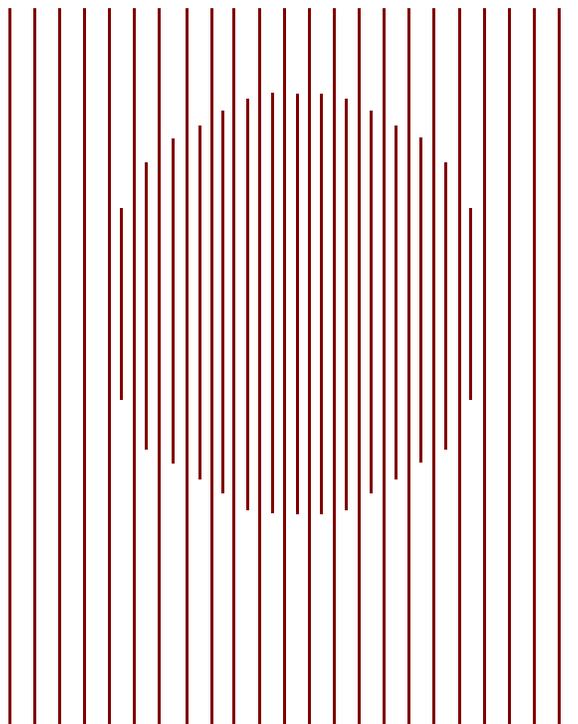


CBO PAPERS

**AN ANALYSIS OF THE
ADMINISTRATION'S
PROPOSED PROGRAM FOR
DISPLACED WORKERS**

December 1994



CONGRESSIONAL BUDGET OFFICE

CBO PAPERS

**AN ANALYSIS OF THE
ADMINISTRATION'S
PROPOSED PROGRAM FOR
DISPLACED WORKERS**

December 1994



**CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515**

PREFACE

The Administration's proposed Reemployment Act of 1994 would establish a comprehensive reemployment program for workers who were permanently terminated from their jobs. It would also create a capped entitlement to income support for certain of these displaced workers who were participating in long-term training and educational activities. At the request of Senator Pete Domenici, Ranking Republican on the Senate Budget Committee, this paper examines the proposal. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, the paper contains no recommendations.

Ralph Smith of CBO's Health and Human Resources Division prepared this paper under the direction of Nancy M. Gordon. The estimate of the proposal's cost was prepared by Cory Oltman, formerly of CBO's Budget Analysis Division, under the direction of C.G. Nuckols and Paul Cullinan, and by Peter Ricoy of CBO's Tax Analysis Division under the direction of Rosemary Marcuss and Richard Kasten.

CBO gratefully acknowledges the cooperation and assistance of the staff of the Department of Labor. In addition, valuable comments were provided by Sandra Christensen, Gail Del Balzo, Paul Cullinan, Ann Lordeman, and Bruce Vavrichek. Sherwood Kohn edited the manuscript, Christian Spoor proofread it, and Ronald Moore prepared the final version of the paper.

Robert D. Reischauer
Director

December 1994

CONTENTS

	SUMMARY	iv
I	INTRODUCTION	1
II	DESCRIPTION OF THE PROPOSAL'S KEY PROVISIONS	4
	Title I 4	
	Title II 6	
	Other Titles 8	
III	EFFECTS OF PROVIDING INCOME SUPPORT	9
	The Number of Participants 9	
	The Choice of Participants and the Amount of Their Support 12	
	Potential Effectiveness 13	
IV	EFFECTS ON THE FEDERAL BUDGET	18
	A New Capped Entitlement 18	
	Other Issues 20	
APPENDIX	Cost Analysis of the Reemployment Act of 1994	21

SUMMARY

The Administration's proposed Reemployment Act would establish a comprehensive reemployment program for workers who were permanently terminated from their jobs. The act would also create a capped entitlement to provide income support for certain of those displaced workers while they participated in long-term training and educational activities. The new program would replace Economic Dislocation and Worker Adjustment Assistance (EDWAA), Trade Adjustment Assistance (TAA), and several smaller programs for specific groups of displaced workers.

