1-1-2010

The Self-Employment Experiments and the Self-Employment Assistance Program in **Solving the Reemployment Puzzle: From Research to Policy**

Stephen A. Wandner

Urban Institute

with Jon Messenger

8
The Self-Employment Experiments and the Self-Employment Assistance Program

with Jon Messenger[1]

The U.S. Department of Labor sponsored two self-employment assistance (SEA) experiments in Massachusetts and Washington states during the late 1980s and early 1990s. This chapter examines these two experiments and the policy lessons learned from them. It discusses how the experiments led to the enactment of the federal SEA legislation. It also reviews the development and operations of the SEA programs that today operate in seven states.

Since the enactment of federal legislation in December 1993, states have been able to incorporate SEA programs into their unemployment insurance (UI) systems. SEA programs permit an exception to the UI work-search rule requiring UI claimants to search for a job in wage and salary employment each week, although other eligibility requirements for collecting regular UI benefits are maintained. Under the SEA program, unemployed workers who are eligible for UI can start their own businesses instead of searching for wage and salary employment. While they are starting their small businesses, they can collect SEA benefits in lieu of UI benefits in the same amount and for the same duration as their regular UI benefits. They receive entrepreneurial counseling and training to help them establish successful microenterprises.

The SEA experiments began in 1987, at a time when microenterprise and microlending were not well known or well regarded as employment and economic development strategies. It was only in the 1990s that microenterprise development became more popular, and it was not until 2006 that Muhammad Yunus was recognized by the Nobel Committee for his pioneering efforts in this area. Yunus and the Grameen

Bank, which he started in Bangladesh, shared the Nobel Peace Prize because the committee believed that lasting peace requires the reduction in poverty that can be facilitated through microcredit programs. In the United States, microenterprise is an alternative employment strategy available to American workers. In addition to the availability of the SEA program, microenterprise training is provided through state WIA programs.

Microenterprise Creation and Self-Employment Assistance

Most dislocated workers want to return to wage and salary employment. Self-employment, however, is a way to promote the reemployment of a small percentage of UI recipients. Establishment of individuals in self-employment is also an important subset of business start-ups. The growing recognition of both the contribution of microenterprises to the creation of employment opportunities and the relatively modest financial and managerial requirements of self-employment have generated interest in using self-employment as a tool for assisting unemployed workers to return to work. Unlike other services to assist the unemployed to obtain jobs, self-employment assistance is designed to promote direct job creation for unemployed workers—to empower the unemployed to create their own jobs by starting small business ventures. These microenterprises are typically sole proprietorships with one or at most a few employees, including the owner/operator.

While the primary goal of self-employment assistance is direct job creation for the unemployed worker, the microenterprises started by these individuals may also generate additional jobs that can be filled by other dislocated workers. Thus, a self-employment assistance program for dislocated workers provides an opportunity to integrate labor market policy and economic development policy in a synergistic relationship, helping dislocated workers to return to work while simultaneously providing a modest boost to economic growth and job creation in their communities.

In addition, an increasing number of dislocated workers are now coming from professional, technical, and managerial occupations—occupations that make them particularly well-suited for self-employment. In the Washington State demonstration, 37 percent of all participants came from professional, technical, and managerial occupations. In the Massachusetts demonstration, 45 percent of participants came from these occupations.

Encouraging self-employment is not a new workforce policy. It was a component of workforce development plans before SEA came on the scene. Indeed, self-employment programs were part of the Job Training Partnership Act (JTPA) programs. Entrepreneurial training was an authorized use of JTPA formula funds provided to the states for both disadvantaged and dislocated workers, and many states made use of that authority. Discretionary funding had also been provided for entrepreneurial training by the secretary of labor. For example, in 1986 8 of 90 dislocated worker projects funded from the JTPA Title III reserve account included an entrepreneurial training component (Wandner and Messenger 1992, p. 13). Similarly, today entrepreneurial training is one of nine types of training services that are allowable under section 134(d)(4)(D) of the Workforce Investment Act (WIA).

European SEA Programs

The impetus for the SEA program in the United States came from the development and adoption of self-employment programs for the unemployed in 17 other industrial nations. Self-employment programs began in 1979 in France, which adopted a lump-sum payment approach to provide capital to start a small business. In 1983, Great Britain started a program that provided periodic payments during the start-up period for workers starting their own businesses. Over the next decade, 15 other industrial countries adopted programs, following either the French or the British approach (Orr et al. 1994). These self-employment programs were designed to help unemployed workers "create their own jobs" by starting small businesses, usually microenterprises. Virtually all of the Western industrialized nations adopted self-employment assistance programs for the unemployed during the 1980s.

The Western European self-employment programs for unemployed workers provided the inspiration and key design components for the U.S. self-employment experiments. The two U.S. experiments followed the approaches of the French and British programs, which also were the models followed by other industrial nations. The French self-employment program provided eligible individuals with a single, lump-sum payment for business start-up capital; the five countries of Luxembourg, Norway, Portugal, Spain, and Sweden followed the French model. The British program provided eligible individuals with biweekly payments to supplement their earnings during the first year of business operations. Ten countries—Australia, Belgium, Canada, Denmark, Finland, Greece, Ireland, Italy, the Netherlands, and West Germany—followed the British model. Both of these programs also provided participants with business services, such as business training and counseling advice—although the availability of these services varied greatly by locality (Scott 1992, pp. 244–252).

U.S. policymakers gained an understanding of how these self-employment programs work in three ways. First, the German Marshall Fund encouraged American consideration of self-employment assistance programs by sponsoring three study tours for American visitors to observe microenterprises and microenterprise policy and programs in Western Europe. Second, the Organisation for Economic Co-operation and Development (OECD) studied microenterprise as an employment and economic development policy and disseminated its findings through its publications and through its sponsorship of meetings and briefings. Finally, the staff of the Corporation for Enterprise Development studied the European programs and promoted the adoption of self-employment programs in the United States (Orr et al. 1994).

While designing the U.S. self-employment experiments in 1988, staff from the USDOL, state workforce agencies, and a research contractor participated in the third German Marshall Fund–supported study tour and visited France, Great Britain, and Sweden to observe firsthand the self-employment programs in those countries.[2] The French and British programs were examined as models of how unemployed workers could become self-employed business owners. The Swedish program was examined because of its efficient and effective administration. The designers of the demonstration projects drew on the experience of these countries in adapting the self-employment concept to the U.S. environment. Both the French and British models were tested in the United States. Administrative procedures used in the experiments made use of lessons learned in Britain and Sweden.

Today SEA programs—called start-up incentives in Europe—are more prevalent and tend to be larger in the European Union than in the United States. Start-up incentives provide funds to individuals in the form of lump-sum grants, periodic payments, or loans, and may include entrepreneurial counseling and training. For 2004, start-up programs were reported to exist in 20 of the 25 European Union member countries (European Commission 2006). Start-up programs remain particularly popular among the early European Union members of Western Europe. Fourteen of these countries report having such programs—Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Norway, Portugal, Spain, Sweden, and the United Kingdom. The program has also been adopted by six of the new European Union member countries in Eastern Europe—Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, and Slovakia. Among the new members, these programs have been initiated, in part, as a policy to encourage the transition to a market economy. The great majority of the countries that participate in these programs have more participants than the United States. In 2003, the largest users in terms of numbers of participants were Germany (237,253), Spain (93,033), and France (51,146). Of the countries reporting program activity, participants in these programs range from 0.1 to 12.9 percent of the participants in their UI programs. Compared to the United States, European participants are a much larger proportion of UI participants in every country with a program, reaching 12.9 percent in Germany, 9.5 percent in Ireland, and 4.9 percent in Italy. Nevertheless, most programs amounted to less than 2 percent of UI expenditures (Table 8.1). By contrast, there were only 1,342 individuals entering the U.S. Self-Employment Assistance program in 2003, representing a tiny fraction of 1 percent of all UI claimants.

Germany has a strong commitment to promoting self-employment by unemployed workers. Programs associated with the German unemployment compensation program have more participants than any other European country. One program—the "transition benefit" ("Überbrückungsgeld")—was introduced in 1986 to promote the transition from unemployment to self-employment. The program looked more like the U.S. Self-Employment Assistance program in that it made payments for six months in the amount of the monthly UI benefit amount, but it added to that amount a lump-sum social insurance contribution for new firms.

The second program—the "business foundation grant" ("Existenzgrundungszuschuss")—was added in 2003. It was more needs-based and provided benefits for up to three years, but only to workers whose annual wage income was less than 25,000 euros. Benefits were a fixed amount for all beneficiaries, and they declined over time, from EUR

Table 8.1 Number of Participants in Unemployment Insurance and in Start-Up Incentives in European Union Countries, 2004

Country	UI participants	Start-up participants	Start-up/UI (%)
Austria	591,498	3,952	0.67
Belgium	575,093	517	0.09
Bulgaria	—	—	—
Czech Republic	169,109	6,002	3.55
Estonia	51,052	287	0.56
Finland	126,098	2,643	2.10
France	2,261,436	51,146	2.26
Germany	1,842,405	237,253	12.88
Greece	—	—	—
Hungary	109,654	5,203	4.74
Ireland	71,884	6,855	9.54
Italy	277,319	13,584	4.90
Lithuania	—	—	—
Luxembourg	7,744	15	0.19
Norway	112,918	262	0.23
Portugal	184,859	1,686	0.91
Slovakia	74,750	2,958	3.96
Sweden	206,116	5,601	2.72
Spain	2,358,392	93,033	3.94
United Kingdom	2,458,030	3,492	0.14

NOTE: — = not available.

Participants. The measure of participants used above is dependent on the availability of data. The "stock" (S) was generally used since it is more frequently available; it is a measure of participants as an annual average stock. In some cases, the stock measure was not available (or unreasonably small), so the number of "entrants" (E) was used; "entrants are participants joining the measure during the year (inflow)." See below for usage by country.

Unemployment insurance. This consists of "full unemployment benefits" (line 8.1 of the publication) that are considered to be unemployment insurance rather than unemployment assistance programs (or other means-tested programs).

Short-time compensation (STC). Called short-time work or partial unemployment benefits (line 8.2). Line 8.2 includes compensation for formal short-time working arrangements and/or intermittent work schedules, irrespective of their cause, and where the employer/employee relationship continues.

Start-up incentives. Include loans or grants to individuals (line 7). Include only transfers to individuals, not to employers.

SOURCE: European Commission (2006).

600 per month the first year, to EUR 360 per month the second year, and finally to EUR 240 per month the last year. Together Germany spent EUR 2.7 billion on the two programs in 2004 (Table 8.2), $3.3 billion at the exchange rate in effect in the middle of that year (*European Employment Observatory Review* 2005).[3] This compares to only $5.1 billion spent in the United States on the WIA and Job Corps programs in FY 2004.[4]

The primary goal of Germany's two self-employment programs was employment rather than economic development. The programs sought to create jobs for the entrepreneurs, with some additional jobs created by the entrepreneurs' new businesses. This new employment could either be higher income jobs or "marginal jobs with low-volume (low-income) self-employment . . . in the form of 'mini-jobs'" (*European Employment Observatory Review* 2005). The German government's emphasis, thus, was on reducing high levels of unemployment, whether it be with jobs that fully employed workers or jobs that kept them underemployed.

