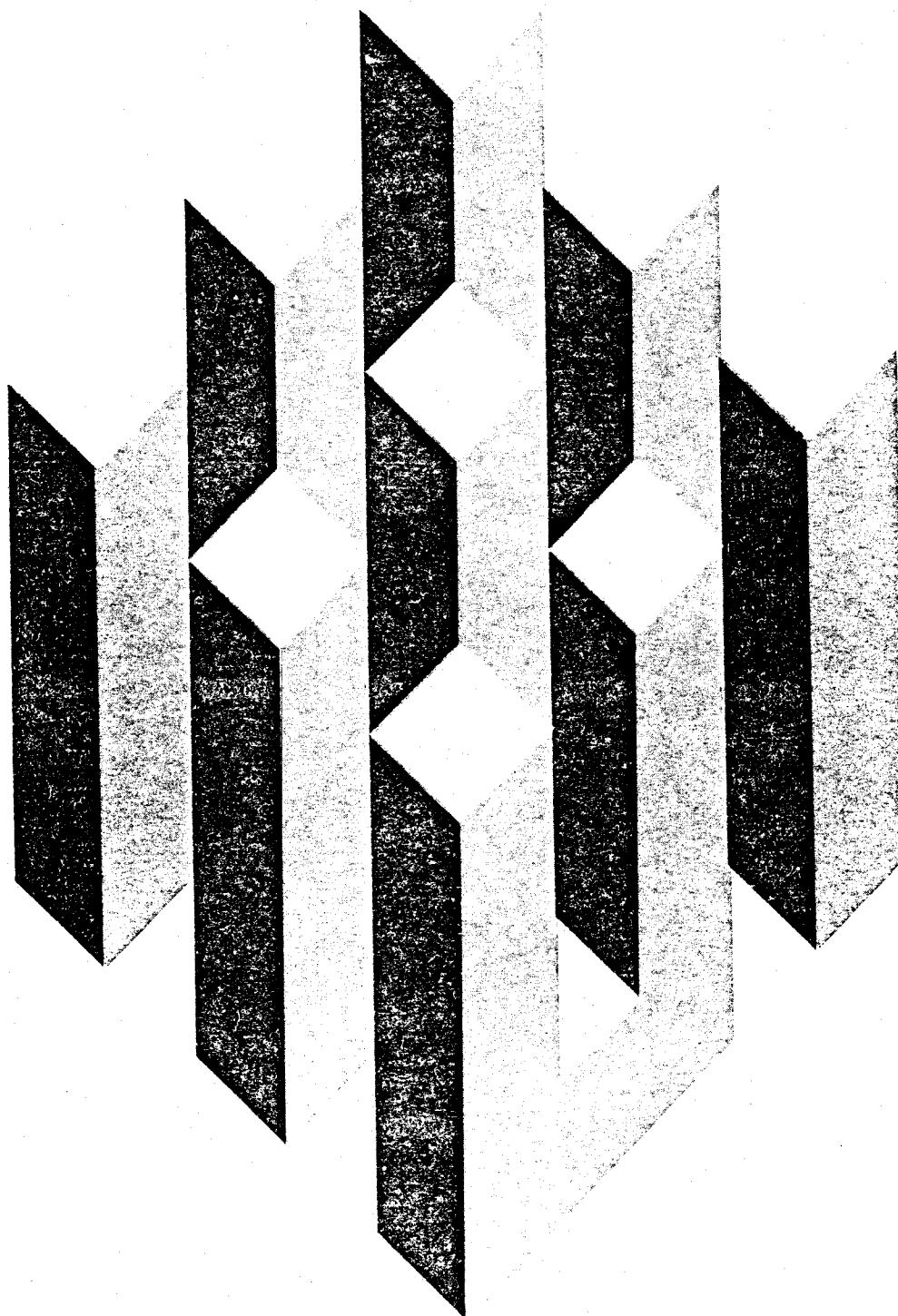


Alternative Uses of Unemployment Insurance



Unemployment Insurance Service
Occasional Paper 86-1
U.S. Department of Labor
Employment and Training Administration



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U.S. Department of Labor
William E. Brock, Secretary

Employment and Training Administration
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Employment and Training

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EXECUTIVE SUMMARY

ALTERNATIVE USES OF UNEMPLOYMENT INSURANCE

BACKGROUND

This report was prompted by a request from three members of the Senate, who asked the Department to explore some alternative ways of using the unemployment insurance (UI) system to deal with structural unemployment problems. In particular, the Senators requested that two specific alternative uses of UI trust funds be explored: (1) to provide income support while the recipient tries to start up a small business; and (2) to finance retraining, education, and/or relocation expenses.

This report focuses on these alternative uses of UI trust funds for structurally unemployed workers who are generally referred to as "dislocated" or "displaced" workers. Structural unemployment is long-term unemployment caused by disparities between the characteristics of jobs offered by employers and the needs, skills, and expectations of job seekers. The subgroup of structurally unemployed workers who are the primary concern of this report experience lay-off when their establishment closes or substantially reduces its scale, and they find their old skills no longer in demand at the wages and under the conditions of work they believe suitable.

PRINCIPAL ISSUES AND FINDINGS

1. In the United States, Federal law provides for the participation of UI claimants in State-approved training without the denial of UI benefits. The types of training approved for this purpose vary across States.
2. Current Federal law prohibits the use of State unemployment funds for other than the payment of benefits, certain refunds, and the payment of medical insurance premiums in State-approved programs at the claimants' option.
3. A State may not withdraw money from its unemployment trust fund to pay costs of job search, training, worker relocation, or starting a business.
4. Nevertheless, once the benefit is paid to the claimant, it may be spent for whatever purpose the claimant chooses, including job search, training, relocation, etc.
5. The Job Training Partnership Act (JTPA), Title III, recognizes and provides for the needs of dislocated workers.

6. In the past decade, the financial condition of the UI trust funds has been considerably weaker than it had been in the period before the 1974-75 recession. This means that any alternative use of trust funds which might increase the drain on existing funds must be scrutinized carefully for its potential impact on fund solvency.

7. The existing United States and foreign experience reviewed in the report, extensive as it is, does not identify any particular government action to assist structurally unemployed workers that assures favorable results. Moreover, it offers only limited guidance on the potential impacts of any of the alternatives on UI trust fund solvency.

8. The available evidence on the effectiveness of alternative uses of UI funds is not an adequate basis for major changes in a program that has been successful in meeting its objectives over the past 50 years.

LEGISLATIVE RECOMMENDATIONS

At this time, the Department of Labor is not prepared to make any recommendations for alternative uses of UI trust funds.

SUMMARY REPORT

ALTERNATIVE USES OF UNEMPLOYMENT INSURANCE

I. Background

This report was prepared as a response to a request from three members of the Senate, who asked the Department to explore some creative ways of using the Unemployment Insurance (UI) system to deal with structural unemployment problems. In particular, the Senators requested that two specific alternative uses be explored: (1) using UI to provide income support while the recipient tried to start up a small business; and (2) using UI funds to finance retraining, education, or relocation expenses. They requested that laws and regulations at both the State and Federal level be examined to determine existing impediments, and that foreign experience with both alternatives be reviewed. In response to the Congressional request, the paper focuses on identifying and evaluating potential alternative uses of unemployment compensation for dislocated workers. To establish the context, the concept of structural unemployment is discussed and estimates made of the magnitude of the dislocated worker problem.

II. Unemployment: Causes and Public Policy Responses

The complexity of unemployment has always presented a challenge for policymakers who have had to decide what kinds, or what aspects of, unemployment require a public policy response; what that response should be; and how to judge whether or not a given unemployed worker should be eligible for public programs. Unemployment can be roughly divided into three categories: frictional, cyclical, and structural. Although it is difficult in many instances to decide in which category a worker's observed unemployment belongs, the distinction is useful because the desirable public policy response may differ according to the category of unemployment.

1. Frictional unemployment is unemployment caused by normal turnover in a free labor market. Potential workers--whose skills and expectations about satisfactory new job placements correspond well to the characteristics of current job vacancies--quit old jobs or enter or reenter the labor market. Information about available job opportunities may not be immediately available to them, and so searching out satisfactory positions may take time and effort. This type of searching is observed as spells of unemployment which are, by definition, relatively brief.

It is generally agreed that the public policy response to frictional unemployment should be minimal. Job search assistance through the public employment service represents the traditional policy in the United States.

2. Cyclical unemployment may be defined as temporary unemployment caused by the ebb and flow of nationwide or worldwide demand for certain products and hence the jobs needed to produce them. Interdependence among most job categories means that cyclical swings in certain product demands result in "ripple effects" in jobs connected with related goods and services as well. In the case of true cyclical unemployment, old job opportunities will reappear when product demand picks up again; workers' old skills will still fit them for the jobs they lost previously. Cyclical unemployment can be of long duration (a year or more) during deep recessions.

In the United States, the basic policy response to cyclical unemployment has been well defined and embodied in labor market institutions for some five decades. It consists of local area job search assistance for all unemployed workers, regardless of their reason for unemployment, through the public employment service. In addition, experienced wage and salary workers who have been involuntarily separated from their jobs are entitled to temporary, partial wage replacement through the UI system.

This two-fold assistance is based on the premise that the worker's existing skills are adequate to qualify him or her for new employment in the local labor market, but that searching and/or waiting may be required before the appropriate, suitable vacancy appears or can be found. In the meanwhile, the worker and dependents need income to cover necessary expenses. This approach also assumes that the spells of unemployment will be of relatively short duration in most instances (no more than half a year); automatic extensions in high-unemployment States are now available, and Congress has, from time to time, extended the duration of unemployment insurance with temporary programs. The wage replacement is provided under the assumption that the risk of cyclical unemployment is an insurable one, and hence is normally funded from payroll taxes from the employer community.

3. Structural unemployment is long-term unemployment caused by persistent disparities between the characteristics of jobs offered by employers and the needs, skills, and expectations of jobseekers. While cyclical unemployment appears only during recessions, structural--and frictional--unemployment persists in both good and bad economic times. The structurally unemployed worker faces the uncomfortable choice among alternatives of apparently endless job search in the local area; relocating to another area where his or her existing skills can be used at

expected wages and working conditions; acquiring new skills; self-employment; or reducing expectations of wages and working conditions to use existing skills.

Structural unemployment can occur for any group of workers. Youths newly entering the job market, or homemakers reentering the labor force, can find that their skills do not match the requirements of available jobs in their local area. Experienced workers can be laid off when their establishment closes or substantially reduces scale, and find that their old skills are no longer in demand at the wages and conditions of work they consider suitable. This subgroup of the structurally unemployed experienced workers are termed "displaced" or "dislocated" workers. For the most part, their unemployment seems to be caused by changes in the patterns of demand for labor. The most direct remedy for it may be for them to change their supply characteristics, e.g., by retraining, reducing their wage demands and/or relocating.

The magnitude of the dislocated worker problem depends directly on the criteria used to define economic dislocation. In the context of considering alternatives to UI, a dislocated worker can be defined as one affected by a job loss which will result in high likelihood of unemployment in the local area continuing well into a period of economic prosperity, and to achieve reemployment sooner will require accepting a substantially lower wage. Based on the latest empirical work (presented in Appendix I), the report estimates that the number of such workers with UI eligibility who have already experienced 6 months or more unemployment was 300,000 to 500,000 at the beginning of 1984. (This definition would embrace largely exhaustees of the regular UI program, but--to give a sense of the scope of the problem--consist of 15 to 20 percent of the number of people drawing UI benefits). Broadening the definition to embrace all persons (UI-eligible or not) and all kinds of job losses raises the estimated range to 1.0 to 1.2 million.

III. Lessons from Domestic and Foreign Experience

A number of domestic and foreign initiatives aimed at assisting dislocated workers or the long-term unemployed are described in Appendices II and III. These initiatives include Federal and State legislation, DOL-sponsored programs and foreign schemes which emphasize retraining, relocation assistance, labor-cost reducing subsidies to workers or employers, and the provision of subsidies to unemployed workers to assist them in becoming self-employed. While many of the initiatives reviewed are not funded or administered under the unemployment compensation system, the program content and the experience under program operation provide useful information in considering alternative uses of UI.

Lessons from Available Experience. The major lessons from United States and foreign experience are presented below as a guide to exploration of alternative uses of unemployment insurance.

1. General Considerations and Issues. Attempts to provide adjustment assistance for dislocated workers have identified a number of issues and matters which would have to be resolved in designing any program, regardless of the particular form of assistance to be provided. The major ones seem to be:

a. Targeting programs appropriately is a crucial but difficult process which raises both technical and equity issues. Some of the main ones are:

o How should a "displaced worker" be defined operationally, and is such a definition appropriate? Is it appropriate, for example, to distinguish the structurally unemployed from the cyclically unemployed (as implied in Section II above), or should a simple duration of unemployment criterion be applied?

o Should eligibility for services be available to individuals located anywhere, or only classes of individuals based on unemployment due to particular kinds or scales of events (e.g., large-scale closures)? Some evidence from foreign programs suggests that industry and region should be included as criteria, and such events have been used in the United States as ways of defining the dislocated worker, but this raises equity issues.

b. Dislocated workers often have an unrealistic view of the labor market and of their prospects. This makes acceptance of lower wages in entry level positions difficult. Availability of relatively generous income maintenance payments may delay recognizing the need for adjustment. In addition, adjustment in the form of relocation is made more difficult by home ownership, community establishment, etc.

c. How soon should a person be declared "displaced"? The earlier readjustment assistance is obtained, the greater its chance for success in terms of reducing the duration of unemployment and UI outlays. On the other hand, in many instances, the earlier the decision is made in a spell of unemployment, the greater the risk of providing unnecessary adjustment assistance to unemployed workers who would get their former job back when the economy recovers.

d. Who selects or provides training or other services? In the programs reviewed in the appendices, a single governmental agency determines eligibility and selects or provides training and other readjustment services. Other arrangements are possible:

(1) The UI agency could have broad discretion to determine which workers are "displaced"; alternatively, "displaced worker" could be objectively defined in legislation so that agency discretion in identifying eligibles is severely limited. Once declared eligible, workers meeting the criteria could receive a voucher or go to an approved agency for retraining. The agency or mechanism for identifying eligibility need not be the same as that providing training.

