51,72, and 73.

2. Reasons for Closure or Layoff

Only the State of North Carolina data contained reasons³ for adverse impact. Reasons were diverse and unclear. They included:

1. NAFTA
2. Import Competition
3. Foreign Competition
4. Cutbacks
5. Consolidation
6. Corporate restructuring
7. Cut costs
8. Competition

9. Economics and financial
10. Bankruptcy
11. Downsizing
12. Tornado Damage
13. Loss of orders
14. Discontinuance and phasing out
15. Escalating costs
16. Modernization
17. Restructuring
18. Relocation
19. Unprofitable
20. High inventory and poor business
21. Market conditions
22. Out of Business
23. Change in management
24. Poor production
25. Increase efficiency
26. Declining sales and demand
27. Plant sold
28. Sold or bought out
29. Lost contract

In order to make some sense of the myriad of reasons given for closings the present researchers collapsed these into 9 categories. These categories were based on "family resemblance" -- subgroups of reasons which intuitively seemed to be related. For example, reasons mentioning "relocation" or "production moved" essentially describe the same order of event. Similarly, layoffs and closures resulting from the plant being sold, closed or eliminated were called together. "Other" represents a residual category which consisted of infrequently mentioned reasons for closure/layoff such as "tornado". The most relevant for the purposes of this research were the "categories" of NAFTA, Foreign Competition, and Import Competition, although hidden in all the other reasons cited there may be a legitimate foreign stimulus for closing or laying off personnel. It became obvious that the State of North Carolina accepted any reason given by the firm for closing its plant of laying off its personnel. Thus, it was determined that since the legal basis for TAA benefits must relate directly to Mexican and Canadian competition, only the determinations by the U.S. Department of Labor could be used

here to separate foreign from domestic reasons for closing a plant and laying off employees.

3. Research Questions

It is with this background that the writers decided to determine the following:

1. How many North Carolina textile firms closed between January 1994 and July 2001 and for what reasons?
2. How many North Carolina textile firms claimed they had to close because of NAFTA/Foreign Competition during the period under investigation?
3. How many total North Carolina textile workers were adversely affected by closures and layoffs?
4. How many of the workers adversely affected by closures and layoffs were reported to be due to NAFTA/Foreign Competition?
5. How many of the North Carolina textile firms and how many adversely affected textile workers applied for NAFTA-TAA benefits from the U.S. Department of Labor?
6. How many North Carolina textile firms claimed NAFTA criteria for NAFTA-TAA benefits?
7. How many applicants were authorized benefits and how many were denied benefits?
8. How many petitions were made by the unions and how many by the workers or by the firms for the adversely affected workers?

Sources of Data and Period Covered by Investigation

DATA

Two sources of data were used in the research. One was a listing of textile industry closings and layoffs provided by the North Carolina Department of Commerce. These data contained the most up to date information available at the time and were provided by the State in the form of an Excel spreadsheet. The database included the name and address of the

company, the reason for the closing or layoffs, the numbers of workers affected, the effective date of the closing or layoffs and the nature of the event (i.e., closing or layoff). The period of time covered was between January 1994 and the end of July 2001.

The second source of data was from the U.S. Department of Labor and included all TAA applications from companies in North Carolina. Using the Standard Industry Classification codes to identify textile producers we extracted a database consisting of only textile companies. The data in this set covered from June 1994 to the end of August 2001 to provide an overlap for any delay in processing TAA claims which might have occurred between reporting the event (closure or layoffs) to State authorities and decisions made on the Federal level.

FINDINGS

1. How many North Carolina textile firms closed between January 1994 and July 2001 and for what reasons?

Four-hundred and seventeen textile firms closed in North Carolina in the first seven years of NAFTA. Table 1 consolidates the myriad of causes for closings as reported to the State of North Carolina into 9 categories of reasons. Of those reasons 15.1% may be attributed to foreign competition or NAFTA. One may infer the significance of that figure in view of the availability of federal funds for workers adversely affected. It would seem that firms would make every

Reason for Separation (Closing or Layoff)

	Frequency	Percent	Cumulative Percent
Bankruptcy	14	3.4	3.4
Competition	14	3.4	6.7
Relocation/Production moved	28	6.7	13.4
Financial/Economic	32	7.7	21.1
Business Sold/Closed/Eliminated	38	9.1	30.2
Cutbacks/Downsizing	44	10.6	40.8
Foreign Competition/NAFTA	63	15.1	55.9
Other	79	18.9	74.8
Consolidation/Restructuring	105	25.2	100.0
Total	417	100.0	

attempt to qualify their employees for benefits specifically available for displacement caused by NAFTA/foreign competition.

In general, multiple discussions with textile managers, both displaced or still working in the textile field, disclosed that failure to

change policies, re-capitalize, or modernize were some major reasons for the inability to compete domestically or internationally. Furthermore, some displaced textile workers have suggested that reliance on the federal government to pass protectionist measures failed to materialize.

