

# Displaced Long-Term Workers or Long-Term Displaced Workers What to do?

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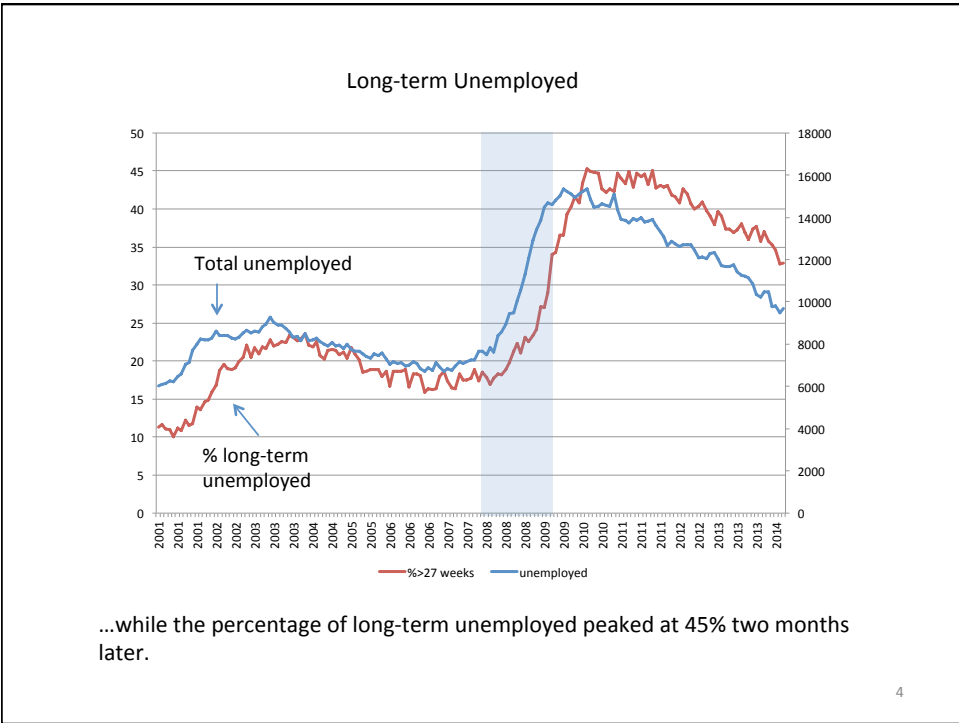
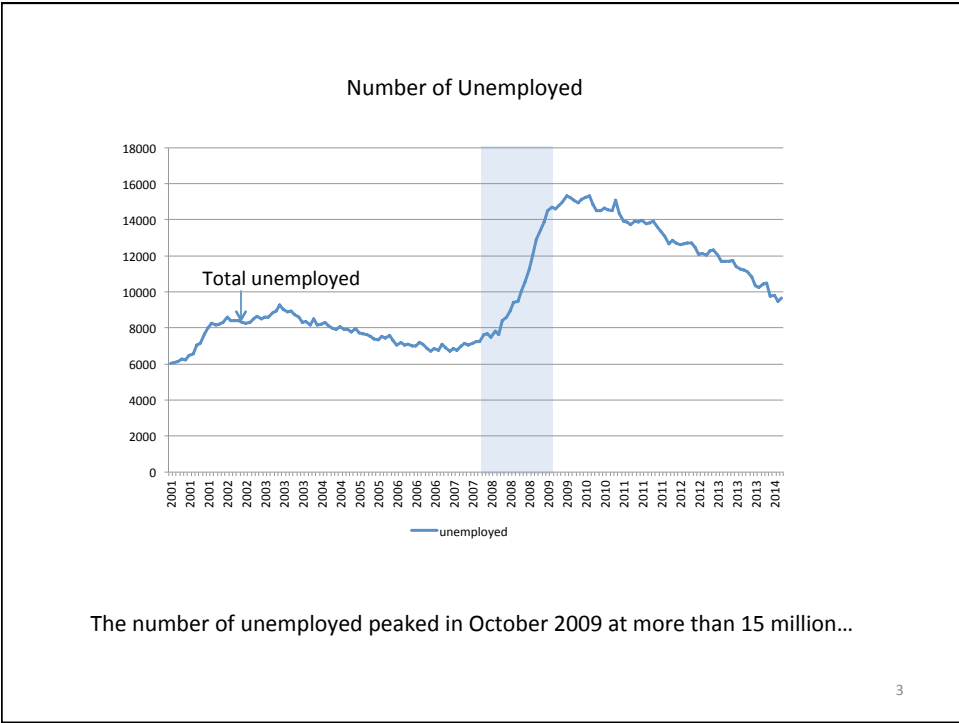
