Policies To Assist Displaced Workers

How do we deal with unemployment that results from structural change? If the economy is undergoing structural change, some would argue that the change should not be impeded, that those who are dislocated should receive assistance, and that the costs of the economic change should be shared by all. Kletzer (1998) stated, "[a]ttempting to help dislocated workers seems to many a matter of fairness or social insurance. Since dislocation is specifically not due to the actions of the workers, there is no economic incentive to be served by the reduction in their income, and a society made up of risk-averse people will be interested in insuring against the risk that it happens to them."[24]

Several Federal programs are designed to assist displaced workers—dislocated workers in the language of the programs—and their employers. These programs are described below.[25] Legislation to protect displaced workers is also discussed below. The question here is, do these Federal programs and legislation serve workers in nonmetro areas well or poorly? Although data are not available to definitively answer that question, indicators of the programs' operation in rural areas can provide insights into program effectiveness.

Unemployment Insurance

The Unemployment Insurance (UI) Program is the main income assistance program for displaced workers. The Federal-State UI system was established in 1935 as part of the Social Security Act. The intent of unemployment compensation is "to provide an unemployed worker time to find a new job equivalent to the one lost without major financial distress." In fiscal year 1997, 8 million workers received $20.6 billion in benefits.

Although UI programs vary State by State, an unemployed worker is generally eligible for benefits if the worker (1) meets the State requirements for wages earned or time worked in the previous year; (2) is unemployed due to no fault of his/her own; (3) is able to work and is available for work; and (4) is actively seeking work. The weekly unemployment benefits are generally about 50 percent of earnings when employed. Benefits can be paid up to 26 weeks in most States. In periods of high unemployment, benefits may be extended for an additional 13 weeks.

About 1.7 million displaced workers (half of all workers displaced in 1995 to 1997) received unemployment insurance (table 1). Most of these displaced workers would likely be eligible for UI benefits due to their 3-year tenure on their lost job. Those who did not receive benefits may have found a new job right away and experienced no joblessness, may have dropped out of the labor force and were not looking for a new job, or may have declined applying for UI benefits for other reasons. About half of those who received benefits, 800,000, exhausted their UI benefits before finding another job. UI usage between nonmetro and metro displaced workers was at essentially the same rate, 50 percent of nonmetro displaced versus 48 percent metro. In addition, about the same share of displaced workers exhausted their benefits: 43.5 percent of nonmetro versus 47 percent of metro. The Unemployment Insurance Program appears to be serving nonmetro displaced workers as well as metro displaced workers.

Trade Adjustment Assistance Programs

The Trade Expansion Act of 1962 created the Trade Adjustment Assistance (TAA) program, and the Trade Act of 1974 expanded the program benefits and liberalized eligibility criteria establishing the program as it now exists. The purpose of TAA is to assist workers who become unemployed as a result of competition from foreign imports. The North American Free Trade Agreement-Transitional Adjustment Assistance (NAFTA-TAA) program was established under the North American Free Trade Agreement Implementation Act of 1993, and assists workers who become unemployed as a result of imports from Mexico or Canada. Assistance includes training, reemployment services, job search allowance, relocation allowance, and income support if the individual has exhausted unemployment insurance benefits. The goal is to assist individuals to return to suitable employment, "work of a substantially equal or higher skill level than the person's past adversely affected employment, and which pays not less than 80 percent of his/her previous employment." The FY2001 appropriation for the TAA program was $342.4 million and for the NAFTA-TAA program $64 million.

A worker group at a plant or a portion of a plant must be certified by the U.S. Department of Labor to be individually eligible to receive benefits. A petition seeking certification may be filed by three or more workers, their union, or by a company official on the workers' behalf. TAA and NAFTA-TAA benefits are then provided by the States. TAA also provides technical assistance to companies. The assistance is in diagnosing a company's problems, assessing its opportunities, and developing a recovery strategy. The U.S. Department of Commerce administers the technical assistance part of the TAA program.

