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Worker Adjustment in Perspective

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From One Job to the Next: Worker Adjustment in a Changing Labor Market

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1

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Those who embrace economic development as a goal must accept change. New products, services, and production processes require the reorganization of capital and labor, the building of new machines, and the learning of new skills. With adaptation to the new, comes elimination of the old; a dynamic economy is by definition one that challenges tradition. Like the village giving way to the city and agriculture to industry, economic development is an evolutionary process which reminds us of Darwinian natural selection.

Despite the similarities between natural and economic evolution, the comparison is as dangerous as it is misleading. The natural world operates through a violent, but elegant, barbarism. Economic development, on the other hand, can be barbaric, but need not be so. At its worst, “progress” destroys communities, leaving workers and their families unemployed without usable skills, and vulnerable to personal and financial loss. At its best, change is (using the economist’s term) “Pareto optimal,” creating an overall benefit without harming anyone in particular. In the history of our country, it is doubtful that any episode of economic development was Pareto optimal, but this does not alter the fact that growth is a social process subject to our control.

All countries that pursue the goal of economic development and change have institutions to support the flexible allocation of workers and capital. Japan’s system of lifetime employment, for example, allows for the retraining and reallocation of workers within the firm (though there is obviously limited interfirm mobility). In Sweden, where layoffs are more common, the state and its labor market boards

play an important role in the readjustment process. In the United States, we have developed a system closer to the free market ideal, in which the price of growth is paid in large part by the workers affected by change.

The human cost associated with economic change leads to tension in all economic systems. In the U.S., the latest wave of change has purged hundreds of thousands of workers from their jobs, most in the goods-producing sectors. Many of these job-losers have suffered substantially, experiencing long periods of joblessness and declining real earnings. Understandably, workers remaining in goods-production and other mature industries have sharpened their concerns about job security. The industrial relations system has formed the beginning of a response in the shape of negotiated settlements that better protect workers from layoff. In return, workers have ceded to management demands for wage moderation and more intracompany flexibility.

These changes are slowly moving throughout the economy, representing a free market “contract renegotiation” in response to the risks of economic change. But in the main, the U.S. system continues to rely on the opportunities created through the unrestricted ability of employers to lay off workers, to close plants, and to move capital.¹ For the most part, our society has embraced this flexibility—and the hardship associated with it—as an essential ingredient within a dynamic economy.

The public policy response to displacement pressures in the United States has been tentative and experimental, exerting little fundamental, institutional influence upon the panorama of growth and change. Ironically, the public policies that have most recently affected the level and nature of displacement from manufacturing and other trade-sensitive sectors have done so unintentionally. The deep recession at the beginning of this decade—largely an anti-inflation strategy—brought manufacturing to its knees. Expansionary fiscal policy since that time, in combination with tight money, maintained real interest rates at a high level and drove up the value of the dollar. When combined with tax reform legislation and a doubling of real military spending, these policies resulted in an unprecedented, noninflationary economic expansion. But the strong dollar and high real interest rates also created a

favorable climate for the consumption of imports and for foreign investment, while sales by American manufacturers suffered in both domestic and foreign markets.

The macroeconomic policies of the early 1980s were not in and of themselves a fundamental cause of the long-term decline in goods-production. The movement of employment away from manufacturing and into services has been part of a long-term trend. The type and mix of fiscal and monetary policies did, however, work to accelerate the rate of change. What might have been a rising tide of transition became a wave of plant closings and layoffs. According to the Bureau of Labor Statistics, almost 11 million workers were displaced from their jobs because of plant closings or employment cutbacks in the five years leading up to January 1986.² Despite the economic expansion, which began in October 1982, the General Accounting Office has estimated that over 16,000 establishments with 50 or more employees either closed altogether or permanently laid off workers during 1983 and 1984 alone.³

A unique feature of recent economic change is the effect it has had on the mobility of workers. For the 11 million displaced workers, the road to recovery became blurred by large-scale changes in the composition and hiring requirements of jobs. At the same time that blue-collar jobs were giving way to new, white-collar opportunities, employers were increasingly demanding better educated and trained workers. One result of this was the emergence of (human capital) gaps in the education and hiring requirements of declining and growing jobs. High-wage jobs as well as low-wage jobs were taking on a new character, shifting from goods-production to service industries, and from the "hands" of the workers to their "minds." In this environment, job loss often meant long-term unemployment and earnings loss.

Against this backdrop of change, the federal government instituted new policies and programs to facilitate the transition of workers to new jobs. Whether it be through retraining, remedial education, or simply job search assistance, these policies and programs were intended to help workers find new, meaningful jobs as the economy continued its long-term shift from goods-production to service employment.

