

CBO TESTIMONY

Statement of
Ralph E. Smith
Chief, Employment and Income Security Unit
Human Resources and Community Development Division
Congressional Budget Office

before the
Subcommittee on Labor-Management Relations
Committee on Education and Labor
U.S. House of Representatives

April 20, 1993

NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT), Tuesday, April 20, 1993.



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

Mr. Chairman, I appreciate this opportunity to appear before the Subcommittee to discuss the experiences of workers who were displaced during the 1980s. My testimony summarizes the results of the Congressional Budget Office's (CBO's) recent study *Displaced Workers: Trends in the 1980s and Implications for the Future*.

The prospect of losing a job and needing to find another one is a concern for many workers. During the 1980s, an average of 2 million workers per year lost full-time jobs and were not recalled by their former employers. Some of these displaced workers soon found new jobs with wages at least as high as in their previous jobs. But others experienced long spells of unemployment, exhaustion of unemployment insurance benefits, and lower wages in their new jobs.

This statement examines three topics:

- o The number and characteristics of workers displaced in the 1980s;
- o The workers' experiences after displacement; and
- o Programs providing assistance to displaced workers.

Several recent developments have focused greater attention on the problems facing displaced workers. Cutbacks announced during the past year by General Motors, IBM, and Sears, among other firms, are dramatic examples

of the corporate restructuring and downsizing that are likely to displace workers in a wide range of industries in the future. Moreover, cuts in the defense budget over the next few years will cause large-scale job losses among workers in the defense industry--both federal civilian and military personnel and private-sector workers whose jobs end because their firms lose defense contracts. Changes in trade policy are also likely to displace some workers, although these reductions are not expected to be as large as those in the defense sector.

CBO's analysis is largely based on data collected for the Bureau of Labor Statistics (BLS) in surveys conducted in January 1984, 1986, 1988, 1990, and 1992. Displaced workers were identified as people who reported having "lost or left a job because of a plant closing, an employer going out of business, a layoff from which [they were] not recalled or other similar reason" during the five years preceding each survey.

CBO's analysis of these data differs from other studies in two important ways that should make it more useful. First, CBO developed a new technique that permits the data from all of these surveys to be combined and used to examine year-to-year changes in displacement, whereas the BLS and others have generally focused on the five-year averages from each survey.

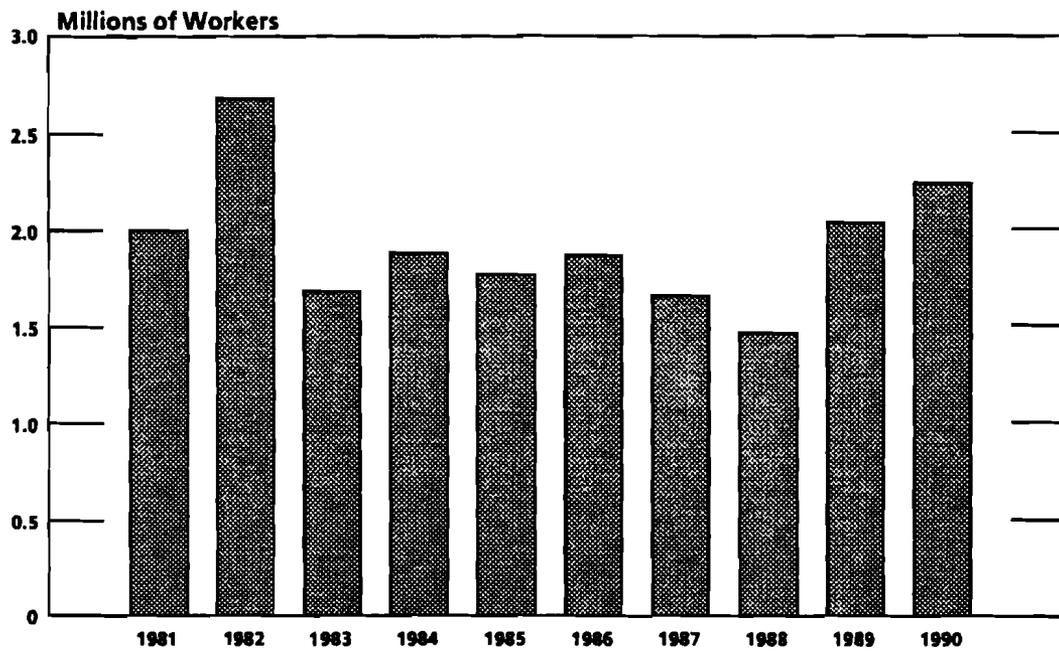
Year-to-year changes in the number of displaced workers exhibit important cyclical variation that the five-year averages mask.

