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Introduction [to Assisting Displaced Workers]

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Introduction

It is widely recognized that in a dynamic, highly competitive economy, the displacement of workers from their jobs has been and continues to be an economic fact of life. An important source of this displacement during the postwar period has been the long-term shift in employment opportunities from manufacturing to services. Studies such as the report of the Secretary of Labor’s Task Force on Economic Adjustment and Worker Dislocation (1986) suggest, nevertheless, that the extent of displacement among American workers may have increased in recent years. In support of its conclusion, the Task Force points to the dramatic increase in import penetration of U.S. markets; the rising proportion of permanent separations among total job losses during the 1981–82 recession relative to earlier postwar recessions; and the greater volatility since 1970 in exchange rates, interest rates, and energy prices. Stone and Sawhill (1987) document the incidence of difficult labor market adjustments arising from the increasing internationalization of the economy, and Hamermesh (1989) and Summers (1986) provide evidence indicating that the contribution of displaced workers to the nation’s overall unemployment rate has recently risen.¹

Displaced workers (also termed dislocated workers) are usually described as workers on layoff who possess a stable employment history with their predisplacement employer. In addition to their work experience, the main distinction between displaced workers and other laid-off workers is that the displaced typically have little chance of being recalled to jobs with their old employer or even in their old industry. At the time of layoff, however, displaced workers are likely to be unaware that their chances of recall are slim, although alternative employment opportunities exist elsewhere. The first step in the reemployment process is recognition of the need to engage in job search, followed
by a dusting off of job search skills which may have been unused for a number of years. Enhancing job search skills is important because of the very real possibility that a worker displaced by a major plant closure or mass layoff will face bleak reemployment prospects in his or her local labor market. Beyond gearing up for job search, it may also be necessary for some displaced workers to be retrained in the vocational skills required to qualify for jobs in expanding industries.

Displaced workers thus tend to differ from other unemployed workers in that the duration of their unemployment is likely to be longer and that their reemployment is likely to require a change in occupation or industry. Reemployment may involve as well a willingness to accept employment at a lower wage. In the words of the Secretary of Labor's Task Force report (1986:16), "Jobs lost [by displaced workers] are often perceived as especially good jobs, for which the individual worked many years for one employer to achieve. Also, extraordinary emotional adjustments are required as life plans and goals are changed abruptly."

As experienced workers with stable work histories, displaced workers are usually eligible for unemployment insurance (UI) benefits. Indeed, the 26 weeks of income maintenance provided by UI in most states is often the only source of financial support available to them. The UI system has served for over 50 years as the first line of defense against temporary income losses due to unemployment. Nevertheless, a recurrent question about UI is whether income maintenance is the most appropriate form of assistance to individuals who have lost jobs in which they had substantial human capital investments and for whom prospects of obtaining reemployment using these skills are dim. Critics such as Kuttner (1985b), for example, argue that the funds used to pay UI benefits could be better spent on alternative programs designed to speed up the reemployment of displaced workers. Reemployment programs discussed by Kuttner include retraining courses and wage subsidies intended to create new job opportunities.

At the federal level, the specific adjustment problems of displaced workers have been recognized in the Trade Adjustment Assistance program created in 1962 and 20 years later in the passage in 1982 of Title III of the Job Training Partnership Act. The reemployment programs funded by these laws are summarized in useful reports provided by the
U.S. Department of Labor (1986) and the Office of Technology Assessment (1986). More recently, President Reagan proposed, in the fall of 1987, a comprehensive program authorizing $980 million to be spent in retraining workers displaced by plant closings or technological change. This proposal became law in August 1988 as part of the Omnibus Trade and Competitiveness Act.

At the state level also, a variety of reemployment initiatives are currently in operation in virtually every state. These programs are generally funded by state general tax revenues, but three states—California, Delaware, and Washington—are financing their initiatives by special earmarked payroll taxes. Under the Reagan administration, the evolving philosophy of new federalism has made the states the key intergovernmental actor in the areas of education, economic development, welfare, and employment and training. But despite the ingenuity, diversity, and substantial investment of resources in displaced worker programs, no comprehensive study of proposed and ongoing state initiatives is available at present. The purpose of this monograph is to provide a description and evaluation of state initiatives dealing with the problem of worker displacement. These initiatives include the provision of programs to retain jobs and encourage economic development, as well as reemployment assistance provided directly to workers in the form of retraining programs and job search workshops. The focus is on newer, more innovative state initiatives.

