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## CHAPTER I. INTRODUCTION

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Of the present U.S. population of unemployed workers--already at a post-War high approaching 10 percent--a portion can be termed "dislocated." These are people who have lost jobs and have remained unemployed for relatively long periods largely as a result of evolving structural changes in the economy. Even with a major improvement in economic conditions<sup>1</sup>--and many forecasters do now see a recovery from the present recession occurring during the remainder of this year--these workers are not likely to regain employment easily, either at their previous jobs or elsewhere.

### UNDERLYING ISSUES

As the Congress considers how to assist dislocated workers in adjusting to economic change--if indeed, it considers such assistance appropriate--several fundamental questions are likely to arise:

- o What forces--both in the economy at large and in the labor market in particular--are causing dislocation? Do these forces make the problem a short-term one, or should it be expected to persist?
- o Who is the dislocated worker? What special factors characterize his employment difficulties?
- o How big is the problem?
- o Does the federal government have precedents in other programs to look to in considering aid to dislocated workers? and
- o Should the federal government take a role, and if so, what form should that role take?

Some of these questions look forward to future events and developments, making analytical consideration difficult; they are discussed briefly here

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1. For example, see Congressional Budget Office, Prospects for Economic Recovery, A Report to the Senate and House Committees on the Budget, Part I (February 1982).

merely to suggest the complexity of the issues that dislocation poses for the Congress. The scope of the analysis in this paper is confined to currently displaced workers and the likely situation in 1983.

### The Nature of the Problem

Is the dislocation problem developing today a transient one, or can it be expected to persist and worsen? To whatever extent the situation results from fundamental shifts in the economy rather than from short-term events, the situation must be regarded as a long-term one. Several of the factors contributing to high unemployment are probably temporary: changes in consumers' buying choices, government policies and market responses, and the recession itself. Other factors are likely to bring about lasting effects--notably geographic reorganization of production both within the United States and among nations, and technological developments, which may affect large sectors of the economy. These latter factors are likely to change the economy in fundamental ways. Thus economic forces of two basically different kinds--cyclical and structural--appear to be converging on certain segments of the workforce. In the short run, this convergence is displacing many people from jobs they are trained and accustomed to perform. In the longer term, it is severely limiting their opportunity for future employment without adjustment to a new economic order.

### Defining the Problem

Who is the dislocated worker? For the purposes of designing and administering governmental programs, the definition of dislocation must take the precise form of eligibility criteria; these can determine the characteristics and numbers of possible participants. The range of forms such criteria might take is wide. For the more general purpose of establishing a framework for considering the nature of the dislocation problem, a less exact definition can suffice.

A dislocated worker, in general terms, is someone who has lost work through no fault of his own. In most instances, the job itself has ceased to exist--because of a plant shut-down, for instance, or a retooling with technologically new, labor-saving equipment--and for any of a number of reasons, none is likely to become readily available. Despite often substantial employment records and a demonstrated willingness to work, many dislocated workers might remain jobless for periods long enough to lead to personal hardship. Because of the types of changes occurring in the economy, many such workers are likely to have been displaced from

jobs in declining occupations or industries and to reside in geographic areas that are undergoing demographic and economic decline.

### The Size of the Problem

How large a share of the unemployed population should be regarded as dislocated? From a legislator's standpoint, the size of the dislocation problem is a function of how one defines the problem. Taking a narrow definition of dislocation that includes only those people who have lost jobs in an industry that is declining and who have remained jobless for at least six months as of the beginning of 1983, when the forecast recovery is expected to be under way, roughly 100,000 to 150,000 people (or 1 percent of the unemployed) would be classified as dislocated. Using a less restrictive interpretation including all displaced workers in industries and geographic areas that are undergoing economic decline, the number of dislocated workers as of that date would include some 1.7 to 2.1 million people (the higher number being equal to roughly 20 percent of the unemployed). This wide disparity underscores the difficulty the Congress would face in determining who among the unemployed would warrant whatever assistance the federal government offered to dislocated workers.

### The Federal Role

What role--if any--can the federal government take? Traditionally, the federal government has made available to various portions of the jobless workforce various forms of aid under a number of programs. As manifested in the diverse approaches and objectives embodied in these past and current federal programs, the term adjustment can imply several meanings. Perhaps the most obvious is income assistance--cash for qualifying unemployed workers to aid them financially while they are between jobs. Another form of adjustment aid has been skill training. Taking a different role, the federal government has also served as a clearinghouse for job seekers and employers with vacancies. It has also elected to offer aid of various kinds to unemployed workers whose situation it deemed to be the direct result of federal policies.

