Back to Work

UNITED STATES

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD

Back to Work: United States

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

OECD
BETTER POLICIES FOR BETTER LIVES

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Foreword

OECD labour markets are characterised by their dynamism. Each year, more than 20% of jobs, on average, are created and/or destroyed, and around one third of all workers are hired and/or separate from their employer. These large job and worker flows are driven by a continuous process of labour reallocation, both across industries and between declining and growing firms within industries. This reallocation is an important source of productivity gains, since more productive firms expand at the expense of less productive firms and earnings rise on average for workers changing jobs, particularly workers who voluntarily quit one job in order to move to another. However, high job turnover is also a source of insecurity for workers, especially those who are displaced from their jobs because their employer downsizes its workforce or goes out of business altogether. A common challenge facing OECD governments is to nurture labour market dynamism while keeping the adjustment costs that are borne by displaced workers as low as possible.

To address this issue the OECD Employment, Labour and Social Affairs Committee is carrying out a thematic review of policies to help workers who lose their jobs for economic reasons or as a result of structural change to move back into work. Nine countries participate in this review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

This report on the United States was prepared by Shruti Singh from OECD's Employment, Labour and Social Affairs Directorate and Robert Bednarzik from Georgetown University, under the guidance and supervision of Christopher Prinz. Statistical assistance was provided by Sylvie Cimper and Agnès Puymoyen and editorial assistance by Gabriela Bejan. Comments were provided by Mark Keese, Stefano Scarpetta and Paul Swaim. The report benefited greatly from discussions with experts, officials, employer federations, trade unions, academics and businesses during an OECD mission to the United States in late 2015; discussions with and information provided by experts and government officials in two states, Michigan and Pennsylvania; and comments to a draft provided by several authorities and stakeholders. It should be noted that the OECD study information collection was taking place while implementation of major workforce development legislation, the new *Workforce Innovation and Opportunity Act*, was underway.

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Acronyms and abbreviations

ALMP	Active Labour Market Programme
ARRA	American Recovery and Reinvestment Act
ATAA	Alternative Trade Adjustment Assistance
BLS	Bureau of Labor Statistics
CAR	*Comité d'Aide au Reclassement* (Quebec)
CPS	Current Population Survey
CREC	*Comité d'aide au Reclassement à Entrées Continues* (Quebec)
DOL	Department of Labor
DWS	Displaced Worker Survey
DWTT	Dislocated Worker Transition Team
EPL	Employment Protection Legislation
ES	Employment Services
EUC	Emergency Unemployment Compensation
FTE	Full-Time Equivalent
FUTA	Federal Unemployment Tax Act
FY	Fiscal year
GDP	Gross domestic product
IESC	Industrial Employment Stabilization Center
ITA	Individual Training Account
IWT	Incumbent Worker Training
JAC	Joint Action Committee
JSC	Job Security Council (Sweden)
JTPA	Job Training and Partnership Act
LWDB	Local Workforce Development Boards
MEP	Manufacturing Extension Partnerships
NASWA	National Association of State Workers Agencies
REA	Reemployment Eligibility Assessment
RESEA	Reemployment Services and Eligibility Assessment
RRS	Rapid Response Service
RTAA	Reemployment Trade Adjustment Assistance
SEWN	Strategic Early Warning Network

SIPP	Survey of Income and Program Participation
SNAP	Supplemental Nutrition Assistance Program
SSI	Supplemental Security Income
STC	Short-Time Compensation
STW	Short-Time Work
SUTA	State Unemployment Tax Act
TAA	Trade Adjustment Assistance
TANF	Temporary Assistance for Needy Families
TRA	Trade Readjustment Allowance
UI	Unemployment Insurance
US	United States
USD	US dollars
WARN	Worker Adjustment and Retraining Notification
WIA	Workforce Investment Act
WIOA	Workforce Innovation and Opportunities Act

Executive summary

Many workers who lose their jobs involuntarily in the course of economic transformation and restructuring face substantial personal costs as a result of the considerable time spent out of work and/or lower wages when they do find a new job. In the flexible and dynamic labour market of the United States, around 4% of all workers with tenure of one year or more are displaced from their job each year. Around half of them find a new job again within one year but the other half struggles much longer. And among those who find a new job, many have to accept considerable wage cuts. Older workers, those with long job tenure, and those with low educational qualifications struggle most in finding a new job after displacement and have to accept the largest wage losses.

Labour market policy in the United States takes account of the particular challenges displaced workers are facing and unlike many other OECD countries targets support to this group. The US system has a number of components with considerable potential, including a rapid response service that reacts quickly in case of mass dismissal and a wage insurance component to compensate some of the losers of restructuring. However, the successes of these policies remain limited, mainly for three reasons. *First*, overall funding in the workforce development system is insufficient to help all those in need and has not kept pace with rising demand in the aftermath of the global financial crisis. *Second*, the system is confronted with considerable inequities arising from a strict distinction made between *trade-related* job displacement (eligibility is determined at the national level for legal entitlement to training and extended unemployment benefits, or wage insurance if the person is older) and job displacement *for other reasons* (eligibility is determined at the local level for employment services but no legal entitlement and the degree of support is therefore more erratic). *Third*, the system struggles with inefficiencies resulting from a devolved institutional structure involving actors and stakeholders at three tiers of government, the federal, the state and the local level.

Policy developments in the United States over the past five years in regard to job loss induced by restructuring in many different areas can be characterised as forward thinking; including an expansion of policies to prevent unnecessary dismissals, a move towards stronger one-stop service delivery at the local level, the stronger involvement of the business sector and promising developments in the training field. However, changes often

do not go far enough or fail to reach a sufficient number of companies and workers affected by economic dismissals.

In view of the poor labour market outcomes for many displaced workers and considerable inequities within this group in terms of the services received, the OECD recommends that policymakers in the United States:

- Make *Rapid Response Services* more effective to facilitate direct job-to-job transitions following a layoff, by strengthening the notice provisions, increasing the notice period and lowering the threshold for advance notice of collective dismissals to reach more displaced workers.
- Introduce a *Universal Dislocated Worker Programme*, by merging the trade-related assistance with the general programme for displaced workers, thereby offering a universal set of services to all displaced workers with entitlement to more intense training guided by local job availability and employers' skill needs, while experimenting with an effective wage insurance component to encourage a return to work.
- Increase the enforcement for recipients of all benefits of availability and job-search requirements, with effective sanctions for those failing to fulfil their requirements and interventions scaled up as benefit duration extends, and make *One-Stop Centers* responsible for enforcing and monitoring these job-search requirements and for administering both unemployment insurance benefits and employment services. Savings from shorter jobless spells can help offset higher enforcement costs.
- Convene an independent *Unemployment Insurance Commission* to assess the extent to which, *first*, the current unemployment insurance system continues to fulfil its function and intention and, *second*, some of the key system parameters (such as minimum benefit criteria, eligibility criteria and the experience-rating mechanism) need to be adjusted.

Assessment and recommendations

Worker displacement, or worker dislocation as the more commonly used term in the United States for job losses due to restructuring, downsizing and plant closure, is a long-standing policy issue. This is reflected in the United States in a range of earmarked programmes and additional funding targeted on dislocated workers, especially for those who have lost their jobs for trade-related reasons. This is different from many other OECD countries in which dislocated workers are treated just like all other unemployed people.

Job displacement is frequent in a dynamic labour market

The US labour market is very dynamic. New jobs are created all the time and over 40% of all jobs are ended each year. More than one-third of all separations are involuntary layoffs and discharges, many of them affecting workers with short job tenure. Job displacement as defined more narrowly in this study, for people with job tenure of at least one year, affects about 4% of the US workforce every year. This is a higher share than in the majority of other OECD countries with comparable data. Job displacement affects all categories of workers, young or old, men or women, but more so workers with low levels of education and short job tenure or those who are working in the construction and manufacturing sectors.

The global financial crisis (GFC) in 2008/09 resulted in a temporary increase in the displacement rate but only by around 1 percentage point. More importantly, the crisis has made it more difficult for displaced workers and other unemployed people to find a job again quickly, also as a result of the increasing polarisation in the first years after the crisis of job opportunities by level of skill. The rate of unemployment stayed high in the United States for many years in the wake of the crisis largely because of a slow recovery of the hiring rate and because of the types of jobs lost during the crisis which were different from those created. By early 2016, the unemployment rate had fallen back to close to its pre-crisis level. However, the crisis still leaves its scars: the share of long-term unemployment was still double the pre-crisis level, the employment rate was 5 percentage points lower than 15 years ago, and the participation rate was still on a declining trend.

Labour market outcomes after displacement could be improved

Many displaced workers find a new job again quickly but for some finding a new job is more difficult. Currently about one in two displaced workers in the United States finds a new job within one year. This share was about 60% prior to the crisis, fell to 40% at the peak of the crisis and has been slowly recovering since. While the US re-employment rate for displaced workers is around the OECD average, these one-year job-finding rates are significantly higher in Australia, New Zealand and the Nordic countries but lower in many other OECD countries.

Re-employment rates are lowest for older workers aged 55 and over, those with long job tenure and those with low levels of education. Many of these workers actually withdraw from the labour market altogether. But the picture is not necessarily rosy either for all those who find a new job, as many of them face considerable and often persistent wage losses. Wage losses are around 6% on average but much higher than this for older workers. This implies that many workers may need help. Labour market policy and institutions have an important role in helping those bearing the largest brunt of economic restructuring.

Labour market institutions in the United States do little to prevent displacement

The flexible labour market in the United States poses few barriers for employers who want to fire workers. Employment protection legislation is very lenient relative to most other OECD countries, especially for individual dismissal, although some protection is afforded through the threat of anti-discrimination litigation. But generally, there are no advance notice obligations and also no requirement to consult with unions or other worker representatives prior to dismissal. Only in the case of mass dismissals are there some legal reporting requirements to the state authorities: employers with over 100 workers must provide advance notice of at least 60 days if they plan to lay off 50 or more workers. Even that notice period is below the OECD average, however.

In the absence of stricter employment protection, policies which aim to prevent unnecessary layoffs and connect laid-off workers to services quickly are critical. Early intervention programmes like *Layoff aversion*, *Rapid response* and most recently *Short-Time Work* have been put into place in the United States at both the federal and state level. However, more could be done to better exploit the potential of these interventions. Short-time work programmes are voluntary and thus not available in all US states; where they exist, take-up has been very low. In part, this is because using these schemes is not very attractive for a company: on the one hand, it is relatively easy to

lay off workers; on the other hand, through experience rating (i.e. benefit charging to the employer) short-time work is as costly for the employer as a dismissal. Removing experience rating for the short-time work programme while keeping benefit charging for the unemployment benefit system could be considered to encourage the retention of skilled workers and flexible staffing during business contractions. Layoff aversion or other early warning mechanisms exist in many US states for certain sectors of the economy to provide support early on for firms in difficulties. Available evaluations suggest that layoff aversion is effective in saving jobs. But both their reach and the type of service they can offer are rather limited.

Strong focus on early intervention by rapid response services

The United States has a well-designed, well-functioning rapid response service, federally mandated but under state responsibility, which has been in place for a long time. Mandatory advance notice in case of mass dismissal is followed up by the state's rapid response service to facilitate the transition of affected workers to new jobs. These services operate differently across states but they all include fact-finding, rapid response planning and (often on-site) worker orientation meetings.

However, these rapid response services reach only a limited number of displaced workers. Advance notice is in practice very short implying that state authorities have a tiny window to act, if any, and by design restricted to larger dismissals in large companies. This undermines the efforts of the state authority to help displaced workers. While workers affected by mass dismissal typically may benefit from some rapid response action, most displaced workers will not and will instead have to rely on mainstream re-employment support. Much can be learned from other OECD countries, like Canada or Sweden, on how to reach out to all displaced workers and how to use a longer notice period of dismissal effectively.

Unemployment insurance does not protect all displaced workers

Unemployment insurance is the major tool in the United States to provide income support to the unemployed (severance pay plays a minor role). However, not everyone is entitled to unemployment benefits and not everyone claims a benefit. To qualify for benefits individuals must meet the state's requirements for wages earned or hours worked to demonstrate attachment to the labour force. On average over the past decade, about half of all displaced workers received unemployment benefits following their displacement, with a peak of 60% in 2010 and a gradual decline to below 50% since then. Younger workers under age 35 and those with lower levels of education have the lowest unemployment benefit recipiency rates.

The peak in the coverage rate after the crisis hit was the result of federal and state governments reacting quickly to the crisis with repeated unemployment insurance extensions and emergency benefits. At some point, these extensions meant that unemployment benefit was actually payable for up to 99 weeks, compared to the *usual* period in most states of 26 weeks.

More recently, however, many states have opted to reduce payment duration to below the historically accepted maximum number of 26 weeks, arguably with the aim to balance the unemployment-insurance trust funds, most of which had been running a deficit. Accordingly, the overall benefit coverage rate (the share of unemployed people who receive unemployment benefits) has been falling. By 2015, one in five US states had a benefit coverage rate below 15%, questioning whether the programme is still providing economic stability for these states.

Income support is not sufficient to prevent poverty and exclusion

In view of the short payment duration, benefit exhaustion is a major concern: between one-quarter and one-third of all displaced workers exhaust their unemployment benefit entitlement before finding a job. This share reached 35% in 2008, fell to 20% in the period with extended benefit payments and increased again to 25% in 2014. Moreover, displaced workers who exhaust their unemployment entitlements have poorer employment outcomes in the long run and face bigger income losses when they do find a new job. Consequently, they face a higher risk of poverty and strongly rely on means-tested social benefits for considerable periods. More generally, poverty is a serious problem for displaced workers: survey data suggest that two in three families with a displaced worker experience poverty.

This finding raises more general concerns about the adequacy of the US benefit system. Wage insurance to cover temporarily part of the wage loss that displaced workers may be confronted with in a new job is available in the United States, but very few displaced workers would be eligible (only trade-certified workers 50 years or older) and most of them do not utilise the subsidy. It will be necessary to better understand the success elements of an effective wage insurance scheme by experimenting with payment levels, caps and duration as well as age, tenure or other targeting criteria – and to consider implementing a scheme with broader access.

Standard means-tested, minimum-income social assistance payments that displaced workers may be entitled to receive after exhausting their unemployment benefit, or if not entitled to unemployment benefit in the first place, are very low in the United States by international standards. For instance, a married unemployed couple with two children would only be entitled to payments from the *Supplemental Nutrition Assistance Program* worth about 20% of median household income; this is much less than is available for needy families in most other OECD countries.

Preventing labour market exit and strengthening job-search efforts

The best policy approach is to provide employment support to people *early on* in the unemployment spell to prevent benefit exhaustion and labour market exit. The United States has made significant efforts in the past to identify workers at risk of long-term unemployment and benefit exhaustion, regardless of the reason for their dismissal. Profiling through *Reemployment Services and Eligibility Assessments* has shown to be effective. However, not all new unemployment benefit claimants are being profiled and only one-quarter of those who are profiled are then referred to corresponding services. It would be desirable to further expand funding to be able to profile all new unemployment benefit claimants early on, in particular all displaced workers, and to guarantee the necessary service capacity to support people at risk of long-term benefit dependence quickly with low-threshold job-search assistance. A current proposal by the federal Department of Labor to expand profiling further could pave the way in this direction.

To tackle high risks of poverty among displaced workers with long spells of joblessness, consideration should be given to broadening access to, and possibly raising levels of, available benefits. Making benefit payments more adequate without jeopardising work incentives and inflating public spending is a challenge, especially for jobseekers with low pre-displacement wages. Any consideration of better access to poverty-preventing benefits therefore must go hand-in-hand with stricter enforcement of job-search requirements and benefit conditionality. On this basis, the United States has one of the softest unemployment benefit systems among OECD countries. There is considerable room for tightening the conditionality regime to encourage benefit recipients to find work. This concerns three aspects: i) criteria for suitable work and occupational mobility; ii) job-search documentation requirements; and iii) strictness of sanctions. Importantly, enforcement of any job-search requirements currently in place is weak and inconsistent both across and within states. The number of expected work-search contacts is not very demanding and, while jobseekers are required to keep some record of their job-search activity, actual job search is not monitored and the likelihood of being selected for an audit is marginal. Stronger monitoring of job-search requirements and enforcement of benefit conditionality has shown to be cost-effective: the extra cost is more than offset by savings from shorter periods of benefit recipiency.

A more general assessment should be carried out of the extent to which the unemployment insurance scheme is able to fulfil its objectives. A gradual erosion of the system can be observed with more and more states cutting entitlements to below long accepted levels. This is understandable in view of the near depletion of the unemployment insurance trust fund in many states

but risks exacerbating the difficulties for jobseekers. The US budget 2016 sets out to address some of the issues outlined above and aims to strengthen minimum standards of the otherwise state-controlled system. Nevertheless, it would be right to establish an Unemployment Insurance Reform Commission to more carefully and systematically review the system and the pertinence and effectiveness of its components including especially: i) the eligibility criteria as system coverage has been declining for a while; ii) the minimum payment criteria as system adequacy has been undermined recently in many states; and iii) financing structures as the experience-rating feature of the system – whereby employers pay more insurance taxes the more is paid in benefits to former employees – has lost much of its impact over time as thresholds have not been adapted in line with wage growth.

Strong focus on displaced workers in the workforce development system

Labour market or workforce development policy in the United States is rather unique because, contrary to many other OECD countries, displaced workers have been a target group for many decades, with earmarked funding and dedicated programmes. This should in principle allow the system to deliver effective re-employment services for this group of people but this is not always the case, essentially for three reasons: i) the complexity of the devolved institutional structure; ii) a strict distinction between trade-related and other job displacements; and iii) more generally a scarcity of funds. All of this leads to a situation whereby, despite allocated funding, most displaced workers receive quite limited support.

Currently, only trade-affected displaced workers are legally entitled to largely uncapped support, including training, and can receive generous help. This is a small minority among all displaced workers, and most of them would have worked in the manufacturing sector. Displacements certified by the state authorities as being trade-related come with a training entitlement and longer unemployment benefit payments in line with the duration of the chosen training. Instead of the longer unemployment benefit payment, trade-displaced workers over age 50 can opt for a wage supplement which would cover 50% of the wage loss in a new job over a two-year period, up to a maximum, if income stays below a certain threshold.

Other than for trade-certified cases, displaced workers usually would receive limited support in finding a new job and especially little training, if any. Funding for the general dislocated worker programme has not kept pace with demand. In real terms, total funding has been falling consistently over the past 15 years. Spending per participant has fallen sharply after the GFC, despite additional emergency funding, from around USD 1 500 until mid-2008 to only USD 500-600 since mid-2009. The gradual erosion of the

programme is mirrored in a significant shift from intensive and assisted services to much cheaper self-service. Limited access to training is partly justified by the rather disappointing outcomes from available programme evaluations, apart from the fact that displaced workers generally want a new job rather than get trained in a new occupation. However, one lesson should perhaps be to identify better the reasons for why available training programmes are either successful or less successful and to expand those successful elements while eliminating ineffective interventions and training.

But the system fails to support all displaced workers who need help

Recent reforms under the *Workforce Innovation and Opportunity Act* have made positive headway through: stronger governance and reporting requirements in the workforce development system among stakeholders at different government levels; partnering with local industry to help identify jobs and training needs; new developments in the training field including worker pre-assessment and stackable training that builds on skills credentials; and strengthened one-stop service delivery at the local level. But reforms have not touched broader structural efficiency and equity issues, and the spending level – while now allowing more flexible use of funds – has remained unchanged.

One option to achieve better outcomes is by combining the general dislocated worker programme with the trade-related programme. This would go a long way in improving administrative efficiency at the federal, state and local level and eliminating inequity across different groups of displaced workers. The value of a separate trade-related programme from a political efficacy standpoint appears to be fading and the move of the general dislocated worker programme to local area concentration is consistent with a merger of the two programmes.

A rough estimate of the training cost of a single, merged programme based on current usage and budget figures is that an additional one billion USD would be needed. Although this is double the current budget for the general dislocated worker programme, it would just mark a return to the higher budget allocation in the late 1990s. Many displaced workers need more help than they can currently receive and at the same time, not all trade-affected displaced workers need the comprehensive services they are currently entitled to. A unified dislocated worker programme guided by local area skill needs and building marketable credentials can help improve efficiency and control costs. Other recommendations further above such as systematic profiling, tight job-search monitoring and enforcement of benefit conditionality will help to contain the costs of such a single, merged programme.

Key policy recommendations

Aligning labour market flexibility and early re-employment support

- Make layoff-aversion programmes more widely known among employers; expand programmes beyond the manufacturing and agricultural sectors; evaluate them rigorously; and consider including into these programmes direct support to workers at risk thereby fostering labour mobility and job-to-job transitions.
- Moving forward, short-time work programmes should become available in all US states and the use of these programmes in a downturn should be monitored and encouraged, including by adequate incentives for workers and employers. The latter may require a change in legislation and the financing arrangement as use of the programme currently can be costly.
- Harvest the full potential of rapid response services to facilitate quick job-to-job transitions following a layoff. This will require more and mandatory employer co-operation, reinforced notice provisions, longer notice periods and a lower threshold for collective dismissals to reach more displaced workers.
- Experiment with programmes which allow reaching out to people quickly in case of individual dismissal in regions with multiple redundancies in small- and medium-sized firms, as is done in Quebec/Canada. Those people can be helped with a similar range of services offered by rapid response teams in the case of mass dismissal.

Tackling the erosion of income support and addressing high levels of poverty

- Assess the extent to which the current unemployment insurance system fulfils its intentions, for example by convening an independent Commission. The system may require stronger minimum criteria to prevent its erosion; a modification of eligibility criteria to broaden coverage; an overhaul of the ineffective experience-rating feature; and a sustainable modus operandi to avoid the depletion of the trust funds.
- End the separation of the administration of unemployment insurance benefits and employment services and bring all tasks together in the local one-stop centres.
- Enforce a strong conditionality approach for social benefit recipients. Job-search criteria and requirements should be strengthened; the definition of suitable work broadened; regular contact with the benefit recipient increased; and sanctions clearly defined, consistently applied and strengthened with each violation or refusal of a suitable job offer.
- Increase the capacity of the RESEA profiling system to identify displaced workers at risk of benefit exhaustion and in need of support early on, and the capacity to support those people quickly with low cost, low threshold interventions.
- Address the high levels of poverty among long term unemployed people by considering an increase in some of the in kind and in cash payments available for those relying on minimum income benefits in exchange for tighter and more stringently monitored job-search obligations.

Key policy recommendations *(cont.)*

Raising the efficiency and equity of the workforce development system

- Merge the trade-related with the general dislocated worker programme. Evaluation evidence is clear that promoting training among dislocated workers by using trade as a criterion is not warranted. A unified programme offers administrative efficiencies. The training component should be extended to more dislocated workers. Costs of the single programme should be kept in check by:
    - Providing job-search assistance and low-cost job-search training to all displaced workers, as this has shown to be cost effective;
    - Promoting demand-driven training at the local level by matching workers' pre-assessed skills and abilities closely with employers' needs;
    - Expanding professional career guidance and stackable training and skill credentials for displaced workers; and
    - Expanding profiling to all dislocated workers to help pinpoint their future training needs early on and target training to those most in need.
- Promote knowledge sharing between states of good workforce development policies and practices and build the capacity of providing technical assistance to local actors.
- Rigorously evaluate training programmes and training innovations and eventually expand successful elements and eliminate ineffective interventions and training.
- Experiment with wage insurance demonstrations and evaluate the projects carefully to assess possibilities of a fuller-scale roll-out of a wage insurance programme which would compensate the losers of economic restructuring.

Chapter 1

Job displacement in the United States and its consequences

This chapter examines the prevalence and consequences of job displacement in the United States, and the impact of recent cyclical and structural evolutions in the US economy. Restructuring in the United States is often done through layoffs but the flexible labour market also means that many displaced workers find adequate jobs again. Nevertheless, only about one in two of them find a new job within one year and many suffer great damages in the form of long periods of unemployment and significant wage losses.

This chapter analyses the incidence and consequences of job displacement, also referred to as job dislocation, in the United States. It outlines the recent cyclical and structural evolutions in the US labour market, especially for displaced workers, and describes the importance of displacement and the characteristics of workers concerned. It also provides evidence on re-employment prospects for displaced workers and on wages and other job characteristics as well as skill use in their new jobs. A main conclusion is that many displaced workers in the United States find adequate jobs again but that some suffer great losses in the form of long periods of unemployment and significant wage and income losses.

The labour market context

Unemployment is falling but other labour market indicators are less positive

The labour market in the United States was hit relatively hard by the global financial crisis (GFC) with the fall in the employment rate and the rise in unemployment both exceeding the OECD and Euro area average values (Figure 1.1, Panels A and B). Nonetheless, economic conditions have been improving faster in the United States than in many advanced economies. After rising steeply to a peak of 10% at the end of 2009, the US unemployment rate came down more strongly in the recovery period. At 4.9% (mid-2016), the unemployment rate stands below the OECD average of 6.3% and a rate of 6.9% in Canada. By 2017, it is expected to finally come to below its pre-crisis level of 4.8% almost ten years earlier (OECD, 2015a).

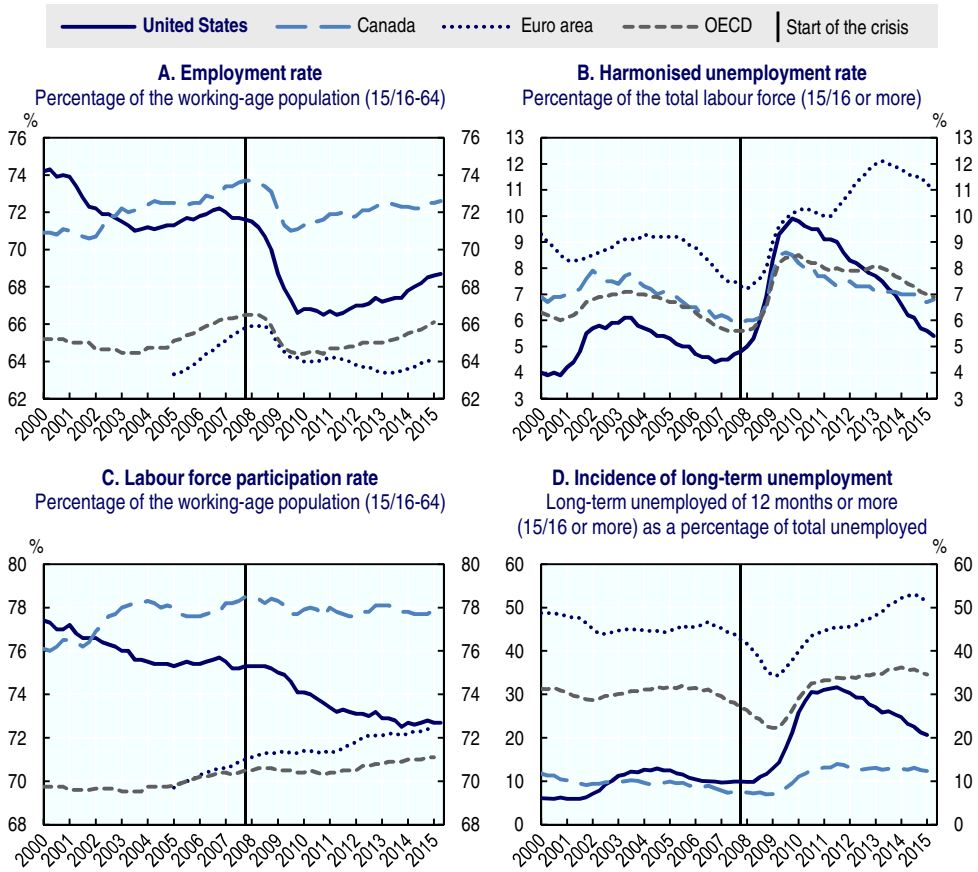
Even as the economy continues to recover and growth outpaces most other advanced countries, a number of indicators remain strikingly weak. *First*, long-term unemployment albeit falling steadily remains high by historical standards. The share of jobseekers that had been out of work for a year or longer was still 20.7% at the end of 2015, double its 9.9% level in 2007 (Figure 1.1, Panel D). Since employers are typically very cautious about hiring long-term unemployed jobseekers, effective public re-employment programmes have an important role to play in assisting this group back into work. However, the US government spends relatively little on these programmes (see Chapter 4).

Second, the share of the US working-age population that is employed is still more than two percentage points lower than before the crisis (69.2% in mid-2016 versus 71.6% in 2007). In part this decline can be explained by the high long-term unemployment rate and apparent discouragement over the prospects of finding a new job. However, the decline in labour force participation rates is a larger factor. Although the decline in the participation rate (those in employment or who are looking for work between the ages of 15 and 64) was accelerated during the GFC (Figure 1.1, Panel C), the decline predates the crisis and is driven by several structural changes in the

labour market, including the ageing of the workforce (Aaronson et al., 2014). Since both the ageing of the baby-boom cohort and difficult labour market conditions have depressed participation rates in recent years, it would be important in the years to come to ensure policies especially targeted at older workers as they have a higher risk of leaving the workforce following displacement (see further below, Figure 1.9 and 1.10).

Figure 1.1. **The US labour market was hit very hard by the global financial crisis but recovered faster than in other OECD countries**

Key labour market trends in selected countries and regions, 2000-15



Note: For additional information on harmonised unemployment rates, see http://www.oecd.org/std/labourstats/44743407.pdf.

Source: OECD Short-term Labour Market Statistics Database, www.oecd.org/statistics/; and quarterly national labour force surveys.

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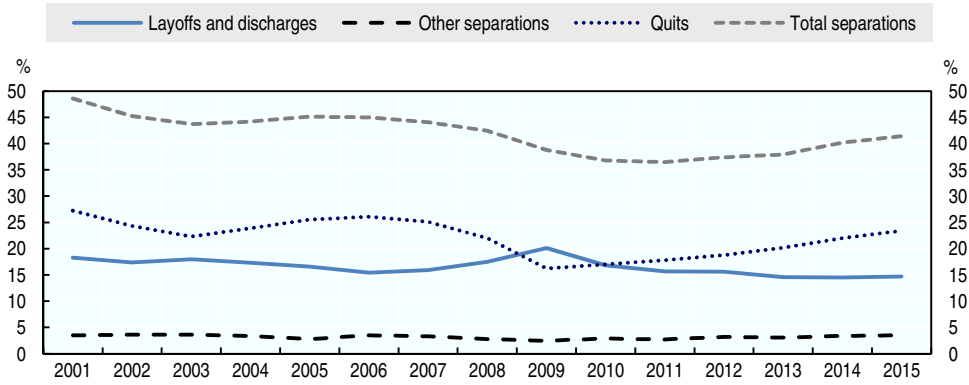
Job separation trends shed further light on labour market dynamics in the United States over the past 15 years and the impact of the GFC. Overall, there is considerable turnover in the US labour market: by and large, 42% of all jobs are ended in every single year (Figure 1.2). With the exception of the peak crisis years 2009-10, on average over this period around 38% of all separations were involuntary layoffs and discharges – many but not all of them displacements as defined in this report (see below). In 2009, the incidence of voluntary job quits fell sharply – from around 25% of total employment in the period 2000-08 to only 16% in 2009. It remained on a depressed level for many years and has still not reached the pre-2009 level, reflecting the belief among workers that it is (still) more difficult nowadays to find a new job. Involuntary layoffs and discharges, on the contrary, dropped quickly after 2009 and are now even lower than in the period 2000-08. Importantly, in 2009 and in all years thereafter, the total separation rate was lower than in the pre-crisis period because the fall in voluntary quits was larger than the increase in involuntary layoffs. This implies that the high level of unemployment in the peak of the crisis was driven by the lower rate at which workers found new jobs, in turn explaining the rise in the share of long-term unemployment.

Figure 1.2. **Involuntary layoffs in the United States increased in the crisis while voluntary job quits fell and stayed at a lower level for many years**

Voluntary and involuntary separations as a share of total employment, 2001-15



Note: Quits are voluntary separations by employees (except for retirements, which are reported as other separations). Layoffs and discharges are involuntary separations initiated by the employer and include layoffs with no intent to rehire; formal layoffs lasting or expected to last more than seven days; discharges resulting from mergers, downsizing, or closings; firings or other discharges for cause; terminations of permanent or short-term employees; and terminations of seasonal employees. Other separations include retirements, transfers to other locations, deaths, and separations due to disability. Separations do not include transfers within the same location or employees on strike.

Source: US Department of Labor, Bureau of Labor Statistics (BLS), Job Openings and Labor Turnover Survey (JOLTS), www.bls.gov/jlt/home.htm.

