

Possible Alternative Uses Of UI Trust Funds: A Survey of Recent State Initiatives

Duane E. Leigh

October 1986

Washington State Institute for Public Policy
110 East Fifth Avenue, Suite 214
Post Office Box 40999
Olympia, Washington 98504-0999
Telephone: (360) 586-2677
FAX: (360) 586-2793
URL: <http://www.wa.gov/wsipp>
Document No. 86-10-4101

Possible Alternative Uses of UI Trust Funds: A Survey of Recent State Initiatives

Duane E. Leigh*

Revised Version

Presented to the Commerce and Labor Committee
House of Representatives
State of Washington

October 6, 1986

*Professor of Economics, Washington State University. Helpful comments on an earlier version were received from Daniel Hammermesh of Michigan State University. Teresa Stegner provided able research assistance.

Support for this study was provided by the
Washington State Institute for Public Policy

WASHINGTON STATE INSTITUTE FOR PUBLIC POLICY

Mission

The Washington Legislature created the Washington State Institute for Public Policy in 1983. A Board of Directors—representing the legislature, the governor, and public universities—governs the Institute, hires the director, and guides the development of all activities.

The Institute's mission is to carry out practical research, at legislative direction, on issues of importance to Washington State. The Institute conducts research activities using its own policy analysts, academic specialists from universities, and consultants. New activities grow out of requests from the Washington legislature and executive branch agencies, often directed through legislation. Institute staff work closely with legislators, as well as legislative, executive, and state agency staff to define and conduct research on appropriate state public policy topics.

Current assignments include projects in welfare reform, criminal justice, education, youth violence, and social services.

Board of Directors

Senator Karen Fraser
Senator Jeanine Long
Senator Valoria Loveland
Senator James West
Representative Ida Ballasiotes
Representative Jeff Gombosky
Representative Helen Sommers
Representative Steve Van Luven

Lyle Quasim, Department of Social and Health Services
Dick Thompson, Office of Financial Management
David Dauwalder, Central Washington University
Jane Jervis, The Evergreen State College
Marsha Landolt, University of Washington
Thomas L. "Les" Purce, Washington State University
Ken Conte, House Office of Program Research
Stan Pynch, Senate Committee Services

Staff

Roxanne Lieb, Director
Steve Aos, Associate Director

CONTENTS

Executive Summary.....	1
I. Introduction.....	3
A. Basic Facts About UI	3
B. Structural Changes in the Composition of Employment in Washington	3
C. The Purpose of this Report.....	4
II. Federal Initiatives	7
A. The Job Training Partnership Act	7
B. The Trade Adjustment Assistance Program	8
C. Federal Demonstration Projects	8
1. The Downriver demonstration project	9
2. The dislocated worker demonstration project	9
3. The New Jersey reemployment demonstration project.....	10
III. State Initiatives	13
A. California	13
B. Delaware	14
C. Illinois	15
D. Massachusetts	15
E. Minnesota.....	16
F. State Plant Closing Response Teams	17
G. State Demonstration Projects	18
1. Illinois.....	18
2. Delaware	19
3. Wisconsin	19
IV. Foreign Government Initiatives	21
A. Canada.....	21
B. Great Britain and France.....	22
V. Applicability to Washington State.....	23
A. Alternative Forms of Assistance	23
B. Use of UI Trust Funds.....	25
C. A Summing Up.....	26

EXECUTIVE SUMMARY

Recent structural shifts in employment opportunities in Washington and in other states have focused attention on the specific employment problems of displaced workers. Displaced workers are characterized as individuals on layoff who, because of shifts in the composition of demand, are unlikely to be recalled to their old jobs. Given the skill/location mismatch with existing job opportunities facing displaced workers, it has been widely suggested that the traditional income-maintenance role of the Unemployment Insurance (UI) system does little more than prolong the length of unemployment spells. A number of proposals have therefore been put forward to speed up the reemployment process by using UI trust funds to finance non-traditional forms of adjustment assistance.

This report surveys the reemployment initiatives currently in place in about a dozen states. Since these state programs do not occur in a vacuum, also reviewed are relevant federal programs and demonstration projects, as well as selected foreign government initiatives. These initiatives tend to fall into the following categories: (1) enhanced job search assistance, (2) classroom training, (3) on-the-job training and wage subsidies, (4) relocation allowances, (5) reemployment bonuses, and (6) self-employment programs. Most of the state initiatives are funded by general tax revenues, but two states (California and Delaware) finance their programs using funds diverted from UI tax revenues. Washington State has recently passed a bill (ESSB 4196) to provide intensive job search assistance to selected UI claimants, and this program will also be funded by diverting funds from the state's UI trust fund. Since Washington is currently enjoying a trust surplus of \$264 million, the state is in a position to consider the diversion approach to financing new programs without the necessity of increasing the payroll tax paid by employers.

There appear to be sound reasons, however, for exercising caution in using UI trust funds to finance alternative reemployment initiatives. Two points in particular, should be noted. The first is that large UI outflows during the past two recessions have demonstrated how vulnerable to insolvency are most trust funds. The second point has to do with a changing of the basic insurance philosophy underlying the UI system.

Consideration of these two points has the effect of limiting the range of initiatives that might be financed by diverting UI trust funds. Of the initiatives surveyed, enhanced job search assistance has received almost uniformly favorable comments in evaluation reports. Washington State is already moving in the direction of doing more in the job search assistance area with passage of ESSB 4196 and the initiation of the Tacoma demonstration project. A second initiative that also appears worthy of additional study is the reemployment-bonus concept. This initiative has the advantage of strengthening the incentive to return to employment as quickly as possible. Its disadvantage is that it is a largely untried form of assistance in the U.S.

I. INTRODUCTION

Basic Facts About UI

Established as part of the Social Security Act of 1935, the Unemployment Insurance (UI) system is intended to provide workers a partial replacement of earnings during short periods of involuntary unemployment. To be eligible, unemployed workers must demonstrate a strong attachment to the labor force and a sincere interest in finding work. The basic premise of the UI program is that unemployment is primarily a transitory experience resulting from cyclical fluctuations in demand. Hence, workers are presumed to need only a temporary source of income to tide them over until they are recalled to their old jobs or locate new ones. UI is a joint state-federal program, and the individual states have substantial discretion in determining benefit levels, duration of benefits, and rules concerning the receipt of benefits.

The UI program is funded by a tax imposed on employers and is intended to be fully self-financing. The underlying philosophy of this method of financing is individual employer responsibility for former employees. It is this philosophy that gives UI its insurance character. Employers are assessed insurance “premiums” in the form of payroll taxes which are used to create state insurance funds (called UI trust funds). Covered employees who have lost their jobs are then eligible to draw on these funds. States are free to determine the payroll tax they assess; and tax rate schedules are said to be “experienced rated,” which means that tax rates vary depending on the employer’s layoff rate and on the fraction of former employees receiving UI benefits.