Several studies have examined the relationship between imports and displacement. "There is strong evidence that as imports become more competitive, domestic industry displacement rises," according to Kletzer (1998).[26] Additionally, Addison, Fox, and Ruhm (1995) found that industry trade sensitivity and displacement are associated. Shelburne and Bednarzik (1993) responded that "[m]anufacturing industries that are intensively involved in international trade, either as importers or as exporters, are significantly more geographically concentrated than manufacturing industries with less involvement in trade." They also found that trade-related job loss was geographically concentrated during 1987-92. This geographical concentration means that a plant closing may weaken the local economy and adversely affect displaced workers' prospects for finding a new job. All of these results support the need for assistance programs for workers who lose their jobs due to trade impacts.

The TAA and NAFTA-TAA programs appear to be serving nonmetro areas well. Of the 5,701 companies with worker groups that received certification under TAA between 1994 and early 1999 that could be identified as either metro or nonmetro, 2,254 certifications, or 39.5 percent, were in nonmetro counties (table 12).[27] This percentage is double the nonmetro proportion of the U.S. labor force and double the nonmetro share of all U.S. establishments.[28] Of the total estimated number of workers affected, 40.9 percent were employed in nonmetro areas.[29] Certifications are disproportionately nonmetro, largely because nonmetro employment is more trade sensitive than metro employment.[30]

The largest group of certifications was for worker groups in the apparel and other textile products industries. In nonmetro areas, 42.8 percent of nonmetro certifications were for apparel companies. Apparel was also the industry with the most certifications in metro areas as well. Mining was the industry with the next largest number of certifications in both nonmetro and metro. In addition to mining's 376 certifications in nonmetro areas, 446 certifications for mining companies had the location as "All Locations," so they could not be identified as metro or nonmetro. A large number of workers in these companies are probably located in nonmetro areas as mining employment is disproportionately located in nonmetro areas.

Putting the number of certifications in the context of total number of establishments, certification rates are also presented in table 12. The certification rate is 0.17 percent for nonmetro areas; that is, 0.17 percent of all nonmetro establishments received TAA certification. This nonmetro rate is small, but larger than the metro rate of 0.06 percent. The apparel industry in nonmetro areas had by far the largest certification rate, 27.2 percent, versus a rate of 4.9 percent in metro areas. Related industries in nonmetro areas also had high rates: textile mill products, 6.4 percent, and leather and leather products, 19.9 percent. Interestingly, although the number of certifications of worker groups in nonmetro areas of electronic and other electrical equipment establishments and in measuring, analyzing, and controlling instruments were relatively small, they made up a noticeable share of all nonmetro establishments in those industries, 7.0 percent and 3.3 percent, respectively. At the total U.S. level, certifications in mining were almost 6 percent of all mining establishments.

In the NAFTA-TAA program, 692 of the certifications during January 1994-January 1999 were in nonmetro areas, 39.5 percent of the certifications that could be classified as metro or nonmetro (table 13).[31] Again, this is twice the proportion of the nonmetro labor force. Of the estimated total number of workers affected, 42 percent were of worker groups in nonmetro companies.[32] The main reason for certification for both the nonmetro companies and the metro companies was that production shifted to Mexico–36 percent of nonmetro certifications and 48 percent of metro certifications.

Again, the industry with the largest number of NAFTA-TAA certifications was apparel and other textile products. For nonmetro, 39 percent of certifications were for worker groups at apparel companies, for metro, 24.5 percent. The lumber and wood products industry also had a large number of certifications in nonmetro areas, 100, or 14 percent, although there were only 30 certifications, 3 percent, for worker groups at metro companies.