StatLink http://dx.doi.org/10.1787/888933426903

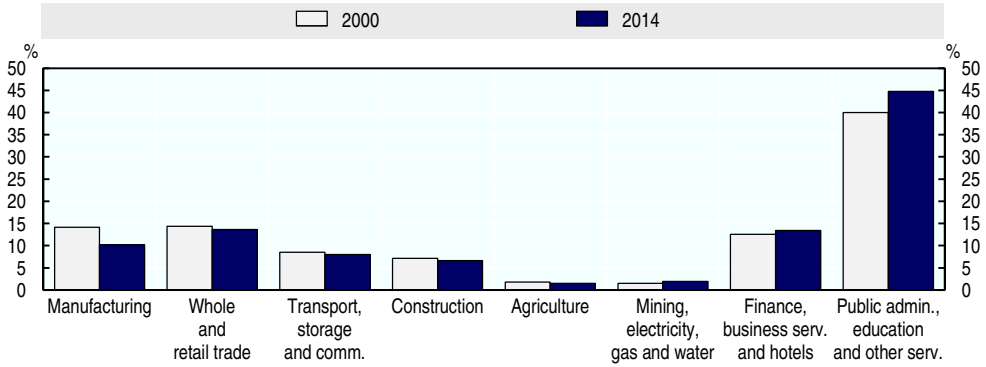
After the crisis job opportunities initially have become increasingly polarised

The hiring rate is a key variable for the chances of a displaced worker to find a new job. Other structural labour market trends in the United States, however, are also of great importance for workers who were displaced from their jobs involuntarily because these developments set the scene for the type of jobs these workers are more likely to find after displacement.

Education, health and social services have emerged as a major employment sector in the United States which: today accounting for 45% of total employment and responsible for most job growth over the past 15 years (Figure 1.3). By contrast, employment has declined substantially in the manufacturing sector. Looking further ahead, service-providing sectors are projected to capture 95% of all the jobs added between 2014 and 2024 while employment in manufacturing is projected to decline at a rate of 0.7% annually (BLS, 2015).

Figure 1.3. **The service sector has been growing fastest while the manufacturing sector in the United States has experienced massive declines**

Percentage of total employment by economic sector, 2000 and 2014[a, b]



a) Economic activities classification based on Revision 4 of the International Standard Industrial Classification (ISIC). Total employment by main activities refers to domestic concept data.

b) Sectors are ranked by ascending change over 2000-14.

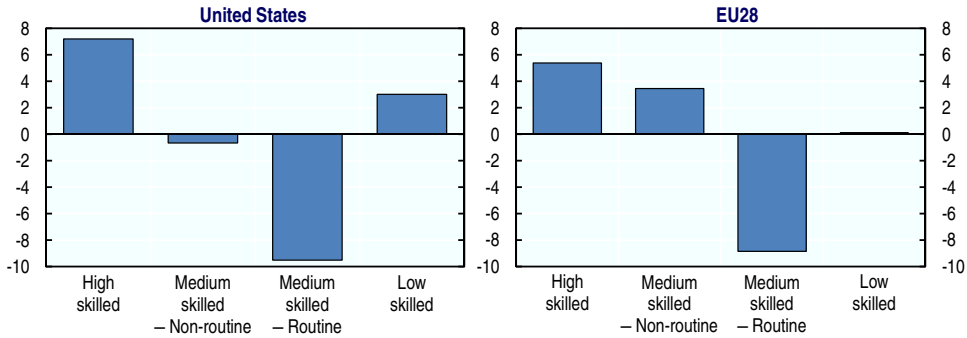
Source: OECD Annual National Accounts (ANA) *Database*, "Dataset: 7A. Labour input by activity, ISIC rev4", http://dotstat.oecd.org/Index.aspx?DataSetCode=SNA_TABLE3#.

StatLink http://dx.doi.org/10.1787/888933426912

The occupational composition of employment also evolved significantly over the 2000s, with job growth favouring skilled workers. The share of managers, professionals, community and personal service workers has been growing while a decreasing share of the labour force works as clerical and administrative workers or labourers. More generally across OECD countries, due to a secular shift in labour demand, employment growth is polarising into relatively high-skill, high-wage jobs and low-skill, low-wage jobs – at the expense of middle-skill jobs. Job polarisation was particularly pronounced in the United States in a certain period: during 2002-14, the share of high-skilled jobs increased by seven percentage points whereas the share of workers who were employed in medium-skill routine jobs fell by nearly ten percentage points (Figure 1.4). The main factors underlying this development are technological change, contributing to the automation of medium-skill routine tasks, and offshoring of goods and services facilitated by globalisation and international trade (e.g. Autor, 2010). The job polarisation trend means that jobs created are often different from those destroyed, with major implications especially for medium-skilled displaced workers who will have to be upskilled to be able to access available higher-skilled jobs and to prevent them from having to accept low-skilled jobs. That said, more recent data for the United States indicate strong job growth in the past 2-3 years also in middle-wage occupations (Shierholz, 2016). It remains to be seen how these trends will unfold in the longer run when the economy stabilises.

Figure 1.4. **Job polarisation was very pronounced in the United States in the past**

Percentage points changes in employment shares by broad qualification group, 2002-14



Note: High skilled refers to Managers, Professionals and Technicians and associate professionals; *Medium – Routine* to Clerks, Plant and machine operators and assemblers, and Skilled agricultural and fishery workers; *Medium – Non-routine* to Service workers and shop and market sales workers, and Craft and related trades workers; and *Low skilled* to Elementary occupations.

Source: OECD estimates based on the US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), http://www.bls.gov/cps/cps_over.htm for the United States; and on the European Union Labour Force Survey (EULFS), http://ec.europa.eu/eurostat/web/lfs/overview for the European Union (EU28).

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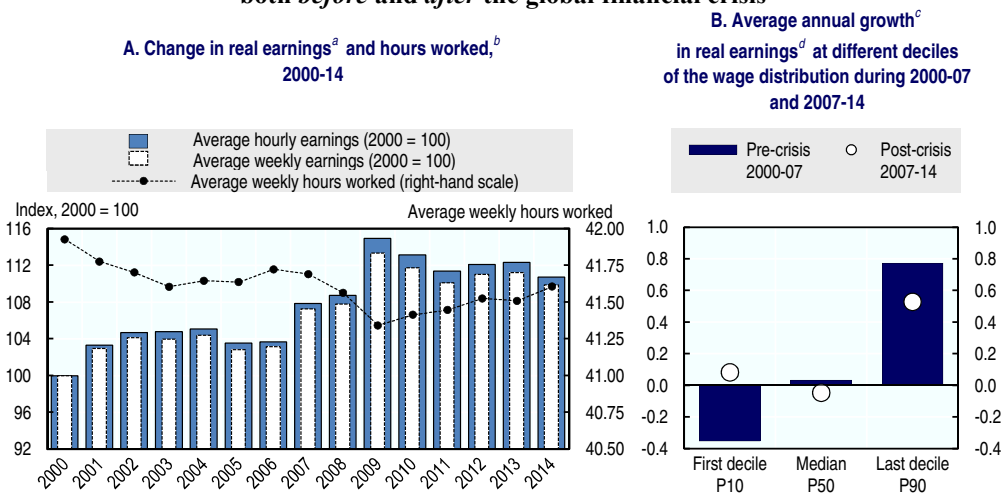
Wage gaps have widened with high-skill workers making the largest gains

Despite the sharp fall in overall unemployment in the United States since the 2009 peak, real wage gains have been limited to workers in the upper half of the earnings ladder – a development which is also a longer-term one and related to broader structural trends including the polarisation of job opportunities. Among full-time employees, real wages have lagged behind the increase in the cost of living since 2007 for workers at the low end (first income decile) of the earnings distribution and only just kept up with inflation for the median worker, whereas workers at the high end (ninth income decile) have benefitted from continuously rising real wages (Figure 1.5, Panel B). The distribution of wage gains during 2000-07 was very similar to that seen since 2007, a clear indication that the stagnation of earnings for much of the workforce and the concentration of wage gains at the top is more than just a cyclical issue. Insofar, changes in overall average hourly and weekly earnings in the United States reflect compositional effects: the largest growth in real earnings was recorded in 2009, the peak crisis year, largely because more poorly-paid jobs have been lost in this period. Otherwise, real earnings fluctuations went hand-in-hand with changes in the number of weekly working hours (Figure 1.5, Panel A).

The lack of wage growth in the lower half of the wage distribution has been a continuing challenge for the United States for over three decades (Council of Economic Advisers, 2015). An important factor explaining this decline is the erosion of the real value of the minimum wage. Before rising (in steps) by some 40% just before and during the GFC, the federal minimum wage had remained at the same nominal value since September 1997, as average wages rose by around 80% (OECD, 2015b). Recent efforts by the Obama Administration to raise the minimum wage and modernise overtime regulations would help especially the more experienced displaced workers who lose their jobs and often struggle to find work that pays as much as their prior job (see below).

Figure 1.5. **Wage inequality in the United States increased both *before* and *after* the global financial crisis**



a) The average hourly earnings is the ratio of the average weekly earnings in all jobs of full-time employees (deflated using the CPI) to the average usual hours worked (see note *b*).

b) The average hours worked refers to the average usual hours worked in all jobs per week by full-time employees currently working during the reference week.

c) Percentage growth rates (annualised).

d) Gross usual weekly earnings of full-time workers aged 16 and over (deflated using the CPI).

Source: OECD (2016), "Hours worked: Average usual weekly hours worked – Averages", *OECD Employment and Labour Market Statistics* (database), http://dx.doi.org/10.1787/data-00306-en for the average usual hours worked; *OECD Earnings Distribution Database*, www.oecd.org/employment/empl/onlineoecdemploymentdatabase.htm#earndisp for the average weekly earnings and the weekly earnings by deciles; and OECD estimates (index rebased in 2010) from the consumer price index (CPI) series provided directly by the US Census Bureau for the Bureau of Labor Statistics (BLS), in reference year 1982-84 = 100, http://dotstat.oecd.org/Index.aspx?DataSetCode=MEI_PRICES#.

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Displaced workers: Incidence and characteristics

The incidence of displacement

Job displacement in this report refers to workers involuntarily separated from their job as a result of structural and technological change – such as firm closure, business slowdowns or layoffs from which the worker was not recalled. The incidence and consequences of job displacement are calculated using the Displaced Worker Survey (DWS) from 1999 to 2013. The DWS captures job separations in the past three years as the result of business decisions of the employer due to the fact that the jobs and workers are no longer needed.

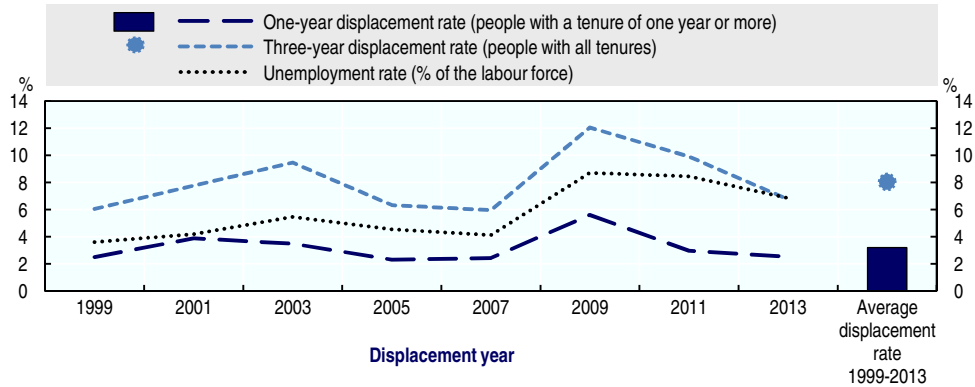
The *three-year* reference period is a common way of measuring the incidence of displacement in the United States. Using this metric, over the period 1999-2013, on average, some 8% of workers were dismissed due to economic reasons in the three-year period preceding the survey date (Figure 1.6). A quarter of them were employees with job tenure of less than one year. In their case, job separations happened soon after hiring and may have been the result of the firm and employee deciding that they were not well-matched rather than displacement for economic reasons.

Along with the methodology developed in OECD (2013a), to avoid unduly including this last type of separations and to allow for international comparisons, the displacement rate in this review is defined as the share of employees with tenure of at least one year who were dismissed for economic reasons in the year prior to the survey. Under this definition, over the period 1999-2013, on average, every year 3.2% of US employees with job tenure of at least one year were displaced, with a minimum of 2.3% in 2005 and a maximum of 5.6% in 2009 (Figure 1.6). Job displacement has a strong cyclical component; however, there is no evidence through the DWS of an overall secular increase of job loss [see also Farber (2008)].

Notably, displacement rates fell much more sharply after 2010 than did the unemployment rate. This again is related to the much slower recovery of the hiring rate and the resulting growth in long-term unemployment. Additional evidence shows that the displacement rate was much higher in the period 2007-09 than during the previous recession in the early 1980s (Farber, 2015). These trends in turn suggest that the costs associated with job displacement may have increased in the most recent recessionary period and its aftermath; demanding and justifying greater attention to this group of workers, especially those struggling to find a new job.

Figure 1.6. **On average, just over 3% of US employees with tenure of one year or more are displaced from their job every year**

One-year and three-year displacement rates in the United States, and the unemployment rate, 1999-2013



Note: The displacement rate is calculated by dividing the number of displaced workers by the number of workers who were either employees or reported a job loss and were not employed at the survey date (people with a job tenure of one year or more in the previous job, for the one-year displacement rate; and people with all job tenures, for the three-year displacement rate, respectively).
One-year displacement rate: Data refer to employees aged 20-64 who were displaced in the year prior to the survey.
Three-year displacement rate: Data refer to employees aged 20-64 answering "Yes" to the question "During the last three calendar years, did you lose a job, or leave one because: your plant or company closed or moved, your position or shift was abolished, insufficient work or another similar reason?".

Source: OECD calculations based on the US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement, January/February, various issues.

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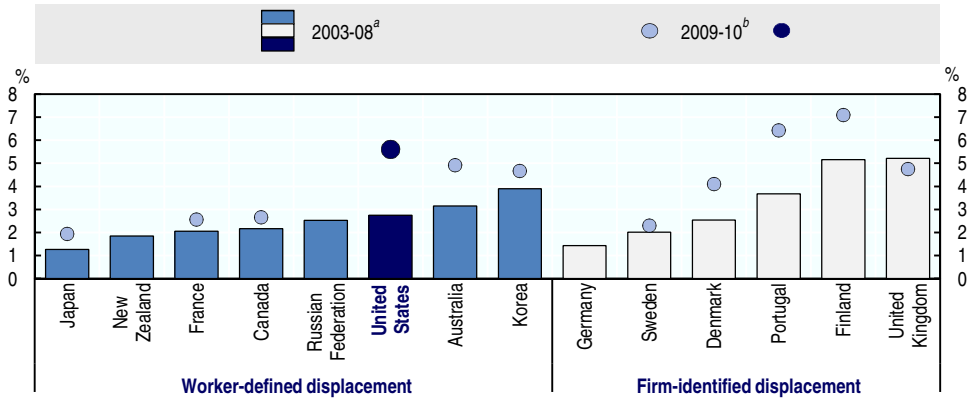
Compared with other OECD countries where displacement is defined and measured in the same way, worker displacement rates are relatively high in the United States (Figure 1.7). Although it is difficult to establish a causal relationship, this is likely to reflect at least to some degree the relatively low level of employment protection (see Chapter 2 for more details).

Figure 1.7. **The displacement rate in the United States is high by international standards**

Percentage of employees aged 20-64 with at least one year of tenure who are displaced from one year to the next, United States and selected OECD countries, 2003-08 and 2009-10 averages



Note: See Table A1.1 in Annex A.1 of OECD (2013) quoted in the source below, for details on the samples and definitions used for each country.

a) Data refer to an average of 2000-04 for Germany, to an average of 2004-08 for France and the Russian Federation, and to an average of 2003, 2005 and 2007 for the United States.

b) Data refer to 2009 for Korea, Portugal and the United States.

Source: Revised and updated estimates from OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Final Report, Directorate for Employment Labour and Social Affairs, OECD Publishing, Paris, October, http://www.oecd.org/els/emp/Backtowork-report.pdf.

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Characteristics of displaced workers

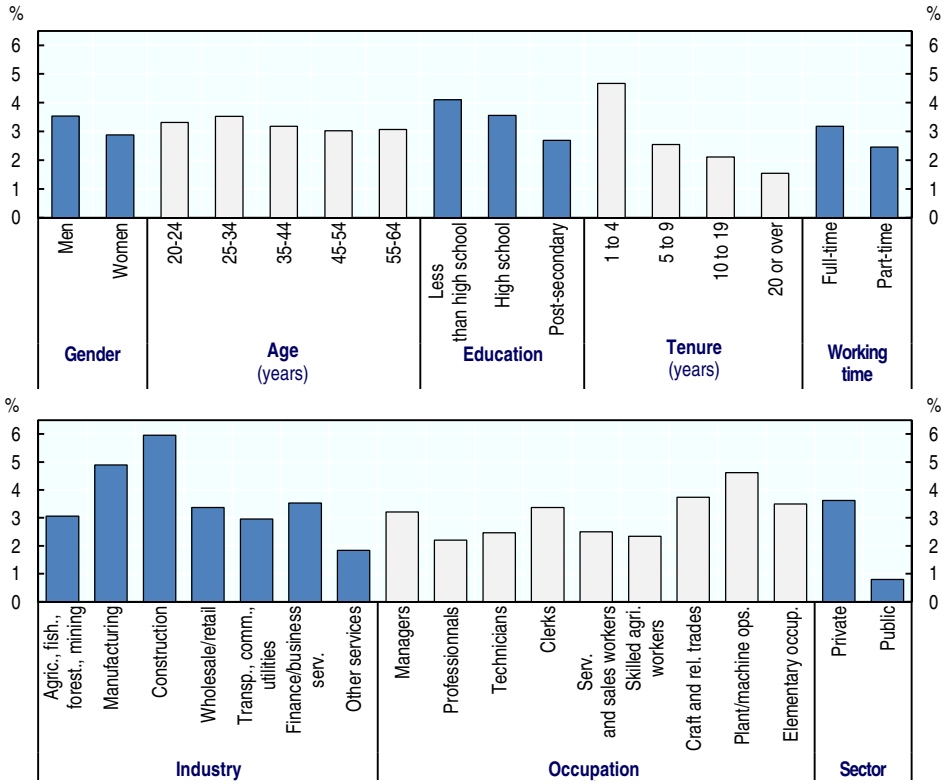
Some groups of workers experience a higher displacement rate than others. Men in the United States are more affected by displacement than women; less educated more than their counterparts with post-secondary education; and full-time workers more than part-time workers (Figure 1.8). While age differences in displacement rates tend to be quite small, the rate decreases monotonically with job tenure. It is much higher for workers on the first 1-4 years of their job than for workers in any other tenure category. However, during the GFC even workers with very long job tenure saw a sharp increase in their job-loss rate (Farber, 2015).

According to DWS data, construction workers face a much higher risk of being displaced: their probability of being displaced is twice as high as for workers in the category *Other services*, for example. This is also the case for

manufacturing workers. In terms of occupations, displaced workers are often managers, clerks, trade workers, plant/machinery operators and workers in low-skill occupations. As in many countries, public sector workers face much lower displacement rates than workers in the private sector.

Figure 1.8. **The displacement risk in the United States is higher for men, workers with low tenure and those with lower education**

Displacement rates by individual worker characteristics, 1999-2013, percentages



Source: OECD calculations based on the US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement, January/February various issues.

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Consequences of job displacement

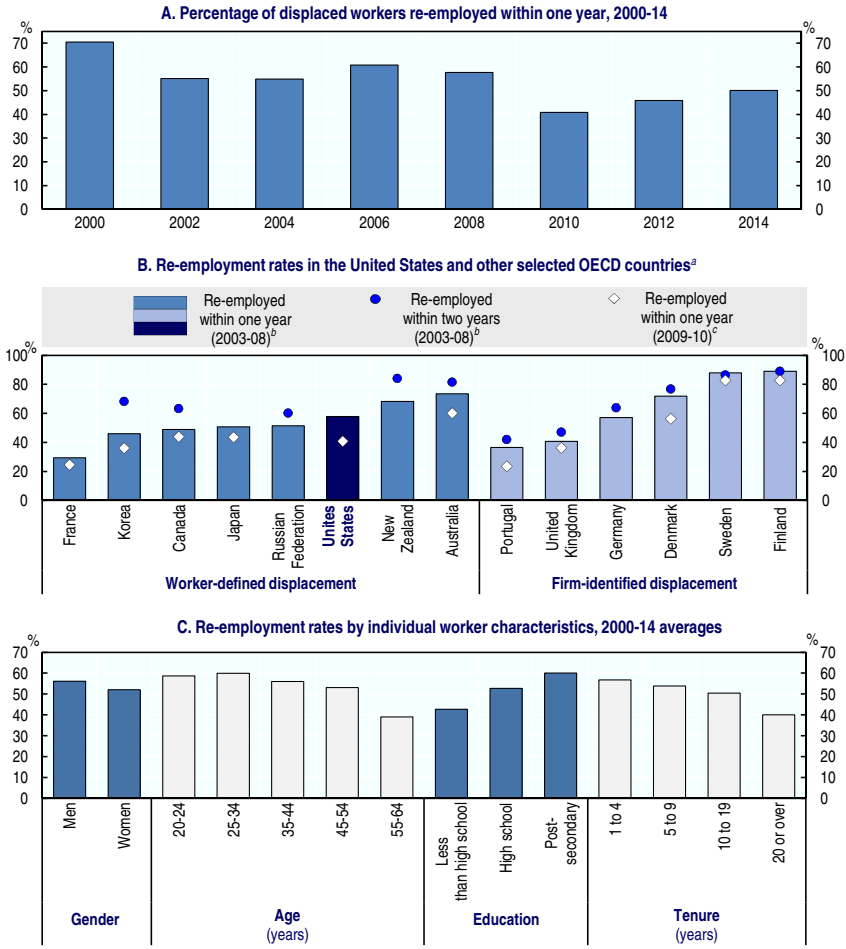
Half of displaced workers in the United States are re-employed within one year

On average in the period 2000-14, around 54% of all displaced workers were re-employed within one year (Figure 1.9, Panel A). Re-employment rates fell significantly in 2010, from 58% in 2008 to 41% in 2010 for the first year of displacement. Re-employment rates rebounded back to 45% in 2012 and 50% in 2014, though they remain below the pre-crisis levels given the sluggish labour market recovery in the United States and stubbornly high long-term unemployment.

Displaced workers in the United States face poorer re-employment prospects than their counterparts in Australia, New Zealand and the Nordic countries such as Finland and Sweden (Figure 1.9, Panel B). The reasons for this sometimes sizeable difference are not known. Partly the difference could be attributed to fewer resources devoted to active labour market programmes in the United States compared to most other OECD countries (see Chapter 4 for more details). However, re-employment outlooks in the United States are better than in some other OECD countries, presumably related to the rigidity of these countries' labour markets in contrast to the flexibility of the US labour market. Re-employment rates fell during the GFC in all countries where pre- and post-crisis information could be compared but more so in the United States and Denmark, reflecting the severity of the recession in these economies.

The probability and speed of re-employment after displacement varies considerably across groups of workers. In particular, the re-employment rate is higher for men than for women and increases with education. Older displaced workers and those with very long job tenure struggle to find new jobs (Figure 1.9, Panel C). Once other characteristics are controlled for, workers aged 55-64 have a probability of re-employment that is some 19 percentage points lower than for people aged 25-34. Even though workers with very long job tenure (20 years or more) are much less likely to be displaced in the first place, once they are, they have the lowest probability of re-employment of all groups of the population. Displaced workers with less than high school education compared with their more educated counterparts are also in a less favourable position.

Figure 1.9. **One US displaced worker out of two gets back into work within one year**



a) For the definition of displacement in each country and full details on data sources and methodology, see OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

b) Data refer to an average of 2000-08 for Canada, to an average of 2004-08 for France and the Russian Federation, to an average of 2000-04 for Germany, and to an average of 2004, 2006 and 2008 for the United States.

c) Data refer to 2009 for Korea, Portugal and Sweden, and to 2010 for the United States

Source: OECD calculations based on the US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement, January/February various issues for Panels A and C, and for United States data in Panel B; and data compiled by the OECD Secretariat using data sources described in Annex 4.A1 of OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en for Panel B.

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High risk of labour market withdrawal among older displaced workers

An understanding of the situation of displaced workers who do not find new jobs after being dismissed is critical in designing policies that can prevent long-term unemployment and permanent labour market exit after displacement. This is even more important against the background of the high rates of long-term unemployment in the United States. On average, during the period 2000-14, the majority of those who are not working are unemployed (more than two-thirds in any given year) and almost one-quarter are not in the labour force (i.e. not working and either not searching for work or not available to start work or both). The percentage of displaced workers becoming unemployed increased in 2010, in the aftermath of the GFC. However, the proportion of displaced workers leaving the labour market altogether also increased after a lag of two years, in 2012, reflecting the various extensions of unemployment insurance payments (see Chapter 3) and the continuously poorer hiring rates in the US labour market (Figure 1.10, Panel A).

Among those who have not re-entered work within one year of displacement, women are more likely than men to be out of the labour force, as are older people and those with lower levels of education. Many older displaced workers (aged 55-64) who are not re-employed retire completely from the labour force instead of seeking education or training (Figure 1.10, Panel B).

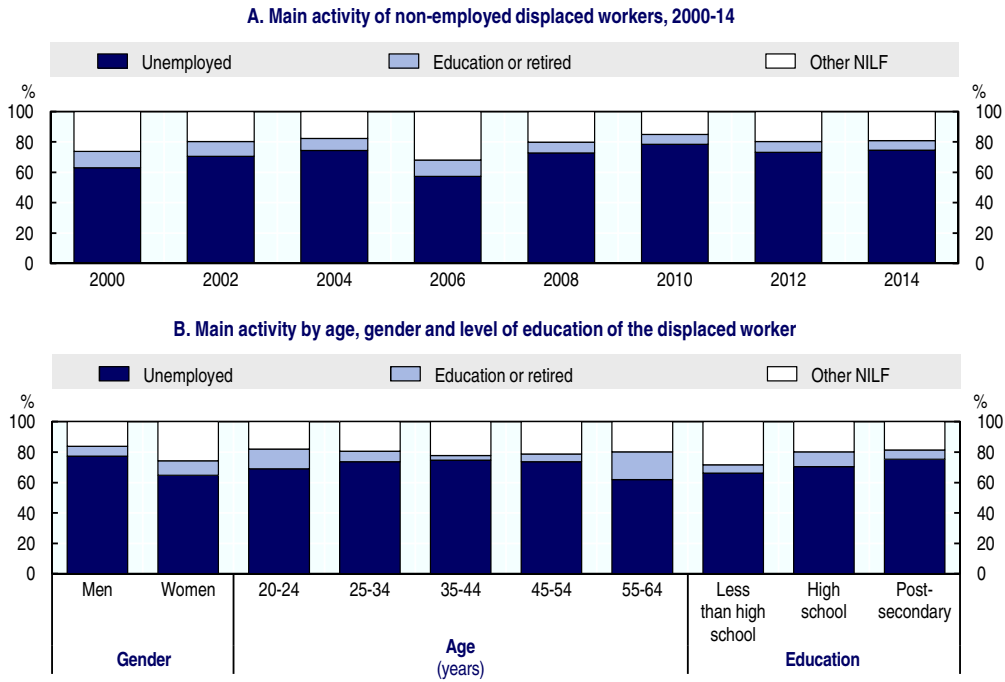
Displacement can imply large earning losses especially for older workers

A large strand of literature concludes that job displacement results in sustained earnings losses. Estimates of the size of those reductions, however, vary with the type of data used in the analysis, the industry within which displacement occurs, and business cycle conditions [Couch and Placzek (2010) provides a summary of the results of some of the best known studies of earnings losses following mass layoffs or displacement in the United States].

OECD (2013a and 2013b) provides estimates of real gross annual earning losses in the year before and after displacement in several OECD countries and the United States. These estimates include the effect of periods of non-employment when the displaced worker had no earnings and reductions in hourly wages or hours worked. In the United States, average annual earnings fall by 12% in the first year and recover gradually afterwards, but remain 6% below the pre-displacement level even four years later (Figure 1.11, Panel C). These estimates are between the relatively small falls in earnings experienced by displaced workers in the Nordic countries and very large losses of around 30% faced by workers in Germany.

Figure 1.10. **Many older displaced workers in the United States withdraw from the labour market**

Main activity status of those displaced workers who were not re-employed in the first year after displacement, 2000-14, percentages



Note: NILF: Not in the labour force.

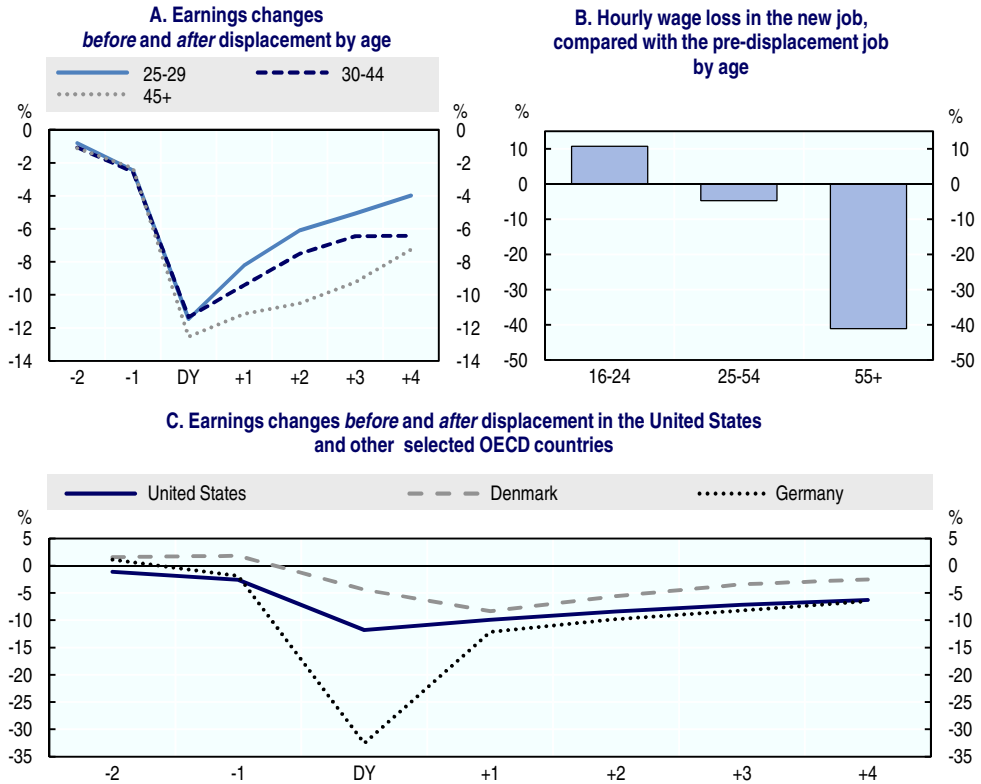
Source: OECD calculations based on the US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement, January/February various issues.

StatLink http://dx.doi.org/10.1787/888933426983

Older displaced workers tend to experience greater earning losses after displacement than younger or prime-age workers and the effects are often long-lasting (Figure 1.11, Panel A). Older workers who find a new job generally get paid much less than they did on their former job. According to the 2008 Panel of the Survey of Income and Program Participation (SIPP), average hourly wages for re-employed displaced workers aged 55 year and over are as much as 40% lower on the new job, compared with the old job (Figure 1.11, Panel B). Young and prime-age displaced workers fare much better when they find new employment. Displaced workers more generally, across all age groups, also incur larger average hourly wage losses compared

with non-displaced job losers (6% versus 4.5%). In the displacement literature, larger wage and earnings losses are commonly found for older workers or those with more seniority due to losses of firm-specific skills and human capital (Couch, 1998; and Chan and Stevens, 2001).

Figure 1.11. **The impact of job displacement on earnings is significant in the United States, especially for older displaced workers**



Note: DY: Displacement year.
Panels A and C: Pre-displacement earnings is the average earnings in the year prior to displacement (-1 in the chart). Data refer to annual earnings.
Panel B: Data refer to hourly earnings.

Source: OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en for Panels A and C; and US Census Bureau, Bureau of Labor Statistics (BLS), Survey of Income and Program Participation (SIPP), 2008 Panel for Panel B.

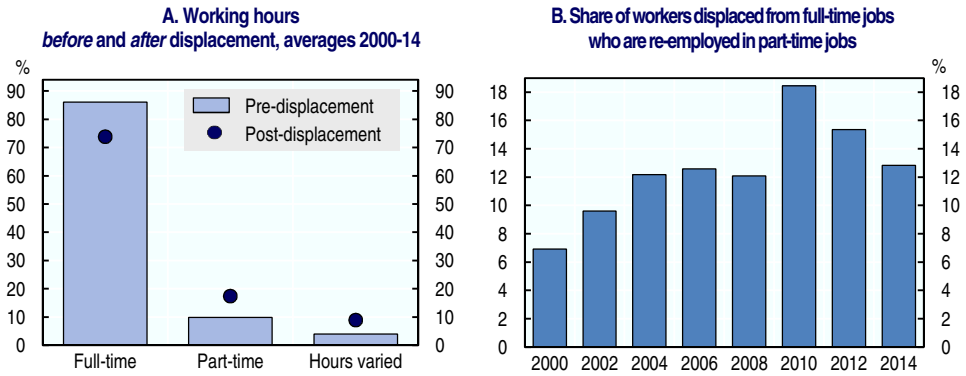
StatLink http://dx.doi.org/10.1787/888933426993

Job quality deteriorates after displacement

Many displaced workers find a job in the year following displacement, but many have to accept a part-time job: overall the share of workers on full-time contracts drops by ten percentage points following job loss (Figure 1.12, Panel A). Some displaced workers also see an increase in the distribution of hours: the latter may suggest an increase in casual contracts or work for a labour hire agency which may not have stable working hours. Increases in the incidence of non-standard working arrangements such as part-time or temporary work after displacement can have significant effects on workers' earnings, job quality and future job stability.

