

2010

Outcomes of Policies for Displaced Workers: An American Perspective

Christopher J. O'Leary

W.E. Upjohn Institute, oleary@upjohn.org

Citation

O'Leary, Christopher, J. 2010. "Outcomes of Policies for Displaced Workers: An American Perspective." Presented at Canadian Roundtable on Displaced Workers, "Outcomes, Emerging Best Practices and Future Policy Directions," Gatineau, Quebec, March 12. <http://research.upjohn.org/confpapers/4>

This title is brought to you by the Upjohn Institute. For more information, please contact ir@upjohn.org.

Outcomes of Policies for Displaced Workers: An American Perspective

Christopher J. O'Leary
W.E. Upjohn Institute for Employment Research
oleary@upjohn.org

Canadian Roundtable on Displaced Workers, Conference Centre,
Human Resources and Skills Development Canada, 140 Promenade
du Portage, Phase IV, Gatineau, Quebec, March 12, 2010.

Outline

- Origins of Displaced Worker Policies
- Context of Employment Policy
- Displaced Worker Programs Chronology
- Job Loss in the Great Recession
- Displaced Worker Interventions
- Review of Program Effects
- Current Policy Directions

Origins

- Policy action driven by economic crises
- Collaboration of liberals and conservatives
- Evaluation is key in recent compromises
 - Program sunset date
 - Evaluation required in legislation
- Chronology of programs

Origins

Federal leadership in employment policy during times of economic crisis

States reluctant to burden resident employers with taxes

Triad of public employment programs

- Employment Service
- Job Training
- Unemployment Insurance

Origins

Original public employment programs

1933 - U.S. Employment Service

1933 - Emergency Conservation Work Act

– Civilian Conservation Corps (CCC)

1935 Unemployment Insurance

1935 Emergency Relief Appropriation Act

– Works Progress Administration (WPA)

Post War Job Training Programs

1962 - Manpower Development Training Act
(MDTA)

1973 - Comprehensive Employment and Training
Act (CETA)

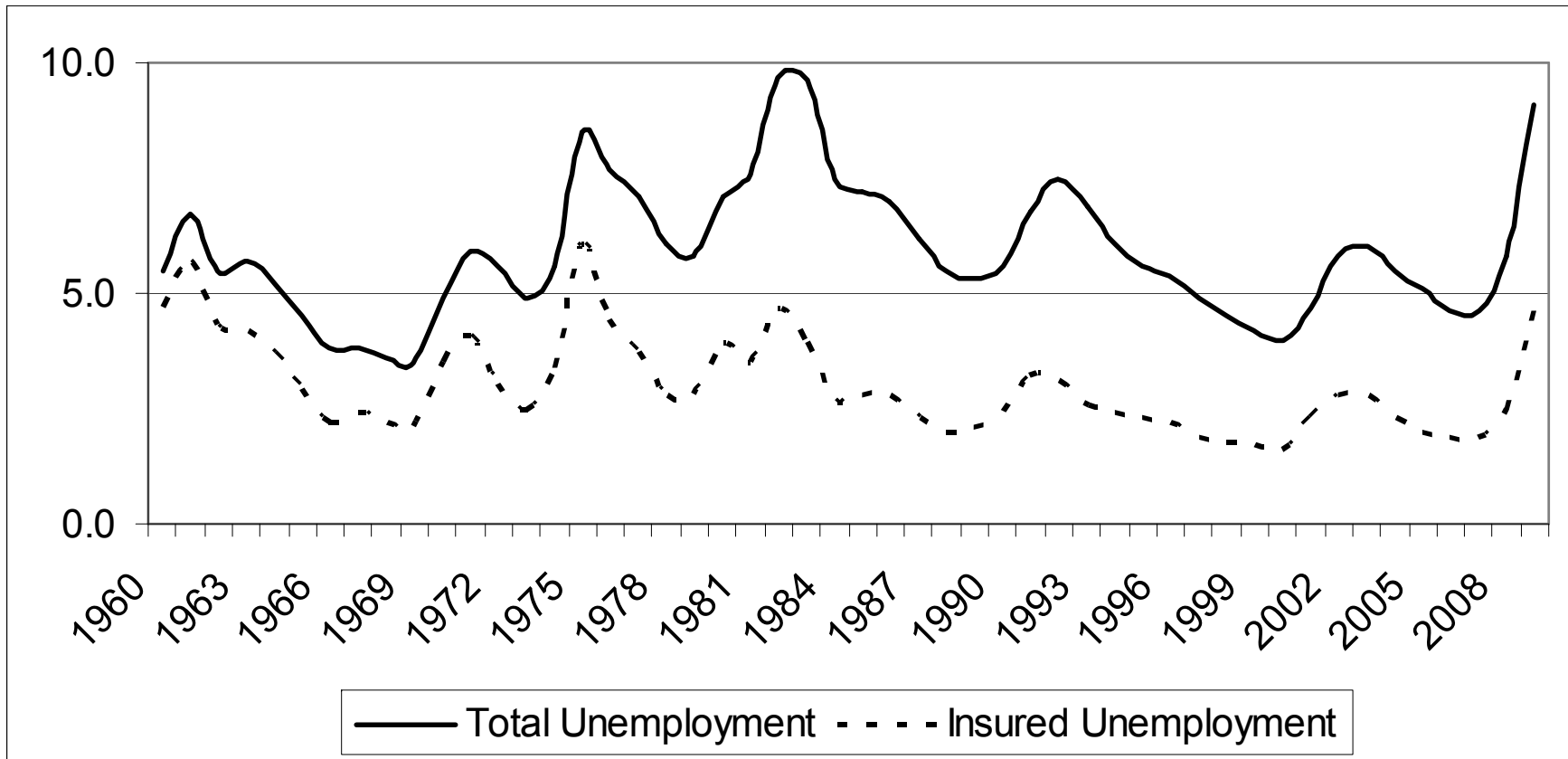
1982 - Job Training Partnership Act (JTPA)

