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JOBS 2000:

A Time for Change

The Minnesota Employment and Training Fund

A Legislative Initiative Prepared by
the Department of Jobs and Training
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MINNESOTA'S EMPLOYMENT AND TRAINING FUND

I. Introduction

Minnesota's economy is in a state of rapid transformation in which large segments that have been integral parts of our economic base are being altered, replaced or eliminated. Such shifts are not part of a temporary phenomenon; they are caused by long term trends such as industrial restructuring, foreign competition, technological development, demographic shifts, changes in demand, and mergers and acquisitions. Consequently, the worker dislocations that we have experienced in recent years have become a permanent fixture.

As a result Minnesota needs a new proactive policy initiative that can anticipate worker dislocation, facilitate the adjustment process and encourage new economic growth. The focus must be broad enough to simultaneously cover the needs of dislocated workers, as well as the needs of our changing economy. It must include retraining, as well as upgrade training of existing employees, and job creation. In short, it must provide a mechanism for dealing with plant closings and mass layoffs while facilitating the improvement of productivity, competitiveness and the state's human resources.

The Employment and Training Fund represents a policy that includes short, medium and long-run strategies for worker adjustment and economic development. It offers a timely alternative for dealing with economic upheaval in a positive and comprehensive fashion.

II. Who is a Displaced Worker?

Defining who is and who is not a dislocated worker is an important policy decision that is based upon the state's response to the broad issue of economic dislocation. The term can be defined narrowly as a full-time worker with a permanent attachment to the labor force who is unemployed as a result of job obsolescence, structural economic shifts, or regional decline (such as a permanently unemployed steelworker or auto worker). On the other hand, it may be defined broadly to include all of the people directly or indirectly affected by long-term economic shifts. This type of definition might include farmers, self-employed individuals, displaced homemakers and others.

It is the Department of Jobs and Training's position that the definition of "dislocated worker" must be broad enough to cover all of those people who are left without economic support as a result of permanent job loss, but also narrow enough to effectively target people with strong labor force attachment. Therefore, for the purposes of the Employment and Training Fund, a "dislocated worker" is defined as follows:

- A. "Any individual employed in the same occupation or with the same employer for at least three consecutive years who has been laid off or received notice of lay off from employment as a result of plant or facility closure, technological obsolescence or job or shift abolishment and who has limited opportunities for reemployment in the same or similar occupation; or
- B. Any individual who was self-employed, (including farmers) and is unemployed as a result of general economic conditions causing at least a 10 percent unemployment rate in the county in which the business is located or the individual resides; or
- C. Any individual who was a full-time homemaker for at least three consecutive years and who derived a substantial share of economic support from a spouse, and who no longer receives such support due to death, permanent disability of or permanent separation from the spouse, or as a result of the spouse's qualifications as a dislocated worker under A."

Definitions

1. "Employment" means any job in which an employee works, an average of 20 hours or more per week for at least three consecutive years.
2. "Self-employed" means any business endeavor in which the individual has a substantial ownership share, in which the individual has worked, on average of 20 hours or more per week for at least three consecutive years.
3. "Homemaker" means any person who has worked in the home for at least three years and who has not earned more than allowed by state guidelines in annual income from outside employment."

III. How Many Dislocated Workers Are There In Minnesota?

Measuring the number of dislocated workers in Minnesota is not a simple task. No single data base or survey exists that gives us an accurate count of dislocated workers. Instead we must rely on estimates derived from national surveys and extrapolations from general economic and labor force data collected by the department. These estimates, while not exact, are reasonable and, the department believes, reliable indicators of the magnitude of the dislocated worker problem in Minnesota. Based on these estimates, between 20,000 and 25,000 Minnesotans become displaced workers each year.

Dislocated Worker Survey

In January, 1986, the Census Bureau and the Bureau of Labor Statistics (BLS) conducted a special Dislocated Worker Survey (DWS) as a supplement to the Current Population Survey (CPS). The CPS is the monthly survey from which all basic data on US employment and unemployment is derived.