(2) Training could be provided either by selected agencies (e.g., "approved" training institutions) or workers could be given broad discretion to select their own training, which could perhaps then be funded with a voucher provided the eligible trainee.

2. Approaches to Modify the Supply Characteristics of Workers. Prolonged unemployment may be due to a mismatch between the skills of the unemployed and those demanded at acceptable wages in the local area; or the unemployed's existing skills are in demand, but in other localities. In the first case, retraining or reeducation may be called for if the unemployed have the aptitude for it; in the second, relocation.

a. Training. Studies that have been conducted have not resolved many of the questions about the effectiveness of training for dislocated workers. Two recent demonstration projects in the United States (Downriver and Buffalo) have provided conflicting evidence on this issue. Although the Buffalo project, based on a more rigorous evaluation design, suggests that training can be effective for dislocated workers, these results are based on short-run follow-up (6 months) and may not indicate true long-run results. Moreover, it is not clear that results from a limited number of plants in one city are applicable for other plants or other areas. The results from the Downriver project are even less conclusive, probably because of the more limited evaluation design (e.g., a quasi-experimental comparison of participants laid off from treatment plants to workers laid off from comparison plants). The first phase of the Downriver project (two treatment and two comparison plants) appeared to produce large positive effects on reemployment rates of participants, but these results were highly

sensitive to the use of both comparison plants. Moreover, the second phase of the project (adding 1 treatment and 1 comparison plant) produced negative results for participants.

European experience has been reviewed, but evaluations generally do not meet rigorous standards of social science research methodology. Programs evaluated have sometimes been in a formative stage, and long-term follow-up of trainees has been lacking.

b. Relocation Assistance. The characteristics of dislocated workers present some problems for relocation, e.g., the worker's age, whether his or her spouse also works, and whether they own a home and have strong community ties. Some evidence suggests that there is a better chance of successful relocation if workers move before they become long-term unemployed--but the factors mentioned above mean dislocated workers are unlikely to want to move soon. There is some evidence that relocation allowances are useful for moving some dislocated workers to demand areas. Studies have shown, however, that many relocated workers return to their home areas, which suggests that relocation allowances may be useful for only a small minority of dislocated workers. Relocation services in DOL-sponsored programs have not been extensively utilized.

c. Administration. How alternatives to UI benefit payments would best be administered is not addressed by the research. Nevertheless, many of the skills required to provide effective alternatives--to assess workers' needs and skills, and know the location and type of skills required in the labor market--may not be in great supply in State employment security agencies.

d. Funding. The ability of State UI funds to finance alternatives, and the appropriateness of the alternative use, will depend on a variety of factors. Positive trust fund balances, or prospective declines in tax rates as advances are paid off, could permit alternatives to be funded without imposing major temporary tax increases on State employers. Nevertheless, very expensive training or other alternatives may have to be funded, at least in part, out of general revenues. At this point, it appears that most--if not all--funding for alternatives must come from outside the Unemployment Trust Fund; this is particularly true if a nationwide program is considered. Very few State funds meet usual Unemployment Insurance Service fund adequacy standards today, and total outstanding debt was \$6.4 billion as of January 31, 1986.

e. Enhanced Job Search Assistance. The experience reviewed indicated a significant role for job search assistance which goes well beyond what is required to demonstrate availability for work. Many experienced workers have not searched for a new job for many years and do not know how to search efficiently; they lack information on realistic alternatives to their old jobs and need confirmation of their serious unemployment situation. In many instances, intensive search has proven a useful device for screening those who need retraining from those who do not.

3. Measures to Reduce Effective Labor Cost. The appendices review some foreign experience with wage supplements paid to workers, wage subsidies paid to employers, and reemployment bonuses designed to speed job acceptance. In general, the impacts of these approaches are not known. Small experiments in the United States, directed mostly at disadvantaged workers, tended to be inconclusive to moderately promising. The potential cost of such schemes, through the "windfall" payment of benefits to workers or employers who would have accepted a job or created a job in the absence of the program, may be very large relative to the benefits of net employment creation.

4. Measures to Create Self-Employment for Dislocated Workers. Instead of preparing the displaced worker for wage or salary employment, several foreign countries have enacted programs to encourage the unemployed to use their existing skills to create jobs for themselves (and, frequently, for others) as self-employed. Evaluations to date, however, have been seriously deficient in terms of measuring the net effects and costs of these programs. The British program has been subject to the most comprehensive evaluation, but only gross effects have been measured in any reliable and effective fashion.

Despite the inconclusive nature of evaluation evidence, the foreign experience suggests that a number of factors need to be considered in designing programs that encourage self-employment. These include:

a. Eligibility. Foreign experience suggests that it may be desirable to require that applicants be unemployed or under a layoff notice for some period of time (such as the 13 weeks required in Britain and Ireland) before being eligible. This ensures that the applicant has had a reasonable opportunity to find a wage and salary job before deciding to start a business. The British and Irish require applicants to raise modest sums to invest on their own, in order to ensure serious commitment to the business

effort. Britain does not require an approved business plan but seems to have had as high or higher a success rate than France, which does. This is attributed to the provision of management assistance and the requirement that the individual put some cash into the business. France and Belgium require that acceptable business plans be developed. In the United States, it is not clear what State or Federal agency might be qualified to decide whether business plans were "acceptable".

b. Loans Versus Grants. Britain and France provide grants, while Belgium and Ireland provide loans. Belgium holds future UI benefits as collateral for repayment and administers payments and collections from its Small Business Bank, which has experience in handling such loans. There is no obvious counterpart agency in the United States to administer such a loan program.

c. Lump Sum versus Periodic Payments. Belgium and France make lump sum payments available; these can be used as collateral to obtain additional financing. Great Britain makes bi-weekly payments directly to the new business which can be used to meet business expenses or living expenses. The advantage of the lump sum payment is that it can be used to start the business. Periodic payments are assured income for a set period if the business continues but can be terminated if the business fails.

d. General Revenue versus UI Funding. Great Britain, France and Sweden fund their programs from general revenue. Belgium's loan program is supported by the UI fund. Arguments for funding such a program from general revenue include the idea that individual employers are not responsible for layoffs due to economy-wide demand shifts or for structural changes affecting entire industries. Also, it seems likely that some employers might object to having their UI taxes used to support the formation of new businesses that might be competitors. UI funds in several States are insolvent as a result of the recent periods of high unemployment. It therefore would be difficult to argue that they should be used to support a new initiative unless it could be shown that there would be no additional long-term cost.

e. Program Administration. UI local offices could provide general information on a self-employment allowance program to their applicants and process lump sum or periodic payments; orientation on requirements for starting a business would probably have to be provided by a State agency other than UI if one is available. Follow-up

assistance and administration of a loan or loan guarantee program would probably also have to be arranged by a non-UI State agency.

f. Investment Required per Individual. The question of how much capital is needed to start a business cannot be answered except in a general way and by giving some examples. The European experience has shown that modest allowances such as Britain's 40 pounds sterling for 52 weeks or the average French lump sum grant of \$2,467 in 1982/1983 has drawn enthusiastic participation by some of the unemployed. Most entrepreneurs use the benefits only to supplement savings or loans from family, friends or other lenders. In the United States, a recent survey by the National Federation of Independent Business (NFIB) of 155 new firms found that 18 percent had started with less than \$5,000 in capital, another 13 percent had \$5,000 to \$10,000 and almost half had started with less than \$20,000.

IV. Institutional Issues in the United States

There is one salient facet of United States experience reviewed in the appendices that should be emphasized: none of the programs have been funded out of UI trust funds. All United States adjustment assistance programs have been funded out of general revenues. As such, their approach and philosophy differed considerably from that embodied in the United States approach to an insurance-based wage replacement system. This aspect has important programmatic ramifications.

UI benefits are paid to workers as a matter of right and subject to definite limitations as to initial and continuing eligibility conditions, duration, etc. While these conditions define the limits of the workers' rights, they also place definite limits on the cost of the insurable risk borne by the employer community. How the provision of alternatives to benefit payments--i.e., various kinds of adjustment assistance, or assistance to establish self-employment--can be made to conform to the basic insurance philosophy underlying the UI system is by no means clear. Would the trust funds be liable for a complete course of retraining, or subject only to a definite dollar limit? Would trust funds used be "charged" to the previous employer's account under the experience rating system? Such a procedure could result in declining industries' subsidizing the training or other costs of expanding industries. Would there be a combination of trust fund and general revenue financing for certain kinds of adjustment assistance? These are fundamental questions that need further exploration in the course of debating possible alternative uses of UI benefits in the United States.

Another issue is that in the past decade the financial condition of the UI trust funds has been considerably weaker than it had been in the period before the 1974-1975 recession. This means that any alternative use of trust funds which might increase the drain on existing trust funds must be scrutinized carefully for its potential impact on solvency. In this light, the existing United States and foreign experience with alternatives reviewed in the accompanying appendices, extensive as it is, offers little or no guidance on the potential impacts of any of the alternatives on UI trust fund solvency. There have been no definitive (or even suggestive) impact studies of relocation, retraining, wage subsidy, or alternative job creation schemes that suggest clearly their likely short-term or long-term impacts on trust fund inflows and outflows. In the absence of such a record, the uses of trust funds for alternatives to benefit payments must be approached with extreme care.

The Federal-State UI system in the United States has been remarkably successful in achieving its goals for the past 50 years. This success is due in large part to the explicit, limited objective of the program--that of providing insurance against short-term income loss due to involuntary unemployment. Given this success, changes to the system should be undertaken only if they can be shown to be compatible with the original goals of the program. Basic changes to the system should meet the following criteria:

- o Compatibility with the goal of providing income maintenance to the short-term unemployed.
- o Reducing the need for short-term income maintenance payments over the long run.
- o Not seriously reducing the capability of the UI trust fund to insure against short-term earnings loss.

Finally, it is equally clear that the implementation of any alternative uses of UI benefits would have to be preceded by law changes. This is discussed in the following section.

V. The UI Legal Framework

In the United States, some of the groundwork for integrating UI benefits with training has been laid in Federal law providing for the participation of claimants in State-approved training without the denial of UI benefits. Federal law thus encourages States to be supportive of training for unemployment compensation claimants. JTPA further provides that training under Title III of that act shall be recognized as approved training for UI.

Current Federal law, however, prohibits the use of State unemployment funds for other than the payment of benefits, certain refunds, and the payment of medical insurance premiums in State-approved programs at the claimants' option. A State may not withdraw money from its unemployment trust fund to pay costs of training, worker relocation, or starting a business, but a recipient may use an unemployment compensation payment for these, or any other, purpose.

The following citations from the Federal law reveal the limits on the scope of present UI activities:

- o Federal Unemployment Tax Act (FUTA) Section 3304 (a)(4):
"all money withdrawn from the unemployment fund of the State shall be used solely in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund..."
- o FUTA Section 3304 (a)(8): "compensation shall not be denied to an individual for any week because he is in training with the approval of the State agency (or because of the application, to any such week in training, of State law provisions relating to availability for work, active search for work, or refusal to accept work)..."

Section 3304 (a)(8) was enacted to ensure that unemployed persons in training would not be denied benefits because of requirements in all States that UI recipients accept an offer of suitable work, be available for work and, in a significant number of States, be engaged in an active search for work. An amendment similar to that in Section 3304 (a)(8) might be necessary before conducting demonstrations of the payment of UI funds to persons attempting to become self-employed. In the absence of such Federal action, a State would have to interpret the self-employment activities of UI recipients as being consistent with unemployment, availability for work and (in some States) active search for work. It is not clear whether this would be possible under existing Federal law and, in addition, many States might be reluctant to make such a broad interpretation of their own laws.

VI. Legislative Recommendations

At this time, the Department of Labor is not prepared to make any recommendation for alternative uses of UI trust funds. The appendices review experience with various approaches to solving the unemployment difficulties of some displaced workers or other structurally unemployed persons. However, as discussed above, none of this experience is by any means conclusive that the approaches should be introduced in the present UI trust fund context. In addition, there are a variety of unresolved

philosophical, budgetary and practical issues requiring further exploration. These issues include:

1. The most appropriate groups for whom alternative uses of UI should be targeted to be both efficient and equitable.
2. How to identify dislocated workers at early stages of their unemployment, and in particular how to differentiate dislocated workers from the cyclically and frictionally unemployed.
3. How best to obtain and maintain labor market information.
4. The most effective procedures for screening dislocated workers for training, education, relocation, self-employment, or enhanced work search assistance.
5. The appropriate mix of services that will prevent disincentives and bring about efficient adjustments which will interfere in the market as little as possible.
6. Integration of such new programs with existing employment and training programs.
7. The appropriate means of financing the program.