The State of Washington provides UI benefits of up to 30 weeks of unemployment (most states provide 26 weeks of benefits), with extended benefits available during periods of high unemployment. The minimum and maximum weekly benefit allowances are 15 percent and 55 percent, respectively, of the average weekly wage. Washington workers can waive the “work test” (i.e., the requirement that claimants be available for and actively seeking employment) and draw UI benefits in two cases. The first is if they are enrolled in a training program approved by the Employment Security Commissioner of the state. The second case occurs when the employer has submitted an approved short-time compensation (STC) program. In such programs, employees continue to work but at reduced weekly hours, and the loss in weekly earnings is partially made up by UI benefits.¹

Structural Changes in the Composition of Employment in Washington

The major industries that have historically driven the economy of Washington State are forest products and aerospace, and, to a lesser extent, shipbuilding, primary metals, and agriculture. Each of these industries is export oriented and is thus highly sensitive to interest rates, the strength of the dollar, and U.S. trade policy. Since the late 1960s, state employment in aerospace and forest products has shrunk in both absolute and relative terms, with aerospace employment falling from 7.1 percent of total state employment in 1968 to 3.9 percent in 1983 and forest products employment falling from 6.0 percent to 3.7 percent of total employment over the same period. The 1981-82 recession was particularly

devastating with respect to overall employment in manufacturing. While aerospace employment has rebounded, the 1981-82 job losses in forest products, shipbuilding, and primary metals appear to be permanent.

On the other side of the coin, the bulk of the state's employment growth in recent years is concentrated in services and wholesale and retail trade. Employment in these two industries rose from 41 percent of total state employment in 1968 to over 51 percent in 1983. Moreover, the Washington Employment Security Department (1985) forecasts that nearly 60 percent of all new jobs created in the state between 1984 and 1995 will be in services and trade.

The shift in employment opportunities occurring in Washington mirrors the national shift from manufacturing to services. The hardship faced by displaced manufacturing workers is that, in general, employment in services is lower paid than in manufacturing. In 1984, for example, average hourly wages for production and nonsupervisory workers in the service producing sector was \$7.52, compared to \$9.18 in manufacturing. In addition to being lower paying on average, the service sector has higher concentrations of jobs both in generally low-paying occupations and in relatively high-paying occupations than is the case in manufacturing (Office of Technology Assessment, 1986, p. 11). Workers displaced from jobs in manufacturing are not likely, in the absence of substantial investment in education or training, to qualify for the higher-paying service sector jobs. This means for many displaced workers that reemployment in services will be accompanied by a sizable loss in earnings and job status.

The Purpose of this Report

The structural shift in employment opportunities in Washington and in other states has tended to focus attention on the specific employment problems of displaced workers. Since displaced individuals are typically experienced workers with stable work histories, they are quite likely to qualify for UI benefits. In fact, these benefits are often the only source of financial support available to them. A potential problem with the traditional income-maintenance role of UI is that these workers have poor prospects for finding comparable employment, since they have little chance of reemployment with their former employers or elsewhere in their industry. By lowering the cost of unemployment, UI may thus lengthen unemployment spells by prolonging the period before displaced workers are forced to adjust to their situation by perhaps accepting a lower-paying job. Because the unemployment rate can be decomposed into the product of average duration of unemployment and incidence of unemployment, the lengthening of unemployment spells has the effect of increasing the overall unemployment rate.

Policy recommendations often suggested for assisting the "structurally" unemployed include subsidized training to enable workers to qualify for jobs in new industries and occupations, provision of relocation allowances to help defray the costs of geographic migration, and public service employment.² A number of proposals have recently been put forward to utilize UI trust funds in such nontraditional ways to speed up the reemployment process. The purpose of this report is to survey the initiatives taken by other states in offering alternative adjustment services to displaced and other unemployed workers. Important

background information is provided by considering federal legislation and federally funded demonstration projects. Also considered are selected foreign government programs. The survey is intended to provide information to Washington State policymakers on (1) initiatives that are operational in other states, (2) how effective such initiatives are in returning unemployed workers to employment, and (3) whether these initiatives could be successfully integrated into the state's UI program.

II. FEDERAL INITIATIVES

For nearly 25 years, the federal government has funded programs intended to get unemployed workers back to work. The major piece of federal legislation currently in effect is the Job Training Partnership Act (JTPA) passed in 1982. This section discusses programs funded under JTPA and under the related Trade Adjustment Assistance (TAA) program. Also discussed are three federally funded demonstration projects.

The Job Training Partnership Act

JTPA has three major titles. Title II provides training to disadvantaged youth and adults and summer jobs to disadvantaged youth. Title III funds training and other services for displaced workers. Under these two titles, federal dollars are allocated to the states, and the states are responsible for program development. Finally, Title IV authorizes programs that are directly administered by the U.S. Department of Labor (DOL). These include training programs for native Americans, seasonal and migrant workers, and veterans. Federal appropriations from July 1984 to June 1985 for Titles II, III, and IV were, respectively, \$2.7 billion, \$221 million, and \$800 million. Hence, JTPA training programs are mainly targeted on the disadvantaged, as opposed to the displaced.

Under Title II, federal funding to the states is reallocated by state governors to local service delivery areas (SDAs). In each SDA, local elected officials appoint members of a private industry council (PIC), which must have a majority of private business members. The PICs share authority with elected officials in designing and administering local programs. State governors have more commonly kept control of Title III programs by appointing a state official to choose contract operators through competitive bidding. Both JTPA titles mandate performance standards for evaluating training programs, and reliance on this kind of contract appears to be growing. Performance standards typically required of contract operators include level of post-training wages, proportion of trainees placed in training-related jobs, and length of job retention.

Focusing specifically on Title III, reemployment services can vary considerably across the roughly 700 displaced worker projects currently in operation. Preliminary evidence summarized by the Office of Technology Assessment (OTA) (1986, pp. 178-91) indicates, however, that Title III programs strongly emphasize prompt placement, with skill upgrading through on-the-job training (OJT) and formal classroom training playing a relatively minor role. Services designed to enhance prompt placement are counseling and job search training, where the latter includes assistance in resume writing and locating jobs and the formation of job clubs. Factors influencing the emphasis on job search assistance rather than retraining include the stress placed by program directors and business advisors on quick job placement, and the expressed desire of many clients to get back to work as quickly as possible. Moreover, job search assistance is a relatively low-cost form of assistance. For the transition year of the program (October 1983 through June 1984) and the 1984 program year (July 1984 through June 1985), average expenditures per client were only \$768 and \$895, respectively. This level of spending compares to expenditures of up to \$3,000 per client in projects that are strongly oriented toward vocational training.

A recent evaluation study of eight Title III projects yielded, among others, the following insights:³

1. Displaced workers typically have an unrealistic view of the labor market and of their prospects. These workers have often attained wage levels that are difficult to duplicate as entry-level workers in new firms and occupations. Older and more senior workers, especially, tend to hold on to a hope for recall.
2. Job search training in conjunction with assessment early in the UI enrollment period to identify workers with marketable skills was found to be effective in reducing training costs.

Another interesting finding is that Title III served only 96,100 workers in its first nine months, and another 132,200 in the 1984 program year. This is estimated to be less than five percent of the eligible population (OTA, 1986, p. 16). The reasons for this low rate of participation are as yet unclear.

The Trade Adjustment Assistance Program

TAA is a major federal program legislated specifically to assist displaced adult workers who lost their jobs due to foreign competition. Established in 1962, the program served very few workers until requirements for eligibility were liberalized in 1974. At the height of the program in 1980, over 585,000 workers were certified by the DOL as being eligible for TAA assistance. Approximately 30,000 workers annually received TAA-funded services in 1984-85.

TAA provides eligible workers two forms of assistance not typically available to displaced workers under JTPA Title III. The first is that workers in approved training programs are eligible for income support of up to one year beyond the basic 26 weeks of UI. In contrast, Title III programs rarely provide income-maintenance support for trainees beyond basic UI, thus ruling out more extensive retraining programs. Second, TAA offers much more generous relocation allowances than most Title III projects for workers who cannot find suitable employment in their local labor markets.