In July 2006, the two self-employment programs were combined into a start-up grant ("Grundungszuschuss") to cover living expenses and social insurance contributions for the first few months of self-employment. The start-up grant is available to unemployed workers who still have entitlement to at least 90 days of unemployment benefits. To qualify for the grant, applicants must show that they have the skills to carry out the businesses they plan to start. They also have to produce a letter to the employment agency from a knowledgeable body—such as a chamber of commerce, guild, industry association, or bank—that the proposed new business is potentially sustainable.[5]

The start-up grant is paid in two phases. For the first nine months, UI claimants receive grants equal to their unemployment benefit levels (60 percent of claimants' last net income for single claimants and 67 percent for workers with families) to cover living expenses plus EUR 300 a month for social insurance payments. The monthly EUR 300 for social insurance payments can be paid for an additional six months if the claimants can show that they are operating their businesses full time. Self-employment programs grew steadily from 2000 to 2004: the number of individuals receiving funding rose from 92,953 to 351,673. From 2005 through 2007 the programs declined because of stricter requirements to qualify and because of lower unemployment rates.[6]

Table 8.2 Entrants, Participants, and Expenditures for German Self-Employment Programs, 2000–2007

	Entrants				Expenditures	
Year	Transition benefits	Business foundation grant	Start-up grant	Total entrants	Expenditures (millions of euros)	Expenditures per participant (euros)
2000	92,953			92,953	750.4	8,100
2001	96,385			96,385	804.6	8,300
2002	125,096			125,096	1,005.9	8,000
2003	158,820	95,198		254,018	1,681.3	6,700
2004	183,497	168,176		351,673	2,726.8	7,800
2005	156,888	91,020		247,908	3,200.3	12,900
2006	108,398	42,813	33,569	184,780	—	—
2007	176		125,919	126,095	—	—

NOTE: Data fields are blank for the years before programs began or after ending, indicating “not applicable.” — = not available. Transition benefits were also known as the bridging allowance. The business foundation grant was also known as the start-up subsidy or “Me Inc.”
SOURCE: Wiessner (2008).

In Germany, a total of 850,000 individuals became self-employed in 2007. Close to 20 percent of them moved from unemployment to self-employment. Thus, the start-up grant plays a significant role in increasing business start-ups. An evaluation of the German self-employment programs showed high rates of business survival. After two years, 70 to 80 percent of the businesses were still active, while only 7 to 13 percent of participants were unemployed.[7]

THE SELF-EMPLOYMENT ASSISTANCE EXPERIMENTS

The Self-Employment Assistance Experiments Begin

In 1987, Congress appropriated an additional $5 million to the Employment and Training Administration's (ETA) research budget to conduct a series of experiments to help reemploy dislocated workers. In January 1987 three ETA staff members met to discuss how best to allocate these research funds. They were Ray Uhalde, the ETA's policy and research deputy director; Carolyn Golding, director of the Unemployment Insurance Service; and I, who was then director of UI research. We discussed whether to proceed with a self-employment demonstration project. Given the lack of precedent for such a program in the United States, Uhalde and Golding doubted that SEA could work. Expecting a low take-up rate by UI claimants and noting the high failure rate of small businesses, Uhalde believed that prospects for success of a self-employment experiment were low.[8] I also was uncertain about the efficacy of SEA in the United States, but argued for testing the approach.

Despite the ETA's reservations, in February 1987 I received approval to test the effectiveness of self-employment programs for unemployed workers. From nearly a dozen states that responded to an August 1987 solicitation to test the French lump-sum-payment SEA model, Washington State was selected as the site in which to conduct the experiment. A grant agreement between Washington and the USDOL was signed in September 1987.[9] Designed to test the cost-effectiveness of the self-employment option for unemployed workers who were eligible to collect UI, the Washington project offered one-time lump-sum payments for initial start-up and capitalization of new business ventures.

Before the Washington self-employment experiment began, however, Congress directed the USDOL to conduct a second SEA demonstration. Then-congressman Ron Wyden (D-OR) proposed that the department conduct an experiment to test the feasibility of providing self-employment assistance in the form of periodic payments to unemployed workers in three states. The UI program would be authorized to pay this periodic self-employment allowance in lieu of regular weekly or biweekly UI payments (Orr et al. 1994).

In December 1987, Congress enacted Section 9152 of the Omnibus Budget Reconciliation Act of 1987 ("Demonstration Program to Provide Self-Employment Allowances to Eligible Individuals"), which authorized the Department of Labor to proceed with self-employment demonstration projects in three additional states. There were several notable aspects of this legislation. First, Congress mandated that the demonstration be conducted as a classical experiment in which workers were randomly assigned to treatment and control groups. Second, Congress specified that the demonstration use the British approach of providing periodic payments to UI claimants starting up small businesses. Third, Congress required that the self-employment allowances paid to treatment group members be funded from the state accounts in the federal Unemployment Trust Fund. Thus, the demonstration would be funded out of existing trust funds, rather than through new appropriations. Finally, the demonstrations had to have a neutral effect on the federal budget. If the operation of the demonstration project resulted in "excess cost" above the amount the state would have paid out in regular UI benefits, the state would have to pay that amount into its own account in the Unemployment Trust Fund (Orr et al. 1994; Wandner and Messenger 1992).

Some members of Congress were skeptical about a self-employment demonstration and did not want to dedicate any new funding to the project. Enactment of the demonstration project was conditioned on the "excess cost" provision. The provision was imposed on the Wyden amendment because, in its absence, the amendment would have imposed new federal budgetary costs, which would have had to be offset with equal cost reductions under existing federal budget rules. However, this provision had serious consequences for the self-employment demonstration design. It also had an adverse effect on state participation because of the risk of repayment costs. On the other hand, it made it more likely that permanent SEA legislation would be enacted if it could be shown that an SEA program would either be cost-neutral or have a positive impact on the federal budget (Orr et al. 1994).

Although Congress did not appropriate funds to carry out the design, administration, and evaluation of the Wyden demonstration, the department—with some reluctance—proceeded with this second self-employment demonstration project. The department competitively selected three states (Massachusetts, Minnesota, and Oregon)[10] to participate in this project as well as a research contractor (Abt Associates, with Battelle Institute as a subcontractor) to design, monitor, and evaluate the projects in these three states and in Washington State. The projects were designed through the cooperative efforts of the participating states, the ETA, and the research contractors. The project designs and the operational procedures were informed by the study tour of self-employment assistance programs in Great Britain, France, and Sweden.[11] When it was time to implement the project, however, Minnesota and Oregon dropped out after reviewing the project design and facing the possibility of having to pay excess costs from their own state funds.

Design of the U.S. Self-Employment Assistance Experiments

Ultimately the department sponsored experimental demonstration projects in Washington and Massachusetts. These projects, called the Unemployment Insurance (UI) Self-Employment Demonstration Projects, were designed to assist UI recipients interested in self-employment in creating their own jobs by starting a business venture. In both Washington and Massachusetts, the projects were jointly operated by the state employment security and economic development agencies.

The self-employment experiments tested packages of self-employment assistance for UI recipients on permanent layoff; these packages comprised a combination of "self-employment allowances" and business development services consisting of business training, counseling, technical assistance, and peer support. The Massachusetts experiment also added an additional targeting process designed to identify those UI recipients considered likely to exhaust their UI benefits. The employment security agencies offered and paid the self-employment allowances, while the economic development agencies and local service providers delivered the business development services. The Washington demonstration tested financial assistance in the form of lump-sum payments, while the Massachusetts demonstration tested biweekly payments equal to an individual's regular UI benefits.

All costs of the Washington demonstration project were funded by department research resources. The Massachusetts demonstration project allowance payments, however, were funded from the Massachusetts state account in the federal Unemployment Trust Fund, while state funds were used to provide business development services for project participants. Project operations in Washington State took place between 1989 and 1991. Operations in the Massachusetts demonstration took place during three distinct enrollment periods, the first of which began in 1990; the third and final enrollment period was completed in early 1993.

Both of the self-employment experiments included a sequence of intake activities that served to screen out those UI recipients with insufficient interest in or motivation for self-employment. For example, UI claimants interested in self-employment were required to attend an initial orientation session, which provided them with information about the demonstration and a reality check about the pros and cons of self-employment. Individuals who attended this session then had to submit a timely, complete, and acceptable application to be eligible for selection into the projects. Thus, out of a large number of UI beneficiaries eligible to participate in the self-employment demonstrations, only a small percentage—3.5 percent in Washington State and 1.9 percent in Massachusetts—actually completed the intake activities and qualified for selection into the projects (Benus et al. 1995).

Implementation Process Results of the SEA Experiments

Table 8.3 shows basic implementation process results of the Massachusetts and Washington Self-Employment Demonstration Projects. The top line of the table indicates the total number of UI claimants who were identified as being in the target population in the Washington and Massachusetts demonstrations. All of these individuals received an invitation to attend an orientation session about the project in their respective state. As the table indicates, there was a precipitous

Table 8.3 Participation in UI Self-Employment Demonstration Activities

	Massachusetts	Washington
Invited to orientation (target population)	63,921	42,350
Attended orientation	2,658	3,167
% of invitees	4.2	7.5
Submitted application	1,515	1,932
% of attendees	57	61
% of invitees	2.4	4.5
Randomly assigned	1,222	1,507
% of applicants	80	78
% of invitees	1.9	3.5
Treatment group	614	755
Control group	608	752
Attended initial training session	573	640
% of treatment group	93	85
Attended all training modules (WA) or all biweekly training workshops (MA)	305	630
% of treatment group	50	83
Attended one or more business counseling sessions	569	529
% of treatment group	93	70
Mean hours of business counseling received, per person	7.5	1.5
Received lump sum payment		451
% of treatment group		60

NOTE: Blank = not applicable.
SOURCE: Benus et al. (1995).

decline at the very first step in the process of self-screening based on individuals' interest in and motivation for self-employment. Of those individuals invited to attend a project orientation, only 4.2 percent in Massachusetts, and 7.5 percent in Washington, actually attended an orientation session to learn about the demonstration. This suggests that self-employment only appeals to a relatively small percentage of the unemployed.

The orientation session and application process provided another significant screen for winnowing the target population. Of those individuals who attended an orientation session, only 57 percent in Massachusetts, and 61 percent in Washington, actually submitted an application to participate in the demonstration. It is reasonable to attribute this result to the design of these two self-screening steps. The orientation session included a strong reality check for interested individuals by emphasizing the very real risks—as well as the potential rewards—associated with self-employment. The application was, in essence, a self-assessment tool designed to force individuals to think through some of the difficult issues involved in starting a business (e.g., who the likely customers would be for the business) and thus make them think hard about whether self-employment was a realistic option for them.

As a result of this self-screening process, the vast majority of claimants who submitted an application were accepted for random assignment into the demonstration or a control group—80 percent in Massachusetts and 78 percent in Washington. The remainder of applicants were screened out of the demonstration because they submitted unacceptable applications. The reasons for rejection of applications included submitting late or incomplete applications, and business ideas that were either too vague or of a prohibited type (e.g., pyramid schemes, political organizations). However, applications were not evaluated based on the likelihood of success of the business. This was considered to be the individual's responsibility. In total, 614 individuals in Massachusetts and 755 individuals in Washington were randomly selected into the treatment group for their respective demonstrations, and an equivalent number were assigned to control groups.