The purpose of the DWS was to calculate the number and characteristics of dislocated workers, who were defined as people at least 20 years old, with at least three years of job tenure, who had lost or left their jobs between January 1981 and January 1986 due to plant closings, employers going out of business, slack work or the abolishment of their positions or shifts. Based on this national DWS data, the BLS estimated that 103,000 Minnesotans were dislocated between January 1981 and January 1986.

Using the BLS formula and DWS dislocated worker definition to calculate an estimate for calendar year 1986, one estimate of dislocated workers in Minnesota is illustrated below:

Table 1 Minnesota Displaced Workers, 1981-1986

<u>Year</u>	<u>Displaced Workers</u>
1981	17,000
1982	25,500
1983	25,500
1984	18,000
1985	16,900
Subtotal	103,000
1986 est.	16,500
<u>Total</u>	<u>119,000</u>

The DWS analysis further indicated that 76,000 or 74 percent of the 103,000 dislocated workers found new jobs by January 1, 1986, 16,000 or 15.5 percent remained unemployed, and 11,000 or 11 percent were no longer in the labor force. While 74 percent may seem like a relatively high reemployment rate, this number is misleading. Many of the reemployed workers did not return to jobs with income levels comparable to the jobs they had before they were dislocated. An estimated 10.3 percent of the reemployed dislocated workers returned to part-time jobs, another 10.3 percent have earnings ranging from 0-20 percent lower than their previous earnings, and 22.6 percent have earnings that are 20 percent or more below previous earnings. Assuming that those people reemployed in part-time employment would prefer to work full-time, as many as 44 percent of the reemployed dislocated workers could be considered to be underemployed.

In addition, not all of the 11,000 dislocated workers who left the labor force did so through voluntary retirement. Extrapolations from national data indicate that approximately half of the people are "discouraged worker" -- people who withdraw from the labor market as a result of discouragement over their reemployment prospects.

Table 2 illustrates that about 53 percent of the 103,000 people dislocated between 1981 and 1986 remained either unemployed, or underemployed or had become discouraged workers and fallen out of the active labor force as of January 1, 1986. While these numbers are rough estimates and should be used with caution, they do offer a reasonable approximation of the economic circumstances of workers dislocated between January 1, 1981 and December 31, 1985.

Table 2 Displaced Workers 1981-January 1986

Unemployed	16,000
Underemployed (1)	33,000
Discouraged Workers (2)	4,900
Total	53,900

Job Losers

Another method with which to estimate the number of dislocated workers in Minnesota is by dissecting the unemployment rate. The unemployment rate is composed of four components: 1) job losers who were laid off or discharged from their jobs; 2) job leavers who voluntarily left their jobs; 3) new entrants to the labor force seeking first time employment and 4) reentrants who are seeking employment after labor absence.

As presented in Table 3, the percent of Minnesota unemployed who were job losers has clearly increased since 1977, despite the economic recovery and high overall employment levels. These figures indicate that a higher percentage of the workforce lost jobs in 1986 than in previous years. This reinforces the notion that worker dislocation is a phenomenon occurring as a result of global economic restructuring. It is a distinct phenomenon, operating irrespective of other employment trends.

Table 3

Unemployment Distribution By Reason

Year	Total No. Unemployed	Job Losers	Job Leavers	Re-Entrants	New Entrants	Job Losers	Job Leavers	Re-Entrants	New Entrants
1986	118,000	51.5	9.7	27.7	11.1	60,770	11,446	32,686	13,098
1985	133,000	45.5	10.6	32.	11.8	60,515	14,098	42,560	15,694
1984	141,000	53.9	11.1	24.1	10.9	75,999	15,651	33,981	15,369
1983	178,000	59.5	6.5	23.8	10.2	105,910	11,570	42,364	18,156
1982	169,000	53.1	9.8	24.9	12.2	89,739	16,562	42,081	20,618
1981	118,000	47.1	12.6	29.5	10.8	55,578	14,868	34,810	12,744
1980	120,000	53.	9.	29.4	8.5	63,600	10,800	35,280	10,200
1979	86,000	41.9	12.8	31.4	14.	36,034	11,008	27,004	12,040
1978	76,000	34.2	15.8	35.5	15.8	25,992	12,008	26,980	12,008
1977	98,000	39.8	15.3	30.6	12.2	39,004	14,994	29,988	11,956

Additional analysis indicates that the increased job loser unemployment is related to a rise in the

incidence of job loss and not to increased duration of spells. Table 4 reflects the distribution of unemployment in Minnesota by duration of unemployment spell.