Figure 1.12. **In their new job, many displaced workers in the United States have to accept part-time employment contracts**

Percentages



Source: OECD calculations based on the US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement, January/February various issues.

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Notably, the part-time employment rate among workers displaced from a full-time job has been increasing since 2000 and increased sharply in the GFC, from 12% in 2008 to 18.5% in 2010 (Figure 1.12, Panel B). Even though this share receded again afterwards, it remains high. According to Farber and Levy (2000), part-time workers have substantially lower hourly wage rates and less access to fringe benefits than do full-time workers. Additional evidence suggests that re-employed displaced workers in the United States have lower levels of occupational status, job autonomy and employer-provided pension and health insurance than in their pre-displacement jobs. The biggest losses in employer-provided benefits are

found for less-educated, blue-collar and manufacturing workers, while more highly educated workers experience significant losses of occupational status, job autonomy and job authority (Brand, 2006). Several other authors have examined entitlement to health insurance States, most finding that workers have a high probability of losing their health insurance coverage after displacement (Brand, 2006; Couch, 1998; Olsen, 1992; and Podgursky and Swaim, 1987); a key problem in a country without a universal health system.

How is skill use related to and affected by job displacement?

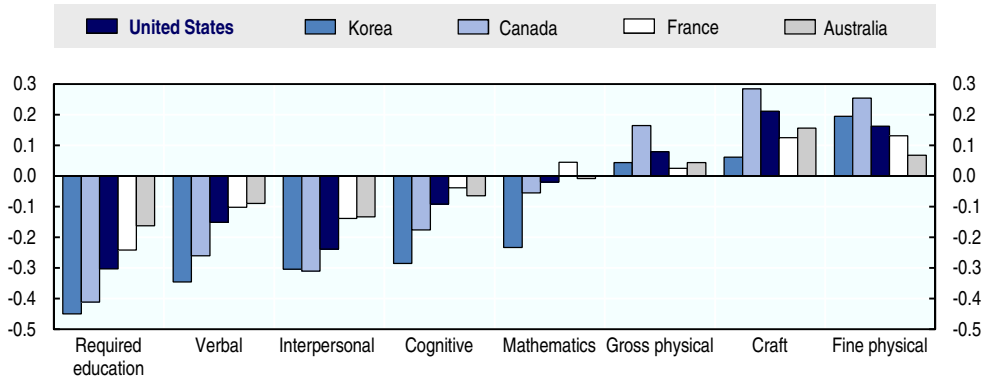
Much of the research literature on job displacement attributes a significant share of any wage loss upon re-employment to the loss of firm, industry and occupation-specific human capital, partly explaining why wage losses are so significant for displaced workers with long job tenure. This is based on the evidence that workers who switch industry, occupation, or region incur greater earnings losses than similar workers who find new work in the same general area as their former jobs (Carrington, 1993; Neal, 1995; and Couch and Placzek, 2010). However, some scholars argue switching industry or occupation per se is less important than changes in skills use between jobs following displacement. Poletaev and Robinson (2008) find that wage losses following displacement in the United States are more closely associated with switching skill portfolios than switching industry or occupation.[1] Indeed, changes in skill use between the pre- and post-displacement job may explain part of the earnings loss associated with displacement and may, at the same time, provide some indication on the amount and type of training required. The following analysis is based on the methodology used in OECD (2013a).

Displaced workers use other skills in their previous job than the average worker

The set of skills used by displaced workers in their pre-displacement job is very different from the one used by the average employee (Figure 1.13). Similar to other OECD countries, displaced workers in the United States tend to be those whose job required the use of relatively fewer interpersonal, verbal and cognitive skills, but more craft and physical skills. These results do not bode well for their re-employment chances in light of the growing demand for the types of skills they appear to be lacking (or, more precisely, were not required to use in their former job) and also highlight why they have a greater probability of being displaced in the first place. For instance, Handel (2012) shows rising demand for cognitive, verbal and interpersonal skills as well as declining demand for craft and physical skills in both the United States and Europe since the 1990s.

Figure 1.13. **The typical displaced worker makes more use of craft and physical skills, both in the United States and elsewhere**

Difference in pre-displacement skill use between displaced workers and all employees[a] (units of a standard deviation), 2000-10 averages



a) Skill requirements are measured by indices with mean zero and unit standard deviation (see Box 4.3 in OECD, 2013). This figure reports the difference in skill requirements between displaced workers and all employees.

Source: OECD calculations based on countries with similar source of data in OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment OutlooK 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

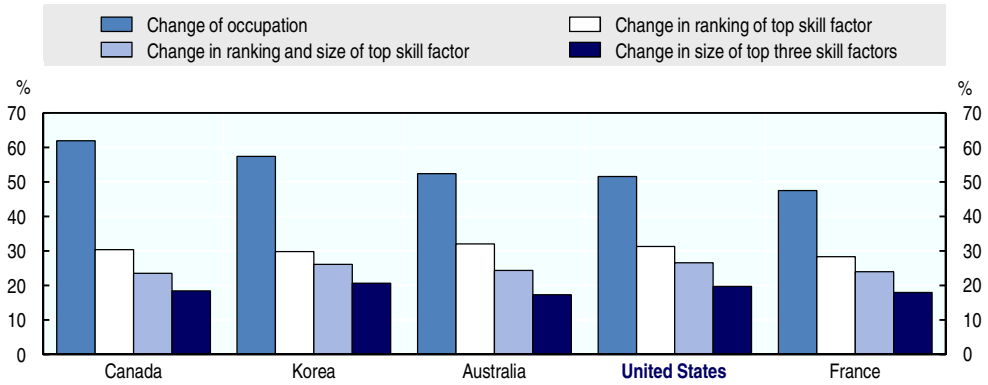
StatLink http://dx.doi.org/10.1787/888933427014

Only some groups of displaced workers need training to move into better jobs

Between 2000 and 2010, about one in two displaced workers in the United States changed their occupation, slightly lower a proportion than in other English-speaking countries (Figure 1.14). This high frequency of occupational changes would indicate extensive skill losses following their displacement if human capital was considered completely and only occupation specific, but arguably the same skills can be useful in a range of occupations. Figure 1.14 therefore also shows three alternative measures of skills switch, based on changes in the ranking of key skills required as well as changes in the intensity with which key skills are used. These measures show that in the United States between 20% and 30% of displaced workers move to occupations with different skill requirements.

Figure 1.14. **One in two displaced workers in the United States changes occupation but only one in four needs new skills in their new job**

Percentage of displaced workers who change their occupation[a] and their skills set,[b] 2000-10 averages



a) Occupation is defined at the International Standard Classification of Occupations (ISCO-88) two-digit level, with the exceptions of Canada and the United States where it is defined using the US Census Occupational Classification at the three- and two-digit levels, respectively.

b) For skills set changes, the ranking of the top factor is considered to have changed if it has fallen by at least two positions and only changes in skill factor sizes of at least half a standard deviation are considered (see Box 4.3 in OECD, 2013).

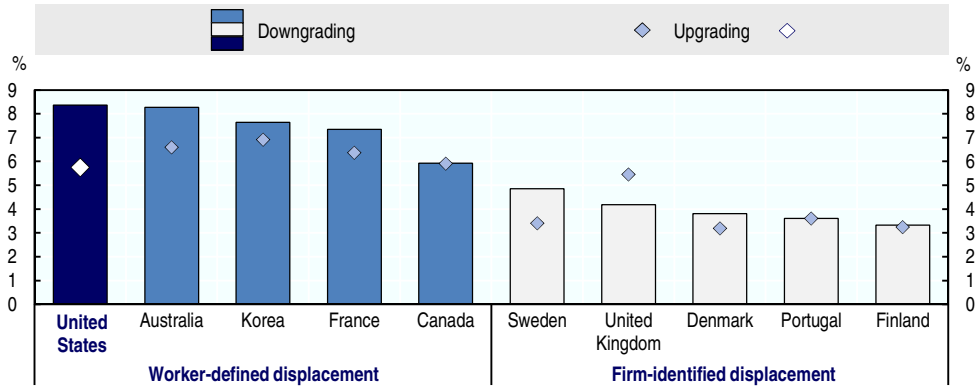
Source: OECD calculations based on countries with similar source of data in OECD (2013), "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

StatLink http://dx.doi.org/10.1787/888933427024

Skill switches do not necessarily lead to professional downgrading. Some displaced workers re-employed in occupations with different skill requirements than their previous job may be moving to jobs with higher skill requirements.[2] In the United States, approximately 8% of the re-employed displaced workers experience a skill switch accompanied by a professional downgrading – this is the highest share among OECD countries for which comparable data is available (Figure 1.15). On the other hand, slightly fewer displaced workers (6%) experience professional upgrading. This share is lower than in other countries such as Australia, Korea and France but just as much as in Canada. In all countries, workers who experience professional downgrading see a significant reduction in the use of mathematics, verbal and cognitive skills representing a pool of unutilised human capital and potential source of large earnings losses (OECD, 2013a).

Figure 1.15. **Professional downgrading following displacement is relatively frequent in the United States**

Percentage of re-employed displaced workers experiencing professional upgrading or downgrading, 2000-10 average[a]



a) Professional downgrading is defined as a skill switch (based on switch measure 2, see Box 4.3) accompanied by a fall in required years of education of at least one year; professional upgrading is defined as a skill switch accompanied by an increase in required years of education of at least one year.

Source: Compiled by the OECD Secretariat using data sources described in Annex 4.A1 in "Back to work: Re-employment, earnings and skill use after job displacement", Chapter 4 in *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

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Conclusions

Compared with other OECD countries, the US labour market is quite dynamic, with high flows in and out of employment, including displacement flows. Of all job separations over a year, just over one-third is due to involuntary layoffs and discharges. The high unemployment rate experienced in the global financial crisis has been slow to return to pre-recession levels largely because of a slow recovery of the hiring rate whereas the displacement rate receded back quickly to lower levels after a strong increase at the peak of the crisis. The chances of finding a new job after displacement remain impaired, a factor that contributes to the higher rate of labour market exit among affected workers. In addition, the trend towards job polarisation implies that many displaced workers will need significant training to bring their skills to the level of the jobs available.

Displaced workers in the United States are typically men in prime-age, working in a middle-size firm in the private sector, in manufacturing, finance or trade, under a permanent contract and with relatively short job

tenure of 1-4 years. Overall, a high share of displaced workers gets back to employment rather quickly. However, some groups of workers find it more difficult than others to find a new job, most notably older workers and those with very long job tenure who are also most likely to withdraw from the labour market. Displacement can imply significant losses in income for the affected workers, linked mostly to the period of inactivity following their displacement. Some displaced workers, especially older workers, also suffer significant wages losses in their new jobs which tend to persist over time.

Despite the relatively easy hiring and firing rules and the strong focus of labour market policy in the Unites States on dislocated workers, efforts to improve early intervention services and to boost up labour market spending will be critical, as discussed in the remaining chapters of the report.

Notes

1. Poletaev and Robinson (2008) analyse human capital specificity in the context of job changes following displacement. They identify four basic skills to characterise skill portfolios for each occupation and construct measures of distance between the portfolios.
2. As explained in OECD (2013a), the measures of skills switching presented in Figure 1.14 are based on the ranking and changes in value of mathematics, verbal, cognitive, craft, interpersonal, gross physical and fine physical skills requirements. One way to disentangle between downgrading and upgrading skill switches is to measure the level of education required in their previous job, as well as their post-displacement job. A positive change in the number of years of education required between both jobs (of at least one year) is a signal that the person has moved up to a higher-level job while a negative change in required education points to a move down the career ladder.

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Chapter 2

Early intervention and prevention of job displacement in the United States

This chapter analyses the most important policy measures in the United States that take effect before workers are dismissed and aim to prevent excessive job displacements. This is done by looking at the role of employment protection legislation which determines the process through which employers can dismiss workers, short-time work and layoff aversion strategies. The chapter also looks into rapid response transition services aimed at connecting displaced workers to employment support to help them find new jobs quickly.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Employers' labour requirements vary continually as sales fluctuate and production technologies and work practices evolve. Many of these changes can be accommodated through internal adjustments, rather than firing of existing and hiring of new workers. Employees may be retained during a business downturn by temporarily reducing their hours of work or being assigned to non-production activities (training or maintenance work). Even when a firm's labour requirements have permanently declined for a certain type of worker, it may be possible to retrain those workers and transfer them to other parts of the firm. However, not all jobs can or should be saved. Effective, timely, well-targeted adjustment assistance can assist workers whose dismissal cannot be avoided to get an early start at finding new jobs. Preventive and anticipatory adjustment support is attractive to the extent that it can reduce the incidence of displacement and its adverse consequences for workers without undermining the dynamic and the efficiency of the economy.

The degree of employment protection in the United States is one of the lowest in the OECD. This implies that labour adjustment primarily takes place by reducing the number of workers and, to a much lesser degree, the number of hours they work. The challenges for US policy therefore include: i) to ensure take-up of the short-time compensation in a timely and smooth manner; ii) to strengthen the advance notification requirements for dismissals in order to cover a larger population of displaced workers more systematically; and iii) to improve coverage and the effectiveness of Rapid Response Services (RRS).

Preventive measures to avoid unnecessary dismissals

Policies to reduce displacement-related costs by minimising the number of workers who are dismissed for economic reasons are a part of most countries' tool box. Employment protection legislation (EPL) – a set of rules governing the hiring and firing of workers – typically has been designed to both protect workers from unfair dismissals and increase job stability with the aim of shielding workers and society from the economic and non-economic costs associated with job displacement. While the costs of displacement can be high, a large body of research has shown that excessively strict or poorly designed EPL can greatly hamper the economy by discouraging job creation, lowering productivity, and strengthening labour market dualism (see Chapter 2 in OECD, 2013). Therefore, EPL should be used judiciously and effectively in combination with other measures to preserve economically viable jobs and, when jobs are no longer viable, accommodate as much labour reallocation as possible through internal reassignment of workers and transfers to other firms, to prevent job displacement.

Employment protection against individual dismissal is the least strict in the OECD

OECD indicators of EPL stringency indicate that employment protection for workers with *permanent* employment contracts (i.e. open-ended as opposed to temporary contracts) is the lowest in the United States, lower than it is for their peers in most other OECD countries. There are a number of factors that make EPL for regular US workers holding a permanent job particularly light (Table 2.1).

Table 2.1. **Labour law in the United States provides very little protection against individual dismissal**

Selected components of the EPL indicator for the United States, 2013 or latest year available

Regulation of	Score on a scale from 0 (least restrictive) to 6 (most restrictive)		The US' rank among 34 OECD countries
	OECD average	United States	(1 = Least strict)
Regular contracts	**2.0**		
Notification procedures	3.1	1.2	1
Delay involved before notice can start	1.3	0.0	1
Length of notice period at 9 months of tenure	2.7	0.0	1
Length of notice period at 4 years of tenure	2.6	0.0	1
Length of notice period at 20 years of tenure	1.6	0.0	1
Severance pay at 9 months of tenure	0.2	0.0	1
Severance pay at 4 years of tenure	1.6	0.0	1
Severance pay at 20 years of tenure	1.4	0.0	1
Definition of justified or unfair dismissal	1.8	0.0	1
Length of trial period	3.7	..	–
Compensation following unfair dismissal	1.8	..	–
Possibility of reinstatement following unfair dismissal	2.2	1.0	11
Maximum time to make a claim of unfair dismissal	2.2	4.0	28
Collective dismissals	**2.9**		
Definition of collective dismissal	4.4	1.5	3
Additional notification requirements for collective dismissals	3.8	6.0	25
Additional delays involved before notice can start for collective dismissals	1.8	4.0	30
Other special costs to employers of collective dismissals	1.5	0.0	1

Note: ..: Not available; –: Not applicable.

Source: OECD Employment Protection Database, 2013 update, http:dx.doi.org/10.1787/lfs-epl-data-en.

StatLink http://dx.doi.org/10.1787/888933427220

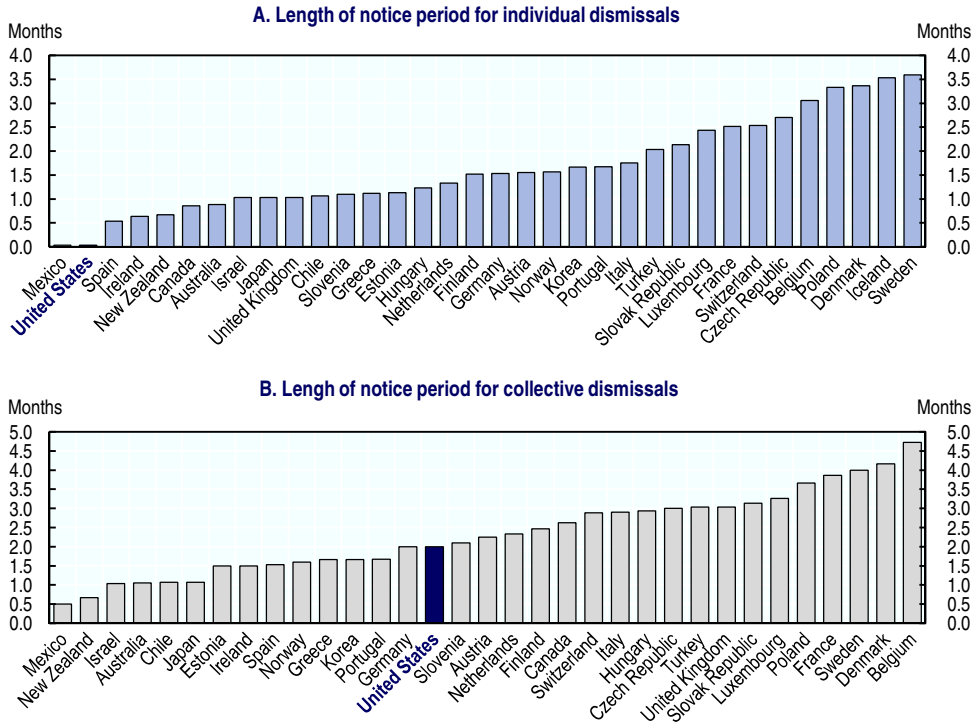
First, unlike any other OECD country except Mexico, the United States has no legislation in place to provide notice periods against individual dismissals (Figure 2.1, Panel A). *Second*, most US states have no specific notification requirement e.g. a written notice reporting the reasons for dismissal.[1] This is a striking contrast to regulations in other OECD countries which in some cases may require mandatory consultations with trade union representatives even if only one worker is to be made redundant (Sweden) or written notice with statement of reasons (e.g. Spain). *Third*, there are no provisions for employers to provide severance pay although they can be regulated in collective agreements or company policy manuals. *Finally*, the formal definition of fair redundancy is very lenient: with the exception of unionised workers or public sector workers, it is generally fair to terminate a work relationship without justification or explanation according to employment at-will principles. However, the increase in anti-discrimination laws and laws against unfair treatment in the workplace and their accompanying threat of lawsuits, have weakened somewhat the fire-at-will doctrine in the United States (Colvin, 2012).

Employment protection for workers laid-off collectively is much stricter. Notably, in such cases a notice period is prescribed and thus the difference in this indicator between individual and collective dismissal is larger in the United States than elsewhere (Table 2.1 and Figure 2.1). Under the federal *Worker Adjustment and Retraining Notification* (WARN) *Act*, employers with 100 or more employees must provide at least 60 days advance notice if they plan to lay off 50 or more workers, or more than one-third of the employer's workforce, whichever is greater. As in many other OECD countries, notification of mass dismissals to authorities providing employment services is mandatory. The WARN Act requires that notice be given to employees' representatives (i.e. a labour union where they exist), the local chief elected official (i.e. the mayor), and the state dislocated worker unit responsible for co-ordinating RRS to help workers transition to new jobs (see section below).

Even though notice periods are more generous for collective dismissals than for individual layoffs, the United States ranks low on a number of other components. For example, the definition of collective dismissals is the least strict: it requires that 100 or more full-time workers in a company are dismissed within one month – except in case of plant closure or workforce reduction larger than one-third of the workforce, in which case the threshold is lowered to 50 full-time workers. By way of example, collective dismissals are defined as at least 15 workers in Australia and 10 workers fired within a month in Norway. In addition, there are no legal requirements in the United States on severance pay unless laid down in collective agreements or company manuals; and no regulations on establishing social plans detailing measures of re-employment, retraining or outplacement services.

Figure 2.1. **The United States has no notice period in case of individual dismissal but a more standard two-month notice period for collective dismissals**

Legally mandated notice period for individual and collective dismissals in months, 2013 or latest year available



Source: OECD Employment Protection Database, 2013 update, http://dx.doi.org/10.1787/lfs-epl-data-en.

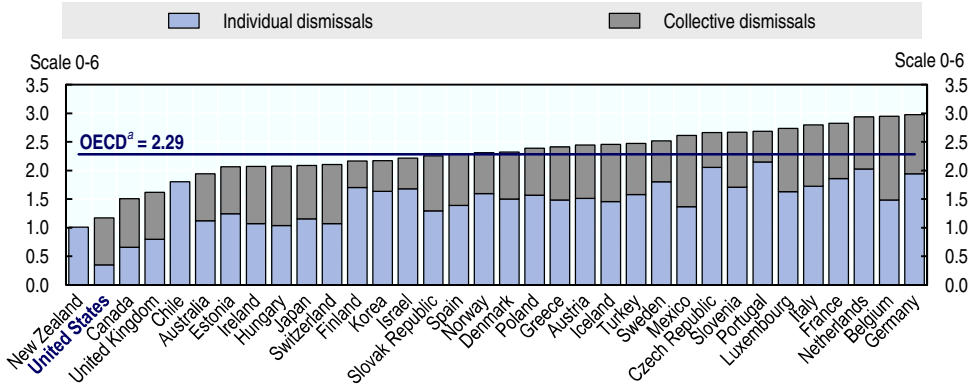
StatLink http://dx.doi.org/10.1787/888933427047

Overall EPL strictness for permanent workers in the United States, taking together regulations for individual dismissal and collective dismissal, is well below the OECD average and the lowest among English-speaking common-law countries like Canada, New Zealand and the United Kingdom (Figure 2.2). How do these rules impact worker's transition into the labour market?

Compared with most OECD countries, and consistent with its lenient level of EPL, the United States tends to have relatively high flows into unemployment and even higher flows out of unemployment. Unemployment inflows and outflows both tend to be lower in countries with strict EPL (Figure 2.3).

Figure 2.2. **Overall, protection against dismissal for permanent workers in the United States is the second-lowest in the OECD**

Employment protection legislation indicators for OECD countries, 2013 or latest year available



Note: The figure presents the contribution of different sub-components to the indicators for employment protection. The height of the bar represents the value of the indicator.

a) Unweighted average of the respective indicator shown in each panel for the 34 OECD countries.

Source: OECD Employment Protection Database, 2013, http:dx.doi.org/10.1787/lfs-epl-data-en.

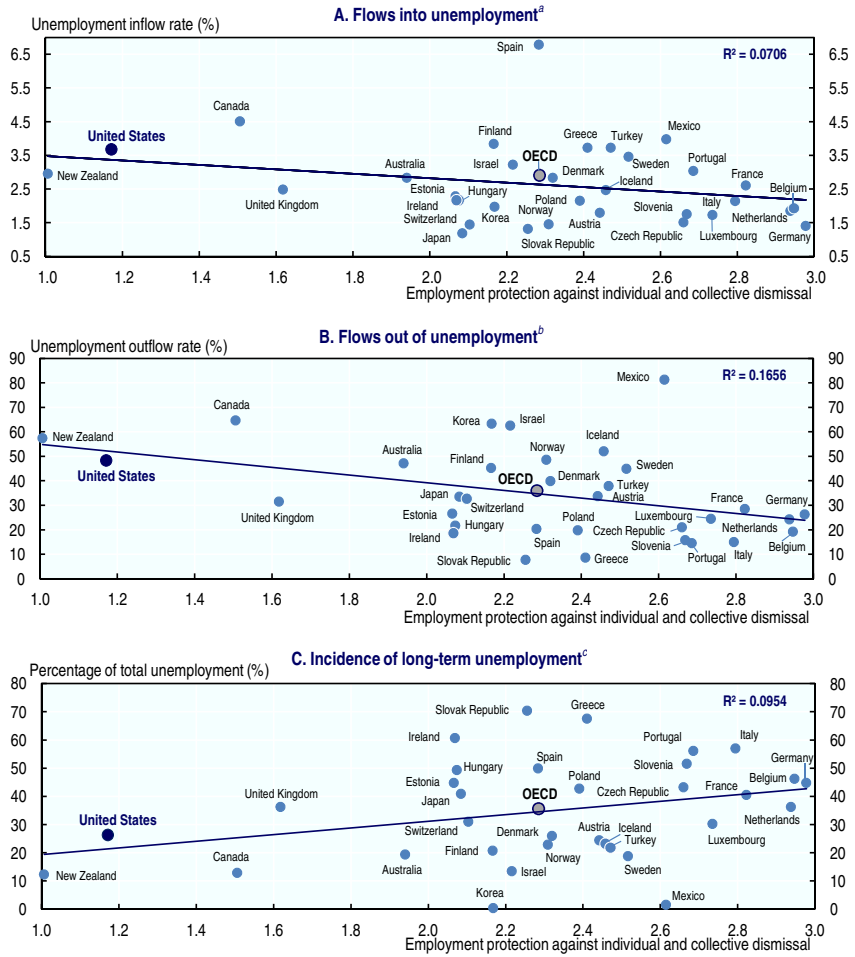
StatLink *http://dx.doi.org/10.1787/888933427051*

This is consistent with what the theory and empirical research suggests: strict EPL is likely to reduce the propensity for permanent workers to be displaced into unemployment, but at the same time tends to dampen hiring rates so that unemployed persons take longer to move back into jobs (OECD, 2013). While much less pronounced, there is a tendency for unemployment to be more persistent in the United States compared with many other OECD countries than would be predicted based on EPL strictness alone. For example, with a little over 20% recently the incidence of long-term unemployment is higher than that found in some of the Nordic countries even though they have a moderate to high level of EPL. This may be related to these countries' heavy reliance on active labour market policies that are likely to reduce the possible negative effect of EPL on outflows into employment.

In the context of lenient employment protection for workers in which workers can be hired and fired with relative ease, a number of other preventative measures such as short-time work programmes and early warning mechanisms can serve as important alternative policy tools to limit unnecessary job losses. These are assessed in the following.

Figure 2.3. **Relatively high flows *in* and *out* of unemployment result in a comparatively lower long-term unemployment incidence in the United States**

Labour market flows and the incidence of long-term unemployment, 2013



Note: EPL: Employment protection legislation.

a) The *unemployment inflow rate* is defined as the ratio of the number of unemployed who have been unemployed for less than one month to the number of employed one quarter earlier.

b) The *unemployment outflow rate* is defined as 1 *minus* the ratio of the number of people who were unemployed for more than a month to the total number of unemployed a quarter earlier.

c) Number of long-term unemployed (12 months or more) as a percentage of total unemployment.

Source: OECD calculations based on national labour force surveys; and *OECD Employment Protection Database*, 2013 update, http:dx.doi.org/10.1787/lfs-epl-data-en.

StatLink http://dx.doi.org/10.1787/888933427066

Short-time work is used relatively little in the United States

Short-time work (STW) programmes in general are an important tool in maintaining viable jobs at firms experiencing temporarily reduced demand. They function by encouraging work-sharing through the reduction of working hours, while also providing income support to workers whose hours are reduced due to a shortened work-week or temporary layoffs. STW programmes can lower the social costs of demand fluctuations by helping firms to avoid unnecessary layoffs, i.e. the permanent dismissal of workers during a business downturn whose jobs would have been viable in the longer run. Avoiding layoffs during temporary recessions has potential benefits for employers as well. Work-sharing may be a means of retaining valued employees and avoiding new recruitments when sales go up again. Workers who are laid-off may take jobs elsewhere, meaning that any investments the firm has made in these workers' job skills are lost. This may be an especially important consideration when workers are highly skilled and costly to replace when demand rebounds.

Short-time work is available only in some states and used infrequently

The *Short Time Compensation* (STC) programme in the United States, also known as work sharing, is administered at the state level. It was first instituted in California during the late 1970s while federal law was enacted many years later: a temporary national programme was established in 1982 and permanent changes to federal laws were made in 1992 allowing states to adopt STC programmes (Felter, 2012). Currently, 27 states operate a STC programme; although six of them only introduced such legislation during the GFC. Up until recently, states varied in their requirements but basic outlines of STC were similar among all states (Shelton, 2012). The Layoff Prevention Act passed in 2012, among other provisions triggered by the GFC, clarifies requirements related to STC. Under these new regulations, the term STC programme means a programme under which:

- The participation of an employer is voluntary.
- An employer reduces the number of hours worked by employees in lieu of layoffs.
- The reduction in hours is at least 10% but no more than 60%.
- The employer must have an approved STC plan in place with the appropriate state workforce agency.
- Employees receive an unemployment compensation that is a pro rata portion of the benefit otherwise payable if they were unemployed.

- Employees meet the availability for work and work search requirement by being available for their work weeks as required by the state agency.
- Employees may participate in a state-approved, employer-sponsored, or Workforce Investment Act funded training programme.
- Health and retirement benefits (defined-benefit or defined-contribution plans) must continue to be provided to STC participants under the same terms and conditions as for all other employees.

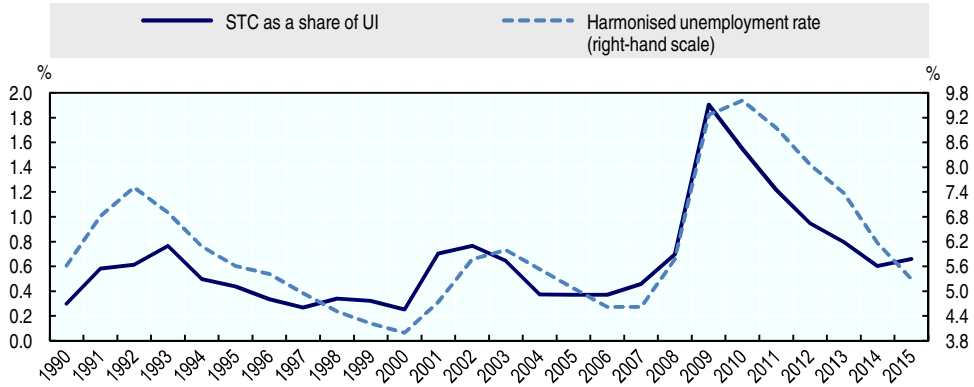
STC in the United States is funded just like regular Unemployment Insurance (UI): by UI state payroll taxes on employers which in turn are based upon an *experience rating* system paid out of state accounts in the *Unemployment Trust Fund* (see Chapter 3). Thus, the STC programmes follow the experience rating principle whereby employers pay more unemployment insurance taxes the more benefits are collected by laid-off employees.

Unlike many other OECD countries, where STW is a popular tool in minimising excessive job losses during temporary periods of low demand, their use in United States is rather limited. Between 1990 and 2015, the STC programme rarely reached 1% of unemployment claims paid annually across the United States except in periods of economic recessions, where this percentage peaked at nearly 1% in 1993 and up to 2% in the crisis year 2009 (Figure 2.4). These fluctuations in take-up also mean that, despite the low average use of STC, the programme has been responsive to the business cycle. In an international comparison, take-up of STC in the United States (measured as the average stock of participants over all employees) was amongst the lowest in the OECD, peaking at 0.22% of all employees in late 2009. Take-up in high-use countries like Japan, Germany, Italy and especially Belgium typically was around 3% to 5% of the workforce during the (peak of the) global financial crisis (GFC) (Hijzen and Venn, 2011).

Evidence from other OECD countries shows that such programmes can have an important impact on limiting job losses during periods of lower demand and economic downturns. The OECD (2010) has estimated the number of jobs that were preserved by STW schemes in the wake of the GFC in some 14 OECD countries, and concluded that deadweight and displacement effects were sufficiently small to allow significant numbers of permanent jobs to be saved. Hijzen and Martin (2012) extended this analysis to cover 23 countries and the recovery period through to late-2010 and reached the same qualitative conclusions. The *Kurzarbeit* programme in Germany is estimated to have preserved the greatest number of jobs during the crisis period.

Figure 2.4. **The size of the Short-Time Compensation programme in the United States is small but highly cyclical**

STC users in the United States as a share of all UI benefit recipients[a]



Note: STC: Short-Time Compensation; UI: Unemployment Insurance.

a) STC and Regular UI data refer to yearly data calculated as averages of weekly data.

Source: http://www.oui.doleta.gov/unemploy/index.asp, Table "Weeks Claimed in All Programs (Expanded)" for Short-Time Compensation and Regular UI data; and *OECD Short-term Labour Market Statistics Database*, www.oecd.org/statistics/ for harmonised unemployment rate.

