

**DISLOCATED WORKERS:
ISSUES AND FEDERAL OPTIONS**

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PREFACE

Of the currently unemployed workforce, a portion can be termed dislocated. Even as the economy recovers from the current recession, these involuntarily unemployed workers will face serious problems finding new jobs because of structural changes in the economy. This study, prepared at the request of the Senate Budget Committee, examines the sources and magnitude of labor dislocation and analyzes options for possible federal aid. In keeping with CBO's mandate to provide objective and nonpartisan analysis, the paper makes no recommendations.

Steven Sheingold of CBO's Human Resources and Community Development Division prepared this paper under the supervision of Nancy M. Gordon and Martin D. Levine. John Engberg provided the computer modeling for estimating the number of dislocated workers. Johanna Zacharias edited the paper, assisting greatly with substantial portions of it. The author wishes to acknowledge the technical and critical contributions of many people, particularly Stephen Baldwin, Marc Bendick, Jr., Walter Corson, David Delquadro, Alfred B. Fitt, Richard Hendrix, Louis Jacobson, Thomas Joyce, David Longanecker, and Larry Orr. Jill Bury typed the many drafts and prepared the paper for publication.

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SUMMARY

Even when the U.S. economy has recovered from the present recession, some portion of the workforce that is now unemployed will remain jobless despite concerted efforts to return to work. This group, identified as dislocated workers and composed of people who have been displaced by structural changes in the economy, will face particular difficulty adjusting to changed employment demands and will likely endure longer-than-usual periods of joblessness. Whether the federal government should provide special assistance to such workers and what form any aid might take are likely to be important questions as the Congress considers a number of proposals that have been advanced to assist dislocated workers.

SOURCES AND SCOPE OF THE PROBLEM

Several factors are likely to contribute to substantial displacement of labor in the 1980s. First, shifts in consumer demand and in foreign competition will cause many traditional manufacturing industries such as steel production, automotive manufacturing, and the textile industry to grow slowly or actually decline in the years ahead. Second, the modernization of many older industries through labor-saving technology will further reduce the need for workers in those sectors. In particular, the diffusion of microelectronic technology could cause the loss of three million jobs by the end of the decade--or 15 percent of the current manufacturing workforce.

Some workers who become unemployed due to these changes will face serious problems in becoming reemployed. Adjustment is likely to be particularly difficult for older blue-collar workers with long service records in their former jobs; they will not easily find new employment and may suffer financial loss when they do. Complicating adjustment for such workers will be differences in skill requirements between the jobs lost and those that may be available, as well as differences in their locations.

The number of workers likely to be dislocated in the near future is a function of the exact characteristics used to define dislocation--age, length of job tenure, occupation, industry, and duration of employment. Applying several different definitions and a range of assumptions regarding future economic conditions, the number of dislocated workers in 1983, when recovery is expected to be under way, could range from 100,000 to 2.1 million--that is, from about 1 percent of all unemployed workers to 20

percent. At the lower extreme, if only workers who are displaced from declining industries and who remain jobless for longer than 26 weeks are considered dislocated, the number ranges from 100,000 to 150,000--most of whom would be blue-collar workers in the Northeast and Midwest. On the other hand, if all unemployed workers in declining geographic areas are also considered dislocated, the number could range from 1.7 million to 2.1 million; about 50 percent would be blue-collar workers, but nearly 25 percent would be managerial, sales, and clerical workers.

The Congress confronts difficult questions concerning dislocated workers. Do they warrant special assistance and, if so, what kind? Some observers view dislocation as a private market problem for which direct federal involvement is unnecessary or inappropriate. On the other hand, proponents of special aid contend that dislocated workers face a uniquely difficult employment situation, which warrants special assistance. Still others would argue that dislocated workers, if unaided, could use legislative efforts to hinder economic changes that could benefit society in the long run. Relaxed international trade restrictions is one example of the kind of policy change that hard-pressed jobless workers might seek to impede.

CURRENT UNEMPLOYMENT PROGRAMS AND DISLOCATED WORKERS

The federal government currently operates an array of programs for unemployed people. Although current programs offer the variety of services that dislocated workers may need--placement help, job training, relocation aid, and cash assistance--because of funding restrictions and gaps in coverage, present efforts are available to only a portion of all dislocated workers. Together, these programs could not be considered to constitute a comprehensive dislocation policy.