Do these diverse adjustment undertakings--either one by one or in some combination--offer reasonable models for fashioning an adjustment policy for dislocated workers? Indeed, can these programs themselves adequately meet the needs of dislocated workers? And at the same time, with the federal budget now under tight pressure, what adjustment assistance can--or should--the federal government afford to undertake? These questions must underlie evaluations of the federal government's past

and current adjustment efforts and deliberations about what course any future efforts might appropriately take.

### PLAN OF THE PAPER

In order to assist the Congress in assessing the dislocation problem and what possible actions may be warranted, Chapter II examines the underlying causes of dislocation and the divergent trends visible in different sectors of the economy. To provide a context for considering the needs federal measures might meet, the chapter also characterizes the situation facing dislocated workers. Chapter III contrasts various estimates of the magnitude of the dislocation problem and reviews an array of federal employment assistance programs with regard to their applicability to the current and anticipated dislocated workforce. Chapter IV illustrates how different programmatic definitions of dislocation affect the dimensions of a program and the people it would reach. The final chapter examines various approaches and program options for designing policies to address the dislocation and adjustment issues.

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## CHAPTER II. THE CAUSES OF DISLOCATION AND IMPEDIMENTS TO ADJUSTMENT

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A restructuring of the U.S. economy, such as is often necessary for economic growth and productivity, is now underway. As it proceeds through the remainder of this decade, this fundamental shift is likely to displace many workers from their jobs. Some will find new employment relatively easily; others will not. These latter people--the dislocated--are already facing serious difficulties in securing new employment, in many instances because jobs with earnings and fringe benefits comparable to those lost simply do not exist, and in other instances because displaced workers cannot or wish not to relocate in other areas to accept whatever jobs may be available. This chapter examines causes leading to workers' involuntary severance and factors that impede adjustment; it also reviews employment characteristics that distinguish many dislocated workers and contribute to adjustment difficulties.

### THE CHANGING STRUCTURE OF THE ECONOMY AND THE CAUSES OF DISLOCATION

Two factors, both already beginning to affect the U.S. labor force, are likely to contribute to a substantial displacement of labor in the 1980s and beyond:

- o Continued lagging or actually declining growth rates in some industries, and
- o Modernization of production through labor-saving technologies.

The former has already displaced many workers; in the longer term, the latter could lead to further labor displacement, possibly giving rise to larger-scale joblessness than has occurred at any time in the past. Both of these factors are likely to have disproportionate effects on workers in such traditional manufacturing industries as automobiles, rubber, steel, textiles, and wearing apparel in the near future. By the turn of the next century, however, the rapid diffusion of microelectronic technology could influence employment levels throughout the entire manufacturing sector and beyond.

## Economic Trends in Different Sectors

In recent years, major economic sectors have been performing in markedly different ways, leading to a significant restructuring of the economy. While traditional manufacturing industries--which together employed nearly one-third of all manufacturing workers (about 6 million workers) in 1979--have grown slowly or actually declined, the energy, high technology, and service sectors have expanded rapidly. This divergence is likely to continue at least through this decade, contributing to permanent involuntary displacement of workers.

Although some manufacturing industries now declining may eventually recover and expand employment somewhat, this process is likely to be slow. Antiquated plants and equipment and stiff foreign competition have combined to restrict the growth of employment in traditional manufacturing to rates well below the employment growth in the economy as a whole. The past and projected employment performance of major components of the U.S. economy, as estimated by the Bureau of Labor Statistics (BLS), is displayed on Table 1. In addition, employment levels in these traditional manufacturing industries have fallen by 650,000 (nearly 11 percent) since 1979.<sup>1</sup> Although the BLS projections show some employment growth for these industries through 1990, the rate will not be nearly enough to avoid permanent displacement of currently unemployed workers.

In contrast to traditional manufacturing, the employment in energy and related industries has expanded rapidly and is expected to continue to do so. The world energy shortage and rapidly rising prices have substantially increased exploration and extraction activities for oil, natural gas, and coal. Although prices and profits may not rise so rapidly in the 1980s as in the previous decade, employment levels in these industries will likely continue to expand at above average rates due to the rapidly declining productivity of domestic energy resources. Extraction of a given amount of energy will likely require increasing inputs of both labor and machines--leading to increased employment not only in extraction activities but in related machinery industries as well.