Both the Massachusetts and Washington self-employment experiments provided selected individuals with a series of business training seminars, as well as unlimited individual business counseling and technical assistance for the duration of their participation in the demonstration. Both projects also offered participants some form of peer support, through regular Entrepreneur Club meetings in Washington and less formal networking opportunities in Massachusetts. Attendance at all the business training seminars plus at least one counseling session was mandatory (unless specifically waived by the business counselor because of one's previous experience). Development of a business plan was also mandatory, although this process was more formalized in Washington than in Massachusetts because a formal business plan was a requirement for receipt of a lump-sum payment. The peer support activities were entirely voluntary in both projects.

The Washington demonstration provided UI recipients selected for the treatment group with lump-sum self-employment allowances to serve as business start-up capital. These payments were equal to the remainder of their entitlement for UI benefits. To obtain the payment, Washington participants were required to complete a series of five milestones: 1) complete four business training modules, 2) develop an acceptable business plan, 3) open a business bank account, 4) satisfy all licensing requirements applicable to the business, and 5) obtain adequate financing (the amount of start-up funding identified as necessary in the business plan, taking into account funds available from the lump-sum payment).

The Massachusetts demonstration provided treatment group members with biweekly payments, termed self-employment allowance payments, equal to their regular UI benefits, to supplement their earnings while they were planning and establishing their new businesses. To continue receiving these biweekly payments, Massachusetts participants had to participate in a total of seven required training seminars—an initial one-day training session on starting a business (the "Enterprise Seminar") and a series of six half-day workshops on specific business-related topics (e.g., marketing)—plus at least one business counseling session. Massachusetts participants also were required to work full-time on activities related to starting their businesses and to submit a written self-certification to that effect.

As Table 8.3 indicates, the majority of treatment group members attended the required business training sessions. Eighty-five percent of project participants in Washington completed the first training module, and 93 percent of Massachusetts participants completed an initial training session (the Enterprise Seminar). A much higher percentage of individuals attended all training sessions in Washington (83 percent) than in Massachusetts (50 percent). Higher attendance likely was due to the fact that training was front-loaded in Washington, with all four modules provided over a one-week time period, while in Massachusetts the remaining six biweekly training workshops were provided over a 12-week period, over which time many participants opted to drop out of the demonstration and returned to searching for wage and salary jobs. Thus, the self-screening process continued throughout the period of participation in project activities, particularly in the Massachusetts demonstration.

There also was a substantial difference in the business counseling and technical assistance services received by project participants in Massachusetts and Washington. While most participants in both projects received at least one counseling session (93 percent in Massachusetts and 70 percent in Washington), the mean number of hours of business counseling received in Massachusetts was five times greater than in Washington—7.5 hours per treatment-group member versus only 1.5 hours. There are two explanations for this large difference. The strongest explanation is that the strong monetary incentive of obtaining the lump-sum payment—which is equal to the individuals' remaining UI benefit entitlement—caused individuals to move as quickly as possible through the business planning process so as to obtain the maximum payment amount. In addition, front-loading the business training services in Washington might have resulted in less opportunity for interaction between project participants and counselors than the more extended period of training workshops provided in Massachusetts.

Of those 755 individuals selected for the Washington project, 451 completed the five milestones required to qualify for the lump-sum payment. These individuals received payments averaging $4,225 each to start their own microenterprises. Project participants in Massachusetts received average biweekly self-employment allowance payments of $530 to $540 per person while they were working full-time on planning and operating their businesses. In addition, Massachusetts also offered project participants needing substantial start-up capital special assistance in obtaining bank loans from private institutions, although in practice this help was rarely needed (because of the relatively low start-up costs of the home-based service businesses that dominated business start-up by Massachusetts participants) and even more rarely used.

Net Impacts of the U.S. Self-Employment Assistance Experiments

Evaluation results from the self-employment experiments clearly indicate that self-employment is a viable reemployment option for some unemployed workers. As indicated above, the potential target population for a self-employment assistance program for unemployed workers is relatively small: only 2 to 4 percent of UI recipients are interested in pursuing self-employment. However, of those individuals who are interested in becoming self-employed, a large proportion—

about half—actually do start a business. These results are consistent with the experiences of self-employment programs for the unemployed in other industrialized nations. For example, participation rates in the national self-employment programs for the unemployed in France and Great Britain have averaged approximately 2 percent a year, and programs in Germany and Australia have averaged 1 percent participation or less (OECD 1995, p. 9).

A final report on the SEA Experiments in Massachusetts and Washington was completed and published by the department (Benus et al. 1995). The findings in the report were based on telephone follow-up surveys with the treatment and control groups, which were conducted an average of 31 months after random assignment in Massachusetts and an average of 33 months after random assignment in Washington.[12] Survey data was supplemented by data from state UI wage records, from an automated management information system for each project, and from on-site observations. The report also included a benefit-cost analysis from three different perspectives: project participants, the government, and society as a whole. A summary of the net impacts of the Massachusetts and Washington demonstrations is presented in Table 8.4.

Self-employment assistance significantly increased the number of business starts by treatment group members compared to the control group. In Washington, 63 percent of participants entered self-employment at some point following their enrollment in the demonstration, versus 41 percent of control group members. In Massachusetts, 58 percent of project participants entered self-employment, compared to 47 percent of controls. Business starts in Washington were primarily in the services and in retail trade, although they included some small-scale manufacturing businesses. In Massachusetts, the great majority of business starts were in the services industry, but there were some in wholesale and retail trade.

Contrary to the widely held belief that most new businesses fail within three years of start-up, most of the new microenterprises started by demonstration participants survived: 61 percent of Washington participants and 74 percent of Massachusetts participants who were self-employed at some point since random assignment were operating their businesses at the time of the follow-up survey nearly three years later. However, based on the survey data, business survival rates for the control group were very similar to the survival rates for treatment group

Table 8.4 Summary of UI Self-Employment Demonstration Net Impacts

	Massachusetts			Washington		
	Treatments	Controls	Impact	Treatments	Controls	Impact
% self-employed since random assignment	58	47	12**	66	44	22***
Length of first UI spell (weeks)	26.5	24.5	−1.8***	19.3	11.6	−7.6***
Total benefit payments in dollars since random assignment (UI + lump sum payments in Washington)	7,400	6,567	−876***	6,750	5,442	−1,300***
Annual time in self-employment (months)	2.6	1.7	0.8*	3.4	1.1	2.3***
Annual self-employment earnings ($)	2,627	1,439	1,219	3,029	703	2,157**
Annual time in wage and salary employment (months)	4.4	4.1	0.6	5.2	4.5	−0.7**
Annual wage and salary earnings ($)	10,119	7,797	3,053**	9,920	8,414	−1,744**
Total time in employment since random assignment (months per year)	7.4	5.8	1.9***	7.8	6.7	1.1***
Total annual earnings since random assignment ($)	14,664	10,056	5,940***	14,259	13,173	205

NOTE: All impact estimates presented in this table are regression-adjusted impacts derived using ordinary least squares (OLS). * coefficient significantly different from zero at the 0.10 level (two-tailed test); ** coefficient significantly different from zero at the 0.05 level (two-tailed test); *** coefficient significantly different from zero at the 0.01 level (two-tailed test).
SOURCE: Benus et al. (1995).

members noted above.[13] Thus, while the self-employment assistance provided by the demonstration increased the total number of businesses, the demonstration did not improve the chances of survival of those businesses that were started by treatment group members vis-à-vis businesses started by control group members.

Both the Washington and Massachusetts demonstrations promoted rapid reemployment—and reduced the duration of unemployment and the receipt of UI benefits—among project participants. The Washington demonstration reduced participants' duration of unemployment by an enormous 7.6 weeks. Clearly, this result was driven by the strong monetary incentive of the lump-sum payment, which declined rapidly over time (since the payment was essentially a "cash out" of the individual's remaining UI benefit entitlement). While weekly UI benefit payments were thus reduced, this reduction was more than offset by the substantial cost of the lump-sum payments to Washington participants who started a business. When lump-sum payments are factored into the equation, total benefit payments to participants were significantly higher ($1,300) than UI benefits paid to the control group. In contrast, the Massachusetts demonstration—which provided participants with biweekly SEA payments but no lump-sum payments—reduced participants' unemployment by 1.8 weeks compared with the control group, resulting in a net savings in combined UI and SEA payments of $876 per participant.

In terms of employment and earnings, self-employment assistance, as expected, increased participants' annual time in self-employment and annual earnings from self-employment compared with the control group (although the earnings increase was not statistically significant in Massachusetts, possibly because of the relatively small size of the sample). In Washington, the demonstration also reduced total time in wage and salary employment. This was also an expected outcome, since the demonstration was promoting self-employment and it is reasonable to expect that at least some of the participants would have obtained wage and salary jobs in the absence of the demonstration.

An unexpected finding, however, was that the Massachusetts demonstration also increased wage and salary employment among project participants. Although apparently counterintuitive, this finding seems more reasonable when one considers the differences in the program models tested in Massachusetts and Washington. As noted earlier, the sequence of self-employment assistance services in Massachusetts was more spread out compared to the front-loaded sequence of services in Washington (designed to allow participants to expedite receipt of the lump-sum payment). This difference resulted in a much longer period of interaction between participants and their business counselors in Massachusetts than in Washington, and five times greater use of business counseling services in Massachusetts, as noted earlier. With this additional one-on-one assistance plus more time to carefully work through their options, Massachusetts participants may have been better equipped to target a niche for themselves in an existing firm than participants in the Washington demonstration.

Overall, then, the self-employment assistance provided in the demonstration significantly increased participants' total time in employment (i.e., the combination of self-employment and wage and salary employment) after they were randomly assigned to the project. On an annual basis, demonstration participants were employed 1.1 months longer than the control group in Washington and 1.9 months longer than the control group in Massachusetts. This result is due to the fact that positive self-employment and negative wage and salary employment impacts somewhat offset each other in Washington, while both of these effects are positive and additive in Massachusetts. This phenomenon is even more pronounced in terms of total earnings. In Washington, demonstration participants' total annual earnings after random assignment were only $205 higher than the controls' earnings—not a statistically significant increase. In contrast, the additive effect in Massachusetts resulted in a dramatic increase in the total annual earnings of project participants, compared to the control group—a net annual earnings increase of $5,940 per treatment group member over the three-year follow-up period.

In summary, then, the results of the UI Self-Employment Demonstration in Massachusetts and Washington indicate the following:

- The self-employment assistance programs provided in the demonstrations increased business starts among project participants, reduced the length of their unemployment, and increased their total time in employment—which includes self-employment plus wage and salary jobs. In addition, the Massachusetts demonstration also had a substantial positive impact on participants' earnings.

- When placed into a benefit-cost framework, both self-employment assistance program models proved to be cost-effective for project participants and society as a whole.[14] The program model tested in Massachusetts proved cost-effective to the government sector as well, while the Washington program model produced substantial net costs to the government.

The final report finds that SEA for the Massachusetts model is a viable reemployment option for unemployed workers and that the benefits of such a program exceed its costs. The report concludes, "These results indicate that SEA is a cost-effective approach to promote the rapid reemployment of unemployed workers and should be permanently incorporated into the U.S. employment security and economic development system" (Benus et al. 1995, pp. x–xi).

SELF-EMPLOYMENT ASSISTANCE LEGISLATION

Policy and Research Environment

Interest in self-employment increased over the life of the SEA experiments. This interest, both inside and outside of government, made for a much more favorable public policy environment for implementing an American SEA program, especially after rigorously evaluated demonstrations showed that they could be cost-effective in the United States.

