

## **The President's Proposed Changes to Dislocated Worker Programs in the FY 2007 Budget**

### **Career Advancement Account Gimmick Can't Hide the Fact that Less is Never More.**

*By National Employment Law Project*

#### **Overview**

With over seven million US workers out of work and millions more underemployed, dislocated workers are not finding family-wage jobs (if they are lucky enough to find employment at all). Despite this tough labor market, President Bush proposes a drastic reconfiguring of the Workforce Investment Act that would dismantle needed training services to workers and cut spending by more than \$600 million.

Despite this cut in overall training and employment funds, the Administration argues that its proposed Career Advancement Accounts will somehow provide more training to more dislocated workers by eliminating so-called "overhead." Overhead, in the context of job training programs, refers to career assessments, job referrals, and other reemployment services furnished to jobless workers by state and local workforce agency staff.

Career Advancement Accounts, like the new Medicare prescription drug program, are based upon the optimistic assumption that individuals needing government services can choose those services from competing providers without guidance on how to make the appropriate choices. Like senior citizens faced with a mountain of bewildering prescription drug plans, jobless individuals frequently need counseling and encouragement in order to find and participate in suitable retraining. By undercutting funding for agencies financed under the Workforce Investment Act, Career Advancement Accounts will leave vulnerable workers "on their own" in a self-service system, making critical training and career choices without guidance.

The result will not be more and better training: it will be less training with less dollars.

#### **The Need to Address Economic Dislocation**

Economic dislocations have been part of the U.S. economy for the past several decades—but the risks of job loss have steadily increased. The last Labor Department study on dislocated workers found that the likelihood of experienced workers being dislocated from their jobs reached a twenty year high in 2003. Two-thirds (66.3%) of such dislocated long-tenured workers (3+ years) who found a full-time job were being paid less than that they had earned at their prior job. More than one-third took a pay cut of 20 percent or more at their new job. Add in the increased cost of losing healthcare and lack of pension security, and it is clear that stakes of job loss have greatly risen in America.

Painful job dislocations continue to be a major reality in the economy. In 2005, 1.8 million workers were victim to mass layoffs (single actions that cause more than 50 workers to be laid off at one time). All told, an average of seven and a half million American workers was officially unemployed each month in 2005 – nearly one million more than when President Bush took office in 2001.

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Because of increased competition and rapid change in the economy, it is harder for people to get back to work. Long-term unemployment has nearly doubled during the Bush Administration – about one in six unemployed workers (1.2 million) has been jobless for more than 26 weeks. Moreover, these totals do not include 5.1 million people want jobs but are not counted as unemployed and 4.1 million people who involuntarily work at part time jobs. As the major plant closing announcements made by U.S. automakers indicate, this problem is not going away any time soon.

Employment programs can help rectify this serious underutilization of our nation's human capital. Training can help dislocated workers upgrade their skills or, if necessary, switch jobs to meet the changing economic mix. A more appropriately skilled workforce helps the economy as a whole, enabling U.S. workers to have a better footing in a globally competitive market. Job matching, job counseling and other reemployment services can help address the major anxiety dislocated workers face when they are forced to take new jobs. And adequate unemployment insurance programs provides the income replacement families need to whether those storms. For these reasons, there is a major concern about the Bush Administration's FY 2007 budget—as it continues a disturbing pattern of declining investment in the nation's workforce.

### **The Current Dislocated Worker Training System: The Workforce Investment Act**

The Bush Administration's FY 2007 budget proposes to eliminate the current system for providing federal support to training: the Workforce Investment Act. When WIA was first passed in 1998, it was intended to correct problems in the former Job Training Partnership Act, which restricted services to only those individuals falling into certain precise categories.

The new WIA Act, billed as a “no wrong door” approach, set up a three-tiered system. At the first level, job search and placement assistance, the provision of labor market information, and preliminary assessment of skills and needs – so-called “core services” -- are available to all adults who come to a one-stop center, with no eligibility requirements imposed. WIA mandated that certain federal programs, including TANF (welfare) and the Employment Service, be part of the “one-stop” centers. At the next level, “intensive services” including comprehensive assessments, case management short-term prevocational services and internships are available to qualified adults and dislocated workers who are unable to obtain or retain a job that leads to self-sufficiency. At the final level, job training generally provided through a voucher that pays a qualified provider, is available to a worker who has been unable to get a job. Supportive services, including transportation, child care, and housing needed to complete a training course may also be provided.