The proposed entitlement program, included in title II of the bill, is the major focus of the Congressional Budget Office's (CBO's) analysis. That component is central to the Administration's goal of transforming the unemployment insurance system into a reemployment system that would make extended unemployment insurance benefits available to displaced workers engaged in long-term training and education. The Subcommittee on Human Resources of the Committee on Ways and Means reported a modified version of title II (the title within the committee's jurisdiction) in July 1994. No other part of the Administration's proposal was acted on by either House during the 103rd Congress.

As modified by the subcommittee, title II would establish a Retraining Income Support (RIS) program that would extend unemployment insurance benefits for certain displaced workers beyond the usual six-month maximum. Once the program was fully phased in, displaced workers who had worked at least three years for a previous employer could qualify for up to one year of support after they exhausted their regular unemployment insurance benefits. Displaced workers who had held a job for at least one year could qualify for up to six months of support. To qualify for that support, displaced workers would have to be making satisfactory progress in a training or education program approved by an authorized state agency, and the workers would generally have to enroll in that program within 16 weeks of losing a job. In effect, the state agencies would be the gatekeepers for access to the RIS payments.

Although the RIS payments are referred to as an entitlement, they would be limited--or capped--by the amounts to be established as a new account within the Unemployment Trust Fund. The proposed legislation, as reported by the subcommittee, would effectively limit expenditures to the available amounts. CBO estimates that spending for the income support

payments during the 1995-1999 period would total about \$2 billion, which would be nearly offset by phasing out the TAA program and permanently extending the 0.2 percent Federal Unemployment Tax Act (FUTA) surtax, which is scheduled to expire at the end of calendar year 1998. In subsequent years, federal spending for income support that is authorized by the proposed program would be limited by amounts raised by the extended FUTA tax and, therefore, would not, on net, increase the federal deficit. In 2001, the first full fiscal year during which all of the act's provisions for income support payments would be in effect, the limit would be roughly \$1.2 billion.

Some features of the proposed income support program, however, raise concerns. First, the caps would probably be well below the amounts necessary to provide income support for all of the displaced workers who would seek assistance. For example, the Department of Labor estimates that funds would be available to support about 220,000 displaced workers while they participated in education or training programs in 2001. That number represents only 10 percent of the workers that the department anticipates will be displaced in 2001. The magnitude of the income support--more than \$9,000 for displaced workers receiving the current average weekly benefit amount, provided they are eligible for the maximum duration of support--would probably make the program attractive to a larger percentage of eligible people.

Second, even though the total amount of funds available for income support would be capped, the administering state agencies would have little or no direct incentive to limit participation. The caps would be nationwide, not on a state-by-state basis. The funds would, in effect, be available to states on a first-come, first-served basis. The proposal also raises a number of other issues about who should receive income support. For example, the proposed program would enable some displaced workers to obtain support that is generally not available to other unemployed workers, such as economically disadvantaged people who participate in the training programs authorized by the Job Training Partnership Act.

Third, it is not clear whether the proposal would result in a more effective system than the current one in preparing displaced workers for new jobs. The income support would enable the recipients to participate for much longer periods in training and education programs than they do under EDWAA, which authorizes the main federal program for displaced workers. Few participants in the current program receive income support, which is one reason why few of them have participated in training programs lasting more than four or five months. But the argument that longer training would be more effective, though plausible, has not been proven.