Table 4

Unemployment Distribution by Duration

Year	Total No. Unemployed	<u>Unemployment Distribution by Duration</u>							
		Less Than '5 Wks	'5-14 Wks	'15-26 Wks	'27+ Wks	Less Than '5 Wks	'5-14 Wks	'15-26 Wks	'27+ Wks
1986	118,000	45.4	29.1	12.9	12.6	53,572	34,338	15,222	4,868
1985	133,000	44.6	28.7	10.4	16.3	59,318	38,171	13,832	21,679
1984	141,000	35.3	30.4	13.7	20.6	49,773	42,864	19,317	29,046
1983	178,000	34.5	24.3	16.9	23.3	61,410	45,034	30,082	41,474
1982	169,000	35.	33.6	15.2	16.3	59,150	56,784	25,688	27,547
1981	118,000	47.4	29.7	10.9	12.0	55,932	35,046	12,862	14,160
1980	120,000	45.1	33.2	14.4	7.4	54,120	39,840	17,280	8,880
1979	86,000	53.1	32.6	9.8	4.4	45,666	28,036	8,428	3,784
1978	76,000	53.6	26.6	10.5	9.3	40,736	20,216	7,980	7,068
1977	98,000	43.3	32.5	12.7	11.5	32,434	31,850	12,446	11,270

Finally, BLS research published in June, 1987 indicates that on a national basis approximately 47 percent of all job losers held their previous jobs for at least three years. While not all workers in this category are necessarily dislocated workers, many of them may be considered dislocated under the terms of our definition. Table 5 demonstrates the actual number of job losers who have worked at their jobs for at least three years.

Table 5 Number of Minnesota Job Losers, 1977-1986

<u>Year</u>	<u>Actual Number</u>	<u>47 Percent</u>
1986	60,770	28,562
1985	60,515	28,442
1984	75,999	35,720
1983	105,910	49,770
1982	89,739	42,177
1981	55,578	26,122
1980	63,600	29,892
1979	36,034	16,936
1978	25,992	12,216
1977	39,004	18,332

Assuming that dislocated workers are a large subset of the 47 percent group, these figures indicate that the estimates of Minnesota dislocated workers by the DWS are probably somewhat conservative.

Unemployment Compensation Exhaustees

Another method of utilizing unemployment data to gain perspective on dislocated workers is by examining the data on unemployment compensation recipients who exhaust their claims. While not all exhaustees are dislocated workers, their number and geographic distribution provides some insight into the reemployment problems faced by Minnesota job losers. Table 6 illustrates that job losers, especially those in greater Minnesota, have consistent problems becoming reemployed. While the economic recovery has helped some workers obtain jobs before exhausting their benefits, a steady percentage experiences great difficulty becoming reemployed.

Table 6 Unemployment Benefit Exhaustees as a Percentage of Covered Employment 1982-1986