StatLink http://dx.doi.org/10.1787/888933427076

Evaluations in the United States have demonstrated that STW also saved jobs, particularly in sectors such as manufacturing in which there was more use of work sharing. According to Abraham and Houseman (2013), the average full-time equivalent of persons on STC in 2009 represented less than 1% of average private sector employment declines from 2008 to 2009, but nearly 5% of the decline in manufacturing production jobs over the same period.[2] However, this estimate is based on translating the number of unworked hours that were compensated by unemployment insurance into worker equivalents and thus takes no account of possible deadweight and displacement effects (see more below).

Promoting short-time work is welcome but more can be done to increase take-up

Most US research on the weak implementation of the STC programme and its low take-up points to the ambiguity in the 1992 federal law that authorised STC programmes; employers' lack of awareness of STC; and the limited guidance and assistance provided to states by the Department of Labor (Ridley, 2009; and Shelton, 2012) – the latter in particular has changed

considerably with the new legislation 20 years later. In recognition of the large job losses during the crisis and potential benefits of STC programmes, the federal government provided greater incentives to states to implement and increase the use of STC. Apart from standardising the definition of STC, the Layoff Prevention Act of 2012 also included provision for i) temporary federal financing of STC; ii) grants to states for STC-related purposes; and iii) increased federal responsibilities for promoting STC. More specifically:

- States with programmes that meet the new federal definition of STC could receive 100% of benefit costs from federal funds for up to three years.
- States that introduced new STC programmes with appropriate provisions could have half their benefit costs financed by the federal partner for up to 30 months.
- States that have enacted conforming state STC laws could, until recently, apply for a portion of the USD 100 million in grants for programme improvement and outreach to employers.
- At the federal level, there will be increased support for promoting STC including additional guidance and technical assistance.

These improved steps are encouraging but further changes may be required to substantially improve the use of STC in future downturns. One remaining weakness of the current programme is that STC benefits are charged to employers' experience rating like regular UI benefits. This is likely to raise concerns on the cost of the programme among employers as they are required to pay charges – in comparison to other OECD countries – which can have a negative impact on their programme participation. Going forward, modifying the financing arrangements of STC benefits might have to be considered to encourage take up, especially if experience rating of employer contributions for the regular UI programme would be tightened, as proposed in Chapter 3 of this report. One option would be to exempt workers on STC from the experience-rating scheme. Doing so, however, it will be important to watch out on any misuse of the scheme as a first step before dismissal.

Another somewhat similar disincentive problem is that when claimants collect STC benefits, the payments count against their maximum potential UI benefit payment for the respective benefit year (i.e. the 12-month period for which current UI eligibility applies) in the same way as UI benefits for full weeks compensated, but at a lower weekly rate. Through this regulation, employee participation in STC is discouraged as they incur a reduction in the remaining maximum benefit amount balance even though they are employed. This is in contrast to many other OECD countries, in which if a spell on STC is followed by a layoff, the entitlement to UI benefits is not reduced by the prior receipt of STC.

Whilst employer costs and lowered UI duration can reduce the take-up of STC and its potential to preserve viable jobs, they also can serve as an effective way to limit possible deadweight and displacement costs. *Deadweight* occurs when STC subsidies are paid for jobs that employers would have retained in the absence of the subsidy, and *displacement* occurs when STW schemes preserve jobs that are not viable without the subsidy. A number of alternative options are adopted by other OECD countries to reduce these potential costs. Behavioural requirements for firms can include safeguards against dismissal during or also after participation in the scheme (e.g. in Austria, Hungary, the Netherlands, New Zealand and Poland) or the development of recovery plans (e.g. in Italy, Luxembourg, Poland and Spain and for white-collar workers in Belgium). Behavioural requirements for workers most frequently take the form of requiring them to engage in active job search during the period they are not working, particularly in countries where STW is a partial benefit administered by the UI system. During the recession in 2008-09, Hungary, the Czech Republic, the Netherlands and Portugal introduced a requirement that workers must participate in training during their idle hours. Several other countries provide subsidies for training during STW or reduce the cost to firms of taking part in STW if they provide training for workers on short-time schedules.

Finally, recent initiatives in the United States to encourage STC take-up should be evaluated systematically. For instance, variation across states in the treatment of employers who establish STC plans – in particular on whether those employers will be charged for the costs of STC benefits during the period when the federal government is reimbursing states for STC benefits paid – should provide valuable information about whether such subsidisation can increase the use among employers. Research also will be needed to understand the extent to which STC programmes in the United States actually mitigate job losses and moderate the impact of recessions on businesses, workers, and communities.[3]

Early warning mechanisms are well-developed but operate on a small scale and have a limited scope

Layoff aversion strategies are an integral part of the policy package in the United States to prevent or minimise job loss for employees of firms that have announced layoffs, or are struggling with necessary structural adjustments. *Layoff aversion* programmes primarily focus on identifying businesses at risk of closing or necessitating larger layoffs for factors such as production quality problems, management instability, or declining sales. They aim at addressing these risk factors before they become acute to increase available options and the likelihood of successfully averting layoffs. There are a wide variety of approaches and strategies available to

address the risk factors such as retraining of existing workers, increasing efficiency and productivity or adopting new technologies and process improvements.

At the federal level, one of the main programmes – the *Manufacturing Extension Partnerships* (MEP) available since 1988 – has a prime focus on layoff aversions in the manufacturing sector. It is administered by the National Institute of Standards and Technology and aims to help small and medium-sized manufacturing firms to operate more productively and competitively.[4] Even though they do not necessarily avoid layoffs, MEP assistance for manufacturing firms can have an indirect impact on increasing employment security at those firms. The MEP centres receive one-third of their operating expenses from federal funds. Centres are expected to match those funds with funding from other sources, notably fees for services to clients and funding from state governments. The total MEP budget is about USD 300 million.

Similarly, in Pennsylvania, the *Strategic Early Warning Network* (SEWN) organised in 1993 by the Steel Valley Authority assists manufacturing companies experiencing problems before they reach crisis stage. The programme has become a pioneer throughout the state to promote timely investment in job retention and business development by companies which show early signs of trouble. SEWN includes a network of local business, government, and labour that monitors businesses and tries to intervene early enough to prevent layoffs or workplace closings. The Pennsylvania Department of Labor and Industry can also refer a company to SEWN for layoff aversion services upon receiving a WARN notice.

Both MEP and SEWN can be critical in view of the relatively minimal notice period in the United States which in addition only applies to a small number of cases and may often come too late (see section below). However, rigorous evaluations of these layoff aversions programmes on their impact on job savings are missing. According to the MEP survey among national clients, almost 18 000 new jobs were created and about 46 000 jobs were retained in 2014 (NIST, 2014). On the other hand, a study by the National Research Council (2013) concludes that the effect of the MEP on job creation and retention is inconclusive. This is because MEP seeks to enhance productivity but efficiency measures may eliminate some factory worker positions. Similarly, based on a number of client surveys, the Steel Valley Authority Annual report documents that in 2014, SEWN averted just over 1 000 job losses, with a cost per-job-saved of USD 1 018. Moreover, these programmes do not have an explicit mandate to save jobs and they also ignore dismissals taking place in other industries (except of the manufacturing sector).

In Michigan, layoff aversion extends to a number of different industries and focuses on helping workers directly who are at risk of being dismissed. The Michigan Department of Labor and Economic Growth has used Workforce Investment Act dislocated worker funds for *Incumbent Worker Training* (IWT) which is designed to ensure that employees of a company are able to gain the skills necessary to retain employment or avert a layoff, and must increase both the participant's and a company's competitiveness. It is offered to firms that are at-risk of downsizing or closing and identified as having at least one *risk indicator* such as declining sales, supply chain issues or change in management philosophy or ownership. IWT is restricted to skill attainment activities to i) increase skills in an occupation in which the individual is an incumbent, and ii) prepare for entry into a new occupation within a targeted workforce (i.e. the workforce of the participating employer or a group of employers). A major strength of the IWT is that it is part of a demand-driven strategy and thus can be tailored to emerging skills and occupations in specific industry clusters. There are currently five industry clusters in Michigan – advanced manufacturing, construction trades, health care, avionics and leisure/hospitality and retail – that are given a priority and act as a driving force for workforce development activities in the state.

Even though layoff aversion programmes have numerous advantages, preventing job losses is likely to be difficult, especially in the absence of employer co-operation. In a recent survey, 36 US states indicated that they try to avert layoffs, but about two-thirds of that group reported that such efforts were rarely or never successful (Salzman et al., 2012). The low success rate was attributed by some practitioners to the lack of sufficient time to produce any change in company decisions or plans. By the time the state's rapid response teams (see more on them below) receive notification of a closure or layoff, critical firm decisions have already been made and employers are not or no longer able to consider alternatives.

In view of the difficulties of *saving* jobs in firms, one option would be to further expand the role of SEWN and MEP to the benefit of worker more directly by enhancing labour mobility between declining and growing firms and activities within the manufacturing sector (and within other sectors, as appropriate). Ideas on how to do this can be taken from Japan, where the Industrial Employment Stabilization Center (IESC) has been set-up to facilitate mobility of labour between industries and companies (Box 2.1). While the establishment of the IESC partly reflects the life-time employment philosophy in Japan, several of the ideas can be replicated, including the sharing of information across firms about forthcoming layoffs and recruitments. Both SEWN and MEP are long-running programmes with strong relations with employer's and ability to generate timely information about impending layoffs which can provide a good basis for the extension of

their activities. If successful, the programmes should be carefully evaluated and could be expanded to other sectors in the economy.

Box 2.1. **Innovative employer involvement to facilitate mobility of labour between industries and companies: The case of Japan**

The *Industrial Employment Stabilization Center* (IESC) was originally established in 1987 with contributions from 13 business groups (primarily in manufacturing) and a subsidy from the national government, with the purpose to facilitate the mobility of labour between industries and companies. The IESC does this by operating as an intermediary that facilitates good matches between sending and receiving firms; that is, between companies with regular workers they no longer need and companies wishing to recruit mid-career regular workers with appropriate skills and aptitudes.

When an IESC agent has identified a potentially good match, the sending and receiving firms are informed. If both firms agree that a transfer would be mutually advantageous, then they negotiate the terms of the transfer, which can be either temporary or permanent.

There is one IESC office in each of the 47 prefectures and this network continues to be funded by a combination of government funds and industry contributions. The majority of the staff in these offices consists of human resource specialists from large firms, who are temporally seconded to the IESC. To facilitate the transfer of workers from downsizing to recruiting firms, the IESC gathers information about firms that are planning to displace workers and those that are recruiting workers. Information on job vacancies and jobseekers are shared between the 47 prefectural offices in order to provide greater scope for job matching. Typically, agents at the IESC both collect information on vacancies to add to the vacancy database and provide job-search assistance to displaced workers, including by proposing them as a candidate for specific vacancies.

Source: OECD (2015), *Back to Work: Japan – Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264227200-en.

Early re-employment support to help dismissed workers find new jobs

The role of early intervention, transition or rapid response services, which includes job-search assistance and career counselling, becomes critical in a context where the dominant form of downward employment adjustment is layoffs into unemployment. While there is a strong rationale for intervening as soon as workers are given advance notice, there are also likely to be costs that need to be factored into the choice for an early intervention approach. For instance, providing intensive support to workers who are temporarily laid-off can be costly as some of them revert back to their previous jobs or these workers may find other jobs in any case without any intervention. In what follows, examples of adjustment support from two US states, Pennsylvania and Michigan, are discussed in some detail.

Connecting workers to employment support as soon as workers are laid-off is given a high priority

Although some worker dislocations are preventable, many layoffs occur as a result of a rapidly transforming economy. In the United States, mass layoffs and workplace closings trigger a mandated response involving state and local workforce agencies. Up to 25% of a state's dislocated workers' programme budget is dedicated for the *Rapid Response Service* (RRS) in the national workforce system. States also can expand the budget in a flexible manner; usually over three years – the year of allotment plus two subsequent years, as with other funding streams under the *Workforce Investment and Opportunity Act* (WIOA). That is, states can carry over unspent WIOA money like for RRS from one year to the next. The dedicated funding stream for RRS reflects the view that early intervention can be effective.

While the RRS is federally mandated, the scope of activities provided under this programme, as well as the range of services offered to affected workers following RRS involvement, varies among states and even within states although a number of similarities exist. In general, both Michigan and Pennsylvania follow a similar process in dealing with mass layoffs. Common features in the way rapid response is carried out include the following:

- ***Phase 1 – Notification of dismissals and fact-finding***: The rapid response process typically begins as soon as the authorities receive a notification of an impending mass layoff or facility closure either through a formal WARN notice, or other sources such as a phone call, newspaper article and public announcements by employers. Upon receiving the notice, RRS staff verifies the layoff through contact with employer representatives (where they exist). Contact is then made with the employer and the available worker representatives, to market RRS activities, gather essential facts and establish a date for a RRS planning meeting. Both states endeavour to hold an on-site visit to the business preferably within 48 hours.

- ***Phase 2 – Rapid response planning****:* An on-site planning meeting is held with the employer and labour representatives. The main objectives are to determine the cause, size and timing of dislocation and to make a preliminary assessment of resource availability and staff capacity and of the services needed by the workers and those offered by the employer. A standard dislocated worker survey has been developed in both states designed to collect information on each worker's employment and educational history, employment goals, and service needs which is also distributed to workers during the planning phase.

- ***Phase 3 – Worker orientation meeting***: The worker information meetings are scheduled, ideally on site and during company hours, to provide an overview of available dislocated worker services such as Unemployment Insurance entitlements; links to employment services (offered by PA Career Link sites in Pennsylvania and Michigan Works offices); early information about what to expect emotionally and financially from being laid off; advise on coping with job loss; and availability of credit counselling. Multiple sessions can be held over the course of a day in order to accommodate all work shifts.

In Pennsylvania, the Department of Labor and Industry has developed a comprehensive guide for workers – *Surviving a Layoff* – summarising the types of jobs available in the labour market, training needed to obtain employment, information on jobs paying similar wages and on where to look for jobs in industries that are hiring. In Michigan, the state-wide Dislocated Worker survey tool related to economic dislocations, particularly plant closings and mass layoffs, is worth noting. The tool is a good example of collecting information on dislocated workers in a uniform way which allows for the aggregation and analysis of data, comparisons by dislocation, and examination of trends by region and/or industry. This information also feeds into designing tailored solutions and preparing intervention in a systematic and efficient manner.[5]

WIOA recommends establishing Labor Management Committees in the case of layoffs involving 50 or more workers and if there is at least 60 days subsequent to the rapid response meeting before layoffs are completed. Michigan and Pennsylvania have adopted different terminologies but operate in a similar way and share the same objective. In Michigan, a *Joint Adjustment Committee* (JAC) is formed for co-ordination of delivery of services while in Pennsylvania a *Dislocated Worker Transition Team* (DWTT) is deployed when dealing with mass layoffs. JACs and DWTTs are typically comprised of equal numbers of management, labour representatives and affected employees and chaired by a neutral third party.

Unlike rapid response teams, JAC and DWTT serve as an *advocate* for the entire affected workforce to ensure access to services and reduce the impact of the dislocation. There are several advantages of the joint committee approach over the regular RRS such as the continuous contact with affected employees, more employer involvement and the on-site delivery of employment services. Moreover, a self-help or *peer-counselling* approach is a key element in the planning of transition activities which can be effective in promoting worker's morale and reducing negative effects (e.g. on workers' health) caused by downsizing.

In practice, however, Labor Management Committees are rarely formed; e.g. in Michigan, the JAC is established in less than 5% of all cases. This is partly related to the relatively short notice period as well as non-compliance with the WARN Act (see below). Lack of employer co-operation is another factor. Too often, companies prefer not to incur the extra staff costs of providing time off for participation in these activities. In Pennsylvania, DWTT activities are supported financially by the Department's Bureau of Workforce Development Partnership and Operations, which can provide USD 1 500 to reimburse team expenses. The company and/or union are asked to either match this amount or contribute corresponding in-kind resources. Providing employer incentives to co-operate goes in the right direction but the amounts involved are likely to be too small to have an adequate effect.

Other OECD countries have adopted a much stricter approach. For example, the province of Quebec, in Canada, uses a reclassification assistance committee (*Comité d'aide au reclassement* – CAR) which has a role quite similar to that of Labor Management Committees. Employers in Quebec by law have to contribute 50% of the cost of the CAR activities or offer at least equivalent outplacement services to the affected workers directly if they choose to opt out. A CAR consultant is hired to develop a *reclassification plan* for each displaced worker which can include a combination of tailored services to help each worker find a job as quickly as possible. CAR activities can last up to two years. Displaced workers still requiring assistance when CAR services expire are referred to *Emploi-Québec*, the province's regular employment service (OECD, 2015b).

Too short advance notice and poor enforcement undermines early intervention

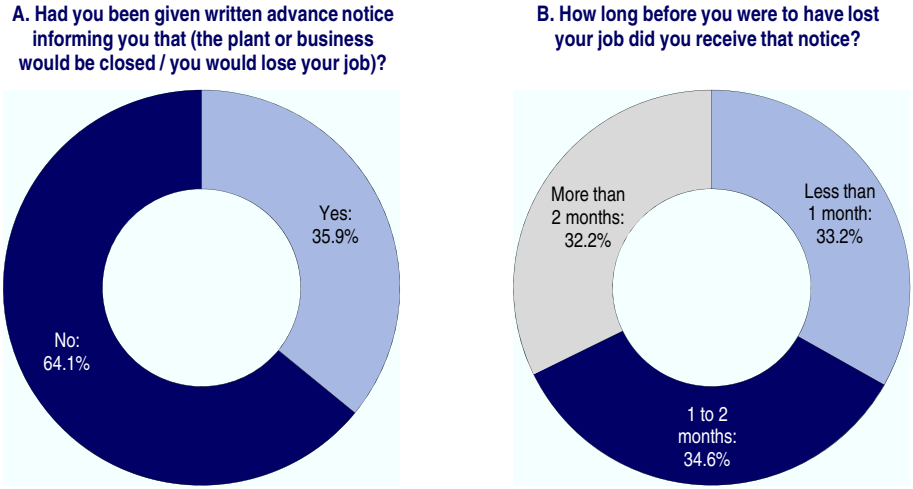
Labour adjustment programmes in the United States face a number of challenges to be fully effective. Both Michigan and Pennsylvania authorities highlight that early re-employment of workers before or just after a layoff was often beyond reach. Lacking or incomplete advance notices, the desire of employers to retain workers right up to the dislocation date, and employer disinterest more generally were commonly cited as major obstacles to early re-employment efforts.

Findings from the Displaced Workers Survey (DWS) confirm these views. Almost two-thirds of all workers displaced during 2000-14 report they received no advance warning of job loss (Figure 2.5, Panel A).[6] The large share of displaced workers without any advance notice can be attributed to a number of factors including no requirements on employers to provide advance notice in case of individual dismissals; the fact that the

WARN Act only applies to firms with 100 or more full-time employees; and generally a high degree of non-compliance. The Current Population Survey (CPS) dataset provides no information on the size of firm therefore it is difficult to assess the degree to which employers comply with the WARN legislation. An earlier study by the Government Accountability Office found that employers provided notification to workers in only about one-third of the situations that appeared to warrant WARN notices (GAO, 2003).

Figure 2.5. **Advance notice is rare in the United States and often very short**

Share of displaced workers who received an advance notice, by duration of the notice period, average over the period 2000-14



Source: OECD calculations based on the US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement, January/February various issues.

StatLink http://dx.doi.org/10.1787/888933427087

Among workers who received a notice, one-third was notified only one month prior to displacement, one-third received a notice of no more than two months, and another third reported to have been warned more than two months before their dismissal (Figure 2.5, Panel B). The latter may reflect more generous notice periods provided under collective bargaining agreements.

These findings suggest that too many displaced workers miss out on the benefits associated with advance notice including the opportunity to have a head start in searching for a new job. Research in the United States has shown that displaced workers receiving advance notice spend less time

unemployed than workers laid-off without any advance warning (Nord and Ting, 1991 and 1992; and Swaim and Podgursky, 1990). There is also some indication of a positive effect on post-displacement wages for workers who have received notice (Rhum, 1994).[7]

The WARN notice has been rather ineffective in facilitating additional proactive measures such as rapid response due to non-compliance. Estimates from other studies show that only between 5% and 33% of rapid responses nationwide (varying across states) are triggered by WARN notices, thus in most cases providing state governments with little information about impending dislocations and too little time to plan and develop any adjustment assistance (Heidkamp and Kauder, 2008). WARN notices account for about 10% of all RRS interventions in Pennsylvania and only around 6% in Michigan.

Several steps can be taken to facilitate a smoother operation of labour adjustment programmes and to make them more effective for displaced workers. In recognition of the challenges outlined above and dissatisfaction with the federal WARN Act, a growing number of states – including New York, California, Illinois and New Jersey – have adopted their own WARN legislation which imposes a much stricter law on employers compared with the federal WARN Act. For example, legislation in New York state requires a 90-day notice from the employer and applies to companies with 50 or more employees (unlike 100 for the federal law) where either 25 (50 for the federal law) or more workers are affected, if that number makes up at least 33% of the workers on that site. A state WARN Act can help to integrate federal legislation into state layoff aversion and rapid response actions. In order to close the gap in legislation between states and to fully exploit the merits of early intervention services, a comprehensive reform to the federal WARN Act should be considered including i) lowering the number of workers that must be subject to layoff for notification to be required; ii) extending the notice requirements to firms with fewer than 100 employees; and iii) increasing the length of advance notice requirements. Such change would allow a more effective rapid response.

Changes in the federal WARN Act should go hand-in-hand with stronger enforcement. Employers who violate the legislation are in principle liable for back pay and associated costs (e.g. the cost of medical expenses that would have been covered had the employment loss not occurred) to each aggrieved employee. The penalty is calculated for each working day that notice was not provided up to a maximum of 60 days.[8] However, the US Department of Labor does not have any investigative or enforcement authority under the law. Instead, workers who do not receive the legally mandated notification are forced to sue their former employers in federal courts which can be a long and cumbersome process and the likelihood of bringing employers to the

lawsuit is very low. Thus, in practice the WARN Act has no *stick* for employers not abiding to the law. Since the WARN Act does not require firms to notify the federal government prior to layoffs or plant closings, there is also no central data on notifications. Systematically collected information by the states could provide for better enforcement by the state authority to assess penalties against employers who fail to comply with the act's notification requirement. This would create a greater incentive for employers to provide the required notification than currently exists under the federal legislation. Otherwise, the development of a central databank can also be considered if uniform legislation was put in place.

To ensure employer co-operation and provision of effective employment support, some OECD countries have shifted considerable responsibilities on employers by making them pay, either fully or partially, for outplacement services for a specified period at least in the case of mass dismissals. In Canada, in the federal jurisdiction and in three provinces, employers are compelled to contribute 50% of the adjustment programme in dismissals of 50 or more workers. The most extreme example is Sweden where employers entirely fund (through 0.3% of their payroll) activities of so-called *Job Security Councils* which run parallel to public employment services and provide tailored job-to-job transition services and guidance to displaced workers for up to two years.

Japan as another example provides a good illustration of a non-financial strategy: employers dismissing 30 or more workers within a month have to prepare a *Plan for Assisting Re-employment* and submit it to the chief of the Public Employment Security Office one month prior to the first dismissal. The requirement to prepare such a plan is a useful way to encourage employers to be proactive about organising adjustment assistance for their workers. Works councils or employee representatives also are partners in facilitating transition services especially in many European countries. But this is rarely the case in the United States where union membership in the private sector is only 7% (11% if the public sector was included). Overall, even if putting financial burden or other responsibilities for outplacement services on employers could be unpopular among employers, it is likely to prove more effective because enforcement of sanctions is problematic as it is difficult to determine the cause of non-compliance with the WARN Act.

Rapid response covers only a small number of displaced workers

An additional challenge is to expand employment services such as rapid response to all displaced workers. As illustrated above, a large share of displaced workers do not have any rights and if they do, they do not necessarily receive any advance notice; most displaced workers in the United States therefore are unlikely to receive immediate support to help

them transition into new jobs. In addition, while many states will in principle provide RRS for layoffs of all sizes, some states restrict RRS to layoffs of 50 or more workers, or layoffs for which they received a WARN notice. In both Michigan and Pennsylvania, the state departments of labor intend to provide effective services to as many workers and companies as possible, irrespective of the number of workers affected and at any time as soon as the authorities hear about a company in difficulties. Even these efforts, however, are unlikely to cover small-scale or individual dismissals all together.

These gaps in the United States in the coverage of displaced workers by support programmes is most problematic for workers with poor re-employment potential, notably older and low-skilled displaced workers. Research in Canada and the United States shows that long-tenured and older displaced workers, especially those who acquired most of their vocational skills on the job, can often have a hard adjustment, in terms of finding new employment and earning sufficient wages; see for example Finnie and Gray (2011) for Canada; and Root and Park (2003) and Couch and Placzek (2007) for the United States. These workers generally lack recent work experience and realism about labour market search for a new position, have difficulty in communicating their skills to potential new employers, and are often demoralised or excessively optimistic about their re-employment options. These difficulties represent an efficiency loss for the overall economy, as well as a source of hardship for the individuals affected and their families.

Lack of early intervention during or right after the dismissal is of particular concern in the United States given that requirements to engage in active labour market programmes are weak in the current landscape. For instance, unlike in many other OECD countries there is no federal legislation mandating unemployed workers to register with the employment services in order to receive unemployment benefits. Some US states including Michigan and Pennsylvania have a provision that requires workers to register, however, the fact that employment support and job-search monitoring are under separate institutions render the strict implementation of these rules difficult. Even if a displaced worker seeks employment support or job-search counselling, evidence suggests that such support is likely to be limited as employment services remain heavily under-funded (see Chapter 4).

In order to minimise the unemployment duration and facilitate early contact with employment services, several countries have resorted to extending obligations to workers dismissed. For example, in Switzerland, as part of the required job-search efforts, unemployed workers need to give proof of job-search activities between dismissal notification and the first interview at the public employment service to receive unemployment benefits (Duell et al., 2010). A similar preventative approach was adopted in Germany as part of the Hartz reforms, where workers are obliged to register as jobseekers three months before their job ends or, for those with

shorter notice, within three days after receiving notice of dismissal (Mosley, 2010). This registration obligation allows the employment service to make referrals to vacancies already before the first unemployment benefit payment. However, such policies can only be implemented successfully in the United States should the advance notice legislation be made more comprehensive and extended to all dislocated workers.

Again, increasing obligations should and must come with better provision of employment support for all workers. Support schemes aimed at individual or small-scale dismissals exist in several OECD countries, notably Canada (Quebec) and Sweden, where tailored assistance is available to all dislocated permanent workers (Box 2.2). These approaches could potentially also be considered in the United States.

Box 2.2. **Schemes to reach out quickly in case of individual dismissals: The examples of Sweden and Quebec**

The *Job Security Councils* in Sweden

In Sweden, once a permanent employee has been notified of dismissal, both the employee and the employer apply for services to the *Job Security Council* (JSC), a body managed by the social partners in a given sector or occupational field (e.g. white-collar workers in the private sector) and financed through employer contributions. The JSC provides transition services such as individual counselling, career planning, job-search assistance and outplacement services. The JSC's activities are funded through employer contributions (fixed percentage of their total payroll). The JSC operates as a form of insurance distributing the risk and costs of restructuring among its members which allows access to services also for workers in small and medium-sized enterprises. JSCs overall achieve very high placement rates, exemplifying the advantages of a systematic early intervention approach. On average, 80%-90% of dismissed workers find a new job within 7-8 months, often without using any public employment service

The *Continuous-Entry Reclassification Assistance Committees* in Quebec

In Quebec, workers affected by individual or small-scale dismissals can enrol in *Comités d'aide au reclassement à entrées continues* (CREC). CRECs meet the needs of regions: i) facing multiple redundancies in small and medium-sized firms (therefore not reaching the 50-displaced workers threshold to qualify as a mass dismissal); and/or ii) that do not have enough public employment services staff to cope with the sudden influx of displaced workers in a local employment centre. To ensure sufficient capacity is available, *Emploi-Québec*, the regular public employment service, outsources these CREC outplacement services to specialised external providers.

Source: OECD (2015), *Back to Work: Canada – Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264233454-en; and OECD (2015), *Back to Work: Sweden – Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264246812-en.

Conclusions

In comparison with other OECD countries, employment protection for workers in the United States is weak. Employers face no requirements to provide advance notice against individual dismissals; there is no requirement to consult with unions before dismissals take place; nor is there any provision to provide severance payments. Regulations in the case of mass dismissals are relatively stricter but remain rather lenient compared with other OECD countries. This implies that labour adjustment in the United States primarily takes place by reducing the number of people in work. Overall, the lax legislation has fostered significant labour market flexibility allowing workers to move from one job to another with relative ease and minimising long-term unemployment for many decades. However, the hike in unemployment duration following the GFC is likely to put this soft model under strain, with the many unemployed still struggling to find new jobs.

In the absence of strong employment protection rules, schemes which aim to prevent unnecessary job losses and connect laid-off workers to employment services immediately become critical in order to mitigate the adverse effects associated with displacement. Rapid response services, layoff aversion schemes and recently also short-time work programmes are given high priority in the United States at the federal and the state level. Even then, a number of challenges remain to exploit the potential of these programmes and to make them more effective.

Currently, around half of the US states use a short time compensation programme to prevent layoffs. In most cases, however, this programme had not been available at the peak of the GFC and take-up has been low. New legislation introduced in 2012 to consolidate the definition of short-time work and to provide greater incentives for employers to increase its use is welcome. These changes should be complemented with further reforms including modifying the financing arrangement of short-time work; providing the adequate incentives to employees to enrol in the programme; and tapping into further research opportunities provided by the new legislation to refine the design of the programme.

Layoff aversion programmes are widespread in the United States but fail to help as many workers as they could, for a variety of reasons. *First*, layoff aversion can only be effective if firms at risk seek help before it is too late. *Second*, the narrow focus in most states on just the manufacturing sector limits the impact. Broader schemes like the industry cluster approach in Michigan or schemes that include all sectors of the economy should be tested. *Third*, the focus of layoff aversion could be expanded beyond strategic and management issues and include direct support for workers at risk of being laid-off, by promoting labour mobility and job-to-job transitions. Before expanding layoff aversion programmes, however, rigorous evaluations should be performed to assure that they are cost effective.

In the United States, advance notice in the case of mass dismissals is usually followed by states' rapid response activities to facilitate workers' transitions to new jobs. However, rapid response can only be effective if employers co-operate in facilitating quick job-to-job transitions for the affected workers. Evidence suggests that too few workers receive advance notice and only a handful of services are triggered off by such notices, thus undermining efforts to reach out to workers as quickly as possible. While workers affected by mass dismissals typically may benefit from a rapid response intervention, most displaced workers will not and will instead have to rely on re-employment support through core active labour market programmes in their local area. A comprehensive reform to the WARN Act would be desirable in order to better engage workers in the rapid response process and to fill the big gap in prompt service provision to workers affected by small-scale and individual dismissals.

More generally, strategies should be tested on how best to reach employers because the success of any prevention and early intervention measure hinges on strong employer co-operation. This requires the right mix of positive and negative incentives. Much can be learned from other countries on how to reach out to all displaced workers, not only those in collective dismissals; how to use a (longer) notice period wisely and effectively; and how best to involve employers through a good mix of supports and responsibilities and the right degree of co-payment to any prevention and early intervention action.

Notes

1. In some states eligible workers, regardless of whether or not the worker is under an employment contract, may obtain a *service letter* that indicates the reason for the dismissal. In other states where there is no service letter concept, the workers can request the reason for termination.

2. The authors also conclude that had usage in all states been as large as in Rhode Island, the state with the highest work sharing rates, the average number of FTE workers on work sharing in 2009 would have been approximately ten times as large as the number actually observed—in the vicinity of 220 000 FTEs rather than 22 000 FTEs. And had the average take-up rate been similar to that in Germany or Italy in 2009, the average number of FTE workers on work sharing would have approached one million. In other words, with work-sharing usage at European levels and assuming that work-sharing expansions translate directly into reductions in the number of layoffs, as many as one in eight of the roughly 8 million jobs lost during the recession could have been saved (Abraham and Houseman, 2013).

3. US Department of Labor currently has two studies underway to further their understanding of STC. Preliminary findings of a survey of employers in four states identified barriers to STC of unawareness and insufficient information on costs of the programme. A random-response demonstration project in Iowa and Oregon is testing different STC approaches to improve take-up. Final results will inform policy making.

4. Small and medium-sized firms represent 98% of all manufacturing enterprises in the United States. They account for two-thirds of all manufacturing employment and employ nearly 11.3 million people (National Research Council, 2013).

5. The Dislocated Worker Survey in Michigan is a serial-numbered, bar-coded form handled by the One Stop Management Information System section. This ensures the data collected can be aggregated by particular dislocation, and is both valid and reliable. Data are submitted to the Labour Market Information section which produces i) a labour characteristics map illustrating where workers affected by the employment dislocation live; ii) worker demographics; iii) a list of available skilled labour by occupation and company; and iv) career pathway(s) for employees' skill sets for in-demand occupations within the region. This information can readily be used by staff in the local Michigan Works agencies.

