THE PRESIDENT HAS SEEN 10/11

THE WHITE HOUSE

WASHINGTON

October 7, 1993 93 OCT 7 P7:07

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN smat for REK

SUBJECT: **Secretary Reich Memo on Dislocated Workers**

The attached memorandum from Bob Reich reflects a lengthy discussion among the core members of the NEC and your internal political advisers, e.g., Howard Paster and George Stephanopoulos (I think David Gergen was there, although I am not absolutely certain).

All who participated in that discussion agreed with Bob's recommendation regarding a NAFTA-specific dislocated worker provision. Some, including me, agreed with his recommendation with regard to how and when to deal with the comprehensive dislocated worker initiative. Some felt, however, that the general discussion should be delayed until after a NAFTA vote in Congress, their reasoning being that the more comprehensive initiative might adversely impact NAFTA with regard to some Republican votes. My view, having listened to the discussion, was to agree with the recommendation contained in the attached memorandum from Bob.

I agree w/ Bob
Q: should we allow
(people to cash in their benefits
(NAFTA affected) to start small
business

Attachment

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

93 OCT 7 P3:07

MEMORANDUM TO THE PRESIDENT

From: Labor Secretary Robert B. Reich BR

Date: October 7, 1993

RE: The Workforce Security Act

Attached is the summary of a comprehensive approach to helping workers find new jobs. For now we're calling it the Workforce Security Act -- implying that in order to embrace change, American workers need employment security rather than job security; they need help in moving easily to new work rather than being wedded to old work. Employment security goes hand in hand with health security.

As you know, this legislation can't be introduced until after the NAFTA vote. A NAFTA-specific dislocated worker provision within the NAFTA bill will sunset upon enactment of this comprehensive legislation.

Your advisors are of two minds about how specific you should be in discussing this comprehensive approach to employment security prior to the passage of NAFTA. One side argues that by outlining the program even before NAFTA introduced (perhaps in a speech in October or early November) you can put NAFTA into the broader context of helping all American workers gain better jobs. This would help NAFTA, and also lay groundwork for the comprehensive dislocated-worker legislation to follow. The other side argues that doing so could complicate passage of NAFTA by eliciting criticism from conservatives who don't want to pay for any such broader program, and might even jeopardize the comprehensive program itself by revealing it prematurely without first establishing its necessity.

My recommendation would be a middle ground: Give a speech prior to NAFTA about why Americans need the kind of security that enables us to embrace the new global economy without fear. Security for change, not security against change: (a) ensuring jobs that pay a living wage (the EITC), (b) providing health security regardless of employment, and (c) helping all workers prepare for and find the next job. Don't get too specific about the third leg but express your commitment to comprehensive legislation that identifies permanently displaced workers early, gives them counseling, helps match them with available jobs, and, where needed, places them in community colleges or other forms of long-term education and training -- all at one stop, and regardless of the cause of job loss. Say you're working on it right now and aim to introduce it early next year.

This way you can help NAFTA and lay the groundwork for this legislation without attracting criticism on the specifics.

THE WORKFORCE SECURITY ACT:
BUILDING AN AMERICAN RE-EMPLOYMENT SYSTEM

I. The Growing Problem of Structural Unemployment

In recent years, intensifying global competition and rapidly-evolving technologies have altered the nature and expanded the scale of job loss. More and more Americans are losing their old jobs and forced to find new work. Many are having difficulty matching the wages and benefits of the jobs they lost. This underlying trend of structural unemployment will in all likelihood persist. As America opens foreign markets, shifts from military to civilian employment, and reforms health care, even more of us will need to change jobs.

Some pertinent evidence of the trend:

* Last year, over 75 percent of unemployed job losers were on permanent layoff -- the highest rate of permanent job loss since tracking began in 1967.

* The length of unemployment spells continues to grow. Regular unemployment benefits extend up to 6 months. In the 1970s, an average of 11 percent of the unemployed were out of work for six months or longer; in the 1980s, 15 percent; thus far in the 1990s, 16 percent. Last year, 21 percent of the unemployed hadn't worked for six months or longer -- the second highest annual level since the end of World War II.

* Between 1984 and 1989, an average of 1.8 million full-time workers were displaced annually due to plant closings, production cutbacks, or layoffs. In 1990, the total reached 2.2 million. This year's total is expected to be the same, although the economy is rebounding.

* More than half of all displaced workers are still unemployed a year later, or employed in jobs paying less than 80 percent of their former wages.

The costs to society are mounting:

* Regular unemployment insurance benefits, paid for by payroll taxes, have averaged $22 billion annually (adjusted for inflation) over the past 5 years. (Administrative costs add another $2 billion.)

* The federal extended benefit program for those who have used up their regular benefits commenced in November 1991 and has been renewed four times since then (not including the pending renewal). The cost to date has been $25 billion.