Table 12—Trade Adjustment Assistance program certifications, January 1994 - September 1999

Industry	Nonmetro	Nonmetro rate[1]	Metro	Metro rate[1]	U.S. total[2]	U.S. rate[1]
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Agriculture, forestry, and fishing	7	0.03	5	0.01	12	0.01
Mining	376	3.30	613	4.56	1,435	5.78
Construction	1	0	0	0	1	0
Manufacturing—total	1,855	2.23	3,091	1.04	4,758	1.25
Food and kindred products	13	.22	57	.37	70	.33
Tobacco products	0	0	1	.92	1	.74
Textile mill products	126	6.44	175	3.94	301	4.70
Apparel and other textile products	965	27.20	1,007	4.86	1,986	8.18
Lumber and wood products, except furniture	141	.68	46	.27	191	.51
Furniture and fixtures	24	1.00	32	.34	56	.47
Paper and allied products	24	2.24	49	.89	73	1.11
Printing, publishing, and allied industries	8	.08	19	.04	27	.04
Chemicals and allied products	15	.80	82	.78	97	.78
Petroleum refining and related products	10	2.24	15	.9	25	1.18
Rubber and miscellaneous plastics products	25	.81	69	.51	93	.56
Leather and leather products	98	19.92	127	8.78	227	11.71
Stone, clay, glass, and concrete products	16	.32	77	.66	118	.71
Primary metal industries	34	2.58	91	1.68	125	1.86
Fabricated metal products	38	.67	106	.34	144	.39
Industrial and commerical machinery, computer equipment	42	.39	213	.46	290	.51
Electronic and other electrical equipment	151	7.02	302	2.01	479	2.79
Transportation equipment	51	1.81	104	1.14	158	1.33
Measuring, analyzing, controlling instruments	35	3.34	107	1.03	143	1.25
Miscellaneous manufacturing industries	39	1.43	115	.73	154	.84
Transportation, communications, utilities	10	.01	14	.01	25	.01
Wholesale trade	0	0	4	0	4	0
Retail trade	0	0	3	0	28	0
Finance, insurance, and real estate	0	0	0	0	0	0
Services	5	0	14	0	19	0
Public administration	0	0	0	0	0	0
Total	2,254	.17	3,447	.06	6,282	.09

[1] TAA certifications as a percentage of all establishments.
[2] U.S. total includes certifications in nonmetro and metro, and also certifications for companies with the location, "All Locations," companies certified in Puerto Rico, and companies in cities that could not be identified as metro or nonmetro. Consequently, U.S. totals may be larger than the sum of nonmetro and metro.

Source: Calculated by ERS using data from Employment and Training Administration, U.S. Department of Labor, and from Enhanced County Business Patterns data, 1996.

Table 13—NAFTA-Transitional Adjustment Assistance program certifications, January 1994 - January 1999

Industry	Nonmetro	Nonmetro rate[1]	Metro	Metro rate[1]	U.S. total[2]	U.S. rate[1]
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Agriculture, forestry, and fishing	9	0.04	10	0.01	19	0.02
Mining	16	.14	17	.13	58	.23
Construction	0	0	4	0	4	0
Manufacturing-total	658	.79	995	.33	1663	.44
Food and kindred products	4	.07	25	.16	29	.14
Tobacco products	0	0	0	0	0	0
Textile mill products	26	1.33	44	.99	69	1.08
Apparel and other textile products	270	7.61	259	1.25	531	2.19
Lumber and wood products, except furniture	100	.48	30	.18	134	.36
Furniture and fixtures	6	.25	16	.17	22	.18
Paper and allied products	17	1.59	24	.44	41	.62
Printing, publishing, and allied industries	4	.04	12	.02	16	.03
Chemicals and allied products	7	.37	28	.27	35	.28
Petroleum refining and related products	1	.22	1	.06	2	.09
Rubber and miscellaneous plastics products	15	.48	38	.28	53	.32
Leather and leather products	26	5.28	28	1.94	55	2.84
Stone, clay, glass, and concrete products	8	.16	27	.23	35	.21
Primary metal industries	8	.61	28	.52	36	.54
Fabricated metal products	22	.39	68	.22	91	.25
Industrial and commercial machinery, computer equipment	19	.18	60	.13	79	.14
Electronic and other electrical equipment	78	3.63	164	1.09	244	1.42
Transportation equipment	27	.96	52	.57	79	.66
Measuring, analyzing, controlling instruments	14	1.33	57	.55	72	.63
Miscellaneous manufacturing industries	6	.22	34	.22	40	.22
Transportation, communications, utilities	7	.01	10	0	24	.01
Wholesale trade	0	0	4	0	4	0
Retail trade	0	0	0	0	0	0
Finance, insurance, and real estate	0	0	0	0	0	0
Services	2	0	18	0	20	0
Public administration	0	0	0	0	0	0
Total	692	.05	1,058	.02	1,792	.03