TECHNICAL APPENDICES

ALTERNATIVE USES OF
UNEMPLOYMENT INSURANCE

INTRODUCTION TO APPENDICES

These appendices contain the technical background material for the report prepared in response to a request from three members of the Senate, who asked the Secretary of Labor to have the Department explore the feasibility of (1) using UI to provide income support while the recipient tried to start up a small business; and (2) using UI funds to finance retraining, education, or relocation expenses. They realized that both approaches might change considerably the orientation and philosophy of the United States UI system, and hence requested that laws and regulations at both the State and Federal level be examined to determine existing impediments. They also asked that foreign experience with both alternatives be reviewed.

Outline of the Appendices

Appendix I discusses structural unemployment, emphasizing the portion of it within the purview of UI: the dislocated worker, that is, the experienced worker who collects UI. This appendix reviews what is known about the character and magnitude of the dislocated worker population.

The major portions of the technical appendices are contained in the next two appendices. Appendix II discusses initiatives carried out to deal with supply-side structural unemployment. The appendix reviews State, Department of Labor (DOL), and foreign programs designed to remedy structural unemployment by providing retraining, education, relocation, and out-of-area job search assistance to the unemployed. Foreign efforts to provide wage subsidies to remedy this kind of unemployment are also briefly mentioned.

Appendix III reviews and evaluates experience with actual programs attempting to promote self employment. Some foreign countries are currently using UI funds for this purpose. The appendix concludes with implications for using the United States UI program to promote self employment.

Appendix IV contains the letter from the Senators requesting this study.

APPENDIX I

STRUCTURAL UNEMPLOYMENT, DISPLACED WORKERS, AND THE UI SYSTEM

Overview

Although a variety of definitions have been proposed for "dislocated workers," the purposes of the present study suggest that it include the notion of structural unemployment. Displaced workers targeted to receive some kind of "alternative uses of UI" must not be workers whose present skills will find them satisfactory employment in their present localities in a reasonable time period if they just wait and search. Using the criteria of permanent displacement through plant closure, mass layoff or job abolishment of persons with at least 3 years' tenure, and observed unemployment (or labor force withdrawal) of at least 27 weeks, it seems that the size of the population with proven UI eligibility was about 300,000 to 500,000 as of January 1984. Relaxing the criteria to include experienced workers with long-term unemployment due to all kinds of job losses, and those with no UI eligibility, may raise the target population to the 1.0 to 1.2 million range. A major question mark in the higher figures is how many of those persons who have left the labor force actually would wish to be retrained or relocated. For the purposes of this discussion, only the experienced worker subgroup of those who may be defined as structurally unemployed will be addressed. Other mechanisms exist to help the unskilled or economically disadvantaged.

This appendix also stresses an inherent difficulty for both measuring the size of the "target" population and selecting unemployed individuals for adjustment services: differentiating the cyclically unemployed from the structurally unemployed. In practice, both can experience long-term unemployment. In theory, one group should wait; the other retrain, relocate, or otherwise seek alternative employment.

Concern about structural unemployment has been a persistent undercurrent of labor market policy in the post-World War II period. In the late 1950's and early 1960's, a major battle raged among academics and economic policymakers over the causes of persistently high unemployment rates: Was it structural or deficient demand unemployment? Those arguing the structural case identified primarily (1) technological progress which generated demand for increasingly more sophisticated skills, and (2)

geographical stagnation in regions such as Appalachia with limited economic activity, relatively lower skill levels and lack of worker mobility.

The prolonged economic upswing of the 1960's, which drove unemployment rates to below 4 percent, temporarily settled the question in favor of those who thought that unemployment was primarily due to deficient demand and that expansionary fiscal and monetary policy was the proper response.

Persistent high unemployment during the recovery after the 1974-1975 recession also was thought by many to be due to structural unemployment. One DOL study defined structural unemployment during that period as "substantial unemployment in good times."¹ The report noted that some of the commonly accepted sources of structural unemployment were inflexibility of wages and prices, which caused structural mismatches between workers and jobs, wage floors that affected employment among low skill workers, and inflationary pressures that prevented the economy from reaching full employment. During the early 1980's, concern for structural unemployment in general shifted to the particular situation of the "displaced" or "dislocated" worker subgroup. This shift was of particular importance for the United States UI system, since by definition a worker must have been employed before becoming displaced, and only experienced workers fall within the purview of the UI system.

A. Defining Displaced Workers. For purposes of the present study, displaced or dislocated workers will be considered as a part or subset of the larger population termed "structurally unemployed"--the portion with job experience and some identifiable degree of job tenure. Researchers have defined dislocated workers in various ways: (1) unemployed individuals whose involuntary job loss was due to plant closing or a substantial reduction in force,² (2) a nondisabled adult who has been unemployed more than eight weeks in either a long-term declining industry, occupation or region,³ (3) persons whose industries or occupations are in a state of permanent decline resulting from technological changes in modes of production and increased international competition,⁴ (4) people who have lost jobs and have remained unemployed for relatively long periods as a result of evolving structural changes in the economy and who are not likely to regain employment easily even during improved economic conditions.⁵

This paper adopts a broad, generic view of dislocated workers, defining them as workers with tenure who have lost their jobs as a result of a plant closing or substantial reduction in force and who are likely to remain unemployed even in good economic conditions because of structural changes in the economy. It also examines, however, narrower definitions which have been used to measure economic dislocation empirically.

B. Measurements of Structural Unemployment

1. Characteristics of Dislocated Workers. One recent study used the Current Population Survey (CPS) of March 1980 to estimate the number and characteristics of dislocated workers. Reasoning that the structurally unemployed would have longer than average unemployment, and that dislocations would have been created by certain measurable events, the study looked at a population of workers who were unemployed more than 8 weeks, and lost a job in a declining industry, occupation or region.⁶ In comparing dislocated workers with unemployed disadvantaged workers,⁷ it found that dislocated workers generally do not suffer from the labor market handicaps that disadvantaged workers suffer. Dislocated workers tend to be more highly educated, with a high concentration at the level of high school graduates. Moreover, dislocated workers are comprised of a lower proportion of minorities and women, and tend to be no older than disadvantaged workers.

Dislocation definitions based on regional declines appeared to have some power to predict which workers will face more serious reemployment difficulties and longer duration of unemployment.⁸ This finding may be explained by the relative affluence of the dislocated workers, which appears to contribute to increased duration of unemployment. High rates of homeownership among dislocated workers make it much more difficult to change regions than to change industry or occupation. High wage and fringe benefit levels plus community attachment are also reasons they remain unemployed longer, hoping to return to their previous job. The CPS-based study cited above found that a large proportion of families with a dislocated worker had additional members in the labor force, which again makes a regional change less likely than an industry or occupational change.

2. Magnitude of Dislocated Worker Population. All attempts to measure and remedy the dislocated worker problem must face the same significant difficulty: distinguishing those who are unemployed because of deficiencies of search effort or declines in temporary demand from those who lack the requisite skills and other qualifications to find jobs presently available in their areas.

The difficulty of defining the "displaced worker" satisfactorily for all purposes, and of translating that definition into satisfactory empirical terms using standard data sources (such as the categories embodied in the CPS) is evident in the ranges of definitions and estimates seen in available studies. In several recent studies of the 1980's,

estimates of the number of dislocated workers ranged from 100,000 to over 5 million. Estimates are, in short, extremely sensitive to how the population is defined. An example is a 1982 study conducted by the Congressional Budget Office (CBO) at the request of the Senate Budget Committee. CBO attempted to determine the magnitude of labor dislocation in the early 1980's.⁹ Acknowledging that the estimates of dislocation are a function of the definition, CBO evaluated many criteria and combinations thereof. Some of the criteria included: (1) displacement in a declining industry, (2) displacement in a declining occupation, (3) residence in a declining geographic area, (4) length of previous job tenure, (5) age at the time of severance, and (6) duration of joblessness.

The study estimated that by including only people who lost jobs in the 1981-1982 recession in a declining industry and who had been jobless for at least six months as of the beginning of 1983, only about 100,000 to 150,000--or 1 percent of the unemployed--could be termed dislocated workers. On the other hand, defining dislocation as including all displaced workers in industries and geographic areas that are undergoing economic decline, the number of dislocated workers could be said to range from 1.7 to 2.1 million workers.

The most recent study of the subject was carried out by the Bureau of Labor Statistics (BLS) of the Department of Labor. The BLS results are based on a special questionnaire obtaining information on all responding CPS households whose members had lost a job in the 5-year period ending with January 1984. Of the 11.5 million workers 20 years of age or older who lost jobs during the period, the study considered as "dislocated" only those 5.1 million who had worked at least 3 years on their previous job. This definition was used because it did not "stray too far from the general consensus as to who is and who is not a displaced worker."¹⁰

It would seem that using the definition given earlier in this paper, which defines a displaced worker as one whose present skills are out of demand due to long-term changes in the economy, the BLS population is still too large. Only about 60 percent of the 5.1 million--those unemployed because of plant shutdown or abolishment of jobs--should be included. This is an estimated 3.1 million dislocated workers over the study period. (The other 40 percent reported unemployment due to "slack work", which is probably more cyclical in nature.)

Of the 3.1 million who might be defined as displaced over the 5-year period using the more restrictive definition, there were about 1.2 million workers who were currently unemployed or out of the labor force at the time of the survey in January 1984.¹¹ Because the structurally unemployed should have

longer than average durations of unemployment, applying a length-of-unemployment or duration of time out of the labor force criterion of 27 or more weeks and a further criterion of demonstrated eligibility for UI (the focus of this report) reduces the estimated total one would consider in need of remedy for structural unemployment to about 600,000. Because about half of these workers were out of the labor force and many might not be interested in returning, a realistic range of UI eligible persons who might be interested in "alternatives" is probably 300,000 to 500,000 as of January 1984.

Footnotes

¹Robert Lerman, Burt Barnow and Philip Moss, Concepts and Measures of Structural Unemployment, Technical Analysis Paper No. 64 (Washington, DC: Office of the Secretary for Policy, Evaluation and Research, U.S. Department of Labor, March 1979), p. 2.

²Robert L. Crosslin, James Hanna, and David W. Stevens, Economic Dislocation: Toward a Practical Conceptual Approach, Prepared for the Nevada Employment Security Department (September 1983).

³Marc Bendick, Jr. and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Is There Need for Federal Employment and Training Assistance?" in Seventh Annual Report: The Federal Interests in Employment and Training (Washington, DC: National Commission for Employment Policy, October 1981).

⁴Stephen E. Baldwin and Ann Donohue, Displaced Workers: New Options for a Changing Economy (Washington, DC: National Commission for Employment Policy, Revised September 1983).

⁵Stephen Sheingold, Dislocated Workers: Issues and Federal Options (Washington, DC: Congressional Budget Office, July 1982).

⁶Bendick and Devine, "Workers Dislocated by Economic Change".

⁷Disadvantaged workers are defined as workers who have been unemployed at least 8 weeks, and are from families with family incomes of no more than 1.5 times the poverty threshold established by the U.S. Census.

⁸Bendick and Devine, "Workers Dislocated by Economic Change".

⁹Sheingold, Dislocated Workers: Issues and Federal Options.

¹⁰Paul O. Flaim and Ellen Sehgal, "Displaced Workers of 1979-83: How Well Have They Fared?" Monthly Labor Review (June 1985): 4.

¹¹There were roughly 1.2 million workers laid off because of plant closure, plant moving or shift, or job abolishment, who had received unemployment insurance and had returned to work by January 1984. Some of these workers could be dislocated workers, thus conceivably raising the annual average from somewhere between 200,000 to 400,000.

APPENDIX II.

INITIATIVES FOR RETRAINING AND RELOCATION ASSISTANCE
FOR DISLOCATED WORKERS

Overview

Workers whose skills have been rendered permanently (or for the foreseeable future) obsolete may have little prospect of returning to prior wage levels with the simple assistance of temporary income support and local job search assistance. Stronger labor market intervention might be required: some combination of relocation, out-of-area job search, retraining or reeducation.

The Federal Government provides support for retraining, job search and relocation through JTPA. In particular, Title III of JTPA offers such help, delivered through State and local programs, to dislocated workers. The present UI system supports retraining by continuing benefit payments to claimants in State-approved training, as well as providing benefits to those searching for work locally or in other areas. Interstate UI benefits provide income support for those searching for jobs away from their local area.

Experience with the types of interventions provided under Title III of JTPA--retraining, relocation, and other forms of assistance--have a reasonably long history in industrialized countries. Some of that experience is described and assessed here. This appendix first reviews United States experience with retraining and relocation for dislocated workers, focusing on those projects and programs that have been subjected to evaluation studies.

The appendix then reviews Organization for Economic Cooperation and Development (OECD) experience with retraining and relocation, as well as programs designed to induce employers to hire the dislocated by lowering their effective cost through temporary employment and wage subsidies, wage supplements and employment bonuses.