2. How many total North Carolina textile workers were adversely affected by closures and layoffs?

Number of Workers Affected by Layoffs and Closings

	No. of Events	Number of Affected Workers
Layoffs	128	12134
Closings	289	52419

Table 2

The 417 North Carolina firms that closed or released personnel accounted for large numbers of workers. Table 2 reveals that North Carolina reported that there were 64,553 textile workers affected by closures and layoff combined, or 52,419 workers who lost their job attributed to closings, and 12,134 workers who lost jobs because of layoffs. Over 10,281 (some companies did not report the number of affected workers) were specifically said to have been affected by foreign competition or NAFTA. Interestingly only two explicitly mentioned NAFTA.

3. How many North Carolina textile firms claimed they had to close because of NAFTA/Foreign Competition during the period under investigation?

During the period of study 54 companies claimed that they had to close because of foreign competition. An additional nine companies also reported this as the reason for layoffs. (See Table 3 below.)

4. For how many workers were adverse effects of closures and layoffs reported to be due to NAFTA/Foreign Competition?

Number of Workers Affected by Layoffs and Closings Because of NAFTA/Foreign. Comp

	No. of Events	Number of Workers Affected
Layoffs	9	1305
Closings	54	10281

Table 3

There were 1,305 workers affected by layoffs at 9 companies where this reason was given. See Table 2 above.

Therefore, of the total number of workers who lost their jobs during this 7 year period, 18% have claimed that the reason for their job loss was NAFTA/foreign competition. Just over 15% of firms that closed or discharged workers claimed NAFTA/foreign competition was the reason (see Table 1).

5. How many of the North Carolina textile firms and how many adversely affected textile workers applied for NAFTA-TAA benefits from the U.S. Department of Labor?

One might conclude that if NAFTA were the cause of job loss in the textile area, there would be concomitant claims for benefits. According to Table 4, 417 firms or their divisions or branches reported to North Carolina authorities that have had to close or layoff workers. However, only 130 of them applied to the U.S. Department of Labor for TAA benefits -- a difference of 287. Put another way, 68.8% of officially reported textile closings and lay-offs do not have a matching Federal TAA application.

On the other hand, Federal data include North Carolina TAA petitions which have no match in the data of the State of North Carolina. Of 260 petitions made to the U.S. Department of Labor from the North Carolina textile industry 122 (or 46.9%) did

not exist in the North Carolina Department of Commerce data.

6. How many North Carolina textile firms claimed NAFTA criteria for NAFTA-TAA benefits?

The following is derived from data from the U.S. Department of Labor:

	Frequency	Percent	Cumulative Percent
Company	171	65.8	65.8
Workers	82	31.5	97.3
UNITE	6	2.3	99.6
ACTWU	1	.4	100.0
Total	260	100.0	

Table 5

As can be seen from Table 5, 171 NC textile companies claimed NAFTA criteria for TAA benefits, along with 82 worker groups. There were 7 union claims.

7. How many applicants were authorized benefits and how many were denied benefits?

Count		DECISION			Total
		Certified	Denied	Terminated	
Petitione	Company	112	51	8	171
	Workers	49	32	1	82
	UNITE	1	5		6
	ACTWU		1		1
Total		162	89	9	260

Table 6

Of the 260 who petitioned for benefits, 162 (62.3%) were certified to obtain benefits. There were 89 denied as not

fitting the NAFTA-TAA criteria, and 9 petitions were terminated. Therefore, of the total of 417 firms closing or laying off workers in the North Carolina textile industry during the investigative period, only 162 petitions were authorized benefits as a result of being adversely affected by NAFTA/Foreign Competition. Because reports to the State of North Carolina of layoffs and closure did not necessarily translate into petitions to the federal government for TAA benefits, it became clear that there is a major disconnect between reports to the state and actual petitions.

8. How many petitions were made by the unions and how many by the workers or by the firms for the adversely affected workers?

Table 5 reveals that there were 171 petitions for benefits made by firms, 82 petitions by workers, and 7 petitions made by the unions. Given the union's claim of job loss because of NAFTA -- 133,000 in North Carolina manufacturing alone between 1994 to 2000 (Klauff 2001) -- one would expect significant union support for workers in acquiring federal benefits available to these workers. Yet little support can be verified.

Perhaps a more positive perception of NAFTA is more appropriate. According to Carlos Moore, executive director of the American Textile Manufacturers Institute, "NAFTA actually provided the textile industry an opportunity to sell American-made fabrics and yarns to garment makers in Mexico. Since NAFTA went into effect in 1994, our exports of yarns and fabrics into Mexico tripled to over \$6 billion, and we had a similar increase to Canada. Last year, exported fabrics and yarn that NAFTA partners converted to apparel and shipped back to U.S. markets represented 12 percent of the American textile industry's output" (cited in Baity, 2001)⁴.