[1] NAFTA-TAA certifications as a percentage of all establishments.
[2] U.S. total includes certifications in nonmetro and metro, and also certifications for companies with the location, "all locations," "various locations," or "throughout the State," and companies in cities that could not be identified as metro or nonmetro. Consequently, U.S. totals may be larger than the sum of nonmetro and metro.

Note: Many worker groups petition for and are certified under both the TAA and NAFTA-TAA programs. Thus, the number of worker groups certified under these programs cannot be added together.

Source: Calculated by ERS using data from Employment and Training Administration, U.S. Department of Labor, and from Enhanced County Business Patterns data, 1996.

NAFTA-TAA certification rates show patterns similar to the TAA certification rates. The apparel industry in nonmetro areas has the largest certification rate, 7.61 percent. Other industries with high rates are textile mill products, leather and leather products, electronic and other electrical equipment, and measuring, analyzing, and controlling instruments, as with the TAA certification rates.

These results suggest two concerns. First, even a small plant closing can have a large effect on a rural community, and many of the nonmetro companies certified had more than 100 employees. Second, the apparel industry is clearly undergoing a deep restructuring. Thus, many if not most of displaced apparel workers who find a new job will do so in another industry or occupation. The burden of this adjustment due to trade is falling disproportionately on nonmetro workers.

The Worker Adjustment and Retraining Notification Act

The Worker Adjustment and Retraining Notification Act (WARN) of 1988 requires 60-days advance notice of covered plant closings and covered mass layoffs. WARN is not a program, but legislation mandating advance notice. The intent of WARN is to provide workers and their communities time to prepare for the economic dislocation of job loss. With advance notice, workers would have more time to look for a new job, reducing unemployment. Nord and Ting (1991) found that a 60-day advance notice appeared to result in lower earnings losses and less unemployment. To the extent that advance notice reduced joblessness, WARN benefits not only workers, but also employers, since "[e]mployer contributions to unemployment insurance will be reduced as dislocated workers quickly obtain new jobs and their dependence on unemployment benefits is lessened."[33]

An employer with 100 or more full-time employees is usually covered by WARN. For a plant closing, a covered employer must give notice if an employment site of 50 or more employees will be shut down. For a mass layoff, a covered employer must give advance notice for a layoff of 500 or more employees or for 50-499 employees if they make up at least a third of the employer's workforce. There are exemptions to providing advance notice and exemptions to providing the full 60-days notice such as if the layoff is the direct result of a natural disaster, and employers have the option of "buying out" the employees' advance notice.

Because nonmetro establishments are, on average, smaller than metro establishments, nonmetro workers are less likely to be covered by WARN than metro workers. However, the difference is small, as most establishments in the United States are small. In 1996, the average size of nonmetro establishments was 12 employees, compared with 16 employees for metro establishments.[34] Only 1.7 percent of nonmetro establishments and 2.4 percent of metro establishments had 100 or more employees, with 100 employees being the threshold for a company being covered by WARN. Fifty employees is the threshold for a site being covered by WARN, if the company has 100 or more employees, and 3.8 percent of nonmetro establishments and 5.4 percent of metro establishments had 50 or more employees. So, nonmetro workers are less likely than metro workers to be covered by WARN. However, employees at most U.S. establishments are not going to be covered by WARN, because only a small percentage of establishments had 100 or more employees.[35]

For the covered firms, Addison and Blackburn (1994) found that the incidence of advance notice does not appear to have increased since WARN was implemented in 1989. Before WARN, only three States had advance notice requirements, although firms could, of course, voluntarily give advance notice.

