FEDERAL UNEMPLOYMENT COMPENSATION SYSTEM AND CONSOLIDATION OF JOB TRAINING PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

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FEDERAL UNEMPLOYMENT COMPENSATION SYSTEM AND CONSOLIDATION OF JOB TRAINING PROGRAMS

TUESDAY, MAY 16, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1:06 p.m., in room B–318, Rayburn House Office Building, Hon. E. Clay Shaw, Jr. (chairman of the subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE
May 4, 1995
No. HR-6

CONTACT: (202) 225-1025

SHAW ANNOUNCES HEARING ON FEDERAL UNEMPLOYMENT COMPENSATION SYSTEM AND CONSOLIDATION OF JOB TRAINING PROGRAMS

Congressman E. Clay Shaw, Jr. (R-FL), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the federal unemployment compensation system and consolidation of job training programs. **The hearing will take place on Tuesday, May 16, 1995, in room B-318 of the Rayburn House Office Building, beginning at 1:00 p.m.**

Oral testimony at this hearing will be heard from invited witnesses only. Witnesses will include business leaders, economists, and scholars familiar with the operation of the current unemployment compensation system and related issues. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

One of the dominant themes of the 104th Congress has been the ongoing effort to simplify federal programs, save taxpayer money, and return program authority and flexibility to the state and local level. The logic is simple--individual Americans or their local elected officials can best decide how to provide for their families and others in their communities. This focus will continue as the Subcommittee considers the current unemployment compensation system, including taxes collected to support it, and related programs designed to get unemployed Americans back to work.

Several particular issues -- repeal of the so-called "temporary" 0.2 percent Federal Unemployment Tax Act (FUTA) surtax, extending the expired exemption of certain temporary agricultural workers from paying unemployment taxes, and a proposed employment and training block grant -- will be reviewed. In announcing the hearing, Chairman Shaw stated: "Almost every worker pays unemployment taxes. It is our job to assure that the system works and that taxes supporting unemployment benefits aren't unnecessarily punishing business and job creation. Also, we will consider ways to improve employment and training programs, so Americans can get back to work sooner and qualify for good jobs."

First, the subcommittee will review taxes that support the current unemployment compensation system, especially the 0.2 percent FUTA surtax. The Social Security Act of 1935 created the Federal-State unemployment compensation system, which along with the Federal Unemployment Tax Act of 1939 (FUTA) form the framework of the system. In general, FUTA imposes a 0.8 percent tax rate on the first $7,000 annually paid by covered employers to each employee. In 1976, Congress passed a "temporary" surtax of 0.2 percent of taxable wages to be added to the permanent FUTA tax rate, so that the current 0.8 percent rate is actually composed of a permanent rate of 0.6 percent and a temporary rate of 0.2 percent. This temporary surtax has been repeatedly extended, and is now authorized through December 31, 1998.

(MORE)

The Subcommittee will examine whether repealing the "temporary" 0.2 percent FUTA surtax will spur job growth while also protecting the integrity of trust funds that support unemployment benefits. The subcommittee will also hear testimony on extending the exemption of employers' paying FUTA taxes on certain temporary agricultural workers, known as H2A workers. This exemption expired on December 31, 1994.

Second, the Subcommittee is interested in the various proposals for an employment and training block grant that are now circulating in the House. For example, legislation has been introduced (H.R. 1120) creating an employment and training block grant. The House Committee on Economic and Educational Opportunities has already held several hearings and in the near future may markup legislation creating one or more employment and training block grants.

According to the Congressional Research Service and the U.S. General Accounting Office, there are over 150 federal employment and training programs operating in 14 agencies, at a cost to taxpayers of $25 billion in FY 1995. Eliminating numerous federal regulations and program requirements would permit states to better design and operate programs to assist Americans in improving their job skills and finding work, and also save taxpayers money. There are several programs under the jurisdiction of the Committee on Ways and Means that may be considered for possible inclusion in an employment and training block grant: the Trade Adjustment Assistance (TAA) program, the NAFTA Trade Adjustment Assistance Program (NAFTA-TAAP), and the U.S. Employment Service.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Tuesday, May 30, 1995, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Human Resources office, room B-317 Rayburn House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available over the Internet at GOPHER.HOUSE.GOV, under 'HOUSE COMMITTEE INFORMATION'.

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Chairman SHAW. The other members will be on the way in. I am going to go ahead and call the hearing to order and read my opening statement.

Today, the Subcommittee on Human Resources will examine our Nation's unemployment insurance system. Part of the purpose of this hearing is to consider the employment policy proposals in the House budget resolution that are within the subcommittee's jurisdiction.

The Budget Committee recently suggested ending extended unemployment benefits, withdrawing unemployment compensation for individuals who voluntarily leave the Armed Forces, eliminating trade adjustment assistance, and block granting dozens of employment and training programs. Each proposal is designed to get Americans back to work sooner, save taxpayers' funds, and improve the program's efficiency.

While the policy proposals in the budget resolution are illustrative only, let me state one thing clearly at the outset. This subcommittee will study all the areas of Federal spending under our jurisdiction for possible savings. If a program does not make sense, is no longer needed, or is simply wasteful, we will move to save the taxpayers' money by cutting that program back or ending it altogether.

For too long, Congress' bias has been on the side of spending too much of the taxpayers' money and calling it compassionate. Those days are over.

Our witnesses also will help us assess employment issues under the subcommittee's jurisdiction not listed in the budget, such as the 0.2 percent FUTA surtax. This surtax is sometimes referred to as "temporary," but I cannot help but noting that if it were alive, it would now be old enough to vote.

We also will hear about the now expired exemption from collecting the FUTA tax on behalf of foreign agricultural workers which Congressman Mike Crapo from Idaho will discuss.

I am especially pleased to have with us today Buck McKeon, chairman of the Economic and Educational Opportunities Subcommittee that is drafting legislation merging dozens of current programs into several employment and training block grants. Members of this subcommittee worked closely with the members of the Economic and Educational Opportunities Committee in developing several of the block grants in H.R. 4, the House-passed welfare reform bill. It is gratifying to see that cooperation, and it will continue.

Our final panel will examine specific employment and training programs under our subcommittee's jurisdiction. The Trade Adjustment Assistance Program, the NAFTA Trade Adjustment Assistance Program, and the U.S. Employment Service.

If anybody on the minority side has an opening statement, I would recognize you at this time.

Mr. LEVIN. Mr. Chairman.

Chairman SHAW. Yes, sir.

Mr. LEVIN. Mr. Ford may have a statement for the record when he comes. I just want to say that while our jurisdiction in this area is somewhat circumscribed, I do feel that our subcommittee and the full committee have a major obligation to try to be sure that the

reforms that are undertaken in the training and retraining unemployment compensation area are on the target.

We in this country have shown we know how to train when we put our mind to it. I do think consolidation is in order. I do think reforms are necessary. I do think the programs can become still more productive. I think the Department of Labor and the Secretary and the administration should be lauded for their initiatives. And I for one want to be sure that as we make changes, they will build on the experience we have had in this country in retraining and training workers.

I look forward to the testimony of our colleagues and then the Department of Labor, as well as the other two panels.

Chairman SHAW. Mr. Rangel.

Mr. RANGEL. Mr. Chairman, I will be brief.

I want to thank you for having these hearings, especially bringing in people who have jurisdiction as relates to job opportunities and employment opportunities for young people in economically disadvantaged areas.

The Contract With America went a long way in reform, and I know I sound like a broken record when I say that we have to do something for our schools and for our communities so that young people will have hope that they, too, can be part of the American dream.

I spoke with the Speaker at length in our hearings, and he agreed with me that at least it should be tested and asked me to work with the committee of jurisdiction to see whether or not—that is the Subcommittee on Postsecondary Education, Training we could come up with some pilot type of project.

I understand that to a large extent it has been adopted and we will be hearing more about it, except that it is not targeted. And I do hope as the hearings go on that the members of this committee, if they agree that we want to hit the areas—if it is going to be pilot, we ought to hit the areas that are crippled the most and where there is the least amount of reason to have hope rather than take the few dollars and spread nationally and have the Governors make the decision.

So I just welcome the hearing, and then we will have to see where it goes. Thank you so much.

Chairman SHAW. Do any other members have any opening statement they wish to make?

[No response.]

Chairman SHAW. Without objection, I will allow any opening statement any members might want to make to be placed in the record at the appropriate part.

Michael, if you would take a seat at the table, we look forward to your testimony.

STATEMENT OF HON. MICHAEL D. CRAPO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO

Mr. CRAPO. Thank you, Mr. Chairman and members of the committee.

I appreciate the opportunity to testify before you today concerning the need to renew the Federal unemployment tax exemption for H–2A agricultural workers.

The H–2A Program, administered by the Immigration and Naturalization Service, brings in foreign temporary workers under section 101(a)(15)(H)(ii)(a) of the Immigration and Nationality Act to perform specific jobs. Without this exemption, these workers would be forced to return home to their own country since they are here under contract to do one specific job. These workers can never collect unemployment benefits. As of December 31, 1994, this exemption once again has been terminated and needs to be renewed retroactively to January 1, 1995. Employers are concerned that paying these Federal and State unemployment taxes for H–2A workers would be an undue burden. I have previously submitted a letter this year to the subcommittee on this matter and again appreciate Chairman Shaw's gracious response and the cooperation of his staff on my requests. Last week, I submitted testimony for the record on this exemption during the Ways and Means Oversight Subcommittee hearing on this same issue.

It is my hope that the House Ways and Means Committee will agree with my position and the position of many of the sheepherders in Idaho that we need to permanently extend the FUTA exemption for H–2A for agricultural workers. That way we would not have to address this issue on a yearly basis. I am pleased that Bryan Little, director of governmental relations at the American Farm Bureau Federation, is also here today on this same issue, and I thank you for your consideration of this meritorious extension of the proposal. I look forward to working with you and the other members of the committee in solving this problem.

Chairman SHAW. Thank you.

Do any of the members wish to inquire? Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

Congressman, within your district, what type of work do these particular temporary farmworkers perform?

Mr. CRAPO. Thank you, Mr. Chairman and Mr. English. The primary issue in my district, at least that has come to my attention from those concerned about the issue, is in the sheep industry. Temporary workers are brought over to work in the sheep industry, and I do not know specifically—I assume they are sheepherders. And when they then are required to have—if they are required to pay unemployment tax, if their employers are required to pay unemployment tax on their services, when these sheepherders then go back to their own country, they are never going to be qualified to receive the unemployment benefits. Therefore, it is an unreasonable expense to expect the employer to bear.

Mr. ENGLISH. What kind of impact would not extending this tax credit have on the competitiveness of that section of the agricultural community?

Mr. CRAPO. Thank you, Mr. Chairman and Mr. English. As you know, we are already reducing some of the Federal programs dealing with wool and mohair, and the sheep industry is facing serious burdens in terms of our trade policy, adequately creating and maintaining a balanced playingfield. So I just say that as background.

They are facing a tough economic environment right now, in significant part because of Federal policies or failure to have a strong Federal trade policy that protects them.

What this would do is simply add one more burden in several ways. Not only is it a financial burden for the taxes that would have to be paid for no good reason, but there is all the recordkeeping and the increased regulatory burden that would then be placed upon them. And, in addition, there will be matching State tax and recordkeeping requirements that are also put into place.

So it is an economic impact as well as what I would call the hidden regulatory tax impact as well.

Mr. ENGLISH. And a final question: In the labor market for this sector of the agricultural economy, how vital are these temporary farmworkers?

Mr. CRAPO. They are very vital. We would certainly be glad to hire people in our own communities who are residents of the country or the State if they were available and ready and willing to do that work. But as I am sure you are aware, in agricultural communities often the situation is that these kinds of workers, with the training and with the willingness to perform this kind of work, are not available. And if they are not available in the market, then it would make a difficult problem for their employers.

Mr. ENGLISH. Thank you.

Mr. Chairman, I think the same arguments could be made for many other areas of our agricultural economy, and I find the gentleman to be very persuasive. And I appreciate the opportunity to question him here today.

Mr. CRAPO. Thank you.

Chairman SHAW. Mr. Levin.

Mr. LEVIN. I have no questions.

Chairman SHAW. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

I wanted to ask you the total cost that we are looking at if we grant the extension.

Mr. CRAPO. Yes, my understanding is that the impact on the Federal budget if the exemption were granted—and I again point out that this exemption has been in place until it just expired last December 31. My understanding is that the total impact on the Federal budget would be $840,000. So it is not a big Federal dollar issue, but it is a really big issue to those industries and those agricultural communities where it has its impact.

That is the Federal side of it. I am sure that in terms of the impact on the employers there is also the State side of it as well.

Ms. DUNN. Why, Mr. Crapo, has the exemption not been made permanent before with your information that they are never receiving the benefits of this fund they are paying into?

Mr. CRAPO. You know, I am not going to be able to give you a complete answer to that, and I believe that Bryan Little, who is going to testify from the American Farm Bureau, might have more information. But it is my understanding that it has been extended on a year-to-year basis and that, for some reason that I am not aware of, there just has been a reluctance to make it a permanent exemption.

Ms. DUNN. Thank you. It sounds like it makes a lot of sense to me. Thank you very much, Mr. Crapo.

Chairman SHAW. According to the CBO estimate, the 5-year estimate is $17 million.

Mr. CRAPO. Oh, OK. Then my numbers were obviously very different than that.

Chairman SHAW. But we will be sure both numbers are in the record because I do want to be sure they are correct ones.

Mr. Rangel.

Mr. RANGEL. Thank you.

How many workers are we talking about? How many alien workers are we talking about?

Mr. CRAPO. Mr. Rangel, I do not have that information.

Mr. RANGEL. Where do they come from?

Mr. CRAPO. I can tell you that in Idaho it is the sheepherders. I can tell you the States where they are involved, but I cannot tell you the nation.

Mr. RANGEL. I am very concerned about the Governor of California's position on this, so I have got to know where they come from because I know his feeling about aliens, whether they are legal or illegal. This is not inconsistent with Governor Wilson's idea.

Mr. CRAPO. Mr. Rangel, I do not have personal knowledge of Governor Wilson's position, but I do not believe that this is inconsistent with his position. The reason is these workers who are coming in, they are legal workers; they are not illegal immigrants. They are legal workers.

Mr. RANGEL. You know this committee's feelings about legal aliens in terms of receiving Federal benefits.

Mr. CRAPO. Yes, sir.

Mr. RANGEL. Which is very negative. So I want to be consistent with my committee to make certain these people are not entitled to any benefits at all. Are they?

Mr. CRAPO. Mr. Rangel, the point here is that what I am talking about is a benefit for the U.S. employers. Under the H–2A Program, the workers who come in from foreign countries are still not entitled to the unemployment benefits because they must go back to their country unless they can continue their H–2A employment. They are temporary workers brought in legally under a Federal program, and we are not seeking to change that.

What we are saying is that the tax burden imposed on American employers, if this exemption is not extended, will be unreasonable because they will be taxed for a program that does not now and will not ever benefit the employed worker.

Mr. RANGEL. Congressman, I am trying to say that as far as the majority of this committee is concerned, whether they pay taxes or not, there are certain benefits that we do not want them to have. Is that consistent, that they do not receive any health benefits or education benefits while they are here?

Mr. CRAPO. Mr. Chairman and Mr. Rangel, I understand the issue you are concerned about, but this issue is not related to the benefits that are provided to those who may be legal immigrants into the country.

Mr. RANGEL. Let me ask this. Aren't we saying that we are going to relieve the employers of a tax liability in order to allow him and to encourage him to hire alien workers? Is that what we are here for?

Mr. CRAPO. We are going to relieve the employer, if this exemption is granted, from a tax liability to provide a benefit that—to provide taxes for a benefit that does not exist.

Mr. RANGEL. And so this is to encourage him to continue to use non-American workers.

Mr. CRAPO. It allows them to do so where it is appropriate.

Mr. RANGEL. OK. And I am just wondering, what is the average salary of these people? Since we cannot get Americans to do this work, how much are they paid?

Mr. CRAPO. Mr. Chairman and Mr. Rangel, I do not have that information.

Mr. RANGEL. So if I was to say that, you know, it looks like they may be depriving Americans out of work by bringing in foreigners, you could not argue that since we do not know what the salary is.

Mr. CRAPO. I bet that I could, but I do not have the information in front of me right now, Mr. Rangel.

Mr. RANGEL. What about the Department of Labor? Have they looked at this? Is it supported by the Department of Labor? That is the U.S. Department of Labor.

Mr. CRAPO. I have not checked with the Department of Labor.

Mr. RANGEL. None of these people come from Cuba, do they?

Mr. CRAPO. I could not tell you that, Mr. Rangel.

Mr. RANGEL. Well, I do not want any controversy in front of this committee. If we are dealing with foreigners, I want to know who they are. I want to make certain that they are not competitive with Americans, and I want to make certain that they do not receive any benefits if they are not American, to make it consistent with this committee.

Thank you for presenting what you have, and I hope that Mr. Little will be able to—who is the sponsor of this bill?

Mr. CRAPO. Mr. Chairman and Mr. Rangel, it is my understanding that this is not an independent bill. It is an effort to be at this committee to provide for this exemption. If there is an independent sponsor, I am not aware of who it is.

Mr. RANGEL. Someone has to introduce this darn thing. The farmers cannot introduce the bill.

Mr. Chairman, whose bill is this?

Chairman SHAW. We are not on a bill.

Mr. RANGEL. We do not have a bill?

Chairman SHAW. This is just a——

Mr. RANGEL. Oh, this is just dialog.

Chairman SHAW. Just a hearing.

Mr. RANGEL. Oh, I have enjoyed it. Thank you. [Laughter.]

Mr. CRAPO. It has been my pleasure, Mr. Rangel.

Chairman SHAW. There are some 20,000 workers that are involved in this program. We have the listing of the States. I think there are 2,800 in New York. I will have it copied and put on each member's desk.

[This table was given out to the members at the hearing:]

TABLE V. JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF FOREIGN WORKERS, 1992

State	No. Jobs	Crop or Activity	Origin of Foreign Workers
Alabama	1	Sheepherding	Mexico 4/
Alaska	1	Game Farm (Laborer)	Scandinavia
Arizona	171	Citrus (Hand Harvest)	Mexico 4/
	1	Goatherding	Mexico
	88	Sheepherding	Chile, Mexico 4/, Peru 2/
California	1	Mushroom (Harvest)	China
	485	Sheepherding	Chile, Mexico 4/, Peru 2/
	12	Sheepshearing	Australia, New Zealand
Colorado	22	Custom Combining (Grain)	Canada 1/
	7	Livestock	Mexico 4/
	134	Sheepherding	Chile, Mexico 4/, Peru 2/
	39	Sheepshearing	Australia, New Zealand
Connecticut	143	Apple (Harvest)	BWI 3/, Mexico 4/
	6	Christmas Tree (General)	BWI 3/
	93	Diversified Crops (Gen)	BWI 3/
	133	Nursery (General)	BWI 3/
	5	Poultry	BWI 3/
	496	Tobacco (Harvest)	BWI 3/
	9	Vegetable (Harvest)	BWI 3/
Florida	4,271	Sugarcane (Harvest)	BWI 3/, Australia
Georgia	152	Vegetable (Harvest)	Mexico 4/
Idaho	452	Irrigating	Mexico 4/
	283	Sheepherding	Chile, Mexico 4/, Peru 2/
	29	Sheepshearing	Australia, New Zealand
Illinois	6	Vegetable (Harvest)	Mexico 4/
Kansas	9	Custom Combining (Grain)	Canada 1/
	2	Farmworking (General)	Scotland
Kentucky	19	Tobacco (Harvest)	Mexico 4/
Maine	638	Apple (Harvest)	BWI 3/, Mexico 4/
	43	Blueberry (Harvest)	BWI 3/
	14	Diversified Crops (Gen)	BWI 3/
	2	Nursery (General)	BWI 3/
	10	Vegetable (Harvest)	BWI 3/, Mexico 4/

TABLE V. JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF FOREIGN WORKERS, 1992 (Continued)

State	No. Jobs	Crop or Activity	Origin of Foreign Workers
Massachusetts	586	Apple (Harvest)	BWI 3/, Mexico 4/
	6	Cranberry (Harvest)	Scotland
	22	Diversified Crops (Gen)	BWI 3/
	9	Nursery (General)	BWI 3/
	13	Strawberry (Harvest)	BWI 3/
	78	Tobacco (Harvest)	BWI 3/, Mexico 4/
	187	Vegetable (Harvest)	BWI 3/, Scotland
Montana	22	Custom Combining (Grain)	Canada 1/
	30	Horticulture	Mexico 4/
	72	Irrigating	Mexico 4/
	39	Sheepherding	Chile, Mexico 4/, Peru 2/
	1	Sheepshearing	New Zealand
Nevada	153	Sheepherding	Chile, Mexico 4/, Peru 2/
	99	Vegetable (Harvest)	Mexico 4/
New Hampshire	268	Apple (Harvest)	BWI 3/, Mexico 4/
	71	Diversified Crops (Gen)	BWI 3/, Mexico 4/
New York	2,807	Apple (Harvest)	BWI 3/, Mexico 4/
	55	Nursery	Poland
North Carolina	1,932	Tobacco/Vegetable (Har)	Mexico 4/
Oklahoma	208	Custom Combining (Grain)	Canada 1/, England, Mexico 4/
Oregon	57	Sheepherding	Chile, Mexico 4/, Peru 2/
	10	Sheepshearing	Australia, New Zealand
Pennsylvania	4	Grapevine (Pruning)	Czechoslovakia
Rhode Island	15	Apple (Harvest)	BWI 3/
South Dakota	11	Custom Combining (Grain)	Canada 1/
	10	Sheepshearing	Australia, New Zealand
Tennessee	22	Tobacco (Harvest)	Mexico 4/

TABLE V. JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF FOREIGN WORKERS, 1992 (Continued)

State	No. Jobs	Crop or Activity	Origin of Foreign Workers
Texas	3	Custom Combining(Cotton)	Mexico 4/
	68	Custom Combining (Grain)	Canada 1/, England, Mexico 4/
	2	Fruit (Harvest)	Mexico 4/
	19	Livestock (Cattle)	Mexico 4/
	12	Sheep & Goat Ranch Hand	Mexico 4/
	4	Sheepshearing	Australia
	1	Vegetable (Harvest)	Mexico 4/
Utah	122	Sheepherding	Chile, Mexico 4/, Peru 2/
	23	Sheepshearing	Australia, New Zealand
Vermont	436	Apple (Harvest)	BWI 3/, Mexico 4/
	30	Diversified Crops (Gen)	BWI 3/
Virginia	752	Apple (Harvest)	BWI 3/, Mexico 4/
	44	Cabbage (Harvest)	Mexico 4/
	75	Tobacco (Harvest)	Mexico 4/
	2,412	Tobacco/Vegetable/Hay(Har)	Mexico 4/
	10	Tobacco/Vegetable/Sod(Har)	Mexico 4/
	8	Vegetable/Berry (Harvest)	Mexico 4/
Washington	27	Sheepherding	Chile, Mexico 4/, Peru 2/
Wyoming	34	Livestock	Mexico 4/
	24	Sheep (Lambing)	Mexico 4/
	218	Sheepherding	Chile, Mexico 4/, Peru 2/
	45	Sheepshearing	Australia, New Zealand

TOTAL JOBS: ALL STATES = 18,939

TABLE V. JOBS CERTIFIED BY CROP OR ACTIVITY AND
COUNTRY OF ORIGIN OF FOREIGN WORKERS, 1992 (Continued)

FOOTNOTES:

1/ Work pattern for majority of custom combine crew members is to start work in Oklahoma, Texas, or Arizona and move north into other Central States.

2/ Majority of sheepherders work in ten (10) Western States, and are primarily from Mexico and Peru. Some workers are from Chile and Spain, with a few from China, Mongolia and Portugal.

3/ BWI = British West Indies. In New England States only Jamaican workers are employed, although in 1991 some workers from the Dominican Republic were reported. Elsewhere, the majority of BWI workers are from Jamaica. Also included in the BWI category are workers from most of the other countries in the British West Indies island chain.

4/ Mexico = Primarily workers from Mexico, but may also include workers from Guatemala, El Salvador and other Central American countries.

Mr. RANGEL. Do we have the salary or how they are paid?

Chairman SHAW. This would be a good question for the Department of Labor, but the law provides, as I understand it, that they have to pay the prevailing wage for that type of work in the area in which they are put, so that they cannot undercut the local market. That is what I have been told, but that would be a good question for the administration's witness when he comes to the table.

Mr. RANGEL. Thank you.

Mr. CRAPO. Thank you.

Chairman SHAW. Any other members wish to inquire?

[No response.]

Chairman SHAW. If not, thank you very much.

Mr. CRAPO. Thank you, Mr. Chairman.

Chairman SHAW. Thank you for being with us this morning.

Our next witness is Mr. McKeon from California. We have your written testimony, and you may proceed as you see fit.

If you wish, we will put your entire testimony into the record together with the—I guess you want the attachment, too.

Mr. MCKEON. We put a lot of work into that drawing. We appreciate that.

STATEMENT OF HON. HOWARD P. "BUCK" McKEON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON POSTSECONDARY EDUCATION, TRAINING AND LIFE-LONG LEARNING, COMMITTEE ON ECONOMIC AND EDUCATIONAL OPPORTUNITIES

Mr. MCKEON. Thank you, Mr. Chairman. I appreciate the invitation and opportunity to provide members of this committee an overview of the job training consolidation legislation currently moving through the Committee on Economic and Educational Opportunities.

As a member from a district in California that has been hard hit by defense and aerospace cutbacks, I understand that the skills of this Nation's work force are more important today than ever before to U.S. competitiveness. However, our current patchwork of Federal programs is not the answer. The CAREERS Act addresses our long-term work force preparation strategy by creating a seamless system for youth and adults to meet the competitive needs of our work force. This legislation transforms this Nation's vast array of career-related education, employment, and job training programs into a true system of work force preparation and development.

CAREERS would consolidate and eliminate over 150 existing education, training, and employment assistance programs into four consolidation grants to the States. These grants would include: A youth work force preparation grant; an adult employment and training grant; a vocational rehabilitation grant; and an adult education and literacy grant.

These four programs working together will form each State's work force preparation system. Our bill provides maximum authority to States and localities in the design and operation of their work force preparation systems. We significantly reduce administrative requirements, paperwork, planning, reporting, and data collection requirements—eliminating bureaucracy within the system.

However, our legislation does provide some broad parameters for the design of a work force development system based on testimony from our hearings and in talking to people around the country.

Specifically, title I of CAREERS builds an infrastructure in States and local communities for development and implementation of a comprehensive work force development system. At the State level, Governors will pull together key State agency heads and leaders from business and education to develop a single State plan and performance measurement system for the entire work force development system.

In local communities, employer-led work force development boards will provide policy guidance and oversee local systems and will be responsible for establishment of local one-stop career centers—accessible single points of entry into the local work force preparation system.

The Youth Work Force Development Program pulls school systems and postsecondary institutions together with local business leaders to develop a school-to-work system for both in-school and out-of-school youth in the community. This system is designed to result in challenging academic and occupational competency gains for all youth in the community, as well as completion of high school, or its equivalent, and other positive outcomes such as placement and retention in employment, or continuation into postsecondary education or training.

Under the adult and vocational rehabilitation programs, up front or core services, such as assessment of skills, counseling, job search assistance, information on education, training, and vocational rehabilitation programs in the local community, and referral to appropriate programs would be available through a network of one-stop career centers. For individuals with severe disabilities and determined to be in need of more intensive services, such services would be available through vouchers and other means to be used with approved providers of vocational rehabilitation services.

For adults who are unable to obtain employment through the core services, more intensive services in education and training services would be provided through the use of vouchers or other means that offer maximum customer choice in the selection of training providers.

I now want to highlight some of the specific issues which are likely to be of most interest to members of this subcommittee.

There are two major programs which the Opportunities Committee shares jurisdiction with Ways and Means: The Wagner-Peyser Act of 1933, and the Trade Adjustment Assistance Program. Currently, neither of these programs would be consolidated under CAREERS.

Wagner-Peyser was not consolidated due to the fact that it is financed by employers through the Federal Unemployment Tax Act. There is an obligation to ensure that these funds are used for their intended purpose, which is to maintain a national system of employment services.

CAREERS does amend the Wagner-Peyser Act. It ensures that it is fully integrated into the one-stop delivery system, retains the emphasis on job placement functions of the Employment Service, continues to ensure that unemployment claimants are actively

seeking work and are helped to reenter the work force as early as possible, thus reducing the burden on employer taxes, and establishes a new title to Wagner-Peyser, consolidating the current Federal effort of collecting and disseminating labor market information in order to make it locally based, current, and widely accessible.

The second program where we share jurisdiction is the Trade Adjustment Assistant Act. This provides a wide range of training and employment services for workers whose jobs are impacted by trade. Although currently not consolidated as part of CAREERS, we are willing to work with members of the Ways and Means Committee to pursue such action on the floor of the House.

The philosophy behind CAREERS is that services should be provided to individuals who have lost their job, are out of work, or who simply lack the skills to hold a job. Programs such as TAA spend too much time, money, and effort in trying to determine why or how somebody lost a job instead of focusing the limited funds available on ensuring that they are provided adequate services to get back into the labor force as soon as possible.

Again, I want to thank you, Mr. Chairman, for inviting me here to speak on this important topic. I would welcome any ideas or suggestions members of this committee may have which would further strengthen any aspect of the CAREERS legislation.

[The prepared statement and attachment follow:]

TESTIMONY OF HON. BUCK McKEON, CHAIRMAN
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
TRAINING AND LIFE-LONG LEARNING,
COMMITTEE ON ECONOMIC AND EDUCATIONAL OPPORTUNITIES

Introduction

Mr. Chairman, I appreciate the invitation and opportunity to provide members of this Committee an overview of the job training consolidation legislation currently before the Committee on Economic and Educational Opportunities.

As Chairman of the Postsecondary Education, Training and Life-long Learning Subcommittee, and as a Congressman from a district in California that has been hit hard by defense and aerospace cutbacks, I understand that the skills of this Nation's workforce are more important today than ever before to U.S. competitiveness. However our current patchwork of Federal programs is not the answer. The Consolidated and Reformed Education, Employment, and Rehabilitation Act, or "CAREERS" Act, addresses our long term workforce preparation strategy by creating a seamless system for youth and adults to meet the competitive needs of our workforce.

In brief ,the CAREERS Act includes five major components:

First, it provides maximum authority to States and localities in the design and operation of their workforce preparation system;

Second, it drives money to States -- and down to local communities to the actual points of service delivery;

Third, it requires the involvement of local employers in the design and implementation of local systems -- through employer-led local Workforce Development Boards; and

Fourth, it requires that service delivery be provided through a one-stop delivery structure which is market driven, accountable, reinforces individual responsibility, and provides customer choice and easy access to services;

Finally, it establishes a national labor market information system that provides employers, job seekers, students, teachers, training providers, and others with accurate and timely information on the local economy, occupations in demand, skill requirements for such occupations, and information on the performance of service providers in the local community.

In establishing this workforce development infrastructure, the CAREERS Act consolidates and eliminates over 150 existing education, training, and employment assistance programs into four consolidation grants to the States, including: A Youth Workforce Preparation Grant; an Adult Employment and Training Grant; a Vocational Rehabilitation Grant; and an Adult Education and Literacy Grant.

The CAREERS Act provides maximum authority to States and localities in the design and operation of their workforce preparation systems. We significantly reduce administrative requirements, paperwork, duplicative planning, reporting, and data collection requirements across the various programs -- eliminating vast bureaucracy within the system. However, our legislation does provide some broad parameters for the design of a workforce development system based on testimony heard in our numerous hearings and in talking to people around the country, which we feel are necessary to move the system in the right direction.

Specifically, Title I of CAREERS, is designed to build an infrastructure in States and local communities for development and implementation of a comprehensive workforce development system. At the State level, Governors are asked to pull together key State agency heads and leaders from business and education to develop a single State Plan and performance measurement system for the entire workforce development system. Governors are also asked to designate Workforce Development Areas throughout the State, for the distribution of funds and service delivery under much of the system.

To ensure the involvement of the private sector in the design and implementation of local systems, CAREERS requires the establishment of local, employer-led, workforce development boards. These boards would provide policy guidance and oversight over local systems, and would be responsible for the establishment of local one-stop delivery systems -- easily accessible single points of entry into the local workforce preparation system.

The youth workforce development program pulls school systems and postsecondary institutions together with local business leaders to develop a "school-to-work system" for both in-school and out-of-school youth in the community. This system is designed to result in challenging academic and occupational competency gains for all youth in the community, as well as completion of high school, or its equivalent, and other positive outcomes such as placement and retention in employment, or continuation into postsecondary education or training. States would also be required to show how special population students meet the performance standards.

Under the adult and the vocational rehabilitation programs, "upfront" or "core" services -- such as information on jobs, assessment of skills, counseling, job search assistance, information on education, training, and vocational rehabilitation programs in the local community, assessment of eligibility for such programs (including eligibility for student financial aid), and referral to appropriate programs would be available to all individuals through a network of one-stop career centers and affiliated satellite centers throughout each community. For individuals with severe disabilities and determined to be in need of more intensive services, such services would be available through vouchers and other means to be used with approved providers of vocational rehabilitation services.

Under the adult training system, for individuals who are unable to obtain employment through the core services, more intensive services such as specialized assessment and counseling, and development of employability plans, would be available -- also through the one-stops. For those unable to obtain employment through these services and determined to be in need of education or training, such services would be provided -- through the use of vouchers or other means that offer maximum customer choice in the selection of training providers. States would be required to establish a certification system for the identification of legitimate providers of education and training for receipt of vouchers taking into account the recommendations of local workforce boards.

Finally, beyond the specific area of job training, the CAREERS Act includes privatization proposals for 2 existing government sponsored enterprises -- again focusing on the streamlining of federal programs. Sallie Mae and Connie Lee were created by the Higher Education Act and are examples of for-profit, stockholder owned GSEs which have successfully fulfilled their intended purposes. Privatization cuts the ties to the federal government and establishes a willingness on the part of the government to take a successful public-private partnership and turn it into a completely private venture when government support is no longer necessary.

Now that I have provided a general overview of the CAREERS Act, I want to highlight some of the issues which are likely to be of most interest to members of this Committee.

There are two major employment and job training programs which our Committee shares jurisdiction with the Ways and Means Committee. They are the Wagner-Peyser Act, authorizing the U.S. Employment Service, and the Trade Adjustment Assistance Program including the related NAFTA-TAA program. Currently, these programs would not be consolidated under the CAREERS Act.

It was decided by our Committee members that given the fact the Wagner-Peyser Act is financed almost exclusively by employers through the Federal Unemployment Tax Act (FUTA), there is an obligation to ensure that these funds are used for their intended purpose which is to maintain a national system of employment services. Our Committee's jurisdiction is limited to the programmatic aspects of Wagner-Peyser, not the funding mechanism.

Nevertheless, the CAREERS Act does amend the current Wagner-Peyser Act to ensure that it is fully integrated into the one-stop delivery concept envisioned under this legislation.

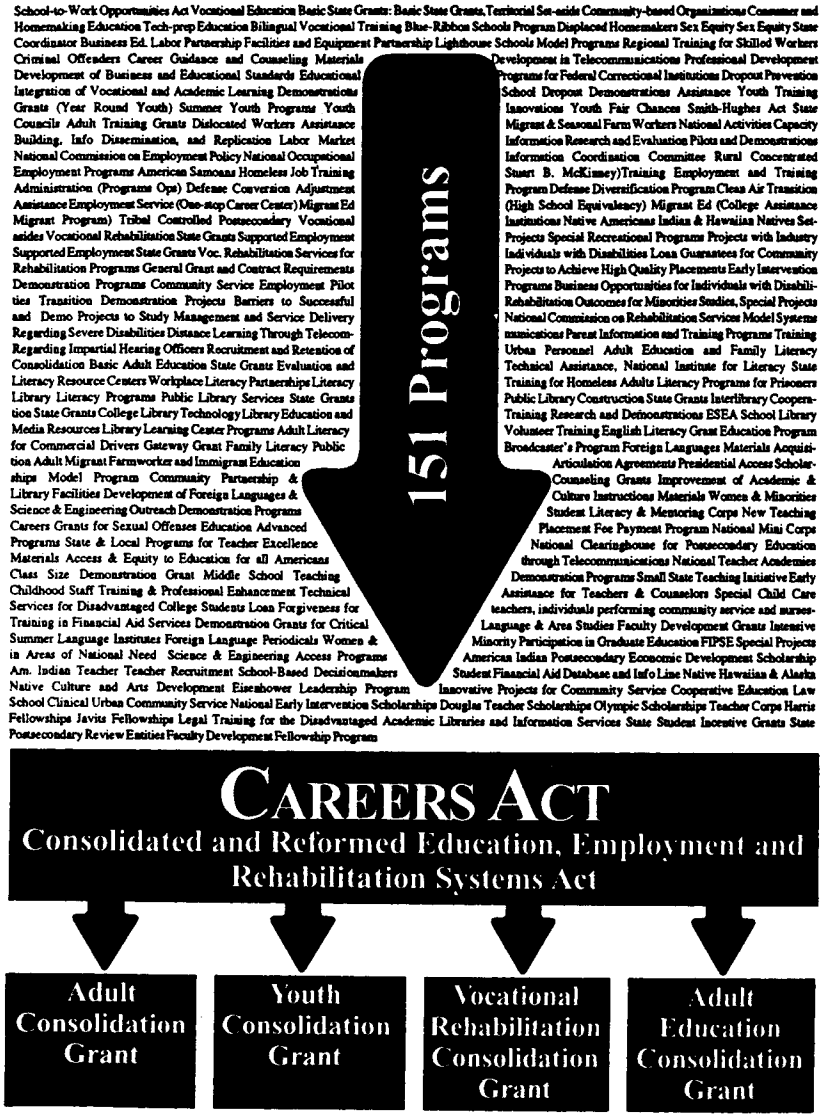
Our amendments retain the emphasis on the job placement functions of the Employment Service, which are a central, cost-effective component of the federal job training and employment system. It also continues to assure that unemployment claimants are actively seeking work and are helped to reenter the workforce as early as possible, thus reducing burden on employer taxes.