Second, CBO counted workers as displaced regardless of how long they had been with their previous employer, whereas other studies have focused on the roughly half of displaced workers who were with their employer for at least three years. CBO's study uses the broader definition in part because the events that cause concern about displacement--such as large plant closings--are couched in terms of the number of workers who will lose their jobs, not just the number who had been with the employer for at least three years. Moreover, whether to provide assistance to displaced workers who had worked for their employer for less than three years would be a policy decision, one that can be informed by knowledge of the characteristics and experiences of these workers.

NUMBER AND CHARACTERISTICS OF DISPLACED WORKERS

From 1981 through 1990, the annual number of displaced workers generally mirrored the overall state of the economy. The numbers ranged from a high of 2.7 million workers displaced in the weak labor market of 1982 to a low of 1.5 million in the relatively strong labor market of 1988 (see Figure 1). Workers in the service sector and in white-collar occupations accounted for a rising portion of displaced workers during the decade, reflecting both the

Figure 1.
Number of Displaced Workers, by Year of Job Loss, 1981-1990



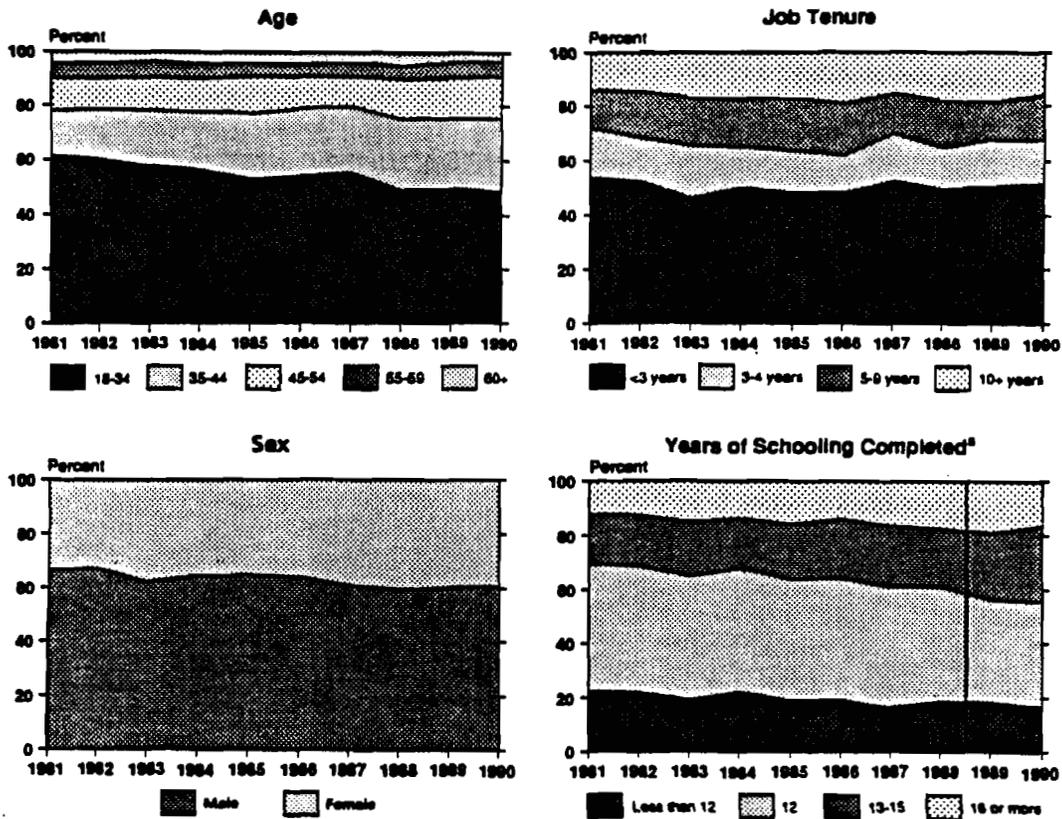
SOURCE: Congressional Budget Office tabulations of data from the January 1984, 1986, 1988, 1990, and 1992 Current Population Surveys.

increasing share of these industries and occupations in the nation's total employment and the increased risk of these workers being displaced. On the whole, however, workers in service industries and in white-collar jobs remained much less likely to be displaced than workers in goods-producing industries and blue-collar jobs.