Authorization for TAA lapsed at the end of 1985, but a temporary extension has been approved by Congress and the President. This extension permits certified workers to continue to receive allowances for retraining and relocation, but not income support, through the end of fiscal 1986.

Federal Demonstration Projects

Beginning in 1980, the DOL has periodically awarded demonstration grants to sponsoring organizations to provide information on the effectiveness of alternative approaches to serving unemployed workers. Examined in this section are two completed demonstration projects—the Downriver Community Conference Economic Readjustment Program and the

six-site Dislocated Worker Demonstration. Also discussed is the Unemployment Insurance Reemployment Demonstration just getting under way in New Jersey.

The Downriver demonstration project. The first of these demonstration projects was located in the Detroit metropolitan area. The program operated in two phases covering the 1980-81 and 1981-83 periods, and it included some 2,100 workers who were displaced from three auto supply plants in the area. A wide range of employment and training services were offered to eligible workers including job clubs, classroom training, OJT, and relocation assistance. Approximately 46 percent of the eligible workers chose to participate in the project. It is also noteworthy that the average participant waited a full 16 weeks before applying to the program.

An evaluation of Phase I involving two treatment and two control plants indicated favorable results.⁴ Downriver participants were reemployed at rates 13 to 20 percentage points higher with earnings about \$77 a week more than would have been expected in the absence of the program. Phase II results for one treatment and one control plant indicated, however, that the program had a negative effect on reemployment rates and no effect on earnings. The evaluation report concludes that the most important explanation of the divergence in the results is unmeasured differences between participants in the two phases in factors such as motivation, attitudes, and maturity. These unmeasured differences are hypothesized to affect the morale of a plant's work force and to shape the reemployment success of laid-off workers.

The dislocated worker demonstration project. Carried out between October 1982 and September 1983, this demonstration project was specifically intended to assess alternative approaches to reemploying displaced workers. The six sites included in the demonstration are Alameda County, California; Buffalo; Milwaukee; Lehigh Valley, Pennsylvania; Mid-Willamette Valley, Oregon; and Yakima County, Washington. Although site-specific differences influenced the mix of services provided, program sponsors tended to offer a core set of services including job search workshops, OJT, classroom training, job development services, and relocation assistance. Over 10,000 workers participated in the demonstration.

The dislocated worker demonstration has been evaluated by Corson, *et al.* (1984). Some of the main conclusions reached in their report are the following:

1. A job search workshop of about 20 hours is sufficient to impart basic job-search skills, and, in the process, to improve the client's self-confidence and motivation to engage in job search. To ensure exposure to this important service, workshops should be made mandatory or at least heavily promoted.
2. Job search assistance was primarily provided through resource centers, job clubs, and counseling. A major conclusion with respect to this service is that to match clients to appropriate jobs, counseling and job development should be integrated. The mainstay of most job development effort is personal contact with employers by job developers, and the two sites that exhibited the greatest degree of integration between counselors and job developers were particularly strong performers in terms of client placement.

3. Serious questions are raised about the appropriateness of classroom training for the displaced worker population. One issue is that displaced workers may not be able to adapt to returning to the classroom. Another is that despite attempts to base training curricula on labor demand projections, many program graduates may be unable to locate training-related jobs. The report suggests that a potentially attractive approach to dealing with the placement problem is the use of performance-based contracts. The advantage of this form of contractual arrangement is that it provides a strong incentive for training providers to help in selecting “trainable” workers, to provide solid courses in high-demand areas, and to place workers upon completion of training. Experience in Buffalo and Alameda County indicated, however, that effective use of performance-based contracting involves significant negotiation and monitoring costs for program sponsors.
4. Although OJT was initially conceived by program planners as an alternative to classroom training, experience in the local projects indicated that its primary use was as a job placement tool. That is, the OJT wage subsidy (typically 50 percent of the wage during training) proved to be more valuable in swaying the hiring decisions of employers than in purchasing training *per se*.
5. Relocation assistance was not an important program component for most displaced workers.
6. In terms of the range of services provided, local economic conditions, and the displaced worker population, the Buffalo site is quite similar to the Downriver project. It is therefore interesting to note that in contrast to the ambiguous Downriver results, the impact of the reemployment services provided in Buffalo were unequivocally favorable. Comparing the treatment and control groups in Buffalo, the proportion of time in the labor force increased by 50 percent, the proportion of time employed doubled, and average weekly earnings nearly tripled.

The New Jersey reemployment demonstration project.⁵ The New Jersey demonstration project is intended to determine whether UI beneficiaries who are likely to exhaust their benefits before finding new jobs can, by early intervention in the form of additional services, be returned to work earlier or receive higher wages upon reemployment. Since it is not known in advance whether a particular claimant will exhaust his benefits, one of the purposes of the project is to determine whether prospective UI exhaustees can be distinguished from the fictionally, seasonally, and cyclically unemployed by the fifth week of claiming benefits.

All claimants selected for the project will have available to them the reemployment services normally provided by the State of New Jersey. Those claimants randomly chosen to be members of treatment groups will receive, in addition, one of three treatments—(1) intensive job search assistance (JSA), (2) JSA plus retraining or relocation assistance, and (3) JSA plus a reemployment bonus. JSA begins with testing during the fifth week of claiming benefits and is followed by a 5-day, 3.5 hours-per-day job search workshop. During the seventh week of benefits, claimants will receive an assessment and counseling session. The end-product of the counseling is an individual “employability development plan,” which is intended to provide the claimant with a basic strategy for reemployment. At

this point, claimants will be referred to a resource center, which they may use as a base of operations in conducting their job search activities. Counselor follow-up of claimants then occurs at regular intervals. Treatment 1 is designed to test the hypothesis that potential exhaustees already possess marketable skills but lack basic job search skills and/or the motivation to use existing search skills.

The retraining in treatment 2 is either classroom training or OJT. If classroom training is selected, the claimant will be able to choose from a variety of training programs approved by state officials. If OJT is chosen, a selection may be made between available OJT "slots" developed by the local JTPA Service Delivery Area, or the claimant may instead opt to develop his own OJT job using a demonstration OJT "voucher" to subsidize employer training costs. The relocation allowance available in this treatment comes in two forms: (1) travel expenses to pre-arranged job interviews or (2) moving expenses associated with employment in a different geographic area. The purpose of treatment 2 is to test the hypothesis that a significant proportion of structurally unemployed workers possess skills that are no longer demanded by employers in their local labor market. Such individuals are appropriate candidates for retraining or relocation assistance.

The reemployment bonus offered in treatment 3 is a new concept of assistance in the U.S. To encourage rapid reemployment, the bonus provides claimants with an opportunity to "cash out" one-half of their remaining UI entitlement in a lump sum in exchange for becoming reemployed and ceasing to draw UI benefits. The maximum bonus would be about \$1,500 for the average claimant in New Jersey, and the amount of the bonus would decline at a steady rate over time until it reaches zero. Treatment 3 tests the hypothesis that targeted workers already possess marketable skills, but they lack the incentive to actively seek new employment. Possible disincentives to reemployment are (1) the prospect of reduced wages in comparison to those earned previously and (2) the effect of UI in prolonging unemployed workers' job search by lowering the costs of unemployment.

The New Jersey demonstration is expected to operate for about one year, and preliminary results should be available to policymakers in March 1987. A final evaluation is scheduled to be completed by September 1988.