1998 - Workforce Investment Act (WIA)

2009 - American Recovery and Reinvestment Act
(ARRA)

====> Trends in US Unemployment

US Insured and Total Unemployment



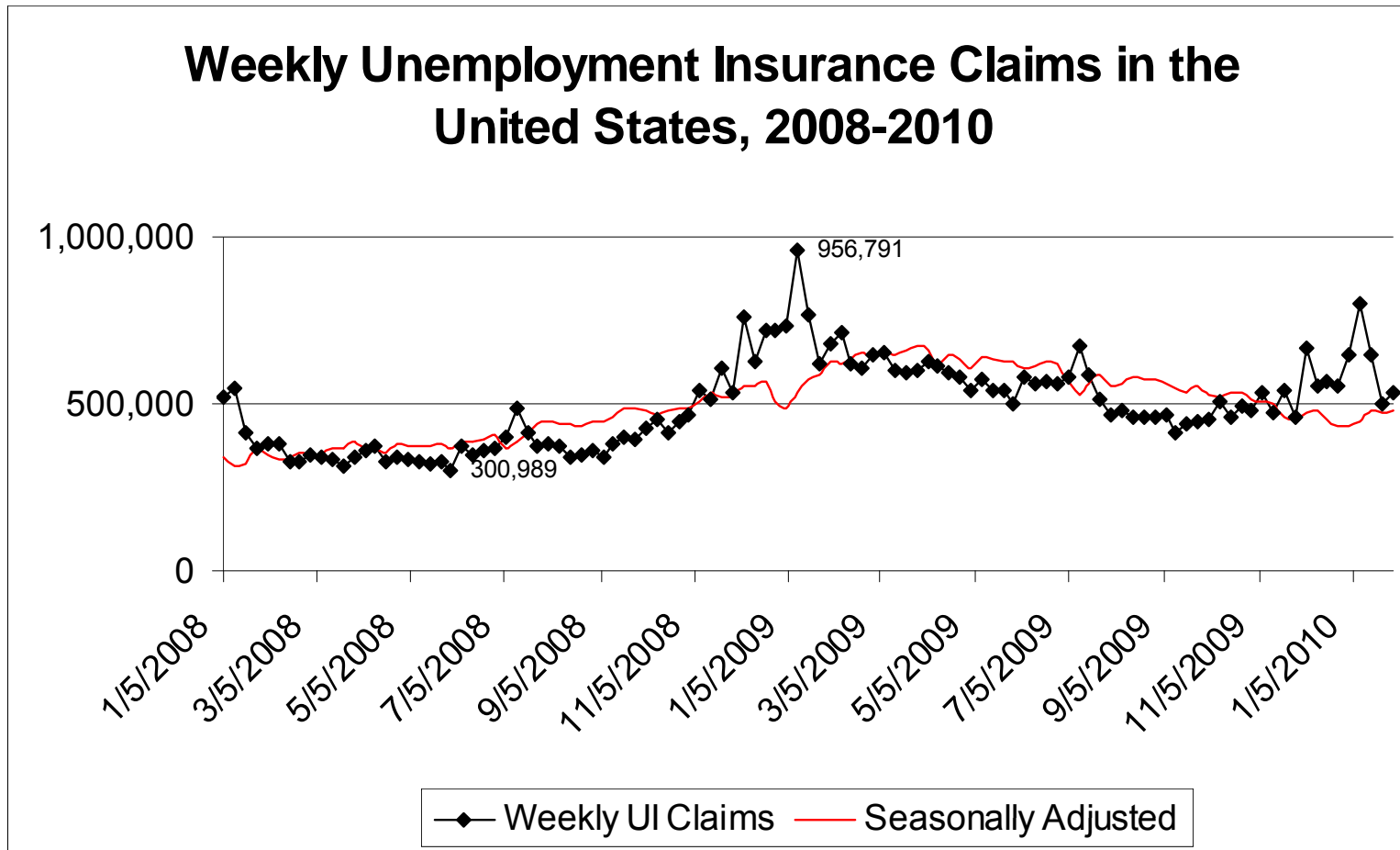
Unemployment Trends

- Unemployment minimums during expansions
 - rising before 1982
 - falling after 1982
- Temporary layoffs more common before 1982
- Permanent layoffs rising after 1982
 - Reduced manufacturing employment and rising employment in services

Displaced Worker Programs Chronology

- 1962, 1974, 1982, 1988, 1993, 1998, 2009 – Trade Adjustment Assistance (TAA) (revised)
- 1988 – Worker Adjustment and Retraining Notification (WARN) Act
- 1988 – Economic Dislocation and Worker Adjustment Assistance (EDWAA) Act
- 1993 – Worker Profiling and Reemployment Services (WPRS) in UI reforms
- 1993 – Self Employment Assistance in NAFTA

UI Claims in Great Recession



Weekly UI Claims in the Recession

- 2005 to 2007 weekly average: 322,000
- Oct. 2008 to Oct. 2009 average: 577,000
- Week ending January 10, 2009: 956,791
- President Obama inaugurated January 20, 2009
- American Recovery and Reinvestment Act (ARRA) signed in February, 2009