This chapter continues with an overview of some of the policy issues relating to worker displacement. Considered, in particular, are the questions of the incidence of displacement and whether government should be expected to provide displaced workers with special assistance (beyond or in place of UI). This section is followed by the introduction of half a dozen important questions which the monograph attempts to answer. The issue of how the various initiatives described in the study are to be evaluated is next considered. The chapter concludes with a brief description of how the remainder of the monograph is organized.
Displaced Workers: How Many and Should They Receive Special Assistance?

The Magnitude of the Problem

While it is fairly easy to describe in general terms how displaced workers differ from other unemployed workers, it is more difficult to pin down these distinctions with enough precision to permit an accurate quantitative estimate of the displaced worker population. Examples of the kinds of questions that must be answered in attempting to measure the number of displaced workers include the following:

1. How long must an unemployed worker have held the previous job to be counted as a displaced worker?
2. Can length of unemployment, UI eligibility, or even exhaustion of UI benefits be used as a criterion to distinguish displaced workers from other unemployed workers?
3. Must laid-off workers suffer a sizable decrease in wages upon reemployment to be counted as displaced?
4. Can displaced workers be distinguished from other laid-off workers by the reason for their layoff, or perhaps by whether the industry from which they were laid off is declining or particularly sensitive to increased foreign competition?

Since the answers to these and other questions can and do differ among analysts, it is to be expected that estimates of the displaced worker population will vary. This is indeed the case. But while there is no consensus in the literature on the number of displaced workers, there is agreement that the best source of data on displaced workers is the Displaced Worker Survey (DWS) first conducted by the Bureau of Labor Statistics as a supplement to the January 1984 Current Population Survey. A second DWS data set was made available to researchers in 1986. Both data sets are retrospective five-year surveys.

Flaim and Sehgal (1985) provide a benchmark analysis of 1984 DWS data. As described in their article, the DWS identifies a total of 13.9 million workers 20 years of age and older as being separated from their jobs over the January 1979 to January 1984 period. The data distinguish the following reasons for a job separation: (1) plant or company closed down or moved, (2) slack work, (3) position or shift abolished, and
(4) seasonal causes or other miscellaneous reasons not easily classified. Omitting workers on layoff for the fourth of these reasons, the estimated population of displaced workers drops to 11.5 million. Of these workers, Flaim and Sehgal note that a large proportion had been employed on their jobs for a relatively short time before they were laid off. Using three years of tenure as the cutoff point to distinguish displaced from other laid-off workers, the population of displaced workers falls to 5.1 million. It is worth noting that the number of displaced workers is quite sensitive to the specified years of tenure. A more liberal cutoff of two years would raise the count to 6.9 million, while a five-year cutoff would lower the estimate of displaced workers to 3.2 million.

Focusing on the Flaim-Sehgal estimate of 5.1 million displaced workers, table 1.1 identifies a number of the characteristics of these individuals. Displaced workers are seen to be primarily prime-age males who lost blue-collar jobs in manufacturing, especially durable goods manufacturing. Almost half of the 5.1 million reported that they lost their jobs because their plant or business closed or moved. An interesting finding is the number of workers who reported that they were not caught by surprise when they received notice of layoff. About 56 percent of all displaced workers indicated that they had received advance notice of their dismissal, or that they had expected it. Nevertheless, only about 11 percent of these workers left their employer before their job ended.