Private foundations, including the Charles Stewart Mott and Ford foundations, encouraged microenterprise programs, especially for disadvantaged workers and for women. Foundation support funded a demonstration attempting to help welfare recipients start their own small businesses. Although the SEA experiments did not serve a disadvantaged population, the foundations became more interested in self-employment assistance as evaluation results became available.

The Corporation for Enterprise Development is a nonprofit organization that promotes microenterprise. It had been a key player in organizing the first two German Marshall Fund trips to look at European microenterprises and government-sponsored microenterprise programs. Its president, Robert Friedman, was central to this effort and continued to push for expanded emphasis on microenterprise policy in the United States.

Interest in microenterprise programs was also increasing within the federal government. A number of federal agencies began implementing small microenterprise programs and projects, but these efforts were small and uncoordinated. Constance R. Dunham, a staff economist at the Council of Economic Advisers, had a strong interest in microenterprise policy. From her position in the Executive Office of the President, she called monthly meetings of executive-branch cabinet agencies that dealt with microenterprise to inform and coordinate microenterprise policy across the federal government. As an economist, she was particularly interested in the SEA experiments, since their use of experimental methods would yield results that would show decisively whether self-employment programs worked for a UI population.

In the early 1990s, worldwide interest in self-employment as an employment option became apparent. Evidence from developing countries about the importance of microenterprise—such as the widespread availability of microloans from the Grameen Bank in Bangladesh—was broadly recognized. In 1990, at its seventy-seventh annual meeting, the International Labour Organization recognized and discussed microenterprise as an employment strategy. International Labour Organization staff prepared a monograph on this issue (ILO 1990). Carolyn Golding, who by that time had become deputy assistant secretary for employment and training, attended the meeting as a U.S. representative and spoke about the SEA experiments. The experiments had seemed marginal when they began, but a few years later they became part of the broader policy debate.

The early 1990s were a time of change for self-employment in the United States and around the world. During the 1990–1991 recession in the United States, establishing a microenterprise became a legitimate alternative to seeking wage and salary employment. Progressive firms like General Electric were paying for transition services that included helping laid-off workers set up their own businesses. Following the breakup of the Soviet Union, the department, working with the World Bank, had a hand in helping Eastern European nations make the transition to market economies. Golding played an important role in setting up comprehensive programs, first in Poland and Hungary (where the programs included SEA programs), then in Russia and Albania.[15]

By 1991, the interim reports for the Massachusetts and Washington self-employment experiments were completed, and they were published the next year (Benus et al. 1992; Johnson and Leonard 1992). The interim reports consisted of analysis of the implementation of the projects, but they did not include net impact and cost-benefit analyses. The reports showed that the Massachusetts model held promise as a cost-effective employment creation approach.

When Larry Katz reviewed the Massachusetts interim report he found it to be encouraging and believed that self-employment assistance might be a sound new policy initiative if it was narrowly targeted using the worker profiling mechanism. Robert Reich was the main proponent of SEA. He liked the idea, and he found the research to be supportive. When SEA was enacted in 1993, it was based on a combination of research and intuition.[16]

When Alan Krueger came to the department as the new chief economist, he thought that SEA had been oversold. He correctly thought it would be small—attracting no more than 2 percent of the UI claimants who received a participation offer—and he was afraid that most participants would fail in their attempts to set up a microenterprise.[17] It was not until the final report was released in 1995 that the SEA's cost-effectiveness was demonstrated; thus the final report was not available when the temporary program was enacted (Benus et al. 1995). When SEA was made permanent in 1998, however, the legislation had a solid research base.

Enacting Federal Legislation Authorizing the SEA Program

By 1991, the department had completed the operational phase of the two congressionally authorized SEA experiments and the interim evaluations. The Massachusetts study was sent as an interim report to Congress. In April 1992, Sen. Harris Wofford (D-PA) introduced amendments to reform the federal-state UI program (S. 2614). These amendments were principally drafted by David Balducchi, a USDOL employee then working for Wofford as a Congressional Fellow. The amendments included a provision to allow all states to participate in SEA programs. In June 1992, Rep. Wyden introduced a single-purpose SEA House bill (H.R. 5306). The SEA provision was incorporated into a large tax bill (H.R. 11) that was passed by the House and the Senate, but President George H.W. Bush ultimately vetoed it.[18]

Soon after the beginning of the 103rd Congress on February 4, 1993, Senator Wofford introduced a new bill (S. 320) that contained several features of the previous bill, including Self-Employment Assistance. Then, on March 27, Wofford and four cosponsors (Senators Bill Bradley [D-NJ], John Kerry [D-MA], Ted Kennedy [D-MA], and George Mitchell [D-ME]) introduced a single-purpose bill (S. 1045) to make SEA available in all states. According to Wofford, the bill "would make self-employment a reemployment option under our unemployment compensation system." A companion House bill (H.R. 1154) was introduced by Rep. Wyden and five cosponsors (Representatives Rob Andrews [D-NJ], Ralph Hall [R-TX], Tom Ridge [R-PA], Olympia Snowe [R-ME], and Jolene Unsoeld [D-WA]). Later, Senate and House sponsors received support from the Clinton administration, and the SEA provision was incorporated as an amendment to the North American Free Trade Agreement (NAFTA),[19] signed into law by President Clinton on December 8, 1993, with a five-year sunset clause.[20]

Secretary Reich was supportive of, but not active in, the SEA legislative effort. He had been introduced to the program during roundtable discussions in his office with Larry Katz, Darla Letourneau, me, and others. He was actively interested in the evidence behind the proposal and whether an SEA program would work. The research evidence convinced him, and he became an advocate for the program.[21]

The SEA initiative had broad support in the department. Carolyn Golding had raised SEA during a policy meeting with Reich. She was surprised when Kitty Higgins responded, "What about the Massachusetts experiment?" Golding realized then that Higgins would be a key player in getting SEA enacted, and she was. Higgins was active throughout 1993 in moving many policy initiatives forward, including SEA.[22]

The department had initially included the SEA program option as part of the administration's proposal in September 1993 to provide a final extension of the Emergency Unemployment Compensation (EUC) program for long-term unemployed workers. However, this provision was not included in the bill reported out of the House Ways and Means Committee for the EUC extension legislation: SEA was too controversial to add to an extension of UI benefits. In a single-purpose bill, it stuck out and could not gain support.[23]

Reich was actively involved in the legislative effort to enact NAFTA. He unsuccessfully tried to win support from Democrats for

NAFTA by promising that the administration would push for passage of the legislation that provided additional funding for employment and training programs. However, most Democrats were unwilling to support NAFTA, and they would not trade their support for more employment and training funds.[24]

The environment for enactment of SEA quickly changed. The NAFTA treaty was signed by President George H.W. Bush in December 1992 before he left office. President Clinton adopted and championed the agreement and urged Congress to ratify it. NAFTA was supported by most Republicans but opposed by most Democrats. The Clinton White House needed Democratic votes, and several Democrats came to the White House to get something for their vote for NAFTA. Rep. Wyden was one of them. He had first proposed the SEA experiments in 1987. In 1993, he came to the staff of the "NAFTA war room" in the White House and asked for support for SEA legislation. The White House was supportive and referred Wyden to the Department of Labor. Since the department had already (unsuccessfully) proposed SEA provisions, it readily added its support to the Wyden proposal. The NAFTA bill containing the SEA provision received sufficient numbers of Democratic votes in the House and Senate and was enacted into law. The SEA provision was able to prevail because the NAFTA bill was laden with many extra provisions and did not face strong opposition, although some members of Congress questioned whether SEA should be a part of the UI program. Wyden and the USDOL proposed the SEA as a permanent provision, but it was enacted as a temporary bill, sunsetting in five years.[25]

Reich was pleased to gain Wyden's support for NAFTA, and he was pleased to get SEA enacted. He wanted to make SEA permanent, but because of budgetary constraints, all the administration could get was a five-year program.[26] Congress mandated that the department conduct an evaluation of the SEA program. Making SEA permanent would be considered after the evaluation was completed.

Federal Self-Employment Assistance Legislation

With enactment in 1993, Self-Employment Assistance became part of federal UI law. The federal SEA legislation amends the Federal Unemployment Tax Act at section 3306(t). The provision also makes

SEA a permitted use for incurring expenditures from the Unemployment Trust Fund under section 303(a)(5) of the Social Security Act. The statute authorizes but does not require states to offer self-employment assistance as an additional tool to help speed the transition of dislocated workers into new employment. To establish SEA programs, states must enact legislation that conforms to the federal legislation.

Under the act, states that operate SEA programs select those UI beneficiaries who are eligible for the program by identifying those claimants who are most likely to exhaust their entitlement to UI benefits, using the worker profiling mechanism to identify unemployed workers likely to become long-term unemployed. Self-employment program participants are required to work full-time on starting a business. They are also required to participate in self-employment activities (such as entrepreneurial training, business counseling, and other activities) to ensure that they have the skills necessary to successfully operate a business.

In February 1994, the department issued federal guidelines regarding temporary self-employment programs that would expire in five years.[27] States had the flexibility to establish their own programs within those guidelines. To do so, each state first had to do three things: 1) enact conforming state legislation to establish its self-employment program; 2) develop a plan describing how the SEA program in that state would operate, including assurances that entrepreneurial training would not be paid for out of the Unemployment Trust Fund; and 3) then submit the state plan to the department for review and approval (Wandner 1994a).

The SEA-authorizing legislation called for the department to conduct an evaluation of SEA and submit the results to Congress. The evaluation was completed in December 1997 and transmitted to Congress (Vroman 1997).

On October 28, 1998, section 3 of the Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998 repealed the Self-Employment Assistance termination date, thus making permanent the authorization of the SEA program. States with SEA programs, and particularly the new SEA state of Pennsylvania, had been pressing Congress to make the program permanent.

In December 1998, the department issued revised guidelines to reflect that the Self-Employment Assistance program had recently become permanent. While the other provisions of the 1994 state guidance remained in force, the new guidance eliminated the requirement that states submit plans and get approval for their SEA programs prior to implementing them. States would still have to submit their proposed SEA legislation to the department for review to assure that it was in conformity with federal legislation. The guidance stated that after five years of SEA state experience, states could best learn how to implement programs from other states (USDOL 1998).

IMPLEMENTATION AND OPERATION OF THE SELF-EMPLOYMENT ASSISTANCE PROGRAM

State Implementation of Self-Employment Assistance Programs: Early Results and Evaluation

Among the department subagencies, implementing Self-Employment Assistance was primarily the responsibility of the Unemployment Insurance Service. From a federal perspective the SEA provisions amended the federal unemployment insurance law to allow UI payments to individuals who were not actively seeking wage and salary employment, but the other major employment and training programs were not greatly involved. The JTPA program provided entrepreneurial training, but such training was very limited and picked up little of the SEA training costs. At the state level, participation in SEA was optional. States had to amend their state UI laws to permit UI claimants to participate in the program. The state UI staff would also have to find funding for entrepreneurial training, although the training funds could come from the JTPA/WIA program.

After enactment of Self-Employment Assistance, the department had to develop guidance for the states. Mary Ann Wyrsch, the UI Service's administrator, delegated implementation to the UI Experiments group and the UI legislative division. Since SEA was a voluntary state program, she did not get involved either in the legislation or its implementation. Her concern was that as a nontraditional use of UI tax dollars, the program should be crafted to avoid moral hazard and that it be implemented carefully.[28] During 1994, when most of the implementation effort was ongoing, the national UI staff was busy on other issues.

