

# REEMPLOYMENT ACT OF 1994

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**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
ONE HUNDRED THIRD CONGRESS  
SECOND SESSION

ON

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# REEMPLOYMENT ACT OF 1994

THURSDAY, MAY 26, 1994

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, DC.

The hearing was convened, pursuant to notice, at 10:15 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Mitchell, Riegle, Rockefeller, Conrad, Packwood, Chafee, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-35, May 20, 1994]

## FINANCE COMMITTEE SETS HEARING ON PRESIDENT'S REEMPLOYMENT PLAN; LABOR SECRETARY REICH TO TESTIFY

WASHINGTON, DC.—Senator Daniel Patrick Moynihan (D-NY), Chairman of the Senate Committee on Finance, announced today that the Committee will hold a hearing on the President's reemployment initiative, the Reemployment Act of 1994. Secretary of Labor Robert B. Reich will testify before the Committee.

The hearing will begin at 10:00 A.M. on Thursday, May 26, 1994, in room SD-215 of the Dirksen Senate Office Building.

"Technological and other changes in the economy have created conditions in which more and more workers lose their old jobs permanently, not just temporarily," Senator Moynihan said in announcing the hearing. "In fact, 1993 figures suggest that more than three out of every four unemployed job losers did not expect to return to their old jobs. The Committee looks forward to hearing Secretary Reich discuss the Administration's plan to transform the unemployment system to a system of re-employment."

## OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. A very good morning to our most distinguished witness, the Secretary of Labor, as we hold our first hearing on the Reemployment Act of 1994, which is a major item of legislation that has been put together by the Secretary, his Department, and, of course, the administration as a whole.

I know he will be pleased to hear that last evening by unanimous vote in the Senate before leaving for the Memorial Day recess, we passed a bill that will ensure more complete coverage under Social Security for domestic workers, who have been entitled to this coverage for 45 years. But at the end of 45 years the contributions owing on the basis of only about 20 percent of their wages were actually being paid. It was a scandal.

It's important to note that this measure passed the first body to act on it, our Finance Committee, unanimously. Senator Mitchell

was on the floor. Senator Dole was on the floor. Both noted that the measure had been passed unanimously.

I think now with the simultaneous, or near simultaneous, enactment of a restoration of an independent Social Security Administration, which was the manner in which it first began, I think we have an option to put this aspect of our Social Security legislation back in respectable shape.

The simple fact is, it will be going on to 60 years now since the enactment of Social Security. A majority of nonretired adults do not think they will get it, which speaks to a confidence in government that is not very reassuring.

It also speaks to our subject today, which is that the Social Security Act began in the Department of Labor under the sponsorship of Frances Perkins, a distinguished New Yorker that I had the privilege of knowing in the 1960s when she was still very active here in Washington. It provided unemployment insurance, and anticipated the first training programs.

It was thought that the Social Security Administration should be placed in the Department of Labor and that was the original intention. There was objection to that from conservative circles and it was typical of Mrs. Perkins that she did not want to get in the way of this program getting up and running. She said, fine, we will have an independent agency, and now we will have it once again.

Now to the employment acts. They go back to the First World War in the apprenticeship training, but they really began during the Kennedy Administration with the Manpower Development Act of 1962, which was one of the few but major items of legislation passed in the first Congress of President Kennedy's Administration.

I was then Assistant Secretary of Labor and we were very proud of that. Since then we have piled one program on top of another to the point where the system has become incomprehensible. And you, sir, have brought order out of this chaos in a most important piece of legislation which this committee will want to act on. I hope we will do so in the same bipartisan spirit that we did with the question of providing Social Security for domestic workers last night.

As I mentioned, the Majority Leader was on the floor when this happened. So here we are and we welcome you, sir. It is our custom, the Majority Leader being present, we welcome you.

**OPENING STATEMENT OF HON. GEORGE J. MITCHELL, A U.S.  
SENATOR FROM MAINE**

Senator MITCHELL. Mr. Chairman, I thank you very much for your courtesy. I thank my colleagues for permitting me to make the statement. Before I welcome Secretary Reich I want to, again, Mr. Chairman, repeat what I said last night on the Senate floor. That passage of the tax legislation clarifying and resolving the issue of the so-called "Nanny Tax" is an important step that could not and would not have occurred but for your leadership and persistence and perseverance.

I wish that every American could have been with me witnessing the Chairman's diligent action in trying to get that matter cleared for approval. It involves a lot of hard work at a very basic and per-

sonal level and the Chairman did that work. So not just writing the legislation, not just getting it through the committee, but the actual art of persuading and cajoling and urging to push an important legislative measure through the process. So I am thankful to the Chairman and commend him for it.

Mr. Chairman, I want to join you and the other members of the committee in welcoming Secretary Reich.

I would like to make just a couple of brief comments. His presence here is important because while the decline in the unemployment rate is encouraging, nearly 8.5 million Americans remain unemployed. Nearly 5 million are working part-time because they cannot find full-time employment.

It is a special and distressing problem in my own State of Maine, where unemployment is 8.6 percent, more than 2 percentage points higher than the national rate. Clearly, how to move from a system of unemployment to a system of reemployment is a key to future economic growth and job creation in Maine and across the nation.

Americans losing their jobs today by and large expect to be called back to work, at least in some job. Corporate restructuring, the development of more sophisticated technology, the closure of military bases and increased global competition have combined to change the nature of unemployment.

Those likely to be among the long-term unemployed need to be identified much earlier. They need access to supportive services and training so that they may rejoin the work force as soon as possible. For women, for minorities, for older workers unemployment insurance alone can no longer be the nation's response.

The network of one-stop career centers that the Reemployment Act establishes will give Americans access to a comprehensive array of services necessary for reemployment. I believe that a consolidated and streamlined system will give the unemployed greater opportunity for work and for work force security.

Mr. Chairman, I commend you for holding this hearing. I commend the Secretary for his continuing and dynamic leadership. I thank you for allowing me to make this statement.

I apologize in advance, Mr. Secretary. I have other matters to which I must attend, but I did want to come by to stress my own personal view of the significance of what you're doing.

The CHAIRMAN. Well, that is very promising, very generous of you because we will hope to have a bill to the floor and then we turn it over to you, sir.

Senator Grassley, an old ironworker, a sheet metal worker.

Senator GRASSLEY. That is right. Thank you.

#### **OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. I would like to say that there probably will be several things in this legislation that I will not like and will probably try to change to some extent. I do think you need to be complimented on the one-stop delivery approach that you are using. I presume that fits very well with the Vice President's efforts to reinvent government. The extent to which we can make government less complicated to the average citizen who has to go

and seek help, the more we are going to encourage the use of programs. This ought to be one of our goals.

I also notice that even though we are starting with just six programs—you include the possibilities of extending consolidation to other programs as well. I do not know whether this consolidation would extend to the 154 job training programs that the General Accounting Office has identified.

To the extent to which you would go further, and along the same philosophical lines that I have just stated, it would be very essential to move in that direction and to do it very quickly. And, in fact, one of the things that you might want to tell us is, why you started out with only six.

The second point I would make may be negative toward your proposal. This proposal is an example that a temporary tax is not very temporary. There is going to be a permanent extension of a temporary tax in this legislation. That may be a fact of life, whether you have Republicans or Democrats, but I think we should be constantly reminded that when you put a temporary tax in it soon becomes a rationale for making it permanent.

The last point I would make, and I have picked this up from different sources, and I sense, Secretary Reich, that you kind of have a love fest with the way things are done in Europe and certain retraining programs that have been established.

I cannot say that is bad. But I do not think that just because something works in another country, you transplant that on American society. We talk about this with health care reform all the time. I think we have all come to the conclusion that you just cannot take something that has worked in another society and transplant it in America because we are different. We are much more geographically vast than most countries and our population is much more heterogenous.

The other thing is, as things are done in Europe and they might be a pattern for what you want to do in this country, remember that over a long period of time they have had a much higher rate of unemployment than we have. I think the national industry policy of those countries has contributed to this rate.

So I do not see the growth there that you have to have in the private sector to solve their unemployment problems. And even though their training programs may solve some of their problems, if those training programs are hooked to national policies that are otherwise not creating jobs like we are in this country, I think it is questionable whether we ought to use that as a pattern if, in fact, you are using them as a pattern. I think I have picked up in some comments made by you or commentaries by other people that this is what you think has been a pattern. I yield.

The CHAIRMAN. We thank you very much, Senator Grassley. Senator Baucus?

#### **OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA**

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Chairman and Secretary, I have a few comments that I wish to make that have a specific focus and then I will have a few words about the general provisions of the bill.



As you well know, Mr. Secretary, I have some very serious concerns about the unemployment situation in western Montana that are directly affected by Canadian softwood imports into our country.

In the last several months our State has suffered the devastating effects of lumber mill closures, directly affecting about 1,600 mill employees and their families. They are very dependent on, and therefore they are very vulnerable to, worker programs that are being administered by the Department of Labor.

I want to thank you for your rapid response. I know you know the situation. Your Department has responded very quickly. It is my understanding that you have approved certification for trade adjustment assistance for mill workers at Crown Pacific in Superior, Montana. I must tell you, on behalf of those mill workers, that is very good news. They are very appreciative of that.

I also appreciate your personal attention to the problem facing Champion employees who are caught up in the same problem. They applied for, and they were granted, retraining funds under the Economic Dislocated Worker Program and many workers began the process of searching for jobs, returning to school or job retraining as a consequence for the first time in their lives.

But now in the middle of their retraining program their unemployment benefits have run out and they are faced with the choice of either finishing their education or accepting some unskilled or low-wage job to feed their families. It is a very agonizing choice they are facing and, frankly, I think that no American should have to face that choice.

Even under our present laws I must say that the former Champion employees should be eligible for additional income support under the Trade Adjustment Assistant Program. As you well know, Mr. Secretary, American mill workers all over the northwest are under tremendous pressure from subsidized Canadian softwood imports. In fact, the International Trade Commission and the Department of Labor both admit this.

In 11 separate cases over the last year mill workers in Idaho, Oregon, Washington and Montana have been certified as eligible for TAA benefits and it is basically the consequence of the flood of Canadian subsidized imports. But the former Champion employees were denied.

I believe that it is as if a bureaucrat somewhere in the basement of one of our downtown buildings spun a roulette wheel. That is just how it seems to the Champion workers anyway, and the roulette wheel came up with the Champion number, and they gave the benefits to everybody else but not to them. And, frankly, I think that is wrong.

TAA and the New NAFTA Program are supposed to provide income support to workers injured by trade. So somewhere something has gone wrong for these workers. I hope we can find a solution.

I know I have strayed a bit here from the cosmic policy implications of job retraining, but frankly the goal you have and the goal we all have and the President has is not to be too focused on the cosmic questions but, frankly, to help real live workers who have lost their jobs. I mean it is individual employees who have lost their jobs.

I commend you for the efforts you are undertaking. I also commend you for the legislation that you have developed. I think you are on the right track. I do have some concerns about the rural applications of the bill, but generally you are on track and I commend you for your efforts. I hope that we could work out the problem with the Champion employees too because they need help.

Thank you.

The CHAIRMAN. Thank you, Senator Baucus. I think the point that the Secretary will make is that very possibly a number of these mill workers will not go back to the mill.

Senator BAUCUS. That is true.

The CHAIRMAN. This is not a cyclical matter which the original unemployment insurance was intended to address.

Senator BAUCUS. That is true, Mr. Secretary, but they need the wherewithal to get the change.

The CHAIRMAN. So right now there is no point in waiting until your employment expires before you start thinking about what you are going to do next.

Senator BAUCUS. Right.

The CHAIRMAN. Senator Rockefeller?

#### OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER, IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Mr. Chairman, I know you want to get on with this, but this is a subject that I feel passionately about and I just want to say one word.

I might say, 20 years ago in the Department of Labor you were working on these problems. I think that is another reason that's fortunate that you are Chairman of this committee because we can draw on your own vast reservoir.

The CHAIRMAN. I am sorry to have to tell you it was 30 years ago.

Senator ROCKEFELLER. Thirty years ago.

I have talked with Secretary Reich on this a lot and I need to because in West Virginia we are down substantially now to 9.2 percent unemployment. We are out of double digits. It is kind of an unusual feeling and not a very pleasant one. We were at 11 percent in March.

So our State problems continue. It is just a very cold way of describing thousands of men and women who are out of work because of plant closings and just all kinds of economic changes that have happened by definition of the changing nature of our industries and the economy in our country generally.

So reemployment is what I care with every fiber of my being. I feel passionate about trying to help West Virginians get back to work. They are willing workers. They are known for that. If you say "West Virginia worker" somewhere in this country and people say, bring him in, bring her in, because they are known for working hard if they can get a job.

Coal miners in my State, high sulfur coal fields, as you know very well, have lost work because of the results of the Clean Air Act closing mines. The steelworkers are laid off, called back, laid off, but mostly laid off. Shoe manufacturers used to dot our coun-

tryside, but virtually all have closed. I can think really of only one left in the State.

In the last few months a major glass plant closed in one of our cities putting hundreds of workers out. So these dislocated workers spend long hours on paperwork trying to prove why they lost their job. A word which, of course, means being laid off.

The glass workers believe their dislocation was the result in some shift in international trade, like import surges or NAFTA, but their TAA application and its appeal were denied. They could not get certified for any of the specialized Federal programs that are meant to help workers in West Virginia and elsewhere. Eventually they got a grant from a discretionary program of the State, but it took 4 months, which was too long.

I remember holding a hearing with Senator Heinz in Pittsburgh discussing dislocation and the sort of spiral of how families just gradually disintegrate without support. But in Canada they send in SWAT teams in labor and management and are working together to help workers and their families.

Instead of wasting months trying to qualify for specialized programs, dislocated workers should be in job counseling, job search training, and retraining courses as quickly as possible. Our current fragmented system, which you are trying properly to reform has so much paperwork and so much regulation, but not enough rapid response to get job search and placement where it is the most needed, and effective.

So we need this legislation very, very much, Mr. Secretary. I will be with you and with the Chairman in trying to make this work, not only in our urban areas, but in our rural areas. It has to work. We cannot treat people this way in this country of America.

Thank you, sir.

The CHAIRMAN. Thank you, Senator Rockefeller.  
Senator Conrad?

**OPENING STATEMENT OF HON. KENT CONRAD, A U.S.  
SENATOR FROM NORTH DAKOTA**

Senator CONRAD. Thank you, Mr. Chairman.

Welcome, Secretary Reich. It is good to have you here. I have expressed the concern that perhaps we are not going far enough with respect to looking at our job training programs. I think Senator Grassley before I arrived talked about the fact we have 154 different programs and suggested we should look at more than just the six. Although I think in many ways the direction that you are going in terms of the six make a great deal of sense.