Table 1.1 also shows that more than two-thirds of the displaced workers drew UI benefits sometime during the five-year period covered by the survey, and that nearly half of the UI recipients were unemployed long enough to have exhausted their eligibility for benefits. Podgursky and Swaim (1987c) perform an econometric analysis of the duration of joblessness of DWS respondents displaced from full-time nonagricultural jobs between 1979 and 1981. Their results indicate that although nearly half of these workers found jobs within 14 weeks of displacement, there is a high risk that a displaced worker will experience a protracted period of joblessness. Especially noteworthy is their estimate that the probability an average male blue-collar worker displaced from his job would be jobless for more than one year exceeds 0.3.
Table 1.1
Summary Information on Displaced Workers
January 1979–January 1984

<table>
<thead>
<tr>
<th></th>
<th>Number(^a) (thousands)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5,091</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20–24 years</td>
<td>342</td>
<td>6.7</td>
</tr>
<tr>
<td>25–54 years</td>
<td>3,809</td>
<td>74.8</td>
</tr>
<tr>
<td>55–64 years</td>
<td>748</td>
<td>14.7</td>
</tr>
<tr>
<td>65 years and older</td>
<td>191</td>
<td>3.8</td>
</tr>
<tr>
<td>Sex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>3,328</td>
<td>65.4</td>
</tr>
<tr>
<td>Women</td>
<td>1,763</td>
<td>34.6</td>
</tr>
<tr>
<td>Occupation of lost job</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blue-collar</td>
<td>2,865</td>
<td>56.5</td>
</tr>
<tr>
<td>Other occupations</td>
<td>2,208</td>
<td>43.5</td>
</tr>
<tr>
<td>Industry of lost job</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2,514</td>
<td>49.4</td>
</tr>
<tr>
<td>Durable goods</td>
<td>1,686</td>
<td>67.1</td>
</tr>
<tr>
<td>Nondurable goods</td>
<td>828</td>
<td>32.9</td>
</tr>
<tr>
<td>Other industries</td>
<td>2,577</td>
<td>50.6</td>
</tr>
<tr>
<td>Reason for job loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant closed or company closed down or moved</td>
<td>2,492</td>
<td>48.9</td>
</tr>
<tr>
<td>Slack work</td>
<td>1,970</td>
<td>38.7</td>
</tr>
<tr>
<td>Position or shift abolished</td>
<td>629</td>
<td>12.4</td>
</tr>
<tr>
<td>Notification of dismissal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Received advance notice or expected layoff</td>
<td>2,870</td>
<td>56.4</td>
</tr>
<tr>
<td>Left before job ended</td>
<td>318</td>
<td>11.2</td>
</tr>
<tr>
<td>Did not leave before job ended</td>
<td>2,532</td>
<td>88.8</td>
</tr>
<tr>
<td>Did not receive advance notice or expect layoff</td>
<td>2,221</td>
<td>43.6</td>
</tr>
<tr>
<td>Received UI benefits</td>
<td>3,497</td>
<td>68.7</td>
</tr>
<tr>
<td>Exhausted benefits</td>
<td>1,670</td>
<td>47.8</td>
</tr>
</tbody>
</table>
What was the labor market status of displaced workers at the end of the survey period? Table 1.1 indicates that 60 percent were reemployed as of January 1984, while about 26 percent were still unemployed and 14 percent had dropped out of the labor force (mainly into retirement). Focusing on the 3.1 million workers who were reemployed, about 2.8 million were full-time employees in their predisplacement jobs. Of these, about 80 percent were again employed full time at the end of the survey period, while 12 percent were holding part-time jobs and 8 percent were found in other types of employment (mainly self-employment).
Flaim and Sehgal point out that there are important differences by age, sex, and race in the proportions of displaced workers reemployed. In general, the younger the workers, the more likely they were to have obtained new jobs. Furthermore, displaced women were less likely than displaced men to have returned to work and were far more likely to have left the labor force. Finally, the proportions of black and Hispanic displaced workers reemployed (41.8 percent and 52.2 percent, respectively) were considerably lower than the proportion of whites (62.6 percent).

Another key finding concerns the number of displaced workers who moved to a new occupation or industry to obtain reemployment (not shown in table 1.1). Flaim and Sehgal (1985:10) point out, for example, that of the 980,000 reemployed workers who had lost jobs in durable goods manufacturing, only about 40 percent obtained reemployment in the same industry. Similarly, only about 35 percent of 493,000 workers were reemployed in nondurable goods manufacturing. Despite this evidence of substantial interindustry mobility, it is interesting to note that only a small minority of the 5.1 million displaced workers (680,000 individuals) moved to a different city or county to look for work or to take a new job.