Unemployment remained high, and the Emergency Unemployment Compensation (EUC) program continued to operate. Many new policy initiatives were being launched, including the UI flexibility provisions of the Reemployment Act of 1994.

Much of the knowledge about the SEA program resided with Jon Messenger, the project manager for the SEA experiments. As a result, he and I worked on the design of the new SEA program. Messenger was the main author of the SEA procedures and guidance to the states, assisted by other members of the Unemployment Insurance Service.

The department moved quickly in the two months after the SEA legislation was enacted. It issued program guidance to the states about how to implement SEA programs on February 16, 1994, as Unemployment Insurance Program Letter No. 14-94 (Wandner 1994b, pp. 72–94). The guidance advised the states about the enactment of the SEA provision. It described the Massachusetts SEA experiment and the availability of the interim report on its demonstration project. It described the new federal legislation in detail, interpreted it, and explained how states could voluntarily adopt the SEA program as part of their state UI programs. Furthermore, it described the plans that states would have to submit to the department after enacting state legislation and before implementing their SEA programs. Finally, it included appendices that provided three additional things: 1) the language from section 504 of the NAFTA law dealing with SEA, 2) draft language for states to include in their state UI laws to implement SEA programs, and 3) a commentary on the draft language to explain the department's interpretation of the proposed state legislative provisions as well as how states might implement SEA.

Two key issues in the SEA guidance to the states for implementing the state SEA legislation were 1) assuring that there were no "excess costs" and 2) funding business development services—including entrepreneurial training, counseling, and technical assistance—that needed to be provided to SEA participants. The lesser of the issues was excess cost. It was nearly impossible to estimate excess costs in an ongoing SEA program without a control or comparison group, so the issue gradually disappeared for operating state SEA programs. More troubling was the provision of business development services, which required new funding, something that was not easy to find.[29] To the extent that the state UI programs are the main stewards of the SEA program, UI programs have to identify the funding source for these services, as the

Unemployment Trust Fund is prohibited from providing training funds. The UI program has to partner either with the WIA programs or with the Small Business Administration, neither of which has proven easy to partner with.

After the issuance of the 1994 guidance, states began enacting SEA legislation and sending implementation plans to the department. The department set up a small group within the UI Service to consider implementation issues. Each state SEA plan was reviewed to ensure that it met the federal requirements, including actuarial and technical design standards, such as maintaining cost neutrality and targeting the program using worker profiling methods.

After the SEA program was made permanent in 1998, SEA began settling down into one more component of the UI program. In 1999, the department issued new guidance that relaxed the requirements for state implementation of SEA programs (Messenger, Peterson-Vaccaro, and Vroman 2002, pp. 149–150; USDOL 1998). The USDOL's oversight of the establishment of SEA programs was lessened. States were no longer required to submit SEA implementation plans and have them approved before they could initiate new state SEA programs.

States began to establish SEA programs in 1995 and 1996. In April 1995, New York was the first state in the nation to implement an SEA program under the NAFTA-authorizing legislation. Three other states implemented SEA programs by the end of 1996: Maine, Oregon, and Delaware (in order of implementation). These four states each submitted an SEA annual report on program activities and outcomes for the year ending June 1996. Although the data in these reports were preliminary, describing the very beginning of four state SEA programs, they provided a glimpse of the early use of self-employment assistance as a reemployment tool for the unemployed.

Between July 1995 and June 1996, nearly 2,000 individuals participated in the Self-Employment Assistance program in the above four states. Most participants, about 1,800, were in the New York SEA program. The other SEA states served substantially smaller populations than New York, and the New York program operated more than a year longer than those of other SEA states.

The results in New York are particularly interesting. New York had the only Self-Employment Assistance program in 1995 that was operational long enough to obtain early data on SEA program outcomes. New

York conducted a survey of SEA participants in early 1996 based on a survey developed by the department for the SEA annual report.[30] The survey results indicated that 84 percent of all New York SEA participants were reemployed at the time—either in self-employment (58 percent), wage and salary jobs (14 percent), or both (12 percent).

Since the Self-Employment Assistance program was enacted as a temporary five-year program, the 1993 legislation required that the department conduct an early evaluation of the SEA program (Vroman 1997) to determine whether to make the program permanent before it expired in December 1998. The study concluded that the SEA program would likely remain a small program, with a take-up rate of perhaps 1 to 2 percent of UI claimants. Nevertheless, it also concluded that SEA was a useful tool for workforce development policy, and that public policy would do well to have a wide array of tools to deal with worker dislocation issues. Because of the limited scale of the program as well as data and funding constraints, the study did not conduct a benefit-cost analysis but found that SEA was too small a program to pose a threat to the UI trust fund.

Vroman described the political, administrative, and technical barriers that states would face in enacting and implementing Self-Employment Assistance (Vroman 1997). He found that, as of 1996, only 7 of the 10 states that enacted legislation had completed the complex process of implementing the program. At that time, SEA was an innovation that was largely confined to the coastal states; among states with programs, only Minnesota was in the interior. Of the coastal states, the programs in New York, New Jersey, Oregon, Maine, and Delaware operated statewide; in California the program was only implemented in six local areas. As required by law, states used their worker profiling mechanisms to select potential participants. States, however, set their profiling thresholds to make access to their SEA program either expansive or restrictive. Thus, the profiling threshold varied from a more accessible 0.40 probability of exhausting UI to a more restrictive 0.70 probability. All the states provided counseling, technical assistance, and entrepreneurial training. These services were mostly funded by the JTPA's Dislocated Worker program and the Small Business Development Centers (SBDCs), but some funding also came from the governors' JTPA discretionary funds, in-kind services, UI penalty and interest funds, and state-financed training funds. The key finding, however, was how small the SEA program was and how small it continues to be. The results can be seen in Table 8.5. Payments to SEA enrollees were less than 1 percent of UI regular-program first payments in all states except Maine, where they approximated 4 percent.

Implementation from 1995 to the Present

By 2008, 12 states had enacted SEA programs: California, Connecticut, Delaware, Louisiana, Maine, Maryland, Minnesota, New Jersey, New York, Oregon, Pennsylvania, and Rhode Island. However, since 1995, SEA has been largely an East Coast phenomenon; of the 12 states that have adopted SEA, only 4—Louisiana, Minnesota, California, and Oregon—lie beyond the eastern seaboard (Table 8.6).

In 2008, seven states had active state SEA programs: Delaware, Maine, Maryland, New Jersey, New York, Oregon, and Pennsylvania. These states report data on the SEA programs to the department. The Louisiana program became operational in January 2005, but the program received no applications and did not become effective.[31] Washington State has a program called "Self-Employment Assistance," but it is a form of commissioner-approved training, and it was not enacted under the federal SEA provisions.[32]

Since 1995, SEA program data have been reported by participating states along with other data about benefit receipt and payment for the regular UI program. Table 8.7 presents the reported data on the num-

Table 8.5 Flow of Participants into the Self-Employment Assistance Program in Five States, 1996

	New York	New Jersey	Oregon	Maine	Delaware
Regular UI program first payments	541,784	312,370	145,835	47,439	26,755
No. attending SEA orientation	3,902	513	141	240	—
No. SEA applications	2,241	252	—	177	—
No. enrolled in SEA	2,195	156	111	134	17
No. completing SEA	1,751	—	76	—	14

NOTE: — = data not available.
SOURCE: Vroman (1997).

Table 8.6 Self-Employment Assistance: Legislation and Program Implementation, 1995–2008

State	Effective dates of legislation	Implementation
California[a]		Not implemented
Connecticut[b]	(See below)	(See below)
Delaware	1996	1996–present
Louisiana[c]	1/1/2005	2005–present
Maine	1995	1995–present
Maryland	2000	2000–present
Minnesota[d]	4/19/1995–1/1/1999	Not implemented
	2003–2008 (for Project GATE)	2003–2004
New Jersey	1998	1998–present
New York	1995	1995–present
Oregon	1996	1996–present
Pennsylvania	1997	1997–present
Rhode Island[e]	(See below)	(See below)

NOTE: blank = not applicable.

[a] California developed an SEA plan that was approved by the department, but it never implemented a statewide program; California has legal authority for a program, but it is not operational (USDOL 2008b).

[b] Connecticut no longer has an SEA provision in its state UI law (USDOL 2008b).

[c] Louisiana has SEA legislation but has never implemented it, according to David Fitzgerald.

[d] Minnesota also never implemented its SEA legislation, according to Charles Hartfiel.

[e] Rhode Island never implemented its SEA program, but it does operate a state self-employment program that is separate from its UI program, according to Ray Fillipone.

Washington State enacted SEA in 2006, but the program is a form of commissioner-approved training and is not an SEA program under federal law; it is set to expire on July 1, 2012 (USDOL 2008b). Washington has never submitted reports to the department on its program.

SOURCE: Legislative dates from state legislation and interviews with state and federal staff. Implementation dates from data reported by states to USDOL in federally required report, the ETA 5159 report.

ber of individuals entering SEA. The program is very small; it only reached 3,170 participants in 2002 and has declined sharply since then. Even among SEA states, the program is highly concentrated: only seven states have active programs. Four state programs serve more than 100 participants a year, but none of the programs serve as many as 1,000 participants. The data reveal that the program is used most in a few states: New Jersey, New York, and Oregon. New Jersey entrants have remained fairly level over time, while reported participants have declined in New York and temporarily ended in Pennsylvania.[33] Maine has also contributed to the flow. Delaware and Maryland have had few entrants.

For individual states with SEA programs, new participants represent less than 1 percent of UI first payments in all cases except Maine in 2004 and 2005. Maine's SEA participants reached a high of 1.5 percent of regular UI first payments in 2004. In other states, the maximum has been below 1 percent—0.3 percent in Maryland, 0.3 percent in New Jersey, 0.6 percent in New York, 0.2 percent in Oregon, and 0.1 percent in Pennsylvania. For the United States as a whole, SEA has only reached 0.0007—or less than one-tenth of one percent—of regular UI first payments.

The small size of the Self-Employment Assistance program can be measured in a number of ways. The number of workers entering SEA has only reached as high as 3,200 per year, and annual payments have amounted to less than 70,000 weeks compensated and $17 million in benefits paid (Table 8.8). These are very small numbers compared the regular UI program, which paid $43.1 billion to 10.1 million beneficiaries in 2008.

A number of states, however, have active microenterprise programs that are not tied to the UI program. States sometimes find that their own state programs are more flexible and easier to implement. States have a particularly difficult time finding funding for microenterprise counseling and training, which states must fund themselves. Since the Unemployment Trust Fund cannot be used to fund training, neither UI nor ES administrative funds can be used to provide SEA training. Thus, since funding of entrepreneurial training through the WIA programs has been minimal, it sometimes has proven easier to conduct microenterprise programs outside the umbrella of USDOL-funded programs.