Randall W. Eberts  
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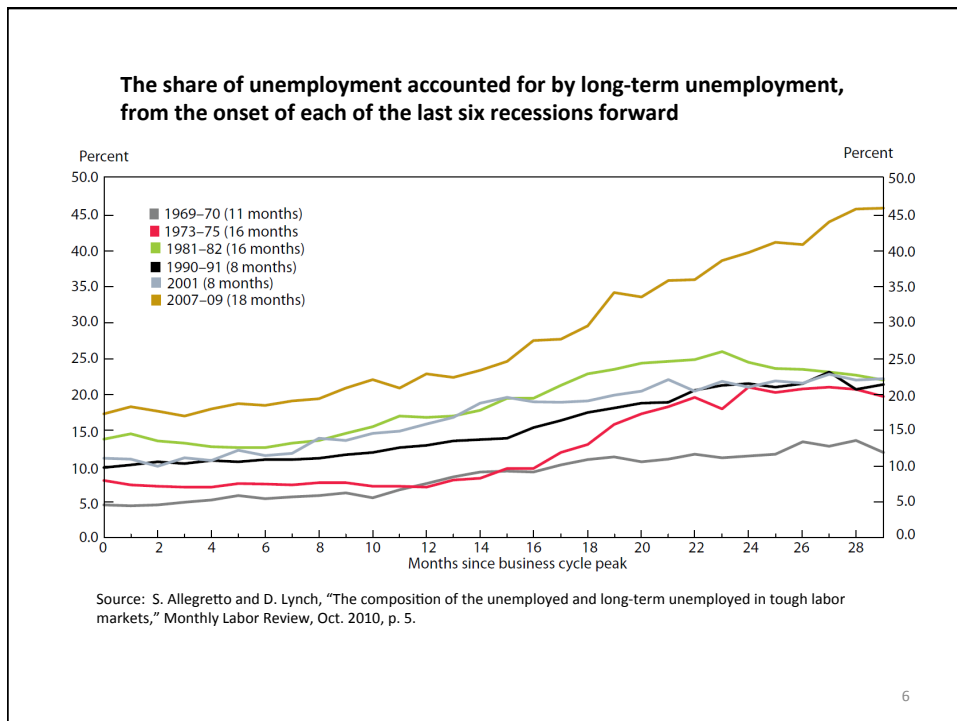
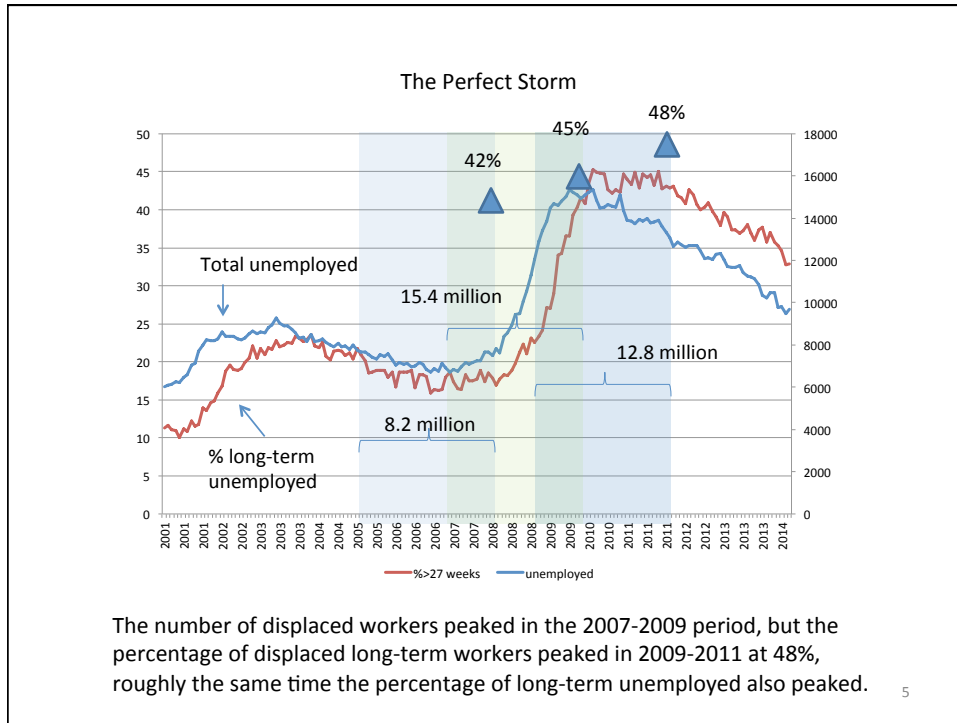
The Middle Class and Social Policy: Rethinking the Canadian Model?  