The basic lessons from this experience point to the difficulties of distinguishing the truly long-term dislocated worker from the temporarily unemployed, and convincing some dislocated workers, as soon as possible after their unemployment occurs, that they have serious problems. Conducting effective retraining requires accurate knowledge of demand occupations in local labor markets and the ability to discern workers' aptitudes and needs for retraining. There is

no conclusive evidence on the effectiveness of retraining dislocated workers. The United States has had very little experience in providing such services, while the foreign experiences generally have not been subjected to careful evaluations. Nevertheless, many workers seem unwilling or unable to undertake substantial training without both continued income support and payment of all or most training costs. Few workers want to relocate; relocation seems to be cost-effective here, not so abroad. Wage subsidies or supplements have not been carefully evaluated.

A. Current State Programs and State Experience Serving the Dislocated Worker. In general, most of the States allow dislocated workers to take training while receiving UI benefits. Over 90 percent of States responding to a recent survey conducted by the Interstate Conference of Employment Security Agencies (ICESA) approved vocational training as well as training under JTPA Title II for UI recipients. All States approve Title III JTPA training for UI recipients. In about two-thirds of the States, preparation for a general education diploma (GED) is included among the approved categories; in about three-fourths, apprenticeship training; and, in somewhat over one-half, academic training. In over 80 percent of responding States, the participation of UI claimants in approved training is voluntary and claimants are not required to seek or hold themselves available for such training.¹

Four States--California, Delaware, Massachusetts, and Iowa--have initiated programs that specifically address dislocated worker problems. Three of these four programs are administered separately from the UI program and financed by a separate payroll tax. In each case, however, the new payroll tax was fully offset by a corresponding cut in the UI tax. Also, in each case, these States had positive UI trust fund balances and could afford to introduce new programs without increasing total payroll taxes.

The programs in California and Delaware are summarized, followed by available data on experience under the programs and descriptions of any program evaluations. The programs in Iowa and Massachusetts, however, have only recently been implemented and are not reviewed here because of the absence of evaluation information. In July 1984, Massachusetts enacted a new Reemployment Assistance Program (effective January 1, 1985) to provide counseling, placement and training to employees terminated in plant closings and partial closings. The Iowa Employment Security Law was amended effective July 1983 to provide for additional weeks of UI benefits in situations where an individual has been laid off due to his employer's going out of business at the work site at which he was last employed.

1. California

a. Description of Programs. California enacted the Training Benefits Program in 1980, to allow payment of benefits to unemployment insurance claimants with obsolete or inadequate skills while they receive training for jobs that are in-demand. This program formalized the conditions that had to be met (types of training) to allow a displaced worker to receive UI benefits while in a training program. In 1982, the Training Extension Benefit Program was established to allow individuals unemployed as a result of plant closures who are otherwise eligible for benefits under the Training Benefits Program to be eligible for an additional 26 weeks of benefits.

The two programs have been revised and extended on several occasions. A comprehensive restructuring of these programs was adopted in 1985, as Article 1.5-Retraining Benefits in the California Unemployment Insurance Code, and the life of the program was extended through December 31, 1990.

In addition to the foregoing programs, the State also conducted dislocated worker programs authorized under other legislation. These programs were focused on providing retraining and supportive services to displaced workers, as opposed to providing income maintenance.²

b. Evaluation Evidence

(1) Training Benefits Program. The California Employment Development Department (EDD) summarized experience under the first 3 years of the operation of the Training Benefits program (January 1981 through September 1983). One hundred fifty-four applicants were found eligible for the program during 1981, 417 applicants during 1982, and 1,839 applicants during 1983. Of the 2,410 claimants who were found eligible during these years, 1,189 entered training. Of that group:

827 (70%) completed training
328 (28%) found jobs
161 (14% of those who entered training and 19% of those who completed training) found training-related jobs.

The reasons claimants did not enter training or dropped out before completion included lack of class progress, employment, domestic or financial problems.

(2) Training Extension Benefits. Through September 1983, 1,460 claimants were found eligible for Training Extension benefits, and 305 entered training. Of that group:

190 (62%) completed training
106 (35%) found jobs
41 (13% of those who entered training and 22% of those
who completed training) found training-related jobs.³

These findings suggest that only a small percentage of individuals entering training under the programs found jobs related to the training.

Interviews conducted with EDD staff suggest reasons for claimants' limited use of extended retraining benefits. Many claimants were reported not to be able to afford training because training fees were not covered. Many occupations for which claimants requested training required training of more than one year, beyond the time of potential benefit duration. The start of training classes often did not coincide with claimants' layoff time. Some claimants did not have the educational background for the courses.⁴

(3). Other Displaced Worker Programs. The November 1983 California EDD report provides information on displaced worker projects stemming from several pieces of legislation, in addition to the California Training Benefits and Benefit Extension programs. The results of the displaced worker programs discussed in that report are based on 22 project sites. The report provides information on the programs and services to displaced workers, the coordination of the participating departments in implementing the programs as well as preliminary findings of accomplishments.⁵

The evaluation revealed some program inadequacies. In the early phases of the programs, the importance of complete and accurate assessment of needs and required services was not sufficiently emphasized. Assessment was inadequate in several major projects. Tests used for assessment were not always specific enough to help specify occupations best suited to workers. Often, assessment failed to identify the need for remedial work prior to enrollment in classes. Many workers had been out of the classroom for many years. Classes in high technology and health care occupations required certain literacy skills. Some unions were concerned that assessment would be used to screen out rather than place workers in training and, therefore, wanted minimal assessment with emphasis on placement and retraining. This resulted in inappropriate training assignments.

The training did not always match the demands of the labor market. Newly acquired skills, in some cases, became obsolete. Sometimes, training was given for jobs that did not exist because training was completed prior to employer needs or because the job market was saturated or declining. Project staff reported that labor market information was sometimes outdated or inaccurate.

At the time of the study, 3,697 workers had received retraining. This represented 19 percent of the 19,854 displaced workers served in the reemployment centers. Many workers were still in training or had just completed training at the time of the study. For these reasons and because the results of training may be long-range rather than immediate, the results of training could not be fully assessed.

2. Delaware

a. Description of Program. Delaware has a program of training and training-related support services financed by a new tax separate from the State unemployment compensation tax, and unrelated to the Federal Unemployment Tax Act (FUTA). Effective from August 12, 1984, a separate payroll tax of 0.1 percent was imposed upon employers on the same wage base as that under the Delaware Employment Security Act. The new tax coincided with the elimination of a 0.6 percent temporary increase in FUTA tax that had been due from Delaware employers to pay off previous loans. The full Delaware indebtedness was paid off in 1984. Thus, even with the addition of the new 0.1 percent tax in 1985, employers experienced a reduction of 0.5 percent in the rate of payroll taxes.

The funds collected under the special tax may be used for the following purposes:

- o Counseling, training and placement of dislocated workers.
- o To assist in school-to-work transition activities such as vocational guidance, training, placement, and job development.
- o To provide for industrial training.
- o To provide for career advancement training for State employees.
- o To pay the administrative costs of such programs.

This program was preceded by the implementation of a small-scale pilot program, "Retraining Delaware's Dislocated Workers", during the January-June 1983 period to help dislocated workers find employment. The program consisted of four services: job search workshops, individual counseling, job development, and retraining. Retraining was provided to those for whom job search assistance was not sufficient and after testing and counseling indicated interest in and qualification for the training. Retraining skills included typing; machine, appliance or home repair; truck driving; welding; and General Education Diploma (GED) preparation.

The number of pilot program participants was quite small. Sixty-five out of 175 nominees were chosen by lottery; those not chosen served as a control group. Out of the 65 persons assigned to the pilot program, 49 actively participated. Thirteen received retraining.

b. Evaluation of Pilot Program. Although a rigorous evaluation design was implemented, showing that training did not appear to be effective with respect to increasing post-program employment and earnings, the extremely small sample sizes preclude meaningful analysis of effectiveness.

Based on the evaluation findings and on qualitative data, some recommendations were made by the evaluators for future programs. Among the recommendations was comprehensive screening of participants to include those most in need of services and most likely to benefit from them. Clear signals should be given early as to who is eligible for retraining to avoid the impression that all participants are eligible.⁶

While the above analysis is available for the pilot program, no information is yet available on experience under the permanent Delaware program for dislocated workers.

B. Department of Labor Initiatives

A number of employment and training programs, both past and current, as well as several research and demonstration efforts, have focused on approaches to the problems of dislocated workers. This section describes these programs and assesses the experience under them for possible implications for alternative approaches under the unemployment insurance system.

1. MDTA Relocation Projects.

During the 1960's, labor mobility projects in a number of States were financed using funds provided through the Manpower Development and Training Act (MDTA). Loans, grants, or both were provided to unemployed individuals not expected to find full-time employment in their home area, who had bona fide job offers elsewhere and were qualified to perform the work.

Evaluation Evidence. Thirty-seven projects were funded in 28 States between 1965 and 1968.⁷ Relocation assistance was provided to 12,234 workers. The average cost per relocation at that time was about \$700. (Average unemployment insurance benefit payments in the United States during the 1965-68 period ranged between \$445 and \$504 per claimant.) Administrative costs per worker were usually greater than direct financial assistance primarily because of the need to provide counseling and supportive services. Skilled workers moved longer distances and needed more financial assistance. However, unskilled workers needed more extensive supportive services.

Relocated workers were usually followed up for 2 months, and sometimes for 4 months after relocation. Within that period, an average of 20 percent of relocatees had returned home, and another 20 percent had changed jobs. Although the majority of those who left the demand area returned to their home area, a number moved to other areas within or outside the State. No exploratory grants had been given to relocatees for job interviews and looking over the firm before deciding on the job. The most important reasons for return to the home area were the inability to find adequate housing and higher living costs in the demand area.

Certain labor force and demographic characteristics of workers were found to be associated with success of relocation. Workers were found to have a better chance for successful relocation if they moved before becoming long-term unemployed. Single people under 25 were the most likely to be unsuccessful relocatees. While single people were more willing to relocate than married people, their rate of return to the home area was much higher. Workers who were 45 years of age or older and the hard core unemployed were the most difficult to relocate successfully. Low educational level was found to reduce the success of relocation.

Although only a few of the relocation projects were subjected to rigorous evaluation, these evaluation studies generally showed favorable results. In studies comparing groups of relocatees to groups of people with similar characteristics who did not relocate, it was found that successful relocation generally led to significantly higher earnings and less unemployment.

2. Job Search and Relocation Assistance Pilot Project. In a more recent research-demonstration project implemented in the 1970's, the feasibility and effectiveness of providing relocation assistance through local Job Service offices were tested. Relocation assistance was focused on unemployed workers who were unable to find jobs in their local labor market. Assistance included information on out-of-area jobs, contact with employers, financial grants for travel to job interviews, and moving expenses to the new area. Almost 2,000 individuals were relocated through the project in 32 local Job Service offices in eight Southeastern States.

Evaluation Evidence. A comparison of reemployment success of those who were unemployed and received assistance with those who did not receive such help found that:⁸

- o Project participants tended to become reemployed more quickly than those in the comparison group.
- o All relocations were to full-time unsubsidized jobs with wages substantially higher than the minimum wage.
- o About 55 percent of those who were relocated were employed in the new area 12 months after relocation.
- o The average cost to the government per relocation was \$1,350. This includes administrative costs, job search and relocation grants.
- o On the basis of a cost-benefit analysis, the researchers concluded that project costs, from a societal perspective, were recovered in a little over 15 weeks.

3. JTPA Title III. Title III of JTPA is a relatively new program especially addressed to the problems of experienced workers who have been displaced from their normal employment by plant closings, mass layoffs and other technological or economic changes including increasing foreign competition.

Title III funds are distributed by formula to State governments based on their share of: total unemployment, "excess unemployment" (defined as the number of workers in excess of 4.5 percent of the civilian labor force), and the

number of workers unemployed for longer than 15 weeks. In addition to the funds distributed by formula, 25 percent of the amount appropriated for Title III is set aside as a Secretary's reserve for distribution to the States upon application to meet extraordinary circumstances. Finally, the Act requires that the amount provided to States by formula be matched by States from non-federal sources (the match is reduced for States experiencing high levels of unemployment).

In program year 1985, the second full year of the program, a total of \$223 million has been appropriated for Title III to provide training and employment services to an estimated 150,000 dislocated workers.

Several aspects of the Title III experience suggest that it may provide some insights into alternative approaches for the use of UI benefits. The organization of the program, with service delivery at the State level, and the fact that dislocated workers as defined in Title III of JTPA tend to include workers whose jobs have been abolished and who face difficulty in returning to work, makes the experience of various approaches used by Title III programs potentially applicable to the design of alternative programs to serve UI beneficiaries who are structurally unemployed.

Although effectiveness studies of Title III programs have not yet been completed, a variety of implementation/process studies have been carried out both for overall Title III activities and for selected Title III projects. These are discussed below.

a. Process Study of Overall Title III Program. States are given a wide degree of latitude in administering dislocated worker programs under JTPA. They have the responsibility for designating the groups to be considered as dislocated workers within the broad guidelines set forth in the legislation as well as determining how funds are to be allocated and administered within the State. An evaluation study of the implementation of JTPA in a sample of States indicates that the discretion allowed States is resulting in a pattern of great diversity in program approaches.⁹

Most States are directly controlling the operation of dislocated worker programs rather than distributing funds to local programs funded under the basic Title II block grant program of JTPA. The most prevalent practice is to award funds on a project basis in response to a request for proposal (RFP) to address specific dislocation problems. A substantial number of States are operating statewide programs directly through State agencies.