Numbers of Affected Workers by Petitioners and Outcome:

	Certified	Denied	Total Affected
Company	13915	8502	22417
Workers	6954	5750	12704
UNITE	50	1556	1606
ACTWU	0	45	45
Total	20919	15853	36772.00

Table 7

CONCLUSION

In absolute terms, of the 64,553 textile workers reported in North Carolina to have lost their jobs, 10,280 adversely affected workers blamed NAFTA or foreign competition in reports to the State. However 36,772 applied to the Federal government for NAFTA-TAA benefit eligibility, 26,492 more petitions than the 10,280 who reported to the State that NAFTA or foreign competition was the reason for displacement. Of the 36,772 federal petitioners, 20,919 workers (56%) were certified as eligible for NAFTA-TAA benefits. Thus, twice as many North Carolina textile workers were certified as eligible for benefits as the number of potential applicants reported to North Carolina. This suggests that the negative impact of NAFTA may be understated in North Carolina statistics.

Of the 417 firms reporting to North Carolina that they had to close or discharge workers, only 63 (15%) reported that NAFTA or foreign competition was to blame. However, 171 North Carolina textile firms (41%) applied for benefit eligibility, of which 112 firms were certified by the Federal government as eligible for those benefits.

Clearly, while expected to be in harmony, North Carolina and the U. S. Department of Labor data are inconsistent on this issue. This inconsistency of either

reporting or recording or both makes it difficult to determine the real impact of NAFTA and the eligibility of NAFTA-TAA benefits. What is clear is that overall, regardless of the claim that trade in general and NAFTA in particular have caused job loss in the textile industry, there should be some healthy skepticism of the extent of claims. The overall numbers of claims and certifications demonstrate either that NAFTA and foreign competition appear to have played a limited role than otherwise claimed in job loss and displacement, or that the impacted firms are simply not providing the required information on obtaining TAA assistance to their workers, perhaps in violation of the law. The real losers of course are the affected eligible workers who do not receive the benefits available to them

If it is true that the affected firms are not complying with the law, there may even be cause for legal remedy by those workers who are affected by job loss connected to NAFTA and who are not properly informed by their firms of potential benefits. It may even be true that the State of North Carolina may not be complying with the Federal law by not providing services to NAFTA-displaced textile workers required by regulation. Unfortunately, the two data sources are so disparate that the data alone cannot explain the impact of NAFTA on the North Carolina textile industry. Rather the obvious disconnect between State and Federal authorities lead one to conclude that the disconnect, itself, causes an adverse impact on the worker. Additionally, whether because of the ethics of the firms or an inept role of the State, the worker ultimately suffers by not receiving the benefits to which he is entitled.

Perhaps stimulated by Ross Perot’s view that NAFTA will create a great sucking sound, the popular view is that NAFTA has led to the loss of many manufacturing jobs. Certainly it is true that there have been losses of manufacturing jobs. But it is also true that NAFTA has created business and jobs even in the textile industry. If NAFTA

has not had the impact claimed, then we must look for other reasons for the loss of textile jobs. On the other hand, if NAFTA is having a significant impact on textile job losses, the claims for NAFTA-TAA benefits do not reflect that impact. In fact, our informal conversations with textile industry insiders (some of whom are doing very well), revealed that perhaps the underlying reasons for closings and layoffs rest with the industry, itself, specifically its refusal or inability to be flexible and adapt to the challenges of doing business in the global economy, and its unreasonable and shortsighted reliance on the government to protect it against foreign competition. Protection of labor-intensive production from competition precludes the development of agile and creative management and diminishes the firm's capacity and ability of these sheltered industries to survive.

As our preface made so very clear, "... The real choice is between a dynamic world – a world of encouraging people to dream and acquire the skills to make those dreams come true, and a world of encouraging people to be content with what they have and dream less."

Endnotes

¹ Although the Standard Industrial Classification (SIC) has been replaced by the North American Industry Classification System (NAICS), the State of North Carolina and the U.S. Department of Labor still use SIC as the standard for their data.

² The U.S. Department actually use four digit numbers. Textile operation are covered by the following:

2299 Hemp yarn, thread, roving, and textiles

2299 Ramie yarn, thread, roving, and textiles

2353 Caps: textiles, straw, fur-felt, and wool-felt

2353 Hats, textiles, straw, fur-felt, and wool-felt

2392 Napkins, fabric and non-woven textiles

2392 Placemats, plastics and textiles

2392 Table mats, plastics and textiles

2392 Towels, fabric and non-woven textiles

2759 Printing, screen

3292 Textiles, asbestos: except packing

5131 Textiles-wholesale

7219 Reweaving-textiles (mending service)

7389 Batik work (handprinting on textiles)

7389 Shrinking textiles for tailors and dressmakers

7389 Sponging textiles for tailors and dressmakers

7389 Styling of fashions, apparel, furniture, and textiles

The State of North Carolina uses only the first two digits of the code.

³ The first three reasons are directly linked to the issue of foreign competition and qualification for NAFTA-TAA benefits. The remaining reasons are listed in no particular order.

⁴ We can find no more recent statement by the American Textile Manufacturers Institute regarding NAFTA.

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