Queen's International Institute on Social Policy  
Queen's University  
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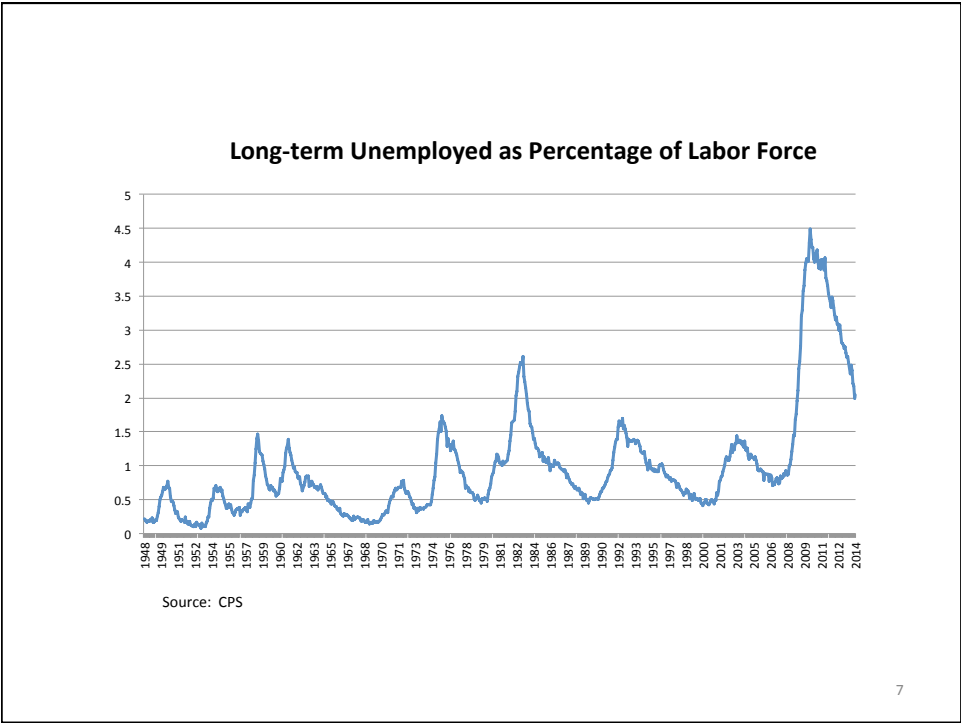
## Outline