The Legislative and Program Framework

In the labor market, the policy approach has been to focus more on ameliorating the effects of change rather than on modifying the process of change itself. Training and education for employed workers are viewed largely as a private responsibility for the employer and employee to negotiate. Despite the increasingly important role of skills-upgrading, the public's strategy is to assist workers only after the process of change has affected them.

The closest the United States has come to an institutionalized policy which facilitates economic change while protecting workers has been the varied set of displaced worker programs in place, on and off, since 1961. The most recent long term program—Employment and Training Assistance for Dislocated Workers—was established under Title III of the Job Training Partnership Act (JPTA) of 1982. This program, recently replaced by the Economic Dislocation Worker Adjustment Assistance Act, was administered by the states, who received an annual, formula-based allocation to assist dislocated workers in obtaining unsubsidized employment. Eligibility for the program was left to the discretion of the states within broadly established guidelines. These guidelines were intended to direct Title III to individuals unlikely to return to their old industries and occupations by focusing on those who:

- (1) have been terminated or laid off or who have received a notice of termination or layoff from employment, are eligible for or have exhausted their entitlement to unemployment compensation, and are unlikely to return to their previous industry or occupation;
- (2) have been terminated, or who have received a notice of termination of employment, as a result of any permanent closure of a plant or facility; or
- (3) are long-term unemployed and have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which such individuals reside, including any older individuals who may have substantial barriers to employment by reason of age.

The implicit goal of Title III was to reemploy as many dislocated workers as feasible in new, expanding occupations and industries, and to do so through retraining and related program services. The legislation provided states with substantial discretion in selecting an appropriate mix of services from among a long list of authorized activities, such as job search assistance, occupation skills training, relocation assistance, and supportive services.

While the intention of Title III was to provide states with the flexibility to develop programs to meet their own unique needs, most adopted a relatively short-term intervention strategy, acting much like a safety net for workers unable to cope successfully with the pace and nature of economic change. During the first three full program years, stretching from July 1984 to June 1987, the states spent roughly \$538 million to serve some 386,000 individuals. At an average cost of \$1,400 and a 20-week mean duration of participation, Title III did not emerge as a major force in retraining America's unemployed workforce for tomorrow's jobs.

Several factors have contributed to this. For one thing, the absolute level of Title III funding has been sufficient to serve only a small proportion of all potentially eligible dislocated workers. Between 1981 and January 1986, for example, 1.75 million workers 20 to 61 years of age were displaced from full-time private sector jobs annually.⁴ Assuming the average cost of \$1,400, nearly \$2.5 billion would be required to serve these individuals at current investment levels, well above the annual Title III allocation. Even if we grant that 60 percent of these individuals will obtain employment themselves, nearly \$1 billion would still be needed to serve just over 700,000 dislocated workers each year. For state and program operators faced with a potential demand for training assistance that well exceeds existing capacity, it is quite natural for them to spread available resources across as many individuals as feasible.

Limited dollars does not imply that increased funding levels will necessarily lead to more costly and lengthy investments. Rather, a natural response to higher funding levels would be to extend services to a larger fraction of the eligible population. Indeed, the experience under Title III suggests that when faced with funding increases, states

chose to expand rather than intensify their service strategies. As shown below, program expenditures increased over the first three years of Title III, and so did the number of individuals served; as expected, the mean duration of stay (a reasonable proxy for investment intensity) remained fairly stable.

**JTPA Title III Program Expenditures, Service
Levels and Duration of Stay, by Year**

	PY84	PY85	PY86
Program expenditures (in 000s)	160,332	184,446	193,312
Program participants (in 000s)	178	208	211
Mean weeks of total participation	18	19	20

SOURCE: Job Training Annual Status Report, Employment and Training Administration, U.S. Department of Labor, unpublished data.

Beyond funding levels, the personal costs of program participation also contributed to the short-term program strategy adopted under Title III. To begin, most dislocated workers qualify for unemployment insurance (UI) and a large proportion of them exhaust their benefits within the standard 26-week time frame. Since Title III was not, by design, intended to extend the UI benefit period, and because supportive services (including subsistence payments) were limited to 15 percent of total program expenditures, longer-term program participation was contingent upon workers finding alternative sources of income, such as night jobs, the earnings of other family members, and savings. For that matter, the very participation in JTPA can be a costly endeavor since unemployed dislocated workers need a job as much as they may need some measure of retraining.

As a result, unless they offered the promise of immediate reemployment, programs experienced substantial difficulty attracting dislocated workers. Available evidence indicates that dislocated workers are reluctant to enroll in employment and training programs partly because of their focus on rapid reemployment.⁵ According to a recent GAO study, for example, only 26 percent of Title III participants received classroom skills training, while 66 percent received job search

assistance.⁶ Moreover, of those who did receive training, their median duration of program participation was only nine weeks.