III. STATE INITIATIVES

In addition to the federally funded JTPA, a number of states fund and operate programs designed to speed up reemployment. State programs can be distinguished from JTPA in at least two respects: (1) training is often made available to actively employed workers in order to avoid layoffs, and (2) the economic development of the state is typically an important objective of the program. The discussion in this section reveals considerable diversity in the thinking in different states as to how best to provide reemployment assistance.⁶

California⁷

The largest state-wide program currently in operation is California's Employment Training Panel (ETP). Created in January 1983, ETP involves expenditures of about \$55 million per year for retraining three categories of workers: (1) those who are unemployed and collecting UI benefits, (2) former UI recipients who exhausted their UI eligibility within the past 12 months and are still unemployed, and (3) currently employed workers who are likely to be laid off and claim UI benefits. For the first 18 months of the program, about 30 percent of individuals receiving retraining were currently employed. To qualify workers for retraining while still employed, employers must certify that, unless they are retrained, employees will be laid off and replaced by other workers who already possess the necessary skills. The explicit objective of the Panel is to provide access to retraining for experienced workers who have been or are likely to be displaced from their jobs. In this connection, it is worth noting that one of the Panel's statutory responsibilities is to minimize the cost of UI by putting current recipients and exhaustees back to work and by preventing unemployment through retraining before workers are laid off.

Because UI trust funds cannot be used to pay directly the costs of training, California established a separate ETP trust fund financed by an employer-paid payroll tax of .1 percent of taxable wages. At the same time, employers had their regular UI tax rates reduced by .1 percent. The funding of ETP can thus be viewed as a way to divert part of regular UI taxes to finance training and economic development. California was in a favorable position to carry out this diversion because the state enjoyed a surplus in its UI trust fund.

Two aspects of the training programs funded by ETP should be emphasized. First, the Panel is structured for fast action involving a minimum of paperwork. Training projects are typically initiated by a telephone call from a firm to one of ETP's three regional offices.⁸ ETP staff members have the responsibility to do the necessary paper work for interested employers. When speed is important, Panel officials state that a project outline and formal agreement can be concluded in less than a month.

The second aspect is the Panel's commitment to assuring that jobs will be available to trainees when their training is completed. This is accomplished by giving employers the final responsibility for selecting the trainees (subject to the eligibility conditions discussed above), designing or approving the curricula to be taught, and setting the standards for

successful program completion. In exchange, participating employers must make a good-faith commitment to hire or retain program graduates.

Training may be provided by the firm requesting the training in the case of OJT, or it may occur in a classroom setting in training provided by traditional training institutions. In either case, the Panel enters into a performance-based contract which specifies that final payment reimbursing the provider for training costs will be made only when the trainee has been placed in a training-related job and is retained in the job for at least 90 days. Moreover, the jobs in which trainees are placed must be good jobs in the sense that they are steady and relatively high paying. Summary statistics provided for the first 30 months of ETP indicate that the average cost per trainee is \$3,096 (including administrative overhead), the average length of training is 422 hours, and the average wage after training is \$7.88 per hour. In addition, 70 percent of those enrolled successfully completed training, 94 percent of successful trainees went to work in a job for which they were trained, and 86 percent of those stayed on the job for at least 90 days.

Among the state programs discussed in this section, only for California has an outside evaluation been carried out. The report of the accounting firm of Arthur Young (1985) points out that among the positive aspects of ETP is its flexibility and quick response time in meeting employers' requests and its high placement rate for program graduates. The later result is attributed to employer hiring commitments before a training program is approved and to the use of performance-based contracting. The study also comments favorably on the Panel's role in reducing UI costs and in encouraging employers to locate and expand in California. Recommendations for improvements in the Panel's operation involve improved information systems for tracking the employment status of program participants, the establishment of program goals and priorities in making longer-term decisions about training programs, and a review of procedures for determining likely displacement and for compensating contractors.

Delaware

Delaware followed the example set by California in establishing a separate training and economic development fund financed by a payroll tax. A difference from California, however, is that Delaware was initially deeply in debt to the federal UI loan fund. During the early 1980s, the state imposed a special .6 percent Federal Unemployment Tax on employers to repay the state's UI trust fund debt. When the debt was retired in 1984, Delaware employers were provided a .5 percent (rather than .6 percent) payroll tax reduction, with the incremental .1 percent dedicated to financing training and economic development programs. Twenty-five percent of the funds raised is contracted out through the Delaware Development Office, and the other 75 percent is used by Delaware's Private Industry Council to supplement its JTPA funds. The state's training program is directed toward the counseling, retraining, and placement of actively employed workers as well as of unemployed displaced workers.

Illinois

The "Prairie State 2000 Fund" was created by the Illinois state legislature in 1983 with the objective of assisting UI recipients to retrain themselves to meet the skill requirements imposed by technological change. Two features differentiate this program from those in California and Delaware. First, the program was explicitly college oriented since participants were given tuition vouchers equal in value to the tuition of local community colleges. Second, the only source of funding was voluntary contributions by business firms in exchange for a credit on the state corporate income tax. Illinois was deeply in debt to the federal loan fund when the enabling legislation was passed. Thus the state was not in a position to divert UI taxes to retraining programs.

The 2000 Fund points out a serious problem in using UI trust funds to finance retraining. States like Illinois that are deeply in debt to the federal loan fund are typically states with the greatest proportion of workers who need retraining. While the Delaware experience indicates that this problem is not insurmountable, diversion of UI taxes clearly does not represent a short-term solution for debtor states to the problem of funding training programs. The Illinois tax credit incentive proved insufficient to encourage substantial business contributions to the program.

In 1985, Illinois initiated a new program called the Prairie State 2000 Authority financed by general state revenues. Eligible workers are UI claimants and employed persons at risk of being laid off. The 2000 Authority has two components. The first, the Employer Training Assistance Program (ETAP), provides employers who can demonstrate financial need with a loan or grant to cover the direct costs of supplying training programs. The second component, called the Individual Training Assistance Program (ITAP), involves contracting with training vendors such as community colleges to pay the tuition of program participants. ETAP, in particular, has proven popular with employers. One reason is its effort, following the California model, to respond quickly to employer requests with a minimum of paperwork.

Massachusetts

Effective January 1, 1985, Massachusetts established three programs specifically designed to assist workers who had lost their jobs because of plant closures or business failures. The Reemployment Assistance Program (RAP) is intended to assist eligible UI claimants to find new employment through counseling, placement services, and retraining. RAP funds both "worker assistance centers" intended to provide reemployment services to workers in depressed parts of the state and "emergency assistance centers" that provide services to workers at economically endangered plants. The Massachusetts emergency assistance centers appear to closely resemble the rapid response teams operating in several states. The rapid response team concept is described later in this section.

The second Massachusetts program provides RAP participants with a maximum of 13 weeks of supplemental reemployment assistance benefits (RAB) which are intended, when added to regular UI benefits, to bring the individual up to 75 percent of his previous weekly wage. RAB benefit amounts are subject to a cap of \$97 per week, and the benefit period is reduced by one week for each week of advanced notice of a plant closure or of separation

pay. The third program offers health insurance benefits to workers for the first three months of unemployment. The recent OTA report (1986, p. 9) comments on the importance of the loss of health benefits to many displaced workers. General state revenues are used to fund all three programs.

The RAP program is part of an umbrella organization called the Massachusetts industrial service program. This organization, in addition to providing direct worker assistance, is given wide-ranging responsibilities for encouraging state economic development including (1) assisting firms whose survival is jeopardized by adverse economic conditions, (2) assisting communities affected by major employment losses, and (3) overseeing an early warning system charged with identifying firms and industries that are vulnerable to plant closings.⁹ Also included as part of the industrial service program are two additional programs that are given more specific economic development responsibilities. The economic stabilization trust was created to provide “flexible high risk financing” to troubled businesses judged to be economically viable, and the Massachusetts Product Development Corporation was established to encourage new product development.

