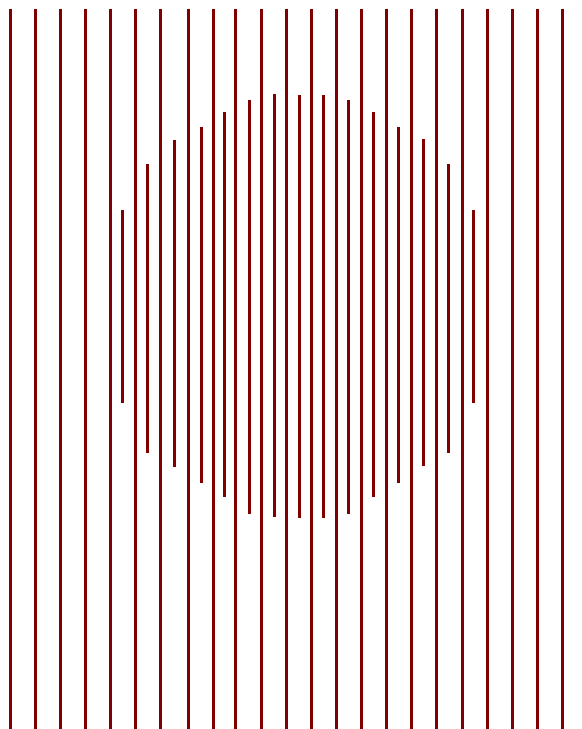


# CBO PAPERS

**AN ANALYSIS OF THE  
ADMINISTRATION'S  
PROPOSED PROGRAM FOR  
DISPLACED WORKERS**

**December 1994**



**CONGRESSIONAL BUDGET OFFICE**



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December 1994



**CONGRESSIONAL BUDGET OFFICE  
SECOND AND D STREETS, S.W.  
WASHINGTON, D.C. 20515**



## **PREFACE**

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The Administration's proposed Reemployment Act of 1994 would establish a comprehensive reemployment program for workers who were permanently terminated from their jobs. It would also create a capped entitlement to income support for certain of these displaced workers who were participating in long-term training and educational activities. At the request of Senator Pete Domenici, Ranking Republican on the Senate Budget Committee, this paper examines the proposal. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, the paper contains no recommendations.

Ralph Smith of CBO's Health and Human Resources Division prepared this paper under the direction of Nancy M. Gordon. The estimate of the proposal's cost was prepared by Cory Oltman, formerly of CBO's Budget Analysis Division, under the direction of C.G. Nuckols and Paul Cullinan, and by Peter Ricoy of CBO's Tax Analysis Division under the direction of Rosemary Marcuss and Richard Kasten.

CBO gratefully acknowledges the cooperation and assistance of the staff of the Department of Labor. In addition, valuable comments were provided by Sandra Christensen, Gail Del Balzo, Paul Cullinan, Ann Lordeman, and Bruce Vavrichek. Sherwood Kohn edited the manuscript, Christian Spoor proofread it, and Ronald Moore prepared the final version of the paper.

Robert D. Reischauer  
Director

December 1994



## **CONTENTS**

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	<b>SUMMARY</b>	<b>iv</b>
<b>I</b>	<b>INTRODUCTION</b>	<b>1</b>
<b>II</b>	<b>DESCRIPTION OF THE PROPOSAL'S KEY PROVISIONS</b>	<b>4</b>
	<b>Title I</b> 4	
	<b>Title II</b> 6	
	<b>Other Titles</b> 8	
<b>III</b>	<b>EFFECTS OF PROVIDING INCOME SUPPORT</b>	<b>9</b>
	<b>The Number of Participants</b> 9	
	<b>The Choice of Participants and     the Amount of Their Support</b> 12	
	<b>Potential Effectiveness</b> 13	
<b>IV</b>	<b>EFFECTS ON THE FEDERAL BUDGET</b>	<b>18</b>
	<b>A New Capped Entitlement</b> 18	
	<b>Other Issues</b> 20	
<b>APPENDIX</b>	<b>Cost Analysis of the Reemployment Act of 1994</b>	<b>21</b>





## **SUMMARY**

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The Administration's proposed Reemployment Act would establish a comprehensive reemployment program for workers who were permanently terminated from their jobs. The act would also create a capped entitlement to provide income support for certain of those displaced workers while they participated in long-term training and educational activities. The new program would replace Economic Dislocation and Worker Adjustment Assistance (EDWAA), Trade Adjustment Assistance (TAA), and several smaller programs for specific groups of displaced workers.

The proposed entitlement program, included in title II of the bill, is the major focus of the Congressional Budget Office's (CBO's) analysis. That component is central to the Administration's goal of transforming the unemployment insurance system into a reemployment system that would make extended unemployment insurance benefits available to displaced workers engaged in long-term training and education. The Subcommittee on Human Resources of the Committee on Ways and Means reported a modified version of title II (the title within the committee's jurisdiction) in July 1994. No other part of the Administration's proposal was acted on by either House during the 103rd Congress.