Another key amendment to Wagner-Peyser is a new labor market information title which consolidates the current federal effort in this area. Under this new title, the Department of Labor will be in charge of establishing a system of labor market information which is locally based, current, and widely accessible.

The second major program over which our Committee shares jurisdiction is the Trade Adjustment Assistance Act, authorized by Title II of the Trade Act of 1974. As you are aware, the TAA program provides a wide range of training and employment services for workers whose jobs are impacted due to U.S. trade policy. Although CAREERS does not currently consolidate this program or the related NAFTA-TAA program, members of our Committee have not ruled out the possibility of pursing such action on the floor of the House. The whole philosophy behind the CAREERS Act is that services should be provided to individuals who have lost their job or who are out of work, or simply lack the skills needed to be competitive in today's labor force. Programs such as TAA spend too much time, money and effort in trying to determine "why" or "how" somebody lost a job instead of focusing the limited funds available on ensuring that they are provided adequate services to get back into the labor force as soon as possible.

I would be happy to discuss with members of this Committee ways to bring these programs under the overall umbrella of the CAREERS Act as this bill moves forward.

Again, I want to thank the Chairman for inviting me here today to speak on this important topic, and I want to emphasize that our legislation is still in the process of moving through our Committee -- I would welcome any changes or ideas which you may have to offer which you feel would further strengthen any aspect of the CAREERS legislation.



CAREERS ACT

Consolidated and Reformed Education, Employment and Rehabilitation Systems Act

- Adult Consolidation Grant
- Youth Consolidation Grant
- Vocational Rehabilitation Consolidation Grant
- Adult Education Consolidation Grant

Chairman SHAW. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

I wonder if the gentleman would discuss how his block grant proposal treats three programs this subcommittee is especially interested in, and you had mentioned Trade Adjustment Assistance, but also the NAFTA Trade Adjustment Assistance Program and the U.S. Employment Service.

Mr. MCKEON. We do not deal with those beyond what I discussed in my testimony.

Mr. ENGLISH. OK.

Mr. MCKEON. Those fall mainly under your jurisdiction, and so we have tried to just work on the areas that come specifically under our jurisdiction.

Mr. ENGLISH. What provision do you make in the proposed employment and training block grants for economic downturns or other emergencies?

Mr. MCKEON. Each of the block grants carries a separate line of funding, separate stream, and then they come to the Governor. The Governor then pushes them down. We push them down through the bill down to the local agencies. But the Governor is left with some discretion. He has 15 percent of money for the adult training that he could use in various ways that would cover and help in those kinds of circumstances.

Mr. ENGLISH. That is excellent. I have not made a comprehensive survey yet, but I have gotten some positive feedback on your bill from some people who are involved in job training back in my district, and I am very encouraged by that.

Can you share with us how the reception has been on the part of the States to the idea of block granting the programs that you suggest?

Mr. MCKEON. You know, we have been working on this now for—actually, Chairman Goodling and Mr. Gunderson introduced similar legislation last Congress. But it came under the jurisdiction of our subcommittee, so we have been working on it, held numerous hearings since the first of the year, and we have really tried to work out and reach out into the communities to make it a bipartisan effort.

We have worked with both sides of the aisle in the committee. We have worked with the Governors. We have worked with all areas that we can to try to bring this together. The States like the block grant.

We have some discrepancy with the Governors. They would like us to just give them the money.

Mr. ENGLISH. Right.

Mr. MCKEON. And we do not plan on doing that. While they will have a much greater role than they currently have, they will not have total discretion of what they do with the money.

I think when I served on local school boards and local city councils, I had as much problem with State government as I did with Washington, and so my goal is to push as much of the resources down to the local communities that are actually serving the people that need the training and the help as possible. So while they like the philosophy, what we are struggling over now is how much power the Governors get.

Mr. ENGLISH. Well, my own observation is that you are shifting those resources back to the local level and providing an enormous degree of flexibility. That is really the strength of the approach you are taking, and I salute you for it.

Mr. Chairman, thank you for the opportunity, and I have no further questions.

Mr. MCKEON. Thank you.

Chairman SHAW. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Mr. McKeon, block grants, we have been dealing with them in welfare reform and some other areas, and what we see is the programs sent back to the State in the form of block grants and then the overall funding reduced. Then the argument is, well, you are getting increases, but the increase is a reduction from current law.

Have you done any work on how much your bill, CAREERS, would differ in how much is being spent on the multinumber of training programs that we have right now?

Mr. MCKEON. Right now these programs, the 151 that we are looking at, are costing about $9.6 billion a year. We have not addressed the issue yet. We are going to subcommittee markup tomorrow and full committee the next week, and so we are still working on that. And I think that we will address the issue in full committee, but we have not resolved that issue yet.

Mrs. KENNELLY. Do you foresee there probably will be a reduction in the funding for these programs?

Mr. MCKEON. It seems to me that if you eliminate the bureaucracy, the top management of 150 programs down to 4 that we should be able to eliminate and save at the Federal level. And then if we structure this correctly so that the States do not build up an offsetting bureaucracy, then we will and should achieve some savings along with increasing the real delivery of service.

Mrs. KENNELLY. One of the programs I have seen that has really addressed—in fact, the only program—the dislocation of jobs through the trade situation is the TAA. I notice you do not have that here, and you say——

Mr. MCKEON. That is yours.

Mrs. KENNELLY. But with tomorrow, what are the chances that TAA will be included in this?

Mr. MCKEON. None, unless you come and tell us you want us to take that over.

Mrs. KENNELLY. That is what I was going to tell you. I think that is one that does work, and I hope you leave that one be. If it is not broken, why fix it?

Thank you, Mr. McKeon.

Mr. MCKEON. Our purpose is to make things better, not worse.

Mrs. KENNELLY. Thank you.

Chairman SHAW. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman. And thank you for coming to testify, Mr. McKeon. This is a very interesting proposal.

Have you given any thought to the relationship that this type of block grant will have to what we did in our welfare proposal, where, for example, we allowed 20 percent of the funds for school lunches to be transferred to the WIC Program and so forth? Will

funds be transferable, or will it be considered as one single block grant as States are able to access the money?

Mr. MCKEON. It will be four block grants, and they will not be able to transfer from one to the other because they are targeted specifically to the youth or to the elderly—I mean the elderly like myself, to the adults or to youth or to vocational rehabilitation or to adult literacy. So we figure that that money should stay within those block grants.

Now, within the individual block grant, there is flexibility, and that would be determined by the Governor, and he has to work in association with people that are working in this area throughout the State.

For instance, in the youth training, a percentage of it goes to the schools and a percentage goes to those working with dropouts, those who have fallen out of school, and then a percentage is left for the Governor, much like was done in those programs. There is flexibility, but we want to get the maximum amount of resources down to the local community.

Ms. DUNN. So you are going to have some Federal strings attached, I assume, because you have to account for the way that money is spent, that you are having the same tug of war that we had with the Governors as we went through our welfare block grant?

Mr. MCKEON. Yes, I think we are not going as far as they would like, but I think that as long as we have the responsibility of collecting the taxes, we should have some accountability and responsibility for how they are spent.

Ms. DUNN. I agree. In your discussions with the Governors and with other people who have been involved in putting this proposal together, did they ever discuss the possibility of returning the funding sources to the States?

Mr. MCKEON. I think that that probably is down the road, but I think, you know, you have to look at what is possible and what is not right now. We have to learn to crawl before we can run, and I think taking 150 programs down to 4 will be a good step.

My goal, what I would like to see eventually, is not run the money back through the siphon back here. I would like to leave it, but I do not think we are ready for that at this point.

Ms. DUNN. I think you have made a monumental step. I certainly support your proposal, and I, too, look forward to the time when we can avoid entirely the bureaucracy and the buffer that is so expensive at the Federal level by leaving those funding sources at the State level for them to decide whether they want to use those or not for their own programs where they will have the very best answers to local problems.

Thank you, Mr. Chairman.

Mr. MCKEON. Thank you.

Chairman SHAW. Mr. Levin.

Mr. LEVIN. Thank you. Welcome. I congratulate you on your work, and I would like to talk a bit about it so that we all as fully as possible understand it.

Your proposal and the administration's proposal, how similar are they in terms of block grants?

Mr. MCKEON. We have been working very closely with the administration on this, and, in fact, we met last week with Mr. Ross, Assistant Secretary at the Department of Labor, and we had two basic disagreements. I think we probably are just about to resolve those, so I think we will be—while it is not probably what they would have proposed, I think they are in agreement with the finished product, or what it will be when it is finished.

Mr. LEVIN. Well, for example, the four block grants are in their proposal, right? Rather, the basic structure is very similar.

Mr. MCKEON. Very similar. As I said earlier, we have really tried to reach out and make this a bipartisan effort, and I think something coming from our committee, which has been very partisan, we have come a long way.

Mr. LEVIN. And I congratulate you on that. I think, therefore, we should not take a term like "block grant," try to simply apply it blindly across the board, but try to go beyond the label.

For example, as I understand it, you mentioned 154 programs. But I think 75, 80 percent of the money is in a dozen or so. Isn't that true?

Mr. MCKEON. It could be. I have not figured those numbers. For sure, it is a smaller proportion of them. Many of the programs have never been funded.

Mr. LEVIN. Many of them were never funded, because, for example, the youth and education block grant, it looks to me like 80 percent or more is in just a few programs, and adult training, the same is true in vocational rehabilitation. Almost all the money is in one program. And adult education, there are only 2, 4, 6, 7, 8 programs that are even funded, more or less—2, 4, 6, 8. And 85, 90 percent of the money is in two programs, the education State grants and the public library service State grants that are already in a sense block granted. They are grants to the States.

I raise this because I think the training/retraining area is so critical, and I do not think we want to use the necessary consolidation as an automatic response to what is the appropriate funding authorization. Because where the vast bulk of the money is in a dozen or so programs, it may well be that consolidating those dozen into 4 is not going to itself save that much money. And I think this is evidenced in the administration proposal, which is to increase funding under their GI bill by over $1 billion.

So let me ask you this: Has anybody made a study of what would be saved by the consolidation of these programs and these particular block grants?

Mr. MCKEON. We will do that in the process. I am not prepared to give you those numbers today.

Mr. LEVIN. But do you know has anybody made a careful study of the savings from these particular block grant consolidations?

Mr. MCKEON. Like I say, we may have that, but I am not prepared to offer that today. We will as we go through the process, I am sure.

Mr. LEVIN. All right. I just hope that that can also be done together, because this is too important an area for the determination to simply be made by a label.

You also mentioned in your testimony—and Mrs. Kennelly referred to it—about TAA. You do not touch that. You indicate that it could be the subject of an amendment on the floor.

Mr. MCKEON. We do not plan on doing that. I do not know who would—I guess it is a subject if somebody wanted to do it. We have no plans of doing that. It seems to me it comes under the jurisdiction of the Ways and Means Committee, and if you want to do something with it, fine. But we do not have any plans for that.

Mr. LEVIN. Well, I think the spirit within which you have been working is important. Hopefully it might spread to some other areas, but let's for sure keep it in this area. And I hope the two committees can work together within the same spirit that you have with the administration.

Thank you.

Mr. MCKEON. Thank you.

Chairman SHAW. Mr. Ensign.

Mr. ENSIGN. No questions, other than just to add my compliments to working in a bipartisan fashion. As a freshman, partisanship is not exactly something that you like to see, and I just compliment your efforts on a bipartisan fashion, and hopefully the rest of the committees will start exercising more of it.

Thank you.

Mr. MCKEON. Well, thank you. I am not far removed from being a freshman, being my second term here. And I know I can be as partisan as anyone. But as we started on this process, in my dealings with the administration, with the other side of the aisle, I said, you know, there is no reason for us to have disagreements just because you are a Democrat and I am a Republican. If we disagree on philosophy, that is something else. And we can work those out. But we will not have a disagreement just because we have a different party label, and I think we have really held to that. I think we have done a pretty good job.

Chairman SHAW. Mr. Rangel.

Mr. RANGEL. Following that bipartisan theme, I want to thank you for keeping the bill open, at least for suggestions, which is about as far as we get in this committee. [Laughter.]

But during the course of our marking up of the welfare bill, I was trying to impress my colleagues with the fact that it has been my experience in talking with the experts that one of the ways to reduce this out-of-wedlock pregnancy was to concentrate on education. It has been my experience that the kids who are educated and have job opportunities and, indeed, are working, are not making babies, are not doing drugs, are not doing crime and violence and do not hinder us with the tremendous costs of going to jail. And Chairman Shaw didn't disagree, but pointed out that it was not the jurisdiction of this committee to deal with the prevention before the problem actually exists that we were working on.

So I went to the Speaker and shared this view with him, and he, together with the Secretary of Labor, agreed that maybe we should concentrate on seeing what education and job opportunities can do in those communities of the very highest unemployment and have these conditions which are really producing losers rather than those with vision and hope. And then told the Secretary, try to get six areas or at least allow someone to select six areas where you

find economic depression and the high school dropouts and all of these things, and then pick another six areas that are similar that will not be given this type of special treatment, and let's see whether these theories work.

And so we immediately went to draw up a bill which was introduced, which is H.R. 1414, which I think came before your committee after you started marking up. And what this does is to attempt to reduce crime and poverty in poor neighborhoods by providing employment opportunities to disadvantaged young adults.

I do not know whether your—he was suggesting that we track the empowerment zones by allowing this to go into areas which have already been designated for some type of treatment, just to see whether it works, to see whether it is a model. At this point, is your bill flexible enough to consider this type of idea?

Mr. MCKEON. I think it is, and if it is not, we can change it to make sure it does.

I met, as I said, with a lot of people, and I am new at this process. But it seems to me that what we come out with through markup this week and next week will not be perfect. And even if finished at the floor, it will not be perfect. And after we get together with the Senate, it will not be perfect. And when it is signed by the President, it will not be perfect. But it will be something that we need to continue to work with and go back and check it and fine tune it as we find programs that are working and not working.

During the hearing process, we heard some tremendous things that are being done around the country, and hopefully what we have tried to do is make it flexible so those will continue and expand. I think some real good things will come out of it, but I think we need to keep working together.

This will not be something that we pass that is final and finished and will solve all the problems of the world and, you know, then we can go on to something else. I think it will be an ongoing process that we continue to work with.

Mr. RANGEL. I look forward to working with you. The only impediment I see is that if we are picking six zones with the special program and six others, there may be a problem with the block grant and who picks the areas if it is not in one State. But I really appreciate the fact that you are open for suggestions, and I look forward to working with you.

Mr. MCKEON. I would like to talk to you about that.

Mr. RANGEL. Thank you, Mr. Chairman.

Mr. MCKEON. Thank you.

Chairman SHAW. Thank you, Charlie.

Buck, thank you for very fine testimony and the good work that you are doing over at Economic and Educational Opportunities.

Mr. MCKEON. Thank you very much.

Chairman SHAW. There is a vote that has been called, so before I call on the administration witness, I will give the Members an opportunity to vote. We will reconvene at 5 minutes after the hour.

[Recess.]

Chairman SHAW. If everybody will take their seat, we will continue.

Mr. Uhalde, welcome to the hearing, and you may proceed as you see fit.

STATEMENT OF RAYMOND J. UHALDE, DEPUTY ASSISTANT SECRETARY, EMPLOYMENT AND TRAINING ADMINISTRATION, U.S. DEPARTMENT OF LABOR; ACCOMPANIED BY MARY ANN WYRSCH, DIRECTOR, UNEMPLOYMENT INSURANCE SERVICE, EMPLOYMENT AND TRAINING ADMINISTRATION, U.S. DEPARTMENT OF LABOR

Mr. UHALDE. Chairman Shaw and members of the committee, thank you very much for this opportunity to testify. I am accompanied today by Mary Ann Wyrsch, who is the Director of the U.S. Unemployment Insurance Service in the Department of Labor. I would like to take a moment to highlight some portions of our testimony, particularly to talk about the President's approach to consolidating and streamlining our employment and job training system and to address some of the specific issues that you raised in your invitation.

Because of the dramatic changes in the economy that we are undergoing, we know that the links between learning and earning are increasing over time. We have recognized that the return to education on annual earnings can be from 6 to 12 percent per year.

We have recently recognized and been able to document in a just-released study that business also benefits directly, as many of us had assumed. In a recent study, it was found that with a 10-percent increase in the educational attainment of the work force of a company, on average that can lead to an 8.5-percent increase in productivity for the company. So increasing knowledge and skills benefit both workers and the companies in terms of their productivity.

We need to invest not only in our adults in the workplace but, obviously, in our youth, and particularly for young people who have less skills. We have seen since the late seventies that their earning power has been reduced by 25 percent, at least in real terms, for high school dropouts.

Our employment and training systems need to be designed to help people navigate this kind of turbulent economy, and the government, and particularly the Federal Government, can play a strategic role in helping do that, in providing the resources and investment capital for individuals to help move in that economy and the information they need to make wise choices.

The President, as part of his proposal called the GI Bill for America's Workers, developed and proposed a strategy to help working people to adapt to this changing labor market. Many of the elements of the President's proposal are evident in other proposals that have been discussed here today. And we are, indeed, as Chairman McKeon mentioned, working with Congressman McKeon, his staff and the staff of the full committee, and Chairman Goodling to help in the fashioning of this new legislation.

The President's approach that has been presented is to consolidate programs and consolidate programs around population or target groups, much as in the proposal of Congressman McKeon—to consolidate around adult job training, adult and family literacy, and to consolidate around youth, around a school-to-work framework for in-school youth and for at-risk youth who have dropped out of school, and to be able to invest our resources in that school-to-work framework.

The President's proposal is also designed not only to consolidate but also to make our job training system more market driven. And in this, the President's proposal would attempt to empower individual workers to put purchasing power into their hands to have them make informed and wise decisions as to where they should get their employment and training services.

While the President's proposal seeks to streamline our employment and training programs, the President has also chosen in his budget to invest additional resources and proposed an overall funding increase of $1 billion. In contrast, the recently proposed House and Senate budget resolutions contain dramatic cuts in the funding for these same systems. As my boss, Secretary Reich, noted last week, we ought to be investing more in people and not less.

The key component, as I mentioned, of the President's proposal has been to increase purchasing power of individuals by providing adults with what we call skill grants or vouchers to enable individuals with good information to choose among training and education providers in their communities in the occupations for which they want to train.

Another key part of the President's proposed adult system is to build a comprehensive system of one-stop career centers. States working in cooperation with mayors and local communities, with the private sector and business, the local schools and community colleges, will be able to integrate the services of job training as well as the Employment Service and other local programs into a coherent system that people can actually access and receive services from on a seamless basis.

We have started this. States and local communities have been doing it in spite of the Federal Government's restrictions and obstacles, up until now, and now we are in a position to be able to help States move along and build these one-stop systems.

Last, the President's proposal calls for helping build a new electronically based labor market information system, a system that provides ready access to job vacancies around the country, ready access to resume banks, and talent banks, where employers can actually access electronically resumes of individuals. They also can obtain consumer information on the quality of education and training institutions through consumer reports so that when individuals empowered with vouchers or skill grants choose where they are going to get the training, they can have information on the performance of those institutions so they can make wise choices.

The funding for the present system of job training, employment, and employment services is a mixture of general revenues and FUTA taxes, the latter paid by employers. These two funding sources should be maintained, and it is our position that the FUTA funds from business should be earmarked for the public labor exchange services. These services have been a specialty of the existing Employment Service. They have been run by States, and they should be integrated as part of the services of a one-stop system.

With regard to the Trade Adjustment Assistance Program and the NAFTA trade programs that were mentioned—and the Chairman asked our position—Trade Adjustment Assistance and the NAFTA Program really exist as a social contract with workers. Workers have been asked, really back in the early sixties and again

with the passage of NAFTA and GATT, to embrace a volatile economy and world trade and to accept the elimination of protectionist trade barriers, but not to bear the total social costs of that upheaval. And the social contract is that we would have in place employment and training systems that help workers adjust to the changes that would come about with the volatile world trade. People who lose their jobs because of this competition should not bear the social costs alone, and we have a deal to keep with these American workers who are asked to bear these uncertainties of the freer trade.

In the unemployment compensation system, Unemployment Insurance Program, there are two issues to deal with in this hearing. The first, as has been mentioned, is potential repeal of the 0.2 percent FUTA surtax, and the other is the reinstatement of the exemption of wages for H–2A workers from FUTA taxes.

With regard to the FUTA provisions, the administration believes that countercyclical financing is really the hallmark of this UI system. The taxes need to be built up in the trust fund when unemployment is low to pay for benefits that will be demanded during periods of high unemployment. Because of that, it is important that we allow for sound financial management of the system, accumulation of reserves, and, therefore, to continue the surtax through 1998 to cushion the blow in case any economic downturns are on the distant horizon.

With regard to the FUTA funding for H–2A workers, last December this exclusion from FUTA of the wages paid to temporary foreign agricultural workers who work here under H–2A visas did expire. This exclusion was originally enacted in 1976, and as a temporary one, as we find often, has been extended for many years.

Under the H–2A Visa Program, the temporary farmworkers are admitted to the United States to perform agricultural services on a temporary or seasonal basis. This may be in applepicking in Virginia, sheepherding in Idaho and Nevada, sugarcane cutting in the Florida area, or tobacco harvesting in other parts of the eastern part and the southern part of the United States.

The visa, however, is only granted if the Department of Labor certifies that U.S. workers are not available to perform the services, that their wages will not be adversely affected, and that the working conditions of U.S. workers would not be adversely affected if such workers were admitted. The visa requires that the H–2A workers return to their country of origin upon completion of the work.

The rationale for the exclusion is that the employer should not pay the Federal unemployment tax since workers must leave the United States if they are unemployed and, therefore, they cannot draw and collect unemployment compensation. On the other hand, we need to bear in mind that the exclusion also does reduce the costs to employers of the use of temporary foreign workers.

I would note that the administrative costs for the certification of H–2A workers are funded through the FUTA receipts. Employers of H–2A workers pay an application fee for that certification. That is, in the aggregate, about $470,000 a year.

Now, this application fee is far below the estimated $10 million cost of the Federal and State administrative costs that are paid out for this certification process.

The administration would not oppose the extension of the exclusion that has existed since 1976 if that can be accomplished in an appropriate revenue neutral manner, and also we believe that the best approach may be to increase the application fees on employers for the H–2A certification so that we could cover the full certification costs and eliminate the subsidy. Currently what happens is that other employers are paying and subsidizing these employers for the certification costs for bringing these workers in.

Mr. Chairman, this concludes my remarks, and we will be happy to answer questions.

[The prepared statement follows:]

STATEMENT OF RAYMOND J. UHALDE
DEPUTY ASSISTANT SECRETARY OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION
BEFORE THE HUMAN RESOURCES SUBCOMMITTEE
WAYS AND MEANS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

May 16, 1995

Chairman Shaw and members of the Subcommittee, thank you for this opportunity to discuss the workforce preparation and re-employment system this country requires if American workers are to be globally competitive and prosper in a rapidly changing economy. I am accompanied today by Mary Ann Wyrsch, the director of the Unemployment Insurance Service in the Department of Labor.

As our Nation hurtles headlong into the Information Age, it is not surprising that a national employment and training system devised for the Industrial Age is no longer well-fitted to our new needs. The knowledge economy in which we find ourselves increasingly requires higher skills, formal learning, and the ability and willingness to constantly learn new things. This dramatic new demand for skills also has strengthened the links between learning and earning: the ticket to "knowledge jobs" and a middle-class wage is formal education and skill training. Indeed, each year of education or training beyond high school raises a person's annual earnings by 6 percent to 12 percent.

Businesses also benefit when they have better educated and trained workers. A just released study by the National Center on the Educational Quality of the Workforce (which was commissioned by the Bush Administration) found that a 10 percent increase in educational attainment of a company's workforce results in an 8.6 increase in productivity. This compared favorably to a productivity increase of only 3.4 percent that results from a 10 percent increase in the value of capital stock, such as tools, buildings, and machinery.

This same imperative for learning and skills applies equally to our youth. The labor market situation for young people with low levels of education has changed dramatically -- in the wrong direction. In the late 1970s, half of recent high school dropouts held jobs; by 1992, only a little over a third did. Real earnings of young high school dropouts have declined by almost 25 percent over the same period. Therefore, any strategy for reversing adverse earnings trends must include boosting the learning achievements of our youth as well, especially the sons and daughters of the poor.

The new economy not only places a premium on new skills, it also forces both companies and employees to confront dynamic change in the marketplace. Turbulence is becoming the norm in the labor market and many more people will face the prospect of having to move to new jobs or new careers -- both in their early work life and at later stages.

Our systems for helping Americans navigate their way through the labor market must respond to the needs of many who once thought their economic position secure, as well as to those who are still trying to gain a foothold in the mainstream. Government can play a strategic role in providing working people with the resources they need to manage successfully the transitions that will be inevitable in their work lives. These resources include: **high quality information** on labor market trends, job openings, new careers, and training or education opportunities; **individual investment capital** to finance skill acquisition; and the **temporary income support** needed to sustain workers and their families when they are forced into unemployment.

The G.I. Bill for America's Workers, point four of President Clinton's Middle Class Bill of Rights, offers a strategy for

helping working people adapt to the new labor market and boost their earnings. This strategy would build new systems for redeploying Federal resources and drastically re-engineering the current Industrial Age system. Many of the basic elements of the President's proposal to redesign job training, education and employment programs are also evident in other proposals being considered by the Congress. We are working with Congressman McKeon and others to fashion legislation that incorporates these basic elements.

I would like to describe key components of the President's proposal for redesigning the system and then discuss several specific issues, including the use of FUTA funds for public labor exchange services, the retention of the TAA and NAFTA-TAA programs, the FUTA surtax, and the FUTA exemption for certified foreign agricultural workers under the H-2A program.

The G.I. Bill for America's Workers: Consolidating Programs

This year, in the G.I. Bill for America's Workers, President Clinton proposed a new approach for organizing services to help citizens find jobs and get the training and education needed to prosper in the new economy. The President's proposal consolidated 70 programs and created a market-driven system, with accountability based primarily on individual empowerment, informed customer choice, and provider competition. The proposal has three parts: an adult workforce development system, an adult education and family literacy system, and a comprehensive youth system consisting of an accelerated school-to-work reform component focussing on in-school youth, and a second-chance school-to-work component focussing on youth dropouts.

While proposing to streamline these programs, the President also seeks to increase overall funding by $1 billion, reflecting his belief that -- now more than ever -- education and training are the ladder into the middle class and the best insurance that workers have against economic change. In contrast, the recently proposed House and Senate budget resolutions contain dramatic cuts in the funding for these systems. As Secretary Reich noted last week, "We ought to be investing more in people, not investing less..."

The G.I. Bill for America's Workers would create a workforce development system designed to empower adult Americans to take control of lifelong learning resources away from bureaucracies and into their own hands--much like the original G.I. Bill. One of its key components is to give purchasing power to individuals through Skill Grants. These grants would be available to Americans who lose their jobs and need new skills, as well as to low-income workers seeking to learn their way into the middle class. An estimated 2.1 million dislocated and low-income men and women would use these vouchers each year to prepare themselves to prosper in the new economy.

Another key part of the President's proposed adult system is creation of a comprehensive One-Stop Career Center system, based on four broad objectives: universal access, customer choice, integrated system, and performance driven by outcomes. The President's one-stop strategy expands on the approach designed jointly with the governors, local elected officials, and the private sector last year. Under the President's proposal, States -- working in cooperation with communities, the private sector, local schools and colleges -- will integrate ES, JTPA and other local programs into a coherent system for job training and job search assistance.

Many States and local communities have started to transform the current system of multiple, separate categorical programs into a customer-friendly, accessible, and coherent One-Stop system. Last year, six States -- Connecticut, Maryland,

Massachusetts, Iowa, Wisconsin and Texas -- received Department of Labor implementation grants and began integrating an array of education, employment and training programs into the One-Stop Career Centers. Nineteen States which were committed to One-Stop but needed more time were provided with one-year planning and development grants. Our plans for this year call for more "leading edge" States to receive grants and implement One-Stop systems. Indiana, Ohio, and Minnesota have already been announced as award winners based on the quality of their first-year proposals.

The President also called for financing an electronic-based Labor Market Information system that would be housed in these One-Stop Career Centers. This LMI system would have many components, including a system for accessing information on job vacancies across the United States. America's Job Bank -- a listing of work opportunities in the U.S. and other locations worldwide -- is now available to job seekers on the Internet. Field tests of electronic talent banks enabling employers to search through a pool of resumes will begin in Michigan and Missouri in early summer. The President's proposal would also assure that consumer information on how well education and training providers perform and how successful they are at placing people in jobs would also be available so that One-Stop users could make informed choices of schools and occupational programs.

Continued Funding for Public Labor Exchange Services

The President's approach in the G.I. Bill for America's Workers calls for States -- working in cooperation with communities, the private sector, local schools and colleges -- to integrate ES, JTPA and other local programs into a coherent system for job training and job search assistance. The collaborative planning process which was developed for making grants to States for establishing One-Stop systems has already proven successful. It is an approach which has bi-partisan support.

Funding for the present system is derived from a combination of general revenues and FUTA taxes paid by employers. These two sources should be maintained, with FUTA funds from business used for effective public labor exchange services that will help the unemployed return to work as quickly as possible and assist employers in finding the workers they need. FUTA funds should continue to be used for labor exchange services that benefit both jobseekers and employers: counseling, job search assistance, jobseeker skill testing, and information on job vacancies, labor market trends, and on jobseekers. These services have been the specialty of the existing employment services which have been run by the States and which should be integrated into the One-Stop system through the collaborative planning process I discussed earlier. The interest in establishing such systems is high -- nearly all the States have applied for planning or implementation grants to set up One-Stop systems.

The Social Contract with Trade-Impacted Workers

The President's proposal did not include the Trade Adjustment Assistance program (TAA) and the NAFTA-TAA programs, which provide extended income support and additional training services for trade-impacted workers. TAA exists because of a social contract: workers were asked to embrace the volatility of the economy as we open world markets and reduce or eliminate protectionist trade barriers. Individuals who have lost their jobs because of international competition should not be abandoned to bear the social costs of these trade agreements. Rather, they should receive assistance from the government whose policies have contributed to the economic distress in their work lives. The goal of TAA and the NAFTA worker adjustment program is to provide opportunities for workers to make the adjustment to new

employment in different occupations and industries, opportunities which are badly needed when whole industries have been wiped out or have survived only to retool over many years.

We have a deal to keep with American workers who were asked to bear the uncertainties of freer trade with Mexico and the rest of the world. As the President said in December 1993 when NAFTA was passed, "We have an obligation to protect those workers who...bear the brunt of competition by giving them a chance to be retrained and to go on to a new and different and, ultimately, more secure and more rewarding way of work." To repeal TAA and the NAFTA-TAA would be to betray a pledge made by the President and the Congress to live up to this obligation. A repeal will increase many workers' fears about economic change.

Unemployment Compensation and the FUTA Surtax

Let me now turn to two unemployment insurance program (UI) issues that you asked to be addressed in this hearing -- repeal of the 0.2 percent Federal Unemployment Tax Act (FUTA) surtax and reinstatement of the exemption of wages for H-2A workers from FUTA taxes.

Under FUTA, a Federal tax is levied on covered employers at an effective rate of 0.8 percent on wages up to $7,000 a year per employee. The 0.8 percent includes: a basic tax of 0.6 percent and a surtax of 0.2 percent. The total federal tax works out to be a maximum of $56 per employee. Revenues from FUTA go into the Unemployment Trust Fund.

The FUTA tax is used to fund a number of different expenditures, including:

- All State and Federal administrative costs associated with the unemployment insurance program,
- BLS-administered grants to States for cooperative labor market statistical programs,
- Employment and training services for veterans and disabled veterans,
- Labor exchange services under the Wagner-Peyser Act,
- Alien labor certification,
- The loan fund from which an individual State may borrow whenever it lacks funds to pay benefits,
- The Federal share of benefits paid under the Federal-State extended benefit program, and
- Benefits under some of the Federal supplemental and emergency programs.

The President's Budget recommends the continuation of the surtax through its currently authorized expiration date of December 31, 1998. This view is based on the need for adequate balances in the Unemployment Trust Fund, taking into account current economic conditions as well as the history of unemployment during recessions. One of the key ways in which the Federal government helps individuals adjust to sudden economic change is through temporary income support provided through our unemployment insurance system. Countercyclical financing is the hallmark of this system; taxes build up the trust fund when unemployment is low to pay for benefits that will be demanded during periods of high unemployment.

The 0.2 percent surtax was added to the then 0.5 percent basic FUTA tax in 1977. The revenue generated by the surtax was

needed to repay general revenue loans to the Extended Unemployment Compensation Account (EUCA) following heavy outlays primarily for extended benefit (EB) payments. The surtax was scheduled to terminate at the end of 1987 when the EUCA debt was repaid. However, the surtax was extended four times, with the latest extension authorized through calendar 1998.

Continuing the surtax through 1998 will allow for sound financial management and accumulation of additional reserves to cushion an economic downturn. Under the assumptions in the President's Budget, the legislatively set limits on the accounts in the Unemployment Trust Fund would be reached shortly thereafter.

The need to build up balances during good economic times is illustrated by the experience in the recent recession. Reserves in EUCA were used to pay about 45 percent of the outlays associated with the Emergency Unemployment Compensation program. EUCA reserves did not pay more, because that account approached insolvency and general revenues were needed. Unlike the situation when the surtax was first imposed, EUCA does not have to repay these general revenues. Nonetheless, assuring a EUCA balance near its ceiling when the economy is in good shape is simply prudent preparation for any future downturn.

Exclusion from FUTA of H-2A Workers

Last December 31, the exclusion from FUTA of wages paid to temporary foreign alien agricultural workers with H-2A visas expired. This exclusion was originally enacted in 1976, when FUTA coverage was first extended to most agricultural workers, and was subsequently extended on a temporary basis on six occasions.

Under an H-2A visa, temporary foreign farmworkers are admitted to the U.S. to perform agricultural services of a temporary or seasonal nature. The visa may only be granted if the Department of Labor certifies that U.S. workers are not available to perform such services and that the employment of H-2A workers will not adversely affect similar U.S. workers. The visa requires H-2A workers to return to their country of origin upon completion of their work.

The rationale for the exclusion is that employers should not be required to pay the federal unemployment tax for H-2A workers since, under the terms of the visa, such workers must leave the U.S. if they are unemployed and therefore cannot collect unemployment compensation. On the other hand, the exclusion reduces employers' costs of employing temporary foreign workers.

It should be noted, however, that the administrative costs of the certification of H-2A workers are funded from FUTA receipts. While employers of H-2A workers pay application fees for such certification, the funds generated ($470,000) are far below the estimated costs of $8.6 million in FUTA funds provided to States to carry out certification responsibilities. (In addition, over $1 million in federal administrative costs are paid out of FUTA funds.) Thus, in effect, employers who pay FUTA have been subsidizing the costs of of a certification process that has benefited employers who have not paid FUTA for H-2A workers.

The Administration would not oppose an extension of the exclusion that is accomplished in an appropriate, revenue-neutral manner. We believe that the best approach may be to increase the H-2A application fees on employers to cover the certification costs and eliminate the subsidy. We would be happy to discuss other approaches to an extension of the exclusion with members of the Subcommittee.

Closing

The President has called for re-engineering the American workforce development system to empower individuals with purchasing power and information -- a system that creates opportunities not bureaucracies and is market-driven, customer-responsive, and accountable. Fashioning a bipartisan approach along the lines set forth in the G.I. Bill for America's Workers would be a big step toward achieving this goal.

But as we develop this new system, we need to assure that we do not undermine those parts of the system that sustain workers who have paid the price for more open trade policies and assure that we will have sufficient revenues in the case of economic downturns. The Trade Adjustment Act and the NAFTA-TAA programs need to remain. Continuing the surtax until 1998 is necessary for sound financial management. We further need to assure that the taxes employers pay to help workers make transitions in our economy will be dedicated toward funding the public labor exchange services that helps both jobseekers and employers alike.

This concludes my remarks. I will be glad to answer any questions you may have. Thank you.

Chairman SHAW. On the certification fee, if I could just ask one question because that is where your testimony left off. Is that a set fee or is it a fee that is based upon the number of employees requested? Or how is that certification fee now set?

Mr. UHALDE. As I understand it, Mr. Chairman, the employers are charged a $100 application fee and $10 per worker, and the maximum any one employer would pay is $1,000. So they would bring in maybe several workers on one certification.

Chairman SHAW. $100 per application fee and $10 per worker.

Mr. UHALDE. And $10 per worker.

Chairman SHAW. Up to?

Mr. UHALDE. A cap of $1,000.

Chairman SHAW. Mr. McCrery.

Mr. MCCRERY. Frankly, it sounds as if the administration and the work done by the Opportunities Committee have a lot in common. You both want to consolidate a number of programs, block grants and programs, and that is encouraging.

Let's talk about trade adjustment assistance. You defended that program, and I think rightly so, in that we all think that workers who are put out of work because of the volatile marketplace due to changing trade rules and conditions should receive some help.