CHAPTER I

INTRODUCTION

The Administration's Reemployment Act of 1994 was introduced in the Senate and the House (as S. 1951 and H.R. 4040) in March 1994. The proposal would establish a comprehensive reemployment program for workers who had been permanently laid off, replacing six current programs. It would also create a capped entitlement to income support for certain of these displaced workers who were participating in long-term training and educational activities. The Congressional Budget Office (CBO) estimates that federal outlays for these new programs would total almost \$9 billion over the 1995-1999 period, roughly two-fifths of which would be new spending.¹

Two components of the proposal would account for most of the spending. First, a discretionary program would be established to replace programs authorized by the Economic Dislocation and Worker Adjustment Assistance Act, as well as three smaller programs for specific groups of displaced workers. The new program would provide counseling, job-search assistance, training, and other reemployment services. Second, an entitlement program would be established to provide income support for certain displaced workers who are engaged in long-term training and have exhausted unemployment insurance benefits. Trade Adjustment Assistance, including the special program for workers displaced because of the North American Free Trade Agreement, would be phased out. Other parts of the legislation include the establishment of one-stop career centers, the development of a national labor market information system, and the provision of increased flexibility for states that wish to make certain changes in their unemployment insurance or employment and training programs.

The Administration's proposal is motivated by concerns about the problems faced by many workers who permanently lose their jobs and about shortcomings in the current array of programs available to them. The Department of Labor anticipates that more than 2 million workers will be displaced from their jobs during each of the remaining years of the decade and beyond. As with their predecessors, some of these displaced workers will find new jobs with little trouble, but others will have difficulty.

1. The Administration's policy estimate for the same period is higher (see Appendix). Most of the difference results from the treatment of the authorization for title I after 1995, which is stated in the bill as "such sums as may be necessary for each succeeding fiscal year." CBO estimates "such sums" in the subsequent years by increasing the stated authorization amount for the initial year for projected inflation. The resulting amounts are less than the amounts that the Administration has stated that it would request for those years.

Some of those difficulties were documented in a previous study by CBO, which analyzed the experiences of workers who had been displaced during the 1980s.² For example, one to three years after losing their jobs, half of those workers either were not working or had new jobs with weekly earnings that amounted to less than 80 percent of their old earnings. Moreover, the vast majority of displaced workers who had found new jobs experienced some period of joblessness after displacement, and many were unemployed for substantial periods. The average duration of joblessness for people who found new jobs was almost 20 weeks.

Under current law, unemployment insurance is the main program providing income assistance to displaced workers, as well as to many other workers who lose their jobs. The Economic Dislocation and Worker Adjustment Assistance program is the main federal program providing reemployment assistance. In addition, the Trade Adjustment Assistance program provides income assistance, training, and related services to workers unemployed as a result of competition from imports. Special assistance is also offered to displaced workers whose job losses were related to enforcement of the Clean Air Act, cuts in defense spending, or, most recently, the North American Free Trade Agreement.

The Administration identified five major features of the current set of programs that it argues should be corrected. The first feature is that the eligibility for several of the programs is based on the specific cause of the displaced workers' job loss, rather than on their needs. The second is a failure to provide reemployment services quickly. The third is a lack of adequate long-term training and educational opportunities for displaced workers. The fourth is inadequate information about the labor market. And the fifth is a lack of focus on reemployment in the unemployment insurance system.³

Those problems are addressed in the proposal's key provisions. The new federal entitlement program that would be established by title II is of particular interest. It would be a fundamental departure from the federal government's long-standing strategy for aiding displaced workers.⁴ A modified

2. Congressional Budget Office, *Displaced Workers: Trends in the 1980s and Implications for the Future* (February 1993).

3. These problems are discussed in Department of Labor, *Reemployment Services: A Review of Their Effectiveness* (April 1994), especially pp. 12-18.

4. For a more detailed examination of the other parts of the proposal, see Congressional Research Service, "Job Training Legislation and Budget Issues," CRS Issue Brief IB93076 (updated regularly), and Congressional Research Service, "Creating a Federal Employment and Training System: An Overview," CRS Report for Congress 94-144 EPW (February 24, 1994). Some of the issues concerning the income support provisions are also discussed in Congressional Research Service, "The Proposed Reemployment Act

version of this feature of the Administration's original proposal is contained in the only part of the bill that was reported by a subcommittee of either House during the 103rd Congress.