While the WPRS program provides reemployment services to dislocated UI beneficiaries, in states without SEA programs workers only receive assistance to return to wage and salary employment. If these reemployment services are not effective, workers may be referred to training. In states with SEA programs, the WPRS system offers two options: 1) provision of reemployment services to aid the return to wage and salary employment, and 2) referral to the SEA program so

Table 8.7 Self-Employment Assistance: Number of Individuals Entering Program by State, 1995–2008

	States								
Year	DE	MD	ME	MN	NJ	NY	OR	PA	Total
1995			44	—		608			652
1996	17		127	—	2,041	32			2,217
1997	5		120	—		2,839	49	786	3,799
1998	—		90	—	321	1,270	66	541	2,288
1999	—		59		569	1,837	18	416	2,899
2000	1	26	98		491	1,654	18	229	2,517
2001	—	125	109		834	1,480	278	301	3,127
2002	17	22	118		524	1,634	305	550	3,170
2003	43	11	202	45	486	70	338	147	1,342
2004	56	10	481	235	557	475	166	9	1,989
2005	31	21	351	102	626	309	204	0	1,644
2006	21	21	252		632	177	226	0	1,329
2007	22	21	201		496	369	295	152	1,556
2008	35	15	130		477	219	507	86	1,469

NOTE: Blank = not applicable, as the program was not in operation in that year in that state. — = not available, meaning either there were zero referrals or data were not reported. Data are for the eight states that have enacted SEA legislation and implemented state programs. California enacted an SEA program but never implemented it. Minnesota did not implement its original SEA program; it became effective on April 19, 1995, and was repealed effective January 1, 1999. Minnesota then implemented a temporary SEA law allowing the state to participate in the federal self-employment demonstration project, Project GATE, which operated between 2003 and 2005, according to Charles Hartfiel. A Louisiana SEA law became effective on January 1, 2005, but the state has not reported on its inactive program, according to David Fitzgerald. Maryland SEA data is in error; according to Susan Bass, Maryland's SEA director at the time, the Maryland SEA program served 571 participants during the period 2003–2007, but the reported data shows fewer than 100 total participants. Bass also indicates that the Maryland program has always served between 100 and 200 participants. As a result, I have replaced the number of reported 2001 Maryland participants—4,227—with an estimate of 125 for that year. SEA data for Puerto Rico for 2001 appeared in the ETA 5159 report; it has been removed since Puerto Rico has not enacted an SEA program.

SOURCE: Unemployment Insurance Data Base; ETA 5159 report.

claimants can begin setting up their own small businesses (Messenger, Peterson-Vaccaro, and Vroman 2002, pp. 142–143).

Under federal law, both WPRS and SEA use the worker profiling mechanism to identify UI claimants who are likely to exhaust their entitlement to UI benefits. When profiled UI claimants report to One-Stop Career Centers, a small proportion of them are interested in setting up their own small businesses. These claimants can choose to be referred to the SEA program. Although it is mandated that referrals to SEA be made through the WPRS system, few SEA states report that they make these referrals, and those that do appear to refer very few workers. The number of reported referrals has not been more than a few thousand. A substantial amount of nonreporting and underreporting has occurred.

Table 8.8 Self-Employment Assistance Program Data, 1995–2008

Year	SEA referrals from WPRS	Number of individuals entering SEA	SEA weeks compensated	SEA benefits paid ($)
1995	660	652	5,591	1,364,676
1996	2,649	2,217	26,603	6,507,709
1997	2,356	3,799	42,111	10,968,804
1998	831	2,288	37,740	9,587,764
1999	1,434	2,910	32,726	9,718,240
2000	2,735	2,517	38,913	13,209,451
2001	2,552	3,127	37,787	12,501,211
2002	4,950	3,170	50,057	17,159,098
2003	874	1,342	25,228	8,966,567
2004	1,293	1,989	41,978	14,603,948
2005	1,468	1,623	38,983	13,928,325
2006	1,292	1,329	32,370	14,599,974
2007	1,522	1,556	35,139	13,645,131
2008	1,489	1,469	67,360	10,307,763

NOTE: Data has been adjusted to remove reported data for three states that submitted SEA report data without having SEA programs: Puerto Rico, reporting the number entering SEA for 2001; Oklahoma, reporting SEA weeks compensated for 2005; and Kentucky, reporting SEA benefits paid for 2003.

SOURCE: Unemployment Insurance Data Base (UIDB). For "Number of individuals entering SEA," "SEA weeks compensated," and "SEA benefits paid," data are from ETA 5159 report. "SEA referrals from WPRS" data are from ETA 9-048 report.

All states with SEA programs are expected to make use of the WPRS program to refer workers to the SEA program, since both programs must consider the likelihood of exhausting UI benefits as a condition of participation. Of the seven states with SEA programs, however, only four—Maine, New Jersey, New York, and Oregon—report that they use the WPRS system to identify individuals to refer to the SEA programs (Table 8.9). In those states, referrals reached nearly 5,000 in 2002 but have remained at fewer than 1,500 since then. Only New Jersey has reported that referrals to SEA regularly occur before workers are enrolled in the SEA program. Maine, New York, and Oregon report using the referral mechanism to some extent, while Delaware, Louisiana, Maryland, Minnesota, and Pennsylvania do not report using worker profiling referrals.

All or most workers entering the SEA program should be referred by the WPRS system, since SEA participants are required to be profiled. Comparing the data in Tables 8.6 and 8.8 suggests that is not the case. New Jersey reports that all individuals entering the SEA program have been referred. New York and Oregon have been reporting that a substantial portion of SEA entrants are referred from WPRS, but the percentage has been declining sharply in New York. Maine reports a small number of referrals, while the other states report no referrals. Low referral rates appear to reflect a lack of reporting or an underreporting rather than a lack of use of worker profiling as the referral mechanism to the SEA program.

States found the process of implementing the SEA program burdensome. They were not accustomed to setting up a plan for a new program, as was required under SEA. Until 1999, they were required to establish such a plan and submit it to the department. After the enactment of a permanent SEA program in late 1998, however, the USDOL removed this requirement.

Self-Employment Assistance programs appear to be effective at starting businesses with reasonably high survival rates. The Washington State experiment fostered businesses that experienced a 63 percent survival rate after 15 months, while the Massachusetts experiment had a 77 percent survival rate after 13 months. By comparison, the survival rates of firms participating in European self-employment programs were not as high (OECD 1995). All SEA programs in Europe and the United States, however, had survival rates that were at least 40 percent

Table 8.9 Number of Individuals Referred to SEA from WPRS by State, 1995–2008

	State									
Year	DE	LA	MD	ME	MN	NJ	NY	OR	PA	Total
1995				29	—		583	48		660
1996	17			38	—	308	2,102	184		2,649
1997	6			11	—	677	1,512	50	—	2,256
1998	—			9	—	313	494	15	—	831
1999	2			6		545	859	24	—	1,436
2000	—		—	11		492	2,203	29	—	2,735
2001	—		—	5		834	1,552	161	—	2,552
2002	—		—	10		2,990	1,677	273	—	4,950
2003	—		—	42	—	486	73	273	—	874
2004	—		—	64	—	557	552	120	—	1,293
2005	—	—	—	87	—	626	446	307	—	1,466
2006	—	—	—	54		632	206	401	—	1,293
2007	—	—	—	136		496	412	478	—	1,522
2008	—	—	—	24		477	275	713	—	1,489

NOTE: Blank = not applicable, as the program was not in operation in that year in that state. — = not available, meaning either there were zero referrals or data were not reported. Data are for the nine states that have enacted SEA legislation and implemented state programs. Erroneously reported data have been removed for states that have not enacted SEA programs: Connecticut for 1999–2003, Georgia for 1997, Iowa for 1995, Nebraska for 1996 and 1998–2004, New Hampshire for 1996, and Washington for 2002.
SOURCE: Unemployment Insurance Data Base; ETA 9048 report.

12 months or more after businesses left the program (Table 8.10). In comparison, for all new firms that opened a single establishment in the United States in 1998, 66 percent were still in existence two years after their birth and 44 percent were still in existence four years after (Knaup 2005). Self-employment programs for the unemployed appear to do quite well compared to all new establishments in the United States and compared to similar programs in Europe.

While the SEA program is very small today, it could have a much larger effect on the U.S. economy if the program were implemented nationwide. If participation in a national SEA program reached 1 or 2 percent of regular UI beneficiaries and if the participants had 50 percent business start rates, the SEA program could yield 50,000 to 100,000

Table 8.10 Survival Rates of Businesses for Participants in Self-Employment Programs

	Intake year	Months since leaving program	Survival rate (%)
Australia	1990	12	54
Denmark	1989	12	40
France	1986	54	51
Netherlands	1985	36	52
United Kingdom	1991	7	71
United States			
Washington	1990	15	63
Massachusetts	1990–92	13	77

SOURCE: OECD (1995); Benus et al. (1995).

business starts. At that level, SEA would contribute an additional 8 to 16 percent to the estimated 637,100 U.S. business starts in 2006 (SBA 2008)—a significant increase.

Selected State Case Studies

Of the 13 states with SEA legislation, six do not have active programs. California has legal authority for a program, but it is not operational. Connecticut no longer has an SEA provision in its state UI law (USDOL 2008b). Louisiana has SEA legislation but has never implemented it. Minnesota also never implemented its SEA legislation. Rhode Island never implemented its SEA program, but it does operate a state self-employment program that is separate from its UI program.[34] In 2006 Washington State enacted a program called Self-Employment Assistance, but it is a form of commissioner-approved training and is not subject to the USDOL's reporting rules for SEA. The Washington State SEA provisions expire on July 1, 2012.[35]

Louisiana

Louisiana enacted SEA legislation in 2004, and its program became operational on January 1, 2005, yet Louisiana has not reported any SEA activity. Workers were not interested in the program, and the state received no applications. The lack of interest resulted from the requirement that participating UI claimants needed to take part in entrepreneurial training. Interest was lacking despite the fact that free training was available through Louisiana's technical schools. After Hurricane Katrina struck Louisiana, the program became inactive. As of 2008, no state staff members were dedicated to the program, and it was not being promoted by the state workforce agency.[36]

Maryland

Maryland enacted its SEA program and implemented it in 2000. The Maryland UI program searches for UI beneficiaries to participate as part of the WPRS profiling process. Each Sunday night, WPRS participation notices are sent out to new UI claimants. Claimants with worker profiling exhaustion probabilities of 0.4 or greater are sent a WPRS notice that also includes an invitation to compete for a spot participating in SEA. SEA applications are received from approximately 2 percent of those who are invited to compete. Participants must be ready to start their own business after receiving training, provided by the organization Women Entrepreneurs of Baltimore. The rigorous entrepreneurial training course lasts eight weeks. Training fund limitations restrict the number of training courses to only four each year; about 30 students are in each class, and about 115 have participated each year in recent years. Recently, annual training costs have been approximately $300,000, or $2,600 per trainee. In the past five years, 571 workers have participated in the program. Since the Maryland SEA program began in 2000, staff members estimate that participants have numbered between 100 and 200 each year.[37]

The SEA program is considered to be very successful by Maryland, but the program is constrained by limited and unstable training fund availability. Local Workforce Investment Boards have been unwilling to provide entrepreneurial training because of the adverse effect on WIA performance outcomes. Since participant income following training is generally not in wages and salaries, WIA program operators get no credit when the standard outcome measures of entered employment, earnings, or retention are used. As a result, training funds generally come from the governor's WIA reserve funds and occasionally from the state's UI penalty and interest account.