However, hasn't the administration in the past talked about doing away with trade adjustment assistance as it currently exists and perhaps combining it with other assistance programs? And why couldn't we do that? Why couldn't we, for example, roll trade adjustment assistance into one of the block grants and just have that as one of the criterion that would qualify someone for assistance through those block grants?

Mr. UHALDE. Yes, the administration in the last Congress did propose to consolidate the Trade Adjustment Assistance Program into a block grant—rather a consolidated program for dislocated workers. That was generally applicable to workers, regardless of the reason that they were laid off.

But the reason the administration felt that it could propose to do that is it had constructed a more general dislocated worker program that was virtually equivalent to the benefits and services that are built into the Trade Adjustment Assistance Program now, that being that all trade workers, when they are laid off, can receive benefits for some period of time, and that training is guaranteed. If they want training, they can get extended training and the income support to go along with that training up to a time limit.

We designed last year and proposed under the Reemployment Act a general program that sort of was the equivalent of that for all workers. And then it makes sense that we ought not distinguish for the reason for dislocation but get about the business of serving the workers.

Under block grant designs that are now being considered there is no way that that equivalent level of services and benefits are going to be able to be provided to all trade impacted, and NAFTA impacted workers. So we set that program aside and have a more general program for all unemployed workers, either disadvantaged or dislocated.

Mr. MCCRERY. So you are willing to at least look at some other mechanism for providing that assistance?

Mr. UHALDE. If we can make sure that the workers that we have made this social contract with—trade impacted workers—and we have asked them to sign on to free trade either in GATT or NAFTA or elsewhere, if we can guarantee those levels of benefits and services, which is what we tried to do last year, then we could go forward. But if we cannot, we can keep that program separate.

Mr. MCCRERY. OK. Thank you, Mr. Chairman.

Chairman SHAW. Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman.

Mr. Secretary, you know, the Republicans have proposed once again another block grant for training and employment. I would like to know, knowing that I guess there are some good arguments for consolidating some of the programs that we have in the different agencies of the Federal Government today, the proposal by the administration in your one-stop career center, how does that differ from just the block grant proposal on employment and training in the bill that the Republicans have fashioned before the Congress?

Mr. UHALDE. Well, as the bill in the Economic and Educational Opportunities Committee currently stands, they too would implement one-stop career centers and try to build essentially a unified training and employment services delivery system, and they would consolidate programs into four block grants.

Our proposal was quite similar in that, except that we would have retained a strategy to do it on what we would call a leading edge basis—that is, we would retain some one-stop seed money to encourage States to build these systems as they brought together the various programs and delivery systems that currently exist. But at the end, I believe that the delivery systems would be very similar in that regard. That is, we would be integrating employment services at the local level and job training services and other programs into a seamless, coherent delivery system.

Mr. FORD. Do they consolidate more the employment and training programs than the administration is proposing in your one-stop career center?

Mr. UHALDE. The administration proposed about 70 programs. I think the Chairman was talking about 150. But a lot of those programs are programs that are zero funded. In terms of the main programs that we are talking about, the 12 or so, these proposals are very similar in content. They have a separate block grant for vocational rehabilitation. The administration didn't propose a block grant on vocational rehabilitation.

Mr. FORD. What about the administration's bill? Does your bill undermine in any way our national commitment in helping the unemployed workers through their transitional period? And as you answer that, would you make that same comparison with the Republican bill that is before us?

Mr. UHALDE. Well, I think in terms of program design, they are quite similar. Under the administration's proposal, the President chose to increase investment by $1 billion in that employment and training system to protect the interests of unemployed Americans. We currently are not able to provide assistance to even a majority of those who need assistance.

The design of the proposal in the Economic and Educational Opportunities Committee is very similar. We do not know where the funding is going to be. If you look at the House and Senate budget resolutions that are proposed, we are going to take at least a 20-percent cut in real terms. Over 7 years, that could grow to over a 40-percent cut. So in terms of the level of investment, it is quite different.

Mr. FORD. The Budget Committee has suggested repealing the Extended Benefits Program. What is the administration's position on this, Mr. Secretary?

Mr. UHALDE. Well, the administration would oppose the repeal of the Extended Benefits Program. We think that the Extended Benefits Program, as it operated in the last recession, was not very sensitive to changes in the unemployment rate. It did not trigger on as it should, and we did institute the optional total unemployment rate trigger, which should help the next time around. But we would not repeal the Extended Benefits Program. It is important to have an effective program.

Mr. FORD. Would you support a 2-week waiting period for unemployment benefits, as some Republicans are suggesting?

Mr. UHALDE. No, we would not.

Mr. FORD. You would not.

Mr. UHALDE. No.

Mr. FORD. Thank you. I yield back the balance of my time, Mr. Chairman.

Chairman SHAW. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

You mentioned a lot about assistance. Let me give you an example. I am 32 years old, I work at the textile mill that is an apparel, a cut-and-sew plant. My company has just decided to close down and move to Mexico. Just what type of assistance are you going to offer me as a displaced worker, unemployed, a family to feed?

Mr. UHALDE. Well, the first thing is that 80 percent of the money is already out there to the States. We put it out by formula, and the State has a dislocated worker unit. On the day of the announcement of a plant closing we could be onsite with your workers setting up tables and assistance to provide workers information on their eligibility under unemployment compensation, and the services that could be available from the Employment Service, to help them start to think about resumes, about doing inventories of their skills and their life skills and experiences. We can start from the day of announcement through our system to be able to provide assistance.

The State can provide assistance for job placement services, retraining for workers, counseling and support and financial management counseling services for families. If the State does not have adequate resources—sometimes the dislocations are large and concentrated in communities—then they can apply to the Federal Government, and within a period of 30 to 45 days we can provide a special grant to the State and to the local community.

We can provide for dislocated workers the ability to search for work out of the community. If it is a small town and really the jobs are elsewhere, there is out-of-area job search assistance. So there

are a variety of job training and employment services that we can provide.

Mr. COLLINS. Are these duplicate programs of what already exists under the Department of Labor in Georgia? If I lost my job in Georgia, could I not go to the Department of Labor and get this same service without having to go to a table sitting there?

Mr. UHALDE. You could go get it from the Department of Labor in Georgia, and they would be using the resources that we have provided to the Department of Labor in Georgia—Federal resources.

Mr. COLLINS. And you agree that through the block grant program those funds would get to the Department of Labor in Georgia that would be able to assist me because I am out of work because my plant is closing and moving elsewhere, offshore?

Mr. UHALDE. You know, the programs we run under the Job Training Partnership Act were originally designed very much as a block grant; that is, their formula allocated to the State and the State formula allocates down to the local communities. So in many respects, they are very similar in that regard.

Mr. COLLINS. But other than the Georgia Department of Labor, are you going to set up a table at my—you can set up or you may set up a table at my place of employment, where I am losing my employment, to assist me with an application or resume or possible other job locations?

Mr. UHALDE. We work through the Georgia Department of Labor. They are the agent, the recipient of funds, and they are the ones that would help do that with your workers. It is not like a Federal Government employee flies down to Georgia to do it. Our agents are the State and local employees.

Mr. COLLINS. But after I fill out all of this paperwork at that table, then it is up to me to get out and look for a job also.

Mr. UHALDE. Yes. Yes, as you are drawing unemployment compensation, obviously there is a work requirement. You are required to do a search, but also we help and assist. Many workers who have worked at the same job for 25 and 30 years have never had to look for a job, and the art of finding jobs in local economies or statewide is something that can be taught. And these resources can help in that regard as well.

Mr. COLLINS. You say "we" but you really mean the State of Georgia?

Mr. UHALDE. When I say "we," we have Federal, State, and local partnership, and "we" is the State and some locals that are providing the services on the ground. Yes, sir.

Mr. COLLINS. OK. Thank you, Mr. Chairman.

Chairman SHAW. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Mr. Uhalde, I am concerned about this possible canceling of the temporary FUTA and Extended Benefits Program, I think for two reasons. One is, as I look at the trust funds, I see any elimination of funds going in before the expected date or the statute date of 1998, I see that the funds get very close to insolvency. And then I think mainly the reason is because I am from Connecticut, a State that has not come out of the recession, a State that has

downsized in defense, insurance, and now with new changes in the budget will be downsizing in health care.

Could you tell me two things? One, how many States in the last year used extended unemployment benefits? And, also, could you just tell me what information you have about the solvency of the benefit trust funds?

Ms. WYRSCH. Currently, there are three States on the Extended Benefits Program: Rhode Island, Alaska, and Puerto Rico. Within the last year, those same States triggered on, so we only have three States on at present.

And your question was about the solvency of State funds or solvency of——

Mrs. KENNELLY. The Extended Unemployment Trust Fund.

Ms. WYRSCH. The extended unemployment account from which the extended benefits are paid is below its ceiling now. It is the administration's position that the 0.2 percent surtax, as it is called, should be continued in order to have that account reach its adequacy level. There is a ceiling on that account in this year of $12.4 billion. And the current balance in the account at the end of this year is estimated to be $2.2 billion.

Mrs. KENNELLY. Well, is the administration concerned about the future solvency of the fund if the 0.2 percent FUTA tax is repealed?

Ms. WYRSCH. The account builds up over the next several years to a level in 1998 of $11 billion, and it would be close to its ceiling of $14.5 billion in 1998. And it is the administration's testimony—Mr. Uhalde just gave it—that we should continue the tax as it is now legislated until its expiration in 1998 for those solvency reasons.

Mrs. KENNELLY. Because we would have a good, healthy trust fund for people for unemployment collections to be made, even from the extended account.

Ms. WYRSCH. It is our position that we do need to build up those accounts to have the available resources when we need them and that we are not now close to the adequacy levels in the extended account and that we should continue for solvency reasons to have the 0.2 percent surtax in place until 1999.

Mrs. KENNELLY. Well, I am glad to hear that because I do begin to hear that possibly there will be a slowdown in the economy. If you put this on top of some of the structural changes that have taken place, I think to have a trust fund that is solvent is very important. And I thank you for that.

Thank you, Mr. Chairman.

Chairman SHAW. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

I wanted to ask you about TAA. It seems to me that last year the administration proposed ending this program. Am I correct? And have they changed their position on this?

Mr. UHALDE. Yes, as I mentioned earlier, the administration did propose folding in the Trade Adjustment Assistance Program into a more comprehensive proposal. But the reason we felt we were able to do that is the more comprehensive proposal would have had benefits and training comparable to what TAA currently has. Under current block grant proposals, we could not guarantee that

adequacy of the program; therefore, we would propose to keep TAA separate.

Ms. DUNN. OK. Thank you, Mr. Chairman.

Chairman SHAW. Mr. Rangel.

Mr. RANGEL. Thank you.

Mr. Secretary, I cannot tell you how pleased I am to see the cooperative spirit in which the committee is working with you, and I can think of no American that better understands the problems that America has and what solutions than the Secretary, Secretary Reich. I hardly can think of a problem that we face as a nation that job training, job opportunity and giving people a chance to be productive, that it would not make all the difference in the world.

I do not even understand why the educational system is not linked to what you do so that the schools prepare not just for regents and State standards and diplomas, but in addition to that, to make America as productive as they can be.

I just left Israel. With all the debt and investment in armament as they try to secure their national defense, they have doubled their education budget so that their people would be able to be competitive. And we continue to pay more attention to prisons than we do the education and job training system.

I do not know whether you were in the room, but I was talking with Speaker Gingrich, with Secretary Reich, about seeing whether or not we could really show whether some of these education and job training programs could make a difference in those districts that are not only economically disadvantaged, but where we have all of the plights of drug abuse and crime and children born out of wedlock. We drafted that bill and I will be working with Chairman McKeon of the subcommittee of jurisdiction, but are you familiar with the bill that I drafted?

Mr. UHALDE. I am somewhat familiar with it, yes, Mr. Rangel.

Mr. RANGEL. I hope that you might put this on your agenda in dealing with the subcommittee, because I am convinced if we can show the difference that hope and jobs make, that perhaps we could come back and call it a deficit reduction bill or anticrime bill or something that really captures the imagination of some of my colleagues, because education and job training certainly cannot get off the ground.

But if we can prove that it works by comparing it with similar communities that we are not paying attention to, maybe we can turn around the thinking and not be punitive but think in terms of investing in people as we think in terms of investing in plant and equipment. So tell the Secretary to keep hope alive, because he is the last one left.

Mr. UHALDE. Thank you, Mr. Rangel. Yes, we do have a long tradition in employment and training of a bipartisan spirit in working on a lot of these issues, and it is good that, at this point, we are able to keep that.

I am familiar with your proposal. I would like to share with you, at some point, a draft report we have of a small pilot project we undertook called the YOU demonstration, that tried to saturate small neighborhoods not with jobs but with training services. It, too, was for young people, and did seem to have some neighborhood

impacts. So while we did not have a job saturation component to it, I think there is some merit to looking at that.

Mr. RANGEL. Thank you.

Thank you, Mr. Chairman.

Chairman SHAW. Mr. Levin, do you have any questions?

Mr. LEVIN. I have just a brief comment, Mr. Chairman.

Mr. Rangel has said that maybe this is not a very glitzy subject, but, I think in this respect, the public may be ahead of us. If you ask, and surveys have, public opinion about training and retraining, it rates rather high on their list of desirable programs. That does not mean all the programs come from here or anywhere else. But with the changing economy, the public is aware of the need for training and retraining, and when it comes to welfare reform, I think, also, the public is aware of the need for training. Indeed, the survey of just yesterday on welfare reform, I think, underlines that.

I think, Mr. Chairman, this has been an important hearing. It may not have all the instant glamour, but it has beneath the surface, I think, some sustaining power. It is vital that the committees keep working together on a bipartisan basis, if at all possible, and with the administration to make sure that the consolidation gets done, the resources are adequate, and they are effectively implemented. So, Mr. Chairman, thank you very much.

Chairman SHAW. I would just like to briefly say, and welfare reform has been mentioned several times, there is no question but that some intensive study is going to have to be done by this committee to try to stay ahead of the problem, because the welfare reform bill itself is not enough. We have to look at the need for additional training. We have to look at the need for legislation to encourage business to go into some of the areas where there are not any jobs now.

I have already started a dialog with Mr. Rangel about that and this is going to be something that we are going to have to work on in a very cooperative spirit without partisan consideration. We look forward to working with you and the Secretary as we go about that business.

Thank you, Mr. Secretary, for being with us today. We appreciate it.

Mr. UHALDE. Thank you, Mr. Chairman.

Chairman SHAW. On the next panel of witnesses, we have William R. Brown, formerly a member of the Council of State Chambers of Commerce, on behalf of the Coalition to Repeal the FUTA Surcharge; and Bryan Little, Director of Governmental Relations for the American Farm Bureau Federation.

I realize, Mr. Brown, that you have a plane to catch. I would say that even if any of the members are unable to question you, feel free to leave when you can start smelling the jet fuel. If any of the members have questions to ask that they have not had an opportunity to ask, we would ask that you submit the answers in writing.

Mr. BROWN. Thank you, Mr. Chairman. However, if necessary, I will catch a later plane.

Chairman SHAW. I just do not want to hold you here unnecessarily.

Mr. BROWN. If there are questions that members want to ask, I hope they will be free to ask. I appear here today on behalf of about 100 organizations and businesses.

Chairman SHAW. Let me ask you to suspend at this point. There is a vote on the floor and we will recess at this point to go down and take care of that vote and then we will return as rapidly as possible. I will say that we will reconvene at approximately 5 minutes after the hour.

Mr. BROWN. I may go call Delta Airlines and see if I can get on the next flight.

Chairman SHAW. You will have an opportunity to testify and make your plane, if you feel comfortable in answering questions by mail.

Mr. BROWN. I might feel more comfortable if I could get on the next flight.

Chairman SHAW. The committee will recess.

[Recess.]

Chairman SHAW. Mr. Brown, I understand you have changed your flight, so you can proceed just as casually as you wish.

Mr. BROWN. There is no problem now, Mr. Chairman.

STATEMENT OF WILLIAM R. BROWN, FORMER PRESIDENT OF THE COUNCIL OF STATE CHAMBERS OF COMMERCE, ON BEHALF OF THE COALITION TO REPEAL THE 0.2% FUTA SURCHARGE

Mr. BROWN. As I indicated, the primary objective of our coalition is to repeal the so-called temporary FUTA surcharge, as you indicated, that is to ask Congress to keep its commitment to the employer community to finally end it. We supported it as a temporary tax, at the time it was enacted, accepting the assurance, in fact, not only the assurance, but the provision that was in the law that it would expire when the debt was repaid. The debt was fully repaid in 1987, but Congress has extended it numerous times since then because it makes the bottom line work better.

Keeping congressional commitment to end the temporary 0.2 percent surtax would be a strong signal to the business community that Congress is serious about encouraging job creation and improving the world market competitiveness of U.S. companies. Relieving employers of a tax that amounts to $14 per employee may not seem like much, but when multiplied by the number of employees, it is significant, and the symbolism would be great.

The temporary 0.2 percent surtax, which currently costs employers $1.4 billion annually, had the support of employers when it was enacted almost two decades ago. Employers are committed to adequate funding of the Nation's unemployment compensation system, but this tax has served its purpose. It is no longer needed and should be given back to the Nation's employers, as Congress originally intended.

We recognize the difficulty that the Ways and Means Committee has in acting to end this tax before its expiration date in 1998, in view of the fact that it is not included in the budget resolution, but we feel that if Congress is going to consider cutting any taxes, this is a tax cut that should be seriously considered in view of the congressional commitment.

The other area that I wanted to address on employer concerns is the use of FUTA funds only for their intended purposes. In that regard, I am very happy to hear Congressman McKeon indicate that they do not intend to use FUTA funds for their training block grants. He very adequately represented the concerns of the employer community that these funds be used for the purpose for which they are paid, which is the administrative cost of unemployment insurance and the Employment Service programs.

However, we would like to see some stronger language on requiring the integration of the unemployment insurance and the Employment Service activities than is contained in Mr. McKeon's bill, which, basically, I think, is the present Wagner-Peyser language.

We support the language that is being proposed by the Interstate Conference of Employment Security Agencies, and Debra Bowland will give you that in her testimony. They were looking at it in terms, primarily, if something needed to be done if Wagner-Peyser were repealed.

However, I would suggest that it needs to be done whether Wagner-Peyser is repealed or not, because in some States, there has not been very good integration between the Employment Service and the unemployment insurance activities. This integration is essential for application of the so-called work test. The work test is applied when the Employment Service refers an unemployment compensation claimant to suitable work, and that is a basic requirement of all UI laws. That is, for a person to draw UI benefits, he must be able and available for suitable work.

So we think that you might well consider an amendment along those lines, and they propose an amendment which is in the jurisdiction of this committee, incidentally.

We appreciate the opportunity to appear before the subcommittee and your consideration of our proposals to repeal the temporary 0.2 percent payroll tax and requiring integrated State UI/ES programs to best serve the needs of both the employer and the unemployed.

I would be happy to have any questions, and I would like to address the solvency issue that Mrs. Kennelly raised, since she raised the question as to whether you could afford to repeal the 0.2 percent tax or not.

I think the basic issue there, I guess, is probably the one that the Budget Committee was concerned about, in that you need the money to make the total come out. However, as far as the solvency of the trust funds are concerned, we do not feel that the projections that the Labor Department has made and that Mary Ann Wyrsch referred to justify any concern about solvency.

She was referring to projections in the Department of Labor, "UI Outlooks," January 1995 for the fiscal year 2000, when the extended benefit account is at $16.62 billion, which exceeds the statutory ceiling by $550 million. The State loan account is projected to be only $20 million under the statutory ceiling. The administrative account is projected to exceed the statutory ceiling by $290 million. Now, that assumes that the 0.2 percent would go through 1998. However, it seems to me that there is plenty of leeway there for these funds to still remain solvent even if the 0.2 percent tax were repealed. Thank you.

[The prepared statement and attachment follow:]

Statement by William R. Brown to the House Ways and Means Committee Subcommittee on Human Resources

In Behalf of the Coalition to Repeal the 0.2% FUTA Surcharge

May 16, 1995

I am William R. Brown. Some five years ago I retired as President of the Council of State Chambers of Commerce. However, I still act as a consultant to the Council as an advisor to the Council's Employers Task Force on Unemployment Compensation.

I appear here today in behalf of the Coalition to Repeal the 0.2% FUTA Surcharge. A list of the members of the Coalition are appended to my statement.

Introduction

This statement deals primarily with two major concerns of the business community:

1. The need for Congress to finally keep its commitment to employers by repealing the "temporary" 0.2% FUTA surcharge.

2. The need for Congress to assure that FUTA funds are used only for their intended purposes of unemployment insurance administration, State provided job placement services to job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers by a fully integrated State UI/ES service.

There is certainly merit in consolidating the many uncoordinated and duplicating job training programs. There may also be some merit using block grants to finance State administered training programs. However, Federal Unemployment Tax Act (FUTA) funds should not be used to finance these programs.

Repeal of the "Temporary" Surcharge

Now Is the Time to Keep the Congressional Commitment

Originally enacted in 1976, the 0.2% tax was sold to the employers and the Congress as a "temporary" tax imposed solely to pay off a debt Congress incurred by repeated extensions of unemployment benefits during the early 1970's. The "temporary" tax was scheduled, by law, to expire once the benefit debt was paid.

The debt was fully paid in 1987, but Congress extended the 0.2% tax for three years -- through December 31, 1990 -- to "enhance the federal budget". Revenue from the tax was needed to offset expenditures unrelated to unemployment compensation even though the money cannot be used for any other purpose,

Since that initial extension, the "temporary" 0.2% tax has been extended several times and is currently scheduled to expire at the end of 1998.

Last year, the Administration proposed making the tax permanent and dedicating it to providing funding for long-term allowances (up to 1 1/2 years) in the Reemployment Act of 1994. Secretary of Labor, Robert B. Reich argued that the proceeds of the surtax were being used as a budget offset for expenditures unrelated to unemployment and the tax was not needed to support the unemployment compensation program. Despite hearings in both the House and Senate, Congress showed little interest in establishing a costly new entitlement program for trainees. There was more interest in consolidating existing programs.

Repeal Would Be a Plus for Job Creation and Improved US Company Worldwide Competitive Position

Keeping the Congressional commitment to end this "temporary" 0.2% surtax would be a strong signal to the business community that Congress is serious about encouraging job creation and improving the world market competitiveness of US companies. Relieving employers of a tax that amounts to $14.00 per employee may not seem like much, but when multiplied by the number of employees involved, it is significant and the symbolism would be great!

The "temporary" 0.2% surtax, which currently cost employers $1.4 billion, annually, had the support of employers when it was enacted almost two decades ago. Employers are committed to adequate funding of the Nation's unemployment compensation system, but this tax has served its purpose. It is no longer needed and should be given back to the Nation's employers, as Congress originally promised.

Use of FUTA Funds Only for Intended Purposes

FUTA Should Not Be Used for Block Grant Training Programs

The primary purpose of Federal Unemployment Tax Act (FUTA) was to finance the administrative costs of Unemployment Insurance and the Employment Service programs. These funds should not be raided to pay for other programs no matter how worthy. Specifically any block training programs that are enacted by Congress should not permit the use of these funds for such programs. Use of these employer tax funds for such purposes would contribute to undermining continued employer support for UI/ES programs.

If the Wagner-Peyser Act is Repealed, Specific Provision Should be Made to Assure the Close Integration of UI and ES Services.

Pending proposals to consolidate job training programs into block grants would repeal the Wagner-Peyser Act which established the Employment Service (ES). If this is done specific provision should be made to assure the close integration of the State Unemployment Insurance Services and the State Employment Services.

From the employer perspective this close integration makes effective application of the so-called "work test" more likely. The "work test" is applied when the Employment Service refers an unemployment compensation claimant to suitable work. A basic requirement of all State UI laws is that for a person to draw UI benefits he must be able and available for suitable work.

Economic studies have shown that job placement services are the most cost effective means to get the unemployed back to work. Retraining programs fare very poorly by comparison.

The State labor exchange and reemployment services (ES) are financed by the dedicated Federal unemployment taxes (FUTA). The best way to assure continued reemployment services for unemployment benefit recipients is to require the close integration of the State UI and ES services.

We believe this can best be done by the Ways and Means Committee approving an amendment to IRS Code Chapter 23 -- The Federal Unemployment Tax Act, which has been suggested by the Interstate Conference of Employment Security Agencies (ICESA). This proposal would amend Section 3304 on approval of State laws by the Secretary of Labor that the Secretary shall approve State submissions that make provision for payment of unemployment compensation through public employment offices "established under state law which provides job search and placement services to job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers."

Conclusion

We appreciate the opportunity to appear before your Subcommittee and your consideration for our proposals to repeal the "temporary" 0.2% payroll tax and require an integrated State UI/ES programs to best serve the needs of both the employer and the unemployed.

If I or any member of our Coalition can be of service in your deliberations we stand ready to assist in any way we can.

COALITION TO REPEAL THE 0.2% FUTA SURCHARGE

American Automobile Manufacturers Association
American Iron and Steel Institute
American Payroll Association
Armco, Inc.
Associated Builders and Contractors, Inc.
Associated Industries of Florida
Associated Industries of Kentucky
Associated Industries of Massachusetts
AT&T
Bank of America
Barnett Associates, Inc.
Barry Trucking, Inc.
Betz Laboratories, Inc.
The BF Goodrich Company
Business and Industry Association of New Hampshire
California Association of Hospitals & Health Systems
Caterpillar, Inc.
CBI Industries, Inc.
Clorox
Connecticut Business & Industry Association
Council of State Chambers of Commerce
Delaware State Manufacturing Assn./State Chamber
Digital Equipment Corporation
Eastman Kodak Company
E.I. duPont DeNemours
The Employer's Group
Employers Service Corporation
Employer's Unemployment Compensation Task Force
Employers Unity, Inc.
Federated Department Stores
Food Marketing Institute
The Frick Company
Georgia-Pacific
Grainger Manufacturing, Inc.
Gulf Copper Manufacturing Corporation
M. A. Hanna Company
Hair Works
Harrington Services
Heiss, Gibbons & Company, Inc.
Heat Transfer Equipment Company
Illinois Manufacturers Association
Illinois State Chamber of Commerce
Indiana Manufacturers Association
Iowa Association of Business and Industry
JCPenney
Jon Jay Associates, Inc
Laurdan Associates, Inc.
Liberty Mutual Group
Louisiana Association of Business and Industry
Management Association of Illinois
Marriott Corporation
Martin Boyer Company, Inc.
Maryland Chamber of Commerce
Masco Corporation
The May Department Stores
Melville Corporation
Meredith Corporation
Met Life
Michigan Manufacturers Association

Mississippi Manufacturers Association
Monsanto Company
National Association of Manufacturers
National Federation of Independent Business
New Jersey Business & Industry Association
New Mexico Association of Commerce & Industry
Ohio Manufacturers' Association
Ohio Chamber of Commerce
The Oklahoma State Chamber
Oneida Ltd.
Pennsylvania Chamber of Business and Industry
Pennsylvania Manufacturers Association
Pfizer, Inc.
PPG Industries, Inc.
Pratt & Lambert
Procter & Gamble Company
Rockwell International Corporation
Ryder Systems, Inc.
Sears
The Sherwin-Williams Company
Society For Human Resource Management
Sun Company, Inc.
Texas Association of Business/Chambers of Commerce
Thrift Drug Inc.
The Timken Company
UBA, Inc.
U.S. Steel Group
USX Corporation
Varian Associates
Vermeer Mfg. Company
The Walt Disney Company
Washington State Hospital Association
The Western Sugar Company
Westinghouse Electric Corporation
WestPoint Stevens, Inc.
Weyerhaeuser Company
Wisconsin Manufacturers and Commerce
White and Associates
The Wise Company, Inc.

Chairman SHAW. Thank you, Mr. Brown.
Mr. Little.

STATEMENT OF BRYAN LITTLE, DIRECTOR, GOVERNMENTAL RELATIONS, AMERICAN FARM BUREAU FEDERATION

Mr. LITTLE. Mr. Chairman and members of the Human Resources Subcommittee, I want to thank you for the opportunity to appear before you today representing the American Farm Bureau Federation. I am Bryan Little and I serve as a director of governmental relations for the American Farm Bureau.

I am here to present the views of the American Farm Bureau Federation on the Federal Unemployment Tax Act and unemployment insurance coverage of temporary alien agricultural workers admitted to the United States under the H–2A Program.

The American Farm Bureau is the Nation's largest general farm organization. Farm bureaus in all 50 States and Puerto Rico represent some 4.4 million member families nationwide. Farm bureaus' farm and ranch members are engaged in the production of virtually every agricultural commodity grown commercially in the United States.

When the Unemployment Insurance Program was created, agricultural employers were exempt. In 1976, the Federal law was changed to extend eligibility to employees of certain agricultural employers. When unemployment insurance coverage was extended to agricultural workers and FUTA payroll taxes were likewise extended to their employers, temporary alien workers were exempted from FUTA taxes.

H–2A workers are admitted to the United States under section 101(a)(15)(H)(ii)(a) of the Immigration and Nationality Act to perform agricultural labor tasks, generally for limited periods of time. H–2A workers are employed across the United States. They work in tobacco, apples, and vegetables in Virginia, Kentucky, and Tennessee; they work in tobacco and vegetables in North Carolina; they work in fruit, vegetables, and nursery crops in New England and New York; and they are employed in sheepherding in 12 Western States, including Nevada, Oregon, and California.

The policy resolutions adopted by the voting delegates of the member State farm bureaus at the annual meeting of the American Farm Bureau Federation in January 1995 specifically addressed the issue of FUTA coverage for H–2A workers and opposed the imposition of Federal unemployment insurance payroll taxes on H–2A employers.

Farm bureau policy is clear in its opposition to extending unemployment insurance to H–2A workers and requests that the H–2A FUTA exemption be granted retroactively to January 1, 1995, and be made permanent. The H–2A FUTA exemption has been granted for specified periods of time, usually only a few years. The most recent exemption expired on January 1, 1995.

There are several reasons why unemployment insurance should not be extended to H–2A workers. First, due to their immigration status as nonimmigrant temporary alien agricultural workers, H–2A workers are unable to meet the statutory unemployment eligibility test of being willing, able, and available to work. H–2A workers must return to their home countries at the conclusion of their

employment and cannot remain unless they have secured additional employment with an H–2A certified employer.

Second, to force employers of H–2A workers to pay into the unemployment insurance system would only serve to undermine the insurance feature of the program. In effect, employers would be forced to pay for insurance protection for their employees against financial loss associated with unemployment, despite the fact that no such loss can occur.

Third, there is little in the way of additional revenue to the Federal Unemployment Trust Fund to be realized if FUTA taxation is extended to the wages of H–2A workers. Employers are required to pay a FUTA tax of 0.8 percent on the first $7,000 an employee earns, which is the Federal taxable wage base. If 15,000 H–2A workers in any given year—and in 1993, the U.S. Department of Labor certified 17,000 H–2A slots—earn as much as the taxable wage base of $7,000, their employers' tax liability to the Federal Government under FUTA would be approximately $56 per worker.

Therefore, the total collected from the H–2A FUTA tax at the Federal level would be approximately $840,000. I just learned a little earlier of the estimate that you have from CBO, and I look forward to reviewing that a little more closely. Extension of FUTA to H–2A workers does not result in a tax windfall for the Federal Government but it does entail additional compliance requirements for farmers.

Fourth, employers would be responsible for a significantly higher tax liability to State unemployment security agencies. Employers pay up to 6.2 percent of payroll for FUTA, based on their experience rating: 5.4 percent of that amount is paid to the States for the payment of benefits. Thus, employers would be subject to a significant State tax liability for unemployment insurance, which would vary somewhat by jurisdiction, should Congress fail to correct the law to exempt the H–2A wages from FUTA.

Fifth, imposition of the FUTA tax for H–2A workers would result in another regulatory burden for farmers. Not only is there the direct cost of the FUTA tax to consider, but also the indirect costs of additional recordkeeping and reporting responsibilities. These added costs for farmers, unlike most other business operations, cannot be readily recouped in the form of higher prices for farm commodities. Unfortunately, farmers do not set commodity prices; the marketplace does. If farmers are unable to recoup the added cost of FUTA taxes, they suffer a dollar-for-dollar loss of net farm income.

For these reasons, Congress should make the H–2A FUTA tax exemption permanent and retroactive to the beginning of this year. H–2A workers will never be able to meet the ready, willing, and available test to receive benefits, even if taxes are paid for them.

Thank you for the opportunity to testify. I look forward to answering any questions you may have.

Chairman SHAW. Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

I do not really have any questions, but I want to try to clear up one thing Mr. Brown said about not allowing any of the trust fund moneys to be spent for other purposes. What do you mean by that?

Mr. BROWN. We are concerned primarily that it not go to generally finance the block grants for training. It presently finances the Employment Service, so to the extent the Employment Service participates in those block grants, as would be anticipated by Mr. McKeon's bill, I do not think we would have any objection to that, because that is still directly related to the type of activity that the employer pays the tax to do, and that is to administer the Unemployment Compensation Program and to attempt to find a job for unemployment claimants and other unemployed persons.

Mr. MCCRERY. I see, and that is a reasonable request.

Mr. BROWN. Other purposes may be quite worthy, but they are not in accord with what the employer community has been paying a payroll tax for.

Mr. MCCRERY. Sure.

Mr. BROWN. A payroll tax, I think, is something that you need to approach with caution, because, after all, this is a tax on jobs, and that is the reason decreasing the payroll tax could be helpful from a job creation point. On the other hand, if you do things that increase the payroll tax, you are making it more difficult for an employer to add employees, to add additional employees or maybe even keep the employees he has.

Mr. MCCRERY. That is right. I just wanted to make sure you did not think that the trust fund moneys were stocked away somewhere in a vault.

Mr. BROWN. Oh, no.

Mr. MCCRERY. They are, in fact, used for the purposes they are——

Mr. BROWN. I have been working on this issue since 1950. I am under no delusions in that regard, Mr. McCrery.

Mr. MCCRERY. To the extent that we can keep our Nation's finances in better shape, then we make all trust funds, including the UI Trust Fund, more able to meet its obligations.

Mr. BROWN. That is right, absolutely. I am retired and I am drawing Social Security. I am all for that.

Mr. MCCRERY. Thank you.

Chairman SHAW. Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman.

Mr. Brown, you talked about the solvency of the unemployment compensation system. You made reference to something that Mrs. Kennelly mentioned earlier. The 0.2 percent FUTA tax sunsets in 1998. Do you not see a real need to build up those reserve funds in the Unemployment Compensation Program?

Mr. BROWN. Looking at the projections that were made in the Department of Labor that are published in the UI Outlook for January 1995, and that was the $16.6 billion that Mary Ann Wyrsch referred to in the standard benefit account, even though they take into consideration that 0.2 percent produces about $1.4 billion a year. So if you subtract a couple of years of that $1.4 billion, these projections will still be quite ample as to the accounts that are financed by FUTA, the Federal Unemployment Tax Act.

Mr. FORD. We saw a jump in last month's unemployment rate. You do not see a decline in the economy as being something that we should be concerned with, and since it is to sunset——

Mr. BROWN. I think you always need to be concerned, but I do not think it is that great of a concern. Again, the position that I ended up with, in view of the fact that this is not in the budget resolution, is that if you are going to enact any tax cuts, this is one that ought to be considered because of the commitment that Congress has to the employer community.

Mr. FORD. I am not really an advocate of the FUTA tax but the sunset is in 1998. The reserves in the trust fund are going to be built over that period of time to address an increase in unemployment.

Mr. BROWN. That is the present law. However, under the original law, of course, it would have sunset in 1987.

Mr. FORD. I know, but there was an extension——

Mr. BROWN. It has been extended ever since, and, quite frankly, we are afraid that when 1998 comes, it will be extended again.

Mr. FORD. What organization are you with again? I remember you testifying.

Mr. BROWN. You remember me testifying years ago for the Council of State Chambers of Commerce. I was president of the Council of State Chambers of Commerce until about 5 years ago. I am testifying for them today, but a number of other organizations, too. I retired about 5 years ago and still do a little consulting for them.

Mr. FORD. You are a consultant to the council, as an advisor to the council's employers task force?

Mr. BROWN. Yes, unemployment compensation task force, right.

Mr. FORD. You are a consultant for that particular task force of the State chambers?

Mr. BROWN. For that particular task force, and that does not pay me enough that I have any problem with the earnings test under Social Security, I assure you. [Laughter.]

Mr. FORD. I was not looking for that. I was trying to see exactly what task force you represent and what businesses, because we——

Mr. BROWN. I represent a long list of companies and organizations that are appended to my statement. There are almost 100 there. Actually, the U.S. Chamber is also a member of the coalition. However, they are going to file their own statement, which they prefer to do.

Mr. FORD. Employers in the past have supported the 0.2 percent FUTA tax.

Mr. BROWN. We supported its original enactment, but with the understanding that the provision in the original law would be honored, and that is that it would expire once the debt it was enacted to repay was repaid. Of course, we were quite upset when that did not happen, and we continue to be upset. So we have been upset about the 0.2 percent ever since 1987, when the original provision was not honored on repeal upon repayment of the debt.

Mr. FORD. It is not an area that I hear from a lot of my employers, and I certainly want to be responsive to my employers.

Mr. BROWN. I doubt that most of them even know that it is there, to tell you the truth, but that does not mean that they would not mind saving $14 per employee, if the tax were cut.

Chairman SHAW. Mr. Levin.

Mr. LEVIN. Just briefly. I did not have a chance to ask the Labor Department about their testimony on page 5, which, apparently,

you disagree with, Mr. Brown. "Continuing the surtax through 1998 will allow for sound financial management and accumulation of additional reserves to cushion an economic downturn."