The Employment Service. Staffing limitations at the Employment Service (ES)--a federal-state system providing job-search assistance through 2,600 regional offices--restrict the quantity of personal services that can be provided to dislocated workers. Furthermore, the ES has had problems building listings for the types of jobs that might be suitable for the experienced workers who predominate among the dislocated.

CETA. Assistance under the Comprehensive Employment and Training Act (CETA)--the major program for providing job training--has generally not been used by dislocated workers. This program is targeted toward low-income, disadvantaged applicants and, in addition, many dislocated workers are reluctant to seek aid through it.

Unemployment Insurance. Most experienced workers who lose their jobs are eligible for income replacement benefits under the Unemployment Insurance (UI) system. In many instances, however, UI benefits--which are generally available for 26 weeks--will be exhausted before dislocated workers acquire new positions. Furthermore, dislocated workers are likely to have smaller proportions of their earnings replaced by UI than are other unemployed workers.

Special Assistance Programs. Some workers also receive aid under a number of special assistance programs. Trade Adjustment Assistance (TAA)--the largest of these programs--is restricted to workers whose unemployment results from import competition, however. Also, TAA has served more as an income maintenance than an adjustment assistance program in the past, because few TAA recipients participated in available employment services.

OPTIONS FOR PROVIDING ADJUSTMENT ASSISTANCE

If the Congress chooses to change the current system of assistance for dislocated workers, among the specific issues to be resolved will be:

- o What individuals should be eligible for aid; and
- o What types of readjustment services and income replacement to provide.

Determining Eligibility

Eligibility for adjustment assistance--and thus the scope of any program--could be defined in terms of any of several traits of dislocated workers, including:

- o Displacement in a declining industry,
- o Displacement in a declining occupation,
- o Residence in a declining geographic area,
- o Length of previous job tenure,
- o Age at the time of severance, and
- o Duration of joblessness.

Each of the criteria cited about could be applied by itself or used in tandem with another. Applying single criteria would generally define larger eligible populations and would include many unemployed persons who could probably readjust with little aid. Applying multiple criteria would follow the practice used in many other benefit programs to target aid narrowly, but would carry a greater risk of excluding persons equally in need of assistance. In either case, granting aid on the basis of these criteria would entail establishing arbitrary thresholds--say, tenure at ten years, age at 45 years, and duration of unemployment at 26 weeks. Although difficult to set because of the people they would automatically exclude, such thresholds, have precedents in many major federal benefit programs.

An alternative approach would be to make eligibility contingent on a worker's having been part of a mass layoff or plant closing. This would avoid some of the problems associated with the other criteria, but it could also present some difficulties.

Single Criteria. If all workers from declining industries were granted eligibility, the Congressional Budget Office estimates that 880,000 workers could be eligible in 1983. Nearly half would be from four major industries--automobiles, fabricated metals, primary metals, and wearing apparel--and more than 60 percent would reside in the Northeast and Midwest. Extending eligibility to other unemployed workers in declining areas would bring the eligible population to 1.8 million. Many of these additional workers would be from the service, retail, wholesale, and construction industries--some of which may be affected more adversely by cyclical than by structural economic change. If, instead, aid were directed to those unemployed workers from declining occupations, 1.2 million workers would be eligible. Three-quarters of these workers would be semi-skilled operatives and laborers, but only 20 percent would be from declining manufacturing industries.

Alternatively, if aid were granted to all unemployed workers with more than ten years' job tenure, 710,000 would be eligible in 1983. This group would include large numbers of older workers. About 30 percent would be from declining manufacturing industries, and about one-quarter would be white-collar workers. Offering aid instead to persons older than 45 would make 890,000 persons eligible, about 70 percent of whom would have qualified under the job-tenure requirement. Finally, providing assistance to workers who have been jobless for longer than 26 weeks would make 560,000 persons eligible, about one-third of whom would be from the service and retail industries and roughly one-fifth of whom would be white-collar workers.