The boom already recorded in high technology industries is also likely to be sustained through this decade. The substantial international advantage the United States holds in microelectronic technology has expanded opportunities for such industries as computers, communications, and biotechnology. Despite mounting competition from overseas, notably from Japan,

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1. The number of displaced workers is likely to be somewhat less than the decrease in employment, since some reduction will occur because of normal attrition--that is, voluntary resignations and retirement.

TABLE 1. ACTUAL AND PROJECTED ANNUAL GROWTH RATES FOR EMPLOYMENT IN PARTICULAR INDUSTRIES (In percents)

Sectors and Industries	Annual Growth Rates		
	1969-1979	1979-1990	
		High Trend	Low Trend
Total Employment	1.9	2.1	1.4
Traditional Manufacturing			
Motor vehicles	0.9	0.5	-0.7
Textiles	-1.2	0.6	0.2
Rubber <sup>a</sup>	0.3	0.6	0.5
Iron and Steel <sup>b</sup>	-0.7	0.8	0.6
Energy Related			
Crude petroleum and natural gas extraction	3.0	4.0	3.6
Coal mining	6.7	5.4	4.1
Construction, mining, and oilfield machinery	3.4	4.8	2.4
Electronic Technology			
Computers and peripheral equipment	4.6	5.2	4.2
Electronic Components	2.9	2.2	2.2
Services			
Miscellaneous business services	6.4	3.8	2.9
Health services <sup>c</sup>	5.2	4.8	4.1
Professional services	5.1	3.1	2.2
Finance, insurance, and real estate	3.6	2.8	2.2

SOURCE: Valerie A. Personick, "The Outlook for Industry Output and Employment Through 1990," *Monthly Labor Review*, U.S. Department of Labor, Bureau of Labor Statistics (August 1981).

NOTE: The projected low trend assumes a decline in the expansion rate of the labor force, continued high inflation, moderate gains in productivity, and modest increases in real output and employment. The high trend assumes a larger labor force, higher production and productivity, and lower unemployment rates.

- a. Includes tires and innertubes and miscellaneous rubber and plastics products industries.
- b. Includes blast furnaces, basic iron and steel, and steel foundries and forgings industries.
- c. Includes doctors' and dentists' services, hospitals, and other health-service industries.

new advances and innovations, as well as strong demand for cost-saving technologies from the rest of the U.S. economy, are likely to assure continued above-average employment growth rates in high technology industries. Overall, employment in the computer and peripheral equipment industries is projected to grow at more than twice the national average rate through 1990.

Similarly, the service sector, particularly business and health services, is likely to continue to grow more rapidly than the economy as a whole. Although productivity increases stemming from technological breakthroughs such as microprocessors may be accompanied by slow or reduced employment expansion in some services, demands for business services by manufacturing industries should maintain strong employment growth. Job opportunities in these areas may also be increased by overseas demand for financial, telecommunications, and data processing services. The nation's strong demand for medical care and the overall aging of the U.S. population should also assure continued rapid employment growth in health services.

Changes in Employment Demand. Following from the divergent growth trends in different economic sectors, the demand for labor is changing character. In the industries that are thriving and likeliest to grow, employment should expand accordingly, especially for workers with special skills or professional training. Engineers and computer personnel, for example, as well as other white-collar workers, should enjoy ample opportunities for work. In fact, some of these stronger industries have begun to experience shortages of the highly trained personnel they need, and these shortages may grow.

At the same time, however, workers from traditional manufacturing industries--usually blue-collar workers--already predominate among the displaced, and most do not have the skills to fill jobs available in the growth industries. In short, a mismatch may be developing between the demand for work and the supply of jobs.

A coincident geographic shift is likely to compound the adjustment difficulties of displaced blue-collar workers. Certain regions--particularly some southern and western states in the Sunbelt--are experiencing growth in population, income, and employment. These locales are the main beneficiaries of such boom industries as energy and electronics. At the same time, the Frostbelt states of the Northeast and Midwest are those most severely affected by slow growth or declines in traditional manufacturing. Thus, many workers displaced from jobs in traditional manufacturing find themselves not only under-skilled for other jobs but also separated by appreciable distances from those jobs and whatever training private-sector employers might make available. Efforts to aid displaced workers in adjusting to these changed demands for their services--if indeed the Congress should

choose to make such efforts--may have to take account of these various and difficult impediments.