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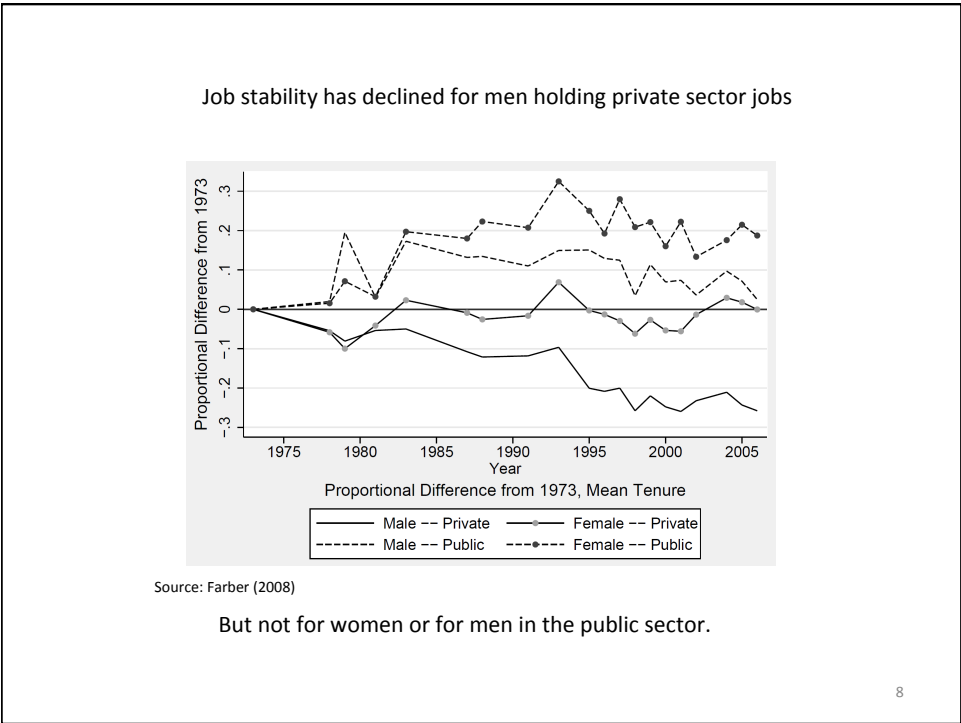
- Displaced long-term workers and long-term displaced workers in perspective
  - Job loss
  - Job finding
  - Reemployment earnings
  - Characteristics, including older worker comparisons
- U.S. policies and programs to help “long-term” unemployed
  - Extended UI benefits
  - Wage insurance
  - Wage subsidies
  - Public-Private Partnerships
  - Intensive training and income supplements