Minnesota

A quite different approach to providing reemployment assistance was implemented in the Minnesota Emergency Economic Development (MEED) Act passed in 1982. Faced with double-digit unemployment rates coupled with a high percentage of UI exhaustees, the legislature established the \$70 million, two-year MEED program which was designed to create temporary jobs in the public sector and permanent jobs in the private sector. As originally conceived, MEED was basically a public service employment program, with at least 60 percent of the jobs expected to be public sector positions. As the program evolved, however, the enthusiastic participation of private sector employers led to a reversal in the emphasis in job placement goals. By the second year of the program, 60 percent of jobs were designated to be in the private sector (a 70 percent private sector placement rate was actually achieved), and an additional \$30 million was appropriated by the legislature. MEED was made a permanent program in 1985.

To be eligible for MEED, job seekers must be unemployed and *ineligible* for UI benefits or workers' compensation. For the private sector component of the program, MEED offers employers who hire targeted workers a subsidy of up to \$4 per hour in wages and up to \$1 per hour in fringe benefits for a period not to exceed six months. The six-month period can be extended up to one year for workers undergoing job training. In return, employers chosen by MEED administrators to participate in the program must agree to retain targeted workers for at least an additional 12 months.¹⁰ If the firm fails to retain a worker included under the program, it must repay a pro-rated portion of the subsidy. State officials suggest that the subsidy program is very popular with employers, especially small businesses, and that MEED has become a major economic development tool. The average cost per permanent job created is estimated to be \$4,661.

The MEED program offers an interesting contrast to California's ETP. One difference is the explicit philosophy of MEED that the unemployed need jobs not retraining. An employer wage subsidy follows directly from this philosophy. In contrast, the ETP's approach is that

updated skills are a prerequisite for workers to obtain or retain jobs. There is also an important difference between the workers likely to receive assistance in the two states. Since California employers participate in choosing the individuals to be retrained and subsequently hired in their own work forces, they have a strong incentive to select the most able unemployed workers available to them. That is, there is an incentive to “cream off” the most employable, while leaving outside the program those who most desperately need upgraded skills. The MEED program, in contrast, gives priority to individuals who would qualify for general public assistance. In the second program year, it is estimated that 49 percent of MEED participants were general-assistance eligible.

State Plant Closing Response Teams

In its evaluation of JTPA Title III, the OTA (1986, pp. 190-91) notes that a primary concern of state program directors is the importance of taking early action to assist workers with reemployment programs before layoffs actually occur. Early action allows some workers to find new jobs without an interruption in employment, thus saving themselves a loss of income and saving outflows from state UI trust funds. Other workers can plan for training in new occupations while they are still eligible for the full 26 weeks of UI benefits.

Several states including Arizona and South Carolina have responded to the need for early action by developing some form of rapid response program.¹¹ Created in 1984, Arizona’s Pre-Layoff Assistance Coordination Team (PACT) mobilizes the services of existing state agencies including the state Title III program, the Employment Service (ES) department, the UI program, and, where appropriate, community block grants and community colleges. At the first announcement of a plant closing or layoff, a PACT team is dispatched to the plant to provide workers with such reemployment services as testing, counseling, job search workshops, and job placement. In addition, the employer is asked to give workers time off during the work day to attend pre-layoff sessions and to appoint a coordinator to take charge of the company’s reemployment activities. The company coordinator then cooperates with the PACT team in facilitating the placement process.

South Carolina’s rapid response program was created in the summer of 1983 as a temporary recession measure to deal with a number of textile mill and manufacturing plant closures in the state. Later in the year, the program was made a permanent part of the state’s strategy for economic development. When notified of an actual or probable plant closing, a rapid response team makes a site visit. Based on its assessment of the economic viability of the plant’s continued operation, the team works with plant management on a strategy to avoid closing the plant. Such strategies may include provision of business information, financial assessments, loans and tax incentives, assistance in research and marketing, and assistance in retraining workers for jobs using automated equipment. When a plant closing is deemed inevitable, the team assists in finding a new buyer for the plant and in converting the work force to new employment.

Experience with state plant closing response teams is too brief to allow an assessment of their effectiveness. However, Canada’s Industrial Adjustment Service provides a model indicating that a similar initiative can work well at moderate cost. The Canadian program is discussed in Section IV of the report.

State Demonstration Projects

Although the few state-supported demonstration projects that have been carried out are quite small in terms of number of respondents, they do provide some useful additional information on the effectiveness of alternative state initiatives. Summarized here are the recent demonstration projects in Illinois, Delaware, and Wisconsin.

Illinois. Between July and November of 1984, the Illinois ES department conducted two experiments intended to test the impact of cash vouchers in reducing the length of insured unemployment. In the first, called the Job-Search Incentive Experiment (JSIE), members of the treatment group of new UI claimants were instructed that they would receive a cash bonus of \$500 if they found employment (of 30 hours or more per week) before the end of the eleventh week of UI benefits and if they retained that job for four months. In the second, the Hiring Incentive Experiment (HIE), treatment group members were authorized to tell prospective employers that they (the employers) would receive a \$500 bonus for hiring an eligible worker before the eleventh week of his UI benefits and retaining him for four months.

Preliminary results reported by Spiegelman and Woodbury (1986) indicate that the JSIE bonus payments to workers had a strong effect in reducing regular UI benefit payments provided by the state. That is, the prospect of a \$500 bonus proved to be a strong incentive for workers to pursue job search more intensively. In the New Jersey reemployment demonstration project, as mentioned earlier, the effectiveness of reemployment bonuses will receive further testing.

The HIE program on the other hand, appeared to have little effect on benefit payouts. One reason is that relatively few eligible claimants chose to take advantage of the program (66 percent vs. 84 percent for the JSIE). In addition, vouchers were actually paid to employers in a very small number of cases. These results present an interesting contrast to the MEED program in Minnesota in which the qualitative evidence indicates that employers respond strongly to the chance to hire targeted workers at a subsidized wage.

In addition to the JSIE and HIE experiments, Illinois is currently using funds from the Prairie State 2000 Authority to experiment with the use of the Individual Training Account (ITA) concept. As described in Choate and Carey (1985), contributions by workers and employers would be used to create an ITA trust fund with an upper limit of, perhaps, \$4,000 per worker. A worker displaced from his job would be entitled to receive a voucher of up to \$4,000 to be used to pay for retraining and/or relocation. If the retraining option were chosen, the type and location of the training would be left up to the worker. Upon retirement, both workers and employers would be refunded their unused contributions plus interest.

In this context, it may be useful to contrast the “right” or “entitlement” to benefits incorporated in the ITA concept with the traditional view of UI as a form of social insurance. As emphasized by Hansen and Byers (1986), the introduction of employee contributions establishes a vested right of workers to total allowable benefits either at mid-career or at retirement—the choice is theirs. The UI system, in contrast, was originally constructed to conform to the principles of a true insurance program. In particular, UI benefits are provided

only in the case of involuntary unemployment. That is, the individual worker cannot decide on a course of action that will cause him to be eligible for benefits. Moreover, there are built-in incentives—a relatively low replacement rate of lost earnings and the work test—to insure that workers who are involuntarily unemployed will act in their own self-interest to end their unemployment.

Delaware. During the first half of 1983, the Delaware Department of Labor conducted an experiment designed to measure the effect of alternative services in increasing earnings and in reducing the need for UI benefits. This experiment preceded the implementation of Delaware's statewide program described earlier in this section. Participants in the experiment were UI claimants who had been receiving benefits for seven to twelve consecutive weeks. The participants received four basic services: (1) job search workshops, (2) individual counseling provided on a part-time basis by local high school guidance counselors, (3) job development, and (4) retraining.