6. While there are small differences by age, workers with post-secondary education are more likely to receive notice than their counterparts with lower qualifications. It is plausible that the latter are likely to be employed by larger employers who tend to provide more notice of impeding job loss to workers as they have better resources to anticipate and manage workforce reductions.

7. Some studies have also found slightly negative effects of advance notices on wages in the new job, but these can be partly explained by the very short notice period which does not allow adequate implementation of job-search support and thus hampers any positive effects associated with advance notice.

8. Maximum liability may be less than 60 days for those employees who had worked for the employer for fewer than 120 days. In addition to payments to workers, employers found to be in violation of the WARN Act may also be subject to a USD 500 civil fine for each day fewer than 60 that they provided notice to affected employees. An employer can avoid the civil penalty entirely if each aggrieved employee is paid the full amount for which the employer is liable within three weeks from the date of the plant closing or mass layoff.

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Chapter 3

Access to and adequacy of income support for displaced workers in the United States

This chapter examines the sources and adequacy of income support available for displaced workers in the United States, with focus on the post-2008 recession period. Initially, unemployment insurance plays a critical role for displaced workers to cushion income losses; insofar, the immediate and repeated extension of the relatively short duration of unemployment insurance payments was critical. However, not everyone claims such benefit and of those who do, many exhaust their entitlement. Many of those workers depend on means tested income support which is rather minimal in the United States by international standards. As a consequence, a large share of displaced workers touches poverty at some point at least during a short period.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Job displacement is frequent in a dynamic and flexible economy. Perhaps the greatest penalty of involuntary unemployment is the loss of earnings. Everyday expenses for subsistence and shelter continue when people lose their jobs. This raises the question how displaced jobless workers manage to financially survive their unemployment spell. The duration of unemployment can be long, especially for workers displaced from their jobs because the plant shut down or their shift was abolished or because their industry is being offshored and their occupation no longer in demand in the country. There is very little likelihood that those people will be returning to their previous job or even occupation. Finding a new job, especially in and following a very deep economic recession, is difficult for many.

The purpose of this chapter is to examine the sources and adequacy of income support displaced workers in the United States used in the post-2008 recession period, both initially after job loss and in the longer run after they have exhausted any unemployment insurance claims. Unemployment insurance plays a critical role to cushion income losses after displacement. US governments at both the federal and the state level have reacted quickly during the recent downturn by extending repeatedly the relatively short duration of unemployment insurance payments to strengthen their role as an economic stabiliser. Was this an effective policy response and has it helped those affected by displacement to make ends meet?

Unemployment insurance in the United States struggles with coverage and funding issues

The unemployment insurance scheme is rather unique

A variety of benefits may be available to displaced workers to provide them with income support during a spell of unemployment. Most prominent among the income sources is Unemployment Insurance (UI).[1] Besides regular UI, which is payable for only a short period, there are other programmes that provide workers with further unemployment income support depending on certain circumstances. They may target workers by reason of job loss (e.g. trade-related UI extensions), be automatically triggered by certain economic conditions (e.g. a range of needs-based payments), and be temporarily created by Congress with a set expiration date (e.g. special crisis-related UI extensions). All of these programmes could extend the duration of UI receipt and will be discussed in more detail as the chapter unfolds.

The UI system in the United States is a rather unique income benefit programme among OECD countries. To some extent it can be seen as 53 separate state UI programmes as each state has a lot of autonomy in setting the rules and administering the programme.[2] Generally workers are covered by the law in the states where they are employed.

UI is a shared federal-state programme financed through federal and state payroll taxes (see Box 3.1 for more details).[3] Subject to the relatively minimal federal requirements, states have wide discretion in their unemployment compensation laws. Each state determines its own eligibility conditions, rate of compensation, waiting periods before compensation is made available to the unemployed worker, and the maximum duration of benefit payments. States vary widely in the benefits they provide. Typically, state programmes provide up to 26 weeks of regular benefits, although eight US states including Michigan have decreased the payment duration below this mark (down on average to less than 16 weeks) in recent years.

Box 3.1. **Federal and state responsibilities in the UI regular system**

- UI system is based on federal law but administered by states under state law.
- Funded by federal and state payroll taxes with the rate based on usage.
- Social insurance entitlements, not a needs-based benefit system.
- Nearly universal coverage of the insured workforce.

Federal functions	State functions
• Set broad coverage and minimal benefit provisions.	• Design state-run UI programme within federal guidelines.
• Set administrative requirements.	• Set benefit amounts, payment duration and eligibility requirements.
• Provide technical assistance.	• Determine eligibility and method of operations within federal requirements.
• Manage UI trust funds.	• Money placed into a trust fund.
Federal payroll tax	**State payroll tax**
• Uniform across states; net tax of 0.6% of the first at least USD 7 000.[a]	• Variable rate depending on status of state fund and employer's experience.
• Rate goes up to a maximum of 6% if the state where the employer does business fails to comply with federal UI laws.	• Three states tax workers as well.
• Used for administration, federal share of Extended Benefit and loans to states.	• Used to pay UI benefits.

Note: UI: Unemployment Insurance.

a) Only 4 states (Arizona, California, Florida and Puerto Rico) have USD 7 000 as the base, the lowest level according to federal law, but 15 states remain below USD 10 000; 2 states are over USD 40 000, and most states are around USD 12 000.

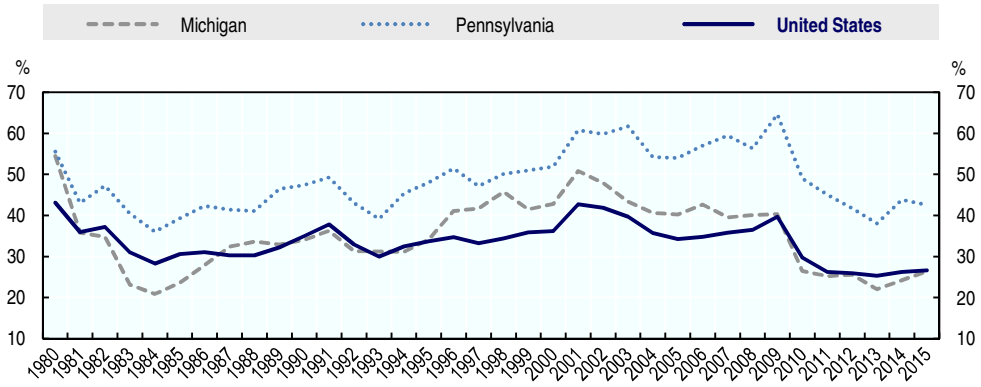
Source: Authors' compilation.

Unemployment insurance coverage is shrinking overall

The unemployment system in the United States may be characterised as a system in flux. The long-term downward trend in receipt of UI, termed the recipiency rate, continues with a largely unexplained severe drop in the recent recession (Figure 3.1). This means that the share of jobless workers receiving UI benefits has been shrinking continuously, which reduces the counter-cyclical effectiveness of the UI programme – one of its initial objectives. This is manifested by the fact that many states are tightening eligibility requirements and reducing the payment duration for receiving benefits, increasing the likelihood of workers running out of UI benefits especially in a prolonged economic downturn. At the height of the recession in 2010, just fewer than half the states had recipiency rates under 30%. Much of this is driven by the very poor financial situation of UI trust funds in many states. A seemingly unstoppable decline in UI recipients and the increasingly weaker financial structure of the UI funds marks a time for the US government to convene an independent Commission to study the UI system. Many issues follow that such a Commission could take up.

Figure 3.1. **The UI recipiency rate in the United States has continued its long-term downward slope after the global financial crisis**

Long-term trend in the number of UI recipients as a share of total unemployment, 1980-2015



Note: UI: Unemployment Insurance.

Source: United States Department of Labor (DOL), Employment and Training Administration (ETA), http://oui.doleta.gov/nemploy/Chartbook/a12.asp.

StatLink http://dx.doi.org/10.1787/888933427097

More and more jobless workers are not receiving UI and rely on other needs-based income benefit streams to make ends meet. In order to qualify for such needs-based public assistance programmes, (household) income has to be very low – meaning if people qualify, they probably have been out of work for quite some time and have exhausted their UI benefit entitlements or maybe have never qualified for them in the first place. The extent to which jobless workers, including displaced workers, are using public programmes other than UI is discussed in much greater detail in the latter part of this chapter.

Many laid-off workers are not claiming UI benefits

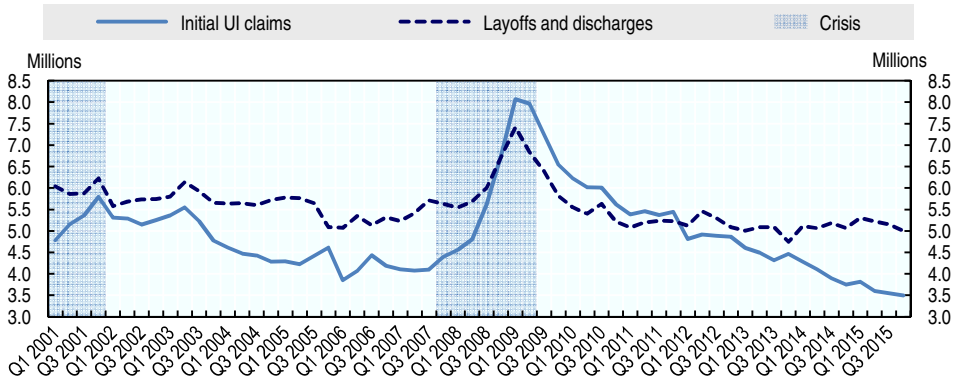
What is known about the extent to which displaced workers are covered by unemployment insurance? Unemployed people can be grouped by their reason for unemployment, distinguishing new entrants, re-entrants, job leavers, and job losers. The first three groups, which together account for about half of total unemployment, are not typically eligibility for UI benefits in the United States as eligibility is tied to *involuntary* job loss. Job losers are similar in circumstance and definition to displaced workers and likely eligible for UI initially but not all of them are applying for UI. Their share of total unemployment is rising over time from around one-third in the late 1960s to over one-half today (BLS, 2016). Moreover, Figure 3.2 shows that the gap between layoffs and UI claims is widening; suggesting that in recent years fewer of those people are claiming UI benefits. While in the peak crisis years of 2009-12 the number of UI claims temporarily exceeded the number of layoffs, the gap is wider in early 2015 than it was in any of the past 14 years. In part this gap reflects job-to-job transitions made possible by a stronger labour market but the growing gap also reflects growing ineligibility for UI.

Four main groups of workers emerge in the policy discussion about the coverage of the UI system in the United States: job losers, displaced workers, UI exhaustees and long-term unemployed people. There is a great deal of overlap across these four groups but not all UI exhaustees or long-term unemployed are necessarily displaced workers. However, from a policy standpoint in getting these groups re-employed, there is much more common ground. CPS data suggest the percentage of displaced workers, as defined in Chapter 1, who receive UI benefits in the aftermath of their job loss, fluctuates around 40-50%, with a peak of almost 60% in 2010 and a continuous decline since (Figure 3.3, Panel A). Differences across population groups are relatively small except for a clear link with age: older displaced workers are more likely to receive UI payments – the share going up to 58% for the 55-64 year age groups (Figure 3.3, Panel B).

As expected, the UI recipiency rate is higher for displaced workers than it is overall, but the difference is only about 10 to 20 percentage points and overall roughly one in two displaced workers do not receive UI. A partial answer to low take up of UI among displaced workers is that they delay filing for benefits. A 2000 study on "why jobless workers were not applying for UI benefits" found many saying they did not file because they expected to quickly find another job (Wandner and Stettner, 2000). It appears that some of them eventually filed for benefits at a later stage as the percentages of displaced workers receiving UI are higher for groups with longer duration of unemployment (Wandner, 2010).

Figure 3.2. **By early 2015, the number of UI claims in the United States has fallen to two-thirds of the number of layoffs and discharges**

Trends in the number of layoffs and discharges and initial UI claims, Q1 2001 to Q4 2015



Note: UI: Unemployment Insurance. Shaded areas represent recession periods as determined by the National Bureau of Economic Research (NBER).

Source: US Census Bureau for the Bureau of Labor Statistics (BLS), Job Openings and Labor Turnover Survey (JOLTS), www.bls.gov/jlt/home.htm for layoffs and discharges; and US Department of Labor (DOL), Employment and Training Administration (ETA), http://www.ows.doleta.gov/unemploy/claims.asp for initial UI claims.

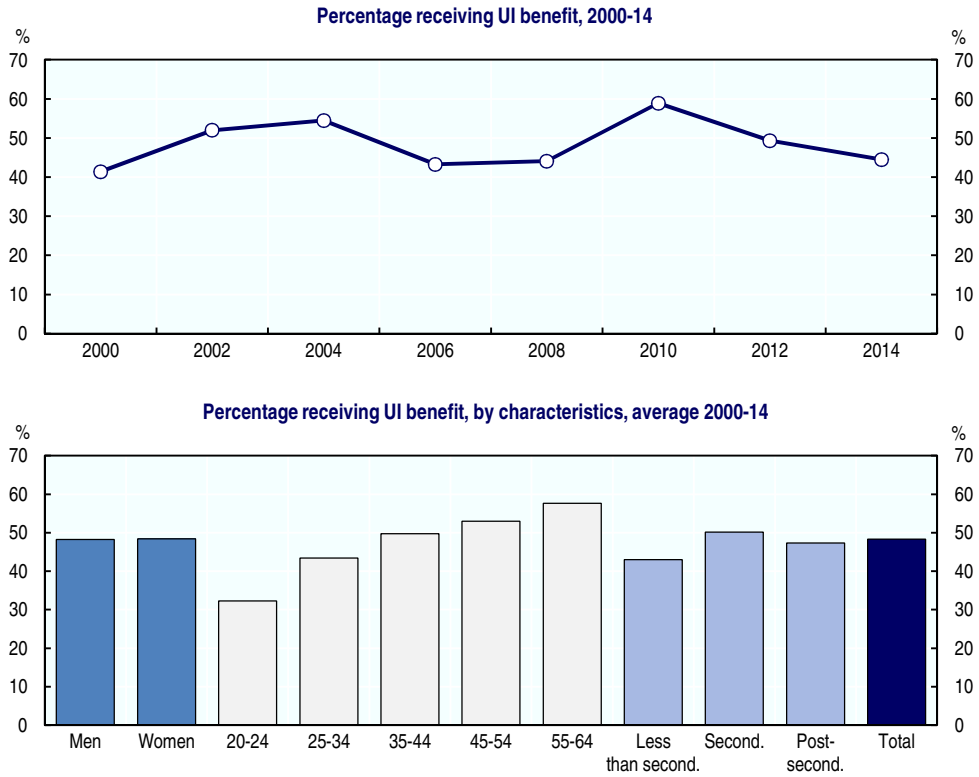
StatLink http://dx.doi.org/10.1787/888933427102

To better understand the trends in the use of UI, more knowledge of the functioning of the UI system is necessary. Generally, UI eligibility is based on attaining qualified wages and employment in covered work over a 12-month period prior to unemployment. The recent growth in the gig economy (e.g. Uber drivers and Airbnb hosts) or, in other words, non-covered employment among independent contractors has contributed to lower UI recipiency rates.[4] Along with the monetary requirements (also

called financial eligibility) and with few exceptions across states, individuals must have lost their jobs through no fault of their own (also called benefit eligibility). Moreover, UI claimants must be i) able to work, ii) available for work, and iii) actively seeking work (for more on this, see below). These monetary and nonmonetary requirements help ensure that UI benefits are directed toward workers who are strongly attached to the labour market at the time of job loss and are experiencing a temporary spell of unemployment caused by economic conditions.

Figure 3.3. **Around one in two displaced workers in the United States received UI benefit, with a peak in the midst of the global financial crisis and a continuous drop since then**

Share of workers who received UI benefit after their displacement, 2000-14, total and selected group averages



Note: Second.: Secondary; UI: Unemployment Insurance.

Source: US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement.

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However, the current *attachment* criteria exclude some people and contribute to those with lower earnings and frequent job changes having a harder time qualifying for UI benefits, which typically are younger and less educated workers (Woodbury, 2014). Also, since most state UI programmes require a certain amount of weekly earnings in order to qualify for benefits, usually tied to the minimum wage, some part-time and low-income workers are not eligible. However, many part-time workers have a continuous attachment to the labour force and should be fully eligible for UI benefits. One possibility could be a reform of states' *extended or alternate base period* rules. Several states in order to qualify workers whose illness or injury prevents them from working allow workers who have no earnings in the base period to reach back to an earlier work period. Having longer base periods generally would allow more workers to qualify for benefits, which is also a goal of a recent proposal by the administration (White House, 2016).

In summary, three elements or trends – the UI eligibility regulations, namely having to demonstrate a full-time, full-year attachment to the labour force; the growth in the gig economy and therefore in non-covered employment; and the increasing number of states which have lowered the duration of UI benefit payments – all contribute to a low and falling UI recipiency rate.

The state payroll tax rate for UI is related to usage but with limited effect

State taxes on employers under the *State Unemployment Tax Act* (SUTA) are limited by federal law to funding regular UI benefits and the state share, of 50%, of extended benefit payments (see below). Federal law requires that the state tax be on at least the first USD 7 000 of each employee's earnings. Federal law also requires each employer's state tax rate to be based on the amount of UI paid to former employees (known as *experience rating*). Within these broad requirements, states have great flexibility in determining the SUTA structure of their state. Generally, the more UI benefits paid out to its former employees, the higher the tax rate of the employer, up to a maximum established by state law; federal law says the maximum cannot be below 5.4% of the payroll.[5] This structure has led to unintended consequences, as the tax cap has been shown to reallocate resources from low- to high-unemployment industries (Vroman et al., 2014).

Unique among OECD countries, experience rating is a key feature of the UI scheme in the United States.[6] It is a method by which employer contribution payments are varied on the basis of each individual employer's experience with unemployment: higher payroll tax rates are imposed on firms that have laid-off more workers in the past. Experience rating is based on the proposition that the cost of unemployment compensation should be shared in such a way that employers whose workers experience the most involuntary unemployment contribute at a higher rate to provide incentives to firms to minimise layoffs. This was indeed the case, as early studies have shown (Woodberry et al., 2001). Studies have also demonstrated that

moving from the current *incomplete* experience rating (incomplete because of the low threshold that affects most employers who lay off workers) to *full* experience rating (where the full effect of the system unfolds) could reduce temporary layoffs by some 30%-50% and cut the unemployment rate significantly (e.g. Topel, 1984; and Card et al., 1994).

There is also the possibility for experience rating to act as a hiring deterrent. A recent study, however, found the layoff disincentive to be higher than the hiring deterrent (Ratner, 2013). There is a good case therefore to strengthen experience rating and its initial intention by changing the current maximum threshold such that layoffs become more costly for employers.

Extended and emergency UI programmes increased the duration of payments

In addition to the basic federal-state UI benefit, the current system of unemployment compensation includes an extended benefits programme, funded half by the federal government and half by state governments. The extended benefit programme, first enacted in 1970 and revised substantially in 1981, provides additional weeks of benefits to jobless workers in states where unemployment has worsened dramatically. Moreover, in times of national recession, the federal government has historically provided funding for additional weeks of benefits in every state. This is done through emergency congressional appropriations which are temporary in nature. Notably, Congress created an *Emergency Unemployment Compensation* (EUC) programme in 2008 and amended it no less than 11 times in order to keep extending the duration of UI benefit payments, bringing the maximum allowable duration temporarily to 99 weeks (Isaacs and Whittaker, 2014).[7] The programme was allowed to expire in 2014. Temporary federal extensions which are 100% federally funded, has been used during most periods of recession since 1945. State agencies administer these special temporary UI programmes (extended as well as emergency benefits) along with regular UI benefits.

Box 3.2 summarises the features of the main UI programmes (regular, extended and emergency UI) to show how they lengthened benefit receipt as unemployment climbed in the global financial crisis (GFC). Federal dollars usually cover all emergency and half of the extended benefits. However, the *American Recovery and Reinvestment Act* provided full federal funding of extended benefits for weeks of unemployment started before January 2010 and ended before end of 2012. The magnitude of the federal UI extensions rose substantially during the recession period, with federal outlays larger than state outlays (Table 3.1).

Box 3.2. Extended benefits and emergency compensation in the United States extend regular UI payments

Regular UI (as of July 2016)	Extended benefits	Emergency Unemployment Compensation (EUC)
20-30 weeks • More than 26 weeks – 2 states. • 26 weeks – 43 states and territories. • Less than 26 weeks – 8 states.	13-20 weeks extra (partly optional) • 13 weeks if a state's insured unemployment rate (IUR) for the previous 13 weeks is at least 5% and 120% of the average of the rates for the same 13-week period in each of the two previous years; or • 13 weeks if state's IUR is at least 6%, regardless of previous years' averages; or • 13 weeks if state's total unemployment rate (TUR) is at least 6.5% and 110% of the state's average TUR for the same 13 weeks in either of the previous two years; or • 20 weeks if the TUR is at least 8% and 110% of the state's average TUR for the same 13 weeks in either of the previous two years.	14-53 weeks extra Worker, Homeowner, and Business Assistance Act of 2009 established four tiers • *Tier I:* 20 weeks (all states). • *Tier II:* 14 additional weeks (34 weeks total, all states). • *Tier III:* 13 additional weeks if state TUR is 6% or higher or IUR is 4% or higher (47 weeks total). • *Tier IV:* 6 additional weeks if state TUR is 8.5% or higher or IUR is 6% or higher (53 weeks total).

Source: Isaacs, K.P. and J.M. Whittaker (2014), "Emergency Unemployment Compensation (EUC08): Status of benefits prior to expiration", Report No. R42444, Congressional Research Service.

Table 3.1. During the peak crisis years, spending in the United States on special UI benefits outnumbered spending on regular UI benefits

UI benefits by type of programme, fiscal years 2007-15 (USD, billions)

UI programme	2007	2008	2009	2010	2011	2012	2013	2014	2015
Regular UI	31.4	38.1	75.3	63.1	48.5	44.3	39.6	35.9	32.9
Extended benefits	0.0	0.0	4.1	8.0	11.9	4.9	0.1	0.0	0.0
Emergency Unemployment Compensation 2008 (EUC08)	0.0	3.6	32.7	72.1	52.7	39.6	25.4	4.8	0.0
Federal Additional Compensation[a]	0.0	0.0	6.5	11.7	1.9	0.0	0.0	0.0	0.0
Total	**31.4**	**41.7**	**118.6**	**154.9**	**115.0**	**88.8**	**64.1**	**40.7**	**32.9**

Note: UI: Unemployment Insurance; USD: US dollars.

a) Increase of USD 25 in weekly UI benefits for all recipients under the American Recovery and Reinvestment Act.

Source: UI tabulations, http://www.ows.doleta.gov/unemploy/hb394/hndbkrpt.asp.

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The impact of UI extensions on unemployment duration and job-search behaviour is debated but the effect seems to have been relatively small (Rothstein, 2011; and Farber and Valletta, 2015); however, extensions did have a positive impact on consumption (White House, 2011). Stronger job-search and conditionality requirements (discussed further below) are likely to reduce any accompanying work disincentives. With the provision of federal money there are also reduced incentives for the state authorities to get jobseekers back into the labour market quickly. Such problems could be addressed by a package of measures, including a shift away from the highly discretionary approach to benefit extensions to a more criteria-based and better monitored process, to ensure better benefit coverage in a slack labour market without jeopardising job-search incentives for workers and state authorities.

Demonstrating successfully that the job loss resulted from international trade can also lead to an extension of the unemployment benefit payment duration: the United States has a longstanding employment readjustment programme known as *Trade Adjustment Assistance* (TAA). Although this programme has undergone many changes over the years, the core requirement of linking job loss to trade has remained intact. Though TAA is separate benefit programme from UI funded from general revenue, not from UI contributions, for the worker concerned and eligible it largely functions as an extended UI programme. If job loss is certified by the government to have been caused by trade, individuals can receive additional income support known as *Trade Readjustment Allowances* (TRA), if they have exhausted their UI benefit and are enrolled in an eligible training programme. The payment period can go up to a maximum of 130 weeks in total and the benefit level is the same level as the initial, regular UI payment (see Box 3.3). The TAA programme, especially its training component, is discussed in greater detail in Chapter 4.

Box 3.3. **Trade Readjustment Allowance can extend UI payments during training**

Basic TRA (2015 situation)	The weekly basic TRA payment begins the week after a worker's UI eligibility expires. Workers must be enrolled in TAA-approved training, have completed such training, or have obtained a waiver from the training requirement. UI benefit and TRA benefit weeks together cannot exceed 52 weeks.
Additional TRA (2015 situation)	After basic TRA has been exhausted, workers enrolled in a TAA-approved training programme are eligible for an additional 65 weeks of income support for a total of 117 weeks of benefits.
Completion TRA (2015 situation)	Where a worker has collected 117 weeks of combined TRA and UI and is still enrolled in a training programme that leads to a degree or industry-recognised credential, the worker may collect TRA for up to 13 extra weeks (130 weeks in total), if the worker will complete the training programme during that time.

Source: Collins, B. (2014), "Trade Adjustment Assistance for Workers", *CRC Report*, R42012, Congressional Research Service (CRS), http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/R42012_gb.pdf.

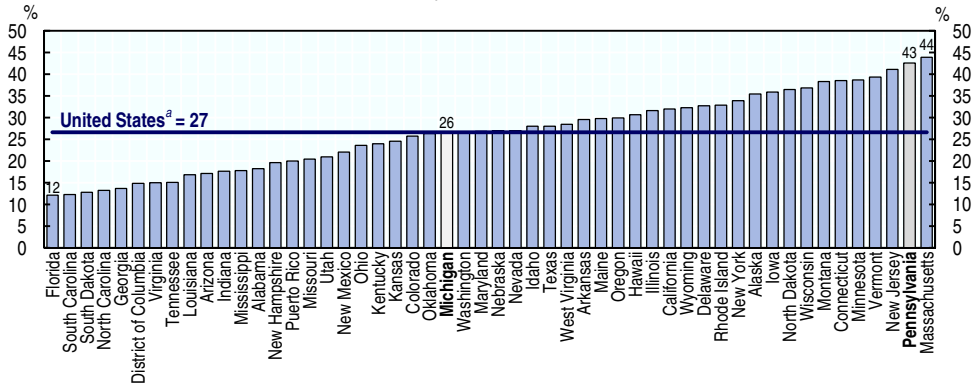
Low tax rates are eroding UI funding

The UI system was designed to be self-funding. However, the federally required minimum taxable wage base has not been raised since it was set in 1983 at USD 7 000. By way of comparison, Social Security taxes are collected on a tax base of USD 118 500, which is 16 times the UI base. Although some 20 states have set the base above USD 15 000, the average tax on payrolls has declined – contributing to only a mild effect of the experience rating feature of the UI system. Thus, less money is flowing into state UI trust funds, which has led states to stem outlays by tightening UI eligibility requirements. As Figure 3.4 illustrates, several states have very low recipiency rates in 2014 equal to 20% or less. Michigan is close to the US average of 26% and Pennsylvania is at over 40%. By 2015, ten US states including three of the big ten, had recipiency rates below 15%, leading to a conclusion of questioning whether UI was accomplishing to its main purpose of providing income for jobless workers and economic stability for some local economies.

An Upjohn study concluded that "actions and inactions by the state and federal partners in response to successive crises over the years have tipped the balance toward a larger federal role in the system" (O'Leary, 2013). In no other recession than the last one was the share of federal costs over 50% (Figure 3.5). Even with the influx of more federal money, several states are still burdened with a considerable debt from the GFC and only about one in three states has trust fund accounts ready for a next recession. To improve the fiscal position, several states are restricting UI benefit availability by reducing the duration of UI payments and raising the amount of earnings needed to qualify for UI benefits, thereby limiting the tax burden on employers.

Figure 3.4. **The UI benefit recipiency rate fluctuates considerably across US states but it is below one-third in most of the states**

Insured unemployed in the regular UI scheme as a share of total unemployment (*recipiency rate*), by state, 2015



Note: UI: Unemployment Insurance. States are ranked in ascending order of the *Recipiency rate*.

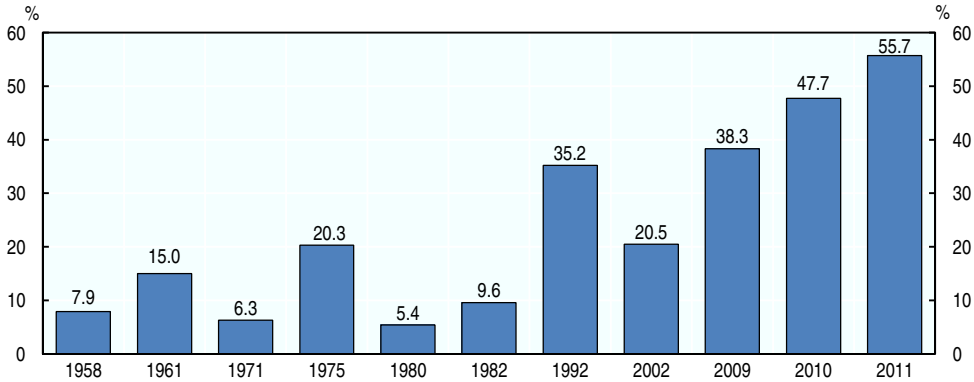
a) Weighted average.

Source: US Department of Labor (DOL), Employment and Training Administration (ETA), http://ows.doleta.gov/unemploy/Chartbook/a13.asp.

StatLink http://dx.doi.org/10.1787/888933427124

Figure 3.5. **After the recession, federal UI costs in the United States outnumbered the state costs**

Federal share of total UI benefit costs in recession years, 1958-2011



Note: UI: Unemployment Insurance.

Source: O'Leary, C.J. (2013), "A changing federal-state balance in Unemployment Insurance?", *Employment Research Newsletter*, Vol. 20, No. 1, pp. 1-4, W.E. Upjohn Institute for Employment Research, January, http://dx.doi.org/10.17848/1075-8445.20(1)-1.

StatLink http://dx.doi.org/10.1787/888933427138

States are supposed to levy taxes on employers to build up balances in their UI trust funds during periods of economic growth (referred to as *forward-funding*), and then draw down those balances to provide payments to unemployed workers during downturns. Rather than forward-fund their programmes, however, many states adopted a *pay-as-you*-go approach that held taxes low and, by 2008, had actually reduced their UI tax rates to historically low levels. Thus, the UI trust funds in several states were low at that time and quickly depleted during the GFC, forcing many states to borrow money from the federal government and raising the likelihood of insolvency.

A simple measure of trust fund solvency is the reserve ratio or how much money is in the trust fund relative to total payrolls. This ratio has trended downward over the past 50 years (Woodbury, 2014). UI experts are virtually unanimous that the weak finances of state UI systems have reduced the programme's effectiveness as a counter-cyclical stabiliser and jeopardised the adequacy of the system as an income-replacement programme (Woodbury, 2011). The most widely recommended way to improve the system's finances is to increase the payroll tax base and index it to the average weekly wage.

The US government in its FY 2016 budget proposed several modifications to the UI system. Some of the prominent changes are: to raise taxes on employers; to increase the taxable wage base; to index it to inflation; and to reform the extended benefits programme to make it more responsive to increases in unemployment in order to provide more support to the long-term unemployed. To encourage states to offer unemployment payments for at least 26 weeks, extended benefit reform authorises federal funds to cover 100% of the cost if they do so. The federal administration wants to make 26 weeks the minimum standard for all states (White House, 2016).

An Upjohn study concluded that "rather than focusing mainly on reduced benefit provisions to address fiscal difficulties, states should adopt balanced packages of revenue and benefit reforms" (O'Leary, 2013). In line with all these proposals, state programmes should be made more uniform by requiring states to set benefits and taxes within a narrower range than is currently allowed. The American Recovery and Readjustment Act (ARRA) only partially succeeded in modernising the UI system by providing money and guidance on what to change. However, there was resistance to the proposed UI modernisation effort: after all, only two-thirds of the USD 7 billion budget envelope was spent. Resistance to modernising UI was concentrated in certain regions of the country (Wandner, 2012). However, the modernisation success stories were eventually getting 41 US states to put in place an alternative base period provision to calculate UI monetary eligibility based on more recent earnings (more recent than in the normal base period); 28 US states to cover

part-time work on equal grounds; and 21 US states to allow UI payment for stopping work for compelling family reasons.

The adequacy of income support for displaced workers is questionable

The adequacy of the income support system in the United States must be looked at from two angles. One aspect is the adequacy of the UI system itself which is in most cases the first and foremost support available for displaced workers. The other aspect is the adequacy of the usually needs-based support available for displaced workers who have used up their UI entitlement.