As modified by the subcommittee, title II would establish a Retraining Income Support (RIS) program that would extend unemployment insurance benefits for certain displaced workers beyond the usual six-month maximum. Once the program was fully phased in, displaced workers who had worked at least three years for a previous employer could qualify for up to one year of support after they exhausted their regular unemployment insurance benefits. Displaced workers who had held a job for at least one year could qualify for up to six months of support. To qualify for that support, displaced workers would have to be making satisfactory progress in a training or education program approved by an authorized state agency, and the workers would generally have to enroll in that program within 16 weeks of losing a job. In effect, the state agencies would be the gatekeepers for access to the RIS payments.

Although the RIS payments are referred to as an entitlement, they would be limited--or capped--by the amounts to be established as a new account within the Unemployment Trust Fund. The proposed legislation, as reported by the subcommittee, would effectively limit expenditures to the available amounts. CBO estimates that spending for the income support



payments during the 1995-1999 period would total about \$2 billion, which would be nearly offset by phasing out the TAA program and permanently extending the 0.2 percent Federal Unemployment Tax Act (FUTA) surtax, which is scheduled to expire at the end of calendar year 1998. In subsequent years, federal spending for income support that is authorized by the proposed program would be limited by amounts raised by the extended FUTA tax and, therefore, would not, on net, increase the federal deficit. In 2001, the first full fiscal year during which all of the act's provisions for income support payments would be in effect, the limit would be roughly \$1.2 billion.

Some features of the proposed income support program, however, raise concerns. First, the caps would probably be well below the amounts necessary to provide income support for all of the displaced workers who would seek assistance. For example, the Department of Labor estimates that funds would be available to support about 220,000 displaced workers while they participated in education or training programs in 2001. That number represents only 10 percent of the workers that the department anticipates will be displaced in 2001. The magnitude of the income support--more than \$9,000 for displaced workers receiving the current average weekly benefit amount, provided they are eligible for the maximum duration of support--would probably make the program attractive to a larger percentage of eligible people.

Second, even though the total amount of funds available for income support would be capped, the administering state agencies would have little or no direct incentive to limit participation. The caps would be nationwide, not on a state-by-state basis. The funds would, in effect, be available to states on a first-come, first-served basis. The proposal also raises a number of other issues about who should receive income support. For example, the proposed program would enable some displaced workers to obtain support that is generally not available to other unemployed workers, such as economically disadvantaged people who participate in the training programs authorized by the Job Training Partnership Act.

Third, it is not clear whether the proposal would result in a more effective system than the current one in preparing displaced workers for new jobs. The income support would enable the recipients to participate for much longer periods in training and education programs than they do under EDWAA, which authorizes the main federal program for displaced workers. Few participants in the current program receive income support, which is one reason why few of them have participated in training programs lasting more than four or five months. But the argument that longer training would be more effective, though plausible, has not been proven.



## **CHAPTER I**

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### **INTRODUCTION**

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The Administration's Reemployment Act of 1994 was introduced in the Senate and the House (as S. 1951 and H.R. 4040) in March 1994. The proposal would establish a comprehensive reemployment program for workers who had been permanently laid off, replacing six current programs. It would also create a capped entitlement to income support for certain of these displaced workers who were participating in long-term training and educational activities. The Congressional Budget Office (CBO) estimates that federal outlays for these new programs would total almost \$9 billion over the 1995-1999 period, roughly two-fifths of which would be new spending.<sup>1</sup>

Two components of the proposal would account for most of the spending. First, a discretionary program would be established to replace programs authorized by the Economic Dislocation and Worker Adjustment Assistance Act, as well as three smaller programs for specific groups of displaced workers. The new program would provide counseling, job-search assistance, training, and other reemployment services. Second, an entitlement program would be established to provide income support for certain displaced workers who are engaged in long-term training and have exhausted unemployment insurance benefits. Trade Adjustment Assistance, including the special program for workers displaced because of the North American Free Trade Agreement, would be phased out. Other parts of the legislation include the establishment of one-stop career centers, the development of a national labor market information system, and the provision of increased flexibility for states that wish to make certain changes in their unemployment insurance or employment and training programs.

The Administration's proposal is motivated by concerns about the problems faced by many workers who permanently lose their jobs and about shortcomings in the current array of programs available to them. The Department of Labor anticipates that more than 2 million workers will be displaced from their jobs during each of the remaining years of the decade and beyond. As with their predecessors, some of these displaced workers will find new jobs with little trouble, but others will have difficulty.

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1. The Administration's policy estimate for the same period is higher (see Appendix). Most of the difference results from the treatment of the authorization for title I after 1995, which is stated in the bill as "such sums as may be necessary for each succeeding fiscal year." CBO estimates "such sums" in the subsequent years by increasing the stated authorization amount for the initial year for projected inflation. The resulting amounts are less than the amounts that the Administration has stated that it would request for those years.