Changes from September, 2008 to September, 2009

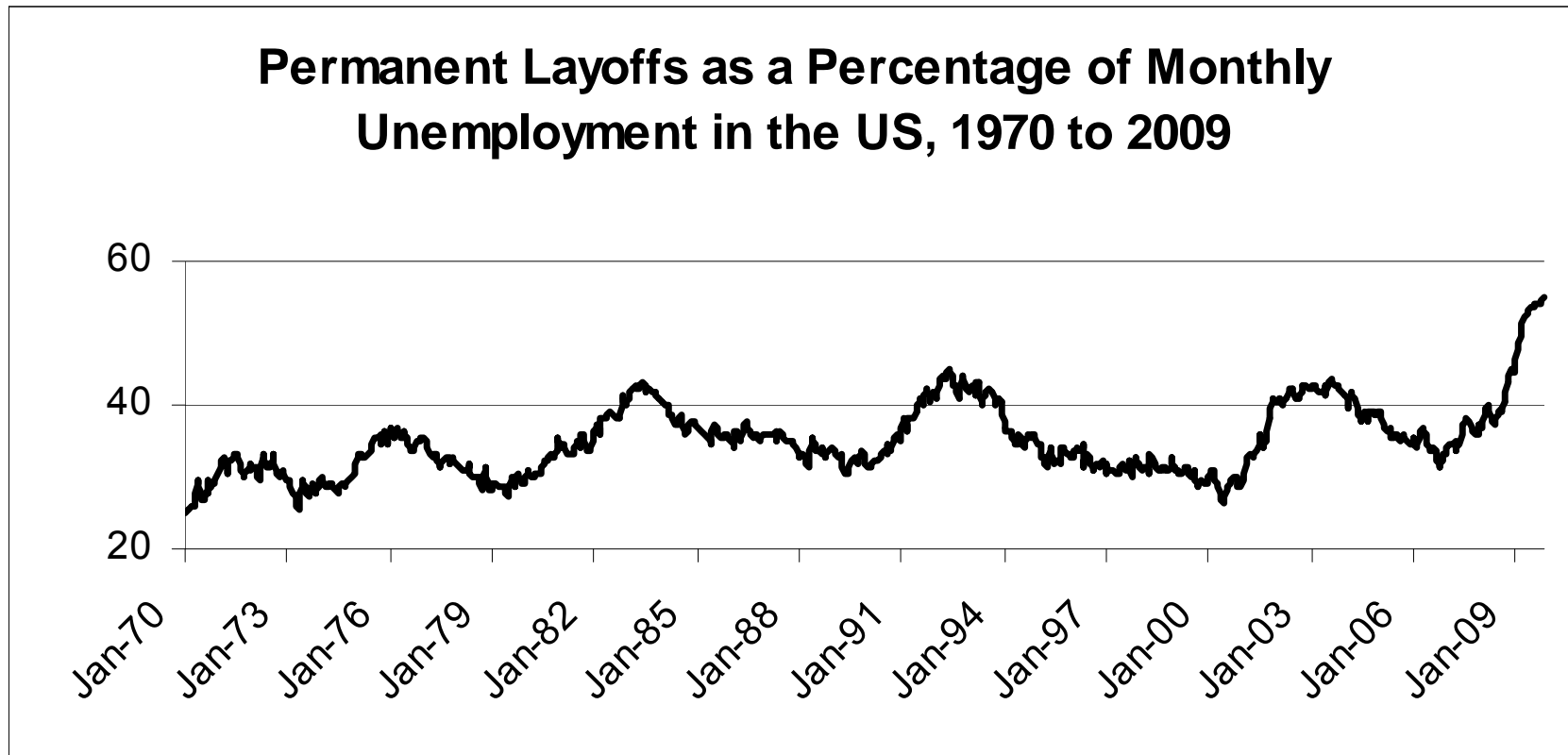
Unemployment rose from 6.2% to 9.8%

- From 6.3% to 10.7% for full-time adults
- From 5.9% to 6.4% for part-time adults
 - Involuntary part-time work increased
- From 29.6% to 43.3% for full-time youths
- From 14.4% to 17.3% for part-time youths