Bloom's (1985) evaluation report indicates that despite a quite good placement rate of roughly 80 percent, the experiment appears to have had essentially no impact on earnings or UI reliance. Among the services provided participants, he recommends that the job search workshops be extended beyond the four to five half-day sessions included in the experiment, and that the job development and counseling functions be combined and put into the hands of perhaps fewer but more experienced staff members who could devote more of their time to the program. With respect to retraining, Bloom concludes that training programs are not an appropriate form of assistance for all participants. That is, participants should be carefully screened so that retraining is provided to those most in need of skill upgrading and most likely to benefit from the training.

Wisconsin. From March 1983 through July 1984, the Wisconsin ES department carried out a demonstration project designed to determine the effectiveness of job search workshops in reducing UI outlays. Six Job Service locations were involved in the demonstration.¹² Using a random sample of indefinitely laid-off claimants, the treatment group received a mandatory 1-day, 6-hour workshop. The evaluation report by Jagers, *et al.* (1984) indicates that the treatment group received .62 fewer weeks of UI benefits than the control group. Furthermore, treatment group claimants are reported as perceiving that their job-seeking skills improved because of the workshop, and Job Service directors and workshop staff recommended that the workshops be continued as a regular service to displaced workers. Unfortunately, the evaluation report provides little information on workshop content across the six sites.

IV. FOREIGN GOVERNMENT INITIATIVES

Other nations have experimented with a plethora of reemployment programs. Two types of foreign programs that appear to be of immediate interest to U.S. policymakers are discussed in this section.¹³ The first is Canadian experience with a plant-centered program similar to the rapid response team concept. The second is the experience in Great Britain and France with self-employment programs. The latter programs provide income support to unemployed workers who agree to attempt to start up their own small businesses.

Canada

Canada's Industrial Adjustment Service (IAS) provides a model suggesting that a program emphasizing cooperation between local labor and management officials can be an effective way of providing reemployment services to displaced workers. The program works as follows. After learning that a layoff is imminent, the IAS offers to help establish a labor-management reemployment committee whose task is to place laid-off workers in new jobs in as short a time as possible. If the offer is accepted, which is nearly always the case, the IAS provides an experienced chairman, whom the reemployment committee may select from a roster of experienced people (often retired businessmen). The IAS also pays half of the committee's costs, with the company usually picking up the other half. Committees typically finish their work and disband in about one year.

The basic strategy of the IAS is to place unemployed workers in jobs that are never publicly announced, but instead are filled by word-of-mouth. From this strategy follows several of the important features of the program. One of these is an emphasis on prompt placement, rather than retraining, relocation, or counseling. Workers in need of retraining, in particular, can be referred to Canada's extensive adult vocational training system.

A second feature is recognition that it is people with extensive experience in the industry and community—that is, the labor and management representatives—who are in the best position to use their informal contacts to turn up job openings. Thus the IAS advisor to a committee keeps a low profile, and the agency itself is flexible in its operation as well as being relatively small in terms of number of employees and size of budget. It is this second feature of the IAS program that distinguishes it from the rapid response programs discussed for Arizona and South Carolina. The role of the IAS is one of facilitating the efforts of labor and management in locating job opportunities. In the U.S. programs, the rapid response teams play a more active role in organizing the provision of reemployment services and in attempting to forestall plant closures.

The OTA report (1986, pp. 23-24, 55, and 167) comments favorably on the IAS program's modest cost (about \$108 per year for every worker served), reasonably good placement rates (about two-thirds of workers affected by plant closings are placed within a year), and absence of bureaucratic red tape. It should also be noted that most of the Canadian labor force is covered by legislation requiring advance notice of plant closings or layoffs affecting more than 50 workers. These laws allow the IAS to get an early start in placing workers, often before layoffs actually occur.

Great Britain and France

An initiative of considerable current interest in the U.S. is assistance to jobless workers to allow them to become self-employed. One indication of this interest is the recent DOL (1986a) report, which was initiated at the request of U.S. Senators Hart, Packwood, and Bentsen. In their letter to Secretary of Labor Brock, the three Senators expressed a specific interest in the potential for using UI benefits to help support workers in the start-up phase of establishing their own small businesses. Another indication is the bill—H.R. 1690—introduced by Representatives Wyden, Gephardt, and Schumer that would authorize a demonstration project in which UI benefits could be used to help fund self-employment. Programs of this type in Great Britain and France have moved beyond pilot testing to national programs of several years duration.

Britain's Enterprise Allowance Scheme (EAS) was introduced as a pilot program in 1982 and was subsequently made available throughout the country. EAS pays a flat allowance of 40 British pounds (equivalent to \$58.80 as of March 1986) per week for 52 weeks to unemployed workers who want to start a business. Applicants must have been unemployed for at least 13 weeks, must be willing to work full time at the business, and must have at least 1,000 British pounds (including loans) available to invest in the business. EAS is funded from general tax revenues, and about 50,000 slots are currently available. EAS officials estimate that 87.5 percent of program participants were still in business after the 12-month allowance period.

France introduced its Unemployed Entrepreneurs' Program in 1979 and made it national policy a year later. Unlike Britain's EAS, unemployed French workers can collect a lump-sum payment equivalent of up to \$4,434 (as of March 1986) to help them establish a business. Additional grants are made for workers hired during the first six months, and program participants also receive health and life insurance benefits. Funding for the program was switched in 1984 from the unemployment compensation fund to general revenues. As of December 1984, more than 170,000 unemployed workers had taken advantage of the French program.

The expansion of self-employment programs from pilot projects to national policy in both Britain and France is an important measure of success for this type of initiative. However, as pointed out in the recent DOL report (1986a, pp. 53-63), adequate evaluation of these programs has not been carried out. In particular, no evidence is currently available to determine how many of the new firms would have been established in the absence of the self-employment programs or how many existing firms were displaced.

V. APPLICABILITY TO WASHINGTON STATE

The discussion hence far in this report has provided a survey of initiatives taken by other states, the federal government, and foreign governments in providing reemployment assistance to jobless workers. Also considered was the limited information available on the effectiveness of these initiatives in returning the unemployed to jobs. The purpose of this section is to return to the main question posed in Section I, namely, should Washington State policymakers seriously consider alternative uses of the state's UI trust fund? In attempting to answer this question, there are two main issues to be addressed. These are (1) the alternative forms of assistance that might be provided and (2) the appropriateness of using UI funds as the source of funding.

Alternative Forms of Assistance

The alternative forms of reemployment assistance described here can be classified as follows: (1) enhanced job search assistance, (2) classroom training, (3) OJT and wage subsidies, (4) relocation allowances, (5) reemployment bonuses, and (6) self-employment programs. Among these categories, enhanced job search assistance has probably received the most uniformly favorable comments in the evaluation reports of the various federal and state programs. This form of assistance is likely to be especially valuable to displaced workers, many of whom have not searched for a new job in many years. In particular, the OTA report (1986, pp. 248-49) emphasizes the role of job search workshops in building up the low self-esteem that many workers feel after being laid off as well as the importance of job development in discovering job vacancies that are never publicly announced and of efforts to match workers' skills with job openings.