Multiple Criteria. Applying a different approach, eligibility could be granted to workers who have lost jobs in declining industries and who also

either have more than ten years' job tenure, are older than 45, or have been unemployed for longer than 26 weeks. The multiple-criteria definition using job tenure would tend to focus on older, more experienced workers with little chance of returning to their former jobs. The CBO estimates that 225,000 workers would be eligible under this definition--the majority being semi-skilled blue-collar workers from the automotive, primary metals, textile, and wearing apparel industries. Limiting benefits to workers older than 45 and from declining industries would make 205,000 persons eligible, most of whom would also be eligible under the declining-industry/job-tenure criterion. If benefits were available to workers unemployed for more than 26 weeks from declining industries, approximately 110,000 workers would be eligible, and almost half would be from the automobile industry. Extending eligibility under any of these definitions to include other unemployed workers in declining areas would increase the number of dislocated workers by between 60 percent and 130 percent and would include many workers from the service, retail, wholesale, and construction industries.

Alternatively, a declining-occupation component could replace declining industry in any of the dual criteria discussed above. One effect of using a declining-occupation criterion in combination with the a job-tenure, age, or unemployment requirement would be to exclude most white-collar workers. This approach would, however, include workers in nondeclining industries who have been displaced because structural changes--particularly technological changes--have reduced the demand for their skills. Such definitions would include from 120,000 to 280,000 workers in fiscal year 1983--between 25 and 40 percent of whom would be from declining industries.

Plant Closings or Mass Layoffs. Another approach would be to limit assistance to workers who lose their jobs as a result of plant closings or mass layoffs. This approach would avoid having to establish the arbitrary threshold levels associated with the criteria noted above. On the other hand, targeting aid on persons affected by plant closings or mass layoffs could assist workers likely to be relocated by their present employers and might even create incentives for some employers to close facilities they would otherwise have left open.

Options for Adjustment Assistance

Federal aid for dislocated workers could take two different forms:

- o Readjustment services to help workers adapt to changed labor markets, and
- o Income assistance.

Readjustment services could include job-search assistance, training, and relocation aid. Although the overall effect of such services is uncertain, they might prove most cost-effective if they were given in sequence from least to most expensive. In other words, if all recipients were required to use relatively low-cost job-search assistance first, more mobile workers would probably find jobs at minimal cost, which would allow services requiring larger outlays--training and relocation--to be limited to workers with the most difficult adjustment problems. Similarly, receipt of cash assistance could be made contingent upon participation in adjustment services. (Specific readjustment service options are described in the accompanying Summary Table.)

Job Search Assistance. Job-search assistance could be provided through the ES either to individuals or to groups of dislocated workers. Both approaches have already been tested to some degree and could be expanded. Individual services could include matching applicants with job listings, counseling, skill testing, and intensive job development (contacting potential employers on applicants' behalf). Stressing self-help, group assistance--or job clubs--could aid workers by teaching job-search skills. Preliminary evidence indicates that both methods are effective at shortening the duration of unemployment, and that each dollar spent on such assistance would likely be more than offset by reductions in federal UI outlays.

If a population delineated by relatively restrictive eligibility criteria were offered individual adjustment services, federal outlays for such aid would total as little as \$10 million in 1983. Aiding a population determined by more comprehensive standards could cost \$104 million. Expanding the use of job clubs could be somewhat costlier. Depending on the size of the beneficiary population, federal outlays could range from \$44 million to \$460 million in fiscal year 1983.

Skill Training and Other Education. After an initial period of job-search assistance, workers who remained unemployed could be considered for training in skills that are in demand. Expanding the use of vocational education could concentrate on teaching particular occupational skills. This approach might be useful for dislocated workers who can build on existing skills, but its value could be limited in declining geographic areas, where few skills are in demand. Depending on how many workers were served, fiscal year 1983 outlays for vocational retraining could range from \$132 million to \$920 million.

Subsidizing on-the-job training in the private sector is another option. Since many dislocated workers have demonstrated their reliability, private employers might be willing to retrain them if helped with some federal

subsidies. Moreover, on-the-job training tends to encourage stable employment. Employers may be reluctant, however, to train older workers even with subsidized wages. Federal outlays to promote on-the-job training could range widely, from \$90 million to \$650 million in fiscal year 1983.

College-level courses might equip a limited number of dislocated workers with marketable skills at quite moderate costs. Such training might be particularly helpful to younger, more educated workers but of less benefit to older blue-collar workers. Fiscal year 1983 outlays to support such efforts could range from \$4 million to \$25 million.