Some of those difficulties were documented in a previous study by CBO, which analyzed the experiences of workers who had been displaced during the 1980s.<sup>2</sup> For example, one to three years after losing their jobs, half of those workers either were not working or had new jobs with weekly earnings that amounted to less than 80 percent of their old earnings. Moreover, the vast majority of displaced workers who had found new jobs experienced some period of joblessness after displacement, and many were unemployed for substantial periods. The average duration of joblessness for people who found new jobs was almost 20 weeks.

Under current law, unemployment insurance is the main program providing income assistance to displaced workers, as well as to many other workers who lose their jobs. The Economic Dislocation and Worker Adjustment Assistance program is the main federal program providing reemployment assistance. In addition, the Trade Adjustment Assistance program provides income assistance, training, and related services to workers unemployed as a result of competition from imports. Special assistance is also offered to displaced workers whose job losses were related to enforcement of the Clean Air Act, cuts in defense spending, or, most recently, the North American Free Trade Agreement.

The Administration identified five major features of the current set of programs that it argues should be corrected. The first feature is that the eligibility for several of the programs is based on the specific cause of the displaced workers' job loss, rather than on their needs. The second is a failure to provide reemployment services quickly. The third is a lack of adequate long-term training and educational opportunities for displaced workers. The fourth is inadequate information about the labor market. And the fifth is a lack of focus on reemployment in the unemployment insurance system.<sup>3</sup>

Those problems are addressed in the proposal's key provisions. The new federal entitlement program that would be established by title II is of particular interest. It would be a fundamental departure from the federal government's long-standing strategy for aiding displaced workers.<sup>4</sup> A modified

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2. Congressional Budget Office, *Displaced Workers: Trends in the 1980s and Implications for the Future* (February 1993).

3. These problems are discussed in Department of Labor, *Reemployment Services: A Review of Their Effectiveness* (April 1994), especially pp. 12-18.

4. For a more detailed examination of the other parts of the proposal, see Congressional Research Service, "Job Training Legislation and Budget Issues," CRS Issue Brief IB93076 (updated regularly), and Congressional Research Service, "Creating a Federal Employment and Training System: An Overview," CRS Report for Congress 94-144 EPW (February 24, 1994). Some of the issues concerning the income support provisions are also discussed in Congressional Research Service, "The Proposed Reemployment Act





version of this feature of the Administration's original proposal is contained in the only part of the bill that was reported by a subcommittee of either House during the 103rd Congress.



## **CHAPTER II**

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### **DESCRIPTION OF THE PROPOSAL'S KEY PROVISIONS**

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The Administration's proposal, as introduced in March 1994, calls for a wide-ranging revision of the federal government's programs for assisting displaced workers. The Subcommittee on Human Resources of the Committee on Ways and Means reported a modified version of title II of the bill (the title that falls within that committee's jurisdiction) in late July.

The main difference between title II of the original bill and the reported version is that the latter contains specific provisions that would assure that spending on the new income support program would be limited by annual caps.<sup>1</sup> Although the Administration intended the new entitlement program to be capped, the original legislative language was ambiguous, in the opinion of the Congressional Budget Office.<sup>2</sup> (The description of title II in this chapter is based on the bill reported by the subcommittee.)

#### **TITLE I**

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Title I would establish the Comprehensive Program for Worker Reemployment, which would replace the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Program, as well as the Defense Conversion Adjustment Program, the Defense Diversification Program, and the Clean Air Employment Transition Program. The new program would begin on July 1, 1995.

The bill authorizes about \$1.46 billion for 1995 and such sums as may be necessary for this title in subsequent years. The Department of Labor has indicated that the Administration intends to request substantially more for the program in subsequent years, totaling nearly \$10 billion over the 1995-1999

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1. Another difference is that the reported bill contains a new section that would permit the Secretary of the Treasury to make advances to the income support account for retraining from other Unemployment Trust Fund accounts, which must be repaid in the same fiscal year. The reported bill also moves the starting date for the proposed new income support program from October 1, 1995, to July 1, 1995.
  2. Unlike the original bill, the bill reported by the subcommittee contains specific provisions concerning the actions that the Secretary of Labor must take if he or she estimates that the amount of income support for retraining individuals would exceed the amount estimated to be available. These actions include directing the states to reduce the weekly amounts payable to the participants, to reduce the maximum duration of those payments, to not begin payments to new individuals, or any combination of those actions.



period.<sup>3</sup> About half of that five-year total would represent net new authorizations, and the remainder would replace existing programs.