### Modernization of Plants and Equipment

The modernization of several basic manufacturing industries, mainly through technology that requires a reduced labor input, will likely further contribute to worker displacement in the 1980s. Automotive, rubber, and steel manufacturers have already closed numerous antiquated plants and have begun investing heavily in new, technologically efficient ones. Other industries have initiated modernization programs within existing plants. Although these modernization efforts may ultimately lead to some new employment opportunities in these industries, large numbers of workers will probably still be displaced, because much of the new plant and equipment will require less labor for production. For example, some analysts have estimated that automation could eliminate 200,000 manufacturing jobs in the automobile industry by 1985.<sup>2</sup> Similarly, the Congressional Budget Office estimates that productivity improvements will reduce the workforce of integrated steel producers by 2 or 3 percent each year through 1990.<sup>3</sup>

Eventually, however, the introduction of microelectronic technology into the production process could affect the entire manufacturing sector--potentially reducing employment to a much greater degree than has occurred in past periods of technological change. Recent studies estimate that industrial robots could eliminate one to three million jobs in the near future and possibly up to seven million by the year 2000.<sup>4</sup> Although the degree of actual dislocation will be somewhat less than the number of jobs lost due to natural attrition and industrial retraining efforts, dislocation is likely to be substantially larger than in the previous period of rapid technological change

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2. See, for example, Michael C. Barth, "Dislocated Workers," The Journal of the Institute for Socioeconomic Studies, vol. VII (Spring 1982), pp. 23-35.
  3. From Statement of Raymond C. Scheppach, Deputy Director, Congressional Budget Office, before the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce, March 22, 1982.
  4. See Robert U. Ayers and Steven Miller, "Robotics, CAM, and Industrial Productivity," National Productivity Review, vol. I (Winter 1981-1982), pp. 42-60 and Preparing for the Growth of Industrial Robots, Policy Paper 3; Robot Institute of America, 1981.

begun in the late 1950s. Large-scale unemployment did not occur in that period despite automation and computerization because of rapid overall economic growth during the 1960s, and because the diffusion of these technologies was slow. Existing microelectronic technology, on the other hand, has the potential to diffuse very quickly through major portions of the economy and to affect employment growth in such other sectors as services--diminishing their ability to absorb displaced workers.

#### IMPEDIMENTS TO ADJUSTMENT-- CHARACTERISTICS OF DISLOCATION

If the current high unemployment rate were primarily a result of cyclical changes in the economy, the adjustment outlook of all displaced workers would be generally similar. Unemployment could be viewed as a transitory problem, and workers' prospects of eventually returning to jobs--either to restored old jobs or to comparable new ones--would be realistic. With structural economic shifts developing, however, such prospects appear remote, especially for certain segments of the displaced labor force.

In a thriving economy or when no major change is occurring, workers with long service records enjoy many advantages. Even as circumstances begin to deteriorate or simply to shift, longer-tenured workers tend to be better protected against the threat of layoff. Most employers, either compelled by union contract provisions or merely following custom, begin to reduce their workforces on a last-in-first-out basis, dismissing most recent hires first.<sup>6</sup> If conditions decline appreciably, however, personnel reductions gradually begin to affect more senior workers. Finally, when operations begin to shut down or plants become converted to new technologies, larger numbers of workers, regardless of length of service, become unemployed.

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6. A BLS survey found that 79 percent of major collective bargaining agreements had seniority as the sole or primary determinant of layoffs. See U.S. Department of Labor, Bureau of Labor Statistics, Layoff Recall and Worksharing Provisions, Bulletin 1425-13 (1972). Furthermore, a recent employer survey of firms found substantial seniority protection from layoff for nonunion workers. See James Medoff and Katherine Abraham, Involuntary Terminations Under Explicit and Implicit Contracts, National Bureau of Economic Research, no. 534 (February 1981). For evidence on promotion arrangements by seniority, see U.S. Department of Labor, Bureau of Labor Statistics, Major Collective Bargaining Agreements: Seniority, Promotion, and Transfer Provisions, Bulletin 1425-11.