No doubt, even these modest investments have alleviated some of the private and possibly social costs of displacement. Placement rates under Title III have been high—70 percent during the 12-month program year ending in June 1987—and workers have been able to average \$6.33 an hour on their new jobs.⁷ Whether the program's investments have helped dislocated workers achieve employment and earnings levels above what would have otherwise occurred, however, is another issue. So too is the issue of earnings loss. While Title III programs may be able to affect earnings favorably, it is still quite plausible for workers to experience significant declines relative to the layoff job.

Indeed, this mixed result has emerged in several studies of the effectiveness of employment and training programs for displaced workers.⁸ Despite evidence showing favorable earnings impacts, displaced workers still earned less than they did on their layoff job. In one study of several demonstration projects established by the state of Texas, for example, workers experienced an average earnings loss of approximately 33 percent, despite the presence of earnings gains.⁹ This result is not qualitatively different from the national experience of dislocated workers and highlights the reemployment focus of the JTPA program.

The result also points up how recent shifts in the structure of job opportunities have frustrated the efforts of employment and training programs to facilitate worker adjustment to economic change. The primary issue here has to do with occupational and industry job-changing.

As commonly defined, displaced workers are individuals who have lost their jobs through no fault of their own and who are unlikely to return to their old industries and occupations. Several studies have shown that about half of displaced workers obtaining reemployment actually return to their same broad industry and occupational groups, however.¹⁰ Largely as a result of emerging human capital gaps, those who do change industries and occupations are found to be most likely to experience an earnings loss. Absent retraining and education services that enable workers to obtain comparable-wage jobs, the implicit

goal of Title III to move workers to new, growing sectors may well come in conflict with a worker's primary objective of limiting earnings loss.

This conflict is at the heart of developing effective employment and training programs for dislocated workers. While JTPA is focused on the goal of reemployment, per se, it is difficult to divorce it totally from the issue of earnings loss. Changes in the structure of job opportunities, together with worker interest in minimizing earnings loss, leave reemployment as a necessary but often insufficient condition for program success. The key issue faced by policymakers is determining how to design policies and programs that fit with both worker interests and needs and the structure of changing opportunity.

Emerging Policy Issues

In the summer of 1988, the Congress enacted new trade legislation designed to strengthen employment and training for displaced workers. Among the provisions of this legislation is a new program for displaced workers that replaces Title III of JTPA. The new program—the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA)—requires that 80 percent of the funds available be allotted, by formula, to the states. The remaining 20 percent can be reserved by the Secretary of Labor for discretionary purposes.

Of the funds received by the states, up to 40 percent may be set aside by the governor for administration, technical assistance, and coordination, as well as to support statewide, regional, or industrywide projects, including rapid-response activities to address unexpected plant closings and mass layoffs. The remaining 60 percent is allocated to local Service Delivery Areas with a population of at least 200,000, according to a formula prescribed by the governor.

With the exception of selected other changes in the governance structure of JTPA, the EDWAA program will closely resemble Title III of JTPA. While EDWAA does authorize the establishment of a voucher system, it continues to provide states, and now SDAs, with substantial discretion in selecting programs and services to offer dis-

placed workers. Skills training, job search assistance, support services, and relocation remain among the services authorized under the program. EDWAA does, however, increase JTPA's current 15 percent spending limitation on support services to 25 percent, reflecting the importance of such services to successful program participation.

In many respects, the EDWAA program represents a new set of challenges. After nearly six years of experience under Title III, the expectation is that EDWAA will strengthen the nation's response to economic dislocation and worker adjustment. But such improvements may be evasive. Despite the experience and knowledge gained under Title III, critical issues still remain to be resolved.

Perhaps most important is achieving a better understanding of the feasibility of facilitating worker adjustment. This has proved to be a more complex undertaking than initially envisioned, largely because of the experienced nature of dislocated workers and the pace and nature of structural changes in the economy. As such, it is important to place the issue of worker adjustment in the context of the changing structure of job opportunities in the U.S. These changes have reshaped many of the mobility avenues available to workers and have also limited their ability to obtain new jobs that offer wages commensurate with their skills and experience.

There are several aspects of the mobility process that have an important bearing on the shape and nature of worker adjustment. Among these are the feasibility of moving from declining to growing sectors and the implications of such moves for earnings; the type and level of training required to facilitate such moves; and the role of short-term training in facilitating mobility while minimizing earning loss.

At the same time, however, it may not always be appropriate to focus solely on the employment and earnings of the dislocated worker. The loss of one's job will likely influence the labor force participation of family members, which, especially in instances of sharp earnings loss, can have a favorable influence on overall family income. It is thus useful and appropriate to also consider the additional earnings that could be generated by a working spouse when considering appropriate worker adjustment policies.