The predisplacement and postdisplacement comparison of weekly earnings shown in table 1.1 provides additional information on the economic well-being of displaced workers who obtained new jobs by the end of the survey period. The table indicates considerable dispersion in relative earnings for workers reemployed in full-time wage and salary jobs, with 30 percent of workers suffering an earnings loss of 20 percent or more and another 26 percent of workers enjoying an increase in earnings in excess of 20 percent. In total, about 54 percent of reemployed workers landed on their feet in the sense that their new earnings equalled or exceeded their old earnings. This percentage is likely to be on the high side, however, since predisplacement earnings are not adjusted for the effects of inflation and increased labor productivity to make them comparable to postdisplacement earnings. It is almost a certainty, in addition, that displaced full-time workers who are reemployed in part-time jobs will suffer a sizable drop in earnings. Considering the situation of reemployed part-time as well as full-time workers, it appears
reasonable to conclude that about one-half of the displaced workers reemployed in January 1984 were earning less than in their former jobs. Also worth noting is the finding that nearly one-quarter of reemployed workers failed to regain the group health insurance coverage they enjoyed on their lost job.

During the fall of 1986, a second survey of displaced workers was released by the Bureau of Labor Statistics. As described by Horvath (1987), use of the Flaim-Sehgal criteria for distinguishing displaced workers from other laid-off workers resulted in exactly the same count of 5.1 million displaced individuals for the January 1981 to January 1986 period as for the 1979–84 period. Most of the conclusions drawn for the earlier period also hold for 1981–86. In particular, about half of the displaced workers had lost jobs in manufacturing, mostly in durable goods manufacturing; and about 55 percent reported that the reason for their job loss was a plant closing or business failure. As in the earlier period, the largest concentration of displaced workers was found in the heavily industrialized states of the Upper Midwest. More than half of those reemployed changed their broadly defined occupation.

The cyclical upswing in the economy during 1984–86 resulted in a higher reemployment rate of about 67 percent in 1986 compared to 60 percent in 1984, and a lower unemployment rate of 18 percent as compared to 26 percent in the earlier year. Nevertheless, the 1986 DWS indicates that there was little improvement in the proportion of displaced workers who were obliged to take a pay cut upon reemployment. For 1984, table 1.1 indicates that 46.1 percent of individuals working full time in both their predisplacement and postdisplacement jobs suffered a loss in earnings. The same statistic for 1986 is 44.1 percent. Over both five-year periods, about 30 percent of those reemployed in full-time wage and salary jobs suffered pay cuts of 20 percent or more. Levels of reemployment among older workers were still relatively low; in addition, reemployment rates for women, blacks, and Hispanics continued to fall considerably short of those for white males.

Should Displaced Workers Receive Special Assistance?
The very real possibility of large expected losses when a displaced worker suffers an extended period of unemployment or cannot find a
new job offering a wage comparable to that earned earlier raises the issue of whether special assistance should be provided these individuals. The literature focuses on two reasons to explain why a displaced worker may suffer a substantial economic loss:

1. The worker received an economic rent (i.e., a wage that is higher than his or her best alternative wage) on the last job. An example is the situation facing a worker displaced from a unionized job whose subsequent job is nonunion.

2. The worker invested in specific training on the last job in the expectation of a longer payout period than in fact occurred.

Concerning the first, there appears to be little justification for providing special assistance to workers who previously received above-equilibrium wages because they were sheltered from competition from other workers. The one argument supporting assistance in this case is that compensation may be needed to buy off politically powerful interests that would otherwise block socially desirable policies. A leading example of such a compensation scheme is the creation of the Trade Adjustment Assistance program in 1962 as a *quid pro quo* to organized labor in exchange for its acquiescence to trade liberalization (see Baldwin 1987).