Mr. BROWN. I do not question that; I think it would. It is a question of which is more important, I guess, and whether to keep the commitment to the employer or be super conservative in your fiscal management.

Mr. LEVIN. Just one quick point. Is it really wise for us to draw such a rigid line between the unemployment compensation system and retraining and training in a day and age when, now, half of the people, more than that, who are laid off are permanently separated?

Mr. BROWN. I do not think you can draw a rigid line. The bill that Mr. McKeon is working on with the administration does not draw a rigid line, and I do not think it should.

Mr. LEVIN. Then why should it be completely out of bounds to consider using FUTA for training and retraining?

Mr. BROWN. Because I think you need to be careful about what you use payroll taxes for, basically. A payroll tax is a very regressive tax. It is a tax that any liberal Democrat like you should not like very well, because it is a tax on employment. Therefore, you should not be using the payroll tax for anything——

Mr. LEVIN. How about you, since you are a liberal Democrat. I do not know about myself.

Mr. BROWN. Actually, I think it is justified to use to finance wage-related benefit programs. Therefore, I strongly favor the use of the payroll tax for Social Security and unemployment compensation, where the benefits are related to the wage that you were paid. That is the primary justification for a payroll tax, in my mind.

I think Congress has gotten in trouble and overused the payroll tax when they use it, for example, for Medicare and health care where the benefits are not related to wages. It is most easily justified when it is related to wages, so then it is in complete keeping with social insurance concepts, as envisioned by Franklin Delano Roosevelt.

Mr. LEVIN. I am not sure about labels for you or me, but let me ask you, I do not disagree about some regressivity in the payroll tax, but is not retraining related to wages when half of the people who are terminated now are terminated permanently?

Mr. BROWN. It is related to employment, there is no question about that, but it is not a wage-related benefit. That is the point I was making.

Mr. LEVIN. But is adequate retraining not more related to wage level than almost anything else these days?

Mr. BROWN. Adequate training is related to wage level, but that does not mean that it is desirable to use a regressive payroll tax to finance it.

Mr. LEVIN. I just do not quite understand why you say that training and retraining is not related to wage levels, when——

Mr. BROWN. I am not saying it is not related to wage levels. I am saying it is not a wage-related benefit. In other words, the amount of training you may need does not have anything to do with the amount of wages you earn, whereas the benefit you get

from Social Security or unemployment compensation is related to the amount of wages you were paid. It is a wage-related benefit.

Mr. LEVIN. I understand what you are saying.

Mr. BROWN. In other words, if you want to make a parallel with insurance and say this is social insurance, it is related to the premium that was paid.

Chairman SHAW. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Little, on the issue of the H–2A workers, at this point, I believe I am correct in saying that in order to qualify for this particular provision, as it is now, it has to be demonstrated that there is no displacement of American workers, is that correct?

Mr. LITTLE. The Department of Labor is responsible for certifying that no displacement of domestic workers will occur if H–2A workers are used.

Mr. ENGLISH. How well does that process work?

Mr. LITTLE. In our view, we believe that in many areas of the country, it is very difficult to get an adequate agricultural work force in certain remote areas.

For example, one user of H–2A workers in Southern Nevada has about 12,000 acres of onions under cultivation. Onion harvesting is a very labor-intensive process and there just are not a whole lot of people living in Southern Nevada. So in his particular case, it becomes necessary to turn to the H–2A Program in order to have an adequate work force in order for him to be able to get his harvest in.

Mr. ENGLISH. Would you say that the H–2A Program is most common in situations where you have a low population, or are there other labor market factors that kick in that would require guest workers to be used?

Mr. LITTLE. What typically seems to happen is that the high seasonal demand in harvest, planting, and cultivation that is unique to agriculture will tend to, if you will, overstress the availability of labor in a geographical area. That is, there simply will not be enough people there in order to perform the work that needs to be performed in a very short period of time in order to harvest a highly perishable commodity, typically fruits, vegetables, things of that nature, which are where most H–2A workers are used.

Mr. ENGLISH. Can you identify those areas in the agricultural economy, generally, again, what sorts of agricultural products require most of the H–2A Program?

Mr. LITTLE. It tends to be related to both the type of commodity and the region in which the commodity is grown. You tend to have a fair number of H–2A employees used in tobacco in North Carolina, South Carolina, Kentucky, and Tennessee, in part because the normal migrant stream does not seem to move that far to the west in order to hit those crops so that there is adequate labor in that area. They also tend to be used at the far northern extremes of the migrant labor stream, in New England and in the Pacific Northwest.

It also tends to be used in agricultural commodities where a significant amount of hand labor is required, either for cultivation, harvest, or planting at the beginning of the season. There are certain agricultural commodities that simply cannot be harvested by

machine. You cannot harvest a peach by machine and in general, many varieties of apples.

The quality of the produce is not going to be acceptable for market quality if you try and develop machinery to do those things. They still require the human touch to do that, and that is one of the reasons why, in certain rural areas, you have shortages of agricultural workers, necessitating the use of the H–2A Program.

Mr. ENGLISH. Is the H–2A Program utilized primarily by family farms or is it utilized by larger agribusiness?

Mr. LITTLE. There are some large agricultural employers that use the H–2A Program. However, in 1993, approximately 3,000 employers were certified to use H–2A employees, and approximately 17,000 job opportunities were certified under H–2A. So you do the math in that and you can see that the average is somewhere between five and six or maybe six and seven for that.

My sense of it—I do not know that anyone has ever conducted a nationwide survey with respect to exactly how many H–2A workers are used on average, but my sense of it is that a great many H–2A employees are used by small family farmers.

Mr. ENGLISH. Mr. Brown, with regard to the 0.2 percent FUTA surcharge, would repealing this surtax have any effect on the availability of UC benefits?

Mr. BROWN. No, it would not. It has no effect whatsoever.

And while we are back on that issue, I would like to make a little addition to my response to Mr. Ford. I think one reason you have not heard from many employers lately on this is they long ago gave up on Congress ever repealing it, because it was supposed to have been gone in 1987 and has been extended so many times. I think the employer community has pretty well given up hope, is the truth of the matter.

Mr. ENGLISH. Let me get back to that. With regard to your last comment, I, also, have not gotten a lot of feedback from my employers on this tax provision, but I have received a lot of feedback on other, much more targeted tax provisions. It seems to me that this is a light tax applied very, very broadly across the economy, and under our PAY–GO provisions, we would have to come up with a way of financing the repeal of this surtax. Can you suggest any other program cuts or tax savings?

Mr. BROWN. Our suggestion would be the same as is in H.R. 1120 that Mr. Zeliff has, that would use savings from consolidation and a block grant approach on the training programs.

Mr. ENGLISH. Thank you very much, Mr. Chairman.

Chairman SHAW. Mr. Rangel.

Mr. RANGEL. Thank you.

Do the farmers prefer foreign workers?

Mr. LITTLE. No, they do not, because they cost substantially more to use than domestic workers do, to the degree that domestic workers are available.

Mr. RANGEL. Do the farmers pay the travel back and forth?

Mr. LITTLE. They do.

Mr. RANGEL. And board?

Mr. LITTLE. They do.

Mr. RANGEL. So when you get down to the wage, forgetting the minimum wage, what is the average hourly wage, when you include everything?

Mr. LITTLE. It would be difficult to figure out exactly what a national average wage is. The Department of Agriculture conducts surveys of agricultural employers across the country. They are charged in that survey with figuring out what the appropriate wage and benefit level would be in order to prevent displacement of any available domestic labor in that area.

Mr. RANGEL. Let me tell you why I ask the question. It seems to me that, I do not know about perishable vegetables, but you have a whole lot of sheepherding here and horse training and things that really, it would seem to me, that if you added what you are paying to the foreign worker for room and board and transportation, that you might get a pretty decent salary for some American workers.

Mr. LITTLE. I suppose that is a possibility. However, sheepherding is a highly specialized skill, and up until now, American employers have not been very successful in attracting domestic workers into doing that sort of work.

Mr. RANGEL. That is why I am asking. You tell me what hourly wage you get up to by bringing in these people from New Zealand, and we may open up a school so we can put some of our people back to work.

Mr. LITTLE. As I was saying previously, the Department of Agriculture's job is to figure out what the appropriate wage and benefit level is to prevent any displacement of domestic workers. They then pass that information along to the Department of Labor and the Department of Labor issues, by regulation, what are known as the——

Mr. RANGEL. I know all of that. I need some help as to actually what the employer is actually paying so that I can have a better understanding why Americans would not make themselves available for that kind of work. I mean, horse training, to get a guy from New Zealand to train a horse, I do not know——

Mr. LITTLE. Depending on where you are, the agricultural employment wage rate is something on the order of $5.60 an hour in Virginia, something in that general range in other parts of the east coast——

Mr. RANGEL. No, wait a minute, sir. I am trying to see what it is when you include transportation costs, room and board—do they take out any taxes at all from their pay, any taxes? No. So you start adding up, without taxes, what their salary is, and I would be interested, not that I know anybody that would want to replace the sheepshearers and the goatherding and all of that, but we have to be satisfied that we are not taking American jobs, and that is the only reason I am asking. If you get up to $20 an hour with the other costs and it is tax free, I can work out something with you.

Mr. LITTLE. One of the most common usages of H–2A workers is moving plastic irrigation pipe for flood irrigation in southern Idaho, and I have done that kind of work, and it is hard work.

Mr. RANGEL. I cannot deal with the irrigation, but I can surely deal with the horse training and the sheepherding and the chicken farming. They just sound so American.

In any event, you can try to find out what the cost is, because I know the Department of Labor would not give these jobs to foreigners if we had replacement workers.

About the tax on these things, you have no problem in increasing the tax and registration to cover the cost of employing these people, if you are against the FUTA tax itself?

Mr. LITTLE. The farm bureau has no policy on increasing the level of the user fee, and I am not authorized to make policy.

Mr. RANGEL. Well, the consultant certainly is. That is what I want to be. I like them.

Mr. BROWN. The consultants do, but he is not a consultant.

Mr. RANGEL. I know. That is why I am looking at you. You have the job, as a consultant. [Laughter.]

On one hand, it would make a lot of sense, really, that the program pays for itself. On the other hand, of course, employers never want to pay more. Would you say that is basically where you are?

Mr. BROWN. Yes.

Mr. RANGEL. That is why I want to be a consultant. [Laughter.]

Thank you, Mr. Chairman.

Chairman SHAW. Mr. Little, you heard Secretary Uhalde refer to the fact that the certification process was operated at a loss. If we were to do away with the FUTA tax, then turning to certification, what would be your thoughts as far as bumping that figure up? It sounds like a very little bit of money when you look at the whole scheme of things, $10 a worker. What are your thoughts on that?

Mr. LITTLE. Again, I have to offer the disclaimer that I am not authorized to make policy for the farm bureau, and we do not have policy on this. I assure you that our process of making policy is unbelievably complicated.

However, in general, we are supportive of user fees to support governmental activities. All I could do at this stage would be to go back to the policymaking process and ask them to consider it.

Chairman SHAW. It might be helpful if your organization could look into that, because that may be a good way to trade off some of this.

Mr. LITTLE. I will do that.

Chairman SHAW. Thank you both very much. It was a very good panel.

Our final panel consists of Louis Jacobson, senior economist, Westat, Inc., in Rockville, Md.; Debra Bowland, the administrator of the Ohio Bureau of Employment Services and treasurer of the Interstate Conference of Employment Security Agencies; Walter Corson, vice president, Mathematica Policy Research, Inc., in Princeton, N.J.; and Bill Cunningham, legislative representative of the American Federation of Labor and Congress of Industrial Organizations.

We have each of your written testimony, which will become a part of the permanent record. If you care to summarize, that would be just fine. We will start out with Dr. Jacobson.

Mr. RANGEL. Mr. Chairman.

Chairman SHAW. Yes.

Mr. RANGEL. Could I have the courtesy of introducing the son of Bill Cunningham, who is here? For those who would not normally be too kind to the AFL–CIO, as a father, I would appreciate the

fact that you recognize Mr. Cunningham has his son with him today.

Chairman SHAW. Go right ahead and do that.

Mr. RANGEL. There is Mr. Cunningham there, so be kind to the old man. [Laughter.]

Chairman SHAW. With that word of caution, we shall proceed. Dr. Jacobson.

TESTIMONY OF LOUIS JACOBSON, PH.D., SENIOR ECONOMIST, WESTAT, INC., ROCKVILLE, MD.

Mr. JACOBSON. Thank you, Mr. Chairman.

I am Lou Jacobson, a researcher with Westat, Inc., and have been studying Labor Department programs for over 20 years as a private consultant. I am extremely happy to have an opportunity to discuss the Employment Service, particularly under the current conditions, where employment programs are in flux and people are looking at ways to make programs more effective.

The Employment Service is unusual among the set of positive adjustment mechanisms because it is, by far, the oldest of all the programs, having played a major role in helping workers adjust to the problems of the Great Depression, mobilizing the work force during World War II, and demobilizing the work force following the war. Most people regard those as the halcyon days of the Employment Service.

More recently, the Employment Service has taken a back seat to other programs that are generally perceived, but not necessarily accurately perceived, to be more effective. The image that I think would be worth keeping in mind is Cinderella, in which the Employment Service often is treated as the stepchild of the Department of Labor and maybe of the Federal employment programs in general. But recently, there has been a resurgence of interest in the Employment Service, which, in my view, is very well placed.

Essentially, the problem that the Employment Service has come up against is a widespread view that training is the "best" way to aid most workers who need help in today's environment. Now training is important, but training turns out to be very expensive, and in many cases, trainees never apply the training that they receive.

So the Employment Service offers a reasonable alternative that is extremely inexpensive. It only costs about $80 per registrant for Employment Service services. It turns out that studies uniformly indicate that the Employment Service services are about as effective as training but about 10 to 30 times less expensive.

One of the characteristics of the Employment Service which is extremely unusual is that it may provide something close to a "free lunch." That is, by moving programs away from more expensive treatments to less expensive treatments such as job search assistance through a public labor exchange, not only are taxpayers made better off, but the people who receive the treatment most frequently also are made better off. This is a kind of tradeoff that, I think, Congress always is looking for but rarely can find.

The shift toward expensive treatments reached a high point in 1988, when Congress mandated that JTPA programs for dislocated workers spend half their money on retraining and also established

mandatory training for TAA recipients. The shift away from expensive treatments was fostered by evidence that both those steps largely were ineffective while providing all kinds of job search assistance through the Employment Service, was highly effective.

So, in essence, the evidence suggests that the Employment Service plays a very important role. One fundamental question then is, why is it that the Employment Service has not had greater visibility and, in some sense, has been treated as a stepchild?

I think it is not difficult to perceive why that is true. Basically, the statistics that have traditionally been used to measure the performance of the Employment Service vis-a-vis other programs have not been interpreted very accurately and have failed to place the Employment Service in the proper perspective. But when studies place the Employment Services performance in proper perspective, the Employment Service is shown to increase people's earnings by thousands of dollars and to save substantial amounts of UI benefits.

An important aspect of the Employment Service, that I think other people will also mention, is its relationship to the UI system. Many States have used their own funds to improve ES services going to claimants as Wagner-Peyser funds have declined. States have taken a hardheaded look at those expenditures and have determined that every ES dollar spent on a UI claimant saved approximately $1.15 in unemployment benefits alone. As a result the States are generally quite satisfied with the ES's performance, and there is a growing trend to spend more discretionary money on the Employment Service.

This is the kind of evidence that economists, in particular, look for because it is a market test. There are alternatives, as we have heard today, to spending more money on the Employment Service, including cutting taxes. But many States have properly recognized that taxpayers are better served by using the Employment Service to help workers find jobs, and ensure claimants are assiduously searching for work on their own.

The last element of the testimony deals with the role of the Employment Service in providing labor market information. It turns out that because of the way the UI/ES systems are run, they provide a great deal of information about unemployment and employment that is used in several Bureau of Labor Statistics programs. The wage record data of the Employment Service also has been used to monitor AFDC and food stamp eligibility. In addition, the Department of Labor has saved millions upon millions of dollars in research funds by using wage records for various types of research, substituting very low-cost wage record data for very high-cost surveys. But use of this data has not gone far enough.

One of the main problems that the GAO has pointed to in terms of revamping the current system is that we know very little about the effectiveness of current programs. It is very important to have this information. In fact, I think that there is nothing more important than being able to objectively measure the effectiveness of all the human resources development programs that are in place today all over the country in a uniform way. No large business could stay in operation without an effective information system, but somehow

we assume that government programs can be run without this kind of information.

I think the Employment Service is very well positioned to provide this kind of information, because it has the necessary data, and because it does not provide expensive services, it can be an objective honest broker. If I could wave a magic wand, my wish would be for this committee to insist that the States put in place a system that accurately measures performance under a new block grant system, and because the technical problems are so great, establish a commission to develop a prototype for the States' use.

Chairman SHAW. Dr. Jacobson, I am going to have to wave my magic wand.

Mr. JACOBSON. Yes, I am finished.

[The prepared statement follows:]

TESTIMONY ON THE EFFECTIVENESS OF THE U.S. EMPLOYMENT SERVICE AND SUGGESTIONS FOR INCREASING ITS EFFECTIVENESS
before the Subcommittee on Human Resources of the Committee on Ways and Means,
U.S. House of Representatives
May 16, 1996
Dr. Louis Jacobson, Westat Inc. 301 251-8229

This testimony focuses on describing:

- o the mission of the U.S. Employment Service (ES),
- o how effective the ES is in accomplishing its mission, and
- o how its mission has evolved over time.

Evolution of the ES's Mission

The state-federal Employment Service (ES) was established in 1933 by the Wagner-Peyser Act in the midst of the Great Depression to serve as a public labor exchange to assist unemployed workers find private jobs, and when those jobs were unavailable, facilitate participation in public employment programs. During World War II the Employment Service played a vital role in recruiting workers for defense industries. In particular, the ES assisted Southern workers to find jobs in Northern defense plants. At the end of the war it played a major role in helping GIs find civilian jobs.

Since the mid-1950's the need for ES services declined as swings in the number, type, and location of jobs greatly diminished. In the 1960's it played a major role in the "War on Poverty" helping place economically disadvantaged individuals at jobs or in government programs. This role was controversial in some quarters, however, because it was felt that the aid given economically disadvantaged individuals distorted the traditional balance between serving the needs of employers as well as the needs of workers.

In the 1970's and 1980's the ES languished as government aid to economically disadvantaged and dislocated workers primarily was channeled through MDTA, CETA, and JTPA programs. A major reason for this shift was the perception that the ES's core service--direct job placement-- as well as other forms of job search assistance (JSA) were ineffective. It was felt that much more expensive help in the form of counseling and training was required to effectively deal with poverty and economic dislocation.

Gradually, however, the pendulum has swung back to a view that finding a job with growth potential is the primary mechanism to boost earnings and achieve employment stability. Today, inexpensive direct job placement and other forms of JSA are widely recognized as the most effective means to assist workers. Much more expensive interventions such as retraining should be offered only after JSA has failed or when there appears to be a particularly good match between workers' skills and talents and those required to do well in an educational program, as well as between the skills developed in the program and employers' demand for workers with those skills.

Clear evidence of this shift is the central position of JSA provided through one-stop career centers in recent Administration proposals to revamp dislocated worker programs. In contrast, the last previous major changes to dislocated worker programs in 1988 required JTPA to spend half its resources on retraining, made retraining mandatory in order to receive Trade Readjustment Allowances and provided generous vouchers to pay for that training.

In the absence of research documenting that JSA is at least as effective as retraining, one might conclude that the much more obvious fact that JSA's cost to taxpayers is only about one-tenth the cost of retraining was the key factor behind the change in focus. The desire to save money in the face of the budget deficit probably is a factor, but this is one case where the recipients of the government service and the taxpayer can both be made better off by electing less expensive services.

In short, the ES showed exceptional resiliency in responding to changes in economic need. In periods with exceptionally high levels of unemployment when private sector jobs were

unavailable the ES played a key role in providing governmental assistance. In periods where there were massive shifts in labor demand across sectors or areas the ES played a major role in making those shifts as orderly as possible. Perhaps equally remarkable, in periods where there were no large-scale changes in labor market conditions the ES appropriately downsized its operations focusing on finding jobs for workers, who in the absence of the ES's aid, would have had great difficulty finding work.

Indeed, one of the ES's most striking attributes is that it tends to help those who need help the most by cooperating with private sector employers. Another key attribute is that it tends to fill labor exchange niches that would not be filled adequately by private employment agencies. Thus, the ES leaves to the private sector those areas, such as placing high-wage managers and temporary clerical workers, where it can do an effective job.

Measurement of ES Performance

The ES has paid a high price for doing what most government social services programs should do-- act as a "backstop" for individuals who have exhausted their own resources and those of the private sector. Wagner-Peyser funding has fallen in absolute terms as the number of job seekers who use its services has grown.

In my view, a key reason for this reduction in funding and the ES's generally poor image "inside-the-beltway" is that policy makers use inappropriate comparisons between the ES and other programs.

For example, it is true that the ES "placement rate" is about 16 percent compared to a JTPA "entered employment rate" that is above 70 percent. But the ES statistic is restricted to only those jobs taken as a direct result of an ES referral, while the JTPA statistic reflects taking any job. In addition, the ES places no restrictions on who registers, while JTPA can limit participants to individuals who are serious about finding a job. In fact, about one-third of ES registrants are UI claimants most of whom are recalled to their former jobs, and up to another third are economically disadvantaged individuals most of whom must register with the ES as a condition of receiving welfare.

Perhaps of even greater importance, the ES spends only about $80 per registrant while JTPA spends over 20 times as much on each participant.[1] Thus, it appears that the ES is expected to perform at a level of an agency that is much more generously funded and can select the individuals it chooses to serve.

Similarly, unfavorable comparisons can be made between the wage of the jobs found through the ES relative to average wages. But those comparisons ignore differences between starting wages and wages attained after several years on the job, as well as differences in the skills and other characteristics of those placed by the ES relative to other job seekers.

Indeed, most jobs seekers who turn to the ES lack other means to find work or have failed to locate jobs using other means. Thus, simple statistics end-up contrasting ES users, who typically have had great difficulty finding work, to job seekers who have had access to superior leads from friends and relatives or superior skills that made it easy to find work through want-ads or direct applications at work sites. Such comparisons have little meaning.

Of fundamental importance, even adjusting measures of placement and wage rates for differences in the characteristics of ES-users and those of other job seekers produces measures that largely are irrelevant for determining the ES's value. Appropriate measures of benefits include the reduction in joblessness, increases in earnings, and savings of transfer payments relative to the levels that would occur in the absence of ES actions.

When judged on that basis the ES performance relative to its cost is impressive. For example, detailed analysis of the experience of about 20,000 Pennsylvania claimants over a ten-year period showed that each ES placement reduced the duration of unemployment of the long-

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[1] Basic statistics about current operations are that there are about 20,000,000 ES registrants a year and about 3,000,000 job placements. The total budget of the ES is about $1.6 billion. Of that amount roughly $800,000 comes from Wagner-Peyser funds. The remainder are contributions made at each state's discretion from other federal programs as well as state appropriations.

term unemployed by about 13 weeks on average.[ref. A5] This translates into an immediate earnings gain of over $2,000. Equally important, the earnings growth of those individuals also were greater than that of similar workers who did not use the ES when differences in the duration of unemployment at the point the job was taken were held constant. Thus, the total gain was at least $4,000 per placement.

Indeed, a major reason training often fails is that the large sacrifices in earnings required to participate in training go for naught as trainees end-up with much the same jobs that they could have obtained months earlier had they not entered training. Of course, some training is sufficiently productive to more than offset foregone earnings and the relatively high cost of the training itself. But much lower cost and much speedier return to work usually are decisive advantages that make the ES's direct job placement (and other types of JSA) far more cost-effective than retraining.

The Role of the ES in Improving the Performance of the UI System

So far this discussion has focused on the core service of the ES-- provision of a public labor exchange. In addition to matching job seekers to job vacancies, the ES has a special responsibility for monitoring the job search of UI claimants. This mission has the dual purpose of helping to ensure UI claimants are effectively searching for work on their own as well as helping claimants who need assistance locate suitable work.

Analyses of UI claimants in Pennsylvania and Washington State who were receiving benefits shows each ES placement reduced unemployment by about two weeks on average (compared to over two months for UI exhaustees), and saved about $300 in UI payments [ref. 4 & 7]. The reductions in UI payments reduced the tax burden on firms which translates to higher wages as well as higher profits.

Indeed, the prospect of saving UI payments and improving the solvency of the UI Trust Funds have been major factors in state decisions to use their own revenues to supplement federal Wagner-Peyser expenditures. The ES research I performed in Washington State was mandated to determine whether use of a small payroll tax to enhance ES assistance to claimants was cost-effective. The results suggested that every additional dollar spent on the ES saved a dollar and 15 cents in UI funds. Thus, the enhancement more than paid for itself even ignoring the benefits to workers and firms of speeding the job search process.

Today only about 60 percent of the ES budget comes from Wagner-Peyser expenditures. States use locally derived revenue as well as federal funds from other programs to purchase ES services. To an economist, seeing the ES effectively compete for funds against an array of alternatives, including the option of lowering taxes or purchasing services from private firms, is one of the strongest pieces of evidence suggesting that the ES is a cost-effective institution.

In addition to providing "positive" adjustment services, the ES also reports failures to attend job interviews or accept reasonable job offers to the UI system.[2] Such "refusals" lead to the severe penalty of having to return to work for a specified period and then be laidoff in order to requalify for UI payments. There is evidence that enforcement of this work-search provision provides a very powerful incentive to assiduously search for work [ref. 5]. Turning down offers of interviews and jobs without good cause also is generally regarded as the fairest basis for demonstrating a lack of commitment to search for work.

Although it is difficult to estimate the savings generated from "refusal" enforcement with precision, it is likely that the savings are very substantial, perhaps as much as 5 percent of the $16-$18 billion spent on UI each year. In contrast, enforcement of the other work-search provisions to be "able" to work (not sick or caring for dependents), and "available" for work (actively searching) have little, if any, effect. The difference might be a result of the weak

[2] At the federal level the UI and ES programs are administered separately. At the state level they are jointly administered by the State Employment Security Agency (SESA) and personnel are usually cross-trained to perform both UI and ES tasks. Thus, the same person could make the referral, note an interview did not occur, record the refusal in the UI record, call the claimant in to determine if there was a good reason for the refusal, and interview the claimant.

penalties for those failures-- loss of benefits for the period of non-compliance with no loss of entitlement.

The proper balance between "carrots" in terms of job search assistance, and "sticks" in terms of penalizing failures to adequately search for work is a controversial issue. Employers for instance, generally want the ES to send out the best qualified registrants who are most willing to accept the posted vacancy. However, because employers also gain from work-test enforcement, they appear willing to bear the cost of agreeing to interview individuals who may not show up for interviews or accept job offers. Similarly, workers recognize that UI should cover only non-volitional jobless periods. Thus, work-test provisions are usually accepted by claimants as long as those who are likely to be recalled are not unduly burdened by unreasonable requirements to search for a new job.[3]

Other Responsibilities of the ES

In addition to labor exchange and UI work-test enforcement activities, the ES is responsible for executing major labor market information programs largely under the direction of the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor. These information gathering activities rely heavily on use of records required for the normal operations of the UI system, as well as conducting special employer-based surveys. The UI/ES system is in an excellent position to monitor unemployment through its payment of UI benefits, as well as monitor employment because it requires firms to make payroll tax computations based on the earnings of each employee.

The UI wage reporting system also is used to quickly establish eligibility for UI and has proven of great value for determining eligibility for Food Stamps which is another ES responsibility, as well as verifying eligibility for AFDC and other forms of welfare.

Many states have experimented with use of wage records for monitoring JTPA activities, and the U.S. Department of Labor has made extensive use of wage records as an adjunct or alternative to much more costly surveys. All of the research that I discussed today was largely based on use of UI wage, claim, and firm records. Use of those data is growing, and in my view has not come close to reaching its full potential.

Future Directions for the ES

A key potential use of UI/ES data is to establish a uniform system to monitor the performance of all programs that primarily are aimed at improving the earnings of our citizens. Indeed, one of the major failings of the current array of "workforce investment" programs pointed to by the GAO is the lack of an ability to accurately compare the performance of different programs, or provide the type of feedback operators of individual programs need to improve their performance.

In short, no private firm could possibly run its operations effectively without solid information about its performance. Why should we expect operators of government programs to be able to do an effective job without solid information about their performance?

Of particular importance, there is little reason to believe that merging programs with similar goals and giving states more discretion to structure those programs will lead to better monitoring of their performance. The returns from providing accurate feedback concerning program effectiveness could easily be over 100 times greater than the cost; but the technical complexity of the project suggests that a prototype should be developed at the federal level for use by the states.

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[3] Pennsylvania is the only state that does not routinely screen claimants for satisfying the able and available conditions, but this lack of enforcement activity appears to have no effect on UI outlays. Verifying those conditions are satisfied in other states may take away resources from the UI system that might be more productively used elsewhere, and even more importantly, often burdens claimants by forcing them to "go through the motions" of seeking work in ways that are unproductive.

I strongly urge this committee to mandate development of such a system and establish an independent commission to recommend how that best can be done. History suggests that state and federal program operators are simply too pressed with day-to-day operational issues to devote the time and resources required to carefully review the options and consider how information systems currently in place can be improved.

The ES would be the most appropriate agency to monitor performance in a uniform fashion. It currently has the data systems in place needed to measure performance, and of at least equal importance, has no direct stake in the outcome of the evaluations. In contrast, the current system which allows organizations to evaluate themselves creates strong incentives to select measures that makes performance look good, at the expense of providing meaningful feedback.

This brings me to my final point. An information system that would accurately inform program operators about their performance, and permit them to adopt procedures of proven effectiveness from other organizations, also would provide the basis for informing potential consumers of those services about what types of assistance would be most helpful and where the best quality services can be found.

Thus, the development of such an information system also would place the ES in an excellent position to act as an honest-broker with respect to providing consumer information. Not only is the ES well-positioned to serve in this capacity, several recent trends have led to practical steps in that direction.

First, many states have begun to develop one-stop career centers with the ES playing a lead role. These centers are designed to acquaint individuals needing help with the array of services available and help them select an appropriate assistance plan.

Second, the UI/ES system has been given the responsibility to "profile" each UI claimant to determine his or her need for aid, to draw up an action plan in consultation with the claimant, and make participation in the plan a condition for continuing to receive UI payments. At present states are struggling to develop computer systems to help figure out what treatments would be appropriate, as well as find the means to pay for mandatory services.

Third, there is growing state and federal interest in using vouchers to increase the consumer's role in selecting services.

Fourth, the movement towards consolidation of the current array of programs into block grants would greatly facilitate improving the match of services to the clients' needs. At present more effort often is spent determining if a client is eligible for a given service than determining if the service itself is suitable.

Each of these four trends places a premium on improving the quality and quantity of information available to consumers, honest-brokers, and program operators.

Summary

In summary, the U.S. Employment Service has shown itself to be an unusually resilient and effective organization that provides direct job placement service of great value to workers and employers.

The ES has been undervalued, however, because it is difficult to put its performance into proper perspective. Disparate measures which are biased against the ES are used to compare its performance to that of other programs, disparities in funding are ignored, and it is difficult to take into account the fact that the ES delivers services to individuals who have exhausted their own resources and those of the private sector.

More appropriate comparisons uniformly show that the ES substantially reduces the duration of unemployment of registrants and places them at jobs which, if anything, are higher paying than those the registrants could find on their own. ES referrals and placements also substantially reduce UI payments both by placing claimants at jobs and ensuring claimants assiduously search for work.

for Food Stamps and AFDC, and their use for monitoring program performance has greatly expanded over the past ten years.

The ES's ability to use its data to monitor performance and its ability to serve as an honest-broker because it does not run expensive programs places it in an ideal position to establish a system that would provide accurate feedback on the performance of the full array of human resource programs.

In my view, the single most important step Congress could take to improve the effectiveness of human resource development programs is to mandate that each state have a system to provide accurate feedback, and establish a commission to develop a prototype system for use by the states.

This step would greatly complement other efforts that are underway to profile UI claimants, establish one-stop career centers, expand use of training vouchers, and combine human service programs with similar goals into single block grants.

This analysis suggests that the ES has the ability to greatly expand its traditional role as an information-broker beyond that of matching individual workers to job openings. It could provide feedback to program operators, and perhaps most importantly, give workers the information they need to decide what services would be of value to them, and precisely where they should go to obtain appropriate public and private services. It is my hope that Congress, the Administration, and the states work together to see that potential fulfilled.

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Chairman SHAW. We will recess for just a few moments. Mr. English has gone down to vote. We will come back and reconvene as soon as he returns. I would ask the members to get back as quickly as possible. We will recess for about 10 minutes.

[Recess.]

Mr. MCCRERY [presiding]. If the panelists will take their seats, we will resume the hearing. The committee will come to order.

Thank you, Dr. Jacobson, for your statement.

Now, Ms. Bowland, if you would like to share your statement with the committee. Welcome. It is nice to have you.

STATEMENT OF DEBRA BOWLAND, ADMINISTRATOR, OHIO BUREAU OF EMPLOYMENT SERVICES, AND TREASURER, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES

Ms. BOWLAND. Thank you very much. I am glad to be here.

Mr. Chairman and members of the subcommittee, I am Debbie Bowland and I would like to say to Mr. Rangel that employment training is the most exciting place there is to be in government today, just to make certain that you know.

I am administrator of the Ohio Bureau of Employment Services and I am treasurer of the Interstate Conference of Employment Security Agencies. ICESA recognizes that consolidation and the streamlining of government programs, particularly in work force development, is needed, but I hope that as Congress pursues all of these goals that it keeps in mind the distinctions among programs that are being considered for consolidation in an employment and training block grant.

First, employment and training consolidations and reform efforts must recognize the differences between programs that are funded from employer-paid dedicated taxes, funded out of the Unemployment Trust Fund, and those programs funded from general revenue. By law, State Unemployment Trust Fund dollars can only be used for the payment of unemployment benefits. Federal Unemployment Trust Fund moneys can be used only for benefits, and in the administration of employment services and unemployment insurance laws.

Merging UI and ES moneys which come from that dedicated tax called FUTA with general revenue for education and training programs violates the contract with the employer community that these funds will be used only for unemployment or reemployment services. No public policy decision, I think, to use FUTA—employer-dedicated taxes for training programs should be made without a full understanding of the implications of that policy decision, and the debate has to include the views of the employer community about expanding the use of their tax dollars and potentially leading to huge tax increases for the employer community.

My initial reading of the CAREERS Act, which we heard about from Representative McKeon today, certainly did not give me any kind of assurance that the dedicated nature of FUTA dollars remained intact, nor did I get the feeling that the ES/UI integrated system that has prevailed in that system remains in place. I know that is what he said in his testimony, but I think the initial reading of that bill certainly does not reflect that.

Second, as we look at employment and training consolidation, I hope we recognize the difference between job training and job placement services provided through Wagner-Peyser dollars and FUTA. I think it is important to understand that the Employment Service, which is included in the list of programs considered for consolidation, is simply not a training program. We provide jobs for people in ES and qualified workers for employers.

In Ohio, we serve job-seeking customers by matching 14,000 workers with employers just last week. For our employer customers, that week, we matched 200 job orders every single day of the week, and we referred 6,000 workers directly to employers seeking to hire them. We helped last year 117,000 Ohioans find jobs.

Economic studies have shown that the most cost-effective use of scarce resources to get unemployed people back to work is job placement. Nationally, it costs per placement $249 a year. You cannot find any other bang for the buck like that.

Third, if you include Employment Service funding in any job training block grant legislation and you sever its linkage with UI, there is no way for us to do the very, very critical work test and it could result in much higher outlays for unemployment insurance benefits.

I really think that we have to remember that that contract with employers is first to help UI beneficiaries return to work quickly and reduce employer taxes, and then to ensure that claimants are actively seeking work. I think the Employment Service is absolutely critical to ensure the integrity of the unemployment insurance system.

If Congress should decide to repeal Wagner-Peyser, we urge you to consider an amendment to FUTA contained in my written statement which would continue to link unemployment insurance and Employment Services. I hope you will look carefully at that amendment.

Fourth, the Employment Service and the employment security system provide universal access to every single person to labor exchange services, to any person who is requesting and in need of service and to employers who are looking for qualified employees. I do not think that should change. I think everyone should have a real opportunity to go to work.

We also have included in my testimony some comments about the Extended Benefits Program, whether or not UI should be means tested, and some of the other issues addressed by the budget resolution.

This testimony does not indicate that I or ICESA is in any way opposed to consolidation of all of the employment and training programs. We are working as hard as we can to ensure that committees of the House and the Senate help us develop a really well coordinated system.

I certainly hope that in this process we do not take an integrated system like unemployment insurance and employment services, tear those programs asunder, and create huge problems for employers who are paying those taxes. I am not convinced, and I hope that you are not, either, as the jurisdictional committee over the FUTA taxes, to sever this linkage and break the contract with the

employer community. I think extremely important policy decisions are being made, and we have not really focused on how very important they are and what the impact of those decisions might be.

I thank you very much for asking us to be here. If you have any questions, we certainly would be happy to answer them. ICESA is certainly representative of administrators and Governors all across the country. Thank you very much.

[The prepared statement follows:]

STATEMENT OF DEBRA BOWLAND
ADMINISTRATOR, OHIO BUREAU OF EMPLOYMENT SERVICES AND
TREASURER, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES

Mr. Chairman, members of the Subcommittee, my name is Debra Bowland. I am Administrator of the Ohio Bureau of Employment Services, and am here today representing the Interstate Conference of Employment Security Agencies (ICESA). ICESA is the national organization of state officials who administer the nation's public Employment Service, unemployment insurance laws, labor market information programs and, in most states, job training programs.