Changes from September, 2008 to September, 2009

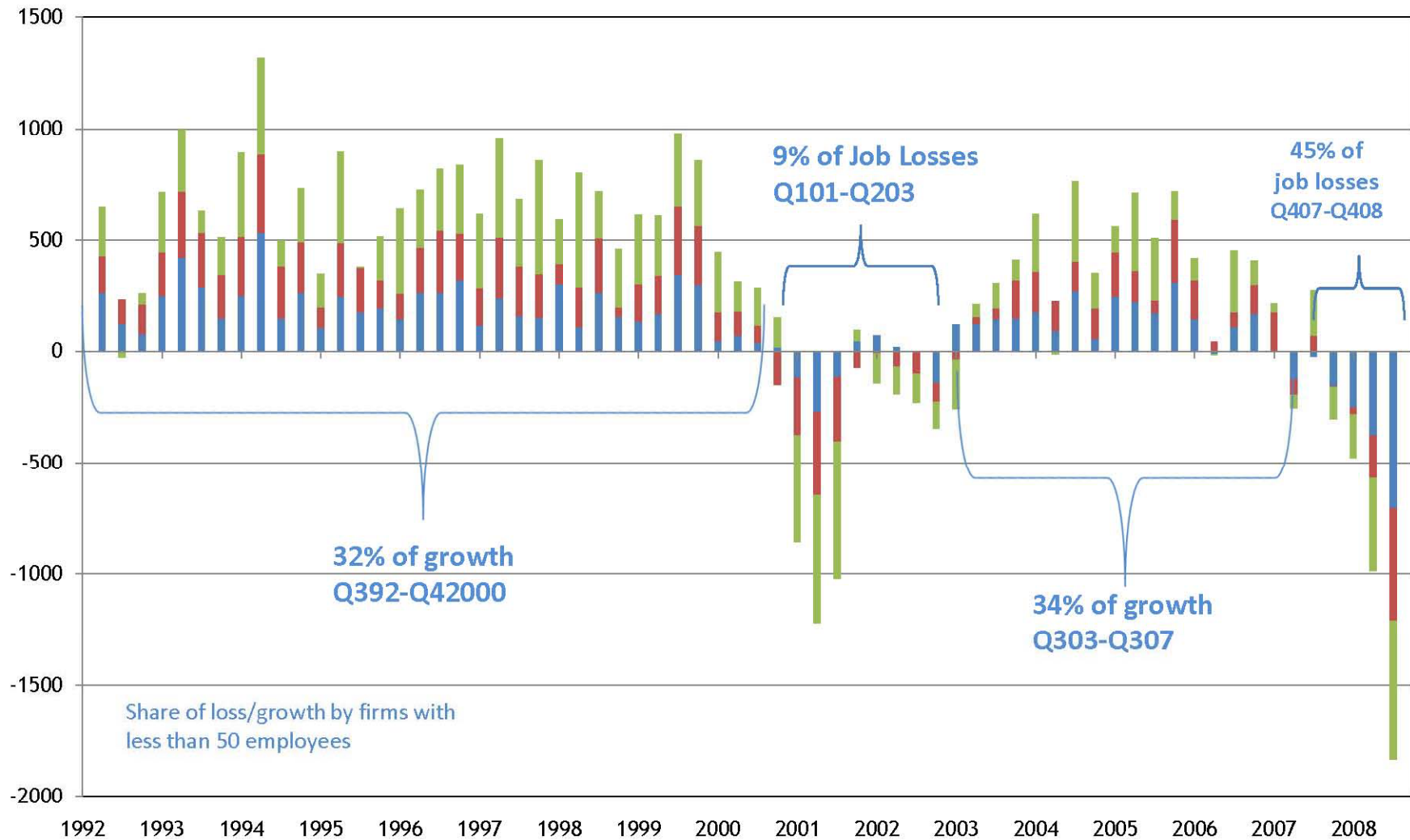
- Unemployment rose **higher** and **increased more** among men and youths
- Short term (less than 5 weeks) share of unemployed **fell** from 30% to 20%
- Long term (more than 26 weeks) share of unemployed **increased** from 21% to 36%
- Exhaustion rate of regular UI benefits **increased** from 39% to 52%

Permanent Layoffs as a Percentage of Unemployment



Distribution of Net Gain in Employment by Firm Size

Quarterly Net Change, SA, Thous.