Washington State is currently undertaking two initiatives in the area of job search. The first of these—ESSB 4196—provides intensive job search assistance to those UI claimants judged to be the most employable. Services to be provided include intensive recruiting, screening, and referral of individual claimants, along with group job search programs and work search planning assistance. The program is being carried out in the 20 Job Service offices located in the largest labor markets in the state, and the \$4.6 million to be spent on the program will be obtained by diverting funds from the state UI trust fund. An additional \$0.4 million is budgeted to provide placement services for agricultural employers and workers.

The second initiative is a demonstration project in Tacoma designed to determine the best approach to directing and monitoring the search activity of claimants. The Tacoma project is an outgrowth of the Washington Statewide Work Search Activity Program. This program is really a policy statement to the effect that each Job Service office will be responsible for specifying what job search requirements are best suited to its client mix and local labor market conditions. To provide information to assist the individual office in making this decision, the Tacoma project will evaluate the effectiveness of four program treatments. In treatment 1, there is to be no monitoring by the local Job Service office. Instead, the claimant will merely call in on a weekly basis to report how his search is progressing. The second treatment is a standard work search monitoring program. Claimants are monitored

weekly and are required to make three employer contacts per week. During the thirteenth week of unemployment, there is an eligibility rights interview (ERI) to determine why the search effort has not yet been successful.

In treatment 3, the required number of contacts is made more flexible depending on the claimant's occupation and particular needs; but the required number of contacts per week increases as the period of unemployment lengthens. In addition, the ERI is moved up to the fourth week of unemployment. The final treatment is the same as treatment 3 with the addition of an intensive job search workshop two to four days in length to take place during the fourth week of unemployment. Details of the workshop are still being worked out.

Among the other five categories of reemployment assistance, classroom training has probably received the widest use. Most evaluations of classroom training programs tend to focus on two problems that plague such programs. There are (1) the selection of workers who will benefit from training and (2) the provision of training in areas of sufficiently high demand that program graduates can readily be placed. California's ETP program attempts to solve these problems by undertaking only employer-initiated programs and utilizing performance-based contracts with training vendors. Highly selective screening by vendors with a strong incentive to achieve high placement rates can, however, amount to creaming. To date, ETP has not been evaluated to determine the number, if any, of program graduates who would have found employment or training in the absence of the program.

As discussed in Section II in connection with the dislocated worker demonstration project, OJT appears to be a more effective tool for placing workers than for skill acquisition. The typical subsidy to employers is 50 percent of the wage during the training period. Which may last up to six months. OJT is thus very similar in its impact to a wage subsidy policy such as Minnesota's MEED program. Minnesota officials are enthusiastic about the success of MEED in placing workers, particularly in small and medium-sized firms. Nevertheless, its average cost per placement is relatively high, and the program has yet to be formally evaluated in terms of its net employment impact (i.e., the number of jobs created over and above those that would have been created in the absence of the program).

Despite its appeal as a structural unemployment policy, relocation allowances have received little attention in the state programs reviewed. Among federal projects, reemployment allowances are available to TAA recipients, and four of the six sites of the dislocated worker demonstration project offered this form of assistance. At these four sites, however, less than four percent of program participants elected to move to new areas (OTA, 1986, p. 261).

As noted in Section II, the reemployment bonus is a new concept to be tested in the U.S. Preliminary results from the Illinois Job-Search Incentive Experiment provide evidence that cash bonuses are effective in providing workers an incentive to pursue job search more intensively. It is also worth noting that the DOL considered this form of assistance to be of sufficient promise that it is included as one of the three treatments provided in the federally-funded New Jersey reemployment demonstration project.

The experience in Great Britain and France with self-employment programs is such that the programs have been made national policy. As yet, however, this initiative has not received

sufficient evaluation to warrant its consideration for implementation in this country except, perhaps, on a pilot project basis. The recent DOL report (1986a, pp. 53-65) also points out that in comparison to European countries, the U.S. has enjoyed a much more rapid growth in self-employment over the past 15 years, even in the absence of direct government intervention.

Use of UI Trust Funds

Present federal law prohibits states from withdrawing UI trust funds for purposes other than the payment of income-replacement benefits. Thus the state programs discussed here are financed either by general tax revenues or by diverting a portion of regular UI taxes to separate ear-marked funds. Washington State is currently enjoying a trust fund surplus of \$264 million, which represents about one percent of the state's total wage bill. Washington is therefore in a position to consider the diversion approach to financing new programs without the necessity of increasing the payroll tax rates paid by employers. Indeed, as noted earlier in this section, the recently passed intensive job search assistance bill is to be financed by diverting a portion of UI tax revenues.

There are at least two issues to be discussed in considering the use of UI trust funds for financing reemployment initiatives. One is the problem of trust fund solvency, and the other is conformity to basic insurance principles underlying UI financing. With respect to the first, experience during the last two recessions demonstrates quite clearly that UI trust funds are finite in size; and the recently volume by Vroman (1986) spells out how vulnerable state UI programs are to the business cycle. The main argument for the diversion approach to financing is that short-run withdrawals from trust funds will be offset by longer-run inflows as reemployment initiatives pay off in a work force that is less susceptible to unemployment. As indicated in the first part of this section, however, little evidence is currently available on the longer-run effectiveness of alternative reemployment initiatives. While administrators in California and Minnesota, in particular, provide positive assessments of their programs, most of the state initiatives reviewed have not undergone a rigorous evaluation. Thus the longer-run impact of reemployment initiatives in enhancing trust fund solvency is unclear.

Beyond the question of the effectiveness of reemployment initiatives, there is also the practical problem of properly targeting reemployment services. While most of the state and federal programs discussed in this report are designed to assist displaced workers, it is not at all clear how displaced (or, more broadly, structurally unemployed) workers can be distinguished from those who are unemployed for frictional, seasonal, or cyclical reasons. The recent DOL report (1986a, pp. 21-24) reviews estimates of the number of displaced workers for the 1980s. These estimates range widely from between 100,000 to over five million persons depending on the definition used. Indeed, one of the purposes of the New Jersey reemployment demonstration project is to determine whether prospective UI exhaustees can be distinguished from other unemployed workers by the fifth week of claiming benefits.

The distinction between categories of unemployment is important because it is the structurally unemployed who would be expected to benefit from alternative forms of assistance, while short-term income maintenance is more appropriate for the other

categories of the unemployed. Excessive costs are incurred if unnecessary services are provided to unemployed workers who would get their former jobs back when the economy recovers. Such excessive costs threaten the ability of the UI system to provide traditional wage replacement benefits, particularly during recessions. On the other hand, the denial of alternative services to an individual who would benefit from them but does not happen to meet a particular definition of displaced workers raises a difficult equity issue.

Turning to the issue of conformity to insurance principles, the underlying philosophy of employer financing of the UI system is that employers are responsible for the welfare of the employees they lay off. Partial wage replacement is an insurable risk to employers only when the stream of weekly UI benefits is largely beyond the control of the individual worker. That is, benefits are paid only if unemployment is involuntary, and involuntarily unemployed workers must act to end their unemployment. This reduces the “moral hazard” problem associated with the incentive for covered workers to become and to remain unemployed.

As pointed out by Hansen and Byers (1986), the payment of income-maintenance benefits to workers enrolled in training programs represents a significant weakening of the insurance philosophy underpinning the UI system because these workers are not actively seeking employment. State initiatives such as payment of the cost of training programs and wage subsidies also weaken the system’s insurance underpinning by strengthening the right to a fixed stream of benefits. The point is that the UI system was designed for every eligible unemployed worker to collect the *minimum* number of weekly benefits necessary to find a job rather than the *maximum* number allowable under state law. With the experience rating of UI taxes, it might also be argued that it is unreasonable to expect employers in declining industries to subsidize the retraining or the wages of workers who will more than likely be employed in other industries that are expanding.