The more important justification for special assistance to displaced workers is as a response to the loss of firm-specific human capital. Such specific skills include knowledge about the firm’s operating procedures, the specialized products it produces, and its production and marketing arrangements. Although lost specific human capital cannot be replaced, assistance can still be justified in terms of both equity and economic efficiency. The equity explanation relates to the argument just made for compensating workers who have lost jobs which provided economic rents. The point is that since the nation as a whole gains from socially desirable policies such as free trade and the introduction of labor-saving technology, it is reasonable to extend assistance to those groups that bear the brunt of the adjustment costs associated with maintaining a dynamic, generally open domestic economy. Writing in *The Wall Street Journal*, Bhagwati (1988) argues that

> [O]pen markets cannot be sustained politically without institutions to soften the social impact of dramatic changes
resulting from foreign trade and investments. If better integration into the world economy means that large corporations can leave small communities and that changes in competition can result in social-adjustment problems, political prudence—if not humanity—requires that we help American workers cope with the consequences. . . . This is part of the grease that must be provided to let the wheel of capitalist fortune operate.

As noted in this quotation and emphasized by other authors including Bluestone and Harrison (1982, chap. 3), groups affected by social adjustment problems include not only displaced workers and their immediate families, but also the communities in which they reside.

The efficiency argument is that if losses due to displacement are uncompensated, risk-averse workers and their employers will be discouraged from investing in all forms of firm-specific human capital. The result of suboptimal investment in specific training is, in turn, a social loss due to an inefficient organization of production.

Hamermesh, Cordes, and Goldfarb (1987) make the further point that only workers whose loss of returns to specific training was unanticipated should receive special assistance. As they note, demand fluctuations occur frequently enough in some industries that periodic layoffs are a predictable aspect of employment. Hence job losses are likely to be anticipated by workers and compensated through the market in the form of a wage premium for the higher risk of a capital loss. Mass layoffs and plant closures, in contrast, are less frequent and thus less predictable. In the absence of predictability, job losses are more likely to be unanticipated, and workers at risk are less likely to receive compensation through the market.

The discussion of table 1.1 and the results of the second DWS indicate that job losses associated with plant closings and company relocations are indeed an important source of displacement, and that the movement between occupations and industries required to locate new jobs may well entail sizable losses of specific training. Econometric investigations of 1984 DWS data by Addison and Portugal (1987a), Madden (1988), and Podgursky and Swaim (1987b) provide evidence that a change in industry, in particular, entails dramatic decreases in earn-
ings. Since union coverage is not reported in the DWS, however, it is difficult to distinguish whether the decrease in earnings associated with interindustry mobility represents loss of economic rents or loss of returns to specific human capital. Podgursky and Swaim deal with this data problem by merging information on industry unionization rates into their DWS sample. Controlling for industry unionization rates on the former job, the authors report for blue-collar males reemployed full time that a change in three-digit industry depresses earnings by 20 percent relative to the case in which a comparable displaced worker is reemployed in the same industry. A second commonly used measure of specific training—length of tenure on the predisplacement job—is also found to significantly increase earnings losses for blue-collar males.

Further evidence which helps to distinguish between the economic rent and specific human capital explanations is provided in an ingenious paper by Hamermesh (1987). Rather than comparing predisplacement and postdisplacement earnings, he uses the slope of estimated wage-tenure profiles to measure the extent to which plant closings are anticipated by workers. If the profile flattens out as the date of job loss approaches, the inference is that informed workers are responding to the decrease in expected returns by cutting back their investment in specific training.

Using the Panel Study of Income Dynamics data, Hamermesh’s empirical results indicate that (1) displacement is not typically anticipated by workers and (2) earnings losses associated with unanticipated layoffs are quite large. Under reasonable assumptions about the real interest rate and the rate of depreciation of firm-specific human capital, he estimates that the present value of a worker’s share of the lost returns on investments in firm-specific training is around $7,000 (in 1980 dollars). To this estimate must also be added the value of the often substantial periods of time displaced workers spend unemployed; the value of lost occupation- and industry-specific training; and the value of lost fringe benefits, particularly losses of unvested pension benefits and group health insurance coverage.
Major Questions to be Answered

While a case can and is being made that displaced workers are a population group deserving of special government assistance, several very practical issues immediately arise. What form should this assistance take? How should displaced worker programs be designed and put into place? Are there side effects of the programs which are unduly costly? And how should these programs be funded?