Organization of the Monograph

This monograph is intended to contribute to the formulation of policies and programs designed to facilitate worker adjustment to economic change. We take as our starting point changes in the structure of job opportunities in the U.S. and seek to assess their effect on the post-layoff adjustment process of displaced workers and policies to facilitate it.

Chapter 2 of the monograph focuses on how the structure of job opportunities in the U.S. has changed in the recent past, and those issues and problems the changes may pose for successful worker adjustment. To conduct the analysis, we relied on a uniform series of the March Work Experience Supplements to the Current Population Survey (CPS). The CPS is a monthly survey of a random sample of approximately 60,000 households designed to capture basic information on employment and unemployment in the U.S. In March of each year, a special work experience supplement is administered to obtain more detailed data on the employment and earnings experiences of the American population. Relative to other data sources, the CPS offers two key advantages. First, its size and scope permit detailed analysis for the total population as well as subgroups of it. Second, the annual administration of the March Supplement provides a basis for conducting cross-sectional and time series analysis of labor market trends and developments. The chief drawback of the CPS, however, is the absence of longitudinal information on sample members.

The data used in chapter 2 were obtained from a uniform series of the March Supplements created under the direction of Professors Robert Mare and Christopher Winship. Since the scope of the CPS, as well as key definitional terms and questions, have changed over time, the Mare-Winship data offer a uniform and consistent series of information over time. The data included in this analysis focus on wage and salary workers aged 16 to 61 employed in private, nonagricultural jobs between 1970 and 1985.

Chapter 3 assesses the manner in which displaced workers have responded to changes in the structure of jobs, and the implications that emerge for program policy. Here, we rely on data obtained from the January 1986 Dislocated Worker Supplement to the CPS. These sup-

plemental data were gathered on all household members included in the monthly CPS 20-years-old and over who left or lost a job in the preceding five years because of a plant closing, a permanent reduction in force, layoff without recall, or some similar reason. Those identified as displaced were asked a series of questions relating to both their layoff jobs and their post-layoff employment and earnings experience. All private, nonagricultural wage and salary workers between the ages of 20 and 61 were selected for the analysis.

Like the March CPS, the January Supplement contains a nationally representative sample sufficient in size to conduct subgroup analysis. The January Supplement is also the only available source of data that explicitly identifies displaced workers and reports on selected aspects of their employment and earnings experience. The chief disadvantage of this data set is the lack of longitudinal information on sample members.

The final chapter draws together the conclusions from our analyses for the purpose of identifying the major challenges faced by programs and policies designed to facilitate worker adjustment to economic change. It discusses realistic policy goals and their implications for program strategy.

NOTES

1. On August 4, 1988, the Congress enacted new legislation, the Worker Adjustment and Retraining Notification (WARN) Act, requiring that, under certain conditions, employers with 100 or more employees provide advance notice prior to closing a plant or instituting a mass layoff.

2. Francis W. Horvath, "The Pulse of Economic Change: Displaced Workers of 1981-85," *Monthly Labor Review* (June, 1987).

3. *Dislocated Workers: Extent of Business Closures, Layoffs, and the Public and Private Response*, General Accounting Office, Human Resources Division, Report HRD-86-116BR, July 1986.

4. Between 1981 and January 1986, 8.75 million workers, aged 16 to 61, were permanently displaced from jobs, yielding an annual average of 1.75 million. See chapter 3 for details on the characteristics of these workers.

5. See, for example, Lee Bruno, *Study of Selected Aspects of Dislocated Worker Programs: Final Report*, Employment and Training Administration, U.S. Department of Labor, April 1986.

6. *Dislocated Workers: Local Programs and Outcomes Under the Job Training Partnership Act*, General Accounting Office, Report HRD-87-41, March 1987.

7. Job Training Annual Status Report, Employment and Training Administration, U.S. Department of Labor, unpublished data.

8. See, for example: Howard S. Bloom, *Retraining Delaware's Dislocated Workers: Final Impact Evaluation*. Bloom Associates, Inc., Newton, MA, June 1984. Howard S. Bloom, et al., *Evaluation of the Worker Adjustment Demonstration: Final Report*, Abt Associates Inc., Cambridge, MA, July 1986. Walter Corson, et al., *An Impact Evaluation of the Buffalo Dislocated Worker Demonstration Program*. Mathematica Policy Research, Inc., Princeton, NJ, March 1985. Jane Kulik, et al., *The Downriver Community Conference Economic Readjustment Program: Final Evaluation Report*. Abt Associates Inc., Cambridge, MA, May 1984.

9. Bloom, et al., *Evaluation of Worker Adjustment*.

10. Horvath, "Pulse of Economic Change."