The need to become more customer oriented is terribly important in the system. In trying to look at this comprehensively, I look ahead to the condition of the country, and I see ongoing pressure. We have made great strides as a result of the budget proposal we passed last year. The deficit is down sharply. Although I find many people in the country do not believe that. They are confusing the debt and the deficit.

It is very interesting out there in the public mind the two are synonymous. In fact, I was just running an ad in North Dakota indicating the deficit was down sharply and I got a note the other day from a person that said, well, that is not true. The deficit is

not down. After a conversation with the person it was clear they were talking about the debt, not the deficit.

Given the fact that there is going to be this continuing budget pressure, I think it is incumbent upon all of us to look to every program of government and find those that are working and those that are not. Weed out the ones that are not. Where necessary, supplement those that are. I know that is very much in line with your thinking, Mr. Secretary.

I have asked my own job training people in the State of North Dakota for comment on the proposal that is before us and I would like to submit those concerns in writing to you and ask for your response. Just to say for the record, they are basically in three areas that they have evidenced concern. One is the funding mechanisms. The second is the governance structure. And third is the competitive process outlined in the legislation.

And again, I would want to express publicly my concern that we look at reform of these programs on a broader basis because, frankly, I do not think 154 programs are sustainable, number one. Number two, many of those may not really deserve the appellation of program. And beyond that, it strikes me we need a strategy that goes beyond the Labor Department, although obviously that is where the bulk of the spending is.

It seems to me we ought to have a national strategy that encompasses all of the Departments and that leads us to a conclusion that we can go to the people of the country and say, these are programs that are working. We can demonstrate they are working and we can demonstrate there is a payoff for the public investment that is made. I do not think we can make that claim today and we ought to be able to.

I thank the Chair.

The CHAIRMAN. Thank you, Senator Conrad.

#### **OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY**

Senator BRADLEY. Thank you very much, Mr. Chairman. I simply want to welcome the Secretary to the committee. I want to compliment him on the way that he has worked with his very talented group at the Labor Department to put this piece of legislation together.

I see no reason why Congress should not move quickly on this legislation and enact it. I think it is not only a piece of legislation that is just acceptable to business and labor—which it is, obviously—but it is, frankly, the very best answer for workers who are out there losing their jobs.

We are now in a recovery. I guess one could say that because we are in a recovery we will not worry about this issue. I think that the better answer is to say, well, we are in a recovery and now what we need to do is build a platform to deal with the economic security of all Americans.

I see this piece of legislation as an enormously positive step in that direction. It effectively universalizes TAA, which I think is what we have all wanted. It makes the benefits of TAA available to anyone who has been in the work force for more than a year and whose job has been lost for any reason.

So that means if you have lost your job because of the knowledge revolution or because of defense downsizing or because of productivity downsizing or because of international competition, you now have a way to move back into the employment sector. That is why this is called a Reemployment Act. It is to get people ready to get better jobs in a changing economy.

It consolidates TAA in the right way, I think, by ensuring that anyone who would have been eligible for TAA, even if they have not been working for a year, will receive everything that they would have received under TAA, meaning training and income support.

I also think that it takes a step in the right direction in recognizing that a part of the answer to this problem are income-contingent loans.

So I am just very enthusiastic about this. I think that it represents the best in executive branch-legislative consultation. And I hope that it will receive wide support and that we will move ahead on it with dispatch.

The CHAIRMAN. Thank you, Senator Bradley.

Could I point out to Secretary Reich that the Senate adjourned last night for the Memorial Day recess. The likelihood of you seeing more than myself and Senator Packwood is very small. But here you witness—the Majority Leader has already been here—that we care about this bill.

And Senator Riegle in not the least I am sure.

#### **OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN**

Senator RIEGLE. Thank you very much, Mr. Chairman. I certainly do and I appreciate the leadership of the Secretary in addressing this issue. It is not a simple matter because of the enormous changes that are taking place in the American work force and the global work force and the transitions displacement.

I am pleased to be a cosponsor. We have some things we are going to have to work out as we go. I would cite some of the same ones others have mentioned. The trade adjustment assistance issue is a sticky issue and needs some work. I think the question of how much warning is going to be provided in a plant closing situation so that we can really see what is coming and families and workers can plan better. And also, what we are training people for. We talked about that at length in terms of trying to have enough of a forward sense so that we are not sort of way behind the curve in terms of helping people understand how they get repositioned for this changing work force.

I am very much of the view that if people do not have productive work to do that let's them be self-supporting and support their families that if you want to cave in a society make sure there is not enough work to go around that really enables a family to function and be self-supporting.

So in a sense there is almost no more important work for us to do than to figure out how we manage these transition and change issues because it really is the key to sort of maintaining the social contract and I think preserving the middle class. The erosion of the

middle class and the backward slide of so many people and families I think is creating tremendous problems for us.

We are going to see them playing out in the electoral system, not just people who decide it is not worth voting, but people are going to come along and vote the ins out just to try to see if change for the sake of change does not make things better.

Term limits I think are another illustration. It is sort of a mindless kind of exercise. But that is the kind of thing people turn to. Nut cakes on talk shows and other people in order to, deal with frustrations that are not being dealt with in some practical way.

So I applaud you for what you are doing. We will work with you to try to resolve some of these issues. I think we have to have major players on the outside and the labor movement and others feeling solid and good about changes that are underway here too; and I know you feel the same way.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Riegle.  
Senator Packwood?

**OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S.  
SENATOR FROM OREGON**

Senator PACKWOOD. After we met yesterday, Mr. Secretary, I called up the State of Oregon and they did not say much one way or the other about the bill. But they are concerned about the right of the States to continue their own efforts.

They called to my attention two things. One, we waited two-and-a-half years to get a Medicaid waiver to experiment what we are doing; and we have waited 6 months of a JOBS-Plus waiver for which we were promised in 90 days and we have not got it yet.

So they are afraid if we start adopting these consolidated programs, even if we say the States will be allowed to innovate and it requires a waiver, that they will not get it or they will not get it timely. Can you comment?

Secretary REICH. Yes, if I may.

The CHAIRMAN. Please do.

Secretary REICH. We do not now have authority under JTPA to provide waivers at all, Senator. This legislation provides us authority to provide the States with waivers to put together, in very creative ways, their job training and their income support.

Senator PACKWOOD. I understand you do not have the authority. The State's frustration is getting waivers at the moment from agencies that have the authority to give waivers that we cannot get them to move. And they are hesitant to lose what viability they have now in terms of experiment and consolidation for fear they will not get the waivers. It is not a question you do not have the authority. If you had the authority, they are afraid they will not get them.

Secretary REICH. I can assure you that the spirit and force of this legislation to provide the States with more latitude to consolidate their programs, to put unemployment insurance together with training, to get people next jobs more quickly.

The State of Oregon has been tremendously creative in that way. In fact, we are modeling much of this on what the States of Wash-

ington, and Oregon, and a few other States have actually accomplished.

Senator **PACKWOOD**. Our greatest problem on retraining is when the mill goes down in a town of 3,000 and the mills of 500 and there are no jobs. It is not a question of what you are trained for. You are going to have to move or go some place. We are not likely to attract another industry that employs 500 people to that town.

Secretary **REICH**. And we do not have in this country a labor market information system that allows people who are losing their jobs because of structural change, to even discover where there are jobs, what the jobs are within a region, what they need to train for, what skills they need in order to get the jobs. There is a complete dearth of labor market information. This bill would provide the kind of information people need.

Senator **PACKWOOD**. Thank you, Mr. Chairman.

The **CHAIRMAN**. Mr. Secretary, are you prepared to respond openly and candidly to the proposition that has been speculated about in the Economist magazine, that the States of Oregon, Washington and British Columbia are thinking of seceding and forming a new nation called Cascadia? [Laughter.]

Secretary **REICH**. Openly and candidly, no, Senator.

The **CHAIRMAN**. I think it is time we listen to you, sir. You are very welcome this morning.

#### **STATEMENT OF HON. ROBERT B. REICH, SECRETARY OF LABOR, WASHINGTON, DC**

Secretary **REICH**. First of all, Chairman Moynihan, Senator Packwood, distinguished members of the committee, thank you so much for inviting me up. I would like to submit my testimony if I may and I will just talk about the key points here.

The **CHAIRMAN**. Of course.

[The prepared statement of Secretary Reich appears in the appendix.]

Secretary **REICH**. I do want to congratulate you for your victory last night, Mr. Chairman, and also very much commend you and other members of the committee for your willingness to take on the very foundation stones of our social insurance system.

You are involved. You are engaged in an extraordinary deliberation right now over health care. Interestingly, if you go back, as you, Chairman Moynihan, often do to 60 years ago when my predecessor, Secretary Perkins, was asked by FDR to head up a committee on economic security and report back. That committee was formed in June of 1934 and are almost up to the sixtieth anniversary right now.

One of the issues that she reported back on was unemployment insurance. That report, as you have pointed out before, stated that normally the insured worker will return to his old job. This was envisioned as a cyclical problem, unemployment. What has happened now in a very dramatic change is that unemployment has become more and more structural. People are not getting their old jobs back again.

We can see it all over the country. Partly it is defense downsizing, but partly it is corporate restructuring. Partly it is technological change. Partly it is international trade. These

changes are not necessarily bad, but to an unprecedented degree Americans have to change jobs. Even in a recovery as we are, millions of jobs are being created. But among the unemployed a record number—22 percent in April of the unemployed—were unemployed for longer than 6 months, had used up all their unemployment insurance.

The average in the 1980s was 16 percent. The average in the 1970s was 11 percent. You can see the structural unemployment going up and up because people cannot get their old jobs back. They have to get new jobs.

We used to have a phrase called "layoff." You were laid off, the assumption being, premised in that very word, that you would be back on the payroll. It is not happening any longer. Factory jobs are disappearing.

There are new jobs. I mean we can celebrate the fact that the United States has created over the past 14 months, since January of 1993, almost 2 million new jobs net—but they are different from the jobs that people had before. And Americans are stranded in between, many Americans.

The unemployment insurance system was fine for its time. It is still performing an extraordinarily important function. But we need to combine that function and make it into a reemployment system.

Now there are certain things that we know. There have been pilot projects. There have been experiments. This bill is based upon very robust social science studies with control groups—State after State—States being the laboratory of democracy. What works? What does not work?

Well, I will tell you one thing we have found that works. This is very, very important. An experiment was done in New Jersey and four other States. The finding was, with control groups, looking at one group that was given certain services when they came into unemployment insurance; another group, a very large group, a control group that was not, the same demographic characteristics.

Through unemployment insurance the group received identification of the job counseling, job search assistance, good information about where there were jobs.

The results are that those people that got that extra assistance had a shorter duration of unemployment from one-half week shorter on average to four weeks shorter. Now consider what we are talking about in terms of the numbers of Americans who can get new jobs more quickly. The number of productive Americans, tax paying Americans, this is a matter of not only getting people jobs faster but it is also a matter of good economics.

We are worried now, in some quarters, that we may be reaching the full employment rate and people scratch their heads and say, how can it be full employment when 8.5 million people are unemployed. How can we talk about reaching capacity when 8.5 million people are unemployed, 5 million people are underemployed?

Well, if we reduce the friction in the system that has built up, the friction in terms of where people are and what skills they have and what they need to get the job, as we have seen in these experiments—and you can do it relatively quickly—we can get regardless of what you believe the full employment rate is, the natural rate of employment, we can get it down.



The CHAIRMAN. Could we just ask, what do you think that rate is now? What would be your professional judgment?

Secretary REICH. Well, all we know, that measured the new way, now we have a new way of measuring these things, measured the new way in 1989 when we hit about 5.7 percent unemployment, measured the new way, we began to see some inflationary push.

Now one could argue that times have changed since 1989 in the sense that most Americans now have experienced a prolonged recession. They feel less secure than they did in 1989. We have tremendous underutilization of capacity utilization abroad. There are many, many workers abroad who can easily, quickly get into the U.S. market in effect because factories can expand production abroad.

So an argument can be made that even though we saw inflationary tendencies at 5.7 percent in 1989, measured the new way, it might be below that.

The CHAIRMAN. Could I just make a point, sir?

Secretary REICH. Yes.

The CHAIRMAN. Not to be too much of an old-timer, in 1963, the Council of Economic Advisors, which was, of course, established by the Employment Act of 1946, proposed that we reach a 4 percent rate and that we consider that an acceptable full employment rate. The Department of Labor protested and jumped up and down and so in the end it was agreed, the interim goal was 4 percent, that we wanted 3 percent.

So you are almost half again what 30 years ago would have been considered full employment.

Secretary REICH. We must not accept it, Mr. Chairman.

The CHAIRMAN. Yes. But that is the reality that you are dealing with, that you have a work force that is not as mobile as it should be.

Secretary REICH. My point is, given the structure of the economy we have inherited, given the mismatches between jobs and people, we are seeing a structural rate of unemployment that is increasing. There is a great debate over whether it is 6.2 or 5.7, but the point is what we have to focus on is getting it down and answering the question how—

The CHAIRMAN. Thirty years ago it was a much smaller number.

Secretary REICH. Almost everyone agrees that 30 years ago it was much lower. The question remains how to get that down. What I am saying back to you is we have experiments. We have pilot programs. We have data, very robust social science data showing—

The CHAIRMAN. New Jersey, Nevada, Minnesota, South Carolina and Washington, that is the whole pack.

Secretary REICH. And there are few findings in social science that are as robust as this, that show that you can, through giving people when they come into unemployment insurance the right set of services and information you can reduce that structural, frictional unemployment and not risk inflation.

The CHAIRMAN. That is Bruce Meyer Policy Lessons from the U.S. Unemployment Experiments, National Bureau of Economic Research.

Secretary REICH. Yes.

The CHAIRMAN. That is a very reputable group indeed.

Secretary REICH. Yes. And you will see in my testimony that there are other measures that have been taken.

Senator CHAFEE. Mr. Chairman, I am sorry to interrupt Secretary Reich. Regrettably, due to conflicts I could not be here at the start and cannot stay, but I would like to, one, put in my statement as if read; and secondly, to commend the Secretary for the efforts he is making in this very, very difficult area.

In 4 years we had a 15 percent loss of manufacturing jobs in my State. It has been devastating between the decline, and the shake outs, and the regular downsizing, plus the defense cutbacks. It has been very, very severe.

The CHAIRMAN. The Secretary was talking about just that.

Senator CHAFEE. So, I want to thank him for his interest. I have had the privilege of working with him on some of these matters before and look forward to continuing.

The CHAIRMAN. Thank you, Senator Chafee.

Senator CHAFEE. Thank you.

[The prepared statement of Senator Chafee appears in the appendix.]

Secretary REICH. Thank you, Senator.