Relocation Assistance. Relocation assistance--subsidizing moving expenses--might encourage some workers to relocate to areas with greater demand for their skills. Such aid would probably be most effective if used in conjunction with an expanded program of inter-area job information. The ES now provides inter-area job information through a clearing center in Albany, New York. Information about jobs currently goes to and from Albany by mail; though more costly, a computer link-up would certainly be faster.

If 90 percent of "reasonable" job-search expenses up to \$600, plus a moving allowance of up to \$600, were available to all dislocated workers (aid now available only to workers with access to TAA), fiscal year 1983 outlays would range from \$5 million to \$35 million.

Income Replacement. Because dislocated workers may remain unemployed longer than other people and are likely to have relatively low percentages of their earnings replaced by regular UI benefits, the Congress might consider supplementary cash assistance. Specific options include extending the duration of UI benefits and raising UI benefit levels. Extending the length of time that dislocated workers could collect UI benefits from the usual 26 weeks to 52 weeks could increase federal outlays by \$132 million to \$920 million in fiscal year 1983, depending on what eligibility criteria were used. In addition, UI payments might be augmented by establishing national minimums for benefits for all dislocated workers. If the income replacement benefits were set equal to 50 percent of dislocated workers' previous weekly earnings or to the average manufacturing wage, whichever was lower, federal outlays would increase by \$182 million to \$1.3 billion in fiscal year 1983. Both approaches might have the possible drawback of discouraging intense job seeking, thereby prolonging joblessness.

A Dual Strategy Linking Cash Benefits to Adjustment Services. Receipt of special income replacement benefits could be linked explicitly to a program participant's use of readjustment services. This would probably reduce the job-search disincentives associated with cash benefits, increase

SUMMARY TABLE 1. ADJUSTMENT OPTIONS FOR DISLOCATED WORKERS AND FEDERAL COSTS IN FISCAL YEAR 1983

	Services Offered and Numbers Served ^a	1983 Outlays (In millions) ^b
JOB SEARCH ASSISTANCE		
Expand Employment Services	All would undertake initial application and screening services, 50 percent would receive job development services, and 50 percent would receive counseling	\$10 to \$104 ^c
Expand the Use of Job Clubs	All could be required to use a job club for a set period	\$44 to \$460

SKILL TRAINING		
Expand Vocational and Technical Training	41,000 to 29,000 would receive vocational training	\$132 to \$920 ^d
Subsidize On-the-Job Training	41,000 to 290,000 would receive on-the-job training	\$90 to \$650 ^e
Subsidize Higher Education	8,300 to 58,000 would use college level-courses	\$4 to \$25 ^f
Combine Above Three Methods	19,000 to 129,000 would undertake vocational training; the same number would receive on-the-job training; 4,100 to 28,700 would use college-level courses	\$103 to \$717

RELOCATION ASSISTANCE		
Subsidize Moving Expenses	4,125 to 28,750 would have 90 percent of moving expenses paid up to \$600 and would receive relocation allowances up to \$600	\$5 to \$35

SOURCE: Congressional Budget Office.

SUMMARY TABLE 1 (Notes).

- a. The number of dislocated workers is estimated using a moderate-trend economic assumption, yielding a range of 110,000 to 1.2 million.
 - b. Outlay estimates are assumed to exclude the largest category--declining industries including secondary job losers in declining areas. These can be calculated as roughly twice the upper bound of each range.
 - c. This estimate uses the following time requirements for providing individual services; one hour for application and screening, three hours for counseling, and five hours for job development services. Furthermore, one staff hour, including overhead, is estimated to cost \$17.85 in fiscal year 1983.
 - d. Vocational training is estimated to cost \$3,200 per trainee in fiscal year 1983.
 - e. This estimate assumes that subsidies equal to 30 percent of trainees' wages are paid for six months. The average weekly wage in fiscal year 1983 is estimated to be \$290.
 - f. This estimate is based on costs of \$443 per enrollee in fiscal year 1983--the estimated one-year cost for public, two-year institutions.
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the use of adjustment services, and aid in targeting the program to workers with the most severe adjustment problems. A potential drawback, however, is that workers who are not likely to benefit from these services might be induced to use them in order to receive cash benefits.

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