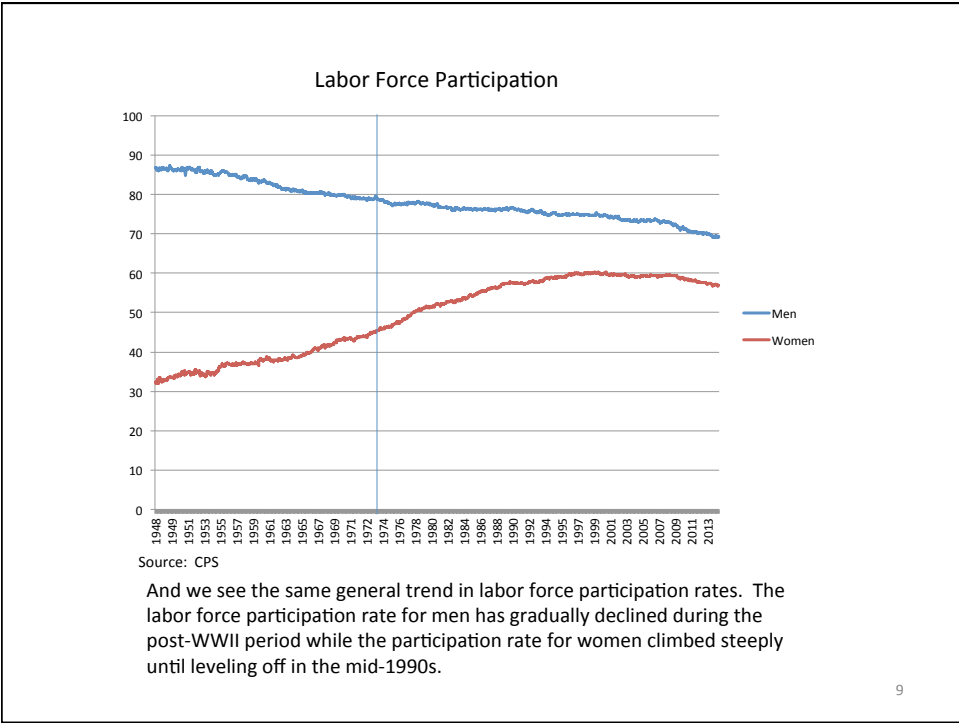




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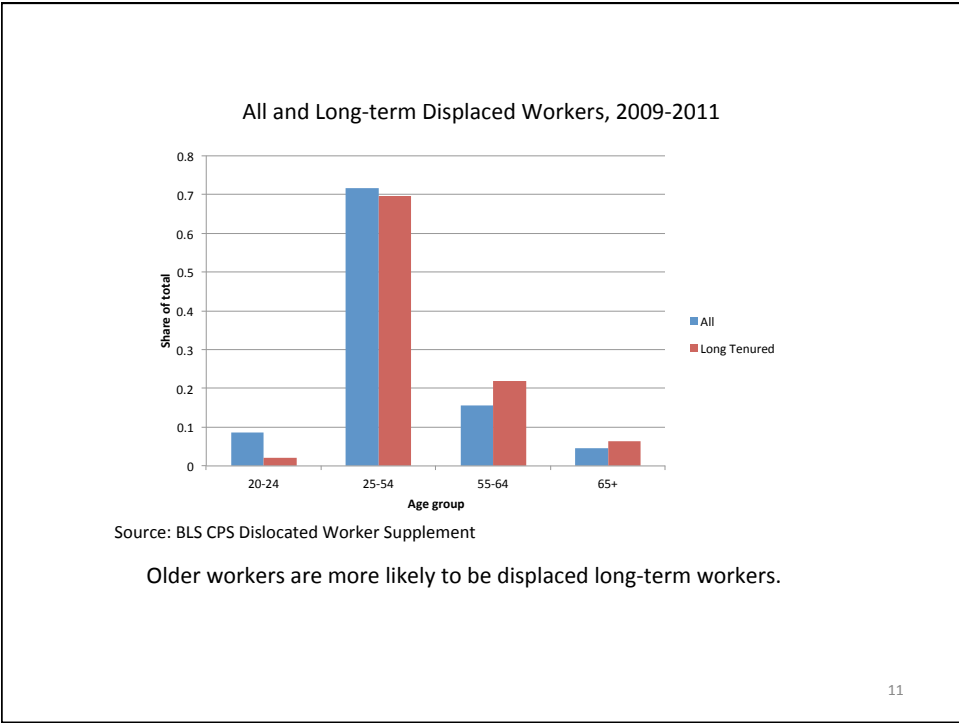
## Displaced Long-term Workers

- Defined by BLS as workers who have been employed for at least three years and lost their job through no fault of their own

Reason	Long-term	All
Plant or company closed or moved	30.8%	26.7%
Insufficient work	39.5%	47.6%
Position or shift eliminated	29.7%	25.8%

Source: BLS CPS Dislocated Worker Supplement, 2009-2011

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### Employment Status of All and Long-term Displaced Workers, 2009-2011

Age	Employed		Unemployed		Not in labor force	
	All	Long-term	All	Long-term	All	Long-term
20+	56.9	56.0	27.5	26.7	15.7	17.4
20-24	54.4	61.7	27.2	22.4	18.4	15.7
25-54	60.7	61.5	27.4	26.2	11.9	12.3
55-64	49.2	47.4	28.3	28.1	22.5	24.5
65+	22.3	23.5	27.2	27.5	50.5	49.0

Source: CPS Displace Worker Supplement, BLS

Looking at the aggregate numbers, there does not appear to be much difference between employment status of displaced long-term workers and all displaced workers. Except for the youngest age group, the employment rates and not-in-labor-force rates are roughly the same for long-term displaced workers and all displaced workers.

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## Displaced Long-term Workers

- There are some subtle differences, particularly between older and younger workers, which do not show up in the aggregate data
- Job loss:
  - Rate of job loss is higher for older workers than younger ones
    - Farber (2008) found that 45-54 year olds had a 58% higher job loss rate than 20-24 year olds in 2000s
    - This rate increased from 19% higher in the 1980s
  - Advantage of education in reducing the job loss rate diminished
    - Farber (2008) showed the college to high school differential fell from 20% lower in 1980s to 12% lower for those with a college education
- Older longer-tenured workers have a tendency to drop out of the labor force compared with younger workers

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## Displaced Long-term Workers