The current federal funding scheme provides funding in several areas, including for disadvantaged adults, dislocated workers, and youth. In FY 2005 twenty percent of federal dislocated worker funds were used to fund National Emergency Grants, which provide job training in cases of large-scale dislocations, such as Hurricane Katrina or closing of major manufacturing facilities. The balance was distributed to the states. Each state can set aside no more than 15 percent of its grant to support statewide activities, including assistance in the establishment and operation of one-stop centers, developing or operating state or local management information systems, and disseminating lists of organizations that can provide training. In addition, each state can set aside no more than 25 percent of its dislocated worker funds to provide rapid response services to workers affected by layoffs and plant closings.<sup>1</sup>

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<sup>1</sup> Government Accountability Office, 'Workforce Investment Act: Substantial Funds Are Used for Training, but Little Is Known Nationally about Training Outcomes,' GAO-05-650, (June 29, 2005) p. 8.

Although WIA has corrected the “no wrong door” issue, it has created a new issue involving the series of hoops that workers must pass through before they get access to training. Although the system has justly been criticized for spending only 40 percent of its funds on training,<sup>2</sup> the Administration’s new proposal dismantles nearly the entire system of assessment and guidance in favor of a “vouchers only” plan. Less investment in training programs, plus less guidance to dislocated workers, means a less effective training system.

### **Bush Proposal: Less is Less – Career Advancement Accounts**

In place of the current system, the Bush Administration proposes to consolidate major training and employment program into Career Advancement Accounts, (CAAs), a voucher-based individual training program block-granted to the states.

- *The new way:* Instead of access to free counseling and other intensive services plus a potential training voucher, workers would be given a fund of \$3,000 to buy their own training. The use of the account is limited to education and training. Unlike the Administration’s Personal Reemployment Account proposal, CAAs could only be used to pay for training and would not be available as a reemployment bonus if a worker is reemployed quickly. The \$3,000 grant could be renewed once.
- CAA grants to states would replace state Wagner-Peyser grants, which have been the bedrock of the One-Stop system and fund the Employment Service (ES). Instead, the grants could be administered by any organization, (the budget documents use the generic term, “community career centers – including, but not limited to, the existing One-Stop Career Centers”). The budget documents make reference to using the existing infrastructure “found at community colleges, public libraries, senior centers, community-based organizations.” Workers would not be required to receive any real guidance or help locating and affording training.
- States could use 22percent of their block grants for job search assistance, job counseling, rapid response or other public activities -- but these would be the only funds left for these services. Overhead is limited to just 3percent of all funding.

### **Flaws in the CAA Approach**

The Bush Budget proposals represent both a reduction in support for dislocated workers and a less effective program model to do so.

#### *Less Investment*

- In dollar amounts, the President’s proposal would reduce investment in WIA training and employment activities from \$4.1 billion to \$3.4 billion, a cut of 16 percent. The Administration claims that the program will train as many as 800,000 workers. This can only be achieved by drastically reducing the amount of resources spent on reemployment services and by capping the training for CAA recipients. This can be particularly damaging to dislocated workers who can currently qualify for training vouchers

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<sup>2</sup> Id., p. 11.

of more than \$3,000 per participant under current law. According to a GAO report, only 8 percent of local workforce boards limit current individual training accounts to \$3,000 or less.<sup>3</sup>

**Table 1 - FY 2007 Administration Budget – Career Advancement Account Proposal**

	<b>Current Funding – FY 2006</b>	<b>FY 2007 Proposed</b>
<b>WIA - Dislocated Worker</b>	\$1,471,903,360	\$0
<b>WIA- Youth</b>	\$940,500,000	\$0
<b>WIA - Adult Disadvantaged</b>	\$857,078,640	\$0
<b>Employment Service / One Stop</b>	\$850,487,220	\$39,991,000
<b>Career Advancement Accounts</b>	\$0	\$3,412,633,000
<b>Total</b>	\$4,127,089,220	\$3,452,624,000

*Not inflation adjusted*

*Source: US Department of Labor, Summary of Appropriation Budget Authority, Fiscal Years 2006-2007*

- Even worse is the outlook for future years under the Bush plan. An OMB computer run that shows proposed funding levels in later years, posted on the website of the Center on Budget and Policy Priorities, shows that the President’s intention is to continue to erode the job training programs over time.<sup>4</sup> Working from the OMB baseline, the cut to this fund occasioned by the re-organization plan reaches 20 percent by 2011 relative to the 2006 baseline.