The eligibility criteria for services under title I are broad, including anyone who is now eligible for services under EDWAA. Virtually all workers who had been permanently laid off within the preceding 12-month period, or had received notice that they would be permanently laid off, would be eligible if they were unlikely to obtain new jobs in the same or similar occupations because their skills had become obsolete or they lacked job opportunities. "Permanently laid off" is defined as being laid off without the expectation of recall within the next six months. Likewise, laid-off workers who had been unemployed for at least six months would be eligible as well. (Other people who would be eligible include certain unemployed workers who had been self-employed, displaced homemakers, and workers who would be eligible for Trade Adjustment Assistance.)

The reemployment services that would be available to these displaced workers include such basic aids as a general assessment of their skills and needs; help in searching for a job, including preparation for interviews; and placement assistance. More intensive reemployment services would be made available to displaced workers who had received the basic services and had still not found a new job. Those activities could include more comprehensive and specialized assessment of their skills and needs; the development of an individual reemployment plan, which would identify goals and the appropriate combination of services needed to achieve those goals; and assistance in selecting education and training providers and obtaining income support.

Education and training services would include payment for costs up to \$4,750 per participant per year for up to two years. In addition, income support for up to 26 weeks could be provided to certain participants in education and long-term training programs. The income support under this title would be available to people who had worked for their previous employer for between one and three years. (Workers with longer tenure with their former employer would be referred to the income support program authorized by title II.) Income support under title I would be available only through 1999, after which time these displaced workers would be eligible for income support under title II.

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3. The Administration includes the discretionary spending proposed for the activities that would be authorized by this title and for the one-stop shopping that would be authorized by title III in its list of proposed investments for 1995 through 1999. See *Budget of the United States Government, Fiscal Year 1995* (February 1994), p. 245. The projected costs subsequently provided by the Department of Labor in its explanatory materials for the bill submitted in March 1994 are slightly different from the amounts included in the budget. The discussion of the department's projections in this paper is based on the more recent projections.



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## TITLE II

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Title II (both in the original bill and in the version reported by the subcommittee) would establish the Retraining Income Support (RIS) program, phase out the Trade Adjustment Assistance (TAA) and the North American Free Trade Agreement Transitional Adjustment Assistance programs, and permanently extend a 0.2 percent Federal Unemployment Tax Act (FUTA) surtax.<sup>4</sup> Other provisions would encourage states to offer a short-time compensation program to individuals who work reduced hours in lieu of layoffs and to pay reemployment bonuses to certain unemployment insurance (UI) recipients who find new jobs within 12 weeks of filing an initial claim for benefits.

The RIS program is the proposal's major innovation. Essentially, it would enable certain displaced workers to extend their unemployment insurance benefits by an additional year beyond the usual six-month maximum while they participate in training or educational activities. The weekly benefit under the RIS program would equal their weekly UI benefit. The RIS program could be viewed either as a new stipend available to certain trainees and students or as a new extended benefit program for UI recipients in which a condition of receiving the extension is that the recipient participate in a training or education program.

To qualify for RIS payments, displaced workers generally would be required to satisfy the eligibility criteria established for the reemployment services of title I, plus three more stringent criteria. First, they would have to be participating, and making satisfactory progress, in an approved training or education program developed by an agency certified by the Secretary of Labor. Second, they would have to be enrolled in the program within 16 weeks after having lost a job. More flexible rules would apply if the layoff was not initially considered to be permanent or if certain extenuating circumstances justified a delay. Third, they would have to have worked at least three years for a previous employer to qualify for up to one year of support, following the

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4. The title also included a provision that would require states to allow unemployment insurance recipients to have federal income tax withheld from their payments. This provision was subsequently included in the Uruguay Round Agreements Act, the recently enacted legislation placing in effect the General Agreement on Tariffs and Trade (GATT). Thus, the receipts from this provision (roughly \$160 million estimated for the 1996-1999 period) would no longer be available to offset direct spending for the Reemployment Act.





exhaustion of their regular UI benefits.<sup>5</sup> Displaced workers who would have qualified for the TAA program would not need to meet this three-year tenure requirement. Beginning in fiscal year 2000, displaced workers who have one or two years of job tenure would also qualify, but for only up to six months of support.

Although the RIS payments are referred to as an entitlement, they would be limited--or capped--by the availability of funds in a Retraining Income Support Account established within the Unemployment Trust Fund. These caps would increase from \$350 million in the first year to \$920 million in fiscal year 2000. (The original bill would have provided the initial amount in fiscal year 1996. That was subsequently moved to July 1995.) Beginning in 2001, the amount available would equal one-fifth of the amount collected by the federal government through the FUTA tax--roughly \$1.2 billion in that year.

The federal government would enter into agreements with states under which a state agency would be authorized to determine eligibility for RIS payments and make them. Upon certification by the Secretary of Labor of the amounts necessary to enable the states to pay the participants, the Secretary of the Treasury would transfer those amounts to the states, subject to the availability of funds. As discussed in Chapter III, the reported bill does not contain any method for apportioning those funds among the states. Thus, the funds would be available on a first-come, first-served basis.