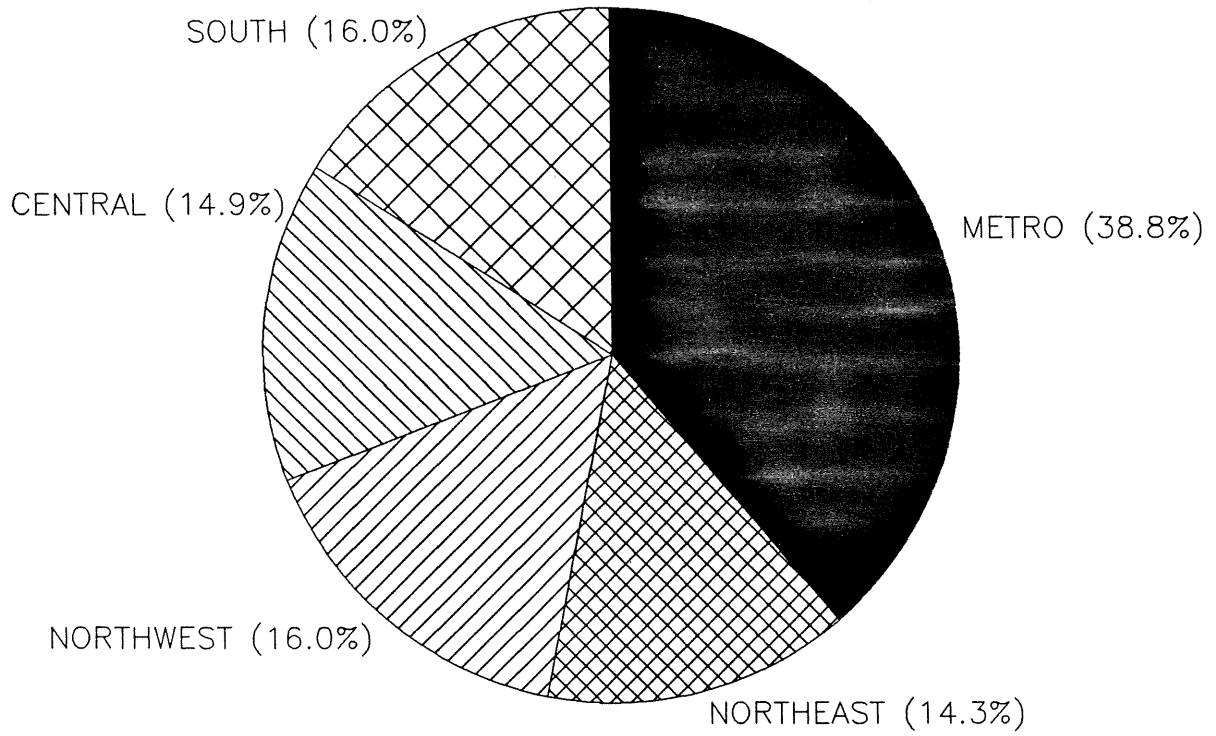
<u>Year</u>	<u>Exhaustees</u>	<u>Total Covered Employment</u>	<u>Exhaustees as % of Covered Employment</u>
<u>1982</u>			
Metro	31,271	1,011,759	3.09
Northeast	14,154	103,686	13.65
Northwest	10,537	121,602	8.67
Central	11,162	174,128	6.41
South	11,296	217,953	5.18
<u>1983</u>			
Metro	30,090	1,023,806	2.94
Northeast	14,032	99,562	14.09
Northwest	10,244	121,875	8.41
Central	10,128	176,493	5.74
South	11,247	219,100	5.13
<u>1984</u>			
Metro	14,735	1,095,760	1.34
Northeast	6,739	104,210	6.47
Northwest	8,316	127,474	6.52
Central	7,194	186,698	3.85
South	7,438	230,036	3.23
<u>1985</u>			
Metro	16,765	1,133,167	1.48
Northeast	7,070	103,398	6.84
Northwest	8,218	130,252	6.31
Central	7,752	189,561	4.09
South	7,609	231,964	3.28
<u>1986</u>			
Metro	19,940	1,154,100	1.73
Northeast	7,372	103,118	7.15
Northwest	8,230	131,387	6.26
Central	7,687	193,402	3.97
South	8,211	234,132	3.51

Source: Department of Jobs and Training, Research and Statistics Office.

As a final note on exhaustees, Figure 1 shows the geographic distribution of 1986 exhaustees. While reemployment problems occur throughout the state, they clearly are more pronounced in greater Minnesota, particularly the Northwest and Northeast.