Enforcement authority for WARN is with the U.S. District Courts. Thus, the workers, their representatives, or a local government unit must file an individual or class action lawsuit to bring compliance if advance notice is not given. The penalties that the employer is liable for are the amount of back pay and benefits for the period of violation (up to 60 days) for each employee and a civil penalty up to $500 for each day of violation.

Rapid Response

When notice is given to employees, the employer is also required to contact the State Dislocated Worker Unit. The State then sends out a rapid response team to assist workers about to be laid off. The purpose of rapid response is "to mobilize resources and coordinate a unified and responsible State effort to assure affected unemployed individuals and dislocated workers receive appropriate governmental assistance and benefits and an opportunity to adjust their lives in an orderly manner."[36] The team determines what type of assistance workers are eligible for and facilitates applications for assistance. The team also assists the local community in obtaining State economic development assistance. Rapid response is authorized by title III of the Job Training Partnership Act (JTPA).

Although nonmetro areas would be less likely to have a layoff covered by WARN, governors are able to invoke the rapid response visit for smaller layoffs that are not covered. This authority would be especially useful for nonmetro areas because a small layoff, say 30 workers, could seriously affect the local community.

Economic Dislocation and Worker Adjustment Assistance Act and Workforce Investment Act

The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) provides retraining and readjustment services to displaced workers and need-related payments to those who have exhausted their unemployment insurance benefits. EDWAA amended title III of the Job Training Partnership Act (JTPA) in 1988. In addition to assisting workers who lost their job from plant closures or mass layoffs, EDWAA benefits are also available to long-term unemployed persons; farmers, ranchers, and other self-employed persons; and under some certain circumstances, displaced homemakers. Special programs also exist for workers affected by military base closures and realignments. EDWAA is a federally funded program administered by the States. Each State has a Dislocated Worker Unit that is responsible for the program. In fiscal year 1999, $1.4 billion was allocated for dislocated worker employment and training activities.

EDWAA benefits include Rapid Response assistance, described above; retraining services may include classroom, occupations skills, on-the-job training, remedial education, and English-as-a-second-language instruction; readjustment services, including testing and counseling, job search and placement, and supportive services such as child care and transportation allowances; and needs-related payments to workers who have exhausted their unemployment insurance benefits. Applications for benefits are submitted to the Substate Area (SSA) Coordinators, local agencies that provide services to laid-off workers.

As an indicator of the accessibility of SSA's to nonmetro workers, I classified the 551 SSA's according to metro/nonmetro location.[37] About one-quarter were located in nonmetro areas, greater than the nonmetro share of 20 percent of the labor force. Some States—Delaware, North Dakota, Utah, and Wyoming—have only a single SSA located in a metro area. Other States—Alabama, Colorado, Connecticut, Massachusetts, Nebraska, New Jersey, New Mexico, Nevada, Rhode Island, and West Virginia—have more than one SSA, but all the State SSA's are located in metro areas. Overall, it appears that nonmetro areas are well served by the SSA's, at least in terms of proximity. However, in several States, nonmetro displaced workers would have to travel a long distance to reach the SSA.

In 1998, the Workforce Investment Act (WIA) became law. WIA consolidates several training and employment programs under the Job Training Partnership Act, including EDWAA, into a single, unified program. Legislated benefits are essentially the same, but program effectiveness is expected to improve under WIA as the focus is on how benefits are delivered. Goals of the new WIA program are to (1) streamline services; (2) empower individuals by making use of Individual Training Accounts and by greater levels of information and guidance; (3) provide greater access to services; (4) increase program accountability; (5) involve local businesses; (6) increase State and local flexibility; and (7) improve youth programs. Implementation of WIA began in 1999 and will continue over the next several years as each State develops a strategy to implement the program. Congress repealed the Job Training Partnership Act as of July 1, 2000. For fiscal year 2001, the estimated expenditure for all dislocated worker employment and training activities programs (excepting TAA and NAFTA-TAA) is $1.74 billion.