Thus, workers most adversely affected by structural economic changes tend to be those at the older end of the age spectrum of the labor force; many are semi-skilled blue-collar workers. A number of specific factors combine to make adjustment difficult for those workers, including non-transferability of experience, seniority-related wages and benefits, lack of information concerning the labor market, and reluctance to relocate in areas where employment opportunities exist. In addition, many employers tend to be reluctant to hire older workers.

### Transferability of Experience

Workers with firm-specific skills and appreciable job tenure generally suffer the greatest earnings losses if they must seek new employment. These workers' skills may not be highly valued by other possible employers; part of their prior wages often represented returns on previous employers' investments in firm-specific training. When such workers do secure alternative employment, it may, therefore, be at appreciably lower wages.

By contrast, displaced workers with more general training and those with less job experience should be able to adjust more quickly and with smaller losses in earnings. Workers with more years of schooling should experience fewer adjustment problems, too: education tends to serve as a form of general skill training. Younger workers who have completed on-the-job training programs may also find jobs more easily (even if their training was firm-specific), because prospective employers are likely to view them as having earned credentials. Completed training programs, much like formal education credits, can be used by potential employers to screen for candidates perceived to have advantageous job qualities. In addition, shorter-tenured workers are generally on the low portions of their age-earnings profiles, so they should have less trouble finding jobs with comparable wages. Finally, younger workers, being less likely to have become committed to a particular industry or community, tend to be better able to move to where there are employment opportunities.

### Seniority-Related Benefits

Many assets associated with long-term employment translate, upon a worker's involuntary severance, into losses. Primary among these factors, of course, is pay, which tends to rise with length of tenure. Escalations in status--that is, promotions in rank--often accompany and compound the rises in income associated with length of service. Secondary, or fringe, benefits have significant value as well. For example, most employers make retirement pensions available only to personnel who have been in their

employ for a certain number of years; a common such "vesting period" is ten years. Since pensions are commonly computed on the basis of a worker's last or highest earnings (whichever is higher), longer tenure as a vested employee usually is reflected in higher retirement pay. Thus, a job loss can represent a loss in future income as well as current compensation, comprising both wages and other fringe benefits, such as health and life insurance coverage. Being in many instances based on pay, life insurance may also increase in value over time. Furthermore, other peripheral advantages that increase with length of service can also be lost with severance. These may include profit sharing, which tends to increase in value with time and like a pension, may figure into a worker's long-range plans, and the amount of paid vacation granted. Many firms offer additional paid leave time to longer-tenured workers.

Other seniority-related benefits that enhance job security and advancement opportunities also contribute to the reluctance of older workers to seek and accept alternative employment. Besides layoff protection, which is often accorded on the basis of seniority, many firms base promotion on years of service. Both factors increase the losses suffered by senior workers upon job loss.

### Lack of Labor Market Information

The amount of information individuals have on the availability of alternative jobs can also affect adjustment. Many dislocated workers have only limited job-market information and must, therefore, invest considerable time and money to increase their knowledge of potential jobs.

Inadequate job-market information can be a particular problem for unskilled and semi-skilled blue-collar workers and for some white-collar employees as well. In contrast to many higher-skilled, white-collar workers and professionals, many of whom have constant exposure to the employment market as a by-product of performing their jobs, less-skilled workers generally get little of this kind of exposure. Indeed, the institutional structures of the labor market tend to insulate these workers from information about alternative work opportunities. Moreover, the job-search skills of workers who have been employed for some time are likely to have eroded. Both of these factors can contribute to a difficult and long transition process.

Insufficient information about alternative employment opportunities may also lead to unrealistic job aspirations, thereby extending the period of unemployment, particularly for displaced workers with substantial job tenure. Initial job aspirations may be for a compensation package similar to

that received before layoff.<sup>7</sup> Middle-aged workers with lengthy job tenure and firm-specific skills may adjust only slowly to the fact that their earning power may be substantially diminished, thereby extending their periods of unemployment. Shorter-tenured workers, in contrast, are less likely to have unrealistic job aspirations.

### Reluctance to Relocate

Reluctance to relocate geographically may also impede adjustment for displaced workers. Both financial and nonfinancial factors may make older workers especially unwilling to relocate. For one thing, older persons are more likely to own their homes and, therefore, potentially to incur selling costs. Similarly, community ties may be stronger for older workers who are also more likely to have working spouses, children in school; or many have older children living in the same area. The interplay of all these factors can be seen in the higher mobility rates of younger persons.<sup>8</sup> Evidence suggests that older workers are less likely to move when laid off.<sup>9</sup> In a sample of young men aged 19 to 29, 26 percent of workers who were laid off migrated. In a sample of men aged 45 to 59, however, only 7 percent of those who were laid off migrated.