The Administration's intention, as explained by officials of the Department of Labor, is that payments to otherwise-eligible displaced workers could not exceed the amounts specified by the caps. Changes in the original language, incorporated in the version reported by the Subcommittee on Human Resources, reflect this intention. If the Secretary of Labor estimated that the amount of income support for which displaced workers were eligible exceeded the amount available in the account, the Secretary would be required to reduce the amounts payable to recipients or to refuse benefits for new applicants.

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5. The legislation specifies several circumstances in which breaks in employment would not be counted against the tenure requirements. For example, a worker absent for up to 26 weeks in a year for a compensable disability under workers' compensation would still be able to count that year. Other rules would cover circumstances in which workers commonly have multiple employers, such as construction workers who obtain jobs through hiring halls.



## OTHER TITLES

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Titles III and IV would encourage states to develop statewide networks of one-stop career centers that would provide local points of access to training and related services and would establish a National Labor Market Information System. The bill would authorize \$250 million for those titles (combined) for each of the first five years and such sums as may be necessary for each of the following four years. Title V would amend the Job Training Partnership Act to establish "reinvention labs," through which states would be encouraged to develop innovative programs for helping low-income individuals. No funds would be authorized for those activities.



## **CHAPTER III**

### **EFFECTS OF PROVIDING INCOME SUPPORT**

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The proposed income support program raises three issues about its potential effects: What proportion of displaced workers who might seek income support would be able to obtain it, who would receive the assistance, and would the support be likely to facilitate more effective reemployment assistance for recipients?

#### **THE NUMBER OF PARTICIPANTS**

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Would the caps specified in the bill allow funds sufficient to meet the needs of the eligible displaced workers who are likely to seek income support or would the caps restrict aid to insufficient amounts? Although that question cannot be answered without knowing how the program would be carried out, it appears likely that the caps would be well below the amounts required to provide income support for all of the displaced workers who would seek assistance.

The Department of Labor estimated that the amounts specified by the caps would be sufficient to provide income support to about 220,000 displaced workers a year once the program was fully implemented in 2001. This number is 10 percent of the workers that the department anticipates will be displaced in that year. Roughly 125,000 of those participants would be workers who had been displaced from jobs in which they had worked at least three years; they would qualify for up to 52 weeks of income support while in training or education programs. The remainder would qualify for up to 26 weeks of support while in training or education activities.<sup>1</sup>

In the first few years, funding and participation levels would be much lower. For example, the department estimated that in 1996, 1997, and 1998 roughly 80,000 displaced workers who had at least three years of job tenure would begin receiving income support each year. Most workers who had fewer years of tenure would not be eligible for the income support authorized by title II, although they might be eligible for support through the discretionary program authorized by title I.

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1. These estimates are based on the assumptions that the average duration of retraining income support for participants who would be eligible for the longer period would be 36 weeks and that those eligible for the shorter period would receive support for an average of 16 weeks. These assumptions seem reasonable and are consistent with the experiences of workers who received income support for training authorized by the Trade Adjustment Assistance program.



The Department of Labor's estimate of the total number of displaced workers was based in part on the Congressional Budget Office's analysis of responses from the displaced worker supplements to the Current Population Survey. That study estimated that during the 10-year period ending in 1990, the annual number of workers permanently losing full-time jobs ranged from 1.5 million (in 1988) to 2.7 million (in 1982) and averaged about 2 million displaced workers during the decade. Half of those displaced workers had worked for an employer for at least three years.

The department projected that the total number of displaced workers (including workers displaced from part-time jobs, who would also be eligible for aid under the proposal) would increase to 3.1 million in 1993; fall to 2.6 million in 1994; and then gradually decline by 1997 to 2.2 million, where the number would remain for the next several years. Although CBO does not itself forecast the number of displaced workers, these projections appear to be reasonable in the absence of any major economic downturns.<sup>2</sup>

The anticipated number of displaced workers who would need income support seems much too low, however. The department based its estimates on the expected number of displaced workers who would be participating in long-term training or education programs funded by title I and who would meet the additional criteria of tenure for income support. Because most of the funds appropriated for title I would be allotted among the states by formula, each state would have an incentive to limit referrals to education and training activities in order to reserve the available money for those who would most benefit. But that approach overlooks the possibility that the staff in the state agencies would, in addition, approve income support for some displaced workers whose training or education was not funded by title I.

This omission is important because many displaced workers probably would find other ways of financing training and would be encouraged to do so. Even displaced workers who were otherwise eligible and who paid for their own training or education could be approved for income support. Given the magnitude of the income support--totaling more than \$9,000 for 52 weeks for a displaced worker receiving the average weekly benefit amount (if the worker is eligible for the maximum duration of support)--it seems likely that many displaced workers would seek income support even though they were not participating in activities funded by title I.

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2. The projections are also consistent with findings from the newest survey of displaced workers, which indicated that 2.6 million workers were displaced in 1991 and 2.7 million were displaced in 1992. These estimates were provided by staff of the Bureau of Labor Statistics, based on unpublished tabulations from the February 1994 supplement to the Current Population Survey. Their findings are scheduled to appear in an article in the *Monthly Labor Review* in 1995.