The Maryland agency collects only limited SEA data. A work-search exemption for SEA participants is the only item in Maryland's automated UI reporting system—the rest of the SEA system is run off the mainframe, and the SEA program does not transmit the SEA data to the reporting staff in the labor market information unit. As a result, the SEA data reported to the department does not reflect the true size of the Maryland SEA program. Rather than the actual figure of 571 participants over the past five years, a federal report (Table 8.6) counts fewer than 100 participants. Table 8.8 does not capture the fact that between 50,000 and 75,000 UI claimants are invited to apply for SEA each year through the worker profiling process.[38]

Minnesota

Minnesota enacted a program, effective on April 19, 1995; however, the Minnesota program was not implemented. The state workforce agency prepared to implement the program, but then staff members looked at the complexity of program operation (e.g., the data collection and analysis required by the department to determine the cost-effectiveness of the program) and the expectation of limited net return to Minnesota (i.e., the small number of jobs created relative to the effort to set up the program). As a result, the state agency decided not to implement the program and asked the state legislature to repeal the authorizing legislation. In 1998 the SEA statute was repealed, effective January 1, 1999.[39]

In 2002, Minnesota applied to participate in Project GATE, a department-funded microenterprise demonstration project. Since the presence of an SEA program was a condition of participation, Minnesota enacted a temporary SEA program for the duration of the project, from 2003 to 2005. The Minnesota SEA program ended with the completion of the Project GATE demonstration project.[40]

New York

New York was the first state to enact SEA legislation, in mid-1994. Implementation of the SEA provisions began in January 1995. The program had bipartisan support: it was enacted in the final year of Governor Mario Cuomo's Democratic administration and implemented at the beginning of Governor George Pataki's Republican administration. John E. Sweeney, commissioner of the New York State Department of Labor when the program was implemented, saw the SEA program as an opportunity for his agency to change its policy response to unemployment and encourage "an active approach to job creation which relies on the abilities of people to create their own businesses." The SEA program also fit with the "overall economic development strategy for the state of New York," which was centered on the "growth of small and medium sized enterprises." As a result, the SEA program became an integral part of that process (OECD 1995; Sweeney 1995).

As the program commenced, Carolyn Peterson-Vaccaro, the first director of the New York SEA program, emphasized that the key to its success was to have the USDOL and the state labor departments educate and train state and local staff about the SEA program and include as many staff members as possible in the process. She also emphasized the need to establish good working relationships with the private sector. She believed that the success of the New York program was dependent on existing businesses that volunteered to assist the program and on the Small Business Development Centers, which provided counseling and training to SEA participants in New York (OECD 1995).

The early political support was crucial, but equally important was the program's careful design and planning. Shortly after enactment of SEA, a New York project team of field and central office staff began meeting in September 1994 to plan program implementation. The team studied the evaluation results of the Massachusetts and Washington experiments, took what could be applied to New York, and adapted other aspects of the program to New York's needs. A crucial aspect of the New York law and its implementation was that, while the New York Department of Labor would run and manage the program, two other agencies—the State University of New York's SBDCs and the New York State Department of Economic Development—were given the critical role of providing entrepreneurial training. The problem other state SEA programs encountered—lack of resources for SEA training—was avoided in New York by giving this responsibility to the agencies that specialized in providing entrepreneurial training. Strong political support for the SEA program ensured that the other state agencies would provide funding for SEA training (Sweeney 1995).

The resources per participant needed for the training component of the early New York SEA program were modest in comparison to the eight-week training course provided by the Maryland SEA program: New York SEA participants were only required to take 20 hours of training that included topics such as starting a business, developing a business plan, marketing strategies, financing, and dealing with taxes and regulations. The program was initially designed to serve up to 1,000 entrepreneurs at a time and to serve up to 2,500 entrepreneurs per year (Sweeney 1995).

Table 8.7 shows that the New York program provided self-employment assistance to more than 2,000 UI claimants a year in 1996 and 1997. It continued to serve more than 1,000 claimants a year between 1998 and 2003. Beginning in 2004, however, the annual number of participants dropped sharply and has not reached 500 participants per year since then.

Self-Employment Assistance programs are small programs. They depend a great deal on who runs the program. Carolyn Peterson-Vaccaro ran the New York SEA program from 1995 until the end of 1998. During her tenure, enrollment surged. She actively promoted the program among UI and ES staff. Because of the lack of training funds, Peterson-Vacarro and her deputy director aggressively looked for entrepreneurial training funds, and the largest sources of entrepreneurial training funds were two organizations funded in part by the Small Business Administration (SBA)—the SBDCs and the Service Corps of Retired Executives. She worked with the regional SBA director, who was willing to support SEA with significant amounts of training resources at no cost to the SEA program.[41]

After Peterson-Vaccaro left for another job in the New York Labor Department in 1998, support for SEA ebbed. Peterson-Vaccaro continued to encourage the program until the spring of 1999, when she transferred to the New York governor's office. Once she left the New York Department of Labor she had little to do with the SEA program.[42]

Since 2002, New York has experienced a decline in applications and approvals for the SEA program. In 2002, 1,670 applications were received, and 1,625 were approved. In 2008, between January and September, 164 of 326 applications were approved.[43] The decline in SEA participation can be attributed to a number of factors.

First, New York no longer has an SEA director who coordinates the efforts of the UI program and the One-Stops. The New York UI program has the lead role in operating the SEA program: it pays the SEA allowance, but it does not provide any services. As in almost all states, UI no longer has an active presence in the One-Stops. It pays all UI benefits from two telephone call centers. Job Service staff members administer the SEA program in the New York local offices, but it is not a priority for them. No one brings these two organizations together and ensures that they are working cooperatively on the SEA program.

Second, while 20 hours of entrepreneurial training continues to be required, the New York Department of Labor does not pay for the training and no longer has an outside source of funding. In general, SEA participants pay for their own training. The One-Stop staff guides participants to privately provided entrepreneurial training courses and training providers. The SEA program ended its statewide relationship with the SBDCs and with the Service Corps of Retired Executives, which had provided counseling and training. UI claimants interested in SEA get limited support.

Third, while all UI claimants with a profiling score of 0.7 or greater are invited to apply, SEA applications are down greatly. Marketing of and support for the SEA program by the One-Stop staffs is minimal, and the UI staff members have a limited working relationship with One-Stop staff members, who operate the program in the One-Stop local offices. Many UI staff members are ambivalent about the program. From a UI benefit payment perspective, they see an inequity between the SEA participants who can work full time on setting up their own businesses and draw SEA allowances, and other claimants who cannot receive UI benefits if they work at all in wage and salary employment or in self-employment.[44]

Pennsylvania

The Pennsylvania SEA program began in 1997. It continues to operate, and the program impacts are being monitored by the Pennsylvania UI staff with follow-up surveys. For the period January through September 2006, the SEA program had 201 participants, who started 113 new businesses. Those businesses reported income totaling $228,239 and employed 19 workers earning $260,373 in wages during this period.[45] While Pennsylvania failed to report any participation in the SEA program to the USDOL for 2006, it would appear that the Pennsylvania program has operated continuously since 1997, but that the reporting for the program has been uneven.

PROJECT GATE EXPERIMENT

When the World Trade Center buildings fell on September 11, 2001, Lower Manhattan below Houston Street was temporarily closed, and most business in the area came to a halt, including those in Chinatown. In an effort to help Chinatown recover, Secretary of Labor Elaine Chao asked the Employment and Training Administration to develop a one-time effort to help rejuvenate the area. Initially, ETA research staff proposed conducting a microenterprise development demonstration, which Secretary Chao strongly supported. Consultation by ETA staff with the SBA, however, revealed that the SBA had already initiated a demonstration program in Chinatown in conjunction with Pace University. With that information, ETA research staff recommended a multistate microenterprise demonstration outside of New York City using experimental methods. Secretary Chao approved both the project and its funding, and personally awarded grants to the participating states and requested project briefings. “Project GATE” had begun.

Project GATE (Growing America Through Entrepreneurship) was funded in 2002 and began operation in late 2003; operations ended in 2005. Its goal was to assist people to create or expand their own small businesses in three states—Maine, Minnesota, and Pennsylvania. These states were chosen in part because they were all believed to have SEA legislation and SEA programs that were in operation.[46] The local sites in which the project operated were: Philadelphia and Pittsburgh, Pennsylvania; Minneapolis/St. Paul and northeast Minnesota; and Portland, Lewiston, and Bangor, Maine.

A large-scale outreach was conducted in each site to make people aware of the program. The outreach was conducted by five means: 1) providing information in the One-Stop Career Centers, 2) inserting fliers in envelopes with UI benefit checks, 3) creating a GATE Web site, 4) conducting a grassroots campaign, and 5) marketing through mass media. Individuals were not randomly assigned into treatment and control groups until they had expressed a strong interest in participating, as indicated by registering with the program, attending an orientation, and completing a project application. Altogether, 4,201 interested individuals were assigned to either a treatment group or a control group; the two groups contained equal numbers. Members of the treatment group were offered an assessment, classroom training in entrepreneurial skills, and individual and ongoing technical assistance (Benus et al. 2008a).

Almost every local-area resident in the project sites was eligible to participate in Project GATE. Individuals were required to be 18 years of age or older, and they had to be a state resident who could lawfully work in the state. They had to want to start or improve a small business. Unlike participants in the SEA demonstrations, participating individuals could be employed, unemployed, or out of the labor force, and they did not have to be collecting UI. Project GATE was designed, however, to be part of the workforce development system and its institutions. The gateway to entering the demonstration was the One-Stop Career Centers. The One-Stops conducted the outreach for the project, and they provided the orientation session that potential members of the treatment and control groups attended. During its operation, Project GATE was an additional employment service that the One-Stops could offer to those who were interested in starting or expanding a small business.

Although Project GATE was funded by the department, it was a partnership with the Small Business Administration. The SBA assisted in linking participants to business loans. Its SBDCs played an important role at the local level, providing assessments, training, and technical assistance at all sites except Philadelphia. These services also were provided by community-based organizations and universities in some sites.

The demographics of the 4,201 applicants for Project GATE were diverse and differed widely by site. Across all sites, applicants were, on average, 54 percent male, 42 years of age, 54 percent white and not Hispanic/Latino, and had 14 years of education. Ninety percent were born in the United States, 96 percent were U.S. citizens, 35 percent had household incomes of less than $25,000, and 68 percent had household incomes of less than $50,000 (Benus et al. 2008a, p. 53).

Individuals who attended the assessment received an estimated 15 hours of services, consisting of 1 hour in assessment, 12 hours in training, and 1 to 2 hours in technical assistance. However, a significant percentage of participants dropped out of the program after the assessment, with one-quarter of participants receiving no training or technical assistance. Forty-two percent of participants received both training and technical assistance. Participants spent approximately 16 weeks in the program.

Although it served a much wider population, Project GATE was designed by making use of lessons learned from the earlier UI self-employment assistance experiments, including these design and implementation procedures. The close relationship between these experiments was facilitated by the fact that the principal investigator for Project GATE, Jacob Benus, was also the principal investigator for the SEA experiments.

The interim report concluded that Project GATE was largely implemented as planned and that it could be replicated successfully on a wider scale. The final evaluation would include a net impact analysis and a benefit-cost analysis (Benus et al. 2008a).

The implementation of Project GATE has had a confounding effect on the SEA entrant data for the three participating states: Maine, Minnesota, and Pennsylvania. For the period in which the project ran, from 2003 to 2005, Maine and Minnesota reported Project GATE participants as SEA entrants, while Pennsylvania did not. The inclusion of Project GATE participants increased Maine's count of entrants in SEA in all three years. Minnesota reported its SEA program activity only during those years, since the state does not operate an ongoing SEA program.