These factors are also more likely to inhibit relocation by blue-collar workers than by those in higher-level occupations.<sup>10</sup> As mentioned above,

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7. For a review of the aspiration-level hypothesis of job search see, see Edward Kalachek, Labor Markets and Unemployment (1973), pp. 58-59.
  8. From 1975 and 1979, between 12 and 16 percent of all persons between ages 20 and 35 moved to a different state compared to less than 10 percent of all persons over 35. See Bureau of the Census, Geographical Mobility: March 1975 to March 1979, Current Population Reports, Series P-20, no. 353.
  9. See Ann P. Bartel, "The Migration Decision: What Role Does Job Mobility Play," American Economic Review, vol. 69 (December 1979), pp. 775-786.
  10. Differences in mobility by occupation are reflected in the fact that 9 to 12 percent of professional, managerial, technical, and sales workers relocated to different Standard Metropolitan Statistical Areas between March 1975 and March 1979, while about 5 to 6 percent of operatives, clerical workers, craft workers, and laborers relocated during the same period.

professional and managerial workers generally have better access to the labor market than blue-collar workers and indeed, are likely to move in order to take employment that is waiting for them.<sup>11</sup> Furthermore, new employers are more likely to help pay moving expenses for managerial and professional personnel than for blue-collar employees.

### Employers' Hiring Behavior

Employers' attitudes toward older workers may also make it difficult for such persons to locate alternative employment if they become displaced. Although older workers have generally established steady and consistent work records and have made fewer job changes, employers are reluctant to hire them.<sup>12</sup> Older workers are often seen as less productive, more difficult to train, and as poor investments, because they do not offer the potential longevity of younger workers. Finally, employers may be discouraged from hiring older workers because health; insurance coverage for older workers can cost more.

### THE ADJUSTMENT EXPERIENCE OF DISLOCATED WORKERS: PAST EVIDENCE

In the past, dislocated workers have faced serious problems in becoming reemployed. In one study of plant closings in the meat packing industry, it was found that among five cities sampled, the proportion of workers who were reemployed one year after layoff ranged from 33 to 76 percent--depending on the condition of the local economy. On average, wages upon reemployment were 17 percent lower than wages at the previous job.<sup>13</sup>

A survey of workers unemployed in the 1968-1973 period provides more evidence that the experience of dislocated workers has indeed differed from that of other unemployed workers. The survey compared workers laid off from plants certified for Trade Adjustment Assistance (TAA--discussed

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11. See S. Saben, "Geographical Mobility and Employment Status," Monthly Labor Review, August 1964.
  12. For further discussion, see CBO, Work and Retirement: Options for Continued Employment of Older Workers (July 1982).
  13. See R.C. Wilcock and W.H. Franke, Unwanted Workers: Permanent Layoffs and Long-Term Unemployment, The Free Press of Glencoe (1963), pp. 143-144.

in Chapter III)--three-quarters of which had shut down--with workers receiving Unemployment Insurance (UI) in the same labor-market areas. On average, workers from the TAA plants were seven years older and had 12 or more years more job tenure than those receiving UI. Furthermore, 15 percent of TAA workers were considered skilled, as compared to 30 percent of UI workers. The TAA workers who were laid off in 1968-1973 and who had become reemployed as of the survey date in August 1975 (about 71 percent) had spent an average of nearly nine months unemployed. Moreover, their hourly wages at reemployment were 33 percent lower than the wages received at the former jobs. Finally, in a survey of Ford Motor Company employees who lost jobs because of one plant shutdown in 1980, more than one-half were still jobless 18 months after layoff.<sup>14</sup>

Moreover, most surveys of dislocated workers clearly link adjustment problems to age, skill level, and education. One of the most persistent findings is that older workers remain unemployed for longer periods than do their younger counterparts. In the survey of meat packing plants, the proportion of workers over age 55 who were jobless for an entire year was nearly double the proportion of workers under 35 who were jobless for a comparable time.<sup>15</sup> Evidence from another study implied that each ten years of age added one and a half months to the period of joblessness, so that on average, a 55-year-old would be unemployed for four and a half months longer than a 25-year-old under the same conditions.<sup>16</sup> In addition, skilled workers have been found to average three and a half to six months less of unemployment following a plant closing than either semi-skilled or unskilled workers. Furthermore, workers with more education have been found to have lower unemployment rates following plant closings, particularly those workers with at least a high school diploma.<sup>17</sup>

Finally, the CBO estimates that wage loss for dislocated workers is inversely proportional to seniority in previous jobs. It found that from

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14. Reported in the Wall Street Journal (June 24, 1982).