In terms of targeting, about one quarter of the States in the sample study had further narrowed the criteria for eligibility as a dislocated worker. In general, the sharper definition of dislocated worker was designed to make a clear distinction between those persons permanently displaced and those undergoing frictional unemployment or just entering the labor market. For example, one State required that the applicant have been employed for at least 3 years in the occupation from which he or she was displaced. Three of the sample States limited participation to those workers who were receiving or had exhausted unemployment benefits.

The types of service being provided varied greatly among the dislocated worker projects. Generally, the service provided is tailored to each situation and determined largely by the immediate program operators. There is some evidence that programs tend to emphasize services that promise a quick return to the job market, such as job clubs and job search skills, and that training programs offered tended to be of short duration.

b. Evaluation of Selected Title III Projects. Case studies have been undertaken of eight projects funded under the dislocated worker provisions of JTPA. The projects ranged in size from 200 workers to over 2,000 and varied widely in their target groups as well as their design. All were under the overall administration of State governments, but project operation was delegated to a variety of entities including: a private sector company, a local Service Delivery Area (SDA), a non-profit organization, a State Employment Security (ES) agency, a community college, a community-based organization, and a union.¹⁰

Targeting among the eight areas in the evaluation study ranged from plant-specific projects to multi-county projects serving workers meeting the general eligibility criteria of Title III. Unemployment rates in the areas served ranged from 3.1 percent to over 20 percent.

A common characteristic of the projects was flexibility in the service mix which permitted participants a large degree of choice in selecting services. However, there was a substantial difference among the projects in the relative emphasis placed on various services. All projects offered some form of counseling and assessment. All included either job search or job clubs or both. Seven of the projects provided on-the-job training but this component accounted for only a relatively small share of the enrollment in most projects. Seven projects offered classroom training, with

the enrollment ranging from 14 to 30 percent among the various projects. Only one project enrolled participants in relocation activities, reflecting the general lack of interest in this service.

Placement rates in the eight projects studied ranged from 60 percent to over 80 percent. Placement rates are not exactly comparable because of differences in definitions of placement among the projects. Post-unemployment wages as a percent of pre-unemployment wages ranged from 62 percent to 89 percent. Cost per placement for the studied projects ranged from just over \$800 to \$4,000.

The study does not appear to indicate a pattern of services or conditions that can be correlated with particularly successful outcomes. The two areas with the highest unemployment rates achieved some of the highest placement rates; however, these areas did have relatively low rates of replacement of pre-unemployment wages.

There does appear to be some evidence that effective assessment, testing and counseling are important to achieving successful outcomes at low cost.

A number of observations were made in the evaluation that may provide insights into the design of dislocated worker programs:

- o Distinguishing the structurally unemployed from the frictionally unemployed can be difficult. One of the original sites for the study was dropped because the targeted workers were recalled before the project got underway. Moreover, one of the projects in the sample was largely redirected to assisting workers who had been recalled by the same employer but at a different location.
- o The problem of identifying permanently displaced workers is particularly difficult in cases of large layoffs rather than plant closings. In the former case, employers are frequently reluctant to confirm that the unemployment is permanent.
- o Dislocated workers often have an unrealistic view of the labor market and of their prospects. After many years with the same firm and occupation, these workers have attained wage levels that are difficult to duplicate as entry workers in new firms and occupations. Moreover, many of these workers, especially older and more senior employees, tend to hold on to a hope for recall.

- o The use of a job search component in conjunction with assessment early in the enrollment period to identify those workers with marketable skills was found to be effective in reducing training costs. In this connection, two particularly effective techniques were the certification of existing skills and the use of technical skills in related sales fields.

4. Trade Adjustment Assistance. The Trade Adjustment Assistance program (TAA) provides benefits to trade-impacted workers. Workers certified as eligible for TAA could receive additional weeks of unemployment benefits (until the program's termination in December, 1985), and are currently eligible for training, job search assistance, and relocation payments.

The workers served by TAA are generally similar to those enrolled in JTPA Title III and to those served by the UI system. The major difference is that service under TAA is contingent on a finding of adverse impact as a result of foreign trade competition. The focus of TAA prior to 1981 was heavily weighted to benefit payments although after changes made to the law in 1981 there have been increasing enrollments in training.

Evaluation Evidence. In fiscal 1984, some 22,000 workers were certified to receive TAA benefits. Almost 16,000 received TAA first payments, 6,800 entered training and 2,200 were provided relocation services.

The major issue in assessing the success of TAA for workers served is whether it facilitated positive adjustment by encouraging the movement of workers into more productive employment. The program prior to 1981 clearly did not achieve this objective; the program since 1981 has not been evaluated.

TAA provided a high temporary wage replacement rate for certified workers prior to the 1981 amendments to the Trade Act of 1974. Under the earlier provisions, workers received weekly cash allowances equal to 70 percent of their previous gross wage subject to a maximum equal to the average weekly wage in manufacturing for a period of up to 52 weeks. The 1981 amendments made the level of benefits equal to the regular UI weekly benefit amount in the particular State and provided the trade benefit after regular UI entitlement had been exhausted for a combined UI/TAA total of 52 weeks. An additional 26 weeks of TAA were available to those in approved training. The new program emphasized the adjustment features of training, job

search and relocation, as opposed to high wage replacement. The changes significantly reduced the wage replacement rate of TAA. However, the new program was designed to reduce costs and increase equity relative to the earlier program. The earlier program was found to expend much of its resources on payments to workers who were only on temporary layoff and were not subjected to permanent displacement.

Pre-1981 enrollment data suggest that the TAA program was not successful at inducing positive adjustment to productive employment through training and various forms of employment assistance. Although it was expected that the income maintenance component of TAA would lengthen the duration of unemployment, it was also expected that the availability of training and related services would counteract the disincentive inherent in generous benefit payments. However, relatively few trade-impacted workers availed themselves of the training and employment services when wage replacement rates from benefit payments were relatively high and benefits were available for extended periods. Many workers appeared to remain on benefits assuming they would eventually be recalled to their former jobs. In many cases this assumption proved correct. Because a large proportion of the workers in TAA were on temporary layoff, the program provisions resulted in large outlays for benefits and little general interest in retraining. For those who did elect to take advantage of training and related services under the initial program, there was no evidence that such services helped shorten unemployment duration or resulted in subsequent wage gains for those who changed jobs rather than being recalled. The finding that TAA training produced no positive impacts, however, has to be considered inconclusive because of the extremely small samples analyzed in the evaluation study.¹¹

Since the changes introduced by the 1981 amendments, there has been a substantial increase in the proportion of certified workers who enter training. However, the outcomes in terms of subsequent employment still appear to be limited, particularly in comparison to the results obtained under Title III of JTPA.

The experience under TAA suggests that a new program addressed to UI recipients would need to be designed and targeted carefully to avoid expending resources on workers on temporary layoff.

5. CETA Dislocated Worker Demonstration Projects. During 1980-1983, the Department of Labor undertook a major demonstration and evaluation effort involving seven sites to provide information on the efficacy of training programs for dislocated workers. The first of these projects was undertaken in 1980 in the Detroit Metropolitan Area, by the Downriver Community Conference. The other six projects were started in 1983, in sites selected to provide a range of economic conditions.¹² While the projects were initiated to provide services to workers displaced by plant closing, all but two projects also served other dislocated workers in the community. Although all of these projects were subjected to short-term process evaluations, only two of these incorporated longer-term net impact evaluation studies--the Downriver Community Conference and Buffalo programs.

a. Downriver Community Conference Economic Readjustment Program. This program operated as a demonstration program serving laid-off workers in the Detroit metropolitan area. The program, which was funded initially under CETA funds and later through JTPA, operated in two phases between July 1980 and September 1983 and served some 2,100 workers displaced from three auto supply plants in the area. An evaluation study followed the progress of the project to determine the effectiveness of the design and to assess the impact on participants in terms of their subsequent employment and earnings. Data from the three plants in the study were matched with those on workers from three other plants in the area which did not participate in the demonstration.

The Downriver project was a highly structured effort, with staff and resources dedicated to and targeted on a specific and limited number of workers. Some of the key features of the project and its enrollment were:

- o The project provided a wide range of employment and training services including job clubs, classroom training, on-the-job training and relocation. All workers on the layoff roster from each of the targeted plants were notified of their eligibility to participate.
- o Approximately 46 percent of the eligible workers chose to participate.
- o The eligible population was predominantly male, with an average age of 38 and 11.8 years of education. The average worker had been on the last job over 9 years, where he or she earned \$10 per hour.

- o Close to 60 percent of the participants received some form of retraining, primarily in existing degree programs or special classes developed by the program staff. A mandatory 2-week orientation session was employed as a screening device to assure the motivation of potential candidates and provide staff the necessary background to make suitable assignments.
- o Little use was made of the relocation provision; only 8 percent of the participants relocated.

Evaluation Evidence. The results of the Downriver project were mixed. As noted earlier, the project was carried out in two phases. The first phase (from July 1980 to September 1981 involving two treatment and two comparison plants) showed clear gains for program participants. The evaluation report indicated a gain of 13 to 20 percentage points in the reemployment rate as compared to the control group and a gain of \$77 per week in earnings over the amount expected in the absence of the program.¹³ The results from the first phase, however, were not unambiguous. The choice of comparison plants made a substantial difference in the magnitude of the results. Using just one of the comparison plants significantly increases these results, while using the other reduces the results.

The second phase of the program, running from November 1981 to September 1983, which involved only one treatment plant and one comparison plant, produced large negative results with respect to the reemployment rate of participant and showed no effects on earnings. The reasons for this adverse impact are not clear but several factors were suggested as possible explanations. Between the two phases, the unemployment rate in the project area increased from 12 to 18 percent. In addition, the second phase workers, due to supplemental benefits and trade act allowances, had a wage replacement rate in excess of 100 percent compared to a replacement rate of about 50 percent for workers in the first phase.

The most compelling explanation for observed differences in impact within Phase I and between the two Phases is that the Downriver design did not adequately account for unmeasured plan-specific factors. Although program and comparison plants were matched carefully, the variation in the size of estimated effects across the plants suggests that unmeasured differences biased the estimates. Anecdotal evidence, in particular regarding the motivation and attitude of workers in the Phase II program plant, supports this explanation.

There are several implications from the Downriver experience that may warrant consideration in the design of a UI targeted program:

- o Despite the offer of services addressed to specific workers, the average worker waited 16 weeks before applying to the program. This suggests that most workers either expected to be called back or preferred to conduct their own job search before participating in an organized training effort. There are both positive and negative factors to this delay. On the one hand, the delay acts as a form of self-selection. Presumably, workers still without employment after 16 weeks are those most in need. On the other hand, the program staff indicate that the earlier workers avail themselves of readjustment assistance, the greater the chance for success.
- o The availability of relatively generous benefits may also tend to delay the recognition of the need to make an adjustment.
- o Participation in training differed markedly by age; over 63 percent of participants under age 35 received training as compared to 33 percent of those over 55 years.

b. The Buffalo Program. The Buffalo Worker Reemployment Demonstration program, which was sponsored by the Private Industry Council, focused on nine area employers who had laid off a total of about 8,000 workers during 1982. However, it reserved 30 percent of its program slots for other Erie County workers who were permanently laid off after 1980. Of the nine target plants, five were steel plants, one was an automobile plant, two were petroleum producers, and one was a battery manufacturer. In total, 96 percent of the laid-off workers from the target plants were from the steel and automobile industries.

A full range of services was offered to dislocated workers recruited for the Buffalo program. These included (1) testing and assessment, (2) job-search workshop, (3) job-search resources, (4) classroom training, (5) on-the-job training, (6) job-development services, and (7) relocation assistance. All 798 participants were assessed and enrolled in a 4-day job-search workshop. Of these participants, a total of 218 received on-the-job training, and 138 received classroom training.

Compared to the other five demonstration projects started in 1983, the Buffalo project incurred relatively high costs per participant and placement, largely because of the nature of services that were provided.

In total, less than 20 percent of the dislocated workers recruited by the Buffalo program chose to participate, compared with a range of participation rates from 7 percent of recruited workers in Yakima to 67 percent of the workers recruited for the Alameda program. This low participation rate appeared to be due, in part, to the long average period of time between layoff and program recruitment. Placement rates ranged from 9 percent in Milwaukee, which offered primarily job-matching services, to a high of 81 percent in Yakima; Buffalo had the second highest rate (66 percent). However, the low placement rate in Milwaukee was achieved at a relatively modest cost of \$1,500 per placement, as compared with an average cost of \$2,251 or more per placement in the other sites, and an average cost of \$3,014 per placement in Buffalo. Per participant costs were also relatively high in Buffalo (\$1,975) as compared with demonstration-wide averages of \$128 to \$2,009 per participant.

Evaluation Evidence. Early in the evaluation design process, it was determined that the impact analysis should be limited to one of the six sites started in 1983, due to cost considerations. After carefully assessing each of the sites, the Buffalo program was selected as the impact analysis site, for several reasons. First, the program was comprehensive in terms of the overall mix and intensity of services. Second, and more importantly, the recruitment strategy implemented by the Buffalo program offered a true control group for the majority of the workers recruited for the program. In six of nine target plants, program slots were rationed through a formal lottery conducted jointly by the program and the representing unions. Thus, those individuals who were offered program services were a random subset of the workers from these plants.