The characteristics of displaced workers were remarkably stable during the 1980s, despite a wide swing in the business cycle, changes in industrial composition, and changes in a broad array of government policies. For example, throughout the decade, slightly more than 20 percent of all displaced workers were aged 45 and older, about 50 percent had been with their previous employer for more than three years, and 60 percent were male (see Figure 2). The percentage of displaced workers with schooling beyond high school grew from about 30 percent to 40 percent, though, mirroring the increased educational attainment of the work force as a whole.

The number of workers who will be displaced during the next few years may be somewhat larger than the number displaced in the late 1980s, because the economy is likely to be weaker and because defense-related employment is expected to shrink further. CBO forecasts a gradual economic recovery, with the unemployment rate falling from 7.4 percent in 1992 to 6.0 percent in 1996. The latter unemployment rate would still be one-half of one percentage point

Figure 2.
Characteristics of Displaced Workers, by Year of Job Loss, 1981-1990



SOURCE: Congressional Budget Office tabulations of data from the January 1984, 1986, 1988, 1990, and 1992 Current Population Surveys.

a. For workers displaced in 1989 and 1990, years of schooling completed is estimated on the basis of the highest degree obtained and is not strictly comparable with data for prior years.

above the unemployment rate in 1990, the final year of the 10-year period examined in CBO's study. Moreover, the downsizing of the defense sector that began in the late 1980s is expected to continue, with that sector projected to lose more than 1 million jobs during the next five years. (Estimates of the job losses in industries that would be adversely affected by the North American Free Trade Agreement are much smaller and spread out over a longer period.)

The stability of the characteristics of workers displaced during the past decade is no guarantee, of course, that the displaced workers of the future will look like those of the past. Workers displaced from a shrinking defense industry, for example, may well look different from those who lost jobs from a shrinking (in terms of employment) steel industry. At the same time, it is reasonable to expect that many of the factors that resulted in the patterns observed for displaced workers in the 1980s will continue. For example, seniority practices are likely to ensure that older workers continue to be a relatively small share of all displaced workers. Similarly, workers with more years of schooling will probably continue to have more stable employment patterns than those with fewer years of schooling.