The way in which the program would be put into effect is critical because an unemployed person who met all of the other eligibility criteria would not be entitled to cash assistance unless a state agency determined that the individual's long-term training or education was an appropriate part of his or her reemployment plan. Thus, state agencies certified by the Secretary of Labor would be the gatekeepers for this income support. Although there is no way to predict how the agencies would respond, three different analyses suggest that they would not have enough funds to accommodate the number of qualified applicants:

CBO's previous analysis of workers who were displaced during the 1980s indicates that the number who receive and exhaust regular unemployment insurance benefits each year probably greatly exceeds the number of people the Department of Labor assumed would receive income support. That study found that about 30 percent of all displaced workers exhausted UI benefits--three times the percentage of displaced workers projected by the Department of Labor to be receiving income support once the program is fully in effect.<sup>3</sup> While it is not possible to know what proportion of workers would choose to participate in extended training or education in order to continue receiving benefits, it seems likely the number would be more than one-third. The program that title II would authorize would enable workers who had exhausted their UI benefits to extend their maximum duration of income support beyond the usual 26 weeks, provided they had enrolled in an appropriate program within 16 weeks of losing their jobs.

The number of displaced workers eligible for this income support might be even higher than CBO's previous analysis suggested. The Department of Labor projects that in the remainder of this decade about 2.5 million workers will exhaust regular UI benefits each year. A study of workers who used up their UI benefits in 1989 estimated that two-fifths of them had worked for their former employers for at least three years.<sup>4</sup> If that estimate is applied to the projection of recipients exhausting benefits, roughly 1 million potential participants might be eligible each year for long-term income support. Again, it is not clear how many of them would meet the other eligibility criteria nor how many would want to participate in extended training or education.

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3. Congressional Budget Office, *Displaced Workers: Trends in the 1980s and Implications for the Future* (February 1993), p. 28. About 60 percent of the workers who reported having been displaced received UI benefits, and about half of the recipients exhausted them before finding another job.

4. Walter Corson and Mark Dynarski, *A Study of Unemployment Insurance Recipients and Exhaustees: Findings from a National Survey* (Princeton, N.J.: Mathematica Policy Research, September 1990), republished as Department of Labor, Unemployment Insurance Occasional Paper 90-3 (1990).



Finally, another indication of the pent-up demand for income support during training can be found in the large number of displaced workers who apply for Pell grants, which are less generous than the income support that would be provided through the proposed program. During the 1991-1992 academic year, 110,000 of the Pell grant applicants were classified as "dislocated workers." Most of those applicants were between 25 and 44 years old and were applying to two-year colleges or proprietary schools. Although the schools to which the individuals applied are not required to document whether the applicant actually had been displaced, the definition the schools used was similar to the one in the proposed program.<sup>5</sup>

### THE CHOICE OF PARTICIPANTS AND THE AMOUNT OF THEIR SUPPORT

Since it seems likely that more displaced workers would seek income support during training than could be funded under the proposed program's spending limits, a key issue would be how to allocate the available money. The proposal provides some guidance, but leaves considerable discretion to the federal, state, and local agencies that would operate the new program. The legislation and the supporting materials provided by the Department of Labor envision a screening process under which a reemployment plan is developed for each displaced worker, with costly long-term training or education being reserved for those who would most benefit from such assistance. But such decisions are inherently subjective ones involving considerable scope for honest disagreement.

One of the proposal's potential problems is that even though the total funds available for income support are limited, there appears to be little or no direct incentive for the state agencies to limit admissions. The funds would, in effect, be available nationwide on a first-come, first-served basis. Unlike the funds for the discretionary program authorized by title I, funds for title II would not be allotted to the states according to a specified formula. Thus, a state could aggressively market the availability of income support and certify a large number of its displaced workers for funds at little if any cost to itself or to workers who applied later in the year.

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5. These estimates are based on data provided by the Department of Education. Dislocated workers are identified on Pell grant applications because the income and asset rules are less stringent for them than for other applicants. For example, dislocated workers can report their expected income, rather than their past income, in determining eligibility.



Analysis of the proposal also raises a number of related issues concerning who would receive income support. The proposed program would enable some displaced workers to obtain income support that is generally not available to other jobless people who might also wish to participate in education and training programs. For example, participants in the Job Training Partnership Act programs for economically disadvantaged people normally do not receive stipends.

The issue of providing stipends to one set of training program participants but not another already arises under current law, but in a different manner. For example, the Trade Adjustment Assistance program enables some displaced workers to receive income support that is not available to other displaced workers. The justification for treating one group of displaced workers better than another just because the immediate reasons for their job losses were different has often been questioned. The proposed program would end such distinctions. However, it can be argued that workers who lose their jobs because of actions taken by the federal government--such as changes in trade policy--do, in fact, deserve special treatment.