Because of the lottery feature of the Buffalo projects, unbiased estimates of program impacts could be obtained by comparing the reemployment rates and earnings of recruited workers with those workers who were not recruited, if all recruited workers agreed to participate in the program with a participation rate of less than 100 percent, however, such a comparison would yield unbiased estimates only if the comparison group members would, if offered program services, choose to participate at the same rate as did the recruited workers. If this assumption is incorrect, then the

estimates will be biased and the potential for such bias is greater when the participation rate is low, as in the Buffalo project. As a result, the evaluation utilized complex regression analyses to model the participation process and to use that information to control for potential selection bias resulting from the low participation rate.

The findings derived from the random experimental design are the best evaluation findings obtained to date concerning the effects of relocation and retraining programs on dislocated workers. One significant flow in this study is that the current findings are based on a relative short post-program period (six months) and may not reflect true long-term results. As is the case with site-specific assessments, it is not possible to generalize conclusions reached in one study to the entire problem. The key findings and conclusions are:¹⁴

- o The program significantly increased the labor-force participation, employment and earnings of workers despite a relatively poor labor market; the proportion of time in the labor force increased by 50 percent (0.60 to 0.90), the proportion of time employed doubled (0.30 to 0.60), and average weekly earnings nearly tripled (\$59 per week to \$174 per week).
- o Non-whites and older workers tend to experience relatively greater readjustment problems. While non-whites tended to benefit more from program services than whites, the estimated impacts for older workers were lower than for younger workers.
- o Job search assistance and classroom training significantly facilitated worker readjustment, with the impacts being of similar size for the two components; OJT did not have a significant impact on employment.
- o The estimated impacts on income-support programs in the post-program period were small and not statistically significant for either unemployment compensation or SUB. However, the program resulted in statistically significant reductions in welfare benefits (an average of \$5 per week in Food Stamp benefits and an average of \$9 per week in public assistance).

The results of the Buffalo project have several implications that may warrant consideration in the design of a UI-targeted program:

- o The results suggest that, even in a poor economy with a highly concentrated industrial base, relatively inexpensive interventions (e.g., job search assistance) may facilitate the readjustment of dislocated workers.
- o Given the difficulty of determining, based on measurable characteristics, which workers are likely to benefit most from such a program, it is critical to maintain a participant assessment and monitoring system that: (1) encourages aggressive job search and job matching for workers with locally marketable skills; and (2) selects other workers with appropriate abilities and interests into retraining for demand occupations.
- o In contrast to the findings from the earlier Downriver demonstration evaluation, retraining appears to have led to significant increases in the employment and earnings of participants.

C. Foreign Programs

1. Overview. Most industrialized countries have adopted special measures to enhance the employability of unemployed workers and of those in danger of losing their jobs. Among the measures are training, retraining and relocation programs.¹⁵ These programs were generally adopted earlier than they have been in the United States and on a larger scale relative to the size of the labor force.

As of 1982, 11 OECD countries appeared to use unemployment insurance funds to help finance training activities of the unemployed, by allowing unemployed individuals taking training courses to continue receiving unemployment benefits. The countries are: Australia, Belgium, Canada, Finland, Germany, Japan, Luxembourg, Netherlands, Spain, Switzerland, as well as the United States.¹⁶

Many countries have instituted labor market training assistance for displaced workers as part of their regular labor market policy instruments. Several have provided additional programs for displaced workers.¹⁷

Most European countries have had provisions for relocation allowances through the greater part of the post-World War II period. Britain has had such a program since the 1930's. Usually, relocation allowances are part of an overall manpower program in each country.¹⁸

Among the OECD countries, Japan funds relocation allowances from unemployment compensation financial sources. A number of countries limit relocation allowances to UI recipients and

some special groups. In general, the scale of the relocation schemes is very small in terms of kinds and amounts of aid given and number of individuals affected.¹⁹ Relocation allowances may cover the provision of financial support for a number of activities including investigating schooling and housing in new locations; return visits to the home area; support of households in two locations; selling, renting, or buying homes; and moving furniture.²⁰

The public employment service in most countries administers the relocation allowances. When employment is found in another area, the worker is referred to the employment office in that area for placement.²¹ Various measures are usually used prior to relocation to help workers find employment in their home area, often through the employment service. Relocation allowances are frequently given only when no jobs can be located in the home area and there is no appropriate locally unemployed person in the new area.²² Job retraining may precede relocation.²³

2. Evaluation of Foreign Programs. Evaluation results for job training and relocation allowances in foreign programs are available for dislocated workers in nine countries: Australia, Canada, Japan, Netherlands, Portugal, Spain, Sweden, Turkey, and the United States.²⁴ Many of these programs do not appear to be funded or administered under the unemployment compensation system.

While the assessments of these foreign programs may provide some insight on the usefulness of other models for assisting dislocated workers, the evaluation findings need to be viewed cautiously. The effectiveness of a particular program in one environment in dealing with structural change may not accurately reflect its usefulness in a different environment. Some countries provide a package of programs, and evaluation of the effectiveness of one program may depend partially on the characteristics and effectiveness of the other programs.²⁵ Additionally, in available reports summarizing the results derived from separate evaluations, findings have often been pulled together, and details of the separate evaluations may not be provided. The methods and rigor of the evaluations seem to vary greatly; little rigorous social science research appears to have been conducted, which casts doubt on the conclusions drawn from the studies.

a. General Findings. With respect to targeting special labor market programs on displaced workers, identification of structurally unemployed workers proved to be very difficult in recent years when cyclical effects were often mistaken for structural effects. Targeting special programs on a wide range of industries or regions caused benefits to

be provided to workers who were not in need of extra assistance beyond existing general labor market programs. In several countries, this brought about inefficient use of program resources and very high program costs. However, where the target group was highly restricted, program coverage was limited.

In several countries, targeting was aimed at workers displaced by a specific cause rather than for their likelihood of having adjustment problems. Consequently, workers with similar labor market problems received very different levels of assistance. Available evidence suggests that programs targeting assistance on a specific industry in a specific small community have minimized the inequities involved in targeting on workers displaced by a specific event. These programs have concentrated benefits on areas where the problems of displaced workers may have been the most serious.

The evidence from several countries suggests that permanently displaced workers experience sizable losses and adjustment difficulties and that these losses are particularly large when they occur in relatively small communities with undiversified industrial structures. Therefore, these studies suggest that one appropriate targeting scheme might be one combining industry and region. The nine-country OECD report, however, points out that additional research on the problems of workers displaced by structural change as compared to other unemployed workers would be of great benefit in designing and initiating special programs.

Evidence suggests that local labor market authorities who identify job openings for trainees are the best providers of information about occupations for which training is likely to lead to reemployment. Some countries are constructing regional forecasts of occupational demands.

Successful programs seem to be those that do not delay the adjustment process but provide incentives for workers to adjust. In general, special compensatory programs have not tended to facilitate worker adjustment although they provide wage replacement.

b. Evaluation of Training Programs. A number of findings pertain to workers' participation in retraining programs. Evidence from several countries suggests that workers prefer industrial or on-the-job training to classroom training. Worker participation in retraining as well as the effectiveness of the retraining are related to the stage of the business cycle. Because participation has usually been

less than anticipated, the studies suggest that displaced workers apparently have not had sufficient knowledge of their eligibility for retraining assistance or the kinds of retraining assistance available. Increased knowledge of available assistance and effective targeting appear to increase use. Workers who do not expect recall to a former job are somewhat more likely to enroll in retraining than those who expect recall. Participation has usually been higher when targeted on displaced workers in small towns in relatively isolated areas and where income maintenance was provided in addition to basic unemployment benefits to trainees.²⁶

The Canadian Manpower Consultative Service, the agency of the Canadian national government created to provide temporary worker adjustment assistance to communities suffering economic crisis, has found that a majority of dislocated workers are assisted with job search and placement assistance rather than with skill retraining. According to one author, the Canadian Experience appears to confirm much American experience and suggests that reemploying dislocated workers is mainly a matter of placement rather than of retraining.²⁷

The impact of training on employment outcomes was mixed, according to the nine-country OECD report. In some countries, a sizable number of workers who completed training were successful in finding jobs for which they were trained. Available evidence appears to be limited.

c. Evaluation of Relocation Programs. The nine-country OECD study found that unassisted mobility appears quite high in many countries, but assisted mobility among displaced workers is low. Relocation assistance programs for displaced workers have their greatest participation in countries with a strong tradition of mobility, indicating that many relocations have been subsidized even though they would have occurred in the absence of the assistance.

The requirement of having a job in the new location has seemed to reduce the use of relocation assistance. Where relocation assistance programs have not been utilized as much as anticipated, associated factors were: transaction costs involved in the sale and purchase of a home were not paid; workers believed opportunities were limited outside the local area; two-earner households prevailed; workers were awaiting recall; or workers were relatively old. Participants tended to be male and relatively highly skilled. Participation tended to be higher when information was provided on jobs in areas to which the worker might move.²⁸

Evaluation of the British Employment Transfer Scheme was carried out in a series of studies. To be eligible for assistance under the scheme, which was introduced in 1972, an unemployed individual had to move beyond the daily travelling distance of his home to accept full-time employment. Questionnaires were sent to a random sample of workers who received financial assistance under the program. In response to a question on whether they were willing and able to change job location in the absence of assistance, about 70 percent of respondents said they were willing. Most individuals who moved were younger workers (92 percent under 45 years of age). Just over half the sample studied had left their employment in the new area within one year of moving. Most of those leaving did so within the first 10 weeks after the move.²⁹ In summarizing the study, the following conclusion is drawn: "In general, the experience with the British assisted mobility program parallels experience with similar programs in other countries."³⁰

A study was conducted of recipients of removal grants from the Swedish Labor Market Board. These grants were intended to encourage unemployed individuals to migrate from areas of declining employment opportunities to areas where employment is available. The study showed that about half of the individuals who relocated returned to their home area within 1 to 2 years, even though they generally found employment in the new area. Older workers generally did not utilize the program.³¹

One author concluded, "...worker relocation programs have been almost uniformly unsuccessful in stimulating the permanent movement of workers from depressed areas to regions of high employment opportunity. (There may be some payoff in terms of the relocation of younger workers, but the fragmentary evidence indicates that the move tends to be temporary or would have occurred in the absence of the particular incentives offered by public policy.)"³²

3. Other Alternative Uses of UI. Other alternative uses of UI in addition to retraining and relocation allowances have been adopted by foreign countries. Several that have relevance for dislocated workers are presented below.³³

- o Temporary employment schemes for unemployed workers have been introduced. Luxembourg has used this means to deal with structural unemployment in the steel industry. Wages of surplus steel industry workers in work outside the steel industry are financed from the unemployment insurance fund.

- o Employment Subsidies. Employers hiring UI beneficiaries may receive an employment subsidy from UI sources. The reasoning behind this approach is that the worker is likely to be less productive at first. Also, reemployment lowers unemployment insurance outlays. The employment subsidy has not been widely used. Japan introduced temporary measures to provide a subsidy to firms hiring workers unemployed in depressed regions or industries. The subsidies are financed by employer contributions to the Japanese Employment Insurance System.
- o Wage Supplements. Luxembourg and the Netherlands provide wage supplements to unemployed individuals who accept employment at lower wages than they earned in their previous employment. The supplements, which are financed out of unemployment compensation funds, decrease over time. Such a program would be applicable to workers displaced from high wage occupations.
- o Reemployment bonuses. The Japanese Employment Insurance Law was revised in 1984 to provide workers who find reemployment before half of their potential benefit days have elapsed with a special "reemployment bonus" consisting of 30 to 90 days' benefits. This measure is intended to motivate workers to obtain appropriate reemployment as soon as possible.³⁴

Footnotes

¹The Interstate Conference of Employment Security Agencies (ICESA) conducted a mail survey of the States in 1985, requesting information on approved training for UI claimants from State employment security agencies. Responses have been tabulated for the 41 to 45 States that responded to the questions on the kinds of education and training approved.

²The programs include:

o the Displaced Worker Education and Training Act, which required that the California Employment Development Department (EDD), in conjunction with the Chancellor's Office of the California Community Colleges, the State Department of Education, the Department of Economic and Business Development, and the State Department of Industrial Relations, prepare a plan for implementation of occupational transfer and retraining programs for displaced workers;

o the Regional Employment Assessment, Job Search Assistance, and Placement Services for Displaced Workers Act, which required EDD to provide retraining, reemployment, and supportive services to displaced workers.

³California Employment Development Department, California Training Benefits Program. Three Year Summary. (Unpublished report, 1984).

⁴California Employment Development Department, Displaced Worker Evaluation Report. Health and Welfare Agency, State of California, in conjunction with: The Department of Education, the Chancellors Office of the California Community Colleges, the Department of Economic and Business Development, the Department of Industrial Relations (November 1983).

⁵California Employment Development Department, Displaced Worker Evaluation Report.

⁶The Delaware Department of Labor, with financial assistance of the U.S. Department of Labor, sponsored the evaluation of the program. Results are reported in: Howard S. Bloom, Retraining Delaware's Dislocated Workers: Final Impact Evaluation (Bloom Associates, Inc., June 1984).