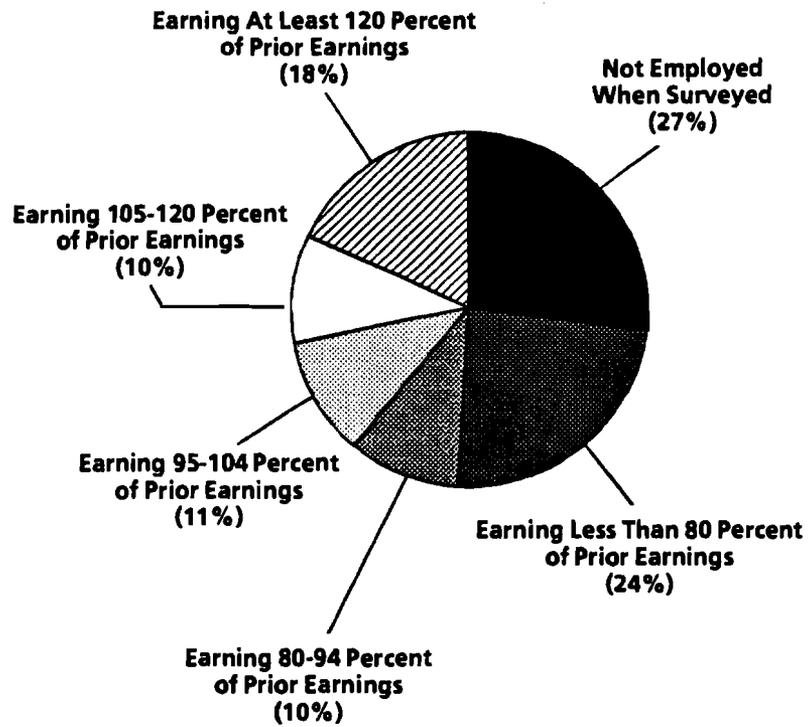
THE EXPERIENCES OF WORKERS AFTER DISPLACEMENT

Although some of the workers who were displaced during the 1980s found new jobs with little trouble, others experienced substantial difficulties. This finding is based on three measures used in the study to examine the consequences of displacement, each based on survey questions asked of displaced workers one to three years after they lost their jobs: whether or not they were employed at the time of the survey; how long they had been jobless; and the earnings of the reemployed workers in their new jobs relative to their previous earnings.

One to three years after being displaced, half of the workers who lost jobs over the past decade either were not working or had new jobs with weekly earnings that were less than 80 percent of their old earnings (see Figure 3). In contrast, more than a quarter of the displaced workers were reemployed and earning at least 5 percent more than their previous weekly earnings; nearly one in five had an increase in earnings of at least 20 percent.

The vast majority of displaced workers who had found new jobs experienced some period of joblessness after displacement, and many were without work for a substantial period of time. The average duration of joblessness for people reemployed at the time of the survey was just under 20 weeks. The reemployed workers who incurred the biggest wage reductions, on average, took the longest to find new jobs. For instance, those whose earnings

Figure 3.
Earnings of Workers Displaced in the 1980s
One to Three Years After Losing Their Jobs



SOURCE: Congressional Budget Office tabulations of data from the January 1984, 1986, 1988, 1990, and 1992 Current Population Surveys.

had declined by more than 20 percent had been jobless for an average of 26 weeks, whereas those whose earnings had increased by at least 20 percent were jobless an average of 14 weeks.

The state of the economy had an important influence on the extent of joblessness after displacement. It did not, however, have an apparent effect on the proportion of reemployed workers who incurred large losses in their earnings. The average duration of joblessness fell from almost 30 weeks in 1981 (during a recession) to 15 weeks in 1988. But the percentage of reemployed workers whose earnings had fallen by at least 20 percent was not substantially higher in 1981 than in 1988.

The displaced workers who incurred the largest losses were disproportionately those who were the least well educated, the oldest, and had the longest tenure with their previous employer. In fact, these groups were far less likely than the displaced workers who were better educated, younger, and had shorter tenure to be working at all at the time of the survey. For example, less than 60 percent of the displaced workers who had not completed high school had found new jobs, compared with more than 70 percent of the displaced workers who had completed exactly 12 years of schooling and almost 90 percent of those with 16 or more years of education.

Likewise, the less-educated, older, and longer-tenured workers who did find new jobs generally took longer to find them and were more likely to incur substantial wage reductions than were other displaced workers. For example, those reemployed workers who had not completed high school were jobless for an average of 39 weeks, and two in five of them incurred an earnings loss of more than 20 percent. In contrast, reemployed workers with at least 16 years of education were jobless an average of 22 weeks, and only one in four of them incurred that large a wage loss.

Despite variation over the business cycle in workers' outcomes after displacement, these relationships between workers' characteristics and their likelihood of difficulties were quite stable. That is, the kinds of workers who were jobless longer in bad years were also jobless longer in good years, and similar workers incurred losses in earnings in both good and bad years. Such stability reinforces confidence in the applicability of CBO's study for learning about the outcomes likely to face workers who are displaced in the future.

PROVIDING ASSISTANCE TO DISPLACED WORKERS

The federal government, together with state governments, offers a wide range of programs for displaced workers who need temporary income assistance until they find another job and help in preparing for, and finding, that new job.

Unemployment insurance (UI) is the main program providing income assistance to displaced workers (as well as to other workers who lose their jobs). The Economic Dislocation and Worker Adjustment Assistance (EDWAA) program and the Trade Adjustment Assistance (TAA) program provide reemployment assistance.