The basis for setting the amount of the weekly stipend at the participant's weekly benefit amount in the UI program could also be questioned. Workers who had been earning relatively high wages in the jobs they lost would receive relatively high stipends, even though their needs would not necessarily be any greater. Moreover, the tax paid by employers to fund this benefit would have been the same amount for most displaced workers--0.2 percent of the first \$7,000 of earnings each year. Thus, the workers who would receive larger stipends might not have had more taxes paid on their behalf. Maintaining the linkage between the stipend and the UI benefit, however, would be convenient because participants would simply continue to receive their UI weekly benefit, just as they now do through the Trade Adjustment Assistance or the federal/state Extended Benefit programs.

## POTENTIAL EFFECTIVENESS

It is not clear whether the proposed legislation would result in a more effective system than the current one in preparing displaced workers for new jobs. Much would depend on how states carried it out.

The Administration anticipates that the new system would be more effective for at least two reasons. First, the consolidation of programs and other changes in the design of reemployment services would provide better services to displaced workers without regard to the reason they lost their jobs.



In particular, soon after losing their jobs, displaced workers and their employment counselors would develop a plan for getting back to work. A range of basic services would be available to them, including job-search assistance and improved information about appropriate job opportunities.

Consolidation would facilitate early assistance because it would no longer be necessary to determine a specific cause of job loss. The TAA program, in particular, has long been criticized for the length of time it takes before displaced workers are certified as eligible, as well as for inaccuracies in those determinations. Several evaluations have documented that early job-search assistance and better information about job openings lead to more rapid placement.<sup>6</sup> It is not known whether the other numerous changes in the institutional structures specified in title I would have the intended consequences.<sup>7</sup>

Second, the income support provided in Title II would enable many displaced workers to participate in training and education for much longer periods than they do under the Economic Dislocation and Worker Adjustment Assistance program. Few EDWAA participants have received income support, which is one reason why few of them have participated in training programs lasting more than four or five months.<sup>8</sup>

Although it is plausible that longer training would be more effective, it has not been proven. The studies cited by the Department of Labor in support of that argument found that postsecondary education results in higher earnings, even when it does not provide a college degree.<sup>9</sup> But those studies do not directly address the effectiveness of postsecondary education for displaced

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6. See Bruce Meyer, "Policy Lessons From the U.S. Unemployment Insurance Experiments," Working Paper No. 4197 (National Bureau of Economic Research, Cambridge, Mass., October 1992); and Department of Labor, *Reemployment Services: A Review of Their Effectiveness* (April 1994).
  7. The General Accounting Office (GAO) has issued a series of reports about the need to consolidate federal employment and training programs. For a summary of their findings and their assessment of how the Reemployment Act and other bills proposed in the 103rd Congress would deal with their concerns, see GAO, *Multiple Employment Training Programs: How Legislative Proposals Address Concerns* (August 1994). See also Congressional Research Service, "Creating a Federal Employment and Training System: An Overview," CRS Report for Congress 94-144 EPW (February 24, 1994).
  8. Department of Labor, Employment and Training Administration, *Study of the Implementation of the Economic Dislocation and Worker Adjustment Assistance Act*, prepared by SRI International (1992).
  9. Department of Labor, *Reemployment Services* (April 1994), pp. 8-11. Two of the studies, discussed below, are Thomas J. Kane and Cecilia Elena Rouse, "Labor Market Returns to Two- and Four-Year Colleges: Is a Credit a Credit and Do Degrees Matter," Working Paper No. 4268 (National Bureau of Economic Research, Cambridge, Mass., January 1993); and Orley Ashenfelter and Alan Krueger, "Estimates of the Economic Return to Schooling from a New Sample of Twins," Working Paper No. 4143 (National Bureau of Economic Research, Cambridge, Mass., August 1992).





workers. There are no studies specifically assessing whether displaced workers who have returned to school benefit more or less than other students.

The findings from a recent evaluation of training for TAA recipients raise questions about whether the training provided through the proposed program would necessarily be more effective.<sup>10</sup> That study found no evidence that the training received by TAA recipients increased their average earnings or their likelihood of being reemployed.<sup>11</sup> Those findings may be relevant for two reasons. First, the length of the training provided under the proposed program would be more like that of the training provided to TAA recipients than that provided through EDWAA, which is generally much shorter in duration. According to the recent study, about half of the TAA trainees were in programs lasting at least one year, whereas the median duration of training among EDWAA participants in recent years was well under six months.<sup>12</sup> Second, as with the Administration's proposed program, much of the training provided to TAA participants was offered at vocational training centers or at community colleges.