Source: Business Employment Dynamics

■ 1-49 ■ 50-499 ■ 500+

Prospects for Unemployment

- Will unemployment be slow to decline in the economic recovery?
- Permanent separations rose to 55.1% of all unemployed in October, 2009
- Small businesses with fewer than 50 employees have driven employment gains
- Small businesses led employment declines in this crisis due to credit crunch

Types of Training under WIA

- Classroom Training
 - Individual Training Accounts
 - Vouchers
- Customized Training
- Occupational Skills Training
- On-the-Job Training
- Remedial Training

WIA Principles and Practices

- “Work First” – the best training is a job
- One-stop centers coordinate services
- Training in high demand occupations
- Employer driven system--WIB leadership
- Common measures for performance
- No adjustment methodology—creaming
- Quasi-experimental impact evaluations

Michigan WIA Training, 2000-2008

Training Type	Frequency	Percent
Adult Education	198	0.3
Classroom Training	25,538	32.7
Customized Training	1,987	2.5
Entrepreneurial Training	18	0.0
Job Readiness	279	0.4
Literacy	96	0.1
Occupational Skills	33,118	42.5
On-the-Job	10,968	14.1
Skills Upgrade	3,860	4.9
Workplace Training	1,926	2.5
Totals	77,988	100.0

18

Federal Funding for Job Training

	2008	2009	ARRA	2010
Adult Employment and Training	\$849,101	\$861,540	\$500,000	\$861,540
Dislocated Employment and Training	1,323,373	1,341,891	1,450,000	1,413,000
Youth Activities	924,069	924,069	1,200,000	924,069
Green Jobs Innovation Fund	0	0	0	50,000
Workforce Data Quality Initiative	0	0	0	15,000
Reintegration of Ex-Offenders	73,493	108,493	0	115,000
Career Pathways Innovation Fund	122,816	125,000	0	135,000
Pilots, Demonstrations and Research	48,508	48,781	0	57,500
Evaluations	4,835	6,918	0	11,600
Women in Apprenticeship	983	1,000	0	1,000
Denali Commission	6,755	3,378	0	0
Indian and Native American Programs	52,758	52,758	0	52,758
Migrant and Seasonal Farm workers	79,668	82,620	0	82,620
Youthbuild	58,952	70,000	50,000	114,476
Training for High Growth Industries	0	0	750,000	0
Totals	\$3,545,311	\$3,626,448	\$3,950,000	\$3,833,563

Displaced Worker Interventions

- Worker Notification - WARN
- Income Replacement – UI, TAA
- Reemployment Services – ES, WPRS
- Reemployment Bonuses
- Job Training - WIA
- Self Employment Assistance
- Wage Subsidies

Worker Adjustment and Retraining Notification (WARN) - 1988

- Advance 60 day notice of mass layoffs and plant closings by employers of 100+
- Mass Layoff: 500 or more employees, or at least 50 and 33% of workforce
- Plant Closing: loss of 50 or more employees in a 30-day period
- Notify workers, local government, state dislocated worker unit (like IAS)

Earnings Impacts of Displacement

Jacobson, LaLonde, and Sullivan (1993)

- Future earnings losses average 25 percent per year and persist
- Losses begin before job separation
- Losses are large even for those who find new jobs in similar firms
- Empirical work based on UI earnings records from Pennsylvania, 1974-1986

Impact of Advance Notice

Folbre, Leighton and Roderick (1984)

- There were 107 plant closings in Maine affecting at least 100 workers 1971-1981
- Voluntary notification at least 30 days before and some severance pay
- Significantly reduced impacts on local economies through employment multiplier
- Reduced impact of plant closings on unemployment in the month of closing

Impact of Advance Notice

Ehrenberg and Jakubson (1988)

- Reduces the probability of unemployment
- However, there is no effect on jobless duration if become unemployed
- No evidence the most productive workers quit after WARN and before layoffs
 - Based on state notice rules before WARN
 - BLS 1984 Survey of Displaced Workers

Trade Adjustment Assistance, 2009

Trade Readjustment Allowances (TRA) after Exhaustion of Regular UI

- Up to 130 weeks of UI in full-time training
- Up to 156 weeks if also in remedial training

TAA Job Search Allowances

- 100% of allowable costs, up to \$1,500
- TAA Relocation Allowances
- 100% of costs, up to Federal Employee limit
- Additional lump sum payment of up to \$1,500