My point is we do not have to and should not have to live with a structural rate of unemployment that is substantially higher, Mr. Chairman, than it was years ago. We can reduce it. We know we can. We do have studies showing we can.

There are other pieces of this legislation also based on experiments around the country providing more flexible unemployment insurance, allowing people to use unemployment insurance to start their own businesses, allowing people to get a bonus if for example by week 12 of their unemployment insurance, they have to settle for a lower paying job and work their way back up. But you get a bonus with regard to some of your weeks left remaining.

That creates an incentive to get off unemployment insurance into a job. All of the research shows that, in fact, you get a better job later on. This again adds grease to the skids, helps people reduce that friction that is now in the system with regard to moving from one job to another.

You can see provision after provision we are basing it on what works. Senator Conrad was saying, let us stop doing what does not work. Let us do what works. We have a huge, costly unemployment insurance system. Last year with emergency extended unemployment insurance also added in, the U.S. Government and the State Governments together spent \$36 billion, merely trying to keep people's lives intact, waiting for their old job to come back. And now most workers do not get their old job back again.

So let us make a system, let us create a system in which regardless of why you lost your job, you can come into unemployment insurance. It is one stop shopping. You get unemployment assurance. You get all the array of services that we know worked to get you into the next job. Let us consolidate as much as we can with regard to these training programs.

What we are doing here is consolidating every dislocated worker training program in the government. Now numerically it is six or nine depending upon how you count them, but they are large programs.

My point is at least let us begin. With one stop shopping you can do much more than that. You can consolidate 40 or 50 programs. Individuals do not know or care which committee the funding comes from or which Department.

You can get at consolidation with regard to welfare, JTPA, on and on and on. Let us get on with it.

Now with regard to costs, right now as I said \$36 billion last year, \$34 billion the year before. The authority here is mostly, and the cost is mostly on the discretionary side. What the President is proposing in addition to this system of consolidation and one stop shopping and merging of the unemployment insurance with training and job search assistance is to fill in the gaps so that Senator Baucus' example, a timber worker or somebody else who does not now fall within one of those training programs, regardless of why they lost their job, are still eligible.

Appropriations Committees and the President, obviously, will have to decide year-by-year how much goes into this authority. REA is under the budget caps and the President has proposed over the next 5 years, under the budget caps, a substantial amount of money to provide a variety of retraining services for workers.

Now on the mandatory side the proposal is as follows and we have talked about this. It would be to consolidate trade adjustment assistance, the NAFTA bridge program and also to begin to utilize a surcharge on unemployment insurance which has been in effect since 1977. It comes to approximately \$11 per year per worker.

The CHAIRMAN. That is the two-tenths of 1 percent?

Secretary REICH. That is the two-tenths of 1 percent.

The CHAIRMAN. Again, I am sorry to interrupt you. \$11 per year per worker?

Secretary REICH. It comes to about \$11.02 per year per worker. Now this has been paid since 1977 and I am sensitive to the concern about continuing to pay something. But let me just say this and say it very clearly. This would only be available for workers who have been identified as not likely to get their old jobs back again and who have been certified as needing training, and thirdly, who needed to complete their training and, therefore, receive some income support in order to complete their training.

This is not a broad extended benefit program. This is a very narrowly focused extended benefit program, only for workers who by week 16 have been in a training program. You cannot game this system. This is a very good investment. And again, we have a lot of studies to show this.

Two-tenths of 1 percent, \$11 per year per worker, it is a small investment. It has already been paid. But because of the Pay/Go rules, that money in recent years has been used for everything else under the sun except for helping workers get new jobs. The recommendation here is to pin it down, use it only to help workers who need it to provide income support for longer term training when they have been identified as workers who are not likely to get their old jobs back again.

One final point and then I will stop. We are in this country right now facing many challenges with regard to international trade. GATT will be before Congress soon. We are also facing enormous challenges with regard to corporate restructuring and technological

change. Entire regions of this country are now prone to the kinds of dynamic economic changes we have not seen in this country.

Unless American workers feel that they can move relatively easily to a new job, I can guarantee you that the pressures will continue to build to hold onto the old—subsidizing, protecting. Unless people feel that they can move to new jobs, you can only understand their anxiety and political demand to hold onto the old.

There is not and never has been a great political constituency for economic change for the simple reason that economic change is unknown and unknowable. But I guarantee you that this kind of flexibility and dynamism is necessary for the American work force in order to enable the economy to continue to move forward.

Thank you.

The CHAIRMAN. Mr. Secretary, that was brilliant testimony and so very clear. There is not a person on this committee that does not know exactly to what your last point refers. Everyone is right. The people who are anxious about the change are the people who propound it. Facilitating that is what you are trying to do. We will have the GATT legislation before us. And as my colleague and friend knows, we have painful problems under the Pay/Go arrangements and there are those who welcome that fact. This legislation, I think, needs to be enacted in the context of the GATT because it will bring about great changes in the universe for the good.

But in the particular for what is happening now, you are proposing to take the trade adjustment provisions and try to incorporate them, and act as if we are dealing not just with the effects of trade because they are too difficult to trace in all truth.

I think it is a very important fact. It is a little arcane. But the Employment Act of 1946 was a great measure. We could not agree on full employment. We could not bring ourselves to use those terms. But maximize resources or something like that.

But 30 years ago we thought of full employment at a rate of about 3.5 percent. Some said 4 percent. Others say we now think twice would meet that criteria, which says a lot.

But let us get to questioning. Senator Grassley? A friendly question, Senator Grassley.

Senator BRADLEY. You can always pass.

The CHAIRMAN. We can get back to you if you have not got any friendly questions.

Senator GRASSLEY. Take one person ahead of me.

The CHAIRMAN. All right, sir.

Senator Rockefeller?

Senator BRADLEY. You can pass too.

Senator ROCKEFELLER. Mr. Secretary, I want to point out as we discussed in a telephone conversation earlier this week, that we are working on some things with respect to this legislation and veterans. I think these can be worked out at the staff level. There are some very specific and poignant issues involving veterans and veterans retraining.

I serve as Chairman of the Veterans Committee and our staffs are working together on this extremely well and I want to thank you for that cooperation.

The one stop career center approach is enormously important. What your bill does is it takes six different, including two, from the

Department of Defense, and combines them together. This makes sense, but just as a very broad question, how would a one stop career center operate in a very rural area?

Secretary REICH. It would operate in the following way, Senator. A community college in West Virginia, every community college in West Virginia, could offer the entire array of job search assistance, job training access, information about where there are jobs, what the jobs are, what the skills are required, and where you can get the good training for those jobs.

In other words, it is one stop at every point you get the full array. It is not one place. It expands actually in rural areas, the capacity of individuals to go anywhere and get the full array of services.

Senator ROCKEFELLER. So one-stop centers in many places is your goal.

Secretary REICH. One stop many places.

Senator ROCKEFELLER. The chronic high employment that I referred to in my opening statement, can lead to people becoming desperate when their unemployment checks stop. Real desperation, frankly, because the people want to work, but can't find a job and are facing mortgage payments and providing for their families. They just don't know what the future holds for them.

How will your plan restructure our Federal retraining and unemployment in such a way as to make it different for West Virginians especially in areas with very high unemployment which could be most of our State?

Secretary REICH. In the following way. Right now an unemployed person generally speaking goes to an unemployment insurance office and stands in line, gets certified as being unemployed. Then he/she maybe goes over to another office, maybe to JTPA or maybe to the employment service or maybe this or maybe that, stands in lines. Has no access to good information about where there are jobs. There is no labor market information system at all. There are the want ads which we all know just represent a small fraction of where there are job needs. They do not tell you what skills are required.

Right now we have, and I have talked to them—I was in West Virginia recently. I have talked to coal miners. I have talked to the children of coal miners and asked them what are they doing, where are they finding the jobs. You were with me. We went to that training center.

The young people who were at the training center, who were learning how to do auto mechanics and the electronics that is required of people who now have to do auto mechanics because under the hood is a lot of the electronics, they were getting decent jobs. But how did they know how to get in there? What was the relationship between the initial guidance counselors advice and how they ultimately got there?

We have a fragmented system right now. It is by luck or circumstances, hit or miss, they may get into a training program. A 40 or 50 year old person now losing a job, where do they go? They do not have a guidance counselor.

Under this system they do have at one stop all the information they need. This does not create the jobs. But I can tell you even

in West Virginia, as you know because you were with me and you know much better than I do, that there are jobs being created. There is a mismatch between the skills and the jobs. This would reduce that mismatch.

Senator ROCKEFELLER. One would think that labor organizations would be enthusiastic about this bill, but I understand they have questions. I suspect it has something to do with the fact they do not want to see TAA eliminated as an entitlement. Can you explain what their concerns are because it confuses me?

Secretary REICH. I cannot speak for them obviously. We have talked with them. I have talked with many union presidents about Trade Adjustment Assistance. Actually, some of them are quite happy about it because REA would actually expand this program. This would give Trade Adjustment Assistance essentially more resources. Trade Adjustment Assistance now comes to about \$180 million a year; suddenly you would have a pool under this proposal of over \$1.3 billion for extended benefits; and Trade Adjustment Assistance workers would be fully protected.

So I think that some of it may be a little bit of a misunderstanding. Sometimes we hold onto what we have rather than take even something that is better, but may be a little uncertain what comes out. The employment service here was initially a little bit concerned because their resources have been reduced over the years and public employees in the employment service were a bit worried. I understand their worry.

Again, the unknown. This provides more resources. This upgrades the employment services, gives them an opportunity, if they are accountable, to bid for and get far more resources than they have now. But again, a little bit of worry about the unknown which is completely understandable given that many of these programs have been shrunk and strapped for funds over many, many years.

Senator ROCKEFELLER. Given the magnitude of the problem they probably ought to be for this, hopefully will be.

Secretary REICH. Well, I hope they will be and we continue to work with them. Our latest conversations were very encouraging. They were very positive.

The CHAIRMAN. Good. Thank you, Senator Rockefeller.

Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman.

Thank you, Senator Bradley.

We are venturing out here on a new entitlement program. I do not think there is any doubt about that. It is going to require \$5.5 billion of new spending over the next 5 years. The President has every right to reprioritize the budget in this direction.

I think the President has made this very clear because when he introduced this bill, the President said, "In a time in which we have to cut domestic spending, we have to find more money to spend on this." So obviously the President is very committed to it and I know that you are very committed to it.

In the process of your justification for this program you stated that the necessity of the Reemployment Act is justified by evidence that you have from robust social science studies that have taken place State wide.

I assume that you know how many studies to which you are referring. Did the Department of Labor conduct these studies?

Secretary REICH. The Department of Labor was involved in some of them. Many of the studies are completely independent of the Department of Labor, Senator, and I am more than happy to provide you with a complete compendium of all the studies.

In fact, in preparation for this particular bill, we have undertaken a review of all of the employment and training programs. We have gone into the literature, looked at every private study we could find that has been done over the past 5 years, evaluating every program that is now underway. I am very, very delighted to share this compendium with you.

If you will permit me though to just correct what might be a misimpression.

Senator GRASSLEY. All right.

Secretary REICH. The President is asking on the discretionary side of the ledger for an additional \$5.5 billion over the next 5 years. That is under the caps and that is matched in the President's five year projection by cuts elsewhere that he is proposing.

On the mandatory side, when you talk about a capped entitlement, no, this is not a new entitlement. This is a capped entitlement. Trade adjustment assistance, remember, is uncapped. So we are going from an uncapped entitlement to a capped entitlement and this would be capped at the point two—tenths of 1 percent. Actually it comes to \$11.02 a year per worker and that is a cap. It cannot go beyond that because that is all there would be in the fund.

Senator GRASSLEY. Well, wouldn't that be somewhat like a so-called cap on the food stamp program? If we judged short what the food stamp program is going to cost, we would just appropriate more money for it.

Secretary REICH. No, in this case in terms of a cap, we have here a very specific limited amount of money because it is part of the unemployment trust fund. It would be an extension of the two-tenths FUTA, again \$11.02, per worker per year, and that would be all that is in that fund. There is simply no more.

If the que were to be longer in any given year, then we are able to satisfy by that fund, then people simply would not get extended benefits.

Senator GRASSLEY. All right. Then as a further explanation, unless Congress declared an emergency or unless Congress raised the caps, no more money could be spent on this program?

Secretary REICH. On the discretionary side—again, let us keep the two sides separate—on the discretionary side the Appropriations Committee, the budget, the Congress, the President will have to decide how much is to go into that authority.

What we have on the discretionary side and what we are hoping to create through this committee is a mechanism of one stop shopping and a mechanism through which unemployment insurance, job training, job counseling and information could all be combined.

How much money is provided on the discretionary side year-by-year is a matter for the President and the Congress. On the mandatory side, what we are talking about is an extension of that two-

tenths FUTA which has been in place since 1977, but in recent years has been used to offset everything else you can imagine.

There is enough money right now in the trust funds. The trust funds are accumulating surpluses. If we did not have a unified Federal budget and we did not have the budget accounting rules we have, there would be no problem. We would not even be here discussing this.

Senator GRASSLEY. CRS has pointed out on that very point that under current law the surtax adds to the extended unemployment compensation reserves. Even the Department of Labor's January 1994 budget projections show the balance for the trust fund account for extended unemployment has stayed below its statutory ceiling each fiscal year through 1999.

With this in mind, I think it is irresponsible for government to further deplete this fund for another program like this. I fear that the allocation of the funds to the retraining income support program will divert necessary funds away from the unemployment compensation fund that will be needed when we have another recession.

Secretary REICH. Let me respond to that, Senator, because we have done projections. Right now all of these unemployment trust funds, Federal trust funds, are accumulating surpluses. Even if half of all the States—right now we only have five States that are on an extended benefits trigger. But even if half of all the States were to trigger on, we project absolutely no problem, given the accumulation that is going on in these trust funds with shouldering this small—and it is a relatively small extended benefit for people in training.

This is setting up a very small trust fund and again given all of the accumulations that we project in the other trust funds, there is absolutely no problem. What we are talking about now, you and I, is more of an accounting issue in terms of the Budget Enforcement Act, finding the offsets, than it is a real cash flow issue.

In cash flow terms, there is no issue here at all. The question is, where do you get under the Budget Enforcement Act the offset that you need in order to pin down this kind of money?

Senator GRASSLEY. Mr. Chairman, I do not have any further questions. In regard to the last statement he made, as a reminder to all of us here and hopefully the Secretary is right, too often we rely upon rosy scenarios about the economy and we do not always end up spending as little money as we anticipate.

Second, I would take Secretary Reich up on his offer to submit those studies to me, because I was concerned about the number of participants in the studies.

I am also interested, and I hope you would take this into consideration when you send the materials to me whether the participants were self-selected or randomly selected.