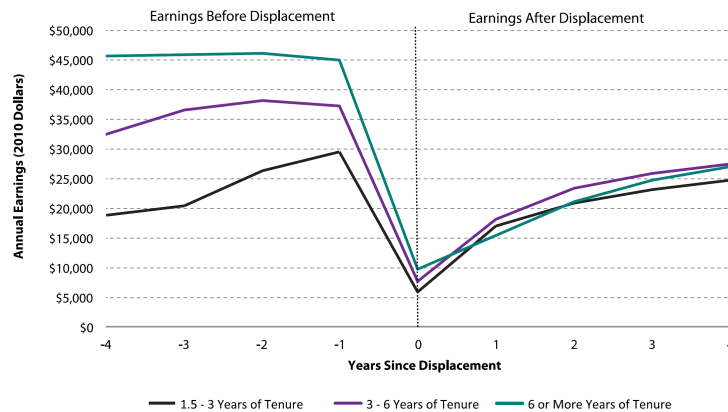
- Reemployment rate:
  - Those with longer tenure are more often on recall and thus more likely to return to same employer and same position
  - For those not on recall, the job finding rate is lower for longer-tenured displaced workers
    - Analysis of Michigan UI wage records shows that reemployment rate is lower for those with 5 or more years of tenure on pre-displacement job compared with only 1-5 years of tenure
  - Older workers have lower reemployment rates than younger workers (Eberts and O'Leary. 2008)
  - Older workers are 40 percent less likely to be called back for an interview than younger workers
  - Long-tenured workers have less experience searching for jobs

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## Displaced Long-term Workers

- Earnings:
- Transitional earnings losses usually are much smaller than their earnings losses after they are reemployed.
- In the most recent DWS, of those who had been reemployed fulltime, 49% had earnings losses and 30% had earnings losses greater than 20%
  - 60% had earnings losses in durable manufacturing
- Canadian evidence shows that displaced workers with at least five years' tenure on the old job have an average earnings loss of 25-30 per cent, even many years after the initial job separation (Jones, 2011).
- Displaced workers who had accumulated the most tenure with their prior employers face, on average, the steepest and most persistent income losses upon reemployment (LaLonde, 2007).
- Tend to earn less in new job because their skills are industry or job-specific
- Older workers are less successful at returning to the earnings levels achieved before they lost their jobs than are younger workers

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Source: Jacobson et al. (2005c, Figure 1, p. 49)

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## Long-term Displaced Workers

- Long-term unemployed are likely to be displaced long-term workers
- Older workers are more likely to be unemployed longer than younger workers
- Long-term unemployed more likely to be at the margins of the labor force, moving back and forth between unemployment and not in the labor force
- Few differences in the characteristics of long-term versus short-term unemployed, with respect to education, race, industry, and occupation
- Those who return to work typically return to the same industries
- Many have ruled out skill or spatial mismatch as a major reason for the inability of long-term unemployed to find jobs
- Differences have to do with the way employers treat long-term unemployed
  - Some employers have considered any unemployment spell as a signal of lower productivity or mismatch with company culture

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## Job Finding Rate and Duration Dependence

- Job-finding rate falls sharply for first 8-10 months of unemployment and then declines much less steeply after that
  - The pattern is similar even after controlling for personal characteristics (Kroft, Lange, Notowidigdo, and Katz (2014))
- Likelihood of a call back for an interview decreases sharply for first 8 months of unemployment and then tapers off (Kroft, Lange, and Notowidigdo (2013))

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## Unemployment to Left Labor Force

- Those who stop searching and leave the labor force are less likely than short-term unemployed to return to school and few go on disability or into retirement (Krueger, Cramer, and Cho, 2014)
- Disability Insurance plays at most a minor role in incentivizing long-term unemployed to leave the labor force

Response at month 16	Duration of Unemployment in Month 1 of interview	
	<27 weeks	>27 weeks
Taking care of house or family	43%	56%
Other unspecified activities		19%
In school	32%	16%
Retirement		2%
Disability		3%
Illness		1%

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## General Conclusion: Long-term Unemployed

Krueger, Cramer and Cho (2014) conclude that:

- “ Long-term unemployed in the U.S. are an unlucky subset of the unemployed.
- Their diverse and varied set of characteristics implies that a broad array of policies will be needed to substantially lower the long-term unemployment rate and stem labor force withdrawal,
  - As concentrating on any single occupation, industry, or demographic group or region is unlikely to have a substantial impact on reducing long-term unemployment by itself.
- Understanding the labor market and personal hurdles faced by the long-term unemployed should be a priority for future research in order to craft solutions to reduce long-term unemployment” (p. 54).