I would like to thank Chairman Shaw for the invitation to present ICESA's views about the Employment Service in the context of discussions about consolidating and reforming employment and training programs. The membership of ICESA applauds the Subcommittee's initiative to seek input on this important issue.

In addition to representing ICESA, my remarks today are based on my experience--and my experience comes from having spent almost twenty years in the employment and training arena.

Most recently, I have had the tremendous opportunity to serve as a member of the cabinet in Governor George V. Voinovich's administration as the Administrator of Ohio's Bureau of Employment Services. In that capacity I am responsible for administration of unemployment insurance, employment service, programs of the Job Training Partnership Act, and labor market information. The Ohio Bureau of Employment Services also is the agency which coordinates and staffs the Governor's Human Resources Investment Council.

ICESA recognizes that the myriad of employment and training programs operated through a variety of federal, state and local agencies has created a fragmented system of workforce preparation and second-chance education/training assistance which can be bewildering to those who seek training and, at times, to those who operate the programs.

Reform is necessary. However, as Congress pursues streamlining, consolidating, and even eliminating some programs, we believe it is important to keep in mind the distinctions among programs that are being considered for consolidation in an employment and training block grant.

First, employment and training consolidation and reform efforts must recognize the difference between the programs that are funded from the employer-paid, dedicated revenue Unemployment Trust Fund and those programs funded from general revenues.

Merging unemployment insurance (UI) and employment service (ES) monies, which come from dedicated-revenue trust funds, with general revenue funds for education and training programs, should involve renegotiation with employers of the purpose of the Federal Unemployment Tax (FUT) and the appropriate allocation of costs for these programs between the private/business sector and government general funds. No public policy decision to use FUTA revenues for training programs should be made without full understanding of the implications of this decision and debate which includes the views of the employer community.

The Unemployment Trust Fund (UTF) is financed entirely by state and federal payroll taxes. By law, state Unemployment Trust Fund monies can be used only for payment of unemployment benefits and federal Unemployment Trust Fund monies can be used only for unemployment benefits and administration of employment services and unemployment insurance laws. Including these program monies as part of a block grant with other general revenue program monies violates the "contract" with the employer community that these funds will be used only for unemployment or reemployment services.

Implicit in this "contract" with the employer community is the understanding that unemployment benefits will be paid only to those who are unemployed through no fault of their own, as long as those workers are seeking to return to work. This understanding is expressed in most state unemployment insurance laws by the requirement that UI recipients register with the Employment Service for job placement assistance. Employers understand that their state unemployment taxes will be kept as low as possible when recipients return to work quickly with assistance from public labor exchange services.

If the public labor exchange established by the Wagner Peyser Act is eliminated and replaced by a block grant for employment and training services funded from general revenues, Congress will be taxing business twice for the same services: one time in the dedicated FUTA taxes, and a second time in taxes that produce general revenues.

Second, employment and training consolidation and reform efforts must recognize the difference between job training programs and job placement services provided by Wagner-Peyser allocations from the Unemployment Trust Fund.

The General Accounting Office (GAO) report now lists 163 federal employment training programs administered by at least 14 federal departments. Others say that there are actually fewer than that number, perhaps 80 or 60. Regardless of the exact number, it is important to understand that the Employment Service, which is included in most of these lists, is not a training program.

The Employment Service provides basic job search and job placement assistance. The Employment Service's core functions for jobseekers are: referral and placement for the job-ready and workers in transition, labor market information, referrals to training for the non-job ready, skill assessment and counseling, and job search resources. For employers, the Employment Service provides: 1) critical labor market information for business and economic planning, and 2) applicants for employer job vacancies.

Ohio's experience shows the volume and value of this job matching. As you know, by federal mandate we must serve every Ohioan who comes into our offices. Many come. In a recent week, we served job-seeking customers by matching nearly 14,000 workers with employers. For our employer customers that week, we matched 200 job orders each day of the week. We referred nearly 6,000 workers directly to employers seeking to hire them. Last year, we filled over 99,000 employer jobs, and, when you count people who took several jobs during the year, we helped Ohioans find 117,000 jobs.

Economic studies have shown that job placement services are by far the most cost effective use of scarce resources to get the unemployed back to work. The U.S. Department of Labor reports that the average cost per placement by the Employment Service last year was $249. Studies have also shown that ES services can shorten the duration of unemployment benefits, reducing trust fund outlays, and eventually resulting in lower unemployment taxes.

In addition to the important job matching function, in recent years state employment services have been developing self-help resources for jobseekers to use in conducting their own job search. Resources include access to computerized job listings, information about which industries and occupations are growing and which are declining in the local, state, and national labor markets, information about the skills required for various occupations, and about the pay levels for different jobs and occupations.

Another resource is access to America's Job Bank, an interstate effort to match jobseekers and employers. America's Job Bank makes it possible for employers who need workers with skills that are in short supply in their local areas to find candidates in areas where there is a surplus of such skills. Just recently, access to America's Job Bank has been made available on the Internet.

In addition to these resources, where funds are available, many state employment service offices provide job search workshops, job clubs, and other activities that support independent job search efforts. States also make space available free of charge to community groups to conduct similar activities.

Third, including the Employment Service in any proposed job training block grant legislation would sever its linkage with the unemployment insurance system--which is critical to application of the unemployment insurance "work-test"--and could result in higher outlays for unemployment benefits.

A great deal of discussion about re-inventing the nation's "unemployment" system has focused on worker training/retraining programs. While state employment security agencies see considerable merit in linking unemployment, employment, and training programs to create a comprehensive workforce development system, the many workers who go through periods of temporary unemployment and return to their previous job or a similar one without retraining should not be forgotten.

In FY 1994 alone, the Employment Security System provided an estimated 8.4 million unemployed workers with unemployment checks totalling over $27 billion. The average unemployed worker received benefits for just over 15 weeks. More than 11.6 million jobseekers received job service assistance from the Employment Service last year.

Most states require unemployment benefit recipients to register for work with the Employment Service. Registering with the Employment Service has two purposes:

The first is to help UI beneficiaries return to work as quickly as possible. The information available about jobs, hours and wages, and employer requirements for worker skills, as well as the job referral and placement services offered by the Employment Service, help UI beneficiaries to reenter the workforce as quickly as possible. Various studies have shown that the services provided by the Employment Service can help UI beneficiaries get back to work faster, reducing outlays for unemployment benefits and keeping state unemployment charges to employers as low as possible.

The second purpose of requiring UI beneficiaries to register with the Employment Service is to demonstrate one aspect of the individual's efforts to meet the requirements of the state unemployment insurance law to be available for and seeking new employment each week for which benefits are claimed. UI beneficiaries who refuse a referral from the Employment Service to a job opening or a job offer resulting from a referral may be disqualified from unemployment benefits. This critical linkage in administration between the Employment Service and the unemployment insurance system tests the commitment of UI beneficiaries to find new work and is often referred to as the "work test." While the overwhelming majority of UI beneficiaries want to find new jobs as quickly as possible, the "work test" provides a means to address those who might abuse the system.

Its linkage with the Employment Service is critical to the financial health and integrity of the unemployment insurance system. The original legislation--still in effect--which created the unemployment insurance system in 1935 includes a requirement that unemployment benefits be paid through public employment offices. Those offices had been created two years earlier by the Wagner-Peyser Act (June 6, 1933).

If the decision is made to repeal the Wagner-Peyser Act as part of legislation consolidating job training programs into a block grant, these critical labor exchange and reemployment services--which are financed from dedicated federal unemployment taxes--could be maintained by making public employment offices an integral part of state unemployment compensation systems, thus ensuring continued reemployment services for unemployment benefit recipients.

The following draft amendment would authorize continuation of public employment offices under the unemployment compensation law of each state.

Proposed Amendment to the IRS Code of 1986, Chapter 23, The Federal Unemployment Tax Act:

Section 3304. Approval of State Laws

(a) Requirements.--The Secretary of Labor shall approve any State law submitted to him, within 30 days of such submission, which he finds provides that--

(1) all compensation is to be paid through public employment offices *established under the state law which provide job search and placement services to job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers.*

The identical language should be used to amend the Social Security Act, Title III--Grants to States for Unemployment Compensation Administration, Section 303--Provisions of State Law--subsection (a) (2).

Each state's unemployment compensation law must be certified by the Secretary of Labor to the Secretary of the Treasury as meeting the requirements of Section 3304 of the IRS Code to permit employers doing business in the state to receive a credit of up to 90% of the total Federal Unemployment Tax (6.0 percent), reducing the net permanent tax to 0.6 percent of taxable wages (plus the temporary 0.2% still in effect).

By making state employment services a part of each state's unemployment compensation law, federal appropriations could be made from the Unemployment Trust Fund for state employment services under Title III of the Social Security Act (Grants to States for Unemployment Compensation Administration).

Fourth, the Employment Security System provides universal access to labor exchange services--providing access to any individual or employer requesting and in need of its services.

The Employment Service is designed to serve all jobseekers and employers. At its most basic, it is a labor exchange: workers seeking jobs and employers seeking workers are introduced to each other. We are told that every industrialized country in the world has a public labor exchange to promote the efficient functioning of its labor markets.

Employment Service funds support development of state and local labor market information which is used by jobseekers but is also relied upon by public policy makers for a variety of purposes including economic development and by businesses for essential decision making activities. This information, like the labor exchange function, is important to labor market efficiency throughout the nation.

We believe that the universal public labor exchange and the unemployment insurance system provide a basic infrastructure to promote the efficient functioning of labor markets throughout the country. Devoting resources now committed to

those activities to other initiatives that serve special groups could damage the overall economic environment in which special groups are seeking to participate.

Urging you to keep funding for the Employment Service linked with funding for administration of unemployment benefits in no way indicates that I or ICESA stand opposed to better coordinating the delivery of all of the components of the broader workforce development system. ICESA has worked, and continues to work, with the several congressional committees of jurisdiction and the Administration to develop such a coordinated system.

Budget Deficit Reduction Proposals Related to Unemployment Insurance

Although this hearing does not address unemployment benefits directly, I would like to speak briefly to several proposals that have been made during development of the FY 1996 budget resolution. We have heard that the House Budget Committee proposes to repeal the Federal-State Extended Unemployment Compensation Act. We have also read that another balanced budget plan from Congressman Solomon proposes to means test state unemployment benefits and impose a two-week waiting period for benefits.

Elimination of Extended Benefits: The federal-state extended benefits program was enacted in 1970. The rationale for the program was to have legislation in place that would automatically trigger on when unemployment was high in a particular state--targeting the benefits--or throughout the country during a nationwide recession, rather than Congress having to enact a program for additional weeks of benefits on an ad hoc basis during each recession. The legislation required states to pay half the cost of the benefits from their Unemployment Trust Funds deposited in the U.S. Treasury. During the 1975-77 period, even though the extended benefits program triggered on, Congress enacted the Federal Unemployment Benefits program for those who exhausted federal-state extended benefits. Changes were made in the 1980s which eliminated the national trigger and required higher levels of unemployment for states to trigger on. During subsequent recessions, the Congress has enacted temporary programs for additional weeks of benefits whether or not extended benefits have been available: most recently, the Federal Supplemental Compensation (FSC) program in 1982-85 and the Emergency Unemployment Compensation (EUC) program in 1991-94.

Repealing the extended benefits program may appear to make sense since Congress has deemed it necessary to add a special program in each of the recessions since the program was enacted, but it would raise several questions. If the program is repealed, would the portion of the federal unemployment tax allocated to fund those benefits also be repealed? Twenty percent of federal unemployment tax collections go to the Extended Unemployment Compensation Account in the Unemployment Trust Fund--about $5.4 billion over the next five years. The federal share of extended benefit payments for the next five years is estimated by the Department of Labor at about $600 million. If the extended benefits portion of the federal unemployment tax is repealed concurrently with the program, there would be a net increase in the federal deficit rather than a reduction. In addition, elimination of the state share of extended benefits would have no long term impact on the federal budget even though state trust funds are included in federal budget deficit calculations. Reductions in state trust fund outlays result in tax/contribution rate adjustments to lower state unemployment tax/contribution collections. Should the extended benefits program and the taxes that fund it both be repealed, what source of funding would be available to the Congress should some program of additional benefits be developed in response to a future recession?

Although it appears to us that repealing the extended benefits program for budget deficit reduction purposes does not make sense, we believe that there are

numerous problems with the current program and would be open to discussions about replacing the program with a better approach.

Means Testing of Unemployment Benefits: I would also like to touch on our concerns about means testing of unemployment benefits. As I mentioned in the discussion about extended benefits, imposing restrictions on state unemployment benefits has no long-term impact on the federal budget because reductions in outlays eventually result in automatic adjustments to lower state unemployment revenues. In addition, there are significant policy considerations that argue against means testing unemployment benefits:

- The unemployment insurance system is structured to provide higher wage replacement to lower income workers. Each state caps benefits at a set "maximum weekly benefit amount" regardless of the individual's wages. This means that the higher an individual's base period wages (over a minimum amount), the lower his/her wage replacement rate.

- Living expenses, such as rent/mortgage payments, tend to vary with income levels. Two income families usually have expenses that require two incomes and need partial wage replacement when one wage earner is unemployed. Loss of a job tends to have a major impact on the living standard of most people regardless of their former earnings or other family income.

- Eliminating middle and higher income workers from unemployment beneficiaries will reduce the economic stimulus/stabilization effect of UI during recessions. The decline in insured unemployment as a percent of total unemployment over the past 15 years has already lessened this impact.

- Employers may well object to paying taxes/contributions on behalf of those workers whose economic circumstance will exclude them from eligibility for benefits should they become unemployed.

- Benefits are available for a limited period of time--26 weeks in most states. The average beneficiary receives benefits for about 15 weeks.

- There is no crisis in funding for unemployment benefits. There is a net balance of over $30 billion in state accounts in the federal Unemployment Trust Fund. Revenues are projected to exceed outlays as far into the future as projections go.

- In relation to the potential cost savings, the administrative cost of applying a means test, depending on how it is designed (whether assets are included), would be very high.

Two-Week Waiting Period: As I have said earlier, restricting state unemployment benefits has no long term impact on the federal deficit because reduced benefit pay-outs result in reduced pay-in from employers. Most states have a one-week waiting period; no state has a two-week waiting period. State legislatures, balancing many aspects of benefits such as the weekly benefit amount structure, number of weeks of benefits available, qualifying criteria, and eligibility requirements, have made a number of interlocking choices about benefit levels and the conditions under which they are available, keeping in mind the level of taxes required to support those benefits. We believe Congress should leave decisions about the terms and conditions of benefit payments to the states where the responsibility for financing the benefits is placed.

Mr. Chairman, thank you for your invitation to present our views. I would be happy to respond to any questions you may have.

Chairman SHAW [presiding]. Thank you, Ms. Bowland.
Mr. Corson.

STATEMENT OF WALTER CORSON, VICE PRESIDENT, MATHEMATICA POLICY RESEARCH, PRINCETON, N.J.

Mr. CORSON. Thank you. I am pleased to have the opportunity to appear here today. I have been asked by the subcommittee to describe the Trade Adjustment Assistance Program and discuss findings from a recent evaluation of the program and to comment on the policy implications of these findings.

The Trade Adjustment Assistance Program is intended to promote trade liberalization by compensating workers for trade-related income losses. It offers extended unemployment compensation, called trade readjustment allowances, and also provides eligible workers with reemployment services.

In 1962, when the program was initially established, and in 1974, when the eligibility criteria were liberalized and benefits expanded, the compensation goal was emphasized and relatively few participants received any adjustment services.

In 1981, major changes were made in the program that restricted benefits to the long-term unemployed. More funds were also made available for training, shifting the emphasis of the program toward providing adjustment services.

A further shift toward adjustment occurred in 1988, when training was made an entitlement for eligible workers and when TRA recipients were required to participate in an approved training program unless they received a waiver.

The program serves a small number of workers. In the eighties, an average of 30,000 individuals began receiving financial assistance each year. Currently, about 18,000 to 19,000 individuals enter training each year.

A recent evaluation of the program found that the program is well targeted. It serves workers who are permanently displaced from their jobs and who have great difficulty in becoming reemployed. In most cases, TRA recipients are permanently separated from their prelayoff employers, and in the majority of cases, the layoffs are due to plant closings.

TRA recipients also experience substantial earnings losses due to their layoffs. These earnings losses averaged about $46,000 over the 3 years of followup included in the study. The jobs that recipients find generally pay lower wages than the wages they received on their prelayoff jobs.

The most recent changes in the program added the requirement that recipients participate in an approved training program. Whether training should be required of TRA recipients should depend on how successful it is at increasing employment and earnings. Our findings, which are consistent with the findings of other studies of training for displaced workers, suggest that the training did not have a substantial positive effect on earnings, at least in the 3 years after the initial layoff.

Given this uncertainty about the payoff of training, I believe that the training participation requirement should be dropped and that the participation in training should be voluntary.

At the same time, the training requirement could be replaced with a requirement to participate in a job search program. Recent research suggests that requirements to participate in job search programs can increase employment and reduce the receipt of unemployment benefits among recipients.

An alternative approach would be to offer TRA payments only to those individuals who actively participate in training. This approach would ensure that resources go to individuals who are actively attempting to adjust to a new industry or occupation. However, it would deny payments to displaced workers who cannot or choose not to participate in the training. Our findings indicated these workers also experience severe earnings losses after their layoff.

These recommendations about the training requirements are based on the assumption that the program continues in some form. Whether this is the case should depend on whether Congress thinks that it is appropriate to provide more income support and more reemployment services to trade-impacted workers than to other displaced workers. Clearly, these workers suffer large income losses as a result of their job loss, but so do other workers who lose their jobs for other reasons. Thank you.

[The prepared statement follows:]

STATEMENT ON TRADE ADJUSTMENT ASSISTANCE
FOR THE SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
MAY 16, 1995

Walter Corson
Vice President
Mathematica Policy Research

Mr. Chairman and members of the subcommittee, I am pleased to have the opportunity to appear here today. I have been asked by the subcommittee to describe the Trade Adjustment Assistance (TAA) Program, to discuss findings from a recent evaluation of the program, and to comment on the policy implications of these findings.

The Trade Adjustment Assistance Program

The Trade Adjustment Assistance (TAA) program is intended to promote trade liberalization by compensating workers for trade-related income losses by offering extended unemployment compensation--Trade Readjustment Allowances (TRAs)--to workers who lose their jobs in the face of increased import competition. It also provides eligible workers with reemployment services to help them adjust to changes in labor market circumstances.

In 1962, when the program was initially established and, in 1974, when eligibility criteria were liberalized and benefits expanded, the compensation goal was emphasized and relatively few participants received any adjustment services. In 1981 major changes were made in the program that restricted benefits and targeted them on the long-term unemployed. More funds were also made available for training, shifting the emphasis of the program toward providing adjustment services, particularly training. A further shift toward adjustment occurred in 1988 when training was made an entitlement for eligible workers and when TRA recipients were required to participate in an approved training program, unless they received a waiver exempting them under certain circumstances.

Workers become eligible for TAA by filing a petition with the U.S. Department of Labor (USDOL) as a group of workers from a plant or firm. If USDOL determines that international trade contributed to these workers' unemployment, they are certified to apply, as individuals, for TRA benefits and reemployment services. Individual workers are then eligible for reemployment services if they were laid-off from the certified firm within the time period specified by the certification. They are eligible, in addition, for TRA benefits if (1) they worked for 26 weeks in the year before the layoff, (2) they exhausted all UI benefits, and (3) they fulfilled the training requirement (for workers applying for TRA benefits after November 1988).

Typically, a worker who has been laid off begins collecting UI benefits. Then, if the worker's group is certified for TAA, the worker will be notified that he or she might be eligible to receive benefits under the TAA program. Ideally, the worker is notified while still collecting UI benefits, although the timing depends on when the petition was filed after the layoff. After notification, the worker applies for TRA benefits. If the worker has satisfied the training requirement, he or she begins receiving TRA benefits after exhausting UI. These benefits equal the UI weekly benefit amount and extend the duration to 52 weeks from the initial 26 weeks that is typically provided by UI. An additional 26 weeks is available for individuals in training.

The program serves a small number of displaced workers. Between FY1982 and FY1991, an average of 30,000 individuals began receiving financial assistance from TAA each year. This number dropped to about 10,000 in FY1992 and FY1993 because extended UI benefits took the place of TRA benefits. In the 1980's prior to the 1988 amendments about 11,000 individuals entered training each year. Since that time, about 18,000-19,000 individuals have entered training each year. In FY1993 program outlays were about $130 million.

Evaluation Findings

A recent evaluation that I helped conduct describes the pre-layoff characteristics and post-layoff labor-market experience of TRA recipients,[1] based on data on nationally representative samples of TRA recipients who participated in the program either just before or just after the 1988 program changes. It also describes the training provided under the program, based on data on separate nationally representative samples of TAA trainees. Data on UI exhaustees from manufacturing industries who did not receive TRA are used for comparison purposes.

The Characteristics of TRA Recipients

- The workers served by the TAA program (that is, TRA recipients) clearly exhibit the characteristics associated with displaced workers. In most cases, they were permanently separated from their pre-layoff employers, and in the majority of cases (70 percent) the layoffs were due to plant closings. This finding contrasts with the situation in the 1970s, when the majority of workers served by the TAA program were job attached.

- More than 85 percent of TRA recipients come from the manufacturing sector, with major concentrations in the textile and apparel, rubber and leather, primary and fabricated metals, machinery, and transportation equipment industries. In contrast, most workers in the general population of displaced workers identified by the Bureau of Labor Statistics had not previously been employed in manufacturing.

- The average pre-layoff wages of TRA recipients were higher than those of the general population of displaced workers and the population of displaced workers served under Title III of JTPA. The average pre-layoff wages of TRA recipients were also higher than those of UI exhaustees from the same manufacturing industries. This difference may be due to the fact that the job tenures of TRA recipients were considerably longer and their rates of unionization higher than those of UI exhaustees and, indeed, the general population of displaced workers. TRA recipients also received more fringe benefits than did UI exhaustees.

Participation in Reemployment Services

- Both prior to and after the 1988 amendments, a substantial proportion of TRA recipients received reemployment services from the TAA program: prior to the 1988 amendments, 37 percent participated in TAA training; this proportion rose significantly (to 47 percent) after the 1988 amendments. In addition, most TRA recipients received other reemployment services from the ES, and their rates of receipt were higher than those of UI exhaustees for most services. However, very few TRA recipients received job-search payments for out-of-area job searches or moving expenses to take an out-of-area job, primarily because most recipients were not interested in moving.

- TRA recipients who received TAA training differed from nontrainees. On average, TAA trainees were younger and better educated than nontrainees. Among pre-88 recipients, the pre-layoff wages of trainees were higher than those of nontrainees, but, controlling for other factors, the reverse was true among post-88 recipients.

- The training provided to TAA participants generally sought to develop specific job-related skills in new occupations. Much of the training was long-term (longer than a year), and much of it was provided at vocational training centers or at local community colleges. About half of the pre-88 trainees entered training prior to receiving TRA benefits; this percentage rose to about 60 percent among trainees after the 1988 amendments. Seventy-two (72) percent of pre-88 trainees and 67 percent of post-88 trainees completed training. The majority of trainees felt that their training both helped them find a job and gave them useful experience for the job when they became reemployed.

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[1]Corson, Walter et al. "International Trade and Worker Dislocation: Evaluation of the Trade Adjustment Assistance Program." Princeton, NJ: Mathematica Policy Research, April 1993.

The Post-Layoff Employment, Earnings, and Job Characteristics of TRA Recipients

- Our findings are consistent with the presumption that the TAA program serves unemployed workers who are likely to have difficulty in finding reemployment. The post-layoff jobless spells of TRA recipients were relatively long, and TRA recipients clearly experienced longer jobless spells on average than did other UI exhaustees from the same industries. Jobless spells were about 23 percent longer among TRA recipients than among UI exhaustees prior to the 1988 legislative changes, and about 14 percent longer after the legislative changes. This difference in the length of initial jobless spells between pre-88 and post-88 TRA recipients was mirrored in the TRA benefit rates; the average pre-88 TRA recipient received 18.4 weeks of basic TRA payments, and the average post-88 TRA recipient received 15.3 weeks.

- Our findings based on quarterly employment and earnings measures are consistent with the findings on jobless spells. TRA recipients were employed less and earned less than UI exhaustees throughout most of the three years after their initial UI claim, and the difference was larger before than after the 1988 legislative changes. Both before and after the 1988 legislative changes, TRA recipients experienced significant earnings losses due to their layoff.

- Even the TRA recipients who held a job three years after their initial UI claim experienced significant wage and benefit losses. More than three quarters of the reemployed TRA recipients earned less in their new job three years after their initial UI claim than they did in their pre-layoff job. Wage losses were significantly higher among TRA recipients than among UI exhaustees, although much of the difference can be explained by the fact that the pre-layoff wages of TRA recipients were higher than those of UI exhaustees. The average levels of post-layoff wages among the reemployed TRA recipients and UI exhaustees were similar. The majority of TRA recipients became reemployed in a different industry or different occupation, and the industry- and occupation-switchers experienced greater wage losses than those who did not switch.

Post-Layoff Employment, Earnings, and Job Characteristics Among TAA Trainees

- As expected, employment rates and average earnings levels of TAA trainees were lower than those of other TRA recipients throughout most of the first 12 quarters after their initial UI claim. The differences partly reflect the investment decision made by trainees--to forego employment and earnings in the short run in order to train for a new job that they hope will enhance their earnings potential in the future. In addition, many trainees chose to enter training only after they were jobless for a substantial period of time. Both factors caused the lower employment and earnings levels among trainees throughout the post-layoff period.

- If training had a positive effect on employment and earnings, we would expect that the employment and earnings of trainees would eventually be higher than those of nontrainees, other things being equal. When we examined employment and earnings at the end of 12 quarters, we found that trainees tended to be employed more and to earn more than other TRA recipients in quarter 12. But these differences are attributable largely to differences in the observable characteristics of the two groups. After we controlled for these characteristics, the outcomes of trainees and other TRA recipients were similar. Alternative estimates derived for trainees who had exited training within two years after their initial UI claim provide some indication that, at least for the post-88 sample, TAA training had a positive effect on those trainees. However, without a longer observation period, we were unable to isolate the impact of training on the remaining trainees. Nevertheless, our findings imply that, if training has a substantial positive effect on employment or earnings among all trainees, it is realized not earlier than three years after the initial UI claim.

- Among the TRA recipients who found a job, those who had participated in TAA training received slightly lower wages on average than those who had not participated in training, but the differences are generally not significant. TAA trainees also lost more fringe benefits than did these other TRA recipients. However, this result is not surprising: TAA trainees were more likely to have switched industry or occupation on their new job, and industry- and occupation-switchers suffered greater wage and benefit losses than did stayers. Training thus appears to be part of a transition process, in which workers move from their old industry or occupation to a new industry or occupation. Among those respondents who switched industry

or occupation on their new job, our estimates show that the average wages of trainees were slightly higher than those of nontrainees, other things being equal. Although these estimates are not statistically significant, they provide some indication that TAA training may have had a positive effect on the wage rates of TRA recipients who switched to a new industry or occupation.

The Costs of Worker Dislocation and TAA Expenditures

- The costs of displacement among TRA recipients, as measured by earnings losses, equal approximately $46,000 during the first three years after the initial UI claim. Quarterly earnings losses tended to fall towards zero over time, but the losses were still large even three years after the initial claim. In quarter 12, the earnings losses averaged nearly $3,000 dollars.

- Because TRA recipients must exhaust UI benefits before they can collect TRA benefits, these earnings losses are higher than those found for more general populations of displaced workers, some of whom will become reemployed prior to exhaustion. But TRA recipients had even higher average losses than UI exhaustees--about $10,000 higher than during the three years after the initial claim. The differences were highest near the end of the first year after the initial UI claim, after which they declined gradually.

- TRA recipients receive assistance from the federal government in the form of UI benefits, TRA payments, TAA job-search allowances, TAA relocation allowances, and TAA training. The total value of these benefits was about $10,603 per TRA recipient in our post-88 sample, which falls far short of the average earnings losses, or total costs of displacement, among TRA recipients. However, the TAA program provided more than half the assistance received by TRA recipients, demonstrating the importance of TAA benefits for those who qualify.

Policy Implications

These findings demonstrate that the TAA program is currently well-targeted--the TAA program serves workers who are permanently displaced from their jobs and who have greater difficulty in becoming reemployed than do similar UI exhaustees. Both before and after the 1988 legislative changes, TRA recipients experienced significant earnings losses due to their layoff. Even the TRA recipients who found a job after their initial UI claim experienced significant wage losses relative to their pre-layoff wages.

The most recent changes in the TAA program made training an entitlement and also required that TRA recipients participate in an approved training program unless they received a waiver exempting them under certain circumstances. A training requirement might affect TRA recipients in at least two ways. First, it might increase the training participation rate among TRA recipients. The findings show that, while there was substantial participation in training prior to the requirement, the requirement increased training participation even further, to approximately half of all TRA recipients. A training requirement can also affect TRA recipients by targeting TRA payments at those who need training and by discouraging long spells of TRA receipt among those recipients who have no need or desire to participate in training. The findings are consistent with this interpretation. They suggest that the training requirement reduced weeks of TRA receipt among the average recipient, despite the fact that the average duration of training increased. In addition, the training requirement led to a decline in the duration of the initial jobless spell and to an increase in earnings due to more rapid reemployment.

Whether training is required of TRA recipients should depend primarily on how successful it is at increasing employment and earnings. Our findings, which are consistent with the findings of other studies of training for displaced workers, suggest that TAA training did not have substantial positive effect on earnings of TAA trainees, at least in the first three years after the initial UI claim. Given this uncertainty about the returns to training, I believe that training participation should be voluntary rather than mandatory for TRA recipients. Even if training were made voluntary, a relatively large proportion of TRA recipients would still probably participate in training; more than a third of the members of the pre-88 sample of TRA recipients, for whom training was voluntary, participated in training. At the same time, the training requirement could be replaced with a requirement to participate in a job search program. This strategy was attempted in the TAA program between 1986 and 1988, but the job-search services were never fully implemented due to a lack of adequate funding. Recent research suggests that requirements to participate in a job-search program can increase employment and reduce the receipt of unemployment benefits among recipients.

An alternative approach would be to offer TRA payments only to those individuals who actively participate in training. Targeting TRA payments only at trainees would ensure that resources go to individuals who are actively attempting to adjust to a new industry or occupation. But that approach would deny TRA payments to displaced workers who cannot or choose not to participate in training. The findings presented above indicated that these nontrainees will experience severe earnings losses after their layoff. Denying them the additional unemployment benefits might be socially undesirable.

The above recommendations are based on assumption that the TAA program continues in some form. Whether this is the case should depend on whether Congress thinks that it is appropriate to provide more income support and reemployment services to trade-impacted workers than to other displaced workers. Clearly these workers suffer large income losses as a result of their job loss, but so do some other workers who lose their jobs for other reasons.

Chairman SHAW. Thank you, Mr. Corson.
Mr. Cunningham.

STATEMENT OF BILL CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. CUNNINGHAM. Thank you, Mr. Chairman, members of the subcommittee.

Let me comment briefly on the need for sound financing of the Nation's unemployment compensation system. As this subcommittee knows, the unemployment compensation system not only provides the minimum benefits for workers who are out of work, but it also is a key economic stabilizer.

However, it is a flawed system. Three out of five jobless workers do not get any unemployment compensation. Those lucky enough to get UI benefits only get one-third of their prior salary. One out of three UI recipients exhaust their benefits before finding work.

Let me just turn to the issues at hand. As this committee is aware, the Kasich budget repeals the Extended Benefits Program. We respectfully suggest that you keep this program in place. For members who have been here during recent recessions, the Extended Benefits Program was one of the key economic stabilizers that each of you on a bipartisan basis worked to retain and get for your States. However, we know it has a flawed trigger. It comes in too late, and that should be changed.

Let me just point out to you that the Kasich budget does zero out the Extended Benefits Program, but perversely, it does not reduce the UI tax that funds this program, so I think that that is a factor that will have to be considered. It is our position, however, that the Extended Benefits Program should remain in place.

We also support retaining Wagner-Peyser. I know that Chairman McKeon was here earlier. He assured this committee that he would not be using any of the money in the Employment Service for retraining. You also know, however, that the Kasich budget zeroes out the Employment Service, so that money will not be available. As with the Extended Benefits Program in the prior bill, there is no reduction in the UI tax in the Kasich budget for repealing the Employment Service.

We believe the Employment Service should stay in place and it should continue to be funded. The Employment Service is not a job retraining program. It is to help with the unemployment compensation system and is funded by unemployment compensation taxes.

During the last recession, I know that some of you had individual experience where people who were in the Employment Service were drafted to just walk across the aisle to process unemployment claims. In times of high recession, they will not have that work force in place, and I think that is something to keep in mind. We are now entering a period of more uncertainty than we have had in the past, and if the Employment Service is gutted and these funds are taken away, I think the unemployment compensation system itself will suffer. That is a real problem.

The Employment Service is the Nation's only universal labor exchange. It provides information to everybody, not just on a needs

basis but everybody in the work force. It costs about $810 million a year of the trust fund.

We also urge the continuation of TAA and NAFTA–TAA. Members who have been on the committee for a while remember that TAA, when it was upgraded in 1988, was done as part of the GATT agreement, to basically assure that people who lost their jobs because of trade agreements would have a benefit package that they were entitled to. Of course, the Kasich budget eliminates that.

When the NAFTA passed, we were on the other side of the NAFTA proposal, but one of the benefits of the NAFTA agreement was supposed to be and is a NAFTA–TAA entitlement program that already serves 28,000 workers who are getting this, who have lost their jobs because of movement of jobs to Mexico.

We believe that both of these programs should remain as they are. They represent a commitment not only of the Congress but specifically of this committee in trade legislation.

We support continuation of the FUTA tax, the 0.2 percent tax, because projections we have seen from the Department of Labor suggest that the fund will go broke about the same time Medicare does if there is not this continued infusion of funds. They have some data there.

We support the continuation of the tax for alien farmworkers. We are participants, through Tom Donahue, our secretary-treasurer, on the advisory panel of unemployment compensation. They have looked at this issue, this bipartisan commission, and have suggested retaining this, not only for the fact of the $10 million that is not collected to pay the fees, but because they have found some data to suggest that there is a substitution of foreign workers for U.S. workers because of this incentive.

Mr. Chairman, the rest of my testimony goes on to differences in the job retraining program and what we would like to see, but I think, in brief comment, we would like to see the Extended Benefits Program continued because we think there will be recessions down the road that require this additional 13 weeks. We want Wagner-Peyser to continue, TAA and NAFTA–TAA, and the other two provisions.

Thank you very much.

Chairman SHAW. Thank you, Mr. Cunningham. Your entire statement, as you know, will become a part of the record.

[The prepared statement follows:]

**STATEMENT BY BILL CUNNINGHAM, LEGISLATIVE REPRESENTATIVE,
THE AMERICAN FEDERATION OF LABOR
AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
ON
UNEMPLOYMENT COMPENSATION ISSUES, THE EMPLOYMENT SERVICE AND
TRADE ADJUSTMENT ASSISTANCE AND NAFTA-TAA
TO THE SUBCOMMITTEE ON HUMAN RESOURCES,
WAYS AND MEANS COMMITTEE, U.S. HOUSE OF REPRESENTATIVES**

May 16, 1995

I appreciate this opportunity to set forth some AFL-CIO concerns about the nation's federal-state unemployment compensation system, about possible consolidation of federal job training programs, and about the future of the U.S. Employment Service.

In brief, in this statement we urge:

* Keep the Extended Benefit program of unemployment compensation for long-term jobless workers in states with high unemployment;

* Continue the Wagner-Peyser law as the base for a revitalized Employment Service and continued operation of the nation's unemployment insurance system;

* Continue Trade Adjustment Assistance and NAFTA-TAA as distinct programs;

* Keep wages of alien H2-A farm workers subject to FUTA taxes;

* Continue the 0.2 percent FUTA surtax;

* Keep labor participation a formal part of any restructuring of job training programs;

* Make accountability a formal part of any restructuring of job training programs.

Let me comment briefly on the need for sound financing of the nation's unemployment compensation system.

The unemployment insurance system is the nation's first line of defense for workers and their families when job loss hits them. This UI system is a key part of the nation's safety net to restore a minimum decent standard of living when workers lose their jobs and their income from work.

But there's an important economic purpose of the UI system -- in addition to the humanitarian safety net purpose of helping people without earnings and income. The nation's UI system is a key economic stabilizer. In time of recession this system quickly gets buying power into the hands of consumers who will spend it quickly -- thus cushioning the recession and helping business as well as helping families in need.

Unfortunately, the UI safety net is full of holes. Lack of adequate funding is the biggest single factor behind excessive restrictions on eligibility and inadequate UI payments.

Three out of every five jobless workers do not get any unemployment compensation. Those lucky enough to get UI payments get only one-third of their previous earnings. And one out of three UI recipients exhausts UI benefits before finding a job.

Thus, the UI system is failing in its basic humanitarian safety net income maintenance purpose -- and it is also failing in its countercyclical economic purpose of maintaining consumer buying power in time of recession.

As the Committee is aware, there is a Commission under Dr. Janet Norwood, that is developing proposals for significant changes in the UI system. The AFL-CIO believes all wage and salary workers should be covered by the UI system and should be eligible for UI benefits. Benefits should be at least 50 percent of a worker's previous earnings, up to a maximum of two-thirds of the state's average weekly wage. Harsh and excessive eligibility and disqualification provisions should be eliminated.