Secretary REICH. They were randomly selected, Senator, if we are talking about the studies that are the fundamental basis of this.

The CHAIRMAN. Experiments.

Secretary REICH. These are experiments where there is a control group and there is a random selection with regard to the people in the study and the control group. Interestingly, the New Jersey ex-



periment had 1,600 people in the control group and another 1,600 to 2,000 in the experimental study, again drawn from the same demographic group.

You very rarely in social science experimentation get five different States in which you have such large control groups. I can speak very confidently about the robustness of this result. In fact, it is quite remarkable.

With regard to the issue you just raised, the projections in the various trust funds, I would also be happy to get you the information we have about what our projections are and how this issue is not something we need to be particularly concerned about.

Senator GRASSLEY. But every Republican and every Democratic President over the last 25 years has done the waltz of this rosy scenario. The fact is that whether we are going to have better income than we anticipate or we do not have as good of income as we anticipate, we always spend more than these projections.

I know you enter into it with great sincerity. But years later we find out that whether you are Republican or Democrat, you just guess wrong.

The CHAIRMAN. Well, can I thank you, Senator Grassley.

Just to make the point which we come across in the Social Security trust funds all the time, that we tend to say anyone who pierces the veil of money rarely returns with their faculties altogether in tact. The simple fact is that your trust fund consists of nothing more than U.S. Government bonds. You do not have warehouses full of Campbell's soup and you do not have warehouses full of dollar bills. These are claims on future government revenues.

And that, unfortunately, is the only way it can be done. I wish perhaps there were other ways, but there are none.

On that, Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman.

First of all, I want to go to the questions that I had indicated earlier came from the head of Job Service in my State. The first one goes like this. The training programs will be required to have at least two career centers in each local labor market. This requirement may make it necessary to close offices in less populated areas and open additional offices in larger cities to fulfill the competition requirement. Could you give you reaction to that concern?

Secretary REICH. No. Well, I understand the concern and I want to repeat something I said before because the States under this proposal could offer various plans in order to get money to have one stop shopping career centers. Nothing requires the States to do this. This is a carrot that is hung in front of the States.

If they wish to do it, there are two ways in which they can do it. One, they can consolidate the unemployment insurance, the employment service, various other providers, including some not-for-profit providers like community colleges. They could provide those consolidated doorways, if you will, at various places, many, many places.

Alternatively, they can opt for a competition model in which they authorize and charter not only the employment service, but also perhaps a community college or a community based organization to provide various one stop shopping centers.

The President and I obviously are very sensitive to the needs of rural areas. As I was saying to Senator Rockefeller before, the beauty of REA is that any of those individual places, assuming a State wants to opt for a consolidation or competition, could offer the entire array of services so that you could have more to offer workers. In a rural area you actually have more potential access to one stop than you do under the current system.

Senator CONRAD. Let me just make this point clear then. In North Dakota where we already have a one stop service delivery system, we would not be compelled to go to a competitive model. It would be our choice.

Secretary REICH. Absolutely the choice of the States.

Senator CONRAD. All right. The second question is, the Reemployment Act proposes to vest considerable authority at the national and local levels. This is again quoting from the Job Service Director in my State. Thereby precluding the Governor's authority to develop and implement a State wide reemployment system.

Does this preclude the Governor from making decisions in this area?

Secretary REICH. Really I must take some responsibility there because I obviously should have been on the phone with your Governor, explaining and clarifying because he merely has the wrong impression about this. That is not the case. In fact, quite the contrary.

The goal here is to help the Governors consolidate more of their State and also Federal job training and job information and job counseling programs. Many Governors in my experience are subject to the pull and tug of very different bureaucracies, the educational bureaucracy and the labor bureaucracy and the various JTPA bureaucracies, some coming from the federal, some coming from the local, some coming from their own State Governments.

This creates incentives for them to pull it all together. In fact, we even are suggesting very strongly in the bill that the Governor sets up a human resource development board in which you have educators, you have job trainers, you have the business community and labor communities involved in determining what that strategy should be.

Senator CONRAD. Let me go to my third question. Employers will be funding additional weeks of benefit for those participating in training, up to 52 weeks of additional benefits. The result is likely to be an additional burden on State trust funds. What would your reaction be to that?

Secretary REICH. Again, I am afraid that your Governor may have simply misinterpreted the statute. This is not a drain at all on State trust funds. This comes entirely from the Federal trust fund.

Senator CONRAD. A fourth question, not from the Job Service back home, but a larger question. I am wondering if you are familiar with this GAO study—Multiple Employment Training Programs. Most Federal agencies do not know if their programs are working effectively. Are you familiar with that GAO study?

Secretary REICH. I am familiar with that study indeed. We have worked with the GAO on that study and I am very appreciative of the GAO for bringing to light something that we have been talking

about for the past 14 months. We have got to begin consolidating these programs and we also have got to begin evaluating them very toughly.

Now in the 1995 budget with regard to the Department of Labor, the President is asking for cuts in certain programs because as presently constituted the programs are simply not doing what they ought to be doing. This particular piece of legislation begins the process and again it is going to be a hard, long process of consolidating these programs. It pulls together every dislocated worker program.

Let me assure you, these are big programs. Of that 150 programs you have apples, and oranges, and bananas, and some of them are very tiny programs. These dislocated workers, many of them are large programs—the Defense programs, the EDWA programs and so forth—consolidates them all into one dislocated worker program.

Every dislocated worker program in government is consolidated here. I view that as step number one.

Senator CONRAD. Am I right in understanding that this represents about 10 percent of the spending of our programs?

Secretary REICH. It represents—I do not have the percentages. It probably is, again, if you include all the education programs the GAO included—

Senator CONRAD. Yes.

Secretary REICH [continuing]. Every special education program, the Job Corps, Pell grants, everything that we do in the education and training area, it does represent about 10 percent. But the question obviously can be raised, does that category—all education and training programs going to every young child, every worker who loses a job—is that the right categorization, I do not know, but it represents—and this is the important point—every dime the taxpayers spend for people who have lost their jobs.

Senator CONRAD. All right. Could I ask a final question?

The CHAIRMAN. Please, sir. But we are running into our 11:30 deadline.

Senator CONRAD. Could I just ask you, the Kassebaum proposal, do you think that has merit?

Secretary REICH. I think there is a lot of merit as a kind of phase two. Absolutely. I do not want to undo what we have already accomplished—throwing the baby out with the bath water. If we have already managed to consolidate these dislocated worker programs, then obviously let us go on to stage two and let us try to consolidate more programs if we want.

I also want to bring your attention to the point I made before that the average American does not care what committee jurisdiction a particular program comes out of nor does the average American care whether it comes out of the Department of Labor or the Department of HHS.

We must establish one stop career centers, in which you as an unemployed worker can come and get the help you need to get the next job. Even though that funding stream may come from a different committee or it may come from a different Department, you are getting in effect street level consolidation. That seems to me, along with consolidating all the dislocated worker programs, a very, very important first start.

I am fearful that if we spend all our time in trying to work with different committees, giving up jurisdiction or taking jurisdiction in different departments, putting the boxes here, putting the boxes there, it could take us years. I think it is a worthy objective and I am going to fight for that objective. But in the interim, let us get started.

The CHAIRMAN. Thank you, Senator Conrad.

Senator Packwood?

Senator PACKWOOD. Mr. Secretary, I am going to premise my question as follows. You know the argument that is often made, we are becoming a nation of hamburger flippers. Good blue collar jobs that pay \$10 are leaving.

Now if you are a mill worker that is making \$10 an hour and your mill closes and the only job is \$5 at Wendys or that is the way it seems to you. Or if you are making \$10 in the mill and indeed there are jobs at \$20 now in the town as an auto mechanic but because you do not know how to repair a car, it does not do you much good.

So with that premise, location is critical. If there is no job, there is nothing you can do. If you are not trained, there is nothing you can do. With that background, Janet Norwood, when she was head of the Bureau of Labor Statistics used to come testify about every 6 months I think, and pretty consistently make the statement that on average the jobs that we were creating were better paying jobs than the jobs we were losing. Is that still true?

Secretary REICH. I wish I could be as optimistic as Janet Norwood had been. Let me just say this. It is true on average, but the average masks are a very dramatic shift that is a guide.

Senator PACKWOOD. I understand that and that statement is 2 years old.

Secretary REICH. But the point I want to make is, saying that the average wage has gone up a little bit is like saying that if Shaquille O'Neal and I were on an elevator, the average height is 6 feet. It does not show you and it does not portray the real interesting reality, which is that there is a greater and greater disparity in wages.

People who have college educations, who are very well trained, their average wages are heading upwards slightly. College graduates today from four-year colleges, they face a fairly good job market, better than in 5 years. But most of our people, 75 percent, who do not have college degrees, they are on a downward escalator. They are having a difficult time finding new jobs. And when they find new jobs, chances are they are paid less than the job they had before.

Senator PACKWOOD. On that I agree with you totally. If they are not trained or if they are not in the right place, it does not matter that on average the jobs are better. For those people they are not better.

Secretary REICH. Right.

Senator PACKWOOD. And they do not want to move 200 miles and their child is still in high school and their wife maybe still has a job at the local Pay Less and they do not want to move.

Secretary REICH. Which is precisely the point here. That is why we have to do a better job matching people to the skills needed. I

have been across this country, Senator. I have been in Chicago. I have been in every State. I have been in Los Angeles. I have been in some of our worst cities. I have been in some of our poorest rural areas.

Again and again I meet with employers who tell me, we cannot find the skilled people we need and these employers are surrounded by unemployed people.

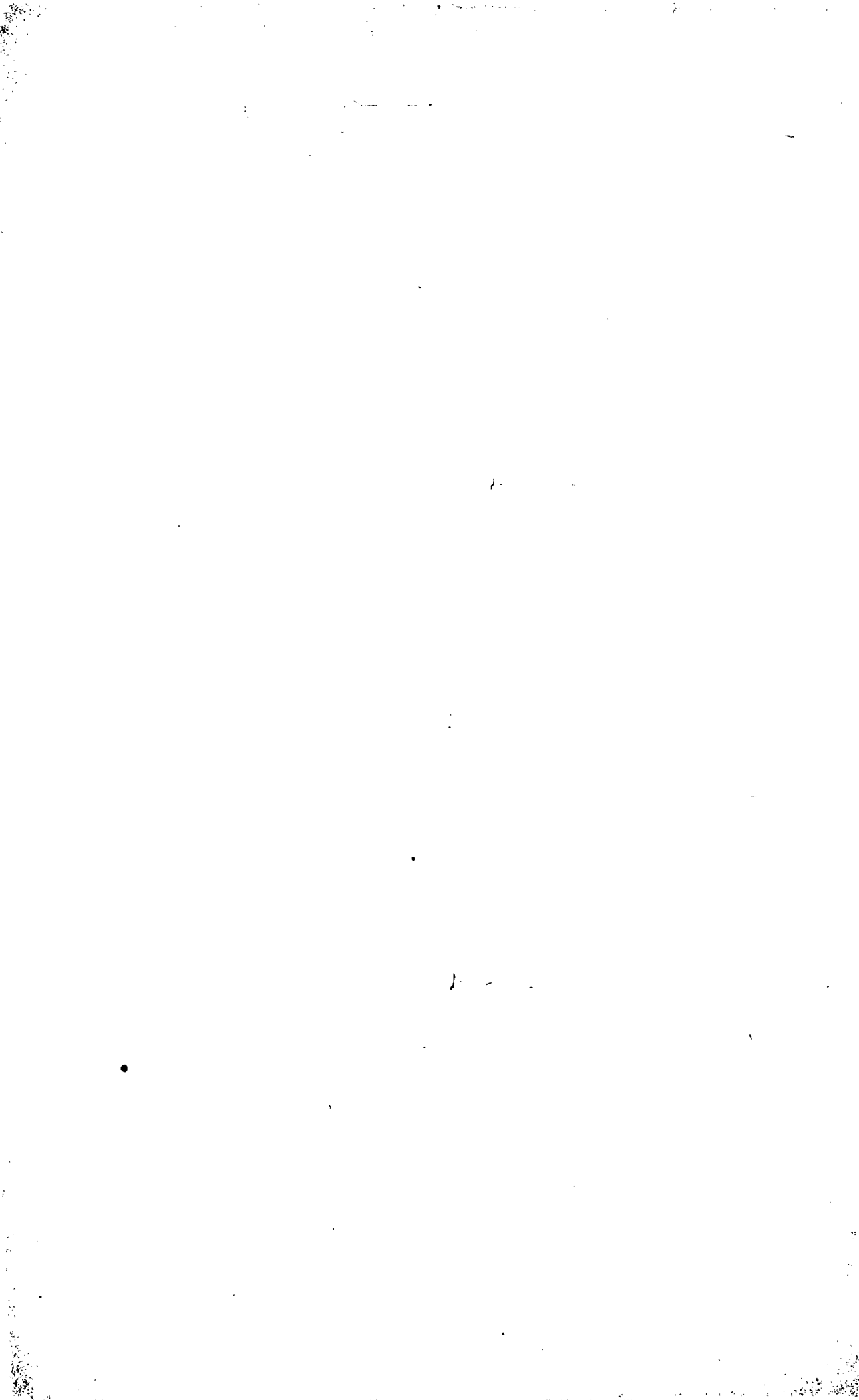
Senator PACKWOOD. Yes, you are absolutely right. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. That is just the note on which to close this first hearing. We mean to move on this legislation, sir. We have other related matters before us. But we thank you for superb testimony for what we regard as legislation whose time has come and we hope to see it brought to reality.

Once again, we thank you, Mr. Secretary.

Secretary REICH. Thank you, Mr. Chairman.

[Whereupon, at 11:35 a.m., the hearing was concluded.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

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### PREPARED STATEMENT OF SENATOR BILL BRADLEY

Good morning, Mr. Chairman, Mr. Secretary. I am very pleased to be here to begin the process of moving the Reemployment Act toward passage in this committee and the full Senate.

I thank you, Secretary Reich, for your work over many months. I have been honored to work closely on this bill with you and the very talented group that you have put together at the Labor Department. I know that you worked through a lot of concerns and objections with business, labor, state government, and my colleagues on both sides of the aisle. You have done a lot of the work that often we expect to do in Congress, so I see no reason why this legislation should not move fairly quickly this year. You have dealt with most of the objections and found solutions to a lot of problems, including the budget problems. The sheer achievement of finding a way to extend help to 1.6 million dislocated workers, with income support for eventually more than ten times as many workers as receive it now, all by consolidating programs and without raising taxes, is remarkable.