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## Problems Facing Displaced Workers

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- UI replaces, on average, only about 47 percent of former earnings and only while unemployed
- After they find new jobs, workers' earnings often are 80 percent or less of prior earnings
- Not in a position to cover the out-of-pocket expenses of training and need to support a family while in school
- Typically not eligible for other education assistance because family earnings are too high or already have four-year degrees
- Displaced workers typically lack the information needed to enter and complete high-return programs
- Need more training than typically provided by workforce programs
  - It requires the equivalent of two academic years of retraining for a displaced worker to recover from a 20 percent earnings loss.
  - Workforce Investment Act (WIA) provides training vouchers that are about one-tenth of what high-tenured displaced workers would need to meaningfully address their earnings losses.

Jacobson, LaLonde, and Sullivan (2011)

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## Policies and Programs

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- Extended UI benefits
  - Congress extended benefits during the recession beginning in 2008
- Wage Insurance
- Wage subsidy programs
  - The Recovery Act provided \$1.3 billion for states to establish subsidized job programs under TANF Emergency Fund
  - Other programs have also been in effect
- Public-private partnerships
  - Administration recently announced Ready to Work H1B program as part of a three-prong strategy
- Intensive job training with income support

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## Extended UI Benefits

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- Congress extended UI benefits beginning in 2008 so that displaced workers could receive up to 99 weeks of benefits
- UI benefits replace half the earnings loss of unemployment and when benefits end only a small portion of loss offset by food stamps or other social safety net programs
- Controversy whether this has prolonged the high unemployment rates and has contributed to long-term unemployment
  - Farber and Valetta (2013)
    - Find a small but statistically significant reduction in the unemployment exit rate and a small increase in the expected duration of unemployment arising from both sets of UI extensions
    - The effect on exits and duration is primarily due to a reduction in exits from the labor force rather than a decrease in exits to employment
    - The major effect of extended benefits is redistributive, providing income to job losers who remain nominally unemployed so they can collect UI benefits instead of exiting the labor force
  - Card, Chetty, and Weber (2007) and Rothstein (2011) find similar results

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## Wage Insurance

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- Addresses the finding that long-tenured displaced workers who find jobs typically find lower-paying jobs
- Wage insurance pays benefits to eligible workers only after they find a job and the job pays less by some threshold than their pre-displacement job
- Limit benefits to 50% of the difference between pre-displacement wages and post-displacement earnings
  - So that there is still an incentive to search for more productive, higher paying jobs
  - But the benefit should be large enough and for a long enough time (four years) to entice displaced workers back into a job
- Recently promoted by LaLonde

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## Wage Subsidies

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- Recovery Act of 2009 included \$1.3 billion under the TANF Emergency Fund for states to establish job subsidy programs for needy families
- Operated as a federal-state partnership
  - Federal government provided the funds covering 80% of increased costs to states and employer portion of costs to supervise and train workers made up the rest
  - States designed and operated programs, with 39 states participating
- 260,000 subsidized job placements were split evenly between year-round adults and summer youth, at an average cost of \$5,000 per placement

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## Florida Back to Work

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- Administered at the local level by regional workforce boards that entered into direct agreements with employers for each individual the employer hired.
- The program placed individuals in jobs with for-profit, non-profit, and government agencies at the prevailing wage for the occupation, up to a maximum of \$19.51 per hour, and reimbursed employers for 80 to 95 percent of the cost of wages and related payroll costs.
- An individual could stay in the placement for up to 12 months, but because the program ended when the funding expired, most participants never reached the maximum duration.
- For-profit agencies were asked to commit to hire, and non-profits were encouraged to do so.
- The program was targeted to parents with income under 200 percent of the federal poverty level.