Short UI payment duration implies many jobseekers exhaust their entitlement

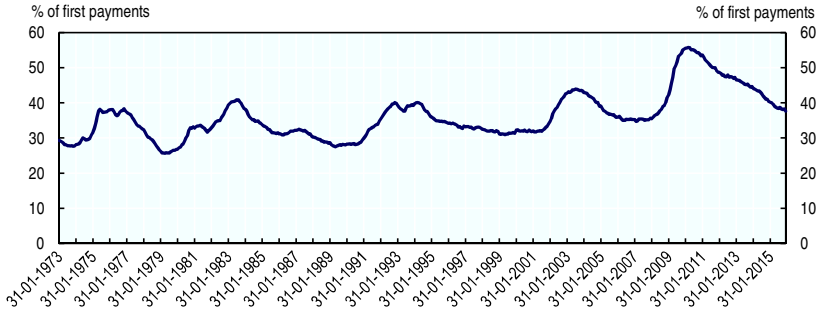
UI benefits in the United States replace on average about 40% of a worker's immediate previous gross wage, with the corresponding net replacement rate being between 45% and 70%, depending on income and family status (basis: *OECD Tax-Benefit Models*, www.oecd.org/els/social/workincentives). Average monetary UI benefit received across the states was USD 318 per week in 2014. In terms of benefit generosity, these net replacement rates place the United States below the OECD median, which is about ten percentage points higher. In addition, the short UI payment duration of 26 weeks, and even less than this in eight of the states, implies that longer-term unemployed people tend to fare poorly in the United States.

Figure 3.6 illustrates that UI benefit exhaustion is very common in the United States and trending upwards recently. It fluctuated around 30-40% for most of the past 40 years, largely in line with the business cycle, with a certain upward trend since the turn of the century and a peak of around 55% of all claimants exhausting UI in the midst of the GFC.

CPS data (which are not fully comparable because they also include extended benefits whereas the data shown in Figure 3.6 only include basic UI benefit) suggest that the exhaustion rate could be somewhat lower than that for displaced workers claiming UI benefit in the first year. Differences in UI benefit exhaustion across groups of displaced workers are relatively small but benefit exhaustion is more common among older workers in the age group 45-64 (Figure 3.7).

Figure 3.6. **UI benefit exhaustion is a very frequent phenomenon in the United States**

Share of recipients of regular UI benefit who exhaust their entitlement, percentages, 1973-2015[a]



Note: UI: Unemployment Insurance.

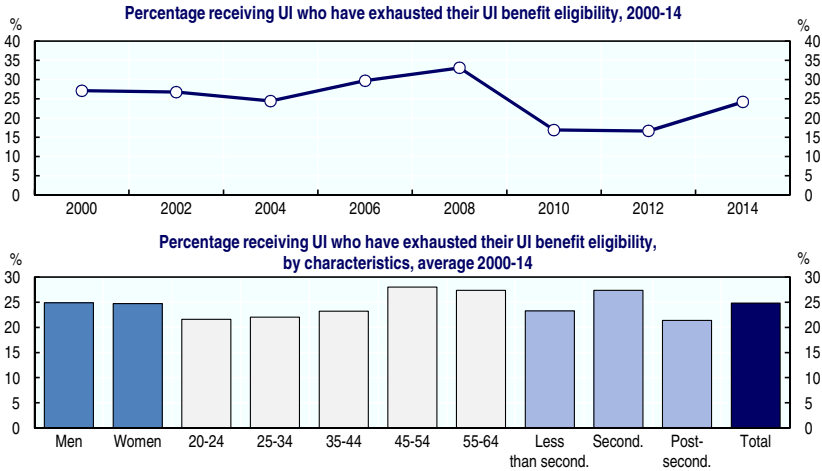
a) Monthly data reported on the last day of each month.

Source: US Department of Labor (DOL), Employment and Training Administration (ETA), http://www.oui.doleta.gov/unemploy/Chartbook/a9.asp.

StatLink http://dx.doi.org/10.1787/888933427142

Figure 3.7. **Around one in four displaced workers in the United States receiving UI uses up their benefit entitlement, while in the midst of the global financial crisis one in three did**

Share of workers receiving UI benefit in the first year after their displacement that have exhausted their UI entitlement, 2000-14, total and selected group averages



Note: Second.: Secondary; UI: Unemployment Insurance.

Source: US Census Bureau for the Bureau of Labor Statistics (BLS), Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement.

StatLink http://dx.doi.org/10.1787/888933427159

UI benefit exhaustees fare worse than other displaced workers

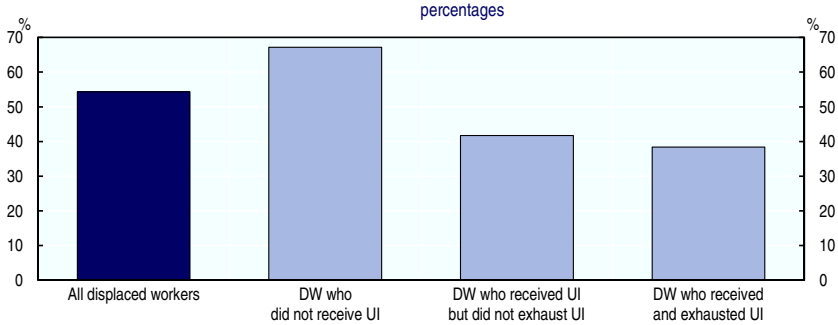
What happens to UI exhaustees after their jobless benefits run out? Do they find another job, and do they find a job as often as other displaced workers, with or without UI? Figure 3.8 sheds some light on these questions.

- In the first year after displacement workers who have received UI have a much lower likelihood to find new employment, irrespective of whether they have exhausted their entitlement (Figure 3.8, Panel A).
- The large majority of those re-employed without having received UI finds a new job within the first three months (Figure 3.8, Panel B). This suggests that displaced workers who receive UI took longer or could be more selective in finding a new job, which is consistent with a Congressional Budget Office review of UI (CBO, 2012).[8]
- Over a longer, four-year perspective the differences in re-employment rates become much smaller; however, UI benefit exhaustees have lower re-employment rates also in the long term (Figure 3.8, Panel C).
- UI exhaustees had not only the lowest re-employment rate but also the longest unemployment duration – 9.2 months on average for workers displaced in 2008 compared with 3.1 months for the non-UI group and 5.9 months for those who never exhausted their UI entitlement (again, Panel C).
- A comparison between workers displaced in 2008 and those displaced four years earlier, i.e. before the GFC, gives an indication of the impact of the extended benefits that were in effect during the recession but not beforehand: after the crisis i) a higher share of displaced workers received UI, ii) the duration of unemployment increased, iii) among those receiving UI a smaller share exhausted their entitlement, and iv) among those exhausting their UI entitlement, the chances to find a new job dropped by around ten percentage points while the rates of exit into employment changed little for those not exhausting UI (again, Figure 3.8, Panel C).

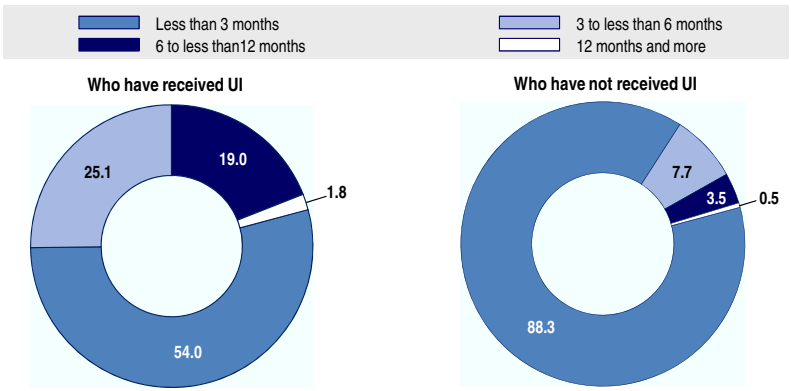
Survey of Income and Programme Participation (SIPP) data also show that there are more displaced worker *spells* than displaced *workers*, meaning that several workers had multiple jobless spells. From a policy perspective this is important to note as it underlines the dynamism of the labour market and may impact UI eligibility. Typically workers must be in a job for a full year to qualify for UI.[9] Thus, workers who lost re-employed jobs may not be eligible for UI again, if the job lasted less than one year. However, displaced workers not receiving UI had only slightly more jobless spells then displaced workers receiving UI.

Figure 3.8. **Displaced workers in the United States who exhaust their UI entitlement have the poorest employment outcomes**

A. Likelihood for a displaced worker to be re-employed within one year, average 2000-14, percentages



B. Distribution of displaced workers re-employed within one year, by the duration until starting a new job, percentages



C. Joblessness and UI payment experience of workers over a four-year period

Year of displacement	Unemployment experience	Total	Without UI benefit	Received UI benefit	
				Never exhausted	Exhausted
2008 Panel	Number of individuals (levels)	13 337 673	7 697 313	3 512 432	2 127 928
	Duration of unemployment (months)	5.5	3.1	5.9	9.2
	Exit to employment (%)	*64.5*	*65.2*	*69.6*	*53.6*
2004 Panel	Number of individuals (levels)	10 489 161	8 116 497	1 000 733	1 371 931
	Duration of unemployment (months)	3.4	2.9	3.1	5.5
	Exit to employment (%)	*68.6*	*68.0*	*68.5*	*63.9*

Note: DW: Displaced workers; UI: Unemployment Insurance.

Source: US Bureau of Labor Statistics, Current Population Survey (CPS), Displaced Worker, Employee Tenure, and Occupational Mobility Supplement for Panels A and B; and US Bureau of Labor Statistics, Survey of Income and Program Participation (SIPP), 2008 Panel (2008-13) and 2004 Panel (2004-07), for Panel C.

StatLink http://dx.doi.org/10.1787/888933427163

UI benefits offer only very marginal poverty protection

The biggest question for the benefit system is the extent to which it succeeds in providing adequate levels of income to various groups of jobseekers and especially those who have exhausted their UI entitlement. Can they access other public sources of income while continuing their job search? Do they, eventually, just drop out of the labour force under some other social assistance programme? And how many displaced unemployed workers because of lack of UI and lengthy jobless spells end in or touch poverty?

Table 3.2 illustrates average monthly income for displaced workers before and after job loss. Overall, for those finding a job income fell by 8% but there was a much bigger drop for non-UI recipients (21%) and UI exhaustees (55%). Both of these groups also had significantly lower income already before their displacement. Displaced workers who received but never exhausted UI have the highest pre-displacement income and see their income even increasing after finding a new job; it is likely that many of them found jobs while still receiving UI. This is pointing to the importance of promoting smooth, seamless job-to-job transitions. Failure to do so drags down the income of those workers and families. A consistent story for displaced workers is that waiting to find a job until after UI is exhausted results in settling for a lower income. SIPP data show that the re-employment rate of UI exhaustees, at 54%, was lower than for displaced workers generally, as shown earlier, and that dropping out of the labour force, at 25%, was more common.

Table 3.2. **UI recipients in the United States who find a job quickly face the least income losses**

Average income of workers displaced in 2008 *before* and *after* job loss, by receipt of UI (income in USD per month)

Unemployment and income	Total	Without UI benefit	Received UI benefit	
			Never exhausted	Exhausted
Income (monthly average)	1 980	1 774	2 242	1 793
UI only (monthly average)	853	–	837	674
Monthly (at least two months)				
Before job loss	2 100	1 557	2 752	2 322
After finding a job	1 933	1 226	2 847	1 042

Note: USD: US dollars. –: Not applicable

Source: US Census Bureau for the Bureau of Labor Statistics (BLS), Survey of Income and Program Participation (SIPP), 2008 Panel (2008-13).

StatLink http://dx.doi.org/10.1787/888933427241

Perhaps the most intriguing income statistic is the large number of displaced workers in families falling at or below the poverty threshold during some month between 2008 and 2013 – 8.8 million displaced workers or 66% of the total group (Table 3.3). UI benefits offer only marginal poverty protection as 65% of all displaced workers receiving UI touched poverty: 61% of those not exhausting UI, rising to 72% of displaced workers who exhausted UI during the study period. In the pre-recession period, i.e. 2004-07, 6.6 million displaced workers or 63% of the group were in families whose income fell below the poverty level. Although UI also offered only marginal poverty protection before the GFC, in particular among those who exhausted UI the share touching poverty was much lower than four years later.

Table 3.3. **In the United States, two in three families with a displaced worker fall into poverty for some time irrespective of whether or not they are eligible for UI**

Displaced workers experiencing poverty during their jobless spell, workers displaced in 2008 compared with workers displaced in 2004

Year of displacement	Unemployment and poverty	Total	Without UI benefit	Received UI benefit	
				Never exhausted	Exhausted
2008 Panel	Number of individuals	13 337 673	7 697 313	3 512 432	2 127 928
	Number in poverty	8 784 333	5 125 293	2 133 680	1 525 360
	Share in poverty (%)	*65.9*	*66.6*	*60.7*	*71.7*
2004 Panel	Number of individuals	10 489 161	8 116 497	1 000 733	1 371 931
	Number in poverty	6 570 254	5 076 195	550 788	677 043
	Share in poverty (%)	*62.6*	*62.5*	*55.0*	*49.3*

Note: The poverty count includes all displaced workers with a family income that placed them below their poverty threshold *for at least one month* during the duration of the panel. Poverty is defined as family income below the official US threshold, which is based on assumed needs of households and differs according to age of household heads and number of children under age 18 in the family. For example, threshold family income could range from USD 9 944 for single household heads 65 years and over to USD 25 080 for household heads under 65 years for a family of five.

Source: US Census Bureau for the Bureau of Labor Statistics (BLS), Survey of Income and Program Participation (SIPP), 2008 Panel (2008-13), and 2004 Panel (2004-07).

StatLink http://dx.doi.org/10.1787/888933427257

A clear policy concern is how the large share of displaced workers in families that experienced poverty subsisted during their long jobless spells. SIPP data indicate a consistent pattern of households increasingly using unsecured credit as they transition into unemployment (Collins et al., 2015).[10] Other studies found borrowing during unemployment used as a safety net (Sullivan, 2008). Debt as a source of income can play an important labour

market behavioural role for displaced workers; higher debt among displaced workers appears to drive them back into work (Bednarzik et al., 2015).

Household income suffers severely when one member becomes displaced

Table 3.4 shows that the drop in income among displaced worker households is more than 25% from the income level before the job loss to the level during the jobless spell. It could have been worse, as data suggest that on average *other household members' earnings* increased after a household member was displaced. Such earnings were the largest component of household income during the jobless spell. Therefore, living in a two-earner household is itself a good safety net. The table also illustrates an array of income sources utilised by displaced workers.

Table 3.4. **Household incomes of displaced workers in the United States are composed of many different sources especially including other household members' earnings**

Level and composition of household income *before* and *after* displacement, 2008 SIPP Panel

Income by source	Number of observations (Units)	Pre-5 months and longer[a]	Pre-4 months and shorter[b]	During joblessness	Post-displacement[c]
		(USD)			
Household average monthly	**13 337 673**	**5 159**	**4 986**	**3 554**	**4 412**
Of which:					
Own earnings	13 337 673	1 491	2 035	–	1 077
Other household members' earnings	10 837 686	2 875	2 064	2 674	1 709
Unemployment Insurance	5 640 360	–	–	853	–
Social benefits[d]	1 239 279	144	109	165	183
SNAP benefits[e]	3 791 072	316	102	285	318
Means-tested social assistance[f]	6 158 628	187	307	851	424
Property income	7 814 790	37	23	26	20

Note: USD: US dollars. –: Not applicable.

a) Average over the months prior to the 4th month in which job displacement occurred.

b) Average over the 2-4 months prior to the month in which job displacement occurred.

c) Average over the period beginning the month after job displacement and ending six months later or in the last month of the jobless spell, whichever comes first.

d) *Social benefits* include Social Security, veterans' benefits, workers' compensation and *other* social assistance.

e) SNAP is the *Supplemental Nutrition Assistance Program*, formerly known as food stamps.

f) *Means-tested social assistance* includes personal means-tested cash transfer income like *Temporary Assistance for Needy Families* (TANF) and *Supplemental Social Income* (SSI).

Source: US Census Bureau for the Bureau of Labor Statistics (BLS), Survey of Income and Program Participation (SIPP), 2008 Panel (2008-13).

StatLink http://dx.doi.org/10.1787/888933427262

Box 3.4 provides a brief description of the major public assistance programmes available in the United States. Since it is possible that some displaced workers retired, qualified for disability, had an injury when they were employed, and were veterans, they could be participating in one or more of these programmes. An important scheme for UI exhaustees in particular is the *Supplemental Nutrition Assistance Program* (SNAP), with eligibility mainly determined by household income. Along with UI, SNAP forms two strands of the United States recessionary safety net for which participation is responsive to the business cycle.

Box 3.4. **Public income-related programmes available to eligible displaced workers**

Programme	Brief description
Supplemental Nutrition Assistance Program (SNAP) (formerly food stamps)	Benefits come to households via electronic debit cards, known as Electronic Benefit Transfer (EBT) cards which can be used in more than 246 000 approved retail stores nationwide to purchase food. Eligibility is based on income, size of household and dependent expenses.
Temporary Assistance for Needy Families (TANF)	Cash, child care, education and job training and transportation assistance to low-income families. Each state under federal guidelines set their own income and other eligibility criteria.
Supplemental Security Income (SSI)	Federal income supplement programme funded by general tax revenues (not Social Security taxes): designed to help aged, blind, and disabled people, who have little or no income; provides cash to meet basic needs for food, clothing, and shelter.
Social Security retirement income	Funded by Social Security taxes on wages; eligibility at age 62 for partial benefits and age 66-67 (depending on birth year) for full benefits; amount received depends on earnings history.
Social Security Disability Income (SSDI) and Supplemental Security Income (SSI) disability programs	Both provide assistance to people with disabilities. SSDI pays benefits to those (including certain members) who are *insured*, meaning having worked long enough and paid Social Security taxes. SSI pays benefits based on financial need.
Workers' compensation	Provides wage replacement and medical benefits to employees injured in the course of employment in exchange for mandatory relinquishment of the employee's right to sue his/her employer for the tort of negligence.
Veterans benefits	Could include a pension, disability payment, housing allowance if in school.

Source: Author's compilation.

Among displaced worker households, 28.4% received SNAP at some point in the recessionary period 2008-13, accounting for 8% of monthly income while jobless (Table 3.4). Among displaced workers who exhausted UI, 33.7% received SNAP benefits in the study period, accounting for 9.4% of their monthly income (Table 3.5). A US Department of Agriculture study in 2013 of SNAP, which they administer, found an estimated 13.4% of UI households also received SNAP in 2009 (recessionary year), an increase of 2.3 percentage points from 2005

(non-recession year) (Finifter and Prell, 2013). The fact that over 10% of households receiving UI in a non-recessionary year qualified for SNAP illustrates the inadequacy of UI benefits in meeting one of its key tenets of relieving the distress of joblessness. However, the programmes work in tandem because SNAP rules require the local SNAP office to decrease the amount of SNAP benefits it issues to the SNAP household based on the level of UI benefits received in the same month.

Table 3.5. **Displaced workers who exhausted UI entitlements are strongly relying on means-tested social benefits**

Level and composition of household income *before* and *after* displacement, UI exhaustees only, 2008 SIPP Panel

Income by source	Number of observations (weighted) (Units)	Pre-displacement[a]	During joblessness	Post-displacement[b]
		(USD)		
Household (monthly)	**2 127 928**	**4 588**	**3 405**	**4 365**
Of which:				
Own earnings	2 127 928	1 053	–	674
Other household member's earnings	1 608 665	2 832	2 896	2 873
Unemployment Insurance (UI)	2 127 928	–	771	–
Social benefits[c]	236 731	121	146	191
SNAP benefits[d]	716 388	323	321	294
Means-tested social assistance[e]	2 127 928	227	728	426
Property income	1 334 746	27	20	30

Note: USD: US dollars. –: Not applicable.

a) Average values over the months prior to the last month in which UI income was received.

b) Average values over the period beginning the month after the last month of UI receipt and ending six months later or in the last month of the displacement spell, whichever comes first.

c) *Social benefits* include Social Security, veterans' benefits, workers' compensation and *other* social assistance.

d) SNAP is the *Supplemental Nutrition Assistance Program*, formerly known as food stamps.

e) *Means-tested social assistance* includes personal means-tested cash transfer income like *Temporary Assistance and Needy Families* (TANF) and *Supplemental Social Income* (SSI), and personal other income.

Source: US Census Bureau for the Bureau of Labor Statistics (BLS), Survey of Income and Program Participation (SIPP), 2008 Panel (2008-13).

StatLink http://dx.doi.org/10.1787/888933427273

SNAP provides benefits in kind while all of the other programmes considered here provide money. More than 45% of displaced workers received income from means-tested programmes in the main study period,

accounting for about 24% of monthly income during the jobless spell (Table 3.4). Remarkably, virtually all displaced workers who have exhausted UI report having income from means-tested social insurance programmes which accounted for more than 20% of their monthly household income during the jobless spell (Table 3.5). Taken together, means-tested income sources and social insurance constituted more than 30% of household income for UI exhaustees while unemployed. The large number of displaced workers qualifying for low-income programmes and the large share of their income that it accounts for underlines that UI alone is insufficient, especially in a deep recession.

Means-tested benefits are very low in the United States by international standards

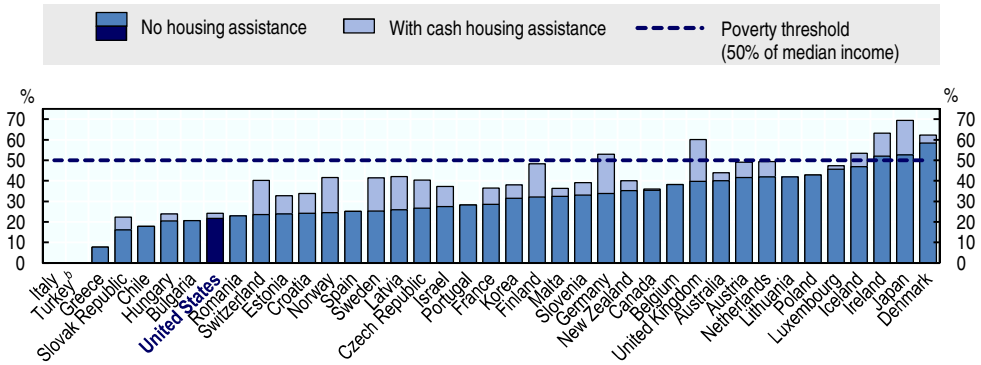
These findings are strongly confirmed by international, comparative analysis of cash minimum-income benefits available to displaced (and other) jobseekers if they have exhausted their UI entitlements. In the United States, even a married couple with two children would only be entitled to supports worth around 20% of the median equivalised household income which is way below the 50% poverty threshold and much lower than in most OECD countries (Figure 3.9). For other family types, such as lone parents or a single person, the situation is even worse.

Profiling to prevent benefit exhaustion and labour market exclusion

There are two perfectly compatible ways to address the problem arising from minimum-income benefits that are too low to provide people with sufficient means to make ends meet and to prevent poverty. One is to raise payment levels under certain conditions; a policy which apart from not being on the agenda in the United States would have to be coupled with stronger and stricter job-search monitoring and conditionality; this topic is discussed in the last section of this chapter. The other option is to prevent people to the extent possible from falling into such a situation by helping them earlier after their job loss.

Figure 3.9. **Last resort payments are very low in the United States for all types of households**

Net income levels provided by cash minimum-income benefits, percentage of median household income, 2013[a]



Note: Countries are ranked in ascending order of the category *No housing assistance*.

a) Results are shown on an equivalised basis (equivalence scale is the square root of the household size) and account for all relevant cash benefits (social assistance, family benefits, housing-related cash support as indicated). US results include the monetary value of Food Stamps. Income levels account for all cash benefit entitlements of a family with a working-age head, no other income sources and no entitlements to primary benefits such as unemployment insurance. They are net of any income taxes and social contributions. Where benefit rules are not determined on a national level but vary by region or municipality, results refer to a typical case (e.g. Michigan in the United States, the capital in some other countries). Calculations for families with children assume two children aged 4 and 6 and neither childcare benefits nor childcare costs are considered. The *cash housing assistance* indicates the range of benefit levels in countries where they depend on actual housing expenditure. The bottom end shows the situation where no housing costs are claimed while the top end represents cash benefits for someone in privately-rented accommodation with rent plus other charges amounting to 20% of average gross full-time wages.

b) Calculations are based on average production worker (APW).

Source: Results derived from *OECD Tax-Benefit Models*, www.oecd.org/els/social/workincentives; see for this as well as other household types, *OECD Benefits and Wages: Statistics* (database) www.oecd.org/els/benefits-and-wages-statistics.htm.

StatLink http://dx.doi.org/10.1787/888933427175

Profiling, a more recent innovation in the United States, has shown to be an effective way to reduce the length of jobless spells. Profiling was developed to connect jobseekers that are likely to struggle with re-employment to the full range of services available. Since studies showed that displaced workers with long tenure had an especially difficult time finding a new job, targeting them for immediate employment services using

the UI system seemed desirable (Wandner, 2010). In 1993, the *Worker Profiling and Reemployment Services* programme was introduced. Using primarily demographic and job tenure information about UI claimants, the likelihood of their exhausting UI benefits is determined. The aim being to refer those displaced workers quickly to low-intensity re-employment services (low intensity in terms of both cost and time), especially job-search training and assistance, who were most likely to exhaust their UI entitlements. This approach turned out to be effective for lowering the duration of unemployment. However, although increasing over the period 1995-2011, among the roughly 40% of UI claimants who were profiled in this period, only few were also referred to employment services (Table 3.6). Recognising that many of the new claimants not profiled are people with a definite return-to-work date, overall actual referrals have averaged approximately 20% of all first payments.

Table 3.6. **Only one in four profiled UI claimants in the United States is actually referred to employment services**

Share of UI claimants profiled and referred to employment services, 1995-2011

Year	Percentage of UI claimants profiled	Percentage profiled placed in pool	Percentage placed in pool referred to services	Percentage of UI claimants referred to services under profiling
1995-99	37.3	32.8	34.5	4.2
2000-04	41.4	42.3	33.7	5.9
2005-09	39.5	48.0	36.0	6.8
2010-11	39.7	48.0	46.4	8.8

Source: US Department of Labor (DOL), Employment and Training Administration (ETA), *Public Workforce System Dataset* (PWSD), www.doleta.gov/reports/pwsd/.

StatLink http://dx.doi.org/10.1787/888933427281

Aiming to expand a successful programme, in 2005 the US Department of Labor (DOL) launched the *Reemployment Eligibility Assessment* (REA) programme. Specifically, REA provided states with more flexibility in targeting UI claimants for participation. Profiling is done at the state level with each state using its own model. Each potential UI exhaustee should develop a re-employment plan with the help of the employment service. However, initial funding at about USD 60 million each year was only enough to reach a small segment of the UI claimants who could potentially profit from the strengthened approach. Although REA does not distinguish or target displaced workers, there is a strong likelihood of overlap of UI exhaustees and the displaced worker population.

The REA programme was effective in shortening the average duration of unemployment, as shown by a number of experimental-design based evaluations in several US states (DOL, 2011).[11] Since recently, the new *Reemployment Services and Eligibility Assessments* (RESEA) programme combines the best of its two predecessor schemes and provides new funding for additional employment services; DOL budget is going up from USD 80 million in 2015 to over USD 100 million in 2016 for states to link the unemployed at greatest risk of long-term unemployment with local one-stops providing services by bringing UI recipients into them. RESEA offers the same services as its predecessor and targets the same pool of claimants, using the same method of identifying claimants at risk, but RESEA claimants are now required to receive re-employment services such as comprehensive guidance and assistance.

The expansion of REA into RESEA is a step in the right direction. In view of the promising results of predecessor schemes, RESEA funding to profile displaced workers early on should be increased further over time while building up the corresponding service capacity to assure that those who would benefit from immediate low-threshold job-search assistance can get it quickly, to prevent longer-term unemployment, UI benefit exhaustion and inactivity.

Matching adequate benefits with a tighter conditionality regime

Making social benefit payments more adequate without jeopardising work incentives and without inflating public spending is a big challenge for a country. Several European countries are finding that stricter enforcement of job-search requirements in order to receive unemployment benefits allows them to have more generous benefit payments than those provided in the United States. A review of the evidence of *activation* policies (a term used to describe requiring stricter job-search and conditionality rules in order to receive unemployment benefits) in seven OECD countries highlighted examples of success in terms of activating UI benefit recipients in Australia, Japan, Norway, Switzerland and the United Kingdom (Martin, 2014). Choices countries made about the design and implementation of their activation programmes were strongly determined by the different starting positions, institutions and culture. An overall conclusion is that countries with relatively generous benefit systems have been able to implement relatively successful activation rules by enforcing stricter benefit conditionality.

An OECD study comparing the strictness of unemployment benefit eligibility criteria across 40 countries, finds the United States in the lowest quarter of all countries (Figure 3.10), implying that it has one of the weakest or

least strict benefit systems (Langenbucher, 2015). Notably, the United States is among the least strict countries in regard to various important sub-dimensions of the synthetic indicator developed for this purpose. *First*, criteria for what is seen as suitable work for UI recipients including occupational and geographic mobility expected from a jobseeker are among the most lenient of all those countries. *Second*, job-search documentation requirements and monitoring of those requirements are less strict than in two-thirds of the countries. And *third*, in terms of strictness of sanctions for UI recipients in case of non-compliance with prescribed participation requirements the country finds itself in the lowest third of all countries. This finding implies there is considerable room for the United States to develop and tighten both benefit conditionality and job-search monitoring.

Active job search has always been a requirement in the United States in order to receive UI benefits. Although the rules for being able to, available for and actively seeking work vary across states, registering for UI and employment services meets the able and available criterion in most states. Meeting the active job-search requirement, however, varies widely across the states and is unevenly enforced or monitored. In most states, the required minimum number of work-search contacts is typically between one and five per week. In Pennsylvania, for example, beginning with the third week of an UI claim a claimant must apply for two jobs and participate in one work-search activity each week.[12]

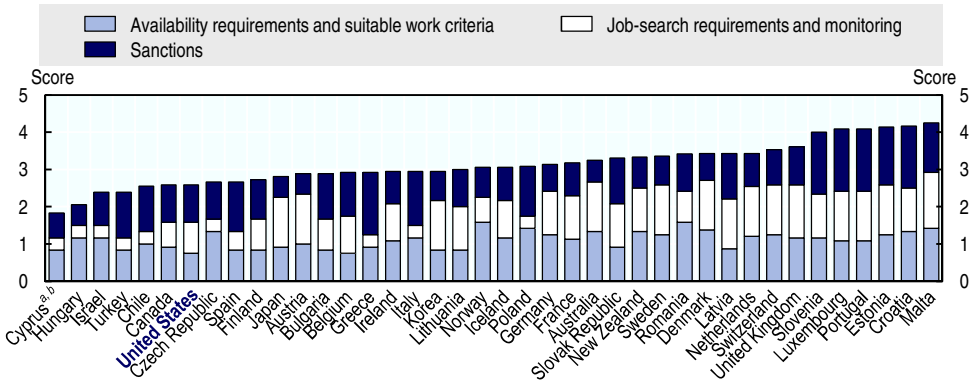
A weakness in the system in the United States is the rather lenient monitoring of those job-search requirements, largely because of lacking funding. Most states require individuals to keep records of their job-search activity and be able to provide evidence of their activities if their claim was randomly selected for audit. However, most states will only audit about 200-400 cases each year. Only few states require regular contact with the unemployment office and with the move in most states towards a full digitisation of the UI claim and grant process and the closing of local UI benefit offices, possibilities for such personal contact are declining. In recognition, the Emergency Unemployment Compensation programme (EUC08) tries to strengthen the job-search requirement to receive UI by requiring *systematic and sustained* work search. Furthermore, the worker may not receive benefits if he or she refused an offer of *suitable* work, which is defined as *any work within such individual's capabilities*. In a later extension of EUC08, there was also a requirement that every EUC claimant receive RESEA services. Moreover, a federal-state work group is developing a new framework for states to follow of what constitutes job search and what type of job search most likely leads to a job offer.

However, all these efforts may not go far enough. In particular, there is still a significant gap in the United States between employment services

offered by the local one-stop and the administration of UI. Making the latter an integral part of the daily operations of the one-stops, as is the case in most European systems where public employment services are responsible for the delivery and control of both UI and all employment programmes, would be the best way to tighten job-search monitoring. The United States is gradually moving in this direction, not only through the RESEA programme but also because the *Workforce Investment and Opportunity Act* (WIOA) has strengthened the partnership between the one-stops and UI whereby all employment offices are now required to have UI expertise on staff.

Figure 3.10. **The United States belongs to a group of countries with a more leniently administered unemployment benefit scheme**

Overall strictness of unemployment benefit eligibility criteria, synthetic indicator consisting of 11 items on job-search requirements, suitable-work criteria and sanctions, overall weighted score for 40 countries, 2014



Note: Countries are ranked in ascending order of the synthetic indicator which is scored from 1 (least strict) to 5 (most strict).

a) *Note by Turkey:* The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

b) *Note by all the European Union Member States of the OECD and the European Union:* The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Langenbucher, K. (2015), "How demanding are eligibility criteria for unemployment benefits? Quantitative indicators for OECD and EU countries", *OECD, Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris, Figure 5, http://dx.doi.org/10.1787/5jrxtk1zw8f2-en.

StatLink http://dx.doi.org/10.1787/888933427188

Elements accounting for the success of the United Kingdom activation programme, among the strictest in OECD countries, include the requirement of the unemployed jobseeker to sign what can be called an *employment contract* laying out in quite detailed fashion the responsibilities of the jobseeker in order to maintain unemployment benefit entitlements. Some US states indeed follow this process for displaced workers by requiring a signed contract in order to receive employment services but no such requirement in order to receive UI. The European experience shows that instituting a stronger job-search requirement in order to receive UI or social assistance benefits can shorten the duration of joblessness and lower outlays.

