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Hearing on Displaced Workers: Testimony

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Testimony by
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Hearing on Displaced Workers
National Commission for Employment Policy
Detroit, Michigan

December 1, 1982

My name is Saul Blaustein. I am with the Upjohn Institute of Kalamazoo, Michigan. The Institute is a nonprofit body supporting policy-related research into problems of employment and unemployment with national, state, and local orientation. My special field of interest is unemployment insurance and associated matters. I have worked in this area for more than 25 years, part of that time in the federal government and the rest with the Institute, both in Washington and here in Michigan.

My work recently has concentrated on the problem of the insolvency of the Michigan unemployment insurance (UI) fund. Indeed, the debt problem here has absorbed much of my time, as it seems to absorb most things in this state lately.

When it comes to UI debt, Michigan is by now, I believe, No. 1. Approaching \$2.2 billion, our debt tops even that of Illinois and Pennsylvania, which had been a bit ahead of us. As you well know, I am sure, Michigan has for some time also led all states in unemployment rates.

In October, however, Michigan lost the unemployment lead. That dubious honor fell to a Sunbelt state, of all places--Alabama! Just shows how bad things can get, even in the Sunbelt.

If you think that is so surprising, hear more. As of the end of October, Michigan was only one of 21 states with insolvent UI funds with a total debt outstanding of over \$9 billion. These numbers will grow worse in coming months. The 21 states stretch from Rhode Island, Connecticut and New Jersey in the East straight westward across America's old industrial heartland from Pennsylvania to Illinois (somehow, Indiana has stayed afloat so far), up to Minnesota and then all the way down the middle, even taking in Arkansas and Louisiana.

This month, three more states will join our company--Utah, Colorado, and Texas! Texas? Yes, Texas! Not long ago, some of the best selling newspapers in Michigan were from Dallas, Houston, and other Texas cities because of their Help Wanted ads. The current UI debt problems in Texas and Colorado, I would guess, are not likely to become nearly as serious as to remotely resemble the problem here. Nevertheless, this sudden unexpected turn of events points up an important lesson which I want to emphasize in these remarks.

No state, be it Snowbelt or Sunbelt, old industrial or new growth, is entirely immune from economic reverses. The forces that create business slumps and rising unemployment can come from any direction, including sources outside the borders of the state, or of the nation for that matter. Texas has felt the sting of the latter type of effect through the severe devaluation of the peso. The greater and broader the involvement in regional, national, and international economic activity, the more vulnerable is the state to the risks of economic instability and worker dislocations. That is what insurance is all about--to spread the risk so that no one is so exposed as to be potentially destroyed, wiped out.

In UI, we have essentially a system in which each state is on its own. Insurance protection is spread to cover the unemployment risk of all workers in a state. But we have seen, in recent years, how whole states can be grievously damaged financially by sharp, sudden economic changes that produce intolerable levels of unemployment over which a state has little or no control. The state is exposed. It can borrow, but it must repay--now, at 10 percent interest to boot. The only element of broader pooled national protection in UI comes in the extended benefits (EB) program in which the federal government finances half the costs out of the federal unemployment tax. So, Michigan, as are other states, is left in a terrible fix, forced to take action to get out from under, as, hopefully, it is now doing, when it can probably least afford to do so.

In my view, that type of situation seems most appropriate for some broader sharing among all the states, across the nation as a whole. The concept of reinsurance or cost equalization has been around since UI began. Six years ago when over half the states were in debt, there seemed to be more support for the idea than ever before. Yet the support disappeared in a puff of smoke (or a puff of recovery, short-lived). States like Texas and Colorado could never see anything in it. Maybe the time for the idea is coming closer.

A few years ago, I advanced another approach as part of a comprehensive restructuring of the employment security system. I suggested a UI program that covered 39 weeks of unemployment, if needed, but divided into 13-week segments or tiers. Each tier would have its own qualifying and eligibility requirements, growing successively stiffer as one moved along. Tier 1 would be wholly state financed, as regular UI benefits are now. Tier 2 costs, for the second 13-week segment, would be shared equally by federal and state UI taxes, as with EB now. Tier 3, from the 27th to 39th week, would be wholly federally financed. Pooling is broadened nationally and especially in recessions, but the states would still finance most UI costs.

The other part of the new system was critical--a reinvigorated employment service to work actively and intensely on assisting claimants to become reemployed. At the beginning of Tier 1, claimants would be classified as temporary or permanent layoffs, with the latter further analyzed in terms of their reemployment prospects, job marketability, and need for assistance in job search, training or other adjustments. The claimant's efforts and circumstances would be reviewed periodically as appropriate, and at least when moving to a new tier. The intensity of the counseling would grow along with pressures to broaden the search or to do other things designed to improve reemployment prospects. The displaced worker would be a particular category subject to such special treatment beginning very early in the first tier.

Again, the burden of these reemployment efforts will vary with the volume and nature of unemployment and individual states should not be expected to finance the costs involved alone. Indeed, there is much to be said for mainly federal financing of these costs but with some state contribution to help motivate effective state administration.

NATIONAL COMMISSION FOR EMPLOYMENT POLICY
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November 22, 1982

Mr. Saul J. Blaustein
W.E. Upjohn Institute
300 S. Westnedge
Kalamazoo, Michigan 49007

Dear Mr. Blaustein:

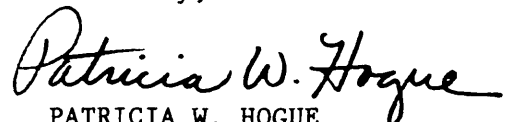
Thank you for agreeing to participate in the Commission's hearing on the problems of displaced workers on December 1 in Detroit. We look forward to hearing your testimony. Enclosed are materials related to the hearing that should be helpful, including a description of the Commission, our tentative hearing agenda, a copy of the Federal Register notice, and a brief background paper on dislocated worker issues.

The Commission is primarily concerned with issues of structural unemployment of displaced workers. General macroeconomic policies, such as tax cuts or actions affecting interest rates, are outside the scope of the hearing. As described in the enclosed Federal Register notice, the Commission hopes to hear the views of people who face the consequences of changed labor market conditions, and to be advised on how national programs might be devised or better implemented to aid adjustment to these changes.

We have arranged the schedule to accommodate 10 minutes of oral remarks from each witness (all written testimony will be accepted for the record) and time for discussion or questions from the Commissioners. If you have any questions on the agenda, please contact Ann Donohue of the Commission staff at 202-724-1571.

The Commission's major goal is to help define the appropriate role for Federal involvement. We are most grateful that you can share your thoughts on these urgent issues.

Sincerely,


PATRICIA W. HOGUE
Director

Enclosure