Unemployment Insurance

The UI program provides weekly benefits to experienced workers who lose their jobs, whether or not the job loss is permanent. Work histories determine the specific duration and weekly amount of benefits for workers, but benefits are generally available for no more than 26 weeks. When unemployment in a state is sufficiently high, the federal/state Extended Benefit (EB) program provides additional weeks of benefits. The Emergency Unemployment Compensation program, enacted in 1991 and amended in 1992 and 1993, temporarily enables unemployed workers who have exhausted regular UI benefits to receive further payments.

Displaced workers who received UI benefits (about 60 percent of the displaced workers in the decade analyzed) were much more likely than other UI recipients to exhaust their benefits without having found another job.

During the 1980s, about half of the displaced workers who received UI benefits exhausted them. In contrast, about one-third of all UI recipients ran out of benefits during that decade.

The Congress might want to consider expanding the potential duration of UI benefits for all displaced workers or for specific groups of them--those with relatively long job tenure, for example, or those who enroll in a retraining program or a program that helps participants find new jobs faster. Extending the maximum duration of UI benefits would help cushion the losses that many displaced workers would otherwise incur. To some degree, however, extending benefits would encourage recipients to remain unemployed longer. Linking the additional benefits to participation in some kind of reemployment assistance program (as is done in the TAA program, discussed below) could speed their adjustment, but it would be a major undertaking and would add significantly to the administrative costs of the UI program.

EDWAA and TAA

Under Title III of the Job Training Partnership Act, as amended by the Economic Dislocation and Worker Adjustment Assistance Act of 1988, states receive federal funds to help displaced workers obtain employment through

training and related employment services. Closely related programs exist for workers displaced because of defense cutbacks and implementation of the Clean Air Act. The funds for all of these programs are mainly used to provide classroom training, on-the-job training, and job search assistance to the participants. In recent years, between 200,000 and 250,000 displaced workers have participated in these programs annually.

TAA provides income replacement benefits, training, and related services to workers unemployed because of import competition. To get assistance, workers from a firm must first petition the Secretary of Labor for certification and then meet other requirements for eligibility. For a group of workers to qualify, the Secretary must conclude that a significant share of the firm (or a subdivision) is threatened with displacement; sales or production have decreased; and increased imports have "contributed importantly" to the reductions in employment and in sales or production. Certified workers are eligible for training and other reemployment assistance. Cash benefits are also available to certified workers, but only after their UI benefits run out. Benefits can last up to one year if recipients are taking part in an approved training program. In recent years, only about 25,000 displaced workers received cash assistance annually and fewer received training or other reemployment assistance.

EDWAA and TAA represent two quite different approaches to serving the needs of displaced workers. EDWAA emphasizes reemployment assistance, mainly through short-term training and job search assistance, with few participants receiving income support. In contrast, TAA essentially extends the potential duration of UI benefits for eligible workers willing to participate in a training program, with about two-thirds of the program's outlays going for income support. The debate over whether to use EDWAA or TAA as a model for developing a new displaced-worker program largely centers on the merits of providing income support longer than is normally available through the UI system.

In principle, the retraining assistance provided through either program could help displaced workers develop new skills or adapt their old ones, making them more valuable to new employers and thus helping them find new jobs at wages comparable with their old ones. Despite widespread support for retraining displaced workers, however, very little is known about the effectiveness of the current programs in increasing the earnings of their participants. The EDWAA program has not been evaluated, and preliminary findings from an evaluation of TAA now under way suggest that the training received by its participants has not increased their average earnings or their likelihood of being employed. Evaluations of earlier demonstration programs for displaced workers in specific sites provide considerable basis for optimism

about the effectiveness of job search assistance, but not of short-term training. Whether a better-designed, and possibly more extensive, training program would be more effective is a matter of conjecture.

CONCLUSION

To sum up my comments, CBO's study makes several points that may be especially relevant to the Subcommittee's deliberations. First, although the number of workers displaced each year is cyclically sensitive, displacement is fairly common even in a healthy labor market. Second, though some displaced workers find comparable jobs easily, others experience substantial difficulties. The displaced workers most likely to incur large losses are the least well educated, the oldest, and those who had the longest tenure with their previous employer. Finally, analyses of the UI, EDWAA, and TAA programs address issues that the Subcommittee may want to consider as it evaluates whether new measures should be taken to help displaced workers.