In this context it is interesting that thirty years ago, in a demonstration project in the city of Tacoma, Washington, DOL tested the effects of the work test by randomly assigning new UI claimants between July 1986 and August 1987 to one of three groups: 1) standard work test; 2) modified work test; and 3) no work test at all. As was expected, the strictest work test led to a shorter time to re-employment for permanent job losers. The United States would be well served to have states strengthen the enforcement of their current work test in order to receive UI as well as tightening the job-search requirements. Higher monitoring costs would be offset to some extent by shorter UI jobless spells.

Conclusions

Only about half of the displaced workers in the United States receive UI benefits after they have lost their job, and nearly 30% of them exhaust their benefits. Many displaced workers rely on means-tested income payments sooner or later, especially food stamps, or SNAP, to cope during their jobless spell. The lengthy jobless spell and never receiving, or running out of, UI benefits lead many displaced workers and their families into poverty. Two in three displaced workers in the United States touch poverty at some point in their jobless interlude, irrespective of whether or not they have received UI benefit. This is a rather bleak overall outcome.

The very flexible labour market in the United States assures that roughly 60% of all displaced workers find a new job within a year, a figure which has fallen to much less than this in the midst of the recent downturn. This implies that at least 40% struggle longer to find a new job. The re-employment rate is significantly higher in several other OECD countries, including the Nordic countries as well as Australia and New Zealand. And benefits paid to those displaced workers who have not found a new job are much higher in most other countries, especially for those struggling much longer and relying on minimum-income benefits.

The current system in the United States has a strong focus on helping trade-displaced workers but they are a small number in the total of the group of concern. A range of steps could be taken to improve the situation of displaced workers not covered by trade regulations, thereby stopping the lingering erosion of the UI scheme, strengthening and tightening the benefit scheme and improving the situation of those who rely on benefits for a considerable period.

The low and declining UI coverage and the weak financial structure of the state UI funds suggests that it would be timely for the US government to convene an independent Commission to assess the UI system and the extent to which it fulfils its intentions. Many of its features work only partially. An overhaul of the UI system could:

- Impose stronger minimum criteria for the states on payment level and duration to assure that benefit payment duration cannot fall below the recommended period of 26 weeks.
- Modify eligibility criteria to assure all workers with a continuous attachment to the labour force, especially including part-time workers, are fully eligible for UI benefits.
- Restore the effectiveness of experience rating by removing the maximum tax cap to avoid the current reallocation of resources from low- to high-unemployment firms or industries.
- Strengthen UI trust-fund reserves by raising the tax base and indexing it to wages.
- Amend the extended-benefits programme to make it more responsive to increases in unemployment by the use of transparent criteria instead of discretionary change.

The meagre adequacy of the benefit system and the large share of displaced workers whose income falls below the poverty line should be another big concern. Policy makers in the United States should seriously consider raising the level of some of its social payments, especially means-tested minimum-income assistance.

However, any such change must go hand-in-hand with the introduction and enforcement of much stronger and stricter conditionality for recipients of all types of benefits, not only UI benefit. Job-search criteria should be considerable and tightly enforced; the definition of suitable work should be very broad except during a short initial phase; regular contact with the jobseeker or benefit recipient should be increased; and sanctions should be clearly defined, rigorously and consistently applied and strengthened with each violation of a requirement or refusal of a suitable job offer.

Moreover, the separation of the administration of UI and of employment services should be ended by bringing all tasks together in the local one-stops. An expanded job-search and conditionality regime will allow making the benefit system somewhat more generous without jeopardising work incentives and inflating social spending.

Finally, the best approach is to help people who need help quickly to avoid long periods of benefit dependence and the exhaustion of UI benefit. Efforts currently made in the context of the introduction of RESEA, which replaces earlier profiling schemes, are commendable. RESEA funding should be expanded further to increase the capacity of the system to identify displaced workers at risk and in need of support earlier and the capacity to support these people quickly with a range of low-threshold services. The capacity of employment services in the United States more generally is discussed in greater detail in the next chapter.

Notes

1. The UI scheme emerged from the country's experience during the Great Depression in the 1920s when people believed that involuntarily unemployed workers had earned the right to a temporary and partial wage replacement. A wage replacement programme would not only prevent the need for welfare relief but would also maintain workers' purchasing power and thus stabilise and stimulate the economy during recessions. Sections of the Social Security Act of 1935 created such a program, and the Federal Unemployment Tax Act of 1939 established the framework for a joint state and federal scheme of unemployment insurance as set out in the 1935 act.

2. This includes the 50 US states plus the District of Columbia, the US Virgin Islands and Puerto Rico.

3. Employers can deduct up to 90% of the amount of the Federal Unemployment Tax Act (FUTA) 6.0% tax rate due, if they establish and support a system of unemployment insurance which meets federal standards. The net FUTA tax rate is generally 0.6% (6.0% minus 5.4%), for a maximum FUTA tax of USD 42 per employee per year (0.006 x USD 7 000 = USD 42). Federal law fixes the minimum base at USD 7 000 but many states have a higher base. State law determines state unemployment insurance tax rates.

4. Non-covered employment is when an employer pays wages but does not have to pay unemployment insurance tax on those wages; e.g. earnings of independent contractors.

5. Half the US states have a maximum rate at 5.4%, while it is higher that this in the other half.

6. Experience rating is quite common in workers compensation schemes but not in unemployment schemes. There are also a few OECD countries which use experience rating in their public disability scheme (Finland, Netherlands) or in their private sickness (Switzerland) or disability (Canada) schemes.

7. Each extension requires new legislation. The last extension of EUC08, under the American Taxpayer Relief Act of 2012, authorised EUC08 benefits until the week ending on or before 1 January 2014; see Isaacs and Whittaker (2014).

8. "Because the financial penalties that the UI system imposes on recipients who do not actively search for work are inconsistently applied," there is less incentive for them to return to work concluded the report (Unemployment Insurance in the Wake of the Recent Recession).

9. Almost all states use the first four of the last five completed quarters preceding the filing of the claim.

10. The definition of displacement from SIPP data is similar to that used in the displaced workers supplement to the Current Population Survey. All unemployed are also asked for the main reason for their unemployment. Four of the answer categories taken together (discharged/fired; employer bankrupt; employer sold business; and slack work or business conditions) can be considered as reasons that imply that a worker has been displaced.

11. In Florida, REA claimants received 1.74 fewer weeks of UI and EUC benefits; in Idaho, 1.14 fewer weeks; and in Nevada, 2.96 fewer weeks of benefits. Only the evaluation in Illinois found no conclusive evidence on the duration of benefits from this state's REA programme, possibly because of a too small sample in this study.

12. A work-search activity can be one of the following seven items: 1) attend a job fair; 2) search positions posted on the JobGateway® system or Internet job banks; 3) create or post a résumé; 4) contact colleagues, former co-workers or other individuals in similar professions or occupations; 5) utilise an employment agency, employment registry or school placement service; 6) take a civil service test or other pre-employment test; or 7) participate in an activity offered through PA CareerLink® (which is the Pennsylvanian job centre).

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Chapter 4

Programmes promoting the re-employment of displaced workers in the United States

This chapter provides an assessment of the employment and training programmes available in the United States to help displaced workers back to employment. The US policy approach is unique in singling out displaced workers for help. Targeting services can be very effective but there is too little money in the system to help everyone who needs help and training supply in particular falls short of demand. The chapter also discusses the distinction made in the US system between trade related displacement and other job displacement, with the former group being entitled to a much larger array of services and benefits than other displaced or unemployed workers.

This chapter provides an assessment of the main employment and training programmes available in the United States to help workers who are displaced and possibly long-term unemployed getting back to work. The chapter concentrates on programmes targeted on displaced workers, as the United States policy approach is unique among OECD countries in singling out this group for help. Targeting services has pros and cons. It can help ensure limited funds are directed to where the problem is but it can also mean to exclude people who might also be in need of help. Moreover, identifying and defining the group for help is not straightforward and requires a government infrastructure to determine who is eligible.

In broad terms, the US policy response to the recent recession was somewhat unbalanced, as unemployment insurance was continuously extended thereby providing additional income support, mostly from temporary recessionary programmes. Increased access to re-employment services and training for jobseekers with prior work experience, on the other hand, was much more limited. One-stop centres providing such services are confronted with staff shortages and long lines for their services. Recent reforms of displaced worker policies have not rectified this problem of resources. In addition the US system continues to face particular challenges because of a big divide in terms of policy between two groups of displaced workers: trade-related displacements and all other displacements.

Displaced workers are a target of the US workforce development system

Contrary to most OECD countries, displaced (or dislocated) workers have been a target of employment and training policies and programmes in the United States ever since the Great Depression in the 1920s and more formally since 1962. Policy has seen continuous development with bigger reforms every other 10-15 years or so. The recent passage of the *Workforce Innovation and Opportunity Act* (WIOA) in July 2014, taking effect a year later, marked the latest major legislative change, building on the *Workforce Investment Act* (WIA) that had been in place for over 15 years.

The United States has an infrastructure in place to determine who is a displaced worker and entitled to support by one of the two main support programmes: *Trade Adjustment Assistance* (TAA) for trade-related displacements, discussed in detail further below, and the general *Dislocated Worker* programmes for all other displacements. TAA eligibility is determined at the federal level through a certification process that seeks to ascertain if the job loss of a worker group was related to international trade, while the decision whether an individual unemployed worker has been *dislocated* from his or her job is made at the local level.

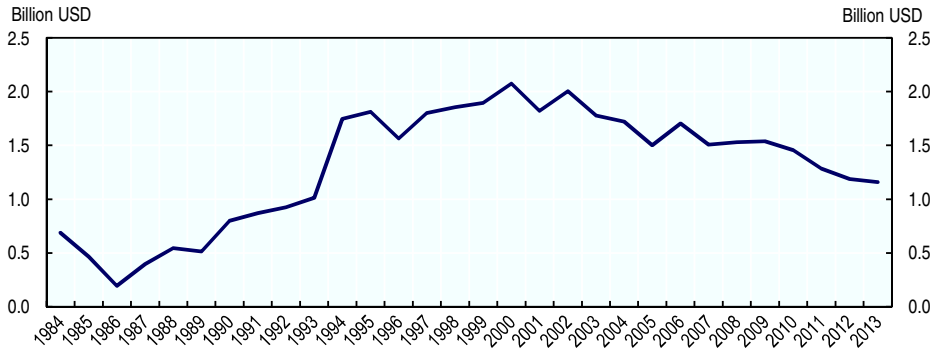
Targeting programmes by reason for unemployment is not the only unique feature of the US policy approach. The relationship between the federal government and state and local governments in funding and administering employment services and training has a long evolving history. It is paramount to understand the federal-state-local process and the institutions involved and how the approach has evolved over time in order to be able to understand and assess Dislocated Worker programmes and policies and their effectiveness.

In a nutshell, the US workforce development system is a co-operative structure. Employment services are available universally under federal law and funded from federal budgets; services are provided through local one-stop centres; state laws determine eligibility for regular unemployment benefits; and local workforce development boards determine eligibility of jobseekers for dislocated worker status, based upon federal requirements.

Total funding to support jobseekers through active labour market programmes including employment services and training is very low in the United States compared to most other OECD countries (see Figure 4.2 further below). Within the overall budget, however, displaced workers do relatively well due to a dedicated funding stream. Over the past 25 years, funding for the Dislocated Worker programme has been slowly declining, however, after climbing in the 1990s and peaking at the outset of the 21st century (Figure 4.1).

Figure 4.1. **Funding for the Dislocated Worker programme in the United States is much lower today than it was 15 years ago**

Total funding, 1984-2013, billions of US dollars (USD)



Note: Data were adjusted for inflation with 2011 as base year.

Source: DOL – US Department of Labor (2016), "FY 2015 – Department of Labor: Budget in brief", www.dol.gov/dol/budget/2015/pdf/fy2015bib.pdf.

StatLink http://dx.doi.org/10.1787/888933427190

Towards better governance and better service integration

WIOA, the new public workforce development system, continued the three-pronged funding stream of the previous WIA system. Available funds in FY 2016 amounted to USD 1.3 billion for *dislocated workers*, USD 873 million for *youth* and USD 816 million for *disadvantaged adult workers*. Priority for the adult programme is to be given to public assistance recipients, other low-income individuals and individuals lacking basic skills. For the first time, funds can be transferred between the disadvantaged adult and dislocated worker programmes at the discretion of state authorities, if the need is there. This will be especially helpful in a recessionary period when the number of displaced workers can increase faster than the funds to handle them. The highlights of WIOA are presented in Box 4.1.

Box 4.1. **Highlights of *Workforce Innovation and Opportunity Act* (WIOA)**

- Primary federal workforce development programme effective since July 2015; it succeeded the *Workforce Investment Act* (WIA) of 1998.
- Title I, Workforce Development Activities authorises job training and related services to dislocated workers, disadvantaged adult workers and youth at USD 2.6 billion in FY 2015.
- Title III amends the Wagner-Peyser Act to integrate Employment Service (ES) offices into the one-stop system and enhance workforce and labour market information systems, including by a new Workforce Information Advisory Council.
- Emphasises an integrated, job-driven system that provides for the following:
  - Co-ordination at central points of services and local control.
  - Universal access but priority service for low-income and low-skill workers.
  - Individual Training Accounts to allow choice of training.
  - Career pathway strategies aided by industry sector partnerships.
    - Allow entry and exit to education and training at multi-points.
    - Promote credential building as performance measures now include advancing jobseekers' credentials.
    - Sector strategies engage employers and gather labour market information to help align training with employer needs and needs of the local labour market.
- Titles II and IV authorise adult education and family literacy and rehabilitation services for individuals with disabilities, respectively.

Note: A more detailed description and discussion of WIOA can be found in Bradley, D.H. (2015), "The Workforce Innovation and Opportunity Act and the One-Stop delivery system", *CRS Reports*, No. R44252, Congressional Research Service, 27 October, www.fas.org/sgp/crs/misc/R44252.pdf.

The new law comes with a number of modifications. First, it puts a greater focus on training and performance measures promoting building credentials have been added. More generally, the law has strengthened the system's operation. Having a federal law administered at the state and local level, requires a strong system of public governance. WIOA through Training and Employment Guidance Letters provides guidance and technical assistance to the states. States have to prepare a state plan that has to be approved by the federal government. Local authorities and service providers have much-strengthened monitoring and reporting obligations to the state authority, and states have to report to the federal level.

Local stakeholders in the United States have considerable influence on how national social and labour market policy is being implemented and how federal money is being used, through both the local one-stop centres and the *Local Workforce Development Boards* (LWDB) (see Box 4.2). An important change with WIOA is the now *mandatory* focus on one-stop delivery of services at central points under local control. The very autonomous one-stop centres have to use an integrated approach, involving many partners including the UI programme administration. All one-stops are required to have a staff member capable of helping potential UI claimants with their application. Previously one-stop delivery was favoured but not required.

Box 4.2. **The main public workforce development institutions**

One-Stop Centers (also known as *American Job Centers*)

- Over 2 400 centres across the United States; 15-22 million people annually seek services from the centres with most people having only one visit, and around five million people get some form of employment service.
- Provide career services and access to training, labour market information, labour exchange services and programmes and activities offered by partners.
- Accessibility to centres and the array of employment services and work-related training and education offered by required partner programmes is mandated.
- Very flexible in setting up services: sequencing is no longer necessary; e.g. it is possible to go straight to retraining.
- Currently run by local governments, NGOs or private companies; by mid-2017, one-stop centre operators will be selected through a competitive tender.
- All partners are required to share in the funding of services and infrastructure costs of the one-stop delivery system.

Box 4.2. **The main public workforce development institutions** *(cont.)*

Local Workforce Development Boards

- Smaller and more autonomous under WIOA.
- No longer advisory, now a full partner in the system.
- Responsible for programme oversight and developing local plan for workforce investment activities.
- Advocate for funds, as strongest boards have multiple funding sources.
- Responsible for certifying one-stops using state criteria on effectiveness, programmatic and physical accessibility, and continuous improvement.
- Businesses are a key partner: the boards have to have 51% employer and 20% union representation.
- Ensure co-ordination of local plan with state's goals; and provide information on labour market and training programmes.

The LWDB play a key role in helping dislocated and other unemployed workers establish a career path. A demand-driven system is envisioned, which in the view of US policy makers requires a working relationship with local businesses and industries. This is one of the ideas behind the makeup and authority of the LWDB. Over half of the members must be from the private sector and they are expected to provide job market information and develop training requirements. These boards have complete responsibility for instituting and carrying out a local workforce development plan.

The requirement of one-stop centres and LWDB to work closely together to provide better training and employment services requires close scrutiny. It has evolved through several pieces of federal law pertaining to workforce development and training. A very early track of providing labour exchange-employment services (i.e. job-search assistance) under the Wagner-Peyser Act was reformed under WIOA to mesh better with the training track started under the Manpower Development Act in the 1960s using local entities to make training decisions. The merging of the labour exchange and training tracks is discussed in more detail in Box 4.3.

Box 4.3. Federal-state evolution (federalism) in US labour policy

Labour exchange track

Prior to the Great Depression in the 1920s, nearly half the states created public employment offices to address industry dislocations resulting from economic downturns. In the 1930s, mounting surge of unemployment incited a public demand for a national labour exchange policy. The *Wagner-Peyser Act* (1933) was born under which local Employment Service (ES) offices were created and supported by grants to states by the government under an amended formula that currently distributes 97% of the annual ES appropriation, from the employer-based Federal Unemployment Tax (and 3% from federal general tax revenue), according to each state's relative share of the civilian labour force and number of unemployed workers.

By 1938 all states had adopted Unemployment Insurance (UI) laws that required their ES offices to administer the so-called *UI work test*, whereby in order to qualify for benefits, UI claimants must be able, available, and registered for work.

Retraining track

In 1962, the *Manpower Development Training Act* (MDTA) created the first nationwide post-war federal training programme. At the time MDTA was enacted, local ES offices were considered employer oriented. As such, it was felt that they would not adequately address helping disadvantaged workers. New funding streams for job training that carry in part right up to the recently enacted *Workforce Innovation and Opportunity Act* (WIOA) were put in place. Funding went directly to sub-state areas to provide retraining.

This structure evolved with the development of a federal-local training delivery system under the *Comprehensive Employment and Training Act* of 1973 through block grants to local governments called 'prime sponsors' and expanded state control of ES activities under *Job Training and Partnership Act* (JTPA) of 1982. JTPA created Private Industry Councils responsible for planning and oversight of the delivery of job training through public and private agencies, and continued as Workforce Investment Boards under WIA of 1998, and now designated as Workforce Development Boards under WIOA of 2015.

Merging tracks

More local authority and wider partnering led to the incorporation of market-based principles into state one-stop delivery systems under WIA. WIOA went a step further by eliminating stand-alone Wagner-Peyser ES offices, requiring employment services to be provided alongside partner programmes within one-stop centres (*American Job Centers*).

Initiated in 1993, worker profiling of UI claimants to determine whether they will likely exhaust benefits and need additional job finding help was adding a larger role for one-stops as they must provide employment services to the claimants identified as likely UI exhaustees. The WIOA law and regulations lean in further on information and assistance provided to UI exhaustees and possible UI claimants.

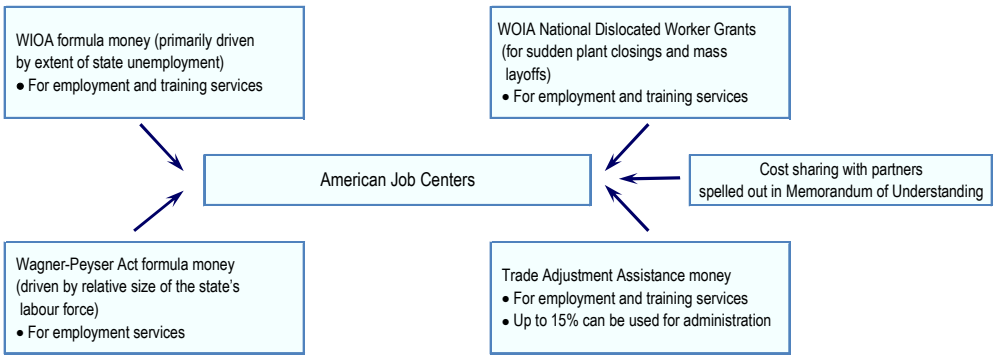
Source: Balducchi, D.E. and A.J. Pasternak (2004), "Federal-state relations in labor exchange policy", Chapter 2 in D.E. Balducchi, R.W. Eberts and C.J. O'Leary (eds.), *Labor Exchange Policy in the United States*, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, pp. 33-71, http://research.upjohn.org/up_press/143/.

Targeting dislocated workers for policy help

The year 1962 marked the beginning of authorised targeted dislocated worker programmes in the United States; focussing on people losing their jobs because of technological change. In 1982, in response to widespread layoffs associated with economic restructuring in American factories, displaced workers were targeted for job training under the *Job Training and Partnership Act* (JTPA). Continued concern about plant closings and increased international competition fuelled extensive policy debates and culminated in the Economic Dislocation and Worker Adjustment and Assistance Act of 1988, which amended JTPA to require every state to establish a state-level Dislocated Worker Unit with a rapid response team. A designated funding stream for dislocated worker programmes, including rapid response, has continued in all subsequent federal workforce development laws ever since.

The Dislocated Worker programme provides employment and training services to individuals aged 18 and older who have lost their jobs and are unlikely to return to those jobs or similar jobs in the same industry. The programme is funded through formula grants described in Box 4.4 allotted to state workforce agencies, which in turn allocate the majority of those funds to local workforce areas, where a national system of one-stop centres provides employment services and training. Figure 4.2 illustrates that one-stops rely on several public and private funding sources to serve displaced workers. Funding for one-stops (now called *American Job Centers*) generally has been on a long-term downward trajectory. States and local areas have responded by cutting staff, eliminating operations, shrinking the number of Workforce Development Boards, and closing local one-stops (Wandner, 2015).

Figure 4.2. **Sources of money for American Job Centers to serve displaced workers**



Source: Author's compilation.

Box 4.4. **Public funding stream for the Dislocated Worker programme and its mandatory usages**

National reserve account (20%)

- States request money from the US Department of Labor through a grant process for employment and training assistance to workers affected by major economic dislocations, such as plant closures or mass layoffs.

State formula grants (80%)

- One-third on basis of each state's relative share of total unemployment.
- One-third on basis of each state's relative share of excess unemployment.
- One-third on basis of each state's relative share of long-term unemployment.

After funds are allotted by formula, the governor of each state must reserve:

- 15% for state-wide workforce activities (called the *Governor's Reserve*).
- 25% for rapid response activities.
- A maximum of 10% for related state administration and a minimum of 5% for case management and employment services.
- Distribute the remaining funds to local areas based on a state-developed formula that takes into account the following information:
  - Number of UI recipients.
  - Unemployment concentrations and declining industries.
  - Plant closings and mass layoffs.
  - Farmer or rancher economic hardship.
  - Long-term unemployment.

Local areas must use the money for:

- Establishing the one-stop service delivery system.
- Providing employment and training services.
- Providing career services.
- Establishing relationships with employers.
- Developing industry or sector partnerships.

Note: Additional funds for American Job Centers also available from partner programmes (such as TAA, TANF and SNAP) by a Memorandum of Understanding structure.

Source: Author's compilation.

Career services are widely available but not training services

The programme for dislocated workers in WIOA is structured around two main levels of services: career services and training. Career services can be basic services, which include labour market information, or individualised career services, which include skills assessment and case management. WIOA service at one level is not a prerequisite for service at the next level; that is, an unemployed worker can go directly into training. The priority on disadvantaged workers and not displaced workers may impact service delivery for the latter group at the local level. However, the workforce development system designed by WIOA is premised on universal access, such that any adult age 18 or older does not have to meet any qualifying characteristics in order to receive career services. The type of services available is summarised in Table 4.1.

Table 4.1. **Services provided to dislocated workers in the United States under WIOA**

Career services	Training services
Eligibility Determinations.	Occupational Skills (e.g. classroom training).
Outreach, Intake, Orientation, and Referrals.	On-the-Job Training.
Assessment of Skills and Needs.	Incumbent Worker Training.
Labour Exchange Services, including Job Search Assistance and Information on In-Demand Occupations.	Combined Workplace Training with Related Instruction.
Performance and Cost Information for Eligible Training and Education Providers.	Skill Upgrading and Retraining.
Labour Market Information.	Entrepreneurial Training.
Information On and Referral To Supportive Services.	Transitional Jobs.
Information on Filing for UI.	Job Readiness Training
Assistance in Establishing Eligibility for Financial Aid for non-WIOA Training and Education Programs.	Adult Education and Literacy Combined with Training.
Follow-Up Services for at least One Year to Participants Who are Placed in Unsubsidised Employment.	Customised Training in Conjunction with an Employer.
Development of an Individual Employment Plan.	

Note: WIOA: Workforce Innovation and Opportunity Act.

Source: Author's analysis developed from Bradley, D.H. (2015), "The Workforce Innovation and Opportunity Act and the One-Stop delivery system", *CRS Reports*, No. R44252, Congressional Research Service, 27 October, www.fas.org/sgp/crs/misc/R44252.pdf and Training and Employment Guidance Letter No. 03-15, http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=7953.

Training services may be comprehensive in theory but they are not as readily available: training supply does not meet training demand. Relatively little training actually takes place among displaced workers which is partly due to a shortage of funds. Training is costly so it is reserved for those determined by local one-stop centres to need it most to get back into the

workforce and for whom investments in training are most likely to lead to returns. Training is also more apt to go to workers with a background and interest in jobs with potential good matches in the local economy.

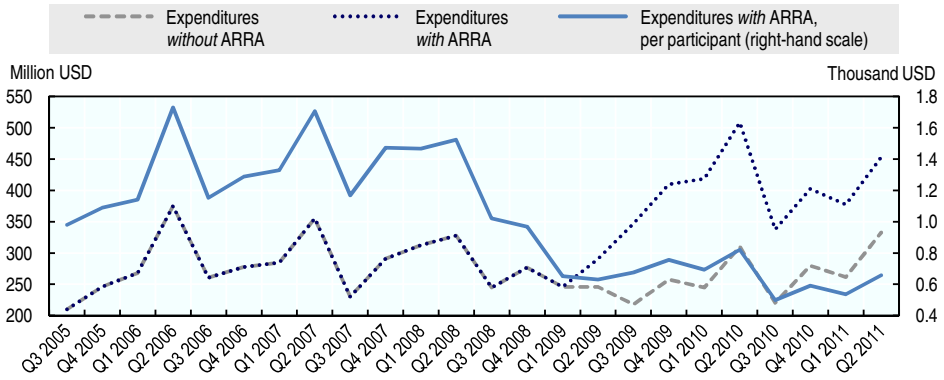
Programme funding for dislocated workers is insufficient

Although there are strict requirements on what states and local areas can use federal government formula funds for, states appear to have a great deal of autonomy on how to structure the service approach and spend the funds.[1] Does this devolution work in getting displaced workers adequately served?

Figure 4.3 illustrates the sharp decline in per-participant expenditures after 2008. Even though the American Recovery and Reinvestment Act (ARRA) of 2009 bolstered the amount of funding available for displaced workers in the period 2009-11, the magnitude of displacements was overwhelming, leading to a decline in the amount of money that could be spent on each participant. That is, the level of additional funding was not enough to match the increase in the influx of programme participants.

Figure 4.3. **Spending per dislocated worker in the United States has dropped sharply after the global financial crisis**

Expenditures on dislocated workers from the Dislocated Worker Programme and ARRA, Q3 2005 to Q2 2011, current US dollars (USD)



Note: ARRA: American Recovery and Reinvestment Act; USD: US dollar.

Source: Public Workforce System Dataset (PWSD); and Wandner, S.A. and R.W. Eberts (2014), "Public workforce programs during the Great Recession", *Monthly Labor Review*, July, pp. 1-18, Figure 9 (p. 16), http://research.upjohn.org/jrnlarticles/167.

StatLink http://dx.doi.org/10.1787/888933427203

Under ARRA, most of the money was spent on passive policies, such as extending UI benefits (USD 45 billion). Only about 10% of ARRA public workforce funding was for the Dislocated Worker programme (Wandner, 2014). As a result, spending per participant fell from USD 1 500 before the crisis to USD 500-600 in 2010/11. An Upjohn Institute study estimated the USD 2 billion allocated by ARRA for workforce development programmes was about four times too little (Eberts and Wandner, 2013). Using administrative data, a recent study also documented the severity of the dwindling funding situation. States are shifting employment services to self-service, limiting training, and cutting staff (Wandner, 2015).

The recent development must also be assessed in an international comparison. In terms of spending on active labour market programmes and training measures, the United States is among the lowest of all OECD countries measured as a percentage of a country's gross domestic product (GDP). Public spending is low for all programme subcategories such as training, employment incentives and rehabilitation (Figure 4.4, Panel B) but spending is also low in terms of the budget used to administer the workforce and benefit system (Figure 4.4, Panel A). Active labour market programme spending in the United States is just above 0.1% of GDP; this is less than half of the spending level in Australia, Canada and the United Kingdom, one-sixth of the level in Germany and Switzerland and less than one-tenth of the level in the Nordic countries. This illustrates considerable room for spending increases, if only to match the increase in jobseekers.

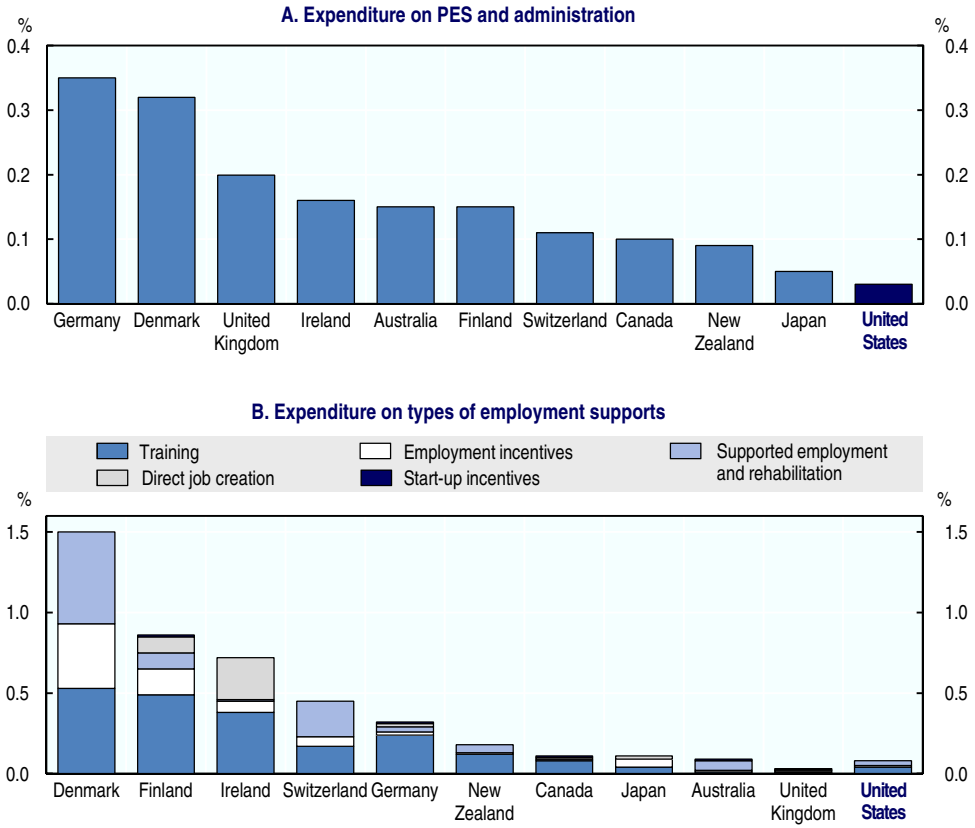
Dislocated Worker programmes in the United States are provided through the local one-stop delivery system. Table 4.2 illustrates the share of displaced workers using each service. A clear shift to self-service core services is evident over the 2005-11 period as the number of participants grew but not much additional money was forthcoming, other than in 2009-10 from the economic stimulus package. The use of intensive career support (e.g. childcare and transportation) and training services all declined with a corresponding drop, after 2008, in the share of displaced workers entering employment. Typically, over a fourth of participants found jobs after completion of the service.

It is well to bear in mind, however, that policies that hasten re-employment following displacement may do too little to mitigate the large earnings losses of displaced workers, perhaps justifying some sort of wage subsidy for them. For example, a 2008 non-experimental evaluation of WIA found subsequent wages of dislocated worker programme participants were not significantly different from a characteristically similar comparison group; however, the employment rates for women were better (Benus et al., 2008). The studies of dislocation lack an evaluation using randomly

assigned treatment and control groups, an approach considered the *gold standard* in programme evaluation. To address this knowledge gap about the programmes' effectiveness, DOL has initiated a rigorous national experimental evaluation of the Dislocated Worker programme, which is scheduled to be completed in 2017 (Mastri et al., 2015).