GEOGRAPHIC DISTRIBUTION OF UC EXHAUSTION PAYMENTS

1986



Permanent Mass Layoffs and Plant Closings Data

One other state source is available for estimating dislocated workers: the so-called Permanent Mass Layoffs and Plant Closings file (PMLPC). The PMLPC file uses unemployment insurance records to isolate establishments having at least 50 initial unemployment compensation claims filed against them within a three week period. Once the establishments are identified, the Department of Jobs and Training contacts the employer to determine whether the job loss is permanent. Those permanent layoffs are tabulated as dislocated workers.

In a four quarter period between 1986 and 1987, 5,250 dislocated workers were identified by this method. However, extreme caution should be exercised when analyzing this figure since many dislocations, even within large establishments occur on a small scale and not in blocks of fifty. Even when they are in large blocks, workers do not necessarily file unemployment claims within a three week period. Additionally, employers of at least 50 employees comprise only 72 percent of total Minnesota employment. Thus, 28 percent of potential dislocated workers would not be identified by the PMLPC even under ideal circumstances. Therefore, while the PMLPC data is interesting it offers very limited utility in determining the numbers of dislocated workers.

Dislocation Rates

To this point, this memorandum has focused on the number of dislocated workers. In order gain a broad perspective of the dislocated phenomenon, it is also important to analyze the rate at which this dislocation occurs. Computing this dislocation rate is necessary in order to compare Minnesota's dislocation rate with those of other states and to compare dislocation among subgroups of workers.

Calculation of a dislocation rate is based on division of the numbers of dislocated workers estimated by the DWS, by the annual average number of employed adults in 1983 (the midpoint of the 1981-86 time frame) estimated by the CPS.

Table 7 US and Regional Dislocation Rates

Area	Number of Displaced Workers, <u>1981-85</u>	1983 Adult <u>Employment</u>	Displaced Worker <u>Rate</u>
United States	5,130,000	94,492,000	5.4%
West North Central Region	384,000	7,334,000	5.2
Minnesota	103,000	1,849,000	5.6
Iowa	61,000	1,202,000	5.1
Kansas	50,000	1,043,000	4.8
Missouri	108,000	1,980,000	5.5
Nebraska	42,000	695,000	6.0
North Dakota	11,000	276,000	4.0
South Dakota	9,000	289,000	3.1

As indicated by Table 7, Missouri had the greatest number of dislocated workers, but the dislocation phenomenon was greater in Nebraska and Minnesota. Minnesota's dislocation rate is also higher than either the national or the regional rate, indicating that the relative severity of our dislocation problem is greater.

Finally, national data indicate that dislocation is geographically pervasive, and is not confined to any particular region. While mining industries had the highest rates of dislocation, manufacturing workers also experience very high rates with approximately one out of five losing a job during the 1981-1985 time period. Other sectors experiencing higher than average dislocation rates are transportation and wholesale trade.

Farmers, Self-employed and Homemakers

As a last note on the number of dislocated workers, all of the numbers discussed thus far refer only to employee dislocation. Since our definition also includes farmers, self-employed and homemakers, it is useful to have a sense of these numbers as well.

According to the Minnesota Department of Agriculture, a farm is defined as any household deriving at least \$1,000 in annual income from agriculturally related sales. Based on this definition, Minnesota had 91,000 farmers (although both spouses may be involved in full-time farming, each farm officially has only one farmer) in June of 1987. This represents a decline of 13,000 since 1977.

A narrower definition of farming is of a commercial farm from which the farmer derives most of his or her income. According to this definition there are between 60-70,000 Minnesota farmers, with an anticipated decline of 10,000 by 1997. Once again, since only one spouse is counted as a farmer, this number is underestimated for purposes of the Employment and Training Fund, since both spouses would be eligible for services. Thus, it is realistic to estimate that between 10,000 and 20,000 farmers and their spouses could become eligible for Employment and Training services over the next ten years.

Information on the numbers of self-employed people and full-time homemaking spouses of dislocated workers is unavailable. Estimates of self-employed people vary widely depending on the definition used, and it is unlikely that large numbers of them would qualify as dislocated workers. The same is probably true for homemaker spouses, although this number is probably the larger of the two. At this point the best indication as to the size of this population will be the number of people requesting services from the Fund.