For periods of high unemployment, extended or supplemental benefits should be available up to 39 weeks beyond the regular 26 weeks of state benefits, so that the maximum duration of benefits is 65 weeks when the unemployment level is high.

The continued operation of the nation's UI system depends upon a fully functioning Employment Service providing critical labor market information, job development and job search assistance, assessment and counseling services for UI recipients. A revitalized Job Service can help shorten spells of unemployment, and thus relieve the cost burden to employers and minimize long-term job loss of many workers.

Keep Extended Benefits
For Long-Term Unemployed

We are very seriously concerned about the recent proposal of the House Budget Committee to kill the existing permanent program of Extended Benefits (EB) for long-term jobless workers in states with high unemployment. (A seven year savings of over $31 billion.) We urge you to resist efforts to kill the Extended Benefits program.

This 50-50 federal-state program was enacted in 1970 after various unsatisfactory experiments with temporary extensions of unemployment compensation in times of recession and persistent high unemployment.

It is very interesting to note that the budget assumptions used for the EB program -- even with the flawed triggers in present law -- show a dramatic increase in the utilization of this program by FY 2002.

To kill this program would be a serious blow to long-term unemployed workers and their families in the hardest hit states with the highest rates of unemployment. It would also be a serious blow to the countercyclical purpose of the nation's unemployment compensation system.

At present, only Alaska, Puerto Rico, and Rhode Island are triggered on to the EB program, but in times of recession many more states become eligible. Without the EB program in effect, high unemployment states will be forced to come back to Congress again and again to get the resources needed to help their long-term unemployed workers.

This Extended Benefits issue has important humanitarian aspects and important countercyclical economic aspects. We ask you to make sure that the Extended Benefits program continues as a basic protection for workers and for state economies.

Keep Wagner-Peyser and The Employment Service

A revitalized and accountable Employment Service should be the centerpiece of efforts to upgrade assistance to unemployed workers. Since it does not itself operate training programs, the Employment Service can make objective assessments about the quality of local education and training providers and the appropriateness of referrals.

Some proposals for consolidation of job training programs would include Employment Service operations in a job training block grant. But only the Employment Service can make objective assessments about the quality of local education and training providers and the appropriateness of referrals. The present cost is approximately $810 million annually.

First, employment and training consolidation and reform must recognize the difference between the programs that are funded from the employer-paid, dedicated Unemployment Trust Fund and those programs funded from general revenues.

Second, employment and training consolidation and reform must recognize the difference between Employment Service job placement services and job training programs.

Third, including the Employment Service in a job training block grant system would sever its link with the unemployment insurance (UI) system which is critical to application of the UI work test and could result in higher outlays for unemployment benefits.

Fourth, the Employment Service provides universal access to labor exchange services to any individual or employer who needs and asks for its services.

The Wagner-Peyser Act should not be repealed for the following reasons:

* **The Employment Service does not belong in a job training consolidation because it is not a job training program.**

Reform efforts must recognize the difference between job training and education programs. The Employment Service does not provide training. Instead, it provides job placement services and labor market information for employers and job seekers, skill assessment and counseling, and referrals to training programs. The Wagner-Peyser Act has very few requirements; it is a block grant on its own.

* **The Employment Service and job training programs are financed from different federal taxes and should not be combined.**

The Employment Service is financed from employer taxes deposited in the Federal Unemployment Trust Fund. The ES is part of the entire "employment security system", which includes the unemployment insurance program. The ES was established primarily to help employers find workers and job seekers find jobs. The job training programs are financed by general revenues raised by the income tax. They were created long after the employment security system was created.

* **The link between the ES and the unemployment insurance (UI) system should not be broken by including the ES in a block grant or converting ES dollars into vouchers.**

Doing so would destroy the application of the "work-test" requirement for the UI program and make it more difficult to move unemployed workers receiving unemployment benefits into jobs. ES and unemployment insurance programs share office space, and staff are cross-trained. Removing the ES funds would have a very

negative impact on the processing of unemployment benefits. Some local offices would have to close.

* **The ES is the nation's only universal labor exchange, serving any individual or employer in need of its services.**

Job training programs serve targeted populations while the ES does not have specific income or other eligibility requirements. A block grant or voucher program is likely to have to ration resources by established eligibility criteria. If the ES is folded into either approach, the United States will become the only industrialized nation without a national public labor exchange.

Continue Trade Adjustment Assistance and NAFTA-TAA

We urge you to continue TAA and NAFTA-TAA as separate worker assistance programs. The TAA benefit cost $2.2 billion annually and the NAFTA and TAA training money cost $101 million annually.

The AFL-CIO strongly opposes elimination of TAA and NAFTA-Transitional Adjustment Assistance (NAFTA-TAA), which is precisely what would happen to them if they are folded in to a block grant program.

The harm sustained by workers who lose their jobs because of increased imports or trade agreements such as NAFTA is substantial and has been well documented. Long spells of unemployment and loss of medical insurance, homes and a lifetime of savings are not uncommon. Middle class lifestyles are wiped out for many who are forced by low wages and insecure jobs into near poverty. Beyond the human tragedy, the national economy sustains a substantial loss of skills and productive capacity.

Advocates of freer trade and agreements such as NAFTA base their advocacy on the belief that benefits from these policies will accrue to society as a whole. While the universal validity of this belief can be questioned, the fact that with freer trade of agreements such as NAFTA there will be losers as well as winners.

The TAA program represents a long-standing commitment by the federal government to assist and compensate workers who are harmed by trade policy and increased imports. What these workers need most are trade and industrial policies that will stop the disappearance of their jobs, and will instead create and retain more good jobs in the United States.

As presently constituted, the TAA program falls very far short of meeting this need. Yet nearly two million trade-injured workers have received important assistance under this program over the last 20 years. At a time when the nation's trade deficit is massive and rising, and the implementation of trade agreements such as NAFTA and GATT are causing the loss of many thousands of jobs, it would be a grave injustice to working people to terminate the modest but necessary assistance that TAA and NAFTA-TAA provide.

The rationale for these programs is even stronger today than when President Kennedy first proposed TAA more than thirty years ago. According to his message to Congress accompanying the trade bill that gave birth to TAA in 1962:

"I am ... recommending as an essential part of the new trade program that companies, farmers and workers who suffer damage from increased foreign import competition be assisted in their efforts to adjust to that competition. When considerations of national policy make it desirable to avoid higher tariffs, those injured by that competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the Federal

Government."

When workers are injured as a result of deliberate national policy such as trade liberalization or a North American Free Trade Agreement (NAFTA), they not only need assistance but as a matter of basic fairness they should be entitled to compensation as well. Property owners who are dispossessed as a result of government action often are entitled to compensation; workers who lose their jobs as a result of government action usually sustain far more serious damage and should have no lesser claim.

In the current budget climate it is natural to scrutinize the cost of such compensation, but the central question is fairness, not cost.

For workers who qualify, TAA provides a range of benefits including job search assistance, relocation assistance and up to two years of training assistance. Most important, it provides a modest level of income support for up to one year after an eligible worker's six months of basic unemployment benefits have expired.

Entitlement to income support is so essential to allow trade-injured, TAA-eligible workers to afford the longer-term, higher quality training which can prepared them for new jobs.

If TAA and NAFTA-TAA are allowed to disappear into a block grant, with reduced funding which declines over time, there will be little or no money for income support, and workers who lose their jobs because of increased imports or trade agreements will no longer have any entitlement to receive assistance, despite the federal government's obvious and long-recognized obligation to compensate them for the loss of their jobs.

While TAA and NAFTA-TAA are far from perfect, most of their problems stem from inadequate commitment of resources and inadequate federal oversight. These problems will be severely exacerbated by the block grant approach. Money may be saved, but at the expense of jobless workers who lost their jobs because of federal policies and decisions, and who urgently need and clearly deserve to be helped.

The possibility that NAFTA-TAA may be eliminated so soon after the ink has dried on this nearly brand new trade agreement is especially troublesome. Many members of Congress would not have voted for NAFTA had they known that the federal government intended to renege so quickly on its commitment to compensate and assist workers who are injured as a result of this trade agreement. NAFTA-TAA is woefully inadequate, but its elimination will only make a bad situation even more dire for thousands of workers.

Problems related to poor administration at the state level -- since the states have enormous responsibility for NAFTA-TAA already -- are a preview of what is in store if the program is eliminated and folded in to a block grant. In many states, due to inadequate state outreach efforts, potentially eligible unemployed workers are not made aware of the existence of the program and hence are denied the opportunity even to apply for assistance. This serious problem, and many others, would become dramatically worse under a block grant approach.

In the fifteen months since NAFTA took effect, NAFTA-TAA petitions have been submitted by or on behalf of workers at 455 firms in 46 states. The 216 certifications which have been made cover more than 28,000 workers. The Congress, which adopted NAFTA over the strenuous opposition of most American working people, should not now renege on the modest but important commitment to help NAFTA's victims which NAFTA-TAA represents.

Support FUTA Tax on Alien Farm Workers

The Advisory Council on Unemployment Compensation, chaired by Janet Norwood, has already made two reports and will make its final report by February 1, 1996. We commend to your attention the 1994 and 1995 recommendations of this Advisory Council.

I call your attention particularly to the recommendation on page 14 of the 1994 report which supports the view that the wages of alien H2-A agricultural workers should be subject to FUTA taxes. In line with the recommendation of the Advisory Council, we urge that you do not continue the expired exemption of these wages. The exemption created an unfortunate incentive for substitution of foreign workers for U.S. workers. Furthermore, the cost of certifying these workers is charged to the FUTA tax.

Continue 0.2 Percent FUTA Surtax

In regard to proposed repeal of the so-called temporary 0.2 percent FUTA surtax now extended to the end of 1998, we believe this tax should not be repealed. This tax should be continued pending the final report of the Advisory Council on Unemployment Compensation and full consideration and action by the United States Congress on comprehensive reform of the UI financing system.

Many problems of the UI system relate to inadequate financing, and the Advisory Council is making a variety of recommendations to improve the financial soundness of the system. The AFL-CIO has long urged raising and indexing the UI taxable wage base to 65 percent of the nation's average annual wage -- as recommended in 1980 by the National Commission on Unemployment Compensation.

The present 0.2 percent temporary surtax is needed to help maintain financial soundness in the UI system until more systematic and more comprehensive proposals can be considered by this Committee and by the Congress. We urge you not to repeal this tax at this time. Projections by the U.S. Department of Labor show that without this tax extension, the UI system could go broke at the same time as the Medicare system. (FY 2002)

Proposals for Employment & Training Block Grants

As this Committee and the Congress consider consolidation of job training programs and proposals for employment and training block grants, we urge you to give careful attention to the appropriate roles for federal, state, and local governments, and for labor and business in the training-education arena. It will take the combined resources of the public and private sectors and business and labor to make our training system the best in the world.

Support Labor Participation

We urge this Committee to make labor participation a key part of any restructuring of job training programs.

Unions have provided increased leverage through collective bargaining that now results in hundreds of millions of dollars being spent on training and education for front-line workers as well as new apprentices.

In many cases these funds have been coordinated with public resources to bring young people and disadvantaged adults into the workplace through skill training. We can show you outstanding examples where the collaboration between unions and companies even in economically distressed areas has brought about good training and good jobs.

Labor participation in our nation's training system is more important now than ever. The expertise unions have gained from directly providing training, negotiating

training funds, and helping workers to make informed choices about careers and jobs must be brought to bear in restructuring and delivering future training services. Unions have a keen understanding of the learning needs of workers. Through our apprenticeship programs we have determined the best methods for combining classroom and on the job learning so that workers' skills are at world class levels.

Full and continuing labor participation, involvement, and input are absolutely essential in all training-related areas. In addition such participation is vital because it convinces workers that they have a stake in the process and the results.

We recommend that establishment of tripartite governance structures at the federal, state and local level where labor, business and community leaders can help guide the new training system.

These governing structures must have a role in determining specific eligibility requirements, selecting and certifying training providers and contributing to the development of up-to-date and accurate job growth information. Labor involvement in these structures can help to make sure that public funds do not substitute for those that should come from the private sector and can assure that abuses of the public trust do not occur.

Trade unions have important responsibilities for supporting, protecting, and promoting training and education programs for workers. But employers and local, state, and federal governments also must give more adequate support to job-related education and training. Private and public sector cooperation in these areas is desirable and necessary. Labor organizations should have an equal voice with employers in such cooperation.

Goals of Restructuring

We believe a restructured system should achieve the following goals: (1) it should be effective; (2) it should be accountable; and (3) it should be comprehensive.

An effective restructured system will be responsive to local, state, regional, and national labor markets, both the needs of employers on the demand side and the needs of workers on the supply side. These needs will vary depending on the labor market.

But one key element is availability of income support for people in training. For most unemployed workers with family responsibilities, mortgages, and other bills, participating in classroom training is impossible unless they get income support.

Accountability

A restructured training system must be accountable to the taxpayer. Public sector agencies have a unique and exclusive role to play to achieve this goal: they should play the role of the "honest broker," providing objective, good quality information, vocational assessment and referral, job counseling, job search assistance, and job development.

A revitalized and accountable Employment Service should be the centerpiece of efforts to upgrade assistance to unemployed workers. Since it does not itself operate training programs, the Employment Service can make objective assessments about the quality of local education and training providers and the appropriateness of referrals.

As noted earlier, the continued effective functioning of the nation's unemployment insurance system depends on a reliable and fully functioning labor exchange program operated by the Employment Service.

A restructured training system should ensure that Federal investments in training not substitute for investments employers would have made anyway. We must guard against abuses that have in the past led to destructive competition and business relocations, pitting one community against another. An effective complaint and grievance procedure at the local, state, and federal level should be established so abuses can be discovered and handled at an early stage.

In order to help workers know what to be trained for and where to apply for jobs when they complete their training, all employers should be required to list their job openings with the Employment Service.

A system of accountability will require a national framework of skill standards and program performance standards. State-of-the art information systems must be broadened at the federal, state and local level to provide sound monitoring, labor market information as well as outcome measures of performance.

Standards for learning gains, educational achievements, job placement and earnings increases must be made a part of the credential process for all training institutions. The voluntary industry skills standards initiative established by Goals 2000 is a critical element of this new system.

Comprehensiveness

There must be sufficient funding to meet the needs of all segments of the workforce. At a minimum, any proposal to give individual grants to unemployed and dislocated workers should provide training and education benefits equal to what veterans and national service participants currently receive.

A restructured training system should coordinate a diversity of training approaches. Besides serving employed workers as well as the long-term unemployed, the system should pay close attention to special needs of dislocated workers and young people in school.

The public school system must play an integral role in a coordinated work force preparation system. A redesigned school-based component of the system should tie vocational education to other reform efforts and focus on raising the academic, technical and employability skills for students. This system should offer career awareness and improved counseling to students beginning in the early grades.

States should be supported to establish clear academic and occupational standards based in part on industry-oriented standards. Standards should be tied to assessment and credentialing systems, curricula and instruction aligned to these standards and professional development provided so that school staff can deliver integrated academic and vocational instruction.

States and local school districts should be given the flexibility to develop the kinds of systems, programs and course offerings that meet high standards.

School-to-Work

The AFL-CIO supports the planning and implementation efforts now under way in the states to help students develop a sound foundation of academic skills and prepared for the world of work. We believe the larger education reforms embraced in 1990 by the reauthorized vocational education act should be continued and expanded. Many AFL-CIO affiliates are already involved in such programs.

As the School-to-Work Opportunities Act now provides, labor consultation and input are essential in planning and implementing these programs. Employer

participation in building a new school-to-work transition system is necessary but not sufficient. The participation and support of front-line workers and their unions are also vital to achieve the goals of this new initiative.

Conclusion

The AFL-CIO represents some 90 national and international unions with some 14 million working people as members. The workers we represent will benefit from constructive action by Congress to make the nation's unemployment compensation, job training, and job placement efforts more effective. We welcome the concern of your Committee and we look forward to working with you on legislation that will be good for workers and good for America. Thank you.

Chairman SHAW. Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

First of all, let me just make a clarification, Mr. Cunningham. Your testimony kept referring to the Kasich budget zeroes this and zeroes that. The Kasich budget does not zero anything. That is left up to the authorizing committees and committees of jurisdiction, so those are assumptions and recommendations by the Budget Committee, but they do not have the power to zero anything.

Mr. CUNNINGHAM. Right, I understand.

Mr. MCCRERY. So all those things are still alive, even if the budget passes.

Mr. CUNNINGHAM. We are breathing heavy, but we are still alive.

Mr. MCCRERY. I would like for you, Mr. Cunningham, to tell us where you get the data that indicates the trust fund will be broke in 2002 if we do away with the surcharge.

Mr. CUNNINGHAM. I thought I had, but people from the Labor Department shared with me some data, and I just remember the chart where they had the 0.2 percent tax and they basically showed that when it goes out after 1998 that it dips below the preferred level of funding.

There is one other point I forgot to make on the Extended Benefits Program.

Mr. MCCRERY. So you think this information comes from the Department of Labor?

Mr. CUNNINGHAM. Yes, and I will try and get it for you.

[The information was unavailable at the time of printing.]

Mr. MCCRERY. Thank you.

Mr. CUNNINGHAM. On the Extended Benefits Program, I forgot to mention a very important issue. In the Kasich budget, which I understand is an illustration, the utilization of extended benefits in the years 2000, 2001, and 2002 jumps threefold. So in his budget, it is assumed that the Extended Benefits Program would have been used much more than it will be used in the first 5 years, and the reason for our concern here is that if this program is not in place and the budgets go through, that you will have to put a new program in place or these people will not be served. I am sorry to switch subjects.

Mr. MCCRERY. Thank you, Mr. Chairman.

Chairman SHAW. Mr. Rangel.

Mr. RANGEL. Ms. Bowland, you have a national responsibility in sharing what administrators do throughout the country. Have you noticed as a result of the treaties and the need for high-tech training that it is more difficult to place people in jobs? Are higher training and education required?

Ms. BOWLAND. No. What we are finding is a greater need for us to ensure that people have skills or ensure that qualified workers are referred to employers, and part of the secret of that is matching appropriately. In Ohio, we are experimenting with matching people and their skills with actual skills that they need in the job.

Mr. RANGEL. I guess my question is regarding high school dropouts and those with very little skills, are you able to place them into jobs?

Ms. BOWLAND. Yes. We are working on that, and we are ensuring, through the use of national skills standards, high-tech training——

Mr. RANGEL. What kind of jobs are available for this type of person?

Ms. BOWLAND. Right now, what we are doing is working through our national skills standards, programs with the national skills standards, our curriculum with vocational education——

Mr. RANGEL. I do not know what that means, but on a national basis, would you find that your administrators nationally have no problems in placing high school dropouts?

Ms. BOWLAND. I did not say they had no problems. What I am trying to indicate is that I think everyone in this age of very high technology and high performance workplaces have to ensure that people who are placed are qualified, and second, they can get the skill training they need.

Mr. RANGEL. No, no. Forget that. I know that. What I am really trying to find out is whether your school system is supplying people with the training that is necessary to put them in the high-technology jobs.

Ms. BOWLAND. No.

Mr. RANGEL. Since you deal with this on a national level, have people in your category demanded from the school system that instead of just diplomas, that they prepare these young people to enter into the labor market?

Ms. BOWLAND. Yes. In Ohio, we are actually working on standards that must be met, passports that folks can carry from grade school through high school and then to jobs.

Mr. RANGEL. Have you found communities in Ohio and other parts of the country that are not producing this, that they have high rates of unemployment as well as high rates of high school dropouts, higher in other inner cities?

Ms. BOWLAND. Yes, and I think we are working to correct that, yes.

Mr. RANGEL. Are these the areas that cause the States and the country major problems, the people that are in the street without jobs and without diplomas and unemployable?

Ms. BOWLAND. I think that certainly is one of the major problems.

Mr. RANGEL. And you found this to be national, not just in Ohio?

Ms. BOWLAND. I think it is a national problem.

Mr. RANGEL. Have you seen anything from the national level that addresses that problem, that is, to tie in the school system with the job market so that when they get to you, that you can place them in the jobs that are necessary?

Ms. BOWLAND. I think the school-to-work initiative in the Federal Government has been excellent. I believe the program on national skills standards has gone a long way toward us identifying the skills and occupations and ensuring that we train people to meet those occupational skills.

Mr. RANGEL. Have you been able to target the areas that have the least amount of skills, the highest crimes, the highest dropouts, the highest social problems, in order to make certain that this group is brought along in order to get into the job market?

Ms. BOWLAND. Probably not to the extent that I have heard you talk about today, but I think the vast majority of our training programs are targeted——

Mr. RANGEL. Is there a place in Ohio that you can name that I could go to to see where concentrated effort has been made to——

Ms. BOWLAND. Fostoria.

Mr. RANGEL. Fostoria?

Ms. BOWLAND. Fostoria, Norton Manufacturing.

Mr. RANGEL. I was talking about a community.

Ms. BOWLAND. It is Fostoria, Ohio.

Mr. RANGEL. Who represents that area? Do you know offhand? I will check it out.

Ms. BOWLAND. Mr. Oxley.

Mr. RANGEL. Mike Oxley? Thank you so much.

Ms. BOWLAND. You are welcome.

Mr. RANGEL. Thank you, Mr. Chairman.

Chairman SHAW. Mr. English.

Mr. ENGLISH. Mr. Chairman, I will try to keep my questions very brief.

Dr. Corson is the coauthor of the 1993 assessment of TAA. Are you familiar with the TAA audit that was performed by the U.S. Department of Labor in September 1993?

Mr. CORSON. Somewhat. I do not have a detailed knowledge of it.

Mr. ENGLISH. I was just wondering if you were aware of its conclusions and concurred with the general thrust, which is very critical of the internal controls in the program.

Mr. CORSON. I think some of their concern was that there was not much information on the program, on what happened to individuals in the program. Is that your understanding?

Mr. ENGLISH. That is my understanding.

Mr. CORSON. I think that is true. It is probably not a surprise, though, because it is quite a small program, and in most States, it has a very small caseload.

Mr. ENGLISH. Thank you.

Dr. Jacobson, how has the Employment Service program adopted new technology in recent years? To what extent have you applied new technology to improve your clearinghouse services?

Mr. JACOBSON. Actually, the Employment Service has been very adept at using new data processing equipment, because you have to remember, the UI system is one of the largest data processing agencies in each State. They have tended to keep up with new technology. In particular, Ohio is a State that has looked for new ways of making job matches. Colorado is another State that has taken a lead in developing new technologies.

So it is a very active area, and, in part, it has been forced on the States because, essentially, they have to do more and more work with fewer resources. So they have, I think, done a pretty good job on their own. Recently, the Department of Labor has given more impetus to these efforts through its revitalization program. That also is a very positive step.

Mr. ENGLISH. Thank you, Mr. Jacobson.

Knowing the brevity of our time, I think I will conclude now.

Thank you, Mr. Chairman.

Chairman SHAW. Thank you.

I would like to thank all the panelists that appeared before us today, this last panel included, for giving up your time to share your experience with us.

The hearing is concluded for today. Thank you.

[Whereupon, at 4:33 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT SUBMITTED TO
U.S. HOUSE OF REPRESENTATIVES
WAYS AND MEANS SUBCOMMITTEE ON HUMAN RESOURCES
by the
ADVISORY COUNCIL ON UNEMPLOYMENT COMPENSATION
May 16, 1995

The Advisory Council on Unemployment Compensation (ACUC) was created by an Act of Congress in November of 1991 to provide advice on improving the nation's unemployment compensation system. The Congressional mandate to the Council was a broad one, instructing it "to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and other aspects of the program and to make recommendations for improvement." In addition, Congress specifically requested that the Council consider the treatment of alien agricultural workers within the Unemployment Insurance system.

This statement contains the findings and recommendations from the ACUC's 1994 and 1995 reports. Recommendation #1994-7 addresses the treatment of alien agricultural workers. While the Council has not yet agreed upon a recommendation regarding the FUTA tax rate, an initial set of findings on this issue follows recommendation #1995-6.

1994 FINDINGS AND RECOMMENDATIONS

PURPOSE OF THE EXTENDED BENEFITS PROGRAM

The Council finds that the nature of unemployment has changed since the inception of the Unemployment Insurance system. The length of time that individuals are unemployed, which increases sharply during recessions, has also increased slowly but steadily during non-recessionary times. Workers who have been laid off from their jobs are now less likely to return to their previous jobs than has historically been the case. This indicates an increase in the level of long-term unemployment in the economy.

The Unemployment Insurance system was designed primarily as a means of alleviating the hardship caused by short-term unemployment. The system was never intended to combat long-term unemployment. The purpose of the Unemployment Insurance system, and in particular the Extended Benefits program, must be expanded if the system is to deal effectively with the changing nature of unemployment. In doing so, however, careful consideration must be given to the funding of the system, in order to ensure that expenditures for combatting long-term unemployment do not drain the Unemployment Insurance trust fund reserves. It must also be recognized that while Unemployment Insurance reform is a necessary component of developing effective strategies for dealing with long-term unemployment, other reforms -- especially among programs for dislocated workers -- will be needed.

1994-1. Recommendation

The scope of the Extended Benefits program should be expanded to enhance the capacity of the Unemployment Insurance system to provide assistance for long-term unemployed workers as well as short-term unemployed workers. Those individuals who are long-term unemployed should be eligible for extended Unemployment Insurance benefits, provided they are participating in job search activities or in education and training activities, where available and suitable, that enhance their re-employment prospects. To maintain the integrity of the Unemployment Insurance income support system, a separate funding source should be used to finance job search and education and training activities for long-term unemployed workers.*

THE TRIGGER FOR EXTENDED BENEFITS

The Council finds that receipt of Unemployment Insurance benefits by the unemployed has slowly but steadily declined since at least 1947 -- the first year for which data on the system are available. In addition to the long-term downward trend in receipt of benefits, there was a pronounced decline in the early 1980s, just as the economy entered a recession.

The reasons behind the decline in the Unemployment Insurance system are many. The long-term decline appears to have been caused by the changing demographics of the labor force, the changing industrial and geographic composition of employment, and a decline in the solvency of states' Unemployment Insurance trust funds. The sharp decline in receipt of benefits in the early 1980s appears to be attributable primarily to changes in federal policies which encouraged the states to increase the

* One member of the Council emphasizes that an increase in employers' payroll taxes should not be used as the funding source. Another member emphasizes that such a recommendation must be considered in the context of reform of dislocated workers programs.

solvency of their trust funds by restricting eligibility for Unemployment Insurance benefits and/or increasing employers' tax rates, as well as independent state efforts to improve their trust fund solvency.

The utilization of the Unemployment Insurance system is measured by the Insured Unemployment Rate (IUR). The IUR is the number of Unemployment Insurance recipients, relative to the number of individuals in UI-covered employment. Since the inception of the Extended Benefits program in 1970, states have been required to use the state IUR as a "trigger" that determines whether or not individuals who have exhausted their regular UI benefits are eligible for Extended Benefits.

Research has shown that the decline in the utilization of the Unemployment Insurance system has caused the IUR to become a less reliable indicator of economic conditions, reducing the likelihood that Extended Benefits will trigger on in states with high unemployment. In addition, just as the IUR was experiencing a marked decline during the recession of the 1980s, the "trigger" level required to become eligible for Extended Benefits was raised.

The combination of the reduction in the IUR and the increase in the trigger level resulted in the failure of the Extended Benefits program to trigger on as unemployment continued to rise during this most recent recession. As a result, Congress found it necessary to pass a series of emergency extensions of Unemployment Insurance benefits. The Council finds that emergency extensions of Unemployment Insurance benefits are extremely inefficient since they are neither well-timed nor well-targeted. Therefore, it is necessary to reform the Extended Benefits program prior to the onset of the next recession, in order to minimize the need for future emergency legislation.

The Council has considered a variety of measures that could be used to trigger the Extended Benefits program. While no perfect measures exist, the best available evidence about the condition of the overall labor market within a state is the Total Unemployment Rate (TUR), which indicates the supply of individuals who are unable to find work. It should be noted, however, that the TUR rates for January 1994 will be affected by the redesign of the Current Population Survey. An alternative measure of the labor market conditions that are faced by Unemployment Insurance recipients is the Adjusted Insured Unemployment Rate (AIUR), which is the IUR adjusted to include those individuals who have exhausted their regular Unemployment Insurance benefits.

The Council finds that while substate (or regional) data are available on some measures of local labor market conditions, these data are extremely unreliable measures of the true conditions that the unemployed face. Furthermore, there would be substantial administrative difficulties in using either substate or regional data for triggering Extended Benefits.

The Council finds that, in addition to problems with the triggers that have been used to determine whether or not Extended Benefits are available within a state, the thresholds built into the triggers have been problematic. These thresholds require that a state's unemployment rate (whether measured by the IUR or the TUR) exceed the level that prevailed over the previous two-year period (by a factor of 120 percent for the IUR or 110 percent for the TUR).

The threshold requirements do not significantly affect the number of states in which Extended Benefits trigger on during a recession. However, the thresholds have the effect of delaying the point at which Extended Benefits trigger on in some states with the highest unemployment, as well as hastening the point at which such states trigger off the Extended Benefits program. As a result, the thresholds have caused dissatisfaction among some with the operation of the program since those states suffering the most economic hardship are triggered on for the shortest period of time. This problem could be addressed by eliminating the thresholds and setting the triggers at a slightly higher level.

1994-2. Recommendation

The Council is unanimous in the view that there is a pressing need to reform the Extended Benefits program.

The majority of the Council recommends that the Extended Benefits program should trigger on when a state's seasonally adjusted total unemployment rate (STUR) exceeds 6.5 percent as measured before the Current Population Survey redesign.* Two members of the Council recommend that each state should have the choice of using either the STUR trigger of 6.5 percent with a threshold requirement of 110 percent above either of the two previous years, or an IUR or AIUR trigger set at 4 percent with a threshold requirement of 120 percent over the previous two year period.

The Council hopes Congress can implement these reforms promptly. Although the Council has reservations about the inefficient targeting of emergency benefits, Congress should extend the existing Emergency Unemployment Compensation for a six month period to provide a bridge program until these Extended Benefits reforms can be implemented.**

1994-3. Recommendation

Neither substate nor regional data should be used for the purpose of determining whether or not Extended Benefits are available within a given area.

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* Two members of the Council recommend that the trigger should be set at 6.5 percent regardless of any changes in the measured unemployment rate that result from the redesign of the Current Population Survey.

** Two members do not agree to the recommendation that Emergency Unemployment Compensation should be extended.

FINANCING EXTENDED BENEFITS REFORM

The Council finds that the integrity of the Unemployment Insurance system as well as its capacity to adapt to the changing nature of unemployment are compromised by incorporating its trust funds into the unified federal budget. While the flow of funds into the Extended Unemployment Compensation account may be adequate to finance the recommended Extended Benefits reform, such reform is complicated by the use of dedicated Unemployment Insurance trust funds for the purpose of deficit reduction. Several members of the Council believe that prompt action should be taken to correct this situation. Other members feel that the issue of how trust fund accounts should be treated in the budget is a very complex one, and requires careful consideration within a broader context. The Council intends to revisit this issue in its future deliberations.

1994-5. Recommendation

If additional revenue is required to implement the Council's recommendations, such revenue should be generated by a modest increase in the FUTA taxable wage base, to $8,500.*

WORK SEARCH TEST UNDER EXTENDED BENEFITS

The Council finds that another problematic aspect of the Extended Benefits program is the federal requirement that, with some exceptions, those individuals who are receiving Extended Benefits must accept a minimum wage job if one is offered, or become ineligible for benefits. While the Council understands that recipients of both regular and extended Unemployment Insurance benefits have an obligation to search actively for work and accept appropriate job offers, the Council finds the current federal requirements to be excessively onerous. All states use a "suitability" test to determine the jobs which claimants are required to accept to remain eligible for benefits. This test gives states the flexibility to ensure adequate work search by claimants, while protecting unemployed workers' living standards and job skills by permitting them to decline substandard jobs. The States are in a better position to determine appropriate mechanisms for enforcing a work search test, given the particular conditions of their labor markets.

1994-6. Recommendation

The federal requirement that individuals who are receiving Extended Benefits must accept a minimum wage job if one is offered, or become ineligible for benefits should be eliminated. Each state should be allowed to determine an appropriate work search test, based on the conditions of its labor market.

STATE TRUST FUND SOLVENCY

The Council finds an overall decline in receipt of Unemployment Insurance benefits among the unemployed. This decline is at least partially caused by the inadequate reserves of many states' trust funds. During the past decade, many states with low or negative trust fund reserves have found themselves in the position of either having to increase taxes on employers in the midst of an economic downturn, or having to take measures to restrict eligibility and benefits for the unemployed. Some believe that this reliance on pay-as-you-go funding has worked to the overall detriment of the Unemployment Insurance system.

The Council believes that it would be in the interest of the nation to begin to restore the forward-funding nature of the Unemployment Insurance system, resulting in a building up of reserves during good economic times and a drawing down of reserves during recessions. The Council finds, however, that any move toward creating federal guidelines for states' Unemployment Insurance trust fund accounts must be carefully weighed. Otherwise, there will be a risk of creating undue incentives for the states to restrict the eligibility and level of Unemployment Insurance benefits in order to achieve the solvency guidelines. The Council intends to make specific recommendations on this issue in future reports.

FUTA TAXATION OF ALIEN AGRICULTURAL WORKERS

The Council was asked by Congress to consider the treatment of alien agricultural workers within the Unemployment Insurance system. Currently, the wages paid to alien agricultural workers with H2-A visas are exempt from the Federal Unemployment Tax Act (FUTA). This exemption is set to expire on January 1, 1995.

The Council finds that there are arguments both for and against continuing this exemption. Under the current exemption, alien agricultural workers are less costly to hire than domestic workers, on whom FUTA taxes must be paid. This cost differential may create an incentive for substitution of foreign workers for U.S. workers, which argues in favor of repeal of the exemption. Furthermore, the process of certifying workers and issuing H2-A visas imposes costs on the federal and state governments that have the responsibility for overseeing this process. The vast majority (97 percent) of the cost of the

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* Two members object to this recommendation.

certification process is funded through the FUTA tax. Since FUTA serves as the mechanism for funding the costs of the certification process, there is an additional rationale for repealing the exemption of H2-A workers from FUTA taxation.

On the other hand, H2-A workers are ineligible to receive Unemployment Insurance benefits since their visas require that they return to their country of origin within ten days after their employment terminates. Consequently, these individuals cannot meet the "available for work" test of the Unemployment Insurance system. Thus, FUTA taxes would be imposed upon the wages of individuals who cannot receive Unemployment Insurance benefits, which argues against imposing the FUTA tax on their wages.

On balance, the Council finds that the arguments in favor of FUTA taxation of alien agricultural workers outweigh the arguments against continuing that exemption.

1994-7. Recommendation

As of January 1, 1995, the wages of alien agricultural workers (H2-A workers) should be subject to FUTA taxes.

1995 FINDINGS AND RECOMMENDATIONS

THE PURPOSE OF UNEMPLOYMENT INSURANCE

The Advisory Council on Unemployment Compensation finds that, although an increasing percentage of the unemployed experience long spells of unemployment, the majority of the unemployed experience relatively short unemployment spells. Similarly, while a growing minority of individuals who receive Unemployment Insurance exhaust their benefits without having found new employment, the majority of individuals receive Unemployment Insurance benefits for a relatively short period of time before returning to employment. This reality dictates that the Unemployment Insurance system must be designed to deal effectively with a variety of needs. In particular, the system must both provide temporary wage replacement to individuals and facilitate the productive reemployment of those individuals who experience longer spells of unemployment.

The Unemployment Insurance system also serves an important macroeconomic stabilization role by injecting additional money into the economy during periods of downturn. This objective, however, can only be achieved effectively if the system is forward-funded, thereby accumulating funds during periods of economic health.

These findings lead the Council to a formulation of the following statement of purpose for the Unemployment Insurance system.

1995-1. Statement of Purpose

The most important objective of the U.S. system of Unemployment Insurance is the provision of temporary, partial wage replacement as a matter of right to involuntarily unemployed individuals who have demonstrated a prior attachment to the labor force. This support should help to meet the necessary expenses of these workers as they search for employment that takes advantage of their skills and experience. Their search for productive reemployment should be facilitated by close cooperation among the Unemployment Insurance system and employment, training, and education services. In addition, the system should accumulate adequate funds during periods of economic health in order to promote economic stability by maintaining consumer purchasing power during economic downturns.

FUNDING OF THE UNEMPLOYMENT INSURANCE SYSTEM

The Unemployment Insurance system's capacity to promote economic stability rests on two key aspects of its funding mechanism. First, the funding of the system is "experience rated"--that is, employers who have been responsible for greater demands on the system pay higher taxes and consequently bear a greater share of the system's costs. Second, during periods of prosperity, the system accumulates reserves that are then spent during periods of economic decline.

Some members of the Council believe that experience rating is a crucial component of the program, providing effective incentives for employers to avoid laying off workers. Other members believe that experience rating causes employers to make excessive use of the system's appeal mechanism in an attempt to keep their experience-rated taxes as low as possible. Although the Council was unable to resolve this difference of opinion, it intends to address the issue of experience rating in its next annual report.

The Council unanimously concludes, however, that promoting economic stability is an objective that transcends the interests of the states and cannot be achieved by states working in isolation. While some states have attempted to maintain an adequate degree of forward funding, others have not. The low reserves in some states' trust funds weaken the Unemployment Insurance system's capacity to achieve its economic stabilization function.

Effectively promoting the forward funding of the Unemployment Insurance system requires a coherent federal strategy that includes congressionally stated goals.