TAA Training Services

- Training may be full-time or part-time basis,
- but full-time training is required for TRA eligibility

TAA Health Coverage Tax Credit (HCTC)

- An 80% tax credit for health insurance premium

Reemployment Trade Adjustment Assistance

- Available to workers 50 years of age or older
- Does not require a separate certification of group eligibility
- Maximum benefit of \$12,000 over a period of up to two years
- Participants are eligible for the health care tax credit up to 80% of premium

TAA Evaluation

Decker and Corson (1995)

- 1988 TAA reforms increased training benefits relative to value of UI extension
- National samples before and after 1988
- Participants displaced with big income loss
- Training had no statistically significant impact on earnings within 3 years after TAA training participation

Targeted Job Search Assistance

- JSA targeted to dislocated workers: -0.5 weeks. A cost effective intervention. These results led directly to WPRS implementation (Corson et al. 1989)
- DC and Florida, structured JSA targeted to at risk of long term joblessness. -0.5 weeks (Decker et al. 2000)
- 6 state WPRS: -0.00 to -0.98 weeks. Modestly shortens jobless durations (Dickinson et al. 1999)
- Kentucky WPRS: -2.2 weeks. Significantly shortens jobless durations (Black et al. 2003)

Targeted Job Search Assistance

Authors (year published)	Service	Findings	
Corson, Decker, Dunstan and Gordon (1989) New Jersey	T1: JSA T2: JSA plus training T3: JSA plus a bonus	T1: -0.47** T2: -0.48** T3: -0.97**	6T1: -0.76 6T2: -0.93 6T3: -1.72**
Decker, Olson, Freeman and Klepinger (2000) DC and Florida	T1: Structured JSA T2: Individualized JSA T3: T2 plus training	DC1: -1.13** DC2: -0.47** DC3: -0.61**	FL1: -0.41** FL2: -0.59** FL3: -0.52**
Dickinson, Decker, Kreutzer, and West (1999) CT, IL, KY, ME, NJ, SC	P: WPRS profiled and referred to early JSA	CT: -0.25** IL: -0.41** KY: -0.21*	ME: -0.98** NJ: -0.29** SC: 0.02
Black, Smith, Berger and Noel (2003) Kentucky	T: WPRS profiled and referred to early JSA	T: -2.2** weeks of UI T: -\$143* UI benefits T: \$1,054* earnings	

WPRS Participants, 1997- 2009

Orientation	8,055,574
Assessment	5,820,316
Counseling	1,941,256
Placement Service	6,416,153
Job Search Workshop	4,884,388
Education & Training	1,502,028
Self Employment Program	31,003
At Least One Reported Service	13,471,202

New Jersey Dislocated Workers

New Jersey UI Reemployment Demonstration (Corson, Decker, Dunstan 1989)

- Targeted Dislocated Workers (UI payment, age, tenure, not temporary layoff, not referral union members) random assignment
- UI--ES--JTPA, denial of UI for refusal of service
- JSA only
- JSA with training or relocation assistance
- JSA with cash reemployment bonus, the cash bonus amount declined with duration

New Jersey Reemployment Demo

	One Year	Six Year
JSA	-0.47*	-0.76
JSA + Training	-0.48**	-0.93
JSA + Bonus	-0.97***	-1.72***
Control Mean	17.9	31.9

Reemployment Bonus

Illinois UI Incentive Experiment

(Woodbury - Spiegelman 1987)

New Jersey UI Reemployment Demonstration

(Corson - Decker 1989)

Pennsylvania Reemployment Bonus Experiment

(Corson - Decker 1992)

Washington Reemployment Bonus Experiment

(Spiegelman, O'Leary, Klein 1992)

Target Bonuses to Likely UI Exhaustees

(O'Leary, Decker, and Wandner 2005)

Reemployment Bonus

- Illinois -1.15** weeks
- New Jersey -0.69* weeks
- Pennsylvania -0.5** weeks
- Washington -0.5* weeks