Two important concepts in the WIA program are the Individual Training Accounts and the One-Stop Career Center system. The Individual Training Accounts allow the individual to choose from a list of eligible training providers. Individuals can choose both the type of training and the provider of the training. The One-Stop Career Center consolidates service delivery for employment and training programs. Many States separate the Substate Area agencies, providing services for displaced workers, from the Service Delivery Area agencies, which provide services to welfare recipients. Information about Unemployment Insurance may be in yet another location. The One-Stops are designed to assist both job-seekers and employers. The One-Stop concept predates WIA, and in 1994 the U.S. Department of Labor (DOL) began giving grants to States to implement One-Stop systems. Currently there are 1,100 One-Stops, with many SSA and Service Delivery Areas being converted to One-Stops. DOL also has a "virtual" Rapid Response and One-Stop system using a toll-free number and information on the Employment and Training Administration website. Public service announcements sent to television stations advertise the toll-free number. Full implementation of these services is expected to be achieved in 2001.

For displaced workers, benefits will be essentially the same under WIA as under EDWAA. The WIA Individual Training Accounts will allow greater flexibility to displaced workers and perhaps a greater likelihood that training will provide marketable skills. The large number of One-Stops and the virtual One-Stop means that these programs will be more accessible to nonmetro displaced workers.

Some rural communities, however, may find the local governance requirements of WIA another burden of devolution. Local elected officials are required to appoint members of local workforce investment boards. These appointments must be done within State criteria and are subject to State certification. Local officials, in conjunction with the local board, develop the local workforce investment plan and oversee the local One-Stop system. The local board, in turn, has its own responsibilities. In rural communities where official positions are part time, local leaders may be overwhelmed with Federal requirements that they must now meet and with the Federal programs they must now implement.

Benefit Protections

Retirement benefits of displaced workers who are in a defined benefit plan are protected by the Employee Retirement Income Security Act of 1974 (ERISA). Two amendments to ERISA provide health insurance benefits to displaced workers: the Consolidated Omnibus Budget and Reconciliation Act of 1985 (COBRA) and the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Under COBRA, some displaced workers have the right to continue health insurance coverage after they lose their jobs. Employers with 20 or more employees are usually covered under COBRA. Workers must have been enrolled in the employer's health plan, must elect to receive COBRA coverage when laid off, and must pay the entire premium amount plus a 2-percent administrative fee. COBRA coverage extends for a maximum of 18 months after job loss. HIPAA protects displaced workers who find a new job by limiting health insurance exclusions for preexisting conditions, prohibiting discrimination against employees based on their health status, and allowing workers to apply for individual health insurance policies. However, workers must have been in an employer-sponsored health plan on the lost job for the HIPAA protections to apply.

Fewer nonmetro workers participate in a pension plan or other retirement plan on their job than metro workers, 38 percent of nonmetro workers versus 41 percent of metro workers in 1993.[38] Consequently, nonmetro displaced workers are less likely to be covered by the retirement protections provided by ERISA. Nonmetro workers displaced during 1995-97 were slightly less likely to have been covered by health insurance on their lost job—64 percent of nonmetro displaced had health insurance versus 71 percent of metro displaced.[39] Because nonmetro displaced workers are less likely to have had health insurance on their lost job and because nonmetro establishment size is on average smaller than metro establishment size, nonmetro workers are less likely to benefit from the protections of COBRA and HIPAA.

Evaluation of Programs

Leigh (1990, 1991, 1995) has written extensively on evaluation of displaced worker programs. He concluded that job search assistance is effective in speeding up reemployment of displaced workers and is also a fairly low-cost program. He also concluded that results are mixed for classroom training in vocational skills. However, one TAA classroom training program that was evaluated was considered a success in that displaced workers who found a new job but had to change occupation or industry were able to mitigate their earnings losses. On-the-job training program evaluations have also been favorable, but Leigh wondered if enough employers would be convinced to participate.

The ERS study, *International Agriculture and Trade Reports: NAFTA* (1999), looked at NAFTA-TAA certifications by metro/nonmetro status. Counties that had received agriculture-related certifications had higher rates of unemployment and lower employment growth during NAFTA's early years, for both metro and nonmetro counties, suggesting that program funds targeted counties that truly needed assistance.