Figure 4.4. **Compared with other OECD countries, very little is spent in the United States on active labour market programmes and training**

Expenditure on active labour market programmes by main category, selected OECD countries, around 2013, percentage of GDP



Note: GDP: Gross domestic product; PES: Public employment service. Countries are ranked in decreasing order of expenditure in each respective panel.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en.

StatLink http://dx.doi.org/10.1787/888933427212

Table 4.2. **There is a clear shift in the United States towards a use of self-service core services and away from more intensive services**

Services use and employment outcomes for Dislocated Worker programme participants, 2005-11, levels and percentages

Year	Participants	Share receiving services by type and entered employment					
		Self-service core services	Staff-assisted core services	Intensive (career) service	Support service	Training	Entered employment
2005	160 237	44.2	100.0	70.9	23.4	26.5	26.9
2006	162 869	44.8	100.0	56.3	17.6	29.7	27.3
2007	145 078	36.2	100.0	51.6	15.5	26.9	28.2
2008	154 957	48.5	100.0	51.2	13.0	22.9	29.1
2009	303 667	58.5	100.0	59.7	13.3	27.0	26.7
2010	452 539	63.0	100.0	43.4	6.8	14.9	13.8
2011	511 254	60.5	100.0	35.1	3.4	8.5	..

Note: ..: Data not available.

Source: Public Workforce System Dataset (PWSD), www.doleta.gov/reports/pwsd/.

StatLink http://dx.doi.org/10.1787/888933427294

The targeted trade programme has better benefits but fewer applicants

The Trade Adjustment Assistance (TAA) programme was launched in 1962 under the Trade Expansion Act (Boyd and Dortch, 2011). It is based on the premise that liberalisation of trade benefits society generally but imposes heavy costs on some workers who therefore should be assisted, and it also helps win public support for expanded international trade policies which is termed *political efficacy*. However, support for free trade agreements in the United States appears to be fading, resulting from fear of job loss and past poor re-employment experience of trade-displaced workers. Unions feel the government has a special obligation to help and support these workers because the United States signed the trade agreement that cost them their jobs.

Specifically, those who become unemployed or see a reduction in hours of work as a result of globalisation are entitled to individually apply for trade readjustment allowances, employment services and retraining.[2] Workers are also eligible to apply for (but seldom use) job-search and relocation allowances, both with a cap at USD 1 250. Entitlement means that the benefits are guaranteed to workers meeting established eligibility criteria. However, the entitlement component has been weakened over time. In the 2002 reauthorisation of TAA a cap was placed on training funds available in the

programme; and recent reauthorisations have expanded the spending cap to all re-employment services. Funds are allotted to the states via a grant allocation formula that considers past and anticipated programme usage.

Initially, just workers in manufacturing industries directly impacted by imports were found eligible for TAA. Coverage was subsequently expanded to include workers in firms relocating offshore and in supplier and service industry firms where trade was deemed a negative factor (Hornbeck, 2013). Even though workers influenced by the import of services, the acquisition of foreign services and activity of primary trade-effective partners are all eligible for TAA, only about 10% of large layoff events are even deemed related to trade. The full potential of TAA can be expanded by giving more attention to the supply chain of a company that is closing or facing demand shocks. Especially in case of larger, multi-national companies whereby smaller companies in their supply chain may need more help than the large company itself to assure they can stay in the region.

Establishing eligibility for TAA for workers is a two-step process. *First*, a petition is filed with the DOL on behalf of a group of dislocated workers at a single firm to establish that foreign competition *contributed importantly* to their job loss.[3] If the DOL's investigation agrees, *then* the individual workers covered by the certification may pursue benefits through the state workforce systems.

Benefit certifications vary and take up is low

The number of TAA petitions filed each year is very cyclical.[4] Over the years, approximately 62% of petitions are certified, including 75% of the workers involved. Table 4.3 illustrates the wide range of workers certified over the business cycle from about 70 000 in low jobless years to about 250 000 in high jobless years: similarly, a larger share of petitions and workers are certified in recessionary years and more generally since the global financial crisis.

Table 4.3. **The share of certified TAA petitions in the United States has increased since the global financial crisis**

TAA petitions and certifications, 2000-15

Year	Petitions submitted	Petitions certified	*Percentage certified*	Workers certified	*Percentage certified*
2000	1 393	822	*59.0*	98 039	*67.7*
2001	1 957	1 166	*59.6*	148 093	*55.1*
2002	2 904	1 686	*58.1*	247 544	*72.8*
2003	4 038	2 166	*53.6*	206 422	*71.6*
2004	2.691	1 504	*55.9*	123 068	*70.1*
2005	2 690	1 546	*57.5*	117 935	*72.3*
2006	2 353	1 447	*61.5*	129 594	*76.0*
2007	2 222	1 429	*64.3*	137 573	*77.2*
2008	2 304	1 599	*69.4*	157 172	*77.7*
2009	3 566	2 192	*61.5*	244 617	*85.0*
2010	3 595	2 418	*67.3*	214 125	*75.8*
2011	1 408	1 044	*74.1*	96 149	*83.5*
2012	1 540	1 217	*79.0*	86 762	*77.4*
2013	1 463	1 023	*69.9*	104 980	*83.8*
2014	890	540	*60.7*	67 611	*74.9*
2015	800	555	*69.4*	67 976	*79.5*

Note: TAA: Trade Adjustment Assistance.

Source: www.doleta.gov/tradeact/taa_reports/petitions.cfm.

StatLink http://dx.doi.org/10.1787/888933427304

According to TAA national programme statistics in the post-recession period, participation in TAA including TTA-funded training dropped each year since 2010 (Table 4.4).[5] However, the share of participants in training increased from 44% in 2009 to 54% in 2015. The 2009 amendments put more emphasis on training. Workers were given more time to begin training (maximum of 26 weeks after layoff) and workers in training could also receive *Trade Readjustment Allowance* (TRA) payments for a longer period, about 30 additional weeks. Training could be either full time or part time, instead of only full time as previously required.[6] Table 4.4 also shows that the amount of money allocated to the TAA training fund fluctuates, while the number of trainees it supports is declining. Generally it would be better if need drove dollars and not dollars available driving services provided. However, states may request additional funds through a reserve request process and TAA has been able to grant all reserve requests for the past

several years; hence, there is no indication that current services are limited by a lack of funding provided by the TAA programme.

Table 4.4. **The number of TAA participants in the United States has fallen sharply since 2009**

TAA training funds and participants, FY 2009-15, US dollars (USD) and persons

Fiscal year	Training fund allocation (Millions USD)	Number of participants	New participants	Number of training participants	New training participants
2009	686	167 451	91 950	74 131	43 472
2010	686	191 002	76 171	90 448	41 348
2011	426	157 313	36 939	78 578	23 321
2012	575	104 073	22 759	51 318	13 426
2013	534	76 527	21 958	38 370	14 343
2014	306	59 558	18 488	31 565	11 927
2015	236	47 335	13 144	25 402	8 687

Note: FY: Fiscal year; TAA: Trade Adjustment Assistance.

Source: Data from TAA Annual Report, several issues, www.doleta.gov/tradeact/taa_reports/summary.cfm.

StatLink http://dx.doi.org/10.1787/888933427311

What can explain the drop off in take-up of services once workers are certified for TAA benefits? It takes DOL about 45 days, on average, to determine whether to certify a petition. However, the process can vary widely as it took several months to work off the backlog when TAA was re-authorised and rules changed in 2009 (Wandner, 2013). Once certified, eligible workers must then clear hurdles at the state level in order to receive employment services and training.

TAA is rather difficult to administer at the local level as there have been several reauthorisations since 2002.[7] TAA-certified workers could be in one of four different TAA programmes, depending on when they became eligible. Also, to ensure more services and funds are available locally, TAA participants can be co-enrolled in the Dislocated Worker programme. This means in practice, from the TAA worker's point of view, there is only one single programme but the entitlement conditions are very different. Entitlement to apply for training under TAA continues until it is actually used. That is, if your job loss was certified as being related to trade, but you did not enter a training programme prior to finding a new job, you may still apply for the training entitlement later. In turn, if you lose the re-employed job regardless of reason, you may still be eligible to receive training under TAA for another job.

On the other hand, TAA-eligible jobseekers are entitled to only *exactly one* training intervention; this intervention can be small or substantial, depending on the choice made by the individual, but there is no second chance. This makes it very important to also provide good training counselling to those people.

Moving forward, streamlining certification and service delivery is called for. Consideration should be given to combining the TAA and Dislocated Worker programmes; the money saved from administering the TAA certification process could go to helping other displaced workers. The administrative simplicity at the state and local level of a single programme would improve efficiency. States spent considerable time on trying to determine if laid-off workers are TAA eligible and on marketing the programme among workers and employers, as one reason for the low TAA take-up is lack of knowledge of the scheme. Moreover, as discussed below, the programme has not really worked very well.

Who receives TAA and does it help?

TAA has been evaluated several times though never with a random control trial.[8] The overall conclusion of the most recent comparative evaluation, in 2012, based upon the 2002 version of the programme, was that TAA was not very helpful (D'Amico and Schochet, 2012). The major findings can be summed up as follows:

- TAA participants received more employment services and training than the comparison group (the latter being non-TAA workers receiving UI, matched on observable characteristics).
- More training did not improve employment and earnings outcomes for the TTA group compared with the control group. However, compared to a matched group of UI exhaustees, trainees' employment rates were higher (and statistically significant) in the last three quarters they were followed, rising to be 11% higher by the last and 16th quarter.
- Younger TAA participants fared much better than older participants.
- Characteristics that seemed helpful included entering training quickly, receiving career guidance, and finding a job in the field trained for.

The evaluation also offered policy recommendations to strengthen the TAA programme. They include providing a smoother and quicker entry into training and providing professional help in the selection of the most appropriate training programme (Beck, 2012). Many of the recommended

changes were taken on board in subsequent TAA reauthorisations. Training programmes generally available to all displaced workers are discussed in greater detail further below.

Special wage subsidy for older TAA-certified workers

Studies systematically show that older jobseekers are less likely to find new employment than their younger counterparts (Wanberg et al., 2015). In the interest of promoting their re-employment and because training may not pay off for older workers before they retire, in 2002 a small wage supplement programme was enacted, known as *Alternative Trade Adjustment Assistance* (ATAA). It was revised in 2009 and became the *Reemployment Trade Adjustment Assistance* (RTAA), whereby eligible workers over age 50 can get a temporary wage subsidy to help bridge the salary gap between their old and new job (see Box 4.5).

Box 4.5. **Reemployment Trade Adjustment Assistance (RTAA)**

Eligibility for RTAA requires that the job loss was trade-related; the displaced worker is 50 years or older at the time of re-employment and employed within 26 weeks of job loss; and that earnings are below USD 50 000 annually. The application must be made within two years after the first day of work.

RTAA benefits pay up to 50% of the difference between the wage in the worker's new job and the wage at separation for a period of up to two years, up to a maximum payment of USD 10 000. RTAA recipient are also eligible to apply for Health Coverage Tax Credit.

Workers may qualify for RTAA when working part time, employed at least 20 hours a week, and participating in a TAA-approved training programme. Workers eligible for TAA can receive unemployment benefits while in training and then RTAA when re-employed. However, they cannot receive unemployment benefit and RTAA concurrently.

Earlier evaluations of the ATAA programme found low take up, expected quicker employment entry, but inconclusive impacts on wages. The reasons for low receipt rates included lack of knowledge about the programme, difficulties in choosing between ATAA and TRA (this was changed with the 2009 amendment), and problems meeting eligibility requirements (D'Amico et al., 2007). In 2012, RTAA served 3 915 TAA-eligible workers representing 3% of all TAA participants.

The proposed 2017 budget of the federal administration includes a wage supplement for all displaced workers along the benefit lines of RTAA. Would the benefits of such a programme outweigh its costs? Wage insurance schemes have considerable potential but costs could be high and

deadweight losses (i.e. ending up subsidising people who would have found a decent job without the supplement) be significant. There is also a risk of employers offering lower wages and participants of the scheme getting trapped in low-wage jobs (OECD, 2015). On the strong side such a scheme is a way to share the economic costs and gains from economic restructuring more equally and to give an incentive to find another job more quickly, while also providing a buffer to political opposition towards trade, off-shoring and globalisation especially since TAA no longer appears to be serving this function.

A review of wage insurance or wage supplements in the United States concluded that they "substantially reduce the wage loss experienced by most reemployed displaced workers" (Wandner, 2016). Since, as now seems clear, wage losses of displaced workers are generally severe and persistent and not bolstered much by existing government programmes, it may be more efficient to help displaced workers through a wage insurance programme. An evaluation of a pilot wage insurance programme in Canada in the 1990s found that, although it did not raise re-employment rates, it provided an important source of financial assistance to make up for some of the lost earnings (Bloom et al., 2001). This appears crucial as TAA performance data indicate that among those workers re-employed, their annual salary ranged between USD 28 000 and USD 36 000 from FY 2006 to FY 2015, well under RTAA's USD 50 000 threshold.[9]

Retraining has strong backing but supply is limited

Shortening spells of joblessness or periods out of the workforce is likely to reduce public transfer payments and increase the efficiency of the labour market. Public subsidies can help overcome investment borrowing constraints for education and training, costs which can be especially severe for individuals not working. As such, publically-funded training for hard-to-employ individuals has been in the forefront of employment policy for a long number of years. Early in 2014, the federal administration launched a government-wide review of federal employment and training programmes to ensure they equip workers with skills that match the needs of employers. The review concluded gaining a recognised job credential, flexible and co-ordinated training approaches, and linking training better to available jobs were all sound ideas for training programmes to take (Department of Labor et al., 2014).

Trade Adjustment Assistance Community College and Career Training, launched by the ARRA in 2009, has similar goals for the training programmes it hopes to create. It is a programme whereby DOL provides grants to community colleges for developing two-year training programmes

geared to the needs of TAA-certified workers. Other unemployed workers and jobseekers deemed important by local areas who the meet entrance requirements may also participate.[10] Some of the requirements that community colleges must follow are: to develop a curriculum that offers a career pathway and credential focused on one or more industry sectors; to partner with a local Workforce Investment Board; and to partner with at least two employers. All partners are expected to help with curriculum development. The grant cannot be used to cover tuition or other costs students may incur. Over 300 grants have been awarded since 2012 with just about every state participating; DOL is funding an evaluation of them, which is expected to be completed in late 2016.

Gaining access to training is restrictive

Training in WIOA is built on the concept of consumer choice, which involves two main components: i) eligible, certified providers of training; and ii) *Individual Training Accounts* (ITA) enabling jobseekers to select the training and training provider of choice. Other training is allowed under WIOA that may not involve an ITA, such as on-the-job training, customised training, and incumbent worker training. To be eligible to receive WIOA-funded training, a displaced worker must fulfil the following conditions or criteria:

- Must be in need of training services to obtain or retain employment that leads to economic self-sufficiency.
- Have the skills and qualifications to participate successfully in such training services.
- Select a training service linked to an occupation in demand in the local area (or be willing to relocate to another area where the occupation is in demand).
- Be unable to obtain other training grant assistance (such as Pell grants,[11] for example) for the necessary training services.

Given limited funds are available for retraining displaced workers, these criteria help local officials or caseworkers determine a person's suitability for training. Also helpful to the caseworker in making a well-grounded decision would be an individual re-employment plan to see where training could fit in.

At the local level, it will be important for the one-stops to develop a detailed plan to return to work for those needing a range of services like those qualifying for the Dislocated Worker or TAA programme. It is not clear how many of the over 2 400 one-stop centres actually do this. A good

example is Michigan's PATH model (*Partnership, Accountability, Training and Hope*) originating from the *Temporary Assistance for Needy Families* (TANF) programme. PATH requires a 21-day assessment phase in which barriers to employment are identified, a meeting with a career counsellor and 30 hours of job search per week. Training needs would flow out of this process.

Innovations in providing training services at the local level

Much of what goes on at the local level is driven by how to best serve displaced workers with the limited funds available. This is especially the case for training because it is by far the most costly service provided. There is much variability and innovation across the country in providing employment and training services, but it is not clear what works best. Also, if something does work, is it readily transferable from one state to another? With 50 different states and over 400 local areas trying something new in promoting re-employing displaced workers is a real asset. However, much of the effort is lost if other stakeholders do not learn from it. More needs to be done in sharing good practice and providing technical assistance in helping implement such practice. The *National Association of State Workers Agencies* (NASWA) has a mandate to strengthen the workforce system through information exchange. The federal government should urge and help NASWA facilitate and increase their technical assistance capacity, which in turn could lead to more efficient delivery of employment and training services at the local level.

An analysis of the federal-state employment service delivery structure in Pennsylvania and Michigan uncovered practices that have merit in enhancing the movement of a displaced worker from unemployment to re-employment:

- Having all the relevant information, such as previous job, wages, skills, demographics, etc. on individual displaced workers online to facilitate initial discussion and to be able to design a re-employment service plan and determine if training is necessary.
- Adding on-the-job training after the completion of a regular training programme to enhance job opportunities.
- Providing better incentives for certified training institutions to deliver employment outcomes.
- Securing more and better career counselling to make sure displaced workers can use training vouchers in a suitable way that would help them find new employment.

- Improving certification and recognition of skills acquired on the job.
- Promoting the various tools that have been developed to help displaced workers choose the right occupation, such as the O*Net tool, an online occupational information database.
- Developing career pathways through more flexible training and more focus on stackable training that builds on earned credentials.
- Developing sector training strategies that take the needs of employers in particular sectors into account; involving employer engagement, needs-oriented training and on-the-job training.

Doing more with local companies is a good strategy. Growing in interest is identifying workers at risk of job loss and retraining them within the enterprise while still employed with the use of public funds. Known as incumbent worker training, this has shown promise but further study is needed of its cost-effectiveness. WIOA allows local areas to reserve up to 20% of Adult and Dislocated Worker funds for incumbent worker training; employers are required to share the cost of training with the amount increasing with the firm's size. Such workers are retrained with the promise of retention with new skills and a new job in the firm. A 2008 non-experimental study of incumbent worker training in Massachusetts found significant gains for both workers, firms, and communities (Hollenbeck, 2008). Incumbent worker training is gaining attention in the current policy environment, but this raises questions about deadweight cost (whereby increased training might have occurred, at least to some extent, in the absence of the government intervention). That is, a key unanswered questions is how many of these workers would have trained and been retained by the firm in the absence of public money.

Many American companies say there is a skills gap that is impacting their ability to compete and grow. The Chamber of Commerce's Center for Education and Workforce proposed a solution borrowing a supply-chain approach, whereby employers would partner with institutions capable of providing them with workers having the skills they need (Chamber of Commerce, 2014). Active involvement on the part of employers is required to identify the needed skills and make this known to suppliers well in advance to ensure the talent is ready when needed. WIOA is well designed to be a partner in this endeavour through the industry partnership vehicle. Active WIOA partner employers could incorporate their skill needs into State Plans and local One-Stops could help find and develop those skills in the local workforce.

Displaced workers represent a policy challenge to re-employ

Earlier data illustrated the cyclical nature of the number of trainees under the TAA programme, which dropped from 240 000 in 2010 to 63 000 in 2014 as the recovery took hold.[12] The number of displaced workers receiving training under the Dislocated Worker programme also dropped from 82 000 in 2009 to 43 000 in 2011. Typically, less than 25% of WIOA participants and less than half of TAA participants receive training. It is important to remember that these numbers largely reflect the supply of training. The actual (unmet) demand for training is unknown.

It is well accepted that some groups of workers are more difficult to train, for example, older workers and less educated workers. Having to train a disproportionate number of hard-to-train workers would undoubtedly influence the success rate. This is one reason why when studying the impact of publically funded training, training participants and comparable non-training participants must be as characteristically close as possible.

Displaced worker trainees are disproportionately minority workers, often with less than high-school education. These factors are likely making them harder to re-employ. Older workers are disproportionately represented among displaced workers overall (see also Chapter 1), however, this is not the case among training programme participants (Table 4.5). Either they are aware themselves of the short time available to recoup their investment and/or not interested and/or not encouraged by the local one-stop centre to enter training. A large share of trainees comes from the manufacturing sector: two-thirds of TAA trainees and 27% of Dislocated Worker programme trainees. Given that the lion share of trade in the United States is still merchandise, manufacturing workers are very vulnerable to globalisation. Since most of the job growth is in the service sector, it is very challenging to retrain and re-employ former manufacturing workers. Wages on average are lower in the service sector increasing the challenge of getting a displaced manufacturing worker back to his previous wage. Even more so because substantial displacement in manufacturing appears to take place in smaller communities where jobs lost were the best ones available in these communities.

A recent study of trade between the United States and China and industries exposed to foreign competition concluded that adjustment in local labour markets is very slow (Autor et al., 2016). However, when manufacturing production jobs are shrinking, it makes sense for the country as a whole to have workers change to other occupations, even if there is no immediate payoff. To the extent job training can be associated with larger job changes, some degree of continued government support may be warranted (Kodrzycki, 1997). Displaced workers overall and TAA workers especially have longer job tenure then the average worker. Job tenure is a key factor

in *profiling* models that aim to predict UI exhaustion. It seems safe to conclude that displaced workers represent a challenging group for policymakers to help return to work and to return to an equivalent paying job.

Table 4.5. **Displaced workers in the United States are more often older workers with longer job tenure but they are highly underrepresented among trainees**

Characteristics of displaced worker trainees in selected time periods, levels, percentages and years, FY 2014

Characteristics	Dislocated Worker programme		TAA programme		Displaced workers	Number of employees
	Participants	Training	Participants	Training		
Total (levels)	**631 622**	**125 700**	**59 216**	**31 255**[b]	**4 292 000**	**146 305 000**
Manufacturing	*12.4*[a]	*14.2*[b]	*64.7*	*66.6*	*17.8*	*10.3*
Men	*49.5*	*49.6*	*55.5*	*52.6*	*55.7*	*53.1*
Age 55 and over	*21.3*	*15.8*	*27.9*	*21.6*	*30.4*	*22.1*
Black	*19.7*	*21.2*	*17.3*	*17.7*	*10.8*	*11.4*
Hispanic	*13.5*	*15.2*	*10.1*	*11.9*	*16.0*	*16.1*
Less than high school	*9.1*	*4.8*	*6.3*	*6.3*	*7.6*[c]	*7.7*[d]
Tenure (median, years)	..	..	9.3	8.3	6.7	4.6

Note: ..: Data not available. FY: Fiscal year; TAA: Trade Adjustment Assistance.
Blue figures in italics refer to percentages.

a) Percentage of participants with a valid O*Net code for previous employment that held a position related to manufacturing.

b) Percentage of participants with a valid O*Net code that received manufacturing related training.

c) Percentage of long-term displaced workers aged 25 and over.

d) Percentage of employed workers aged 25 and over.

Source: Program Year 2014 Workforce Investment Act Standardized Record Data for columns 1 and 2. "TAA Annual Report 2015", www.doleta.gov/tradeact/docs/AnnualReport15.pdf for columns 3 and 4. And published and unpublished data from the Department of Labor's Bureau of Labor Statistics; for published information, www.bls.gov/news.release/pdf/disp.pdf and www.bls.gov/news.release/pdf/tenure.pdf for columns 5 and 6.

StatLink http://dx.doi.org/10.1787/888933427329

Does training work – more evidence is needed

Evidence of the (cost-) effectiveness of training is somewhat disappointing. A big non-experimental analysis of dislocated workers using administrative data from 12 US states found no difference in earnings and re-employment rates between individuals who went through training and those who did not (Benus, 2008). A 1990 examination of displaced worker training demonstration projects primarily in the US found no clear evidence

that classroom training was effective on improving employment and earnings of displaced workers; however, job-search assistance including workshops was deemed cost-effective (Leigh, 1990). A 2010 update of the 1990 review pointed out that the only two experimental evaluations of displaced worker programmes were flawed; the impact of skills training for displaced workers has not really been fully tested (O'Leary, 2010).

A few studies have uncovered how to enhance the success of a retraining programme. It is important that the training curricula be tailored to trainees' backgrounds and the needs of local employers (Leigh, 1994). Also, longer training in an educational environment with more of an analytical focus in coursework proved beneficial: one year of community college schooling in a programme in Washington raised male displaced worker wages by 7% (more for women) and more if they completed mathematics-related courses (Jacobson and LaLonde, 2005); interestingly, much of the community college cost was funded by displaced workers themselves. *Platform to employment*, a more costly programme in Connecticut, also shows promise for displaced workers although designed for the long-term unemployed in the first place. It has a strong beginning worker assessment component, which leads to training in job readiness and skill building. All participants are subsequently placed in an initially subsidised job. A 2011 evaluation showed that 88% of participants were eventually hired by their employer. The programme has since been expanded to seven other locations (Carbone, 2015).

In summary, the literature appears to show that occupational training for displaced workers is often ineffective but that further study is needed. However, in conjunction with the broader Obama Administration review, the literature points to some thoughtful ideas. Training has a higher probability of success if some of the following components are in place: being small scale, having strong worker pre-assessment, being linked to the local job market (maybe including a wage subsidy to entice employers), focusing on developing analytical skills and getting a skill credential, and having some co-funding by the worker.

The above mentioned most recent thorough evaluation of TAA, in 2012, which is however still looking into the functioning of the previous 2002 programme, provides an assessment of how these factors hold up in a more rigorous test, comparing a nationally representative sample of TAA trainees with a reference group drawn from the pool of UI claimants. Having pre-assessment and career guidance and receiving a skill credential led to more weeks of work but not necessarily higher wages; and length of training was not important but starting training sooner after job loss was, in terms of re-employment (Berk, 2012).

Conclusions

The US approach to promote the re-employment of displaced workers is rather unique because this group of workers has, for many decades, been a target for workforce development policy more than in any other OECD country. This is promising in principle but the system struggles to deliver, for a variety of reasons. The *biggest challenge* is the scarcity of funds. Targeting displaced workers helps to ensure limited funds are directed to this group but funding is so limited that relatively little can be done for each and every displaced worker. In particular, only very few of them can access public training funds.

Second, targeting trade and trade liberalisation in US policy and its impact on the domestic workforce, has created a somewhat uneven and unequal two-tier support structure within the workforce development system. Displaced workers qualifying for TAA (a small minority of all displaced workers) are confronted with a much better support system than other displaced workers: they are *entitled* to one potentially considerable training intervention, rather than just theoretically eligible; they receive higher benefits and for a longer period if in training; or if 50 years or older they can apply for wage supplements to cushion wage losses. This leads to inequalities neither necessarily justified nor automatically leading to the provision of services to those who need it most.

A *third challenge* is the rather complex institutional structure of workforce development policy in the United States which makes it difficult to deliver employment and training programmes in an efficient way. Policy is developed and programmes funded at the federal level, steered at the state level and delivered at the local level. In addition, different levels and procedures are involved for trade-related and other job displacements.

Recent reforms have made headway in the right direction, in several ways, including through stronger governance and bottom-up reporting in the workforce development system; new developments in the training field (such as the creation of low-cost programmes geared towards the local labour market and the needs of employers, and more focus on credential building); and a gradual move towards true one-stop service delivery at the local level. But reforms have not touched the broader structural efficiency and equity issues.

Combining the Dislocated Worker and the TAA programme would go a long way in improving efficiency and eliminating inequity from a two-tiered system in which one of the tiers is clearly superior in terms of entitlements and benefits. Evaluation evidence shows that favouring trade-related over other displaced workers is not the most cost-effective method for achieving

good outcomes: many displaced workers need more help than they can currently receive while not all trade-related displaced workers need the help they are entitled to. A single *Dislocated Worker Programme* could include a universal set of services for all displaced workers and more expanded services for those who need it most, with more intense training related to local-area skill needs.

Providing all displaced workers the rights now provided to trade-displaced workers only would not necessarily raise the cost of a single programme to a great extent; extended UI is covered by payroll taxes and health benefits are a tax credit. The major additional cost of a uniform system is training. A rough estimate of the training cost of a single programme based on current usage and budget figures is that an additional 1 billion USD would be needed. Although this is double the current budget for the general Dislocated Worker programme, it would just mark a return to the higher budget allocation in the late 1990s. Administratively, cost saving would occur at the national level with the elimination of the trade-certification process and at the state and local level with just a decision needed whether a worker was displaced or not.

Until or in the absence of such comprehensive system change, a range of measures would help to remove the biggest inequalities and shortcomings. Among those are to i) make WIOA an uncapped programme to assure that displaced workers can get the support needed to find new employment; ii) reduce state involvement in TAA and make local authorities responsible for TAA operations along with the WIOA operations, to eliminate administrative duplication and simplify and unify contracting with service providers; and iii) expand the use of TAA funds to develop training programmes open to all displaced workers, such as the Trade Adjustment Assistance Community College and Career Training programme.

Headway should also be made in the future in taking better advantage of state and local area innovations. For example, Michigan has a programme with a strong initial worker assessment component and Pennsylvania advocates tacking on on-the-job training at the end of other training programmes – two features that have shown to be effective. There is a need to improve the capacity of providing technical assistance and knowledge sharing avenues for implementing recognised *good practices*, perhaps through the National Association of State Workers Agencies.

Otherwise, promising developments in the training field should be supported and mainstreamed in order to improve the often disappointing outcomes from training and to keep workers engaged. One such development is the move to provide more professional career guidance to all displaced workers in a career pathways approach through flexible training

approaches and a focus on stackable training that builds a worker's credentials. Workers can be asked to share the cost of training, especially at community colleges, as research has shown better outcomes of participants who have invested in their training; possibly using a rebate system to encourage programme completion. Initially, however, a focus on job-search training should be maintained, as many workers want a quick return to work. Teaching job-search skills is a proven and cost-effective technique.

From an equity standpoint whereby the US government supports restructuring which can lead to job losses through plant shutdowns and plants moving overseas and job gains in export industries and elsewhere, there is a strong case for better compensating the losers. Given the large and persistent wage losses that remain after programme participation and retraining, emphasis should shift to providing displaced workers with wage insurance. In the first place, policy should help displaced workers return to a job with equivalent pay and quality. Since for many this is not possible, wage insurance could bring them closer to previous earnings. Given the low take up of wage supplements in the RTAA programme and the unknown types of jobs workers will take and unknown behaviour of firms in terms of wage offers, a large-scale wage insurance demonstration with appropriate evaluation design should be undertaken before implementing a fuller-scale scheme.

Notes

1. As a condition of receiving grants from DOL, each state is required to submit reports of its major public workforce programmes on a regular basis. In 2009, DOL created the Public Workforce System Dataset, which assembled data back to 1995 for the federal major workforce programs. The original database was updated to 3rd quarter 2011 by the Upjohn Institute for Employment Research (http://www.upjohn.org).
2. A Health Coverage Tax Credit (HCTC) is also available to TAA-certified workers, which offers a refundable tax credit equal to 72.5% of expenditures on a qualified health plan. HCTC is administered through the federal tax code and not by state agencies.
3. A TAA petition may be filed by any of the following: a group of three or more workers, an employer of a group of workers, a union, a state workforce official, a one-stop centre operator or partner, or another duly authorised representative.

4. However, some of the increase in petitions in 2002 and 2009 was due to programme expansions adding secondary and service workers, respectively.

5. Data in Table 4.4 refer to TAA participants while data in Table 4.3 refer to people eligible for TAA. All those deemed eligible do not necessarily decide to participate in the programme.

6. The Health Coverage Tax Credit for workers was increased in 2009 from 65% to 80% of the monthly insurance premium.

7. Trade Act of 2002; Trade and Globalization Adjustment Assistance Act of 2009 (part of American Recovery and Reinvestment Act and reverted back to 2002 Act when it expired); Trade Adjustment Assistance Act of 2011; and Trade Adjustment Assistance Reauthorization Act of 2015.

8. Because TAA is an entitlement programme, a random control trial is not feasible because workers cannot be denied benefits they are entitled to.

9. Average earnings of TAA participants reporting wages in the first, second and third quarter after programme exit (Trade Act Participation Report data).

10. Once the college programme is developed, other groups can enrol if they meet the entrance requirements. The tuition is paid through TAA if a TAA participant, WIOA Adult or Dislocated Worker programme funds if a participant, or other student financial aid such as Pell grants or scholarships.

11. Money the federal government in the United States provides for low-income students to pay for college.

12. The decline in TAA trainees is to some extent also driven by policy change: when the 2011 programme expired on 31 December 2013, a more limited programme was in effect until the new 2015 programme was enacted on 29 June 2015.

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UNITED STATES

IMPROVING THE RE-EMPLOYMENT PROSPECTS OF DISPLACED WORKERS

Workers who are involuntarily displaced from their jobs can face long periods of unemployment. Wages also tend to be lower once they find a new job, especially when they are unable to find a new job in the same occupation as their pre-displacement job or in occupations using similar skills. Helping displaced workers back into work quickly and minimising the income losses they face are therefore an important challenge for employment policy. This series of reports provides new empirical evidence from a comparative perspective on the incidence of displacement and the risk that displaced workers may subsequently face a long spell of unemployment and large wage losses when re-employed. It also identifies the main labour market programmes providing help to these workers and assesses how adequate and effective they are. Policy recommendations for further action are presented. Nine countries are participating in the review: Australia, Canada, Denmark, Finland, Japan, Korea, New Zealand, Sweden and the United States.

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