The perspective taken in this study is that state programs to assist displaced workers can be viewed as quasi-independent experiments whose designs and outcomes potentially offer a wealth of useful information to policymakers and labor market analysts. As will be described in detail, displaced worker programs range from conventional retraining and job search assistance programs to such unconventional initiatives as reemployment bonuses and unemployed entrepreneur programs. Controversial issues that arise in discussing the operation of these programs include “creaming” in the selection of program participants, the wisdom of tailoring programs to the specifications of particular employers, and the requirement that employers provide advance notice of plant closings and mass layoffs.

In formulating public policy, however, it is important to move beyond describing what has been tried to distilling what can be learned about how to best cope with the problems faced by displaced workers. Thus this study attempts to provide answers to the following major questions:

1. How do displaced workers differ from other unemployed workers?
2. Which forms of adjustment assistance “work” for displaced workers?
3. How should particular adjustment assistance services be provided?
4. What are the best time and place to provide assistance?
5. Is there a role for initiatives designed to keep existing plants open?
6. How should reemployment assistance to displaced workers be funded?

Evaluation Framework

An evaluation framework is clearly required to answer these and other related questions. Taking account of the twin objectives of raising
postdisplacement wages and reducing the length of unnecessary delays in the reemployment process, the central policy question that must be dealt with in program evaluation is whether the stream of earnings available to program graduates is enough greater than their earnings stream would have been in the absence of the program to justify its cost. Ideally, as emphasized by Burtless and Orr (1986), evidence on this question would be obtained from a classical experiment in which the earnings of graduates are compared to the earnings of a control group, and assignment to both groups is made randomly. Random assignment is important because its absence is quite likely to mean that estimates of net program effects will be biased. (The net effect of a program is its effect on an outcome variable net of the change in the outcome variable that would have occurred in the program’s absence.) For example, individuals who choose and are chosen to participate in a training program may be more highly motivated and job-ready than nonparticipants. If this is the case, a positive bias would be imparted to the estimated net program effect because the same unobservable characteristics that led to program participation also led to higher earnings. In the absence of a controlled experiment with random assignment, the nonexperimental approach to program evaluation focuses on differences in outcomes between program participants and an externally selected comparison group, and attempts to adjust statistically for the inherent differences between the two groups.5

Although controlled experiments with random assignment have been carried out for a few of the initiatives discussed in this study, information on individual program participants that would allow program evaluation of either the experimental or nonexperimental variety is not available for most state-funded initiatives. State legislators have generally not opted to devote scarce resources to funding the data collection effort required to conduct quantitative program evaluation. Rather, the data available for individual state programs typically are, at best, such summary statistics as placement rates, average postprogram earnings, and average cost per placement. In the absence of a control group, these summary statistics are of limited usefulness. With respect to postprogram placement, for example, the real issue is not the absolute level of the placement rate of program graduates but rather the placement rate for
graduates as compared to the rate for a control group whose members did not have access to the program.

Given the number and variety of existing state programs and pilot projects, a three-level evaluation framework involving a mix of available quantitative and qualitative evidence is proposed. For any particular initiative, the first level is a consideration of existing quantitative evidence obtained using data on individual program participants and a control group of nonparticipants. A key example of an initiative for which experimental results are available is the reemployment bonus. The Illinois UI experiment and the New Jersey UI reemployment demonstration project examine the effectiveness of cash bonuses in speeding up the reemployment process.

If data allowing neither an experimental nor a nonexperimental approach to program evaluation are available (which is usually the case), the next level of analysis involves the use of quantitative evidence on similar kinds of programs provided by demonstration projects or pilot studies. Important sources of this type of evidence are federally-funded studies such as the Downriver project carried out over the 1980–83 period and the six-site Dislocated Worker Demonstration project conducted between October 1982 and September 1983.