1995-2. Recommendation

Congress should establish an explicit goal to promote the forward funding of the Unemployment Insurance system. In particular, during periods of economic health, each state should be encouraged to accumulate reserves sufficient to pay at least one year of Unemployment Insurance benefits at levels comparable to its previous "high cost." For purposes of establishing this forward-funding goal, previous "high cost" should be defined as the average of the three highest annual levels of Unemployment Insurance benefits that a state has paid in any of the previous 20 calendar years.

To complement these forward-funding goals, financial incentives to encourage forward funding should be created. This can be done by changing the structure of the interest rates that the federal government pays to the states on their Unemployment Insurance trust fund balances. A slight reduction in the interest rate paid on low levels of states' trust funds could be used to finance a fairly substantial interest rate premium paid on high levels of reserves. While it is difficult to predict with accuracy how many states would respond to such incentives, careful management of the interest rate structure could ensure that these incentives could be financed without additional cost to the federal government.

1995-3. Recommendation

To encourage further forward funding, an interest premium should be paid on that portion of a state's Unemployment Insurance trust fund that is in excess of one "high cost" year of reserves. The cost of this interest rate premium should be financed by a reduction in the interest rate paid on that portion of each state's trust fund that is less than one "high cost" year of reserves. The U.S. Department of Labor should be given authority to adjust periodically the interest rate structure to ensure that these incentives create no additional cost to the federal government.

The Council finds that the current federal policy of providing short-term, interest-free loans to state trust funds creates a disincentive for states to forward fund their systems. Preferential loan treatment should be available only to states that have met, or made satisfactory progress toward, the forward-funding goal. An example of how satisfactory progress might be defined is presented in Chapter 5 of this report.

1995-4. Recommendation

Preferential interest rates on federal loans to the states should be restricted to those states that have achieved (or made satisfactory progress toward) the forward-funding goal. In particular, the current system of making interest-free, cash-flow federal loans generally available to all states should be ended. Rather, these interest-free loans should be made available only to those states that have achieved (or made satisfactory progress toward) the forward-funding goal prior to the onset of an economic downturn. In other states, these loans should be subject to the same interest charges that are incurred on long-term loans to state Unemployment Insurance trust funds.

1995-5. Recommendation

A method is needed for determining whether a state that has not yet met the forward-funding goal has made "satisfactory progress" toward the goal. This method should be based on an empirical analysis of the rate at which state trust funds must be restored during periods of economic health in order to achieve the forward-funding goal prior to a recession.

1995-6. Recommendation

When states have achieved (or made satisfactory progress toward) the forward-funding goal, yet find it necessary to borrow from the federal government, the interest rate charged on long-term loans should be a preferential rate that is 1 percentage point lower than would otherwise be charged.

The Council has discussed the level at which the taxable wage base and tax rate established by the Federal Unemployment Tax Act (FUTA) should be set. This is a complex issue. FUTA revenues are earmarked for financing the administration of the nation's Unemployment Insurance system, as well as that of the U.S. Employment Service. However, because the trust funds are currently held within the unified federal budget, it is not possible for these programs to achieve direct access to the funds that are earmarked for them. In addition, a two-tenths surcharge that was imposed in 1977 to pay off trust fund debts has been extended well beyond the time when the debt was repaid. Quite apart from these issues, the Council has not yet made a determination of whether or not additional revenues from FUTA would contribute to more efficient and effective operation of the Unemployment Insurance system and the Employment Service.

Another element of complexity results from the fact that the minimum taxable wage base that the states use for financing their Unemployment Insurance benefits is tied to the FUTA taxable wage base. On average, those states with higher taxable wage bases have a higher level of reserves than do states that have set their taxable wage base at the minimum level of $7,000. Consequently, raising the FUTA taxable wage base might contribute to the overall forward funding of the system.

Furthermore, a low taxable wage base within a state tends to impose the burden of Unemployment Insurance payroll taxes disproportionately on employers of low-wage workers. To the extent that employers pass on a portion of the tax to their workers in the form of lower wages, therefore, a disproportionate share of the burden of the tax is ultimately borne by low-wage workers. Those low-wage workers who work part-time or part-year, however, are often ineligible for Unemployment Insurance. As a result, the low taxable wage base within the Unemployment Insurance system is both regressive and unfair.

The Council has not yet reached a consensus on how to address these interrelated issues most effectively. As it considers the issues of administrative funding and efficiency over the course of the next year, however, the issue of the FUTA taxable wage base and tax rate will once again be addressed.

The Council does note, however, that the Unemployment Insurance system was intended as a self-contained system of social insurance. Inherent in this design is the principle that funds are accumulated and held in trust solely for their intended purpose: namely, the payment of benefits to eligible unemployed workers, economic stimulus, and the costs of administering the system.

Inclusion of FUTA accounts and state Unemployment Insurance trust fund accounts within the unified federal budget undermines the integrity of the Unemployment Insurance system. Since federal budget offsets must be identified before additional FUTA funds (which are earmarked for program administration) can be appropriated, some states have found it necessary to divert their trust funds to pay for administrative expenses—expenses that should be paid out of the FUTA trust fund. This diversion, while perhaps necessary, tends to erode the integrity of the system's financing. Employer willingness to contribute to the system, state capacity to develop and maintain adequate trust funds, and worker confidence in the system are all undermined.

Furthermore, when Unemployment Insurance trust fund balances that have been explicitly accumulated for countercyclical purposes are used to balance the annual federal budget, the system loses its capacity to increase spending automatically during recessions. Consequently, unlike other trust funds held by the federal government, the Unemployment Insurance trust funds are rendered fundamentally incapable of achieving one of their major objectives—economic stabilization—through their inclusion in the unified federal budget.

1995-7. Recommendation

All Unemployment Insurance trust funds should be removed from the unified federal budget.

UNEMPLOYMENT INSURANCE COVERAGE AND TAXATION

Virtually all wage and salaried workers are covered by Unemployment Insurance, and their employers pay taxes into the system accordingly. There are, however, two important exceptions. The first exception is that nonprofit employers do not pay FUTA taxes, despite the fact that their employees are eligible for Unemployment Insurance, use the system, and generate administrative costs for the system. In calendar year 1992, this exemption cost the federal trust funds approximately $300 million. The second exception is that agricultural workers on small farms are not covered by Unemployment Insurance. The Council finds no justification for either of these exceptions.

1995-8. Recommendation

The FUTA exemption for nonprofit employers should be eliminated.

1995-9. Recommendation

The exemption of agricultural workers on small farms from Unemployment Insurance coverage should be eliminated.*

The Council also finds that Unemployment Insurance taxes owed by farm labor contractors ("crew leaders") often are not paid. Federal law specifies that, under most circumstances, these farm labor contractors are the designated employers of their workers and that they are responsible for the payment of Unemployment Insurance taxes. It is difficult, however, to enforce this provision because of the many obstacles that prevent locating crew leaders who have outstanding tax obligations.

1995-10. Recommendation

Federal law should be amended so that farm owners or operators are assigned responsibility for unpaid Unemployment Insurance taxes owed by the crew leaders with whom they contract for workers on their farms.**

The Council finds that some employers improperly avoid paying Unemployment Insurance taxes by misclassifying their employees as independent contractors. Clear definitions that delineate the conditions under which an individual would legitimately be qualified as an independent contractor would help to alleviate this problem.

Section 530 of the Revenue Act of 1978 protects businesses that have "reasonable basis" for misclassifying employees as independent contractors. Businesses that fall under the Section 530 "safe harbor" are not required to correct the classification of employees and cannot be assessed back taxes or penalties based on the misclassification of workers. Section 530 also prohibits the Internal Revenue Service (IRS) from clarifying the guidelines for determining whether a worker is an employee or an independent contractor. The ambiguity of these guidelines is the cornerstone of the misclassification problem and the tax revenue losses associated with it. In addition, revenue collection is limited by Section

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*Two members of the Council object to this recommendation.

**One member of the Council objects to this recommendation.

3509 of the Internal Revenue Code, which caps the employment tax liability of those businesses not covered by Section 530.

The greatest revenue loss results from businesses that do not file information returns on independent contractors. These are circumstances under which businesses are most likely to misclassify workers, as well as the circumstances under which independent contractors are least likely to report their entire income. Increasing the penalty for failing to file information returns would increase the incentive to file, increase the percentage of independent contractor income reported, and provide the information needed to identify employers that misclassify workers—thereby creating an incentive to classify workers correctly.

While the Council recognizes that correcting these problems would have ramifications that reach far beyond the Unemployment Insurance system, the Council finds that the problems are sufficiently serious to merit action at both the state and federal levels.

1995-11. Recommendation

States should review and consider adopting the best practices of other states to address classification issues which include the following: clarifying the definitions of employee and independent contractor; specifying employer liability for payroll taxes; licensing, bonding, or regulating the employee leasing industry; and strategic targeting of audits.

1995-12. Recommendation

Federal law should be amended to eliminate the "prior audit" safe harbor provision of Section 530 of the Revenue Act of 1978.

1995-13. Recommendation

Federal law should be amended to eliminate the provision of Section 530 of the Revenue Act of 1978 that bars the IRS from issuing guidelines to define the employment relationship.

1995-14. Recommendation

Federal law should be amended to repeal Section 3509 of the Internal Revenue Code and to require businesses to pay all taxes owed for workers that are misclassified after the enactment of the repeal.

1995-15. Recommendation

The $50 penalty for businesses that fail to file information returns with the IRS or with the independent contractor they have hired should be increased.

The Council notes that available statistics do not accurately measure the level of Unemployment Insurance receipt among the unemployed (that is, "recipiency"). The measure of the "insured unemployed" (IU) and the ratio of insured unemployed to the covered labor force (that is, the insured unemployment rate—the IUR) are frequently used for a number of purposes. When used as measures of recipiency, however, they are misleading. Both statistics consistently overstate the number of individuals who actually receive Unemployment Insurance benefits in a given week. In addition to counting recipients, the two measures both include individuals who file a claim for, but do not receive, benefits in a given week (these include individuals on a waiting week, individuals whose claims are ultimately denied for nonmonetary reasons, and individuals who are disqualified for a given week). At the national level, this inclusion has the effect of overstating the number of the unemployed who actually receive Unemployment Insurance benefits by approximately 10 percent (although there is considerable variation among the states in the extent to which currently reported statistics overstate the actual receipt of benefits).

1995-16. Recommendation

The U.S. Department of Labor should report a measure of Unemployment Insurance recipiency. The measure should be a ratio, with the numerator defined as the number of individuals who are actually paid Unemployment Insurance benefits, and the denominator defined as the total number of unemployed individuals.

ELIGIBILITY FOR UNEMPLOYMENT INSURANCE BENEFITS

Five percent of all workers in 1993 reported that they were unable to find full-time employment, and 16 percent of the work force held part-time jobs. The Council finds that in some states, these individuals are unable to qualify for Unemployment Insurance benefits, even when they have substantial labor force attachment. This problem is especially pronounced for low-wage individuals, many of whom must work in temporary or part-time jobs. Welfare reform could result in an increase in the number of low-wage workers who find themselves in this situation.

Some unemployed workers are unable to qualify for Unemployment Insurance benefits because of their state's definition of the "base period." The base period is the period of time that is used for calculating whether or not unemployed individuals' earnings are sufficient to qualify them for Unemployment Insurance. Many states define the base period as the first four of the past five completed calendar quarters. In these states, therefore, between three and six months of an individual's most recent work experience is excluded from consideration in calculating eligibility for benefits. This may have the effect of disqualifying some workers who have worked continuously, but who need the most recently completed quarter of earnings to be included in the base period in order to qualify for Unemployment Insurance benefits. To solve this problem, some states now use a "moveable base period," which allows the

minimum earnings requirement to be met on the basis of the four most recently completed quarters of work if it is not met using the standard definition.

The Council finds that advances in technology have made it feasible for all states to use the most recently completed quarter when determining benefit eligibility, and that using this quarter is consistent with the legislative requirement that states ensure full payment of Unemployment Insurance when due. While the Council has been unable to develop sound estimates of the cost of implementing such a change, there are reasons to believe that the cost may not be prohibitive. First, many of the individuals who are determined to be eligible using a moveable base period would become eligible eventually (as soon as an additional quarter of earnings information becomes available). Second, some of the increase in the cost of Unemployment Insurance benefits would be offset by a reduction in benefits paid under means-tested programs, such as Aid to Families with Dependent Children (AFDC) and Food Stamps.

In some cases, unemployed individuals cannot qualify for Unemployment Insurance benefits because their eligibility is contingent upon their earnings in the calendar quarter in which they became unemployed. Information about their most recent earnings is typically not available until after the quarter has been completed. These individuals often do not realize that they can reapply (and often qualify) for benefits when information about their most recent quarter of earnings becomes available. This problem could be corrected if these individuals were told when they should reapply for benefits, as well as what additional earnings they would need to qualify for benefits.

1995-17. Recommendation

All states should use a moveable base period in cases in which its use would qualify an Unemployment Insurance claimant to meet the state's monetary eligibility requirements. When a claimant fails to meet the monetary eligibility requirement for Unemployment Insurance, the state should inform the individual in writing of what additional earnings would be needed to qualify for benefits, as well as the date when the individual should reapply for benefits.

In some states, low-wage workers face an additional impediment in qualifying for Unemployment Insurance benefits. In order to meet their state's base period and/or high-quarter earnings requirements, low-wage individuals must work more hours than workers who earn higher wages. For example, an individual who works half-time for a full year (i.e., 1,040 hours) at the federal minimum wage level would not meet minimum earnings requirements in 9 states. At an hourly wage of $8.00, however, a half-time, full-year worker would be eligible in all states. Similarly, an individual who works two days per week for a full year (approximately 800 hours) at the minimum wage would not meet the minimum earnings requirements in 29 states. At a wage of $8.00 per hour, however, that individual would be eligible in all but 2 states.

The Council finds that any individual who works at least 800 hours per year should be eligible for Unemployment Insurance benefits and that states' minimum earnings requirements should be set accordingly. If all states set their earnings requirements at this level, the number of individuals eligible for Unemployment Insurance benefits would increase by approximately 5.3 percent, and the amount of benefits paid would increase by approximately 3.6 percent. Some of the increase in the cost to the system, however, would be offset by a reduction in receipt of means-tested benefits such as AFDC and Food Stamps (see Appendix D).

1995-18. Recommendation

Each state should set its law so that its base period earnings requirements do not exceed 800 times the state's minimum hourly wage, and so that its high quarter earnings requirements do not exceed one-quarter of that amount.

Fourteen states preclude workers in seasonal industries from collecting Unemployment Insurance except during the season in which work is normally done within the industry. In addition, twelve of these states disallow seasonal workers' earnings from being counted toward their minimum earnings requirement, even if the individual subsequently works in a nonseasonal job. The Council finds these exclusions to be problematic.

1995-19. Recommendation

States should eliminate seasonal exclusions; claimants who have worked in seasonal jobs should be subject to the same eligibility requirements as all other unemployed workers.

In addition to the monetary requirements for qualifying for Unemployment Insurance, each state has a variety of nonmonetary requirements that unemployed individuals must satisfy in order to qualify for benefits. These requirements include stipulations about availability for suitable work, ability to work, work search requirements, voluntary separation for good cause, discharges due to misconduct, refusal of suitable work, and unemployment as a result of a labor dispute. In some cases, part-time workers (who meet monetary eligibility requirements) are explicitly precluded from receiving Unemployment Insurance.

1995-20. Recommendation

Workers who meet a state's monetary eligibility requirements should not be precluded from receiving Unemployment Insurance benefits merely because they are seeking part-time, rather than full-time, employment.

State legislation often does not address the specifics of many of the situations that Unemployment Insurance claimants face. As a result, interpretations of nonmonetary eligibility requirements can also be found in administrative and judicial case law and administrative rules. Testimony presented in the Council's public hearings indicates that the complexity of these nonmonetary requirements creates confusion about eligibility requirements. It can be difficult for both claimants and employers to understand these requirements with a reasonable degree of certainty. These problems can be particularly pronounced for multistate employers.

Not only can this lack of certainty impede the receipt of Unemployment Insurance, it may also increase unnecessarily the number of appeals filed by both claimants and employers. These problems appear to be particularly severe with regard to determinations involving employee misconduct, refusal of suitable work, and voluntary leaving for good cause. Clarifying these issues would serve the interests of both groups.

1995-21. Recommendation

A state-specific information packet that clearly explains Unemployment Insurance eligibility conditions (both monetary and nonmonetary) should be distributed by the states to unemployed individuals.

The Council is particularly concerned about a number of specific nonmonetary eligibility conditions. For example, it is not always clear whether an individual who is unavailable for shift work (perhaps due to a lack of public transportation or child care) will be found to be eligible for Unemployment Insurance. Consideration needs to be given to situations in which individuals quit their jobs because of one of the following circumstances: a change in their employment situation (e.g., change in hours of work), sexual or other discriminatory harassment, domestic violence, or compelling personal reasons, including family responsibilities. In addition, the Council is concerned about the variability in the definition of misconduct across states, and about the treatment of individuals who refuse employment because it is temporary or commission work. The Council intends to address these and related issues in its third annual report.

ADEQUACY OF UNEMPLOYMENT INSURANCE BENEFITS

At the inception of the Unemployment Insurance system, much debate was devoted to the adequacy of benefits. Many of the founders of the system argued that benefits should replace 50 percent of lost earnings; they believed that this percentage was high enough to allow workers to purchase basic necessities, but not so high as to discourage prompt return to work.

A number of presidents, including and following Dwight Eisenhower, have endorsed a goal of 50 percent replacement of lost earnings within the Unemployment Insurance system. President Richard Nixon advocated that the Unemployment Insurance system should seek to replace 50 percent of lost earnings for four-fifths of all Unemployment Insurance recipients.

The level of a state's maximum weekly benefit amount has a direct impact upon the percentage of Unemployment Insurance recipients who receive benefits that equal or exceed a given replacement rate. Those individuals whose earnings qualify them for their state's maximum weekly benefit amount typically have less than half of their wages replaced. Therefore, when a state's maximum benefit amount is relatively low as a percentage of the state's average weekly wage, the state will not meet the 50 percent replacement rate goal for a large percentage of recipients.

The Council endorses the long-standing goal of 50 percent replacement of lost earnings, and notes that a state is likely to be able to achieve this goal for a large number of workers by setting the state maximum weekly benefit amount equal to two-thirds of state average weekly wages.

1995-22. Recommendation

For eligible workers, each state should replace at least 50 percent of lost earnings over a six-month period, with a maximum weekly benefit amount equal to two-thirds of the state's average weekly wages.*

The Council also notes that, starting in 1986, all Unemployment Insurance benefits became subject to taxation. Taxation of Unemployment Insurance benefits results in a reduction of the effective replacement rate.

1995-23. Recommendation

Unemployment Insurance benefits should be tax-exempt.**

The Council finds that the current system for reporting the average replacement rate of lost earnings within the Unemployment Insurance system needs to be improved. While the U.S. Department of Labor routinely reports the replacement rate, the concept used in the calculation is flawed. The reported replacement rate is calculated by dividing Unemployment Insurance benefits paid by the wages of all covered workers. To the extent that those who receive Unemployment Insurance have lower wages than the average covered worker, the reported replacement rate will understate the actual replacement rate. Conversely, if those who receive Unemployment Insurance have higher wages than the typical covered

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*One member of the Council objects to this recommendation.

**Four members of the Council object to this recommendation.

worker, the reported replacement rate will overstate the actual replacement rate. Advisory Council calculations using data available from selected states suggest that the reported replacement rate significantly understates the actual replacement rate.

1995-24. Recommendation

The U.S. Department of Labor should calculate and report the actual replacement rate for individuals who receive Unemployment Insurance. This replacement rate should be calculated by dividing the weekly benefits paid to individuals by the average weekly earnings paid to those individuals prior to unemployment.

REEMPLOYMENT INCENTIVES

The Council finds that financial incentives (such as reemployment bonuses or self-employment subsidies) for facilitating rapid reemployment have a positive impact on a small portion of the unemployed. In some cases, this positive impact could be offset partially by negative impacts on others who find jobs more slowly because they are displaced in the job queue by those who receive the incentives. This displacement effect is likely to be more pronounced during periods of relatively high unemployment.

The Council concludes, therefore, that the states should be permitted to experiment with reemployment incentives, but it opposes incentives to encourage (or require) states to implement such strategies.

Some members of the Council object to the use of self-employment incentives within the Unemployment Insurance system—especially when an individual's entire benefit is paid in lump-sum form.

1995-25. Recommendation

States should be given broad discretion in determining whether reemployment incentives, such as reemployment bonuses or self-employment allowances, should be included as a part of their Unemployment Insurance systems.

ADMINISTRATIVE FINANCING

States' administrative costs are financed by the federal government with a portion of the revenues generated by FUTA. This situation requires some systematic method for allocating these revenues among the states. The Council finds that whatever method is chosen, it is important to create financial incentives for states to administer their Unemployment Insurance systems efficiently. For example, those states that are able both to administer their Unemployment Insurance systems with less money than is allotted to them and to achieve U.S. Department of Labor performance requirements could be allowed to keep all or part of the surplus for other uses within their UI systems. The Council intends to address this issue, in conjunction with the U.S. Department of Labor's performance requirements, in its next annual report.

The U.S. Department of Labor has proposed an Administrative Financing Initiative (AFI) that would allocate FUTA funds based on a national unit cost with base-level and contingency-level funding. The Council takes no position on the AFI, because the U.S. Department of Labor and the states have not yet agreed on the details of this initiative.

The Council notes that it is inefficient for the federal government to require employers to fill out and submit separate forms and payments for their FUTA and state Unemployment Insurance taxes. Not only does this impose an unnecessary paperwork burden on employers, it also creates redundant tax collection units in the federal and state governments. The expense of collecting Unemployment Insurance taxes could be reduced by allowing the states to collect FUTA taxes on behalf of the federal government.

1995-26. Recommendation

FUTA taxes should be collected with other Unemployment Insurance taxes by each of the states and submitted to the federal government for placement in the federal trust fund. States' Unemployment Insurance taxes should remain in the state trust funds, as is currently the case.

**STATEMENT FOR THE RECORD BY MARK JONES, PRESIDENT,
EMPLOYERS' NATIONAL JOB SERVICE COUNCIL
ON
FEDERAL UNEMPLOYMENT COMPENSATION SYSTEM AND CONSOLIDATION OF JOB TRAINING PROGRAMS
TO THE SUBCOMMITTEE ON HUMAN RESOURCES,
WAYS AND MEANS COMMITTEE, U.S. HOUSE OF REPRESENTATIVES**

This represents the statement of the Employers' National Job Service Council (ENJSC) in connection with the hearing of the Subcommittee on Human Resources held on May 16, 1995. The subject of the hearing was Federal Unemployment Compensation System and the Consolidation of Job Training Programs.

The ENJSC represents approximately 90,000 participating employers who have a substantial interest in the proposals to reform the Nations' employment and training programs.

Certainly, employers are not opposed to changes in the current fragmented system. In fact, we believe that changes must be made to develop a far more effective and efficient system than we currently have in operation. We advocate block grants to give the states flexibility in the design of these programs. Clearly, we would not favor an effort to impose an organizational structure on the states. A "one-size-fits-all" scheme would be inappropriate and we would argue for greater flexibility for the states.

There are four issues however, that are extremely important to us in this redesign:

First, we do not want to see the Federal Unemployment Tax Act (FUTA) funds co-mingled with general revenue funds. As employers, we pay the FUTA tax for specific services and do not want those revenues used for other purposes. It is our position that these funds be distinctly identifiable from the Governor to the point of service delivery.

Second, it is essential that the unemployment compensation system and the employment/labor exchange system remain linked. The labor exchange system is the employers greatest assurance that laid-off workers, drawing unemployment compensation benefits, are returning to work as quickly as possible. Studies have shown that this close linkage between these two programs reduces the duration of benefits by more than one week. A one week reduction in benefits, alone, saves employers between $250-275 million dollars nationally in state unemployment insurance taxes. We want to see the FUTA revenues used, in large part, for this purpose. This is a very critical issue to us.

Third, in order to maximize employer involvement and support, in any new delivery system, we encourage you to use a local employer committee structure (local Job Service Employer Committees/ Employer Advisory Committees) in partnership with local governing bodies. We firmly believe that such language in the bill is essential to ensuring employer participation covering a wide spectrum of businesses that are actually involved in employment service, unemployment compensation, and training programs.

Fourth, it is important to us in our hiring process to find the best person available to fill a vacancy. Therefore, we want the one-stop career centers or employment centers to be available to any job seeker and not limited to recipients of public assistance programs.

Thank you for the opportunity to share our views with the Committee.

ENJSC BOARD OF DIRECTORS

EXECUTIVE COMMITTEE

Mark Jones, President
Oak Table Restaurants, Inc.
1801 North Coast Highway
Newport, OR 97365
V: 503/265-5114
F: 503/265-6886

Dan Spencer, Vice President
Sierra Energy and Consulting
4300 Ashe Road, #11, P.O. Box 41864
Bakersfield, CA 93304
V: 805/836-1439
F: 805/832-9698

William "Bill" Hanigan, Secretary
Zagar, Inc.
24000 Lakeland Blvd.
Cleveland, OH 44132
V: 216/731-0500, ext. 3025
F: 216/731-8591

Kathleen Mahoney, Treasurer
43 Palm Street
Bangor, ME 04401
V: 207/945-9360
F: 207/945-9360

Gary Johnson, Past President
Corporate Programs Manager
Iowa Health Coalition
P.O. Box 371
Forest City, IA 50436
V: 515/582-2523
F: 515/582-5581

REGIONAL REPRESENTATIVES

REGION I
Kathleen Mahoney
43 Palm Street
Bangor, ME 04401
V:207/945-9360
F:207/945-9360

REGION II
Patrick Sullivan, Recruitment Director
EGW Associate
1700 Clinton Street
Buffalo, NY 14206
V: 716/826-4233
F: 716/826-4788

REGION V
Richard Roesler
Peoples National Bank
45 North Union
Mora, MN 55051
V: 612/679-3100
F: 612/679-3109

REGION VI
Chuck Yarbrough
Tyson Foods, Inc.
P.O. Box 20020
Springdale, AR 72765
V: 501/290-4686
F: 501/290-4844

REGION III
Darlene Carver, President
Merlin & Associates
3501 Big Woods Road
Ijamsville, MD 21754
V: 301/831-9151
F: 301/831-9151

REGION IV
Jan Cavanaugh, Assistant Vice President
Nations Bank
600 Peachtree Street N.E.
Atlanta, GA 30308
V: 404/607-2535
F: 404/607-3662

REGION V
Gerald Cameron, Personnel Manager
ITT Automotive Fulton Plan
P.O. Box 215
Archbold, OH 43502
V: 419/445-8010
F: 419/446-2112

REGION VII
Kay Kramer, Dir. Corporate Relations
Iowa Foundation of Medical Care
6000Westown Parkway, Suite 350-E
West Des Moines, IA
V: 515/222-2946
F: 515/222-2047

REGION VIII
Jan Hobbs, President
Iron Parke Corporation
P.O. Box 371
Cedar City, UT 84721
V: 801/586-1128
F: 801/586-8978

REGION IX
Gloria Carpenter
5308 Golden Gate Avenue
Oakland, CA 94618
V: 510/547-3158
F: 510/547-6169

REGION X
Rhett Van Paepeghem, President
Miley Insurance Assoc.
218 S. Main Street, P.O. Box 190
Hailey, ID 83333
V: 208/788-9506
F: 208/788-4988

International Association of Personnel in
Employment Security

May 26, 1995

The Honorable E. Clay Shaw, Jr.
Chairman, Subcommittee on Human Resources
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC, 20515

RE: *Hearing on Federal Unemployment Compensation System and Consolidation of Job Training Programs*
May 16, 1995

Dear Chairman Shaw,

The International Association of Personnel in Employment Security (IAPES) appreciates the opportunity to provide this statement for the hearing record on the above referenced matter. IAPES represents almost 20,000 professionals in the federal-state Employment Security System of Unemployment Compensation (Insurance), Employment (Job) Service and Labor Market Information. The Frankfort-based non-profit educational association also has members who are employed in various job training programs, especially in those states where innovations and customer-service improvements have led to the creation of comprehensive workforce development system under the aegis of the State Employment Security Agency (SESA). Many of the association's associate members come from the private sector. They are personnel officials who make hiring and firing decisions and work on a daily basis with Employment Security staff. IAPES serves as a source of educational and professional development material, as a clearinghouse of information, and as a legislative resource for the association's grassroots network. IAPES represents the largest collective voice of the front-line employee in the federal-state Employment Security System. It asks for the Committee's consideration of the following points.

- **Employment Security programs have a proven record of service.**

  IAPES welcomes a serious and comprehensive review of Employment Security programs. The association recognizes that the Employment Service is more than 60 years old and that the Unemployment Compensation program now is celebrating its 60th year. Both programs were created at a time far different economically than today; yet, through flexibility, innovation and customer-service efforts the programs have remained a vital part of America's economic fabric. Not only have millions of Americans benefited from direct assistance from Employment Security programs, but also many millions more have benefited indirectly. Many local economies have been kept afloat by the influx of Unemployment Compensation benefit dollars during hard economic times. These high-turnover dollars stabilize communities by allowing recipients to buy groceries, pay rent and fill gasoline tanks. These dollars are quickly pumped into local economies supporting a myriad of private-sector institutions.

  In Program Year 1994, more than 10½-million citizens received almost $30 billion in benefits. The professionals who administer the program — IAPES members — ensure that recipients are eligible through a recent attachment to the workforce that ended through no fault of their own. Unemployment Compensation is not welfare. It is for those citizens who know how to hold jobs and who pay taxes but need a bridge between jobs. Adding integrity to the system is the Employment Service, which in the same year made more than 3½-million placements and provided some job-seeking assistance to more than 12 million persons. The latter figure is an increase of more than 500,000 over the previous year, demonstrating the innovations and customer-service improvements SESAs have pursued and hands-on professionals have implemented. In Program Year 1993, an IAPES study showed that the per-placement cost was just over $200. That is a productivity measure that far exceeds other employment and training programs. Other studies have shown that an intensive work-search requirement speeds beneficiaries' return to work, which saves millions of employer-paid trust fund dollars and helps keep tax rates lower.

- **Unemployment Compensation and Employment Security are not "corporate welfare;" they are a promise made with America's private sector.**

  Much recent discussion has been raised about "corporate welfare," or government programs that subsidize American business. Unemployment Compensation and Employment Security programs, including the Disabled Veteran Outreach Program and Local Veterans Employment Representatives, are no such thing. Businesses are assessed two taxes, one state (SUI, state unemployment insurance) and one federal (FUTA, the Federal Unemployment Tax Act). SUI pays for the benefits, and FUTA pays for the administration of the program. Only in Alaska, New Jersey and Pennsylvania do employees contribute to benefit funding. Administrative dollars are wholly employer paid. This represents a promise to America's business community, which supports the Unemployment Compensation program because of its economic stabilization effects and the ability to have a highly skilled workforce available through hard economic times. Although times are different from when the program started, various reports show that there will be more job turnover. That increases the need for a comprehensive Employment Security program and for support of those citizens who are the working backbone of the nation. IAPES urges the Committee to consider that the administration of the system preserves the integrity of the benefit program, which is an actuarially based insurance system, not welfare.

- **Unemployment Compensation and Employment Security funding is unique among employment and training programs.**

  While IAPES also supports a serious review of all employment and training or workforce development programs — and understands that more consolidation and collaboration are needed in a locally responsive and empowered system — it must point out that Employment Security funding, including veterans programs, are paid by a tax on employers and not funded from general revenues as other employment and training programs. The association has long held that this unique funding source should be recognized. The association long has urged removal from the Federal Unified Budget of the unemployment trust funds for both benefits and administration. All are running at surpluses, yet the funding is pinched as the surplus dollars are used through accounting measures to help offset the deficit being accrued in general-revenue-supported programs. By identifying the funding source and recipient, government can bring a greater accountability to the programs. That accountability will fulfill the promise government has made with the private sector in creating the Employment Security System. Apart from removal of unemployment trust funds from the Federal Unified Budget, unemployment trust fund moneys should not be commingled in a comprehensive block grant that would confuse funding streams and accountability to the private sector. As the congressional debate over possible block granting of administrative dollars continues, IAPES urges the Committee to consider an alternative of an "Employment Security" block grant that also would serve the purpose of separating the funding sources. That would bring a clear funding steam and a more easily trackable accountability to the programs. Even devolution of all trust funds to the states would be superior to a commingled, all-encompassing block grant.

- **The 0.2 percent "temporary" FUTA surtax should be repealed.**

  The promise made with America's business in the mid-'70s, when the 0.2 percent "temporary" FUTA surtax was added to repay the cost of benefits and administration arising from the economic recession of that era, was that when the debt was repaid the tax would end. The debt was repaid in the mid-'80s, but it is the mid-'90s and the tax still is being collected. Worse, the moneys are not being used to support the system. Rather, through the Federal Unified Budget the funds are accruing as surplus and are being used to offset deficits in other areas of the budget. Many in the private sector call this a misuse and abuse the tax and an unneeded and expensive donation to the federal government. IAPES agrees. Private-sector employers are not even seeing an increased benefit through additional administrative spending. Factoring in inflation, less is being spent on Employment Security administration than in the 1970s. The federal government needs to honor its promise and repeal the 0.2 percent "temporary" FUTA surtax.

- **Employment Security programs are not training programs.**

  Programs supported by the unemployment trust funds — Unemployment Compensation, Employment Service, Labor Market Information, Disabled Veteran Outreach Program, Local Veteran Employment Representative — are third-party labor force intermediaries. As such, they represent job seekers and employers equally. In any emerging system, an objective third-party will be needed to provide an assessment of effective training programs. In any emerging system, there will be a critical need for current, accurate job information. In any emerging system, there will be a need for some type of income support. The Employment Security System is the only program with the proven track record of success in all these areas — and it is the only one that private-sector employers directly support with their tax dollars. IAPES urges the Committee to recognize these factors when considering job training consolidation legislation.

- IAPES believes in a broad-based system serving employers, the unemployed, job seekers and communities; easily accessible, comprehensive services; accountability, with specific performance measures; flexibility in design and operation; and a system driven by state and local needs with customer input.

  IAPES believes that the Employment Security System represents the centerpiece of the nation's future workforce development program. Its universal access can assure a "no wrong door" approach. It already has a collaborative relationship with the private sector and a growing linkage with other workforce development programs. It has a proven record of productivity, flexibility, innovation and customer-service responsiveness needed to meet today's economic challenges.

IAPES again expresses its appreciation for this opportunity to comment. The association offers its assistance in any way to help improve a program that is staffed by dedicated, professional public servants who are working to ensure the economic security of the nation.

Sincerely,

Bill Patton, President
International Association of Personnel
in Employment Security
1801 Louisville Road
Frankfort, KY, 40601
502/223-4459

Written Statement of the

International Union, UAW

Introduction

This statement is submitted for the record on behalf of the International Union, UAW and its 1.5 million active and retired members. Because unemployment compensation plays a key role in assisting unemployed workers and stabilizing our economy, the UAW welcomes this opportunity to submit its views to the Committee.

Advisory Council on Unemployment Compensation

The union has taken an active role in unemployment compensation matters for decades, most recently through the participation of UAW President Owen Bieber on the Advisory Council on Unemployment Compensation (ACUC). To date, the ACUC has issued two of its expected three reports. The UAW wishes to point out a number of the most important findings and recommendations of the Advisory Council.

First, the Advisory Council has recommended a return to forward funding of the unemployment compensation system. That is, states should be encouraged and rewarded for accumulating funds during economic recoveries in order to pay benefits during recessions. This advances the national interest by preserving the living standards of the unemployed and giving the economy a boost. Forward funding also has the admirable result of avoiding UI tax increases and benefit cuts during recessions. The use of forward funding would also reduce state borrowing from the FUTA trust funds, and the accompanying interest charges and solvency taxes which are passed on to employers in debtor states. The ACUC report clearly found a positive relationship between adequate reserves and avoiding borrowing during a recession. For this reason, the Advisory Council advocated the use of interest premiums on reserves above adequate levels and adjustments in interest rates on other states to encourage states to forward fund their UI trust funds.

The UAW believes that the inclusion of both state and federal UI trust funds in the federal unified budget undercuts forward funding in significant ways. For example, employers rightfully complain about the use of FUTA trust funds to offset the federal deficit, especially when budget rules require further offsets when these dedicated funds are used for their intended uses. States are likewise right to complain when administrative FUTA funds are inadequate to support state agency activities at levels sufficient to serve claimants and employers. Claimant advocates also properly object to viewing UI benefits simply as budget "costs" without regard to their important income maintenance and economic stabilization features.

More perniciously, the inclusion of the UI trust funds within the federal budget leads to efforts to impose federal restrictions on benefit "costs" without regard to the wisdom of the particular proposal for UI policy. Two examples are the federal income taxation of UI benefits, imposed in 1986, and current proposals to add a two-week "waiting period" as a budget measure. The UAW supports the Advisory Council's recommendations of removal of all UI trust funds from the federal budget and the repeal of income taxation of UI benefits.

The Advisory Council's reports document the serious erosion in the number of unemployed workers getting UI benefits in the last decade or so. A widely used measure of UI benefit recipiency is the ratio of insured unemployed workers to total unemployed workers. In 1993, twelve states had an IU/TU ratio of less than 25

percent. Thirty-two of the 52 jurisdictions had an IU/TU ratio of less than one-third. Even so-called "job losers" are no longer getting UI benefits, although they clearly fall into the involuntarily unemployed category of workers for whom UI is mainly intended to assist. Since 1970, the ratio of UI claimants to job losers has fallen nearly forty percent.