Our challenge now is to demonstrate that this legislation is not merely acceptable to business and labor, but is in fact the very best answer for to workers who lose their jobs. In New Jersey, I still hear the anger and the anguish from the destruction of jobs in the recession and the ongoing corporate downsizing. I meet people desperate for a job, not more unemployment benefits, not welfare, and not another training program unless they see a job at the end. I talk to people who worked all their lives and have been out of work since 1991. They acknowledge that the government will not create jobs, but they expect something from us, some way to restore their sense that they are participants in the private sector economy. The Reemployment Act is that answer, and we need to make very clear why it is the answer.

Fortunately, we have an economy that's creating 245,000 jobs a month. Had we attempted to implement this legislation two years ago, it would have been almost impossible, because we would never find out what works to get people back into the workforce. But Mr. Secretary, you have been able to find some things that work, including one-stop career centers, early intervention with displaced workers, and income support, and you have pulled it together under the rubric of reemployment.

An economy that's creating 245,000 jobs a month can lead us in either of two directions. One option is to relax, stop worrying about everything except inflation, and figure the market will find a way to fit any willing worker into a job. We took that path in the last economic recovery. The result was that when the recession came, people who had not upgraded their skills fell harder and farther than they ever imagined. The result was that even when the economy began to pick up, some people went right back to work, but there remained a core group of several million whose jobs had been lost for good, many of whom who are still out of work. The result was that economic growth did not translate into economic security for many Americans.

The second option is to use the economic recovery to build a platform of economic security for all Americans. The world is undergoing four fundamental transformations: the end of the age of ideology; the explosion of world markets; the knowledge revolution; and the connection between economic growth and debt. We must embrace all these changes, but acknowledge that all are accompanied by worker dislocation.

Government has a role in this time of transformation. It must assure all Americans access to an "economic security platform." Given our gigantic national debt, we must build this platform with precision and hard-headedness, conserving our re-

sources at every juncture. We must steer between too many government interventions, subsidies, and entitlements and too few to liberate Americans from feeling so vulnerable and paralyzed. We must establish a set of initiatives that does not hobble the efficiency of market forces, but liberates our workers so they can realize their potential.

For a decade, we have provided some measure of economic security for workers displaced by just one of the transformations facing our economy—trade—and just a fraction of that population. Trade Adjustment Assistance has been a model program because it provides guidance and training, but also income support, but only for the few workers whose job loss is deemed by the federal government to be the result of imports. Everyone else is on their own. There is training, there is job search assistance, but there is nothing that helps people deal with the loss of income to their families.

The Reemployment Act effectively universalizes TAA. It makes the benefits of TAA available to anyone who has been in the workforce for more than a year and whose job is lost for any reason. The person who loses a job because the company upgrades to a computerized manufacturing system, or because the company's owners stumble into bankruptcy, is no different from the worker who loses a job because the company's products can't compete with imports. The bill consolidates TAA in the right way, by ensuring that anyone who would have been eligible for TAA, even if they hadn't been working for a year, will receive everything they would have received under TAA—training and income support.

Lifetime education must mean more than just the training programs that are available through these services. It has to mean that anyone, at any age, can get whatever they need to move to the higher level. Three years ago, I proposed Self-Reliance Loans as a way for anyone to get an education and repay a percentage of the income they will gain from that education. I am pleased that this legislation builds on the idea of income-contingent loans to serve those who want more traditional education, or who have not been in the workforce for one year.

We cannot survive with 40% of Americans with high wages, 40% with low wages, and 20% unemployable. The Reemployment Act of 1994 seeks to help the 2.2 million full-time workers whose jobs are lost each year get back into the workforce quickly, without losing income, and with higher skills and productivity.

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#### PREPARED STATEMENT OF SENATOR JOHN H. CHAFEE

I want to welcome Secretary Reich to the Finance Committee, and commend him for his efforts to develop the Reemployment Act. In my own state of Rhode Island, economic recovery has been slow to take hold. Defense cutbacks, corporate downsizing, and a general—decline in manufacturing have created an uncertain future for many Rhode Islanders.

Many of our dislocated workers are engineers, machinists, welders and diernakers. For them the problem isn't a lack of skills, but rather a lack—of good jobs. Regrettably, in many cases, the higher paying jobs for which they are trained are not coming back. Between 1987 and 1991, according to a recent Arthur D. Little study, Rhode Island lost 18,000 manufacturing jobs—a 15.5% decline. During that same period, U.S. manufacturing employment fell by only 4.7%. In 1992 alone, Rhode Island lost an additional 7,000 manufacturing jobs.

Given this crisis, I have been a strong supporter of every extension of emergency unemployment compensation since the EUC program began in 1991. Since then, 1.4 million-benefit checks totalling \$283 million have been paid out in Rhode Island. As you know, the program expired April 30th, resulting in the immediate cessation of benefits for some 3,000 Rhode Island citizens. The termination of this program adds greater urgency to the need for a comprehensive program for the long-term unemployed.

Secretary Reich and I have met to discuss the Reemployment Act. While I have reservations about some of the bill's provisions, I am generally supportive of its direction. Clearly, our unemployment insurance system must evolve beyond its short term horizons. Fortunately, this has already begun to happen in Rhode Island, with the establishment of one-stop career centers.

Providing some form of extended benefit for dislocated workers is essential, and the linkage to training constructive. The key questions in my mind are: how do we finance it, who is eligible, and what controls are needed to ensure effective training?

I am committed to working with the Administration to expedite a bipartisan solution to the serious problem of worker dislocation, and look forward to your testimony. Thank you.

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## PREPARED STATEMENT OF SENATOR DAVID PRYOR

Mr. Secretary, welcome. Thank you for being here today.

I want to praise you and the administration for the intelligence, enlightenment, and creativity that you have shown by proposing the Reemployment Act of 1994. This bill responds to a very real and significant problem facing our economy in a timely and constructive manner.

This Administration has taken a bold and courageous economic course based on the pursuit of high-skill, high-wage jobs. As part of this strategy, the Administration has supported international economic competition through the NAFTA and GATT agreements. At the same time these events are unfolding, hundreds of thousands of people are losing their jobs as a result of decreases in defense expenditures and the wrenching restructuring of corporate America.

These trends will make our economy stronger in the long run, but in the short run they have meant a tremendous amount of pain for people losing their jobs. The Reemployment Act of 1994 is proof that the Administration has not forgotten about these people. This bill will help American workers find a new and better place in our advanced international economy. It does so by providing long term retraining opportunities so that dislocated workers can obtain new skills and find new careers.

Mr. Secretary, you and your department deserve particular praise for adopting some of the best quality practices of corporate America in your design of the new Reemployment System. You have emphasized convenience, comprehensive services, and flexibility in the proposed one-stop career centers. I particularly want to compliment you for emphasizing performance measurement throughout the system and for making these measures public. These are the true hallmarks of a customer driven system. We must institute these quality principles throughout our government in order to give our citizens real value for their tax dollars and restore their faith in government.

Like any major piece of legislation that comes before the Congress, some changes to the proposed bill may be necessary. I will submit some questions on program design that I would like you to answer. Later I may have further questions regarding financing for the program. I want to ensure that we have adequate revenues to finance this program now and in the future, and I want to be sure that we are not creating some kind of new entitlement program with this bill. Nevertheless, I believe this is a very good initiative and I hope to see us move forward with it expeditiously.

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 PREPARED STATEMENT OF SENATOR JOHN D. ROCKEFELLER IV

Mr. Chairman, it is significant that you made the time for this Committee to hear from Secretary Reich about his effort to revamp our federal training programs. Twenty years ago, you put in your tour at the Department of Labor, and I am sure that means we can draw on that part of your vast reservoir of experience in government and public policy.

Over the past year, I have had the opportunity to talk to Secretary Reich regularly about the President's interest in restructuring our federal training programs for dislocated workers. It is obvious that Bob Reich cares deeply about putting people to work, in jobs that support families and aspirations. I share this goal, and hope we can do something meaningful through the legislation before us.

In West Virginia, our state's unemployment is high and chronic. Last month, West Virginia's unemployment rate was 9.2%—and that was down from 11% in March. That statistic is the cold way to describe thousands of West Virginia men and women, of all ages, who were laid off by plant closings, downsizings, or because their skills were no longer needed someplace. Reemployment is precisely what they want help with.

For example, coal miners in my state's high-sulphur coal fields have lost their jobs as a result of the new Clean Air Act. Steelworkers are often laid off with little hope of recall. Shoe manufacturers are disappearing leaving rural towns with no manufacturing jobs and few alternatives.

Within the last few months, hundreds of workers were put on the unemployed rolls when a major glass manufacturer closed in Huntington, West Virginia. And here's a story and example that points to what we in Congress have to address: These former workers spent long hours on paperwork trying to prove that their "dislocation"—a word for being laid off—was the result of some shift in international trade, like an import surge, or NAFTA. But their each application and appeal was denied. They could not get certified for any of the specialized federal programs that are meant to help unemployed workers like these West Virginians. Eventually they

got a grant from a discretionary program of the state— it took about four months which is too long, and the help will not be as good.

Instead of wasting months trying to qualify for specialized programs, these workers should have been in job counseling, job search, or retraining courses much faster.

Our current, fragmented system has too much paperwork and regulation, and not enough rapid response to get job search and placement when it is the most effective. We need to stop putting so much effort into categorizing people, and instead devote that energy into helping them get back into the workforce.

I commend Secretary Reich for pushing for a bold restructuring of our unemployment system into a new program focused on reemployment. We need to make this fundamental shift.

Change is usually controversial. It involves hard work, and compromises. Clearly, we need to work together to turn this proposal into law. We must ensure that the new system of career centers and one-stop shops will make sense for dislocated workers in cities like New York and Detroit, and in rural areas like Huntington or McDowell County in West Virginia.

The tried and true provisions of the Trade Adjustment Assistance program, including income support during training and rapid response services found in other programs, should be the building blocks of a new program. We should recognize and rely on the years of expertise of the Employment Service.

Since I also have the privilege of serving as the Chairman of the Senate Veterans' Affairs Committee, I will be working to ensure that the changes proposed in the Reemployment Act will compliment and enhance existing job services to veterans including the role of specialized counseling from Local Veterans Employment Representatives (LVERs) and Disabled Veterans Outreach Program staff (DVOPs). As we seek to consolidated program, we need to strengthen programs, especially to veterans to whom our country owes a special debt of gratitude.

This is a challenge, but it's one required by the changes in our economy and the needs of millions of Americans who want to work.

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#### PREPARED STATEMENT OF ROBERT B. REICH

Chairman Moynihan, Senator Packwood, and distinguished Members of the Committee:

I am pleased to have the opportunity to discuss with this Committee the role of the Reemployment Act of 1994 (S. 1951) in equipping all Americans to prosper in today's challenging new economy, and thus cementing a broad-based coalition in favor of open markets and continuous economic adaptation.

Briefly put, the Reemployment Act represents the key component in an ongoing effort to transform America's unemployment insurance system into a reemployment system. This is an urgent enterprise, because the current system is simply not working as it should for America's workers, businesses, or taxpayers.

The programs that make up our existing unemployment system were designed in an earlier time to meet the needs of a simpler economy. Their main purpose was to cushion the employment impact of cyclical and seasonal downturns. The foundations of the current system were laid nearly sixty years ago by the Committee on Economic Security established by Franklin D. Roosevelt and led by my legendary predecessor, Frances Perkins. As Chairman Moynihan observed upon the introduction of S. 1951, Secretary Perkins and her colleagues saw their institutional design as experimental. Their report, and the then-revolutionary initiatives it inspired, were expected to "secure the much-needed experience necessary for the development of a more nearly perfect system."

The unemployment insurance system launched during the New Deal was a remarkably durable success for so sweeping an experiment. But the economy has changed, and the system has not. It is time for us to return to Frances Perkins' experimental ethic, to learn from the evidence that six decades of experience offer us, and to take up anew the challenge of developing a more nearly perfect system.

While cyclical and seasonal unemployment still exists, the problem of *structural* unemployment has grown in importance as technological progress, corporate restructuring, the integration of the world economy, and defense downsizing have accelerated the pace of fundamental economic change. A smaller fraction of lost jobs can be expected to return with the next upturn in the business cycle. A growing number of unemployed workers need to equip themselves for new jobs, often in new industries. The 1935 report by Frances Perkins' Committee on Economic Security noted that "normally the insured worker will return to his old job or find other work before his right to benefits is exhausted." Last year, however, fewer than one-fourth

of unemployed job losers expected to be recalled to their old jobs. The broad statistical trends are mirrored in the anxieties of individual Americans. The Family and Workplace Institute found that 42 percent of surveyed workers reported recent job cuts at their workplaces, and 17 percent felt it was likely or very likely that they themselves would permanently lose their jobs within a year.

Because our current system is not geared to assisting this transition to new work, we face a serious problem of *long-term* unemployment. Even in this increasingly solid jobs expansion, almost 1.8 million Americans have been jobless for more than 26 weeks. In fact, the share of long-term unemployed as a percent of total joblessness has been rising over the last 25 years. During the 1970's, about 11 percent of the jobless were long-term unemployed. So far in the 1990's, the average has been about 16 percent. The most recent figure, for April of this year, is over 21 percent of the total unemployment accounted for by people who have been without work for more than 26 weeks.

As long-term unemployment rises, so does the number of unemployment insurance recipients who run through their full entitlement to benefits without returning to work. In 1993, 39 percent of those who collected regular unemployment benefits ended up exhausting their eligibility. Over the past quarter-century only in 1983, when the unemployment rate averaged 9.6 percent, did a higher fraction of UI recipients fail to find work before their eligibility for benefits expired.

We would face a different problem, and in some ways a simpler one, if long-term unemployment simply reflected a lack of jobs. Yet while workers are suffering high rates of unemployment, underemployment, and long-term joblessness, some employers are having difficulty finding the workers they need. This mismatch between labor supply and demand is a tragic waste for both workers and employers. But it also complicates macroeconomic policy. When workers are skilled and flexible, labor shortages in a particular industry can be quickly remedied. But when unemployed workers are unable to fill new jobs as the economy creates them, labor shortages can persist and kindle inflationary pressures, despite high levels of unemployment.

Economists are fond of debating the "natural" rate of unemployment—the level of joblessness that is required to keep inflation in check. This is not the time or place for engaging that debate, but I would like to point out that whatever that rate might be, it is not an immutable constant, but can be lowered. If we can arrange to keep inflation under control while suffering less joblessness, we can spare America both the lost production and the social damage that needless unemployment entails. And among the most promising ways to lower the natural rate of unemployment is to ease the transition of American workers from job to job. Workforce flexibility can help alleviate the painful paradox of simultaneous skill shortages and joblessness.

We already know a great deal about how to boost workforce flexibility. In preparation for drafting the Reemployment Act proposal, the Labor Department conducted an exhaustive review of the evidence. We were determined to learn what works, and what doesn't work, for moving people quickly into new jobs. Wherever possible we have relied upon the kinds of experimental studies, with random assignment between participant groups and control groups, that can generate conclusive results.