- Targeted (New Jersey and Washington)
- Low Bonus, Long Duration, Top 50%

WIA Training with ARRA Money

Training emphasis changed from “work first” to career development

ARRA doubled funding for dislocated and disadvantaged adults job training under WIA

385,000 summer youth participants 2009

- Average 8 weeks, 30 hours, ages 14 to 24
- Wages \$6.55 to \$7.25 per hour, about \$670 million
- In some local areas summer youth was a larger share of ARRA spending

ARRA and Related Training

ARRA UI Modernization encouraged
expanded approved training (3 States)

- 26 additional UI weeks after exhaustion
- Work search waiver while in approved training

Expanded Pell higher education grants use

High growth industries training \$750 million

National emergency grants \$200 million

Separate funds for retraining auto workers

WIA Participants PY 2007

Program Year 2007	Participants	Percent
Disadvantaged Adults	2,803,700	81.3
Dislocated Workers	396,158	11.5
Disadvantaged Youths	249,060	7.2
Total	3,448,918	100.0

Evaluating Training

- Performance Measurement
 - Monitor gross outcomes
 - Employment, job retention, earnings
 - Cream skimming
 - Adjustment methodology – VAPIS for WIA
- Impact Evaluation
 - Comparison group designs
 - Random trials and quasi-experimental

WIA Performance Measures-- Dislocated Adults

Entered Employment--Of those not employed at the date of participation:

- # of adult participants employed in the first quarter after the exit quarter (divided by)
- # of adult participants who exit during the quarter

Employment Retention--Of those employed in the first quarter after the exit quarter:

- # of adult participants who are employed in both the second and third quarters after the exit quarter (divided by)
- # of adult participants who exit during the quarter

Average Earnings--Of those adult participants who are employed in the first, second, and third quarters after the exit quarter:

- Total earnings in the second plus the total earnings in the third quarters after the exit quarter (divided by)
- # of adult participants who exit during the quarter

Dislocated Workers 2007 Performance

Dislocated Workers

Negotiated

Actual

Entered Employment Rate

85.3%

72.5%

Employment Retention Rate

89.6%

87.2%

Average Earnings Q2+Q3

\$14,149

\$15,188

WIA Quasi-Experimental Impacts

WIA Training	States	Employment Rate	Quarterly Earnings
Hollenbeck and Huang (2003)	Washington	6.7**	\$354**
Hollenbeck et al. (2005)	7 States	5.9**	\$483**
Hollenbeck and Huang (2006)	Washington	4.2**	\$391**
Heinrich, Mueser, and Troske (2008)	12 States	1.4	-\$36
Hollenbeck (2008)	Indiana	15.9**	\$394**

Self-Employment Assistance

- Massachusetts
 - British weekly -\$900 UI (Benus et al. 1994)
 - Targeted to likely long term unemployed
- Washington
 - French lump sum
 - Not targeted
- NAFTA (1993) - targeted
- Permanent Option (1999) - targeted
- DE, ME, MD, NJ, NY, OR and PA
 - +\$2,000 UI (Kosanovich et al. 2001)

Wage Subsidies

Dayton Wage Subsidy Experiment

(Burtless, 1985)

Illinois Employer UI Bonus Experiment (Woodbury and Spiegelman 1987)

New Jobs Tax Credit

(Perloff and Wachter 1979)

Targeted Jobs Tax Credit

(Hollenbeck and Willke 1991)

Minnesota Emergency Employment Development

(Bartik and Bishop 2009)

Current Policy Directions

- Reemployment and Eligibility Assessments for UI beneficiaries
- Targeting reemployment services
- Wage Subsidies to Small Business for hiring the unemployed
- Transitions from long-term unemployment and benefit receipt to active employment or self-employment

Outcomes of Policies for Displaced Workers: An American Perspective

Christopher J. O'Leary

W.E. Upjohn Institute for Employment Research
oleary@upjohn.org

Canadian Roundtable on Displaced Workers, Conference Centre,
Human Resources and Skills Development Canada, 140 Promenade
du Portage, Phase IV, Gatineau, Quebec, March 12, 2010.