CHAPTER II

DESCRIPTION OF THE PROPOSAL'S KEY PROVISIONS

The Administration's proposal, as introduced in March 1994, calls for a wide-ranging revision of the federal government's programs for assisting displaced workers. The Subcommittee on Human Resources of the Committee on Ways and Means reported a modified version of title II of the bill (the title that falls within that committee's jurisdiction) in late July.

The main difference between title II of the original bill and the reported version is that the latter contains specific provisions that would assure that spending on the new income support program would be limited by annual caps.¹ Although the Administration intended the new entitlement program to be capped, the original legislative language was ambiguous, in the opinion of the Congressional Budget Office.² (The description of title II in this chapter is based on the bill reported by the subcommittee.)

TITLE I

Title I would establish the Comprehensive Program for Worker Reemployment, which would replace the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Program, as well as the Defense Conversion Adjustment Program, the Defense Diversification Program, and the Clean Air Employment Transition Program. The new program would begin on July 1, 1995.

The bill authorizes about \$1.46 billion for 1995 and such sums as may be necessary for this title in subsequent years. The Department of Labor has indicated that the Administration intends to request substantially more for the program in subsequent years, totaling nearly \$10 billion over the 1995-1999

-
1. Another difference is that the reported bill contains a new section that would permit the Secretary of the Treasury to make advances to the income support account for retraining from other Unemployment Trust Fund accounts, which must be repaid in the same fiscal year. The reported bill also moves the starting date for the proposed new income support program from October 1, 1995, to July 1, 1995.
 2. Unlike the original bill, the bill reported by the subcommittee contains specific provisions concerning the actions that the Secretary of Labor must take if he or she estimates that the amount of income support for retraining individuals would exceed the amount estimated to be available. These actions include directing the states to reduce the weekly amounts payable to the participants, to reduce the maximum duration of those payments, to not begin payments to new individuals, or any combination of those actions.

period.³ About half of that five-year total would represent net new authorizations, and the remainder would replace existing programs.

The eligibility criteria for services under title I are broad, including anyone who is now eligible for services under EDWAA. Virtually all workers who had been permanently laid off within the preceding 12-month period, or had received notice that they would be permanently laid off, would be eligible if they were unlikely to obtain new jobs in the same or similar occupations because their skills had become obsolete or they lacked job opportunities. "Permanently laid off" is defined as being laid off without the expectation of recall within the next six months. Likewise, laid-off workers who had been unemployed for at least six months would be eligible as well. (Other people who would be eligible include certain unemployed workers who had been self-employed, displaced homemakers, and workers who would be eligible for Trade Adjustment Assistance.)

The reemployment services that would be available to these displaced workers include such basic aids as a general assessment of their skills and needs; help in searching for a job, including preparation for interviews; and placement assistance. More intensive reemployment services would be made available to displaced workers who had received the basic services and had still not found a new job. Those activities could include more comprehensive and specialized assessment of their skills and needs; the development of an individual reemployment plan, which would identify goals and the appropriate combination of services needed to achieve those goals; and assistance in selecting education and training providers and obtaining income support.

Education and training services would include payment for costs up to \$4,750 per participant per year for up to two years. In addition, income support for up to 26 weeks could be provided to certain participants in education and long-term training programs. The income support under this title would be available to people who had worked for their previous employer for between one and three years. (Workers with longer tenure with their former employer would be referred to the income support program authorized by title II.) Income support under title I would be available only through 1999, after which time these displaced workers would be eligible for income support under title II.

3. The Administration includes the discretionary spending proposed for the activities that would be authorized by this title and for the one-stop shopping that would be authorized by title III in its list of proposed investments for 1995 through 1999. See *Budget of the United States Government, Fiscal Year 1995* (February 1994), p. 245. The projected costs subsequently provided by the Department of Labor in its explanatory materials for the bill submitted in March 1994 are slightly different from the amounts included in the budget. The discussion of the department's projections in this paper is based on the more recent projections.