⁷Martin Schnitzer, Regional Unemployment and the Relocation of Workers: The Experience of Western Europe, Canada and the United States, Praeger Special Studies in International Economics and Development (New York: Praeger Publishers, 1970).

⁸John Herzog, Job Search and Relocation Assistance Pilot Project (Rockville, MD.: Westat, Inc., 1981).

⁹Westat, Inc., Transition Year Implementation of the Job Training Partnership Act (Rockville, MD., January 1985).

¹⁰Robert F. Cook, ed., Draft Report: Dislocated Worker Projects under Title III of the Job Training Partnership Act (Rockville, MD.: Westat, Inc., 1985).

¹¹Walter Corson et. al., Final Report: Survey of Trade Adjustment Assistance Recipients (Princeton, NJ: Mathematica Policy Research, Inc., December 1979).

¹²The sites were Alameda County, California; Buffalo, New York; Lehigh Valley, Pennsylvania; Milwaukee, Wisconsin; Mid-Williamette Valley, Oregon; Yakima County, Washington.

¹³Abt Associates, The Downriver Community Economic Readjustment Program: Overview and Summary (Cambridge, MA, September 1984).

¹⁴Walter Corson, Sharon Long, and Rebecca Maynard, An Impact Evaluation of the Buffalo Dislocated Worker Demonstration Program (Princeton, NJ: Mathematica Policy Research, Inc., March 1985).

¹⁵Saul J. Blaustein and Isabel Craig, An International Review of Unemployment Insurance Schemes (Kalamazoo, MI.: The W.E. Upjohn Institute for Employment Research, 1977).

¹⁶Organization for Economic Cooperation and Development, A Review of Member Countries' Experiences in Alternative Uses of Unemployment Insurance Money (Paris: OECD, 1982).

¹⁷Organization for Economic Cooperation and Development, Measures to Assist Workers Displaced by Structural Change: Report by Evaluation Panel No. 1. Manpower Measures Evaluation Programme, Manpower and Social Affairs Committee. (Paris: OECD, 1984).

¹⁸Schnitzer, Regional Unemployment and the Relocation of Workers: The Experience of Western Europe, Canada and the United States.

¹⁹Organization for Economic Cooperation and Development, A Review of Member Countries' Experiences in Alternative Uses of Unemployment Insurance Money.

²⁰Organization for Economic Cooperation and Development, Measures to Assist Workers Displaced by Structural Change; Op. Cit.

²¹Schnitzer, Regional Unemployment and the Relocation of Workers.

²²Organization for Economic Cooperation and Development, Measures to Assist Workers Displaced by Structural Change; Op. Cit.

²³Schnitzer, Regional Unemployment and the Relocation of Workers.

²⁴This section is based primarily on the OECD report, Measures to Assist Workers Displaced by Structural Change; Op. Cit.

²⁵Ibid.

²⁶Ibid.

²⁷Marc Bendick, Jr., "Dislocated Workers and Midcareer Retraining in Other Industrial Nations", in Displaced Workers: Implications for Educational and Training Institutions, ed. Kevin Hollenbeck, Frank C. Pratzner, Howard Rosen. The National Center for Research in Vocational Education (Columbus, OH: The Ohio State University, 1984), pp. 189-208.

²⁸Organization for Economic Cooperation and Development, Measures to Assist Workers Displaced by Structural Change; Op. Cit.

²⁹Robert J. Flanagan, Final Report: An Evaluative Review of Selected West European Labor Market Adjustment Policies (Stanford University, March 1975).

³⁰Ibid, p. 30.

³¹Ibid.

³²Ibid, p. 32.

³³Organization for Economic Cooperation and Development, A Review of Member Countries' Experiences in Alternative Uses of Unemployment Insurance Money.

³⁴"Public Policy: The Unemployment Insurance Law Revised," Japan Labor Bulletin 23, No. 9 (September 1984): 3-4, and U.S. Department of State, Telegram from American Embassy, Tokyo, Japan: (Washington, DC, June 1985).

APPENDIX III

USE OF UNEMPLOYMENT INSURANCE TO PROMOTE SELF-EMPLOYMENT

Overview

Rising average level of unemployment following recent recessions and concern that there are significant numbers of workers that will not find wage or salary jobs have led to a growing interest in programs to assist the jobless to become self-employed. Even without special loan or grant programs, there is evidence that in relative terms self-employment has grown faster than wage and salary employment in the United States in recent years and that its growth has accelerated following recessions as some of the unemployed become "entrepreneurs of necessity."

Because the United States has had no experience in using Unemployment Insurance to promote self-employment, this appendix presents available information on the European experience in this area. Starting with France in 1979, European countries including Great Britain, Belgium, Ireland, Sweden, Netherlands and Italy have begun pilot or operating programs to assist recipients of unemployment insurance benefits to create jobs for themselves by becoming self-employed. The foreign experience covers a variety of program designs--loans or grants, UI or general revenue funding, lump sum payments or periodic installments. Some require capital and formal business plans and some do not. Great Britain and France have gone beyond pilot testing to national programs and have several years' experience. The British estimate that unemployment falls by about 33 persons for every 100 entries into their Enterprise Allowance Scheme (EAS). The French estimate that as many as one-third of all business starts in the past three years occurred through self-employment promotion.

It must be emphasized, however, that the British and French estimates of program results are based on inadequate evaluation efforts and cannot be regarded as conclusive estimates of the effects of such programs. In general, these evaluation efforts measure only the gross effects of the programs, as opposed to net effects. No data are available to answer such questions as how many of the new firms would have been established in the absence of the special programs or how many existing firms were displaced.

This appendix presents information on the differential job creation experience in the United States and Europe, summarizes recent European experience in using unemployment insurance to promote the creation of new firms and jobs and analyzes some of the considerations involved in applying the foreign experience in the United States.

A. Unemployment Insurance and Self-Employment in the United States.

Unemployment insurance in the United States traditionally has been regarded as a source of temporary support for people who could expect to return to employment as wage and salary workers.¹ The restrictions placed on the funds were based on those assumptions and include requirements in all States that applicants must be unemployed through no fault of their own, able to work and available for work in order to draw benefits. In 40 States, there is an additional requirement that applicants be actively seeking work.² Under present laws, therefore, persons attempting to start their own businesses would be ineligible for UI benefits in all States.

The relative lack of interest until just recently, in using UI benefits to assist the self-employed in the United States is likely due to two factors. First, compared to European countries, the United States has had astounding success in creating jobs over the past 15 years. Second, an important component of this job creation process in the United States has been the continued expansion of the self-employed in the absence of explicit subsidies for undertaking such activities.

B. Job Creation in Europe and the United States

1. Lack of Employment Growth in Europe. There is evidence of a rising average unemployment rate both in the United States and in the major European countries. Table I shows total unemployment rates for both the United States and other OECD countries over the 1970-1984 period.

Table I

Standardized Unemployment Rates
Percentages of Total Labor Force

	1970	1975	1979	1982	1983	1984
Belgium	2.1%	5.0%	8.2%	12.6%	13.9%	14.0%
Canada	5.6	6.9	7.4	10.9	11.8	11.2
France	2.4	4.1	6.0	8.2	8.4	9.8
Germany	0.8	3.6	3.2	6.1	8.0	8.1
Ireland	5.8	6.4	6.1	11.4	14.1	16.5 (a)
Italy	5.3	5.8	7.5	9.0	9.8	10.1
Japan	1.1	1.9	2.1	2.4	2.6	2.7
Netherlands	1.0	5.2	5.4	11.4	13.7	14.0 (a)
Sweden	1.5	1.6	2.1	3.1	3.5	3.1
United Kingdom	3.1	4.6	5.6	12.3	13.1	13.2
United States	4.8	8.3	5.8	9.5	9.5	7.4

(a) estimate

Source: Employment Outlook (draft). Working Party on
Employment, Organization for Economic Cooperation and
Development. Paris, France: April 9, 1985.

Although unemployment rates have increased significantly in all of the OECD countries, the composition of this increased unemployment differs significantly between the United States and Europe. The United States has had more growth in total employment, more labor mobility, and more short-term but less long-term unemployment than Europe. During the most recent recession, the average duration of a spell of unemployment in the United States was 4 months, versus 7 to 10 months in most European countries. In 1982, one out of three unemployed in France and Great Britain was out of work for 1 year or longer, while fewer than one of ten unemployed American workers had been unemployed that long.

Most of the explanation for the relatively better United States unemployment experience has been differences in employment, and especially service-sector employment, growth. While employment grew by almost 20 million in the United States between 1970 and 1982, it declined slightly in the four largest European countries. Almost the entire employment increase in the United States has been in the service sector; European service sector employment has also increased but to a much smaller extent.³

2. Continued Expansion of Self-Employment in the United States. One factor underlying the employment growth in the United States for the last decade and a half has been the expansion of self-employment among American workers, particularly in the nonagricultural sector. Nonagricultural self-employment has increased each year since 1970, when it was 5.2 million, to 1983, when it was more than 7.6 million, an increase of more than 45 percent over the period.⁴ The increase in nonagricultural self-employment has been particularly rapid since 1976, when the total was 5.8 million.

There is evidence that nonagricultural self-employment tends to move countercyclically, increasing during all of the recessions during the period 1960-1982. Workers who lose their jobs may adjust by becoming self-employed. Self-employment growth was especially high during the first full year following the last recession. The number of self-employed workers increased by 497,000 between November 1982 and November 1983, representing a 6.6 percent rise, compared to a 3.7 percent rise in wage and salary workers.⁵ Moreover, as Table II shows, in the United States, a substantial percentage of displaced workers who are reemployed reenter employment by becoming self-employed without any direct subsidies or other outside financial inducements. (The tax code does provide some indirect benefits for the self-employed.)

Table II

Displaced Full Time Workers Reemployed in January 1984
by Industry and Self-Employment Status a/
in thousands

<u>Industry of Lost Job</u>	<u>Total Reemployed</u>		<u>Self Employment</u>	
	<u>Number</u>		<u>Number</u>	<u>Percent</u> <u>b/</u>
Total	2840		218	7.7
Construction	253		28	11.1
Manufacturing	1418		67	4.7
Transportation/ Utilities	191		22	11.5
Trade	399		31	7.8
Finance & Service	378		50	13.2
Public Administration	48		2	4.1
Other Industries	153		18	11.8

a/ Data refer to persons who lost or left a full time wage and salary job between January 1979 and January 1984 because of plant closings or moves, slack work, or abolishment of their positions or shifts.

b/ Percent of reemployed persons in that industry who became self-employed.

Source: Paul O. Flaim and Ellen Sehgal, "Displaced Workers of 1979-83: How Well Have They Fared?" Monthly Labor Review (June 1985): p. 15.

3. Self-Employment and Small Business Growth. Recent studies show that independent small businesses--which frequently grow from successful attempts at self-employment--are key contributors to an expanding economy because they create employment opportunities. Firms with fewer than 100 employees represented only 36 percent of employment in 1976 but generated 51 percent of the net job growth from 1976 to 1980.⁶ New firms accounted for 19 percent of new employment growth from 1978 to 1980.⁷ During the 1980-1982 recession, independent, small businesses with fewer than 20 employees produced a total of 2.6 million new jobs, more than offsetting the 1.7 million jobs lost by large businesses.⁸

Construction and service-producing industries, including trade, finance, insurance and real estate, have produced most new jobs in the past decade and a half, accounting for 86.2 percent of total job growth between 1974-1980. Manufacturing, mining, transportation, and public utilities accounted for only 13.8 percent over the same period. In the services producing industries, starting a business is often cheaper and simpler because less capital is required. Because many provide customized products or services, they tend to be labor intensive thus creating more jobs. The dramatic increase in demand for business, health, and personal services is also reflected in the number of new jobs.⁹

C. Foreign Experience. Beginning with France in 1979, many major OECD member European countries have begun programs to continue UI and/or welfare-type payments to unemployed persons who attempt to create their own jobs by starting businesses. Although only limited information is available, and no complete evaluations have been done, the European experience offers a number of insights into program structure and costs. The programs in Great Britain, France, Belgium, Ireland, Sweden and the Netherlands, on which some information is available, are summarized below.

1. Great Britain. Rising levels of unemployment left many of the long-term unemployed with little hope of returning to wage and salary employment. British officials describe self-employment as one way in which an individual can "buy in" to a job. Their Enterprise Allowance Scheme (EAS), which is funded from general revenue, assists unemployed recipients of unemployment benefits who want to start a business by paying a flat allowance of 40 British pounds (United States \$58.80 -- as of March 4, 1986, 1 British pound equaled about 01.47 US dollars) a week for 52 weeks.

Applicants must be unemployed at least 13 weeks, have at least 1,000 British pounds (including loans) available to invest in the business and be willing to make the business their sole employment and work full time at it.¹⁰ Applicants must attend several business counseling sessions but no approval of the business plan is required.¹¹ One study cites a government official as saying "We learned from our experience with DeLorean Motors that we should not trust public officials to assess business propositions."¹²

Introduced in five pilot areas in 1982, EAS proved so successful that it was made available throughout Great Britain. The program has been expanded from 25,000 slots in March 1984, to 50,000 annual slots through March 1985.