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## Evaluation

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- Evaluation of five sites in four states by Economic Mobility Corporation
  - Tracked participants before and after subsidized program
  - One state used a comparison group--Florida
- Findings:
  - Participation in subsidized employment led to increased employment and increased earnings, about \$2,500 higher than comparison group
  - Long-term unemployed benefited more from subsidized jobs, by \$3,500 over short-term unemployed
  - Participants with significant barriers benefited
  - Most employers (63%) reported they created jobs that would not have existed otherwise

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## Work Opportunity Tax Credit

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- Hamersma (2008) examines the effects of WOTC/WtW wage subsidies on employment, wages, and job tenure.
- Her evaluation focuses on one of the targeted populations under WOTC--short-term welfare recipients.
- Finds a positive effect of WOTC on employment near the time eligibility occurs
  - 5.9 percent higher probability of employment over the comparison group in the second quarter after eligibility
  - But this effects does not extend to the fourth quarter after eligibility.
- Attributes the negligible long-run effects to low rates of participation in the WOTC/WtW programs.
  - Less than 10 percent of eligible individuals were claimed by their firms in order to collect the subsidy.
- Finds a positive earnings effect, with subsidized workers earning \$105 (or 9 percent of the average quarterly earnings for a relevant job).
- However, she did not find any evidence that subsidy-certified workers have longer job tenure than the comparable uncertified workers.

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## Ready to Work

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- The Long-term Unemployed H-1B Ready To Work Partnerships grant program (Ready to Work) will utilize approximately \$150 million in revenues from the H-1B visa program
- Supports high performing partnerships between employers, non-profit organizations and America's public workforce system
- With intent to help provide long-term unemployed individuals with the range of services, training, and access they need to fill middle and high-skill jobs.
- Competitive bids

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## Key Features of Ready to Work

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- Focus on reemploying long-term unemployed workers:
  - Recruit long-term unemployed workers and employ strategies that are effective in getting them back to work in middle to high-skill occupations.
  - These strategies could include assessments, job placement assistance, training, mentoring and supportive services such as financial counseling and behavioral health counseling.
- Work-based training that enables earning while learning through models such as On-the-Job Training (OJT), Paid Work Experience, Paid Internships and Registered Apprenticeships:
  - Incorporating work-based training will afford employers the opportunity to train workers in the specific skill sets required for open jobs.
  - Waivers to pay up to 95% of training instead of 50% under OJT
- Employer engagement and support in program design - including programs that commit to consider hiring qualified participants:
  - Training programs funded by these grants must address the skills and competencies demanded by employers and high-growth industries, and ultimately lead to the employment of qualified participants.
  - Preference will be given to applicants with employer partners that make a commitment to consider candidates who participate in these programs.

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## Intensive Job Training with Income Supplement

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- Promoted by Jacobson, LaLonde and Sullivan for the Hamilton Project
- As with wage insurance, the goal of the training program is to address the permanent loss of earnings by displaced long-term workers
- Similar to Trade Adjustment Assistance program
- Their policy recommendation falls into five broad categories:
  - Establish a DWT program tailored to the needs of high-tenured displaced workers.
  - Increase the returns to the DWT program by using honest brokers to assess and counsel grantees.
  - Establish incentives and performance standards for One-Stop Career Centers and training providers.
  - Evaluate retraining programs and disseminate best practices.
  - Shore up funding for community colleges, which are the main providers of retraining
- Evidence on the effectiveness of training is not encouraging but authors contend that few evaluations of training effects on displaced workers and training as currently administered is not intensive enough

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## Larger Administrative Initiative

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- Engaging employers in best practices for hiring and recruiting the long-Term unemployed.
  - The Administration engaged with America's leading businesses to develop best practices for hiring and recruiting the long-term unemployed to ensure that these candidates receive a fair shot during the hiring process.
  - Over 80 of the nation's largest businesses have signed on, including 20 members of the Fortune 50 and over 45 members of the Fortune 200, as well as over 200 small- and medium-sized businesses.
- Ready to Work--Encouraging regional collaboration to get the long-term unemployed back to work.
- Ensuring Federal policies support hiring of the long-term unemployed.
  - The President used his executive authority to sign a Presidential Memorandum to make sure that individuals who are unemployed or have faced financial difficulties through no fault of their own receive fair treatment and consideration for employment by federal agencies.

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## Conclusion

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- Displaced long-term workers are likely to be long-term displaced workers and are likely to be older than displaced workers in general
- While these workers appear to have the same characteristics and come from the same occupations and industrial as other displaced workers, employers seem to treat them differently and are less likely to be reemployed
- No new policies to assist with reemployment but greater emphasis on programs that can make up for permanent income loss, provide for more intensive training and help establish better networks with employers

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Thank you