A related issue is associated with the declining trend in the ratio of insured unemployment to total unemployment (see Burtless, 1983).¹⁴ As the insurance underpinning of the UI system is weakened, the question arises whether it continues to make sense to provide UI benefits only as a right earned by demonstrating a strong attachment to the labor force. That is, if the system is, in fact, evolving from a work-based program toward a needs-based program, the case for excluding from benefits unemployed labor force entrants and reentrants is clearly weakened.

A Summing Up

The UI system has served for over 50 years as the first line of defense against temporary income losses due to unemployment. In this role, the system currently enjoys the support of business, organized labor, and the general public. Increased concern over the unemployment implications of structural change in the economy has led, however, to the suggestion that UI trust funds might better be used to finance alternative forms of assistance designed to reduce the adjustment problems faced by displaced workers. Indeed, a number of states as well as the federal government and other industrialized nations are presently experimenting with such reemployment initiatives.

As indicated earlier in this section, alternative reemployment initiatives can be broadly classified into six categories of assistance. Any one of these initiatives might be financed by diverting tax revenues from UI trust funds, and none of them appear to be ruled out by the economic conditions in Washington State. In fact, the state is already pursuing two initiatives in the category of enhanced job search assistance.

Among the other five categories, relocation allowances do not seem to be a viable option at the state level, and no state is currently funding a relocation assistance program. Similarly, the viability of the self-employment initiative can be questioned on at least three counts. These include (1) the question whether government subsidies to form new enterprises are really needed in this country, (2) the issue of whether it is equitable to use the employer-financed UI system to support the start up of potential competitors to existing firms, and (3) the moral hazard problem associated with the entitlement of an unemployed worker to receive the maximum duration of UI benefits.

Still left on the table are three categories of initiatives. As noted, both the classroom training and the OJT and wage subsidy initiatives have enthusiastic advocates in other states. Yet, these initiatives appear to be subject to many of the same criticisms levied against self-employment programs. In particular, the net employment impact of both initiatives is unknown, and the moral hazard problem accompanying increased worker choice serves to undermine the insurance underpinnings of the UI system. In addition, the experience rating of UI taxes raises the equity issue of whether employers in declining industries should be forced to pay for the training or subsidize the wages of unemployed workers who will likely be reemployed in expanding firms or industries.

The single remaining initiative—reemployment bonuses—has the advantage of strengthening the incentive to return to employment as quickly as possible. In this respect, reemployment bonuses are more compatible with the insurance principles underlying the UI system than are either the training or wage subsidy options. However, tempering a strong recommendation favoring the diversion of UI trust fund tax revenues into a reemployment bonus program is the fact that it is a largely untried form of assistance in the U.S.

REFERENCES

- Arthur Young. 1985. "Study of the California Employment Training Panel." Mimeo.
- Bloom, Howard S. 1985. "Lessons from the Delaware Dislocated Worker Pilot Program." Mimeo.
- Burtless, Gary. 1983. "Why Is Insured Unemployment So Low?" *Brookings Papers on Economic Activity*. Pp. 225-49.
- California, State of. 1984. *The Employment Training Panel*. Annual Report.
- California, State of. 1985. *Employment Training Panel*. Annual Report.
- Choate, Pat, and Dennis C. Carey. 1985. "An IRA for Structural Unemployment." *Challenge* 28: 57-59.
- Cook, Robert F., ed. 1985. *Draft Report: Dislocated Worker Projects under Title III of the Job Training Partnership Act*. Rockville, MD: Westat, Inc.
- Corson, Walter, Rebecca Maynard, and Jack Wichita. 1984. *Process and Implementation Issues in the Design and Conduct of Programs to Aid the Reemployment of Dislocated Workers*. Princeton, NJ: Mathematica Policy Research, Inc.
- Hansen, W. Lee, and James F. Byers. 1986. "Unemployment Compensation and Retraining: Can a Closer Link Be Forged?" Paper prepared for the conference, "Unemployment Compensation: The Second Half-Century," Racine, WI, Feb. 20-22.
- Jaggers, Meredith, John Herrem, Mary Witt, and Elizabeth Blessinger. 1984. *Wisconsin Job Service ERP Pilot Project*. Wisconsin Department of Industry, Labor, and Human Relations.
- Kulic, Jane, D. Alton Smith, and Ernst W. Stromsdorfer. 1984. *The Downriver Community Conference Economic Readjustment: Final Evaluation Report*. Cambridge, MA: Abt Associates, Inc.
- Office of Technology Assessment. 1986. *Technology and Structural Unemployment: Reemploying Adult Workers*. Congress of the United States.
- Spiegelman, Robert G., and Stephen A. Woodbury. 1986. "Summary of Preliminary Findings from the Illinois Unemployment Insurance Experiments." Mimeo.
- U.S. Department of Labor. 1986a. "Alternative Uses of Unemployment Insurance." Employment and training Administration. Mimeo.

U.S. Department of Labor. 1986b. "The New Jersey Unemployment Insurance Reemployment Demonstration Project: A Description." Employment and Training Administration, Unemployment Insurance Service. Mimeo.

Vroman, Wayne. 1986. *The Funding Crisis in State Unemployment Insurance*. Kalamazoo, MI: W. E. Upjohn Institute.

Washington State Employment Security Department. 1985. "Strategic Planning for the Employment Security Department, Phase I." Research and Analysis Branch. Mimeo.

FOOTNOTES

¹ Other than Washington, states in which STC programs are approved are California, Arizona, Oregon, Florida, Illinois, and Maryland. All states waive their work search requirement in the case of covered workers enrolled in approved training programs.

² Structural unemployment is said to occur when the location and skill requirements of vacant jobs do not match the location and existing skills of unemployed workers. Displaced workers are one category of the structurally unemployed. Other groups that may suffer structural unemployment because of a skill/location mismatch are new entrants and reentrants into the labor force.

³ See Cook (1985) as summarized in DOL (1986a, pp. 35-36).

⁴ The evaluation of both phases of the Downriver project was carried out by Abt Associates. See Kulic, *et al.* (1984).

⁵ This discussion is primarily based on DOL (1986b).

⁶ An additional state program not discussed in this section is Iowa's provision of additional weeks of UI benefits to workers laid off because their employer went out of business.

⁷ The discussion in this section is primarily based on State of California (1984, 1985).

⁸ An interesting variation on California's employer-initiated training program is the Alabama Industrial Development Training program. Begun in 1971, AIDTraining uses a fleet of 36 mobile training units to locate at a particular site and provide training and recruiting assistance to manufacturing employers who have expressed an interest in locating or expanding in Alabama. The program is funded with general state revenues.

⁹ The enabling legislation passed in 1984 establishes a "social compact" that encourages Massachusetts firms to give 90 days notice of a plant closing.

¹⁰ Employers given priority for MEED participation are those with the potential for offering long-term employment and those that conserve energy, make use of state resources and new technology, and operate primarily in Minnesota.

¹¹ The Arizona and South Carolina rapid response programs are discussed in OTA (1986, pp. 190-91, 212).

¹² UI claimants are required to register with their local Job Service office of the state's ES department. ES is responsible for monitoring the claimant's eligibility for UI as well as for providing job search assistance.

¹³ More complete discussions of the reemployment programs of other industrialized nations are found in OTA (1986, pp. 213-22) and DOL (1986a).

¹⁴ Burtless (1983) also discusses the impact of recent legal and administrative changes in the UI system in explaining the post-1979 decline in the ratio of insured unemployment to total unemployment.