TITLE II

Title II (both in the original bill and in the version reported by the subcommittee) would establish the Retraining Income Support (RIS) program, phase out the Trade Adjustment Assistance (TAA) and the North American Free Trade Agreement Transitional Adjustment Assistance programs, and permanently extend a 0.2 percent Federal Unemployment Tax Act (FUTA) surtax.⁴ Other provisions would encourage states to offer a short-time compensation program to individuals who work reduced hours in lieu of layoffs and to pay reemployment bonuses to certain unemployment insurance (UI) recipients who find new jobs within 12 weeks of filing an initial claim for benefits.

The RIS program is the proposal's major innovation. Essentially, it would enable certain displaced workers to extend their unemployment insurance benefits by an additional year beyond the usual six-month maximum while they participate in training or educational activities. The weekly benefit under the RIS program would equal their weekly UI benefit. The RIS program could be viewed either as a new stipend available to certain trainees and students or as a new extended benefit program for UI recipients in which a condition of receiving the extension is that the recipient participate in a training or education program.

To qualify for RIS payments, displaced workers generally would be required to satisfy the eligibility criteria established for the reemployment services of title I, plus three more stringent criteria. First, they would have to be participating, and making satisfactory progress, in an approved training or education program developed by an agency certified by the Secretary of Labor. Second, they would have to be enrolled in the program within 16 weeks after having lost a job. More flexible rules would apply if the layoff was not initially considered to be permanent or if certain extenuating circumstances justified a delay. Third, they would have to have worked at least three years for a previous employer to qualify for up to one year of support, following the

4. The title also included a provision that would require states to allow unemployment insurance recipients to have federal income tax withheld from their payments. This provision was subsequently included in the Uruguay Round Agreements Act, the recently enacted legislation placing in effect the General Agreement on Tariffs and Trade (GATT). Thus, the receipts from this provision (roughly \$160 million estimated for the 1996-1999 period) would no longer be available to offset direct spending for the Reemployment Act.

exhaustion of their regular UI benefits.⁵ Displaced workers who would have qualified for the TAA program would not need to meet this three-year tenure requirement. Beginning in fiscal year 2000, displaced workers who have one or two years of job tenure would also qualify, but for only up to six months of support.

Although the RIS payments are referred to as an entitlement, they would be limited--or capped--by the availability of funds in a Retraining Income Support Account established within the Unemployment Trust Fund. These caps would increase from \$350 million in the first year to \$920 million in fiscal year 2000. (The original bill would have provided the initial amount in fiscal year 1996. That was subsequently moved to July 1995.) Beginning in 2001, the amount available would equal one-fifth of the amount collected by the federal government through the FUTA tax--roughly \$1.2 billion in that year.

The federal government would enter into agreements with states under which a state agency would be authorized to determine eligibility for RIS payments and make them. Upon certification by the Secretary of Labor of the amounts necessary to enable the states to pay the participants, the Secretary of the Treasury would transfer those amounts to the states, subject to the availability of funds. As discussed in Chapter III, the reported bill does not contain any method for apportioning those funds among the states. Thus, the funds would be available on a first-come, first-served basis.

The Administration's intention, as explained by officials of the Department of Labor, is that payments to otherwise-eligible displaced workers could not exceed the amounts specified by the caps. Changes in the original language, incorporated in the version reported by the Subcommittee on Human Resources, reflect this intention. If the Secretary of Labor estimated that the amount of income support for which displaced workers were eligible exceeded the amount available in the account, the Secretary would be required to reduce the amounts payable to recipients or to refuse benefits for new applicants.

5. The legislation specifies several circumstances in which breaks in employment would not be counted against the tenure requirements. For example, a worker absent for up to 26 weeks in a year for a compensable disability under workers' compensation would still be able to count that year. Other rules would cover circumstances in which workers commonly have multiple employers, such as construction workers who obtain jobs through hiring halls.

OTHER TITLES

Titles III and IV would encourage states to develop statewide networks of one-stop career centers that would provide local points of access to training and related services and would establish a National Labor Market Information System. The bill would authorize \$250 million for those titles (combined) for each of the first five years and such sums as may be necessary for each of the following four years. Title V would amend the Job Training Partnership Act to establish "reinvention labs," through which states would be encouraged to develop innovative programs for helping low-income individuals. No funds would be authorized for those activities.