If neither of the first two levels of the evaluation strategy can be applied, the final level is a type of qualitative analysis termed "process analysis." Rather than concentrating on program outcomes, process analysis focuses on how the program is operating as evaluated by staff members, participants, and outside observers. Some of the concerns addressed by this level of analysis include program design and implementation, selection of program participants and the allocation of services across participants, and occurrence of fundamental changes in the direction and funding of the program during its existence.

**Organization of the Study**

Chapter 2 focuses on state initiatives to upgrade the vocational skills of displaced workers through classroom and on-the-job training programs. Several issues relating to training programs are considered, and three state-funded programs are examined in detail. Also briefly discuss-
Introduction

In this chapter are the efforts of the federal government over the past 25 years to improve the reemployment prospects of displaced workers.

In addition to classroom and on-the-job training, a third traditional type of assistance to displaced workers is designed to enhance job search skills. Chapter 3 describes the component services of a broadly defined job search assistance program and discusses the results from several demonstration projects that measure the net impact of this type of assistance. Also considered are the reemployment bonus experiments and two programs designed to test the effectiveness of more closely monitoring the search activity of UI claimants.

In chapter 4 the discussion shifts from different types of adjustment assistance initiatives to a consideration of the timing and location of program intervention. Specifically examined are (1) state laws requiring advance notification of planned plant closures or mass layoffs, (2) the new federal Worker Adjustment and Retraining Notification Act, and (3) state-level programs that deliver reemployment services on-site to displaced workers. A focal point of the discussion of on-site programs is the highly regarded Canadian Industrial Adjustment Service (IAS) program.

Chapter 5 includes a consideration of a number of other initiatives not yet discussed. These include state programs providing assistance to employee groups to save jobs by purchasing facilities that might otherwise close, enterprise zone proposals, and British and French initiatives to assist individual unemployed workers to start up their own small businesses. Also discussed in this chapter are several other initiatives which are part of the sweeping displaced worker program established by Massachusetts' Mature Industries Act.

Chapter 6 pulls together the results of the study by providing answers to the six key policy questions posed earlier. The chapter concludes with a consideration of what appears to be the best mix of programs to meet the needs of displaced workers.

NOTES

1. Using data for the 1968–81 period from the University of Michigan's Panel Study of Income Dynamics, Hamermesh finds that the rate of displacement (where displaced
workers are defined as those whose plants closed) showed a strong secular increase that is independent of the business cycle. Summers examines the rise in what he terms the "normal" unemployment rate over the past 20 years. He concludes that most of the additional unemployment is concentrated among mature men, job losers, and the long-term unemployed. The increased share of married women and young people in the labor force is found to have had essentially no effect.

2. Because UI trust funds cannot be used to pay for programs other than income maintenance, these state initiatives must be funded by earmarked payroll taxes or general state revenues. The funding of the California, Delaware, and Washington programs can be viewed as a diversion of UI tax revenues, however, since employers in these states had their regular UI payroll tax rates decreased at the same time that the earmarked payroll taxes were levied.

3. Flaim and Sehgal (1985:11) also emphasize that those displaced from high-wage industries are most likely to suffer a decrease in earnings upon reemployment. Among the 980,000 workers displaced from durable goods manufacturing, for example, median weekly earnings dropped by 21 percent from $344 to $273 in the jobs held in January 1984.

4. Madden (1987) considers a third explanation emphasizing that displaced workers encounter greater discrimination (or less favoritism) in the general labor market than on the last job. Using 1984 DWS data, she presents evidence indicating that women suffer a greater loss from displacement than men because sex discrimination in the labor market limits the job alternatives available to women.

5. An important controversy in the literature concerns the value of the nonexperimental approach to program evaluation. LaLonde (1986) and Fraker and Maynard (1987) provide evidence showing that nonexperimental strategies involving the selection of comparison groups from alternative data sources and the application of available econometric techniques fail to replicate experimentally generated results obtained by comparing the earnings of randomly assigned treatment and control group members. They therefore conclude that randomized experiments are necessary to reliably determine program effects. On the other hand, Heckman, Hotz, and Dabos (1987) argue that while in principle randomized experiments represent the most desirable approach to program evaluation, the actual implementation of experiments typically creates new forms of sample selection that require the application of nonexperimental econometric procedures for making statistical adjustments.