*CAA delivery model is flawed*

The President’s proposal recognizes that the cost of infrastructure can potentially drain funds away from the provision of training. On the other hand, the special needs of individual workers and their communities are disregarded in a “self-service” system. Dislocated workers, including those with literacy, English, or other challenges, would basically be on their own to self-assess their interest, abilities, and potential for re-employment from an array of occupational classroom training, on-the-job training, and customized training offered by a myriad of four year colleges, community and technical colleges and private information technology, cosmetology and truck driving schools, to name a few. Just as is the case with the Administration’s drug program, this approach may be a prescription for disaster -- without any tools for assessment or evaluation,<sup>5</sup> dislocated workers will be easy prey for ineffective programs, programs for which they are ill-suited, and programs that offer a “get rich quick” training program with no proven results.<sup>6</sup>

<sup>3</sup> Id., p. 23.

<sup>4</sup> <http://www.cbpp.org/2-9-06bud-computerrun.pdf>

<sup>5</sup> The current program requires training providers to submit data proving their effectiveness in order take part in the system. While the cost of data collection has caused some providers to drop out, it is not clear that any sort of assessment of effectiveness would be a part of the new system.

<sup>6</sup> In at least one published article, the Administration defended its approach by citing a preliminary study by Mathematica Policy Research, Inc., that found that dislocated workers who were given mandatory counseling were just as likely to choose high-wage, high-demand occupations as those for whom counseling was discretionary. These preliminary results have yet to be followed up by the more important questions: a forthcoming analysis of how these various approaches affect additional outcomes, including training completion, customer satisfaction, and employment and earnings after training, as well as an analysis of the return on the investment in training. GAO, Id., at 25, Mathematica Policy Research, Inc., *The Effects of Customer Choice: First Findings from the Individual Training Account Experiment* (December 2004).

### *A Less Effective Reemployment System*

The Bush proposal also includes a near-complete dismantling of the service system established under WIA, and operated in combination with other federal programs. Only 22% of the reduced pot will be available for what are now critical, free, services for dislocated workers.

- **The Employment Service & One Stops:** For example, the nation's Employment Service partially funds the one-stop system established under WIA and provides invaluable job search assistance to all workers, including job matching and work registration. The program helped over 14 million workers look for jobs in 2005. The Bush budget proposes reduced funding for the One-Stop career centers and Employment Service from \$850 million to \$39.9 million. This includes the complete defunding of the state employment service systems, and a reduction of \$56.9 million in one-stop funding. If states use the maximum 22% portion of CAA grants, they will have available to them a total of \$748 million for job assessment. The total available for these activities would be \$787.9 million, (including a separate 39.1 million to be dedicated to one-stops as part of the ES funding). This is 8 percent less than current dedicated funding of \$850 million for the Employment Service and One-Stops alone.
- **Rapid-Response:** This same 22 percent of the CAA grants will have to replace up to 25 percent of adult dislocated worker funding that states can now provide for rapid response activity. Through such services, state staff are able to react to mass layoff announcements by reaching out to employees at their worksite even before they are laid off. Such advance intervention can shorten the time workers are unemployed by getting them ready for a job search or more quickly enrolling them into a training.
- **Trade Adjustment Assistance:** In last year's Bush Administration budget proposal, Trade Adjustment Assistance (TAA) was threatened with consolidation under the so-called "WIA Plus" proposal. While its FY 2007 budget leaves TAA functioning as an independent dislocated worker program, CAA block grants threaten services to TAA certified workers by stripping away funding for workforce agencies. Because TAA is a more complicated program with added paperwork and documentation, the CAA proposal's adoption will result in more hurdles for TAA certified workers.

### **Block grants provide a terrible choice for states**

The proposed consolidation of the WIA training system into a block-granted voucher system means that states would be forced to choose between spending their CAA dollars on needed assessment and guidance to workers or on training. Neither choice will benefit the numbers of workers that the President claims.

If states choose to use their 22 percent on assessment and guidance, they will have \$2.91 billion left for training, far less than the \$3.38 billion currently provided in the three training programs consolidated into CAA.

## **End Result: Less is Less**

President Bush's much-touted "ownership society" initiatives can better be described as a "go it alone" approach to governance. His newest plan to cut and consolidate WIA dislocated worker training is an ill-considered program that sets vulnerable workers adrift.

Our nation needs to make a reasoned, serious commitment to worker training programs that address the special needs of dislocated workers as individuals, provide them with the support, guidance and training that they need to be able to connect to high-wage, high-skilled jobs of the future. This approach gives us less tools and less money, and will lead to poverty for many dislocated workers.