15. See Wilcock and Franke, "Unwanted Workers," pp. 55.

16. See W. Dorsey, "The Mack Case: A Study in Unemployment," in O. Eckstein, ed., Studies in the Economics of Income Maintenance, Brookings Institution (1967), pp. 175-248.

17. See Jeane Prial Gordus, Paul Jarley, and Louis A. Ferman, Plant Closings and Economic Dislocation, the W. E. Upjohn Institute for Employment Research, 1981.

two to six years after initial severance, workers with less than ten years' job tenure were earning 91 percent of the wages they would have earned if displacement had not occurred; workers with 10 to 20 years' and 20 years' or more job tenure were earning 81 and 75 percent, respectively, of their previous wages.

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CHAPTER III.            VIEWS ON ADJUSTMENT AID, THE SIZE  
                             OF THE DISLOCATION PROBLEM, AND  
                             CURRENT ASSISTANCE PROGRAMS

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In considering federal assistance to dislocated workers, the Congress faces fundamental questions about equity and the appropriateness of governmental intervention in what appears to be a private-market problem. Opponents of adjustment assistance contend that natural market forces will assure an efficient adjustment process without government intervention. Proponents, on the other hand, argue that dislocated workers face special difficulties in adjusting to job loss that warrant federal assistance. In another view, dislocated workers are seen as having the potential to raise political obstacles to economic efficiency. The legislative choice among these positions is as much a philosophical one as an analytical one, and it is therefore cited only in passing in this paper.

Spokesmen for the free market view would argue that dislocation is a transient phenomenon that will, in time, correct itself: as the economy recovers from recession, it will eventually provide new places for workers who are now jobless. Though the economic change now evolving may be permanent, the dislocation of workers may be a regrettable but temporary by-product. Moreover, people who have worked in the industries and locales now most affected by unemployment have already been well compensated with relatively high earnings and generous peripheral benefits. In fact, special treatment from the federal government could be seen as counter-productive: by easing the pressures of unemployment, federal aid could discourage intense job-seeking efforts and could thus slow the process of adjusting to structural changes in the economy.

To counter such arguments, proponents of federal aid to dislocated workers maintain that adjustment assistance is necessary to overcome barriers to labor-market mobility that make finding new jobs especially difficult for dislocated workers. As discussed in Chapter II, firm-specific skills, the liability that seniority becomes upon severance, poor information about the range of job opportunities, and employers' hiring behavior all can inhibit the adjustment of dislocated workers. Proponents of this view also contend that poor access to funding for training and job-search activities would further limit the potential for successful adjustment. Because of these barriers, dislocated workers will spend a longer time searching for jobs and possibly find less productive work than if they had access to federal adjustment assistance.

In addition, proponents of special assistance argue that dislocated workers suffer unique problems. They may be distinct from the rest of the unemployed population by virtue of having been part of a mass layoff, their long employment histories, the length of their tenures in former jobs, and their ages. Moreover, their job-search skills have likely eroded and many will be seeking work in depressed labor markets where normal job-search techniques prove ineffective. Furthermore, so long as dislocated workers remain unemployed and their financial circumstances deteriorate, they have the potential to create a drain on other sources of government aid.

In another view, adjustment aid from the federal government is seen as a necessary though not optimal price to pay for economic change and revitalization. Such change inevitably confers both immediate and future gains on some people and exacts costs from others. As much for the sake of the economy as a whole as for the losers themselves, dislocated workers are thought to need special help. If they are not eased through a transition, they might succeed in blocking legislative changes that could, in the longer term, benefit much larger portions of society. For example, sentiment might be created to slow the shutting down of outmoded plants or to raise trade barriers.