A major contributor to the decline in receipt of UI benefits is the virtual elimination of Extended Benefits (EB) as a result of restrictions adopted in 1981. As a result, long-term unemployed workers remain without assistance during recessions. An unintended consequence of the effective elimination of EB is the use of less targeted, temporary benefit extensions. The most recent such program was the Emergency Unemployment Compensation (EUC) program. The ACUC's first report demonstrated that EUC cost much more than a properly constituted EB program. In fact, the EUC program ultimately cost $30 billion, while a properly reformed EB was estimated by the ACUC to cost at most $14 billion. The Advisory Council's first report made a number of recommendations to restore the EB program. These measures should be adopted before the next recession.

In order to reverse the decline in receipt of UI benefits, the Advisory Council recommended a number of steps for states. These include the adoption of moveable, or flexible base periods, and easing of high initial monetary eligibility requirements adopted in some states. Eight states already use moveable base periods, or similar measures to permit workers flexibility in measuring their participation in the labor market prior to their separation from work. The Congress should consider means to encourage states to adopt these and similar measures needed to reverse the decline in recipiency of UI benefits.

In recent years, the Internal Revenue Service has charged the trust funds up to $100 million to collect the FUTA taxes. State agencies already collect state UI payroll taxes and could collect FUTA taxes with little or no added cost to the trust funds. For these reasons, the Advisory Council recommended that the states be authorized to collect the FUTA taxes and turn them over to the federal trust funds as is currently done with state UI payroll tax revenues.

The recommendations of the ACUC are supported by extensive factual documentation and investigation, and represent a consensus of the members of the Advisory Council. For this reason, the UAW believes they deserve the Committee's prompt and favorable consideration.

The FUTA Surcharge

Despite the severe budget cuts being imposed on many critical programs, employer groups are advocating the immediate repeal of the so-called .2 percent FUTA surcharge. The UAW opposes this repeal. It would have a serious and negative impact upon the FUTA system. The UAW has grave doubts about the impact on the FUTA trust funds and their ability to adequately fund extended benefits during the next recession, if the FUTA surcharge is repealed.

Most fundamentally, employers have no factual grounds upon which to base their requested repeal of the FUTA surcharge. Since the federal taxable wage base has been frozen at only $7000 for over a decade, inflation has effectively reduced the impact of the FUTA surcharge to nil. In fact, taking inflation into account shows that the current $56 FUTA payroll tax is at its historically lowest level in the history of the program. That historic low occurred in 1970, when a .5 percent effective FUTA tax on a $3000 taxable wage base cost employers $56 dollars in terms of 1993 dollars. The attached Exhibit A is taken from the 1995 Report of the Advisory Council and gives the complete history of the changes in the FUTA tax rate and taxable wage base.

In short, despite its initial plausibility, this historical overview shows that the continuation of the "temporary" FUTA surcharge has not worked an injustice upon

employers. In fact, in terms of inflation, the overall FUTA tax has fallen dramatically from $81 when the $7000 taxable wage base was adopted in 1983 to its present level of $56. For this reason, we urge the Committee to reject calls for the repeal of the FUTA surcharge.

Trade Adjustment Assistance and NAFTA Transitional Adjustment Assistance

There is a great deal of discussion swirling around dislocated worker training programs. There is talk of consolidation, block grants, and vouchers. Some have called for the elimination of Trade Adjustment Assistance (TAA) for workers and the related NAFTA Transitional Adjustment Assistance (NAFTA TAA) program. Others have advocated the consolidation of these programs into a training block grant.

The UAW supports the continuation of TAA and NAFTA TAA programs as separate programs. To some critics, these programs seem out of line because their cost sometimes exceeds that of other dislocated worker programs. With all due respect to TAA's critics, what's out of line is the low cost of many more ineffective programs which fail to adequately retrain workers and waste scarce resources. In the UAW's view, it is far worse to pretend to serve dislocated workers with low-cost programs which fail to address the retraining needs of workers, than to give some trade-impacted workers access to quality retraining and the income support necessary to successfully complete that retraining. Until the United States adopts and funds a comprehensive dislocated worker program and active labor market policies to provide jobs to unemployed workers, the UAW will fight to preserve TAA and NAFTA TAA as separate programs to address the specific needs of trade-impacted workers.

Both TAA and NAFTA TAA represent a promise (dare we say "contract") with workers harmed by our nation's "free trade" policies. The economic, social, and emotional damage delivered by these free trade policies to eligible workers and their communities far exceeds the funds spent on TAA and NAFTA TAA throughout their history. Despite the claims made by NAFTA and GATT supporters of benefits to American workers of our free trade policies, the UAW strongly objects to the elimination of TAA and NAFTA TAA or their inclusion in a block grant.

Employment Service

Currently, there is a great deal of discussion and controversy surrounding government training and reemployment services. In reacting to current criticisms, Congress would be well advised not to forget history and to build upon, rather than abandon, current programs. Every modern economy has a role for a public labor exchange. The UAW supports the preservation and strengthening of the Employment Service, and strongly opposes efforts to repeal the Wagner-Peyser Act or to include the Employment Service in proposed training block grants.

In large measure, the Employment Service has been subjected to benign neglect over the last 25 years. Congress has frequently added new responsibilities such as work registration of targeted populations or claimant profiling without providing additional staff or funding to fulfill these responsibilities. State employment security agencies have not been adequately funded over many years, and, as a result, the majority of states have had to use state funds at various times to supplement federal Wagner-Peyser dollars.

Despite this benign neglect, the Employment Service provides cost-effective services to many employers and workers in the lower-wage sectors of the economy. While many private employment services provide temporary placements for these workers, the Employment Service remains the job finder of last resort for many in our economy. With added support, the Employment Service has become a true one-stop center for both employed and unemployed workers, as well as for employers, in some communities. The Committee should take note of the many innovative and strong

programs developed in the federal-state Employment Service and work to develop similar initiatives in all states, rather than throwing out the baby with the bathwater.

Federal administrative dollars for the Employment Service are already block grants. If there are particular obstacles to better state administration of the Employment Service block grants, those obstacles should be addressed by the Congress or the Secretary of Labor. Including the Employment Service in a larger block grant would increase the danger that the functions of the Employment Service would be neglected or subject to political and proprietary pressures. These pressures led to the establishment of the Employment Service in 1933, and they have not disappeared to date. For these reasons, the UAW urges the Committee to strongly defend the Employment Service against unwarranted and radical proposals, while encouraging or permitting increased innovation and flexibility.

Conclusion

The employment security system in the United States has evolved over the last sixty years. While improvements and increased efficiency are welcomed, the current debate, at times, seems pointed more toward dismantling the system, rather than reforming it. In assessing the wisdom of the current proposals, the Committee must consider that the state employment security agencies and their federal counterpart have built a largely successful partnership which serves hundreds of thousands of workers and thousands of employers. Dramatic changes in this partnership should happen only when a compelling need is demonstrated, and only when a convincing case is made that improvements will follow from the change. The UAW does not find that either of these factors have been established by the advocates of the proposals before this Committee today, and for this reason we urge their rejection.

We thank the Committee for this opportunity to present our views.

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Statement of
Kenneth McLennan
President
Manufacturers Alliance
on
The Federal Unemployment Compensation System and Consolidation of Job Training Programs
to the
U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Human Resources

May 30, 1995

The Manufacturers Alliance is pleased to submit to the Subcommittee on Human Resources a statement of its views on reforming the unemployment insurance (UI) system, repealing the Federal Unemployment Tax Act (FUTA) surtax, and consolidating federal job training programs.

The Manufacturers Alliance is a policy research and professional development organization whose 500 member companies include leaders in almost every manufacturing industry. For more than 60 years, the Alliance has served as a spokesperson for policies which promote technological advancement, workforce development, and economic growth.

All our member companies pay UI taxes. In recent years, most have undergone restructuring that has had the effect of displacing some workers, while at the same time searching for skilled new hires. These companies have a vested interest in a more efficient labor force development program, and support the principle that government programs that affect the marketplace should be able to satisfy certain tests in the market to remain viable. These tests include providing services at lower cost, being accountable in the quality of the services offered, a business-as-the-customer orientation, and efficient and effective planning and follow-up.

The business community welcomes a thorough review of the unemployment compensation program and an examination of consolidating and redesigning federal employment and training programs. To summarize the points made in this statement, the Manufacturers Alliance first explains how current changes in the labor market have altered the goals for UI and worker training. Improving the effectiveness of UI can be achieved, the Alliance believes, by shifting the focus to *re*employment. Also, the Alliance comments on the 0.2 percent FUTA surtax. The Manufacturers Alliance concludes its remarks by recommending that the subcommittee apply a number of basic points as it prepares to consolidate and reform the federal employment and training program.

The Nature of Unemployment in the United States Has Changed

Policies that mitigate the effects of unemployment by offering new skills to displaced workers and training disadvantaged individuals should be reevaluated periodically in light of changing economic conditions. The UI system and the framework for most of the federally sponsored employment and training programs were developed some 25-30 years ago when the prevailing thought was most unemployment is temporary and that, in time, these workers will be recalled. Over the last 15 years, this view of the labor market has changed as structural unemployment has become an important public policy issue. The rapid growth of technological progress, corporate restructuring, the integration of the world economy, and defense downsizing have accelerated the pace of economic change, displacing many workers in the process. Structural change also has altered the nature of unemployment in a number of crucial ways.

- Today a much higher proportion of the unemployed are laid off ***permanently***—they cannot count on returning to their old jobs. Those who have lost their jobs can be divided into two groups: those who are laid off temporarily and will be recalled, and those who never return to their old jobs. In 1993, 77 percent of all job losers lost their jobs permanently—the largest proportion in the history of these statistics that go back to 1967. Even though unemployment was low last year by historical standards, 74 percent of job losers in 1994 lost their jobs permanently.

- Long-term unemployment continues to rise even during this period of economic expansion. The share of persons unemployed six months or longer as a percent of total joblessness has risen over the last 25 years. During the 1960s and 1970s, about 11 percent of the jobless were long-term unemployed. On average in the 1980s, 16 percent were unemployed for six months or longer. In 1993 and 1994, however, over 20 percent of the unemployed had been without work for longer than 26 weeks.

- As the number of long-term unemployed has risen, so has the number of UI recipients who exhaust their benefits without returning to work. In 1993, 39 percent of those who collected regular unemployment benefits ended up exhausting their eligibility; 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. And despite widespread economic prosperity last year, 36 percent of regular UI recipients exhausted their benefits in 1994.

Unemployment Compensation and the FUTA Tax

Unemployment compensation serves numerous purposes in the economy: (1) the employer-funded system provides an income safety net for workers who lose their jobs through no fault of their own; (2) weekly UI benefits for up to six months give workers the financial ability to wait out layoffs and cushion the process of finding a new job; (3) due to the countercyclical nature of the unemployment compensation payouts—larger benefits paid when there is high unemployment in recessions—the UI fund acts as a fiscal policy "automatic stabilizer" to dampen the volatility and possibly the duration of the business cycle; and (4) unemployment compensation also has been used by the Congress to deliver emergency aid to the unemployed during severe economic crisis.

It was following an economic crisis that the "temporary" FUTA 0.2 percent surtax was enacted in 1976. The tax was enacted to pay off a debt the Congress incurred by repeated extension of unemployment benefits during the early 1970s. The employer surtax is 0.2 percent of the first $7,000 of each worker's earnings (a maximum $14 per employee a year). The debt was fully paid in 1987, but the Congress extended the 0.2 percent tax for three years—until January 1991—to enhance the federal budget. Since that initial extension, the temporary tax has been extended several times. The unemployment aftermath of the 1990-1991 recession again led policymakers to offer extended benefits to the long-term unemployed, thus draining the accumulated surplus in the account. The surtax is currently scheduled to expire at the end of 1998.

To put spending in these programs into perspective, states paid out $26.5 billion in 1992, $23 billion in 1993, and $22 billion in 1994 for regular UI benefits, and federal spending on administrative costs for regular UI was between $2 billion and $3 billion per year. Despite these huge outlays, the predicament of the long-term unemployed led to enactment and repeated extension of federal emergency UI during the 1992-1993 time frame, costing an additional $13.4 billion in 1992 and $12 billion in 1993.

UI Needs a Reemployment Focus

It is imperative that government reexamine the practices in a program that pays large sums of employer-paid tax funds each year, particularly when the original goals of the program appear to have changed. As discussed above in this statement, the nature of unemployment in the United States has changed dramatically. Most workers who lose their jobs now are laid off permanently. Rather than encourage those UI recipients to wait for callback that may never materialize and consequently postpone job hunting, the UI system needs to be refocused to encourage workers to act quickly in seeking reemployment.

The Manufacturers Alliance urges the Congress to give states greater flexibility in the use of UI funds to implement several innovative approaches so as to give those insured unemployeds an incentive to find new jobs before they exhaust their benefits. For example, experiments in Illinois, Pennsylvania, and Washington show that offering reemployment bonuses cut the average length of unemployment among the eligible population by one-half week to one week—even though only 10 percent to 15 percent of eligible clients actually made use of the bonuses. The Alliance suggests Congress allow all states to pay a lump-sum reemployment bonus to individuals who obtain full-time employment within 12 weeks of filing a benefit claim.

In demonstration projects in Washington and Massachusetts, UI claimants interested in starting their own businesses, if given training and income support, were twice as likely to launch successfully a new business as a comparable nonparticipant. Subsequently, they also were found to have higher average employment rates and earnings than the control group. While there is a provision in the North American Free Trade Agreement (NAFTA) legislation that allows all states the option of creating self-employment programs within UI, this authority is only temporary under current law; the Manufacturers Alliance advocates making it permanent.

About one-third of the states now operate short-term compensation programs. Under this incentive system, partial unemployment benefits are paid to employees who work reduced hours because their employers are trying to lower costs and thus avert a shutdown, or are reducing work throughout the labor force as they attempt to avoid layoffs. The Alliance believes that the Congress should provide incentives for nonparticipating states to offer this option.

Another problem with the UI system is that dislocated workers who are in training cannot take part-time jobs without losing their UI benefits and training support. To make the system more job-oriented, workers in federally sponsored educational and training programs should be permitted to receive income support and at the same time retain wages earned of up to one-half of their weekly UI benefit amount.

FUTA Surtax Should Remain Dedicated to the Trust Fund

The 0.2 percent FUTA surtax is being used as a budget offset device; but the actual proceeds are confined to trust funds dedicated to unemployment compensation—largely the extended unemployment account. The Manufacturers Alliance recommends that the 0.2 percent FUTA surtax remain the funding vehicle for the extended unemployment compensation account and not be diverted to any other special account.

The subcommittee is aware that the Clinton Administration's proposed Reemployment Act of 1994 (REA) would have established a trust fund from the 0.2 percent FUTA surtax to pay income support to dislocated workers who are in REA training programs. The Alliance is convinced that establishing an employer-funded link between income support and worker training would set a precedent that in the future could be used to

expand training programs at the expense of business. The Alliance is totally opposed to any diversion of UI funds or the FUTA surtax to pay for worker training and education. The responsibility for helping disadvantaged people, the unskilled, or structurally dislocated workers should continue to be shared by the society at large out of general funds.

Manufacturers Alliance does not advocate that the "temporary" 0.2 percent FUTA surtax be allowed to expire, although we would not oppose such action. The Alliance proposes, however, to dedicate this tax to the extended unemployment trust fund. If the trust fund achieves a surplus during the economic expansion, this will reduce the federal budget deficit. But in a severe economic recession, the trust fund will be available to provide emergency extended UI benefits.

Consolidation of Employment and Training Programs

As mentioned previously, rapid technological innovation, corporate restructuring, the global economy, and defense downsizing have accelerated the pace of economic change and displaced many workers in the process. Dynamic economic change would be less cause for concern if today's workers were highly skilled and could adapt easily to the job opportunities that are being created. This does not appear to be the case, however. The unemployment rate for persons who have not completed high school rose from about 7 percent in the 1970s to 11 percent in the 1980s and early 1990s. By way of contrast, the unemployment rate for college graduates is only around 2 percent to 3 percent. Clearly, there are large mismatches between the abilities of those looking for work and the requirements of available jobs.

Further evidence of the need for a more effective education and training policy is the widening disparity in earnings between the high- and low-wage workers. During the 1980s and early 1990s, wage differentials widened significantly as low-skilled, primarily male, workers were forced to compete with workers in developing countries overseas for jobs in low productivity growth industries. Men with less than four years of high school experienced a decline in inflation-adjusted median usual weekly earnings of about 20 percent from 1981 to 1991. In contrast, men with four years of college achieved a real earnings gain of 2 percent, and those with five or more years of college achieved a substantial 14 percent increase in earnings over the 10-year period. Wage differentials have widened at a time when inflation-adjusted weekly earnings for all full-time wage-and-salary workers declined 0.2 percent per year. In other words, only the most highly educated people in the workforce (college graduates) have been able to improve their purchasing power in the last decade.

Society has a responsibility to assist individuals who have some job tenure and become unemployed because of structural change. The current dislocated worker adjustment system, however, should be completely overhauled. It is inequitable because many dislocated workers do not fall into the specific categories under the two largest programs, the Economic Dislocation and Worker Adjustment Assistance (EDWAA) or the Trade Adjustment Assistance (TAA), and are therefore not eligible for the special services available under these programs. The General Accounting Office (GAO) estimates that the fiscal year 1994 budget contained 154 education and training programs administered by 14 federal departments and agencies providing about $25 billion in assistance to out-of-school youth and adults not enrolled in advanced-degree programs to enhance their skills or employment opportunities.[1] Despite the Administration's and the Congress' rhetoric about consolidating various programs, the number of separate programs grew to 163 in fiscal year 1995. Under the existing programs, the enormous complexity of the system means that applicants often must fill out numerous forms to access the services available in their community and may have to go to a number of locations to determine what services they are entitled to receive and how to obtain them.

Assisting Dislocated Workers

It is time for a fundamental change in how federal education and training funds are administered, particularly for displaced workers. The Alliance fully supports a radical reform of the entire federal employment and training system as long as the goal is to deliver services more effectively and efficiently to recipients.

Various proposals to consolidate programs into employment and training block grants to states are being considered by the Congress. While the Alliance believes that states should be given flexibility to respond to local labor market conditions and should not be overburdened with the federal government's administrative procedures, the efficiency of state governments is not uniform. Some minimum requirements are needed to ensure that the federal government's workforce development funds do not support bloated and inefficient delivery systems at the state government level and that the funds go to the people most in need of the services.

The Alliance recommends that the Congress, in shaping training and related education policy, consider the following points:

— All 163 federal training and related education programs should be consolidated into a few grants with administrative procedures that allow the states sufficient flexibility to respond to local labor force needs. No new targeted worker readjustment programs should be enacted in the future.

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[1]"Multiple Employment Training Programs: Conflicting Requirements Underscore Need for Change," statement of Linda G. Morra, Director, Education and Employment Issues, Health, Education, and Human Services Division of the U.S. General Accounting Office, Labor and Human Resources Senate Subcommittee on Employment and Productivity, March 10, 1994, p. 1.

— Workforce development and educational grants should be allocated to the states based on need, using the number of unemployed in the state to determine funding levels.

— In collaboration with members of the business and educational communities and elected officials, states should be required to submit for federal review a statewide workforce development plan that contains clearly defined program goals and an action plan.

— Guidance for local workforce development programs must come from boards of directors where the majority of the directors are members of the business community. Only through business oversight and cooperation will training and development programs maintain a job orientation.

— The delivery mechanism for employment and training services should be local "one-stop" career centers. The one-stop career center is a centralized repository for job search, counseling, and program information.

— The type and breadth of reemployment services provided clients should be based on need and not delivered on a "first-come first-served" basis. Research has shown that the vast majority of unemployed workers are in need of job search assistance, not retraining. Through its profile system, the career center can screen for those unemployed and low-wage workers who have significant workforce experience, but who lack marketable skills, and who are eligible to receive federally assisted training.

— Individuals should be empowered to make their own career choices by providing vouchers to eligible recipients who are then free to use them to purchase training from accredited suppliers.

— The career centers and other service suppliers must be held accountable for the quality of their services. Outcome statistics such as placement rates and starting wages should become a part of a career center's labor market information that is made available to clients. Also, outcome statistics should become a major factor in maintaining the accreditation of training providers.

— Information on jobs in demand and skill requirements and performance statistics of service suppliers should be available to all individuals. Employers should be able also to rely on career center information systems to refer qualified candidates for job openings.

Concluding Comments

The subcommittee will hear a great deal of testimony in support of training dislocated workers in new skills so that they can compete for the high-paid jobs of the future. A common belief is that training is the answer to helping unemployed workers find new jobs. Experiences with two large training programs, the EDWAA and the TAA, have shown, however, that most dislocated workers have skills that can be transferred to new jobs, and training is not always the key to a new job. According to findings in three studies,[2] workers who were offered short-term training plus job search assistance did not experience a significant increase in earnings or employment over workers who were offered only job search assistance.

Dislocated workers who are most likely to benefit from training are those who lack marketable skills or whose present skills are no longer needed. For this reason, the Manufacturers Alliance recommends that administrators of grant programs for disadvantaged adults and dislocated workers begin by profiling the applicants. The career centers should identify eligible, dislocated workers who have skill deficiencies and move them into training early, before their regular UI is exhausted. The vast majority of unemployed workers, though, are in need of job search assistance.

Finally, the Manufacturers Alliance asks the subcommittee to consider this critical point: much of the expenditures that are earmarked for worker training and development would be unnecessary if the educational system in the United States turned out better educated adults. This country needs sweeping educational reforms such as national educational performance standards, school choice experiments, school-to-work programs, and in cooperation with community colleges, a comprehensive system of technical and professional certificates and associate's degrees. Only with a more highly educated and trained labor force will this country be able to accelerate the growth in productivity and raise the general level of wages for the U.S. worker.

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[2]Statement of Robert B. Reich, Secretary of Labor, before the Senate Committee on Finance, May 26, 1994, p. 6.

STATEMENT OF
SERGEANT MAJOR MICHAEL F. OUELLETTE, USA, (RET),
DIRECTOR OF LEGISLATIVE AFFAIRS AND
LARRY D. RHEA, DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS
NON COMMISSIONED OFFICERS ASSOCIATION OF THE
UNITED STATES OF AMERICA

Mr. Chairman. The Non Commissioned Officers Association of the USA (NCOA) appreciates the opportunity to present testimony to the subcommittee concerning a number of Unemployment Compensation issues the Association considers important. NCOA is a federally-chartered organization with a membership in excess of 160,000 noncommissioned and petty officers serving in every component of the five Armed Forces of the United States; active, national guard, reserve, retired and veteran. The issue of Unemployment Compensation for Ex-Servicemembers (UCX) has been and continues to be a key item on NCOA's legislative agenda. This statement primarily concerns the importance of retaining the UCX benefit for those military members who choose to leave military service prior to completing a 20-year career. The Association also wants to include support for two other unemployment compensation matters considered vital quality-of-life issues by military members and their families. One of these issues concerns unemployment compensation for members of the Guard and Reserve who lose their primary civilian jobs. The other concerns the possible payment of unemployment compensation to military spouses who must voluntarily terminate civilian employment due to the reassignment and relocation of the military member.

ISSUE #1

UNEMPLOYMENT COMPENSATION FOR EX-SERVICEMEMBERS (UCX)

Mr. Chairman: In 1980 Congress terminated Unemployment Compensation benefits for servicemembers who were eligible to reenlist but chose not to do so. At the same time, Congress continued to pay unemployment benefits to the miscreants, malcontents and others unsuited to military service who were denied reenlistment or discharged early.

It took only a few short years for Congress to realize that this policy imposed an inequitable and undue hardship on those who had honorably served in the Armed Forces.

Congress restored UCX benefits in the mid-eighties but imposed a five week waiting period

on ex-servicemembers to hold down the cost of the program. It also limited benefits to 14 weeks while civilians could draw up to 39 weeks of benefits.

In 1991 with high unemployment rates and the impending plan to significantly reduce the personnel strengths of the armed forces, Congress answered an NCOA recommendation that unemployment compensation benefits paid to ex-servicemembers and unemployed civilians should be equalized. Since 1991, NCOA is pleased to report to the members of this subcommittee that ex-servicemembers have rightfully enjoyed parity in the payment of unemployment compensation.

For the past number of years when "deficit reduction" has become the order of the day, the elimination of UCX is continually being discussed as a source of revenue to either reduce the national debt or provide funding to pay for other programs. The recommendations are for the most part based on the premise that those who voluntarily terminate employment are not eligible for unemployment benefits. Since military personnel terminate service by not choosing to renew their contracts, they are labeled as a group who voluntarily "quit" their jobs. NCOA suggests that military service is unique and a number of factors cause it to differ from the traditional definition of the term "job". For instance:

- **The majority of young men and women who are recruited into the armed forces, do not envision serving for a full 20-year career, but only to fulfill their military service obligation to the Country.**
- **The Department of Defense (DoD) admits their inability to manage the personnel strengths, recruiting goals or upward mobility opportunities for career-minded individuals of the armed forces if all who joined would remain.**
- **Enlistment rationale varies, but normally involves personal development, opportunity, training, travel and Montgomery GI Bill education benefits.**
- **Unlike civilian employment, military service requires a contractual agreement between the individual and government for only a specified period of years.**

- **Military members are required to fulfill the service agreement even though they may prematurely decide to return to civilian life at the end of their contracts.**
- **The nature of military assignments to overseas areas, isolated areas, military bases and installations and world-wide sea duty, far removed from hometown locales, provide little to no opportunity to seek potential employment prior to separation from military duty.**
- **Many military members return to hometown locations after acquiring a spouse or family during period of military service, posing obvious financial hardships if civilian employment is not immediately available or is slow to develop.**

NCOA would very much like to report to this subcommittee that every enlisted member who makes a decision to return to the civilian community would be able to secure immediate employment. In fact, NCOA sponsors job seekers workshops, and Job Fairs in an effort to give separating men and women assistance in finding employment following military service. Many do, but many do not. Since UCX is for the most part an enlisted program that benefits those who cannot secure employment in a timely manner, the minimal benefits associated with the Unemployment Compensation Program can be extremely valuable and most helpful during the transition and readjustment period of ex-servicemembers. Congress tried this only a few years ago and determined that based on the conditions of military service, servicemembers should be treated no differently than any citizen who finds themselves in the unfortunate situation of unemployment.

Mr. Chairman, NCOA recommends to the members of this subcommittee that ex-servicemembers be protected in law and continue to be entitled to the same Unemployment Compensation Benefit protection as is made available to every unemployed civilian.

ISSUE #2

UNEMPLOYMENT COMPENSATION FOR THE GUARD/RESERVE

The following NCOA recommendation does not concern the expansion of the Unemployment Compensation Program, but proposes a change to the way National Guard/Reserve compensation reduces the amount of unemployment compensation guard/reserve members can receive should they lose their primary jobs or sources of income.

Mr. Chairman, the decision to be an active part of the National Guard or Reserve forces has never been more important than it is today. At a time when the active forces have been reduced to what many believe are bare minimum levels, decisions must be made that will encourage young men and women to serve in guard and reserve forces. These members receive only a minimal amount of compensation for their service and must rely on their primary civilian jobs to provide for themselves and their families. If they lose civilian employment, unemployment compensation provides them some financial relief until they become reemployed. Some states exempt Guard/Reserve pay from unemployment compensation determination. In other state however, the amount of unemployment compensation a member of the guard/reserve receives is frequently reduced by the amount of military compensation received as a result of guard/reserve service. NCOA believes that such a computation formula unduly punishes a guard/reserve member for the hardships incurred as a result of his or her desire to militarily serve their Country and ultimately discourages continued participation.

NCOA recommends this subcommittee address the particular needs of guard and reserve members by providing legislative relief that would uniformly exclude any guard/reserve pay received from any offset computations to determine authorized levels of unemployment compensation.

ISSUE #3

MILITARY SPOUSES AND UNEMPLOYMENT COMPENSATION

Military members, not unlike their civilian counterparts, have come to rely on the second incomes of working spouses in order to maintain acceptable or desired quality-of-life conditions. However, working spouses who must voluntarily give-up their jobs based on the ordered reassignment of the military member. They quickly find that they are at a severe disadvantage when attempting to qualify for unemployment compensation benefits for income balance purposes. The majority of states will deny unemployment compensation benefits to the working military spouse who voluntarily quits his or her civilian job in order to follow the military member to another location. Such a situation imposes severe financial hardships on the military family who have made financial decisions based on the availability of two incomes. The consistent payment of unemployment compensation among the states would significantly reduce the financial strain on a military family who accompanies the military member, whenever possible, to a new area of assignment.

In order to assist the financial condition and the quality-of-life of military families when the working spouse must voluntarily resign a position of employment because of the reassignment of the military member, NCOA recommends this subcommittee consider legislation that would permit the payment of unemployment compensation to military spouses who face such a situation.

ISSUE #4

VETERANS EMPLOYMENT AND TRAINING PROGRAMS

Mr. Chairman, several pieces of legislation have been introduced in both Chambers of Congress that would significantly change, in some cases eliminate altogether, federal programs that were designed for and have served the Nation's veterans for as long as half a century. NCOA has no quarrel with the goals and general direction that Congressional leaders are taking, namely: (1) eliminate duplication in federal programs; (2) consolidate for cost

economy; and, (3) return authority to the States through block grants. The Association is concerned though that highly successful programs meeting veterans' employment and training needs could erode or be eliminated under some of the proposed legislation. These various legislative proposals would have their greatest impact on disabled veterans.

H.R. 511 was introduced on January 13, 1995, and included among its features is a repeal of the Department of Veterans Affairs (DVA) Vocational Rehabilitation Program (Chapter 31 Title 38 USC) and the Survivors' and Dependents' Educational Assistance Program (Chapter 35, Title 38 USC). Additionally, the Montgomery GI Bill (Chapter 30, Title 38 USC) for veterans and reserve component members would be repealed by H.R. 511.

As you are aware Mr. Chairman, Chapter 31 is available for serviced-connected disabled veterans and is designed to make them competitive and restore employability. The actual goal of the entire training effort is employment. Chapter 35 is available to dependents of totally disabled service-connected veterans or those who die while on active duty or whose death was related to service in the military. Frequently, these dependents are spouses with young family members. In place of these programs, pending legislation would establish block grants to the states. Without specific parameters clearly contained in any legislation that might be enacted, NCOA is fearful that block grants will result in different levels of benefits and perhaps even different levels of eligibility among the states.

In addition to the above, H.R. 511 would abolish entirely the Veterans Employment and Training Service (VETS) in the Department of Labor (DOL). Another bill, H.R. 1120, proposed to retain VETS but would terminate the Disabled Veterans' Outreach Program (DVOP) and Local Veterans' Employment Representatives (LVER).

VETS is headed by an Assistant Secretary for VETS and is responsible for the following programs that pertain to veterans employment and training: Disabled Veterans' Outreach Program (DVOP) and Local Veterans' Employment Representatives (LVER) administered by VETS through State Employment Security Agencies; Transition Assistance Program (TAP);

Service Members Occupational Conversion and Training Act (SMOCTA); Homeless Veterans Reintegration Project (HVRP); Job Training Partnership Act (JTPA); National Veterans' Training Institute (NVTI); and enforcement of the Uniformed Services' Employment and Reemployment Act (USERRA).

The various House Bills as well as similar legislation in the Senate would alter or dismantle all or a portion of the aforementioned programs in some way and essentially cast veterans to compete with everyone else, often at a distinct disadvantage as a result of service-connected injuries or illnesses.

NCOA will never be persuaded that the obligation to veterans, and in particular to disabled veterans, is anything less than a core responsibility of the federal government. Disabled veterans are the product of the federal government. The obligation incurred should not be passed to the states, counties and cities unless veterans are specifically targeted and protected in any block grant mechanisms.

NCOA is not contending that current programs for veterans are perfect. The Association has and will continue to support efforts aimed at improving veterans programs including their efficiency at less cost. NCOA is of the firm belief though that current highly successful programs are much more preferable than the proposed alternatives given the attendant de-emphasizing of veterans that inevitably will be the result. NCOA will hold steadfast to the proposition that answering the Nation's highest calling must be a distinguishing and deciding factor. Anything less is unacceptable to this Association.

Thank you.

STATEMENT
on
THE FEDERAL UNEMPLOYMENT TAX ACT
before the
SUBCOMMITTEE ON HUMAN RESOURCES
of the
HOUSE COMMITTEE ON WAYS AND MEANS
for the
U.S. Chamber of Commerce
by
Jeffrey H. Joseph*

May 16, 1995

The U.S. Chamber of Commerce, representing 215,000 businesses, 3,000 state and local chambers of commerce, 1,200 trade and professional organizations, and 72 American Chambers of Commerce abroad, commends the Subcommittee on Human Resources of the House Committee on Ways and Means for holding a hearing on the federal unemployment compensation system and consolidation of job training programs. The Chamber is anxious to continue to work with members of Congress on each of these important issues during the 104th Congress.

The Chamber has been working with Congress to restructure the federal training and employment system. Current proposals in the House and Senate would consolidate education, training, and employment programs into a series of one or more block grants to the states. The Chamber views block grants as a positive step toward diminishing control from the federal government and increasing state and local flexibility. However, it is essential that state and local workforce development plans emerging from the block grants maintain the goal of preparing students and workers for skills needed in a high-performance workplace. U.S. Chamber policy addressing federal training and employment programs is found in the attached statement.

The House Committee on Ways and Means has jurisdiction over several programs under consideration for the consolidation, including the Trade Adjustment Assistance program, the NAFTA/Trade Adjustment Assistance Program, and the U.S. Employment Service. We appreciate the opportunity to work with you to ensure that the new workforce development system emanating from a merger of these and other federal programs is accomplished in a manner that benefits employers and employees alike.

In the process of consolidating federal training and employment programs, the Chamber urges you to repeal the 0.2% Federal Unemployment Tax Act (FUTA) surtax, which virtually all employers are required to pay. This tax has served its purpose and must be eliminated.

The surtax has a long and lurid history. Originally enacted in 1976, the 0.2% surcharge was "sold" to employers and Congress as a "temporary" tax imposed solely to pay off a debt Congress incurred by repeated extensions of unemployment benefits during the early 1970s. The debt was fully paid in 1987, but Congress extended the 0.2% surtax for three years to "enhance" the federal budget. Since then, the surtax has been extended several times and is currently scheduled, by law, to expire at the end of 1998.

The surtax costs employers $14.00 per employee each year, and generates about $1.4 billion annually. While business is committed to helping to fund the nation's unemployment compensation system, the 0.2% surtax has served its purpose. The surtax should be given back to the nation's employers, as Congress originally promised.

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* Jeffrey H. Joseph, Vice President for Domestic Policy, U.S. Chamber of Commerce

Last year, under the Reemployment Act (REA), the Clinton Administration proposed permanently extending the surtax to pay for income support for persons needing long-term training. With help from the Chamber and other business organizations that opposed a permanent extension, the REA never made its way through Congress. House and Senate leaders rightfully showed little interest in establishing a costly new entitlement program for trainees. Interest in consolidating existing programs is the better solution.

With legislation to consolidate federal training and employment programs on the table, the Chamber urges that you consider inserting legislative language to repeal the 0.2% FUTA surtax. Keeping the Congressional commitment to end this "temporary" surcharge would send a strong signal to employers that Congress is serious about encouraging job creation and improving the global competitiveness of U.S. companies.

The Chamber looks forward to continuing to work with you to restructure federal training and employment programs and better serve the employment needs of the American workforce and business community. We remain available to assist with your reform efforts by way of testimony, briefings, and grassroots activities, among others.

STATEMENT ON

RESTRUCTURING THE FEDERAL TRAINING AND EMPLOYMENT SYSTEM

The U.S. Chamber recognizes that America's training and employment system is inadequate to meet the demands of rapidly evolving technologies and intensifying global competition. The current system is fragmented and duplicative, and often fails to provide workers and employers with the fast and effective training and placement services they need. Equally compelling is the fact that growing numbers of workers are becoming permanently displaced through structural changes in government policy and corporate restructuring, as opposed to cyclical changes in the economy. These weaknesses in the existing work-to-work transition system need to be resolved.

The U.S. Chamber, therefore, supports restructuring the federal training and employment system to make it more responsive to the needs of dislocated workers and skill requirements of employers. To be effective, it is essential that the new system reflect the following principles:

- The business community must be centrally involved in all phases of the restructured system's design, development, operation, and evaluation.

- The new system must not impose any new federal mandates or regulatory burdens upon employers. It must not be financed through the creation of a new tax or an increase in any current tax on business.

- The new system should assist workers in pursuing job search and placement assistance, career advancement, and a career change. Services must be delivered as promptly and effectively as possible to help employers make quicker and less costly connections with prospective employees. Training services must reflect the local and regional skill needs of employers.

- Information regarding career and training services should be offered competitively at the local level. Service providers may include representatives of the private sector. The creation and governance of the streamlined system must be business led. Attempts should be made to factor in the education, employment and training programs of all federal agencies.

- There must be sufficient state and local flexibility incorporated into the design and implementation of the new re-employment system. Provisions to maintain accountability and standards of quality at the state and local level should be a part of the national restructuring plan.

- The current labor market information system must be strengthened and enhanced. Voluntary occupational skills standards should be integrated into this system, so dislocated workers can know exactly what types of skills they will need for certain occupations.

- In addition to strengthening state and local flexibility, the private sector should be encouraged to compete for the delivery of education, employment and training services. One way to help spur local competition and encourage public sector programs to operate more efficiently is to put financial resources directly in the hands of individuals to pursue private or public sector postsecondary education and training. The overall goal should be to improve the learning and achievement of individuals and help them to succeed in the workplace of the 21st century.