While high-quality experimental answers do not exist for every relevant question, on a large number of the key reemployment issues we have been able to assemble quite robust findings. We have extracted from the evidence several core lessons. And we have attempted to parlay these lessons, as quickly and directly as possible, into program reforms—in some cases through incremental changes that have already been accomplished, but more often through the new authority the Reemployment Act would provide.

1. The first lesson concerns the importance of *early identification and action* for dislocated workers. This makes it possible to reduce unemployment through simple, low-cost services. Some of the best data come from well-designed experiments in five states—New Jersey, Nevada, Minnesota, South Carolina, and Washington. When workers first applied for unemployment insurance, state agencies used labor market information, work history and educational attainment information to determine which of the newly jobless were at risk of long-term unemployment. These at-risk workers then received counseling and job-search assistance.

A scientific assessment of these experiments found that at-risk workers who got this kind of basic reemployment assistance found new jobs earlier than they otherwise would have—averaging between one-half and four weeks earlier—with no loss in the *quality* of the employment they found. Quicker reemployment meant lower unemployment insurance costs; on average, government saved two dollars for every

dollar invested in targeted job search assistance. And workers, of course, were better off with a shorter period without work or wages.<sup>1</sup>

This evidence was sufficiently convincing to warrant our proposal and Congress's enactment of a special provision attached to one of the extensions of Emergency Unemployment Compensation last year. Under this provision, unemployment insurance offices will take steps to identify workers who are unlikely to get their old jobs back, and then link those workers to all available reemployment services. The Reemployment Act will deepen this reform, increasing the proportion of workers who benefit from prompt reemployment services.

2. A second lesson shows the potential payoff to *letting unemployment insurance recipients start their own businesses*. Labor Department demonstration programs in Washington State and Massachusetts gave unemployment insurance claimants a self-employment option. Jobless workers interested in starting their own businesses were given training and support through the UI system. A systematic evaluation found that participants were about twice as likely as comparable non-participants to successfully launch a business. They also had higher average subsequent employment rates and earnings than the control group.<sup>2</sup>

The solid results from state demonstrations of self-employment assistance inspired a provision in the legislation implementing the North American Free Trade Agreement. Under this provision, all states have the option of creating self-employment programs of the sort that have been shown to pay off in Washington and Massachusetts. This authority is only temporary under current law; the Reemployment Act would make it a permanent option.

3. A third lesson concerns *reemployment bonuses* paid to workers who find jobs quickly. Random-assignment experiments in Illinois, Pennsylvania, and Washington showed that offering such bonuses cut the average length of unemployment among eligible populations by one-half to one week—even though only ten to fifteen percent of eligible clients actually made use of the bonuses. The programs paid for themselves from the government's perspective; savings in benefit payments offset the cost of the bonuses. And since they meant higher earnings for participants, they generated net benefits overall.<sup>3</sup> The evidence is robust enough to convince us to propose, in the Reemployment Act, a new reemployment bonus option for all States.

4. Beyond reemployment bonuses and self-employment options, a proven provision to boost the flexibility of the unemployment insurance system concerns *short-time compensation*. This option allows states to offer partial unemployment benefits to employees who are working reduced hours, because their employer is seeking to reduce costs to avert a shutdown, or is spreading work reductions throughout the labor force in an attempt to avoid layoffs. About one-third of the States now operate short-time compensation programs. The Reemployment Act would encourage more States to offer this option.

5. A central lesson concerns the importance of *integrating skill training with unemployment insurance*. While only a minority of job losers require new skills for reemployment, for those who do there are great advantages to integrating training and unemployment benefits. At present, too many workers who need and can benefit from training have their first exposure to training programs only after using up their unemployment insurance. (A 1988 study found that only one percent of the long-term unemployed had attended training, programs by the time their eligibility for jobless benefits expired.)<sup>4</sup>

Yet there is a good deal of solid evidence on the payoff to longer-term post-secondary education, including training at community colleges.<sup>5</sup> While there are no good data on dislocated workers specifically, the findings on post-secondary education generally show a clear pattern of less joblessness and higher earnings as skill levels increase. Importantly, the payoff from education seems to be largely due to the new skills acquired, rather than the "credentialing" effect of graduation: Workers with

<sup>1</sup> Bruce Meyer, *Policy Lessons from the U.S. Unemployment Insurance Experiments*, National Bureau of Economic Research Working Paper #4197, 1992.

<sup>2</sup> Jacob Benus et al., *A Comparative Analysis of the Washington and Massachusetts UI Self-Employment Demonstrations*, Abt Associates, Bethesda, Md., November 1993.

<sup>3</sup> Paul Decker and Christopher O'Leary, *An Analysis of Pooled Evidence from the Pennsylvania and Washington Reemployment Bonus Demonstrations*, Unemployment Insurance Occasional Paper 92-7, U.S. Department of Labor, 1992; Bruce Meyer, *Policy Lessons From the U.S. Unemployment Insurance Experiments*, National Bureau of Economic Research Working Paper #4197, 1992.

<sup>4</sup> Philip Richardson et al., *Referral of Long-Term Unemployment Insurance Claimants to Reemployment Services*, U.S. Department of Labor Occasional Paper 89-2, 1989.

<sup>5</sup> A good overview of the growing role of education levels in income differentials is Frank Levy and Richard Murnane, "U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations," *Journal of Economic Literature*, September 1992.

college experience earn five to ten percent more than do comparable high-school graduates per year of courses completed, whether at four-year or community colleges, and whether or not college education leads to a degree.<sup>6</sup>

By contrast, the evidence suggests that many forms of *short-term* training for dislocated workers are not effective. In three studies—two of them featuring randomized control-group methods—workers offered short-term training plus job search assistance showed no significant increase in earnings or employment over workers offered job-search assistance alone.<sup>7</sup> While the Reemployment Act encourages rapid reemployment through improved job search assistance, it also incorporates three provisions to make longer-term training a practical option for workers who need it: First is the emphasis on early identification and intervention, to get dislocated workers into training before their regular unemployment benefits are exhausted. Second is the Act's provision for extended unemployment benefits for workers who need it to complete appropriate retraining programs. Third is access to student financial assistance, including income-contingent loans, to fund especially lengthy or expensive training regimes, or for workers who are ineligible for income support delivered through the unemployment insurance system.

6. A sixth lesson is the importance of *integrated, accountable delivery* of reemployment services. Here, it requires no sophisticated analysis to pinpoint the problem: The current system is confusing and complex, balkanized into a profusion of narrow programs. We clearly need to streamline the delivery of employment and training services. The Reemployment Act, which will combine all six programs for dislocated workers into a single system, represents an aggressive step toward program consolidation. And this is only our first step. The Reemployment Act is crafted to encourage additional waves of consolidation, and set in motion a continuous campaign of streamlining and improvements.

Program consolidation is clearly important for efficiency and accountability. An equally central tactic for accomplishing the same key goals; however, is integrated one-stop delivery at the point where the customer encounters the system. One of the cornerstones of the Reemployment Act is the progressive construction of a network of one-stop career centers that will unite under one roof access to a wide range of workforce services—not just for dislocated workers, and not just programs based at the Labor Department. Fortunately, there is a wealth of pioneering models on which to build. In New York, for example, the GATEWAY program organizes access to a rich array of reemployment services, including job data banks, skills assessment, counseling, and training. GATEWAY uses up-to-date information technology to minimize red tape and maximize customer service, and has paid off for hundreds of workers—including John Hahn, who spoke at the White House ceremony launching the Reemployment Act proposal. In Maine, the Career Advancement Center links dislocated workers with a wide range of funding sources and services to accelerate their transition to good new jobs. Like GATEWAY, it is founded on the three pillars of comprehensive services, modern information technology, and a culture of commitment to the customer.

In Brookings, South Dakota, the Career Learning Center offers an integrated, customer-oriented approach to delivering information, job-search assistance, and training. In Blaine, Minnesota the Anoka County Human Service Center brings the services of 23 public agencies and numerous private programs together under one roof, giving customers one-stop access to the whole range of help they need to improve their labor-market prospects. Oregon has a statewide program called Choices and Options, which helps dislocated workers assess their options and make informed decisions *before* their eligibility for jobless benefits expires. And in Michigan the famous Focus:HOPE program delivers high-quality training, carefully connected to jobs in demand in the local labor market.

I can't expect to even mention all of the promising approaches under way out in the states: A St. Louis program for accelerating the transition of McDonnell Douglas workers displaced by defense downsizing; a worker transition program, tightly linked to economic development efforts, in Davenport, Iowa; the new Resource Room initiative launched by Oklahoma's employment service; the list could go on and on. The Reemployment Act takes the best ideas developed in these "laboratories of democracy"—one-stop service delivery, market-driven training, customer orientation,

<sup>6</sup>Thomas J. Kane and Cecilia Rouse, *Labor Market Returns to Two and Four-Year College: Is a Credit a Credit and Do Degrees Matter?* Working Paper #311, Industrial Relations Section, Princeton University, January, 1993.

<sup>7</sup>The studies are summarized in Duane Leigh, "An Overview of Existing Evaluation Evidence for the U.S.," in *Assisting Workers Displaced By Structural Change: An International Comparison*, Upjohn Institute, Forthcoming 1994.

computer-driven labor market information systems, and so on—and builds them into the national reemployment system.

The incremental reforms to the unemployment insurance system—reemployment bonuses, short-time compensation, self-employment options, universal profiling—and the local innovations occurring throughout America will make a modest but real difference for dislocated workers, and for public budgets. But modest changes are not enough. If we are to do right by American workers faced with a fundamentally different economy—if we are to honor through action the pragmatic, experimental tradition of my predecessor Frances Perkins and your predecessors in the Senate who shaped America's original unemployment insurance system—we must commit to a fundamental transformation in policy and programs.

The mismatch between the current system's structure and the needs it is pressed to serve burdens federal and state taxpayers, and especially businesses, with enormous costs. State unemployment compensation payments have exceeded \$13 billion in each of the last seven years, and in 1993—even as recovery set in—states paid out nearly \$22 billion in regular unemployment benefits. Federal spending on administrative costs for regular unemployment insurance totalled \$2.5 billion last year. But unemployment insurance is not designed to help speed workers into reemployment. So despite these huge outlays, the predicament of the long-term unemployed led to the repeated provision of federal Emergency Unemployment Compensation payments, costing \$24 billion over the past two years.

Consider this: in 1993 alone, combined federal and state unemployment compensation costs exceeded \$38 billion. This money was not wasted, to be sure; it spared jobless workers from the worst forms of financial hardship and helped shore up consumer spending, which are important accomplishments. But because the system is not geared to reemployment, we have only limited long-term results to show for the \$38 billion spent last year—few investments in new skills, little growth of flexibility, no coordinated attack against the problem of structural unemployment.

We can do better. In the current budgetary environment, we can and must deploy the resources of the unemployment insurance system to greater effect. By gearing jobless benefits to rapid reemployment, and by integrating cash benefits and skill training programs, we can respond more effectively to the risks and opportunities of today's economy.

The Reemployment Act is designed with a keen awareness of fiscal limits. Most of the financing is discretionary, and the majority is financed through consolidating separate dislocated worker training programs into this integrated system. Additional discretionary funds come from reductions in other Federal programs. The modest mandatory component, limited to retraining income support, is initially financed in part by offsets from consolidation, and in part by applying to a jobs-related purpose Unemployment Insurance revenues now routed elsewhere. One of the programs to be consolidated into the Reemployment Act system is Trade Adjustment Assistance. We have attempted to ensure a smooth transition from this categorical adjustment program to the Reemployment Act's comprehensive approach. Virtually all trade-displaced workers will receive equal or superior benefits under the new system. One of the main distinctions is that extended unemployment benefits will be targeted to workers who need that support to complete longer-term training programs.

Beginning in FY 1999, income support for all workers who need long-term training will be financed by a permanent extension of the 0.2 percent surcharge first levied in 1977 under the Federal Unemployment Tax Act. This FUTA extension is a small but crucial component of the systematic reform envisaged by the Reemployment Act. Since some dislocated workers will inevitably need long-term training to equip themselves for reemployment, a reliable source of funding to make this training possible is essential to the integrity of the reemployment system. Income support is available *only* to the minority of workers who participate in the training for reemployment. By integrating training with the unemployment insurance system, this provision reinforces the system-wide emphasis on preparation for new jobs that is central to the overall reform effort.

The mandatory component is also carefully crafted to meet the imperative of fiscal discipline. It is tightly capped. Spending for income support cannot exceed 20 percent of FUTA receipts. While some workers will need training that goes beyond their term of eligibility for income support, they will not be left on their own. Income-contingent loans and other forms of financial aid delivered under the Higher Education Act of 1965 are intended to extend, supplement, or in some cases substitute for income support.

Since the income-support financing is linked to FUTA receipts, and since the wage base against which that charge is levied is limited to the first \$7,000 paid to a worker, the *maximum* annual cost of retraining incoming support is about \$11 per em-

ployee. I believe this is a small price for business to pay for a reform that will boost the supply of skilled, flexible labor.

We expect that the Reemployment Act will also pay off in narrow budgetary terms. The decreases in unemployment and increases in earnings we anticipate from the Reemployment Act's implementation will boost tax revenues and shrink governmental payments for unemployment insurance and other forms of public support.

Finally, American business and the economy at large can expect an even more fundamental payoff from the Reemployment Act. Putting in place a sturdy system of reemployment services will give all American workers greater cause for confidence that they will benefit from the economic changes that will continue to transform American industry. By broadening the coalition in favor of change, the Reemployment Act will reduce the risk of the kind of hacklash against change that would imperil our common agenda of open markets, technological dynamism, and structural transformation.

The Reemployment Act of 1994 is informed by systematic attention to empirical evidence, and a deep commitment to what works. Through respect for the evidence, and through persistence in pursuit of the American tradition of broadly-shared middle class prosperity, we can prepare every American to succeed in the skill-based economy taking shape all around us today. There is no excuse for leaving a single citizen behind.

This concludes my prepared remarks. I would be glad to answer any questions.

**FOLLOWUP QUESTION FROM SENATOR CONRAD****Question 1:**

The requirement of at least 2 career centers in each labor market area poses problems in rural areas, where it may not be financially feasible to establish 2 "fully chartered" centers. Would the Department agree to changes in the legislation to give the Governors flexibility on this issue?

**Answer:**

Under the Reemployment Act there are two models for establishing One-Stop Career Center systems: 1) a consortium of service deliverers or 2) multiple independent operators. While under both models at least two centers would generally be required in order to provide for customer choice, the Act is flexible with respect to how this requirement may be met and allows certain exceptions.