Characteristics of Dislocated Workers

Demographic information on Minnesota dislocated workers is available through data collected by the JTPA Title III program. According to these data, Title III participants are 97 percent white, and 74 percent male. The majority, 53 percent, are between the ages of 22 and 39 years of age, followed by 37 percent in the 40-54 year age group. Although program participants are not necessarily representative of all dislocated workers, such a profile does serve as an indication of the characteristics of dislocated workers seeking assistance.

The fact that the largest state age group seeking Title III services is between 22 and 39 years underscores the need and potential benefits of the extended services that could be offered by a state Employment and Training program for dislocated workers. The cost/benefit ratio of such a program will improve as the age of the participants declines, since the younger the worker the greater the number of prospective employment years with which to benefit from improved earnings. Thus, it appears that the return on public investment in Minnesota dislocated workers is fairly high.

Conclusions

Based on the foregoing discussion, the Department of Jobs and Training conservatively estimates that an average of 20-25,000 Minnesotans are displaced from their jobs each year. This figure reflects an average of the numbers calculated by the DWS and adds some leeway to account for the large discrepancy between the DWS estimate and the number of Minnesota job losers who held their jobs at least three years.

The conservative nature of this estimate can not be overemphazied. First, it assumes that future recessions will be no harder on dislocated workers than was the last recession. Secondly, due to difficulties in estimating their numbers, farmers, self-employed and dislocated homemakers are not included in the estimate. Nonetheless this figure is a very good starting place and offers a solid foundation on which to plan the Employment and Training Fund programs.

IV. The Employment and Training Fund

The Employment and Training Fund is a new program specifically designed to deal with worker dislocation within an economic development context. It is necessary because current programs are inadequate to meet the needs of displaced workers, or to fill the resulting voids, particularly in Greater Minnesota, when structural shifts in the state's economy occur. Although some federal funds are available, they are meager, unreliable and do not have the capability of either rapid response or direct economic development facilitation.

Other employment and training programs currently operate in Minnesota, primarily targeting the long-term, hard to employ. In order to promote and protect the state's human resources, we cannot limit our efforts to those workers who qualify for participation by virtue of their means-tested impoverishment or their long term employment problems. Instead, we need to create a system that protects workers against income loss while protecting our economy against human resource loss, and promoting growth.

The Employment and Training fund seeks to accomplish both objectives through a coordinated strategy comprised of three major components:

1. Worker Assistance

This component will deal directly with the needs of dislocated workers, with the goal of assisting in their adjustment process through a variety of means. Using linkings with existing services such as job service, JTPA, Vocational-Technical Institutes and Community Colleges, the fund will be able to provide comprehensive, flexible, individually tailored services that are labor-market appropriate. Such services will range from skill assessment to job search, counseling, job development, training, and relocation assistance.

Dislocated workers will be primarily identified by the unemployment office at the time claims are filed, as well as by other outreach efforts. Some programs will be formulated in response to a mass layoff or plant closing, and will require community participation in a similar fashion as do current Title III programs. In other instances,

dislocation will occur on a smaller scale, and in such cases individual workers will interact directly with counselors in assessing their needs and developing their programs.

In all cases comprehensive and up to date labor market information will be utilized so as to avoid training or directing people to low-wage, dead-end or declining occupations. This information will be collected and analyzed by the department's Labor Market Information office in combination with input from within regional labor markets within Greater Minnesota.

The purpose of the worker assistance component of the Employment and Training Fund is to help dislocated workers become reemployed in jobs that offer meaningful wages and benefits as well as stability. It is the state's way of minimizing the individual hardship associated with economic restructuring while protecting its investment in its workforce. It's focus is narrowly upon this group of workers so that its efforts do not become diluted, and its goals can be met.

2. Reemployment Transitional Allowance

Even with a wide variety of services available to them a certain percentage of workers will choose to forego assistance and seek reemployment on their own. For some of them, especially those who are young and have transferable skills, find a new job is relatively easy.