CHAPTER III

EFFECTS OF PROVIDING INCOME SUPPORT

The proposed income support program raises three issues about its potential effects: What proportion of displaced workers who might seek income support would be able to obtain it, who would receive the assistance, and would the support be likely to facilitate more effective reemployment assistance for recipients?

THE NUMBER OF PARTICIPANTS

Would the caps specified in the bill allow funds sufficient to meet the needs of the eligible displaced workers who are likely to seek income support or would the caps restrict aid to insufficient amounts? Although that question cannot be answered without knowing how the program would be carried out, it appears likely that the caps would be well below the amounts required to provide income support for all of the displaced workers who would seek assistance.

The Department of Labor estimated that the amounts specified by the caps would be sufficient to provide income support to about 220,000 displaced workers a year once the program was fully implemented in 2001. This number is 10 percent of the workers that the department anticipates will be displaced in that year. Roughly 125,000 of those participants would be workers who had been displaced from jobs in which they had worked at least three years; they would qualify for up to 52 weeks of income support while in training or education programs. The remainder would qualify for up to 26 weeks of support while in training or education activities.¹

In the first few years, funding and participation levels would be much lower. For example, the department estimated that in 1996, 1997, and 1998 roughly 80,000 displaced workers who had at least three years of job tenure would begin receiving income support each year. Most workers who had fewer years of tenure would not be eligible for the income support authorized by title II, although they might be eligible for support through the discretionary program authorized by title I.

1. These estimates are based on the assumptions that the average duration of retraining income support for participants who would be eligible for the longer period would be 36 weeks and that those eligible for the shorter period would receive support for an average of 16 weeks. These assumptions seem reasonable and are consistent with the experiences of workers who received income support for training authorized by the Trade Adjustment Assistance program.

The Department of Labor's estimate of the total number of displaced workers was based in part on the Congressional Budget Office's analysis of responses from the displaced worker supplements to the Current Population Survey. That study estimated that during the 10-year period ending in 1990, the annual number of workers permanently losing full-time jobs ranged from 1.5 million (in 1988) to 2.7 million (in 1982) and averaged about 2 million displaced workers during the decade. Half of those displaced workers had worked for an employer for at least three years.

The department projected that the total number of displaced workers (including workers displaced from part-time jobs, who would also be eligible for aid under the proposal) would increase to 3.1 million in 1993; fall to 2.6 million in 1994; and then gradually decline by 1997 to 2.2 million, where the number would remain for the next several years. Although CBO does not itself forecast the number of displaced workers, these projections appear to be reasonable in the absence of any major economic downturns.²

The anticipated number of displaced workers who would need income support seems much too low, however. The department based its estimates on the expected number of displaced workers who would be participating in long-term training or education programs funded by title I and who would meet the additional criteria of tenure for income support. Because most of the funds appropriated for title I would be allotted among the states by formula, each state would have an incentive to limit referrals to education and training activities in order to reserve the available money for those who would most benefit. But that approach overlooks the possibility that the staff in the state agencies would, in addition, approve income support for some displaced workers whose training or education was not funded by title I.

This omission is important because many displaced workers probably would find other ways of financing training and would be encouraged to do so. Even displaced workers who were otherwise eligible and who paid for their own training or education could be approved for income support. Given the magnitude of the income support--totaling more than \$9,000 for 52 weeks for a displaced worker receiving the average weekly benefit amount (if the worker is eligible for the maximum duration of support)--it seems likely that many displaced workers would seek income support even though they were not participating in activities funded by title I.

2. The projections are also consistent with findings from the newest survey of displaced workers, which indicated that 2.6 million workers were displaced in 1991 and 2.7 million were displaced in 1992. These estimates were provided by staff of the Bureau of Labor Statistics, based on unpublished tabulations from the February 1994 supplement to the Current Population Survey. Their findings are scheduled to appear in an article in the *Monthly Labor Review* in 1995.