Taking all factors into account, the British estimate that the number unemployed falls by 32.5 for every 100 entrants into EAS. The evaluation of the British program, however, did not generate the data needed to estimate what the actual net impact of the program is on unemployment. Instead, this estimate, like other estimates in the evaluation, is based on assumptions.

About 87.5 percent of entrants were still in business after the 12-month allowance period. The British estimate for the pilot program, that the net cost for each person taken off unemployment was 2,690 pounds during the first year. Assuming that at least 60 percent of businesses still in operation at 12 months were still operating at 18 months, the British estimate the net cost would fall to 650 pounds per person taken off the rolls by the end of the second year and possibly show a positive return to the treasury in the third year.¹³

2. France. France introduced its Unemployed Entrepreneurs' Program in 1979 and made it national policy one year later. French citizens entitled to unemployment compensation or welfare can collect up to FF 30,000 (\$4,434 -- as of March 4, 1986, 1 French franc equaled about 0.148 US dollars) in a lump sum to help them start a business. Additional grants are made for workers hired during the first 6 months. The average lump sum allowance during 1982 and 1983 was \$2,646. Program participants also receive health, maternity, accident, disability and life insurance.¹⁴

In 1984, the program was altered so that it is now funded out of general revenue rather than from the unemployment compensation fund and the program was extended to include welfare recipients.¹⁵

As of December 1984, more than 170,000 unemployed had taken advantage of the program.¹⁶ About 51 percent of the new entrepreneurs indicated they wouldn't have started their business without the allowance; an additional 25.8 percent doubted they would have. A government evaluation found that between 60 and 80 percent of the new businesses survived for three years or more.¹⁷

The French estimate that about one-third of all business starts in France last year were by unemployed entrepreneur program participants.¹⁸ The unemployed entrepreneurs created an average of two jobs each; 2.7 percent created businesses with 10 or more jobs.¹⁹

3. Belgium. Since 1984, Belgium has had a program to provide loans of up to 500,000 Belgian francs (about \$11,100 at the March 4, 1986 exchange rate of one franc equals 0.022 U.S. dollars) to those presently on unemployment compensation who wish to set themselves up in trade or business and are willing to risk losing up to 3 years of future unemployment compensation.

Interest rates on the loans are low and payable over a 15-year period. There is a 5-year grace period before starting to repay the principal. The average entrepreneur under this program has used the government loan to obtain an additional \$19,000 in commercial loans. Belgian authorities indicate that about 1 percent of those drawing unemployment compensation obtained loans equal to an advance of 3 years of unemployment compensation during the first year of the program.²⁰

4. Ireland. The Enterprise Allowance Scheme, which is operated by the National Manpower Service, offers business start-up loans to persons who have been unemployed at least 13 weeks and who have attended an approved vocational training course while unemployed. Loan recipients must have access to at least 500 Irish pounds (\$686 at the March 4, 1986 rate of 1 pound equals 1.372 U.S. dollars) of their own investment capital and show they can meet current business expenses.²¹

5. Sweden. Sweden has a 2-year experimental program, started in July 1984 and scheduled to end on July 1, 1986, for using unemployment compensation payments to support unemployed persons while they are trying to start their own businesses. Assistance may be given for a maximum of 6 months. The program, which has about 1,000 participants at this stage, has not yet been evaluated.²²

6. Netherlands. Since May 1, 1985, persons receiving UI benefits can receive an income supplement up to the level of social assistance received plus a loan of up to 25,000 guilders (\$10,075 at the March 4, 1986 exchange rate of one guilder equals 0.403 U.S. dollars). Persons receiving benefits or on notice of dismissal are eligible for the program. An interesting feature is that the spouse of the person unemployed can apply for the scheme, thus allowing for the possibility of a change in the family support role.²³

D. Design Issues. The foreign experience with the use of UI benefits to stimulate self-employment although inadequately evaluated, does provide a variety of designs. These include:

1. Eligibility. The British and Irish require applicants to raise modest sums to invest on their own, in order to ensure serious commitment to the business effort. Britain does not require an approved business plan but seems to have had as high a success rate as France, which does. This is attributed to the provision of management assistance and the requirement that the individual put some cash into the business. For administrative simplicity, the British scheme may be preferable. France and Belgium require that acceptable business plans be developed.

2. Loans Versus Grants. Britain and France provide grants, while Belgium and Ireland provide loans. Belgium holds future UI benefits as collateral for repayment and administers payments and collections from its Small Business Bank, which has experience in handling such loans. There is no obvious counterpart agency in the United States to administer such a loan program.

3. Lump Sum Versus Periodic Payments. Belgium and France make lump sum payments available; these can be used as collateral to obtain additional financing. Great Britain makes bi-weekly payments directly to the new business which can be used to meet business expenses or living expenses. The advantage of the lump sum payment is that it can be used to start the business. Periodic payments are assured income for a set period if the business continues but can be terminated if the business fails.

4. General Revenue Versus UI Funding. Great Britain, France and Sweden fund their programs from general revenue. Belgium's loan program is supported by the UI fund which is financed by a tax on both the worker and the employer with general revenue making up any deficit. Arguments for funding such a program from general revenue in Great Britain, France and Sweden include the idea that individual employers are not responsible for layoffs due to macroeconomic factors affecting the economy or for structural changes affecting entire industries. Also, it seems likely that some employers might object to having their UI taxes used to support the formation of new businesses that might be competitors.

5. Investment Required per Individual. The question of how much capital is needed to start a business cannot be answered except in a general way and by giving some examples. The European experience has shown that modest allowances have drawn enthusiastic participation by the unemployed. Most entrepreneurs use the benefits to supplement savings, loans from family and friends, or other lenders.

In the U.S. a recent survey by the National Federation of Independent Business (NFIB) of 155 new firms found that 18 percent had started with less than \$5,000 in capital, another 13 percent had \$5,000 to \$10,000 and almost half had started with less than \$20,000.²⁴

It is clear that there are many service-oriented businesses that can be entered with very modest capital outlays. Katryn S. Keely, president of the Women's Economic Development Corporation has stated that the average start-up costs for the ventures assisted by her group was about \$4,000.²⁵

E. Lessons for the United States. There are indications that there has been a shift in the United States in the past several years toward a faster rate of increase in self-employment compared to wage and salary employment, even without direct government intervention in the form of direct entrepreneurial subsidies for the unemployed. Given the relatively high incidence of self-employment in the United States in the absence of intervention, the foreign experience with such intervention may not be directly relevant for the United States for two reasons. First, such a program is likely to have a smaller net impact which may be negligible and therefore is likely to be more costly in the United States. Second, experience in the United States indicates that small businesses generally suffer a very high failure rate, even without additional monetary incentives to undertake such risks.

1. Limited Net Impact. The primary objective of the European UI capitalization programs is to induce an increase in the number of self-employed persons, relative to what would have occurred in the absence of the program. To the extent that such an increase does not occur, the program benefits are being provided to persons who would have gone into business or become self-employed in the absence of the program. Such payments are referred to as "windfall" costs of the program.

The evaluations of the European programs have not generated the data needed to estimate the net effects of the programs and the accompanying degree to which program costs represent "windfall" costs. Nevertheless, the provision of entrepreneurial subsidies in place of UI benefits is likely to have a greater net impact in European countries because most of these countries provide more comprehensive income maintenance benefits for the unemployed. As a result, in the absence of such subsidies, potential entrepreneurs encounter greater disincentives to enter into employment. The impact of such subsidies in the United States is likely to be smaller because UI benefits are of relatively short duration (generally 26 weeks) and the benefits often are less than one-half of the previous wage, as a result of benefit ceilings.

2. The Likelihood of Business Failures. It is not clear that it would be desirable to provide greater inducements to entrepreneurs in the United States to start their own businesses. Even without such inducements, the experience in the United States is that small businesses generally have a high rate of failure. Only 10 percent of the decisions to cease operations are involuntary; businesses may file bankruptcy or be considered a business failure if the organization ceases to operate and leaves outstanding debts. Ninety-nine percent of the failed businesses in the United States have fewer than 100 employees and over 80 percent are less than 10 years old.²⁶ The existing rates of failure for small businesses presumably would be exacerbated by a program of subsidies that induced the start of new businesses by unemployed persons with no previous entrepreneurial experience.

Footnotes

¹U.S. Congress, House of Representatives, Richard A. Gephardt statement at press conference, March 22, 1985.

²U.S. Department of Labor, Comparison of State Unemployment Insurance Laws, (Washington, DC: Government Printing Office January 1985).

³Janet L. Norwood, "Labor Market Contrasts: United States and Europe," Monthly Labor Review, (August 1983): 3-7.

⁴Eugene H. Becker, "Self-Employed Workers: An Update to 1983," Monthly Labor Review, (July 1984): 14-18.

⁵U.S. Small Business Administration, "The State of Small Business: Report of the President", (Washington, DC: Government Printing Office, May 1984): 22.

⁶Ibid, p. 236.

⁷Catherine Armington and Marjorie Odle, "Small Business-How Many Jobs?," The Brookings Review (Winter 1982): 14-17.

⁸U.S. Small Business Administration, "The State of Small Business." (May, 1984): 25.

⁹Richard Greene, "Tracking Job Growth in Private Industry," Monthly Labor Review, (September 1982): 3-9.

¹⁰"Evaluation of the Pilot Enterprise Allowance Scheme," Employment News, (London: August 1984): 374-377.

¹¹British Manpower Services Commission, The Enterprise Allowance Scheme: Information Paper (London: October 1984)

¹²Robert Freidman, 63,000 Entrepreneurs (1984 Inc. Publishing Company, Inc. May 1984).

¹³"Evaluation of the Pilot Enterprise Allowance Scheme" Employment Gazette, (London: August 1984): 374-377.

¹⁴Freidman, "The Recipient as Entrepreneur".

¹⁵"France: Chomeurs Createurs," The Entrepreneurial Economy (January 1985).

¹⁶Organization for Economic Cooperation and Development, "Expanding the Opportunity to Produce", Feedback ILE, OECD Newsletter (April 1985).

- 17 "France: Chomeurs Createurs," The Entrepreneurial Economy (January 1985).
- 18 Organization for Economic Cooperation and Development, "Expanding the Opportunity to Produce".
- 19 Freidman, "The Recipient as Entrepreneur".
- 20 U.S. Department of State, Telegram from American Embassy, Brussels, to U.S. Department of Labor: June 1985.
- 21 U.S. Department of State, Telegram from American Embassy, Dublin, to U.S. Department of Labor: June 1985.
- 22 U.S. Department of State, Telegram from American Embassy, Stockholm, to U.S. Department of Labor: June 1985.
- 23 European Economic Community, "Netherlands: Start-Up Assistance for the Unemployed," Inform ISEP 10 (June 1985).
- 24 Robert Freidman, The Self-Employment Opportunity Act of 1985: Questions and Answers, (Washington, DC: The Corporation for Enterprise Development. (no date).
- 25 Carol Steinbach, "Europeans Are Giving Unemployed an Opportunity to Become Entrepreneurs," The National Journal, March 9, 1985.
- 26 U.S. Small Business Administration, "The State of Small Business." (May, 1984): 36.

APPENDIX IV

United States Senate

WASHINGTON, D.C. 20510

April 23, 1985

OFFICIAL CORRESPONDENCE
PLEASE RETURN TO ROOM S-2519

853831

The Honorable William Brock
Secretary-Designate
Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Dear Bill:

We are writing to ask your assistance in prompting the Department of Labor to conduct a study of the feasibility of using unemployment compensation benefits to promote self-employment or retraining.

Recent debate over extension of Federal Supplemental Compensation legislation focused on the inability of the current unemployment insurance system to deal with acute structural problems in many labor markets. We believe an answer lies in a more creative approach to the U.I. system -- one which allows unemployed workers to seek new avenues and options for productive employment.

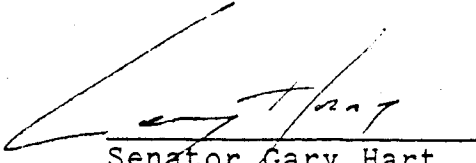
Specifically, we ask that the Department investigate the potential of two specific proposals for attacking long-term unemployment. The first would allow workers to use U.I. benefits for income support during the start-up phase of establishing their own small business. The second would authorize the use of U.I. benefits to fund retraining, education or relocation expenses. Both of these proposals speak to the need to change the concept of U.I. from a palliative for temporary job loss, to a means of fostering self-sufficiency for workers, many of whom are experiencing the personal costs associated with fundamental shifts in our nation's industrial base.

We request that the study review existing federal and state laws and regulations which might affect these proposals, as well as foreign experiences with similar programs. In order to expedite Congressional consideration of these proposals, we ask that the Department report its findings and conclusions, including recommendations for legislation, to the Senate Committee on Finance by September 30, 1985.

We are very encouraged by your recent remarks on the policy priorities you intend to bring to the Department. We believe this study is especially consistent with your expressed goals, and we look forward to receiving your report.

Thank you for your cooperation in this matter. We look forward to working with you in your new capacity.

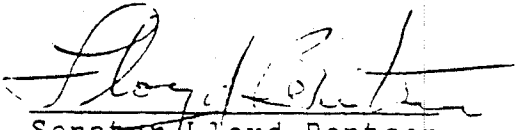
Sincerely,



Senator Gary Hart



Senator Bob Packwood



Senator Lloyd Bentsen