# 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.

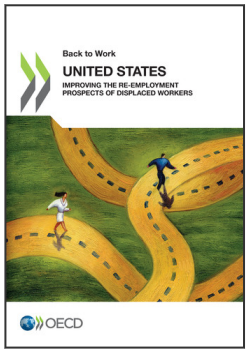
**Tackling the erosion of income support and addressing high levels of poverty**

- 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.




**From:**

## Back to Work: United States

### Improving the Re-employment Prospects of Displaced Workers

**Access the complete publication at:**

https://doi.org/10.1787/9789264266513-en

**Please cite this chapter as:**

OECD (2016), "Assessment and recommendations", in *Back to Work: United States: Improving the Re-employment Prospects of Displaced Workers*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264266513-4-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.