Under the consortium model, existing service deliverers, in multiple locations, linked electronically, could offer customers a choice of access points to employment and training services. The requirement for multiple centers would therefore be met. Under the multiple independent operator model, if only one operator comes forward and meets the criteria, that one operator may be selected and only one center would be required. This provision was specifically added to respond to concerns of rural areas. The REA was purposely structured to allow the flexibility for States and local areas to build a One-Stop Career Center system that fits local circumstances and best serves customers.

In response to concerns raised by State and local stakeholders, the Department of Labor has expressed a willingness to further modify the One-Stop approach to focus more on outcomes and less on process. Specifically, States and localities would be asked to achieve four basic outcomes in structuring One-Stop system implementation proposals and in chartering local centers: (1) universal access to services for all jobseekers; (2) accountability; (3) customer choice; and (4) integration. States' applications would be judged on the extent to which they are likely to accomplish these outcomes. The revised One-Stop structure is much like the model in the School-to-Work Opportunities Act that was recently enacted.

**Question 2:**

The Governor's current authority to set strategic plans and budgets is undermined with the list of functions assigned to WIBs, which assume those responsibilities under Title III of the bill. Would the Department agree to change this part of the bill and give back this responsibility to the Governors?



The Reemployment Act requires that center operators, the Workforce Investment Board, and participating programs enter into a written agreement concerning the operation of One-Stop Career Centers in each service area. The agreement must be approved by the local elected official and the Governor, who will jointly oversee its development and monitor its implementation. The parties to this agreement must also develop an annual budget for the One-Stop Career Centers and WIB. This provision assures that the Governor has a voice in the development of the annual budget and strategic plan. Although the REA requires the WIB to approve the local One-Stop operating budget, it does not affect the Governor's current authority regarding strategic plans and distribution of program funds.

As indicated in the response to the previous question, the Department of Labor has expressed a willingness to modify the One-Stop approach to focus more on outcomes and less on process. Under this approach, specific responsibilities and functions of the Workforce Investment Board, in addition to strategic planning, would be a local decision.

Question 3:

At the hearing you indicated that the proposed bill would have no impact on the States' UI trust funds, explaining that the retraining income support is totally funded by the extension of the FUTA surcharge. However, is it not the case that individuals who are enrolled in training will tend to be in regular UI longer, thus impacting the States' trust funds?

Answer:

We believe that the net effect of the Reemployment Act is actually likely to reduce the duration of unemployment and to reduce the burden on the State UI trust fund account. Under REA, over a million workers should be receiving job search assistance, and this basic reemployment assistance should speed their return to work and reduce their durations of unemployment. At the same time, the small number of workers receiving training and retraining income support would be those who are likely to have exhausted their regular UI in the absence of participation in training.

Question 4:

There is a limited amount of funds available for retraining income support. How many individuals do you expect will benefit from this retraining support income? What happens to those individuals who need this extra income, but don't get it because it's all gone? Do you have a proposed plan on how states/localities should determine who should get this support income?

Answer:

At the requested funding levels, the number of workers who are expected to receive income support benefits is expected to increase from 83,000 in 1998, to 165,000 in 1999, to almost 222,000 in 2000.

There is no absolute entitlement to retraining income support; it is conditioned on fund availability. If the demand for retraining income support exceeds the funds available under the caps in the legislation, some workers will not receive it or the amounts they receive may be reduced. However, if the President's budget request is approved, we believe we will have sufficient funds to provide income support for those who will need it while in training. This is based on our estimates of demand for these payments.

We intend to set up a payment system that provides planning targets to States, who would then closely track the number of people in training who are collecting income support. Substate areas would also have income support targets on which to plan. Should available Retraining Income Support Account funds not be sufficient, income support would not be available to additional workers or reduced for recipients. These workers may be eligible for student aid programs and State grants, which could substitute for the loss of income support.

Question:

The Senator is concerned about the large network of job training programs already in place. If the Administration is taking the lead in reinventing government and reforming welfare, it would tie in every well to do a comprehensive review and overhaul of this entire network.

Answer:

The Department of Labor has already proposed measures to streamline the Federal education and training system and to improve outcomes for customers.

First, under the Reemployment Act, all programs serving dislocated workers would be consolidated into a single program. If approved by Congress, the REA would establish a single standard of eligibility for a unified and comprehensive worker adjustment program that not only provides basic adjustment services but also offers long-term training and income support for workers needing such assistance.

Second, the REA's proposed One-Stop Career Centers would provide a focal point for "bottom up" consolidation of education and training programs and a single point of entry for all customers to the local education and training system.

For example, the REA requires that the following programs be accessible through One-Stop Centers -- the REA's proposed dislocated worker program, the Employment Service, the Veterans' Employment Program, Job Training Partnership Act Title II programs, Unemployment Insurance, and the Senior Community Service Employment Program. Also, under the Administration's welfare reform proposal, the Job Opportunities and Basic Skills (JOBS) program is another program required to be accessible through One-Stop Centers.

Moreover, we estimate that States can voluntarily consolidate as many as 30 education and training programs through One-Stop Centers. The REA will aid One-Stop Centers' consolidation efforts by authorizing waivers of Federal statutory and regulatory requirements that may be obstacles to developing and implementing the Centers.

The Department's One-Stop planning grant program, scheduled to be launched this summer, will provide insights into the array of programs States elect to include in their Centers. State and local experience under the grant program will help tap the full consolidation potential of One-Stop.

While these reforms are significant, we recognize that in the long run additional changes may be necessary. Because these long-range reforms should be the subject of careful study and guided by the input of all key stakeholders, a Commission or similar entity may be an appropriate way to develop a blueprint for a second phase of consolidation.

We believe that the consolidation steps already taken and plans for thoughtful development of longer-term consolidation measures set us on the right path to creating a coherent education and training system.

**Question:**

**Funding Mechanisms.** The Retraining Income Support Act of 1994 includes the extension of a "temporary" FUTA tax on employers that began in 1977. Employers will be funding additional weeks of benefits for those participating in training -- up to 52 weeks of additional benefits. The result is likely to be an additional burden on State trust funds. Also, financing federal income support payments from FUTA revenues is likely to lead to shortages of funds for administration, extended unemployment benefits and loans to state trust funds. The proposed unemployment flexibility -- programs allowing early reemployment bonuses, self employment allowances and short time compensation -- are intended to be cost neutral, but the nature of these programs makes that highly unlikely. The proposals also overlook the staff intensity of these programs and the resulting increase in administrative costs.

**Answer:**

**First**, we believe that the net effect of the Reemployment Act is actually likely to reduce the duration of unemployment and to reduce the burden on the State UI trust fund account. Under REA, over a million workers should be receiving job search assistance, and this basic reemployment assistance should speed their return to work and reduce their durations of unemployment. At the same time, the small number of workers receiving training and retraining income support would be those who are likely to have exhausted their regular UI in the absence of participation in training.

**Second**, it is not anticipated that there will be shortages of funds for administration, extended unemployment benefits, and loans to State trust funds.

Under current economic assumptions, our projections for the Federal trust fund accounts show a steady build up of balances in all three accounts, so that by 1999, they will total over \$21 billion. There are more than enough reserves under current law to provide for the anticipated needs of these accounts (which cover administration, extended benefits, and loans to States), and to fund the new income support payments.

The REA permanently extends the 0.2% surcharge portion of the 0.8% FUTA tax beyond its current expiration date of December 1998, and uses part of the 0.2% to fund income support payments. Under REA, fixed amounts of FUTA receipts will be deposited in the new Reemployment Income Support Account (RISA) from 1996 to 2000. After that time, 20% of the 0.8% FUTA tax will go into RISA, 64% will go to the administration account, and 16% will go to the extended benefits account.

If the REA becomes law, the balances in the remaining three current Federal accounts will continue steadily to rise, but due to the use of part of the FUTA tax for RISA, will not increase as fast as under current law through 1999. After that, the accounts are not adversely affected by REA, because not all of the revenue from extending the 0.2% surcharge will flow into RISA.

Our current projections for the Federal accounts do not include a recession scenario. However, the healthy balances in the accounts should be sufficient to cover this contingency.

Third, reemployment bonuses and self-employment allowances are expected to be cost neutral, but short-time compensation is expected to generate small cost increases. Both reemployment bonuses and self-employment allowances will be tied to worker profiling, so that only those claimants likely to exhaust UI benefits will be offered these options. In addition, participation in a set of services will be required for self-employment allowance recipients. Reemployment bonuses will be limited to four times the claimant's weekly benefit amount and will be payable only during the first 12 weeks of UI receipt. These restrictions will assure cost neutrality.

Question:

**Governance Structure.** The Reemployment Act proposes to vest considerable authority at the national and local levels, thereby precluding the Governor's authority to develop and implement a statewide reemployment system.

Responsibility and authority have been placed at the local level while ultimate liability is with the Governor. Input from local labor markets is essential for evaluation, planning and coordination. But the needs of the various States vary based on geographic, demographic and economic factors. An overly prescriptive administrative structure is likely to result in a needlessly complex and expensive bureaucracy.

Answer:

The Governor's authority in the Reemployment Act's Title I program for dislocated workers is essentially the same as under the current JTPA program for dislocated workers. Under Title III, which establishes One-Stop Career Center systems, States are the entity that applies for implementation grants, although these applications must be jointly developed with local governments. Furthermore, the Governor is responsible for designating substate areas, certifying local Workforce Investment Boards, and with the Local Elected Official, selecting the method for establishing One-Stop Career Centers and approving the local operating agreement.

The written operating agreement between the Workforce Investment Board and the programs participating in the One-Stop system must specify the financial liability of the respective parties to the agreement.

As indicated in responses to other questions, the Department of Labor has expressed a willingness to consider a more flexible approach to one-stop career centers that is less prescriptive on process and more focussed on outcomes.

Question:

**Competitive process.** One-Stop Career Centers operated by a consortia of various employment and training programs will be required to have at least two career centers in each local labor market. These centers would operate competitively and funding would be based, in part, on customer use. In North Dakota we are currently able to provide a comprehensive network of offices throughout the State. This is only possible through an efficient use of the minimal federal funding provided to our State. This requirement may make it necessary to close offices in less populated areas and open additional offices in larger cities to fulfill the competition requirement. Federal mandates for competition will increase costs and further fragment collaborative ventures. If the requirement for competition remains in the legislation, it would seem appropriate to waive the requirement for less populated areas.

The proposed framework for service delivery may be appropriate in large, highly populated areas, but would be impractical to implement in North Dakota. I believe that the intent of this legislation can be carried out by focusing on the accountability of States rather than the process.

Answer:

In the consortium model, the centers do not compete against one another. Rather they reinforce one another. The intent of establishing two centers in the consortium model was simply to give the customer a choice as to which center he or she wished to visit.

Since both centers (or whatever number are established in the labor market area) share the same labor market information and have access to the same job order base, that which differentiates the centers is the expertise of the staffs and the training linkages that each establishes, as well as the variety of services that each may utilize beyond the required programs.

Funding will to some extent be affected by customer use. But that process is not any different from that which currently exists. States will still sub-allocate program funds based on potential uses; there will still be opportunities to evaluate such usage and re-direct funds from one sub-state area of insufficient utilization to another of high level utilization.

If North Dakota, a single SDA state, chooses to define its labor market area to be the entire state and endorses the consortium model, then the current administrative structure may suffice as a consortium under REA. Even under the competitive model, if only one operator in a local area meets the selection criteria, that operator may be selected and only one center would be required. There may well be reasons for closing rural offices, but doing so solely because of the two-center requirement of REA should not be among them.

As indicated in the response to the previous question, the Department of Labor has expressed a willingness to modify the One-Stop approach to focus more on outcomes and less on process. Under this approach, additional flexibility would be afforded to States and localities. State applications for One-Stop implementation would be evaluated on the extent to which they meet specified outcomes, including the extent to which customer choice will be accomplished through either centers or services or other components.

**FOLLOWUP QUESTION FROM SENATOR ROCKEFELLER****Question 1:**

One of the programs to be consolidated under REA, the Defense Diversification Program, was designed to serve persons involuntarily separated from the armed forces, as well as laid off defense contractor and federal civilian employees. Under DDP, eligible persons include those who were denied reenlistment or who accepted special separation incentives to leave the military.

Will persons involuntarily separated from the military be eligible for intensive reemployment services and income support under the Reemployment Act?

**Answer:**

For purposes of the REA, persons involuntarily separated from the military will be deemed to be permanently laid off workers and therefore will be eligible for the same services under the same conditions as other permanently laid off worker. That means that such persons will be eligible for intensive reemployment services if they are unable to obtain employment through the basic reemployment services, and will receive income support if they are participating in training and meet certain other tenure and enrollment conditions. The Department intends to issue guidance similar to the guidance issued under EDWAA in the Training and Employment Guidance Letter of September 18, 1992 to ensure that involuntarily separated service members are quickly identified and served.

We believe that the comprehensive services that will be made available to involuntarily separated service members through the career centers will significantly enhance their opportunities for rapid reemployment.

**Question 2:**

The language of the REA expressly incorporates eligibility criteria in EDWAA (the existing dislocated worker program) and referred to under the Clean Air Act Program. REA also expressly refers to the integration of benefits for workers adversely affected by trade. No mention is made, however, of involuntarily separated service members.

What assurance do we have, in the absence of express statutory language, that the eligibility criteria set out in section 103 of REA will be interpreted and applied to include involuntarily separated service members?

**Answer:**

The Department intends to issue guidance similar to the guidance issued under EDWAA in the Training and Employment Guidance Letter of September 18, 1992 to facilitate the prompt identification and provision of service to involuntarily separated service members. Such service members would be considered permanently laid off workers for purposes of the REA and therefore would be eligible for the same services under the same conditions as other permanently laid off workers.

The Department would be pleased to discuss further the adequacy of these assurances with the Senator and with the Committee if there are any remaining concerns.

Question 3:

Under Title 38 Chapter 41, Local Veterans Employment Representatives (LVERS) and Disabled Veterans Outreach Program staff (DVOPs) provide services to unemployed veterans that include job development, marketing, and coordination of services for housing and other problems. Most LVERS and DVOPs are located in Employment Service offices. The services they provide, however, go beyond the job search assistance services that are available to non-veteran customers of the Employment Service. Designation of special advocates for unemployed veterans under Title 38 Chapter 41 was in part a response to the unique needs of persons who have experienced military conflict, and a recognition of the issues involved in making a transition from military to civilian life. These special services are also a reflection of the public debt that is owed to those who have served in the Armed Forces.

Will services to veterans by DVOPs and LVERS be decreased or altered under the REA?