* Lost wages, lost productivity, lost tax revenues.

II. Proposed Solution: The Workforce Security Act

The proposed response is a "re-employment" system to help workers prepare for and find new jobs.

* In contrast to the unemployment insurance system, which assumes that workers mostly need income assistance during cyclical downturns until their old jobs return, the new system recognizes that most old jobs won't return and that the central problem facing American workers is the transition to new employment. Re-employment services -- early job counseling, job-search assistance, and information on where new jobs can be found -- are critical.

* In contrast to the old training system, comprising a large number of tiny categorical programs for small groups of workers who have lost their jobs for particular reasons, and which assumes that job retraining is needed for exceptional circumstances, the new system recognizes that large numbers of workers need to be prepared for new work. Job-retraining should be available quickly and efficiently, regardless of the cause of job loss. And research shows that often the most valuable job-retraining lasts 18 months or longer.

* In contrast to the old information system, which relies primarily on help-wanted advertisements, the proposal creates a new national labor market information system to help workers make informed decisions about jobs, careers, education, and training.

1. How many workers need help? Of the roughly 2.2 million Americans who will permanently lose their job this year, an estimated 60 percent (1.3 million) would benefit from re-employment services. Of these, about one-third (400,000) also would benefit from long-term job retraining.

2. Who should be eligible? Under the proposed legislation, all workers who lose their job would be eligible, regardless of the cause of job loss.

3. What's the cost? Fully funded by 1997, these services would cost $2.07 billion annually. (The current 1994 appropriation under the old EDWAA act is $1.1 billion.)

4. Should workers who need long-term job retraining receive income support beyond their regular unemployment benefits? Under the proposal, workers who need long term job-retraining and who have been employed for at least one year prior to losing their job could receive up to one year of extended benefits.

5. What's the cost of these extended unemployment benefits? Fully funded, income support would cost $1.4 billion annually.

<u>6. What about income support for workers who don't qualify for unemployment insurance but need job retraining?</u> If they have not been employed long enough to qualify for unemployment insurance, they should be made eligible for income-contingent student loans and Pell grants.

<u>7. How can these services be linked to all other state and federal unemployment, re-employment, and training services?</u>

* States would be required to identify unemployed workers who are unlikely to get their old jobs back, as early as possible after the workers file for unemployment benefits, and refer them to all state and federal re-employment services. (This mandatory provision is contained in the pending federal extended benefit legislation.)

* Every community receiving federal funds for these services would be required to offer them, along with any state re-employment services and with unemployment insurance, at "one-stop career centers." Such centers also would determine which unemployed workers could benefit from job-retraining with extended income support, and would provide them with information about retraining programs.

"write of 'capital' unemployment benefits & re-emp. services"

* An additional amount of "venture capital" would be available, on a competitive basis, to a small number of states and communities wishing to charter one-stop centers offering re-employment services to all workers, even those who had not lost their present jobs. These vanguard one-stop centers would be subject to competition or they would be accountable to local coalitions of business leaders, educators, workers, and community groups.

<u>8. How can unemployed workers who are not in need of retraining be encouraged to get new jobs as soon as possible?</u>

* Unemployed workers who find new jobs quickly, before their regular benefits run out, ~~would receive bonuses~~. This provision is expected to cost about $40 billion annually. (Research shows that it reduces the duration of unemployment.) ? million

* Unemployed workers who to seek to establish their own businesses could receive their regular unemployment benefits at longer intervals, in lump-sum payments. (This also reduces the duration of unemployment.)

* States would be permitted to pay pro-rated unemployment benefits to workers who had lost full-time jobs and were working part-time. (This helps maintain an attachment to work even while the worker is seeking a new full-time job.)

Financing

Your February 1994 budget included $2.2 billion in assistance to dislocated workers for FY 1994, increasing to $2.8 billion in FY 1998 and beyond. The five-year cost (FY 1995-1999) would have been $13,789.

Congress has appropriated $1.1 billion for FY 1994 (under existing program authority).

Under this proposal, discretionary services (job-search assistance, job counseling, a data bank on new jobs and job-retraining, and job-retraining) would cost $2.07 billion when fully funded in 1997. The five-year (1995-1999) total would be $9.372 billion.

Income support (extended benefits for workers receiving long-term retraining who have run out of regular UI benefits) would cost $1.368 when fully funded in 1998. The five-year (1995-1999) total would be $4.367 billion.

Reforms of UI designed to hasten re-employment would cost $42 million when fully funded in 1998, for a five-year total of $180 million.

The total five-year cost of the entire program would be $13,919, of which $9.372 billion would be discretionary, and $4.547 billion mandatory.

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"What of "career" reemployment bonus to start ... Sen. ...,"

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