Many other workers have a much more difficult experience however. They suffer initial shock, anger and grief at the loss of their jobs. Often, they are unable to cope with a job search and find themselves collecting many weeks of unemployment benefits. Others are shocked at the changes in the labor market since they last sought work, and retreat in despair. Such situations are very costly since workers may use the entire 26 weeks of benefits before engaging in meaningful job search.

The purpose of the transitional allowance is to encourage dislocated workers to exert greater and earlier job search efforts. This allowance would be in the form of a declining incentive: the earlier reemployment occurs, the larger the incentive. The incentive would take the form of a

lump sum payment of \$500.00 to be paid if a job is obtained with eleven weeks of dislocation. For each additional week of unemployment the size of the allowance declines. Workers receiving the allowance be required to keep their new jobs for at least six months.

Such a program has been tried on a pilot basis in other states and has been proven to be very cost effective, saving unemployment funds approximately \$2.00 for every \$1.00 spent. It also improves labor market efficiency by connecting unemployed workers with jobs more quickly. Finally, it alleviates the sometimes long and agonizing period of worker readjustment that follows dislocation.

3. Economic Development

Although worker readjustment services are of critical importance they are not a sufficient response to widespread economic restructuring unless they are linked with an economic development strategy. Such a strategy will assist in the creation and retention of permanent private sector jobs paying adequate wages and benefits.

In this regard the Fund will operate on two levels. It will make available resources to provide customized training of dislocated workers to fill the needs of new and expanding businesses. The training will be flexible and geared to the individual needs of the firm, for either on-the-job or classroom training. Although the firm will agree to hire dislocated workers in order to benefit from the training assistance, ultimate control over specific individuals hired will remain with the firm.

Additionally, the Fund will assist firms with retraining of existing workers who are likely to be displaced without skill upgrading to enhance the firms competitiveness. Such assistance, in the form of loans and grants, will be made available to firms who lack the financial ability to undertake retraining on their own, but whose competitiveness and productivity will be measurably improved once training is completed.

In both cases union input will be required for firms in which a collective bargaining agreement covering the affected workers is in place. Employers will meet and consult with the union

regarding who will be trained, how the training will be conducted and who will conduct the training.

Finally, all firms receiving assistance will agree to retain the covered workers for at least six months after completing training or will fully reimburse the state for all assistance received.

V. Conclusion

The forces that have buffeted Minnesota's economy in recent years have undercut the traditional sources of employment and production that comprise the states economic base. Workers have frequently been the first to absorb the resulting shock and tens of thousands have been dislocated. Pressure has simultaneously increased for the development of state initiatives to assist workers in their readjustment and facilitate economic growth.

In the face of such challenges the Employment and Training Fund offers an innovative policy initiative. It is a comprehensive strategy that addresses both long and short term needs and will be an essential link in Minnesota's human services and economic development plans.

ENDNOTES

¹ MN Unemployed = MN Employed Dislocated X $\frac{\text{U.S. Part-time + Earnings 0-20\% lower + Earnings 20+\% higher}}{\text{U.S. Total Number Employed Dislocated}}$

$$= 76,000 \quad \times \quad \frac{333,000 + 730,000 + 342,000}{3,236,000}$$
$$= 76,000 \quad \times \quad \frac{1,405,000}{3,236,000}$$
$$= 76,000 \quad \times \quad .434$$
$$= 33,000$$

Source: Monthly Labor Review, June 1987

² MN Discouraged Workers = MN Not in Labor Force X $\frac{\text{Average Number of U.S. Discouraged Workers 25-59 years old, 1985-86}}{\text{Average Number of U.S. Workers Not in Labor Force 25-59 years old, 1985-86}}$

$$= 11,000 \quad \times \quad \frac{498,000}{1,113,500}$$
$$= 11,000 \quad \times \quad .477$$
$$= 4900$$

Source: Employment and Earnings, January 1985, 1986, U.S. Department of Labor, Bureau of Labor Statistics