Answer:

Chapter 41 of Title 38 is one of the mandatory participating programs in the One-Stop Career Center system. This means that the statutorily mandated services to veterans must be available at each center. Veterans will continue to receive priority service under One-Stop, just as they do under current law. We expect that veterans will benefit by such features as:

- o Streamlined and easily accessible services, focusing on what the worker needs to get the next job, not on why they lost the last job.
- o Labor market information on where available jobs are and the skills they require.
- o Financial support to help workers complete meaningful retraining courses.
- o Information on the success rates of education and training providers, to help workers choose appropriate providers for the services they need.

At the same time, these personnel will also be allowed to locate outside the One-Stop to conduct outreach and otherwise provide special services to disabled and other veterans envisioned by statute.

Question 5:

What education and training service providers have a track record that meets the standards set out in section 154 of REA?

**Answer:**

Section 154 would establish a new system to make training and education service providers accountable for their performance. Providers must be eligible to participate in title IV of the Higher Education Act or determined to be eligible under an alternative eligibility procedure to be established by the Governor, based on factors and guidelines developed by the Secretary of Labor after consultation with the Secretary of Education. In addition, in order to be eligible, all providers of education and training would have to provide performance-based information regarding the effectiveness of their programs in achieving positive employment outcomes for their graduates. Because this would be a new system, we do not have information on the providers that would meet the standards.

**Question 6:**

How much experience do substate grantees under JTPA have with providing dislocated worker services to separating service members?

**Answer:**

Since July 1, 1989, when the provisions of the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Act became effective, States and substate grantees have coordinated Title III dislocated worker services with programs administered by the Department of Veterans Affairs, including the Veterans Job Training Act, Title IV-C of the Job Training Partnership Act, and other training, employment, and education programs which may have special provisions for veterans.

Further, the Department of Labor advised the system of States and substate grantees that involuntarily separated service members can be found eligible for assistance under the formula-funded part of the Title III. A Training and Employment Guidance Letter (dated Sept. 18, 1992) was sent to the Governors and the JTPA system managers citing a statutory provision authorizing the Secretaries of the Army, Navy, Air Force, and Marines to identify service members who had been involuntarily separated under other than adverse conditions for the purpose of determining eligibility for service-connected benefits. The establishment of the definition of "involuntarily separated" provided the employment and training system with the authority to deliver dislocated worker assistance to these veterans.

In addition, the Department has coordinated the delivery of dislocated worker assistance with the Transition Assistance Program (TAP). This ensures that the service members confronted with involuntary separation receive a full orientation on the types of dislocated worker assistance available, and how to access those services either in the area where they were last stationed, or in the area to which they intend to relocate following separation.

**Question 7:**

What impediments to serving involuntarily separated service members were encountered in the administration of the Defense Diversification Program or other Title III services?



**Answer:**

Sections 325 (Defense Conversion Adjustment Program) and 325A (Defense Diversification Program) of the current Title III were designed to respond to large-scale defense-related dislocations where affected persons remain in the impacted area to seek employment.

However, service members generally are not separated as a result of a single event, such as a base closure. Furthermore, following separation, these individuals typically return to their homes across the country and search for employment in those communities. Therefore, Title III grantees generally utilize the base EDWAA program to serve these workers rather than submitting applications under the DCA and DDP programs applicable to substantial numbers of separated service members needing assistance in a particular geographic area. It should be noted that involuntarily separated service members have been served through the Secretary's reserve grants to areas that are otherwise affected by defense-related dislocations.

With regard to the balance of the Title III programs, States and substate grantees have full authority to identify and serve involuntarily separated service members to the same extent as all other dislocated workers in the area, based on local circumstances and available resources.

**FOLLOWUP QUESTION FROM SENATOR PRYOR****Question 1 (Program Design):**

Will the One-Stop Career Centers perform the employment service functions under the bill? If so, how can continuity and consistency in the critically important relationship with employers be maintained if contracts are competed every four years among different providers with varying backgrounds and experience levels?

**Answer:**

The Employment Service (ES) plays a key role in States which elect to implement One-Stop systems. Under REA there are two models for establishing One-Stop Career Center systems: a) the Consortium Model and b) the Multiple Independent Operator Model.

Under the Consortium Model, Career Centers are run by a consortium of organizations, including the ES, the State UI agency, agencies administering JTPA Title II, and the Title I dislocated worker program.

Competition is required only if the Multiple Independent Operator Model is selected. Under this model, the ES must be selected as one of the operators if it meets the minimum selection criteria. As long as the ES continues to meet or exceed the performance standards, it must remain a chartered operator. In this manner, continuity and consistency will be maintained. However, if the ES is not performing well, employers and workers may be better served by other entities.

In response to concerns raised by State and local stakeholders, the Department of Labor has expressed a willingness to modify the One-Stop approach to focus more on outcomes and less on process. Specifically, States and localities would be asked to achieve four basic outcomes in structuring One-Stop system implementation proposals and in chartering local centers: (1) universal access to services for all jobseekers; (2) accountability; (3) customer choice; and (4) integration. States' applications would be judged on the extent to which they are likely to accomplish these outcomes. The revised One-Stop structure is much like the model in the School-to-Work Opportunities Act that was recently enacted. We would continue to require that all Department of Labor programs that are designated as mandatory (including the ES) participate in One-Stop.

Question 2 (Program Design):

Will the distribution of UI benefits still be under the control and administration of a State government entity under S. 1951? Or, would these services also be delivered by the One-Stop Career Centers? If under the control of the One-Stop Career Centers, how can we assure the continued smooth functioning of this critically important service given the significant information management, data processing, and logistical demands of the job, plus the fiduciary responsibilities entailed in providing these services?

Answer:

Under REA, the only UI service which must be provided through the One-Stop Career Center is assistance in filing initial claims for unemployment compensation. All program services authorized under Federal and State unemployment compensation laws, including filing of initial claims, may continue to be delivered by the State Employment Security Agency.

Question 3 (Program Design):

Some ES officials believe that the actual physical consolidation of services under one roof in a One-Stop Center is unnecessary and impractical in many cases. What is your view on physical consolidation of services?

Answer:

The Reemployment Act requires that there be at least two centers in each service area, providing all basic and intensive services. Customers, both individuals and employers, must be able to walk into such a center and receive a broad array of services as well as access to current, accurate, and comprehensive labor market information. Services may be provided to the customer by staff who have been cross-trained or who specialize in that program area.

Information, full or limited services, and referral may also be provided at satellite locations in the service area and through kiosks and other advanced electronic telecommunication systems.

As indicated in responses to other questions, the Department has indicated it is willing to further modify the One-Stop approach to provide for more flexibility. Under this "modified" approach, there would be less emphasis on process. Instead, States and localities would be asked to achieve four outcomes in structuring One-Stop system implementation proposals and in chartering local centers: (1) universal access to services for all jobseekers; (2) accountability; (3) customer choice; and (4) integration.

Question 4 (Program Design):

I have also heard a number of concerns expressed about the limits that the Reemployment Act will place on the Governor's ability to direct reemployment activities in their State. Specifically, they are concerned that so much planning and budget authority would devolve from the Governors to the local workforce investment boards under the bill and that a Governor's ability to use his or her reserve funds for statewide programs would also be limited under the bill.

Why has the Governor's authority been curtailed under the Reemployment Act? How will the new reemployment system respond to employment problems and solutions that stretch beyond a single labor market area?

Answer:

The intent of REA is to encourage the creation of a unified system of reemployment services made up of co-equal State and local partners, guided by national goals, designed to meet local needs. Under the Reemployment Act (re the operation of One-Stop Career Centers), center operators, the workforce investment board, and participating programs in each service area enter into a written agreement. The agreement must be approved by the local elected official and the Governor, who will jointly oversee its development and monitor its implementation.

The parties to this agreement must also develop an annual budget for the One-Stop Career Centers and WIB. This provision assures that the Governor retains a significant role in the development of the annual budget and strategic plan. Although the REA requires the WIB to approve the local One-Stop operating budget, it does not affect the Governor's current authority regarding program funds.

Under REA, the collaborative working relationships developed among partners at all levels of government will make possible a coordinated approach to workforce development problems. The national-State-local system of labor market information developed under REA will facilitate this regional problem-solving strategy.

Just as authorized in Title III currently, the REA reserves funds and authority to the Governor for various State responsibilities, including specific State-directed responses to employment problems and solutions that stretch beyond a single labor market area.

Question 1 (Older Workers):

Have you considered any special measures to make sure older workers are not "lost in the shuffle" of these One-Stop Career Centers?

Answer:

Customer service is the hallmark of the One-Stop Career Center concept. Under One-Stop, all customers will be treated with respect, and service will be customized to meet their individual needs. Training will be given to One-Stop staff to sensitize them to the needs of the older workers -- and to the needs of others. Also, One-Stops will provide customers with access to information regarding support services which may address the needs of older workers.

**Question 2 (Older Workers):**

"Forced" early retirees face many challenges. Would forced early retirees be eligible for services under REA?

**Answer:**

Eligibility for dislocated worker services will be determined on a case-by-case basis. Individuals who voluntarily retire from the labor force would not be eligible for dislocated worker services under Title I of REA, but those who have been laid off from their jobs and wish to remain in the labor force may qualify for Title I assistance. One-Stop, of course, is universal -- offering services to all individuals.

**Question:**

The Administration's REA proposal requires that any substate area designated under the Act have a population of at least 200,000. This causes problems in States in which service delivery areas with populations of less than 200,000 have been permitted under JTPA where they serve a substantial portion of a labor market area, and the population of the area is not expected to increase to 200,000 anytime soon. Is the Administration willing to reconsider this requirement?

**Answer:**

We wish to encourage movement to larger labor market areas, which are beneficial for both job search and administrative purposes. However, we understand the need for flexibility in the requirement and therefore will consider ways to accommodate concerns that have been expressed regarding this provision.

In response to concerns raised by State and local stakeholders, the Department of Labor has expressed a willingness to consider retaining language similar to current law, that would allow a Governor to designate areas under 200,000 population.

## COMMUNICATIONS

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### STATEMENT OF THE COUNCIL OF SMALLER ENTERPRISES

Mr. Chairman and committee members, thank you for allowing me to submit testimony on the Reemployment Act of 1994.

I am John Polk, Executive Director of the Council of Smaller Enterprises (COSE), the small business division of the Greater Cleveland Growth Association, Cleveland's Chamber of Commerce. COSE has more than 13,000 small business members who employ about 250,000 greater Clevelanders. As you might imagine, the issues surrounding finding and keeping good, productive employees are foremost in many of the minds of many small businesses people.

As the work place becomes more and more complex, workers are required to have an increasingly broad set of skills in order to maintain their current lifestyle. Many jobs of even twenty years ago are no longer in existence—and some who thought they were set for their entire professional careers have found themselves scrambling to find a new position.

While COSE has a great number of concerns, especially surrounding the financing of such a major new additional undertaking (outlined below), we believe there are a few general principles which should govern any government training or retraining effort.

First and most importantly, any new efforts must not place the federal or state unemployment funds in jeopardy. The primary goal of the unemployment compensation system must remain the temporary support of unemployed workers as they actively look for new employment.

Second, COSE supports the idea of training and retraining. However, the organization is not currently prepared to support the idea of income support for those in the process of being retrained. In supporting training and retraining, COSE supports the following ideas:

- We agree that the "One Stop Center" concept is useful. Already in the state of Ohio, four pilot programs exist outside of metropolitan areas. However, ALL federal placement and training programs must be funneled through this center in order for it to be successful. This includes programs administered through agencies other than the Department of Labor, such as the Veterans' Administration. In addition, the centers must be responsive to the customers—unemployed workers *and* employers.
- All training programs must be focused on the ability to make participants "job ready" through skill based training. Funding should be based on long term, successful placement of clients in jobs. Funding based solely on the number of participants who successfully complete a training program does little to ensure that a person finds and keeps a job. Programs should be coordinated through a central "job match" service, so that employers are able to quickly find those most suited to their needs.
- COSE generally supports the idea of a state and national system for exchange of information among centers and available to employers. All entries regarding jobs MUST be based on skills (as determined by Goals 2000 or another source). In addition, this data exchange system must be appropriately funded as a key element of any retraining system. Employers using the system should be provided with appropriate assistance in order to access the information and educated to the advantages of using the system.

Finally, there must be strong incentives for participation for both employers and workers. For example, employers who participate in the information exchange system not only would have access to a pool of job ready applicants, but might also be eligible for other incentives for hiring from that employee pool.

## COSE CONCERNS

In reviewing the Reemployment Act of 1994, our members have a number of concerns which need to be addressed prior to further consideration. For the most part, the concerns are financial although some are programmatic.

First, The Reemployment Act must recognize that any training system or unemployment compensation system has TWO customers. The employer is only briefly recognized as tangential to the process as opposed to critical to the success of the system.

Second, the proposed legislation suggests a tremendous philosophical and practical shift. The current unemployment system changes from providing financial support while a worker is ACTIVELY seeking employment to providing financial support and paying for training for a person who has (because of the training component) taken themselves out of an active job search, and is unavailable for employment.

Third, the "sanctity" of the unemployment trust fund levels must be maintained. Are the current safe levels of accounts in jeopardy when business cycles turn down and more people are tapping into income support and seeking retraining? Will employers then be approached to make up the difference at a time when they are least able?

Fourth, the future obligations of small employers, if the trust level is threatened, must be discussed. What is the impact of the new income support and training programs on the current state trust accounts? What is the obligation of employers in repaying the state accounts as more and more dollars are funneled out? It must be understood that allowing states to mutualize the costs across the board does *not* mean that employers are not paying.

Fifth, local market information must be used to determine what skills and jobs are outdated and which are up and coming. In looking at the plan, the market information is crucial yet funding in this area is a fairly low priority item. The local and federal market information system shou'd be the first program implemented. This allows individual and business clients to feed into the program and then the local governance organizations to pull information out in order to design necessary programs.

Sixth, since the focus of the system changes from one of active search for employment to income support while training, what if person get called back to work or offered a new job while they are in a training program? Are they required to go? If they do not go back, can they continue to receive assistance?

Finally, many large employers have already downsized and either eliminated their unskilled labor, or contracted out those jobs to smaller businesses. If that's the case, than a future economic downturn will cause employees of smaller companies to be more likely to access reemployment training programs. Since states currently charge back their costs to the companies that use the programs, there may be a disproportionate future impact on smaller employers.

## CONCLUSION

There is no question that the time has come to comprehensively reevaluate the programs put in place to help the working and unemployed workers. Discussion after discussion with small employers has shown that the programs that have been put in place to assist them in finding workers, with occasional exceptions, do not work. COSE applauds the efforts of the Administration and the Congress to address these problems. We look forward to working the Congress as it reviews the current system of unemployment compensation and strives to design an even more efficient system for training productive workers.

Again, thank you for the opportunity to submit testimony.