CONCLUSIONS AND LESSONS LEARNED

Cost-effective. Results from the UI Self-Employment Demonstration project in Massachusetts showed that self-employment assistance is a cost-effective strategy for helping some unemployed workers to become reemployed. SEA gets those workers back to work faster by helping them to create their own jobs. A small number of states developed, implemented, and are operating SEA programs to assist unemployed workers to move from unemployment into self-employment.

Small program size. Few states have adopted the program: only seven states have active programs. Few individuals use Self-Employment Assistance programs in the states that have programs. Self-employment assistance is likely to be appropriate only for a small number of workers in the United States—up to 2 percent of the unemployed—based on experience to date.

Foreign experience. Twenty European Union countries have start-up programs. Participation in some of these programs has been larger than in the United States. In three EU countries, Germany, Ireland, and Italy, self-employment programs are a great deal larger than in the United States, and these programs are part of a broad policy to expand employment and encourage entrepreneurship.

Lack of entrepreneurial training. A key reason for the small size of the SEA program is the lack of permanent, reliable sources of entrepreneurial training. In Program Year 2005, only 359 WIA Adult and Dislocated Worker program exiters in the entire nation received entrepreneurial training—approximately seven entrepreneurial trainees per state. Similarly, in CY 2005, only 1,623 individuals participated in the SEA program, mostly because of the lack of entrepreneurial training resources. The incentives to providing this training clearly need to change.

Federal indifference. The USDOL has not promoted the SEA program in recent years. Without encouragement or technical assistance and guidance, the program lost its policy momentum. The few states that have implemented this program either have seen participation declines or steady participation at very low levels.

Sustainability. Small employment and training programs like SEA are difficult to implement and sustain. Few staff in the local offices know about them or have the ability to help them flourish. There is little coordination between the UI program, which pays for self-employment allowances, and the One-Stops, which both administer the program and either provide participants with entrepreneurial training and other reemployment services or refer them to such training and services.

Reporting problems. Reporting for the program is frequently inaccurate. Because the program is a stepchild within the UI program, the SEA program frequently has weak links to the rest of UI, including to the state workforce agency reporting unit.

Potential impact on new business formation. Although the Self-Employment Assistance program is small in the states in which it exists, it could have a modest but significant impact on the U.S. economy if the program were implemented nationwide and encouraged by the USDOL and the state agencies. If participation in the national SEA program reached 1 or 2 percent of regular UI beneficiaries and if the participants had 50 percent business start-up rates, the SEA program could yield 50,000 to 100,000 business start-ups per year. At that level, SEA would have contributed an additional 8 to 16 percent to the 637,100 U.S. business start-ups in 2007 (SBA 2008).

Recommendations

The federal government could do a great deal more to encourage states to adopt and use the Self-Employment Assistance program. The Department of Labor should do three things:

1) Provide states with information, guidance, and technical assistance;
2) Encourage states to enact SEA programs;
3) Encourage states to provide entrepreneurial counseling and training through their Workforce Investment Act programs. Disincentives to providing entrepreneurial training that stem from the WIA performance measures should be removed by developing new performance measures for the outcomes of the SEA program.

The department should work with the Small Business Administration and encourage it to provide entrepreneurial training and counseling services to SEA and WIA participants. The SBA should be encouraged to become a partner in the SEA program and in the provision of entrepreneurial services to the WIA Adult and Dislocated Worker programs.

Funding of entrepreneurial training is a key problem that must be addressed if the SEA program is going to work well and expand in the future. In most states with SEA programs, the program is considered to be a UI program, and thus support from other agencies is weak. SEA allowances can be funded from the Unemployment Trust Fund, but entrepreneurial training and other business development services cannot. Other funding sources such as the governor's WIA discretionary funds or the UI penalty and interest fund are currently being used in some states, but they are too small and vary too much over time to be reasonable ongoing sources of funding. State and local WIA entities cannot be expected to provide WIA funds for entrepreneurial training when self-employment income is not reflected in the WIA common performance measures, which use UI wage records to determine whether workers entered wage and salary employment. Participation in the WIA entrepreneurial training program is punished by the WIA performance measurement system, which is based on UI wage records. Funding of entrepreneurial training could be encouraged in three ways:

1) A separate entrepreneurial training account could be created within the WIA Dislocated Worker Program to encourage the provision of entrepreneurial training services. The account would be available to all states with SEA programs. This new account would encourage states with existing SEA programs to expand them, and other states to enact these programs. The initial funding level would not have to be large—$10 million would allow training for more than 3,000 workers—a sharp increase from the less than 2,000 UI beneficiaries participating in SEA in 2007. As SEA participation increases over time, the account funding level also should increase.
2) States should be encouraged to have their SBDCs, Service Corps of Retired Executives, and state departments of commerce participate in the SEA program and provide counseling and training.
3) The Department should work with the Small Business Administration to have the SBA encourage state SBDCs and the Service Corps of Retired Executives to provide counseling and training to both SEA and WIA participants.

Congress should encourage state use of the SEA program. One incentive would be to have SEA benefits paid out of the Federal Unemployment Tax Act (FUTA) account in the Unemployment Trust Fund rather than from the state accounts, as is currently the case.

Notes

1. Jon Messenger wrote much of the section of this chapter titled "The Self-Employment Assistance Experiments" (p. 297).
2. I led a group of 14 individuals who were expected to participate in the self-employment demonstration projects on this study tour, which was funded by the German Marshall Fund. The German Marshall Fund also funded two earlier study tours of senior officials to examine policy aspects of the European programs.
3. The mean midyear value of the euro was 1.22 to the dollar in 2004.
4. $5.1 billion was the entire Training and Employment Services account for FY 2004.
5. Markus Franz, e-mail message to the author, November 19, 2008. Franz at the time was the counselor for labor and social affairs at the German Embassy in Washington.
6. Ibid.
7. Ibid.
8. Ray Uhalde, in an interview with the author, August 12, 2008.
9. The ETA's Field Memorandum 81-87, dated August 11, 1987, requested USDOL regional office staff to recommend states to participate in a Self-Employment Demonstration Project.
10. The department decided to proceed with a demonstration in three states. In response to a call for state applicants in a *Federal Register* notice dated March 1, 1988, five states applied to participate in the Three State Demonstration: Alaska, Iowa, Massachusetts, Minnesota, and Oregon. After extensive negotiations, Massachusetts, Minnesota, and Oregon were selected to participate.
11. The project officer at the German Marshall Fund, Ann Heald, recommended that the study tour visit Sweden because of Sweden's efficient management of its self-employment program. Tour participants studied the Swedish operational methods as well as its program design. They also brought back the British self-employment program forms as an aid to designing project forms and determining what project data elements to collect. I was the director of the study tour.
12. The net impact estimates for the Massachusetts demonstration presented in this section are based on the results of the first and second cohorts out of the three cohorts of project enrollments. Since the third cohort of participants did not complete participation in demonstration activities until 1993, only one round of follow-up surveys was completed with these individuals, and the follow-up period was substantially shorter than for the first and second cohorts (19 months versus 31 months). In addition, changes in state UI policy arising from enactment of the Emergency Unemployment Compensation (EUC) Act of 1991 substantially altered the implementation of the demonstration for Cohort 3. Benus et al. (1995) presents a full discussion of these changes.
13. The term "survival rates" indicates the number of project participants or control-group members who were self-employed at the time of the follow-up survey, divided by the total number of participants who entered self-employment at some point during the three-year follow-up period.

14. The measurable benefits to society from the demonstration accrue because of earnings and asset gains among project participants. It is assumed that society derives value from additional market output that is equal to the value of this additional compensation. These measurable benefits are then compared to the costs of self-employment demonstration administration and service costs. There are other potential benefits of self-employment, such as community economic development and psychological well-being, that cannot be readily quantified. The methodology that was used for calculating demonstration benefits and costs is described in the final report.
15. Carolyn Golding, interview with the author, December 5, 2008.
16. Lawrence Katz, telephone interview with the author, August 21, 2008.
17. Alan Krueger, telephone interview with the author, October 13, 2008.
18. David Balducchi, note to the author, July 18, 2005.
19. Self-Employment Assistance was enacted as part of Title V (Transitional Adjustment Assistance) of the North American Free Trade Agreement (NAFTA) Implementation Act (P.L. 103-182).
20. Section 3 of the Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998 amended NAFTA to repeal the SEA termination date, making the SEA program permanent.
21. Robert Reich, interview with the author, November 21, 2008.
22. Golding, interview.
23. Katz, phone interview.
24. Reich, interview.
25. Katz, phone interview.
26. Reich, interview.
27. See Unemployment Insurance Program Letter 14-94, "Provisions Relating to Self-Employment Assistance," in Wandner (1994a), chap. 3.
28. Mary Ann Wyrsch, interview with the author, July 29, 2008.
29. Jon C. Messenger, comments on draft of this chapter, October 23, 2008.
30. According to the SEA annual report for 1996, prepared by the New York State Department of Labor and titled *Taking Care of Business: The Self-Employment Program, Annual Report*, 392 out of the 675 program participants surveyed responded to the survey, for an overall response rate of 58 percent.
31. David Fitzgerald, interview with the author, October 23, 2008. Fitzgerald was at that time chief of benefits for the UI program.
32. The Washington State SEA program does not conform to the federal SEA program. Under the Washington provisions, the state continues to pay regular UI benefits, rather than self-employment allowances in lieu of regular UI benefits. The Washington State law requires participants to be in full-time entrepreneurial training, while federal SEA law requires participants to be working full time to set up a business. This information was supplied by Jamie Bachinski in an e-mail message to the author, December 31, 2008.
33. See discussion below about the continuing operation of SEA in Pennsylvania.
34. Ray Fillipone, interview with the author, October 3, 2008.
35. The Washington State program, however, is listed as a federally conforming SEA

program in the Comparison of State Unemployment Insurance Laws (USDOL 2008b).

36. Fitzgerald, interview.
37. Susan Bass, interviews with the author, April 23 and June 9, 2008. Bass was then the director of the Maryland Self-Employment Assistance Program.
38. Ibid.
39. Charles Hartfiel, in an interview with the author, June 6, 2006. Hartfiel was at that time the Unemployment Insurance administrator for Minnesota.
40. Ibid.
41. Carolyn Peterson-Vaccaro, interview with the author. Peterson-Vaccaro was the first director of the New York Self-Employment Assistance Program.
42. Ibid.
43. Mark Rickert, interview with the author, October 1, 2008. Rickert was the assistant director of the Unemployment Insurance Program for New York State.
44. Ibid.
45. Peter Cope, e-mail message to the author, January 25, 2007. Cope was then the director of the Pennsylvania Bureau of Unemployment Compensation Benefits and Allowances.
46. When Secretary Chao went to Minnesota and announced that the state was being given a grant to participate in the program, the state workforce agency realized that the USDOL was not aware that the state program had terminated. The state legislature quickly introduced a temporary bill to allow Minnesota to waive the work-search requirement for participants in Project GATE who were UI beneficiaries. It was enacted during a 2002 special session of the state legislature and became effective in 2003. As a result, workers enrolled in Project GATE in 2003–2005 are reflected in the Minnesota reports submitted to the U.S. Department of Labor for the SEA program.