For many policymakers except those who would refrain entirely from interfering with natural private-market forces, some numerical estimates of the magnitude of the dislocation problem are essential to considering possible measures. In addition, a review of the various existing programs that represent the federal government's tested approaches to unemployment can also be useful.

#### ESTIMATING THE SCOPE OF THE PROBLEM

Because many unpredictable variables--most significantly, the performance of the economy itself--enter into any estimates of the size of the dislocation problem, only very short-term projections can be considered reasonably reliable. For this reason, the Congressional Budget Office has estimated the size of the dislocated workforce as of early 1983, when recovery from the current recession is forecast to be well under way. The CBO has tabulated estimates reflecting different assumptions concerning the pattern of economic growth. Besides economic performance, other variables are computed into the CBO estimates, reflecting the diversity of traits that can be used to define a displaced worker as dislocated (see also Chapter IV). These include the fact of workers having been laid off in a declining occupation, industry, or geographic area; workers' age and length of tenure before severance; and duration of unemployment.

In general, the number of dislocated workers appears markedly smaller if one bases the definition of dislocation on more than one criterion. For example, if the problem is identified as encompassing those people who have lost jobs from declining occupations and who have remained jobless for 26 weeks (an appreciably shorter time than the average jobless period for persons displaced by plant closings), then the number may be as low as 105,000 in early 1983. If, however, one defines dislocation simply to include all workers from declining industries in declining areas, regardless of duration of unemployment or other possible factors, the number approaches 2.2 million.<sup>1</sup> As stated in Chapter I, the latter figure represents some 20 percent of all unemployed persons projected for January 1983.<sup>2</sup> The disparity between these two estimates highlights the difficulties the Congress would face in determining who would qualify for whatever special adjustment aid the federal government made available to dislocated workers. How these questions of definition would translate into eligibility criteria for possible federal programs is examined in greater detail in the next chapter.

### CURRENT PROGRAMS THAT AID THE UNEMPLOYED

Though no existing federal programs are targeted specifically toward dislocated workers per se, a number of programs offer aid of various kinds to unemployed persons in general. Three in particular are the focus of the following sections: the Employment Service, the Comprehensive Employment and Training Act, and Unemployment Insurance. These efforts offer employment referral and counseling services, job training, and income assistance. In addition, some programs extend aid to specific subgroups of unemployed workers. None of these efforts, however, is especially well suited to meeting the needs of today's dislocated workers; program guidelines, gaps in coverage, and budgetary constraints most recently manifested in funding reductions or program terminations all limit these programs' effectiveness in aiding dislocated workers.

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1. A declining area is defined simply as one in which employment diminished in absolute terms over the 1978-1980 period. See Marc Bendick and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" National Commission for Employment Policy, Seventh Annual Report (1982), pp. 177-219.
  2. See CBO, Prospects for Economic Recovery.

## The Employment Service

Established during the Depression, the Employment Service (ES) serves as a nationwide clearinghouse to match the skills of job seekers with the needs of prospective employers and is funded by federal grants to states.<sup>3</sup> The functions of the ES have greatly broadened over the decades, and the service is now involved in the administration and enforcement of various laws and Executive Orders. The ES now performs specific duties for many federal agencies operating assistance programs.<sup>4</sup> For example, it administers the work test that, in part, determines eligibility for the Department of Health and Human Services' Aid to Families with Dependent Children (AFDC) and the Department of Agriculture's Food Stamp programs. It serves a similar function for the Department of Labor's Unemployment Insurance program and for the Veterans Administration assistance program for Vietnam veterans. As discussed below, the ES also offers services to workers eligible for Trade Adjustment Assistance.

Responsibility for the ES's labor exchange activities is shared by the federal government and the states. The federal government assists in setting up and maintaining the system of employment offices and is responsible for establishing procedures, standards, and guidelines. Actual operation of ES offices--in 2,600 localities throughout the country--is the responsibility of state governments.

The ES can potentially provide a number of services to job seekers. Depending on a worker's skills and on job-market conditions, a local ES office might engage in any of the following activities:

- o Interviewing job seekers to determine skills and interests,
- o Matching job applications with existing job openings and making referrals,
- o Counseling persons with difficulty in finding jobs and those who must or wish to change occupations,
- o Testing applicants to determine skill levels and potential,

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3. The Employment Service was established in 1933 under the Wagner-Peyser Act.

4. See Congressional Budget Office, Improving Youth Employment Prospects (February 1981).