But important differences between the design of the TAA program and that of the proposed program diminish the relevance of these findings. Perhaps the most important difference is that under the new program displaced workers normally would be required to start training relatively quickly--within 16 weeks of the time they lost their jobs. Thus, they would be able to receive UI benefits, followed by income support during training, for well over a year. By contrast, half of the TAA trainees had been unemployed for more than 26 weeks before they started training. Another difference is that the new program would only provide income support while participants were actually in a training or education program, whereas roughly half of the TAA recipients received waivers from that requirement.

The basic case for encouraging long-term training and education for displaced workers rests on the well-documented correlation between earnings and years of education. For example, males between the ages of 35 and 44 who worked year-round, full time in 1992 and whose highest educational

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10. Walter Corson and others, *International Trade and Worker Dislocation: Evaluation of the Trade Adjustment Assistance Program* (Princeton, N.J.: Mathematica Policy Research, 1993).
  11. Specifically, after controlling for differences between the observable characteristics of the TAA recipients who participated in training and the TAA recipients who did not, the authors concluded that the employment and earnings of the two groups, three years after they began receiving UI benefits, were similar. The authors were unable to estimate whether the training increased earnings thereafter.
  12. Data provided by the Department of Labor indicate that only about one-third of the displaced workers who left EDWAA retraining activities in 1990 or 1991 had received retraining for at least 26 weeks.



attainment was a bachelor's degree earned an average of \$49,700; those with an associate degree earned \$36,600; those with a high school diploma or equivalency earned \$30,300; and those who had not finished high school earned \$21,600. The corresponding average earnings for females in that age group who worked year-round, full time were \$33,600, \$27,600, \$20,400, and \$14,200, respectively.<sup>13</sup> Moreover, the education payoff has grown substantially during the past decade, caused at least in part by technological developments that have increased the importance of knowledge rather than physical strength in the workplace. These developments are unlikely to be reversed.

Recent research indicates that the apparent gains in earnings associated with education do not simply reflect the willingness of employers to pay more to workers with better credentials or a correlation between educational attainment and innate ability. A study that contained detailed information about respondents' education, for example, found that on average, each additional year of completed postsecondary education credits added about 5 percent to a student's subsequent earnings, regardless of whether a degree was granted.<sup>14</sup> A study based on a survey of the education and earnings of identical twins found even larger gains in earnings related to education.<sup>15</sup> Although the specific findings from each of those studies have been challenged, there is little doubt that, on average, more education results in higher earnings.<sup>16</sup>

Unfortunately, those studies do not specifically address the question of whether further education and training for displaced workers would be as beneficial as higher education has been for the general population. On the one hand, displaced workers might be more motivated than the typical student; they may have a better understanding of the connection between their studies and

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13. Bureau of the Census, *Money Income of Households, Families, and Persons in the United States: 1992*, Current Population Report P60-184 (September 1993), Table 30. Similar differences in earnings among categories of educational attainment are shown for other ages as well.
  14. Kane and Rouse, "Labor Market Returns to Two- and Four-Year Colleges."
  15. Ashenfelter and Krueger, "Estimates of the Economic Return to Schooling from a New Sample of Twins." The experiences of twins enabled the researchers to reduce biases in the estimates of the gains from education that result from differences in family background and ability. Nonetheless, a critique of this study suggests that their estimate of the earnings gains associated with an additional year of education may have been overestimated because of differences in the abilities of the twins. See David Neumark, "Biases in Twin Estimates of the Return to Schooling: A Note on Recent Research," Technical Paper No. 158 (National Bureau of Economic Research, Cambridge, Mass., June 1994).
  16. The effects of proprietary schools, in particular, have been called into question. For example, a new analysis of data from the National Longitudinal Study of the Class of 1972 found that these schools did not increase the earnings of men and had mixed effects on the earnings of women. See W. Norton Grubb, "The Long-Run Effects of Proprietary Schools: Corrections," *Educational Evaluation and Policy Analysis*, vol. 16, no. 3 (Fall 1994), pp. 351-356.



subsequent earnings. And they bring with them experiences that the typical undergraduate student does not. On the other hand, they might have more difficulty returning to the classroom. Moreover, some might be attracted more by the free tuition and the stipend than by the opportunity to prepare for new careers.

Finally, some of the displaced workers who would receive income support might have returned to school or to a training program anyway. They would be better off for the stipend, but it might not increase their time in training.

Several studies have affirmed that programs that provide income support to postsecondary students increase the number of people seeking postsecondary education, but those studies have not specifically focused on displaced workers.<sup>17</sup> The effects of income support on decisions to seek training or education could be different for displaced workers than for other potential students. The effect might be greater because the subsidies that would be offered to displaced workers through the proposed program would be much larger than those offered through Pell grants and federal student loans.<sup>18</sup> But the typical displaced worker is older than the typical incoming student, has been away from school for a while, may have greater financial responsibilities, such as a mortgage, and may be more reluctant to return.

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17. For a summary of this literature, see Michael S. McPherson and Morton Owen Schapiro, *Keeping College Affordable* (Washington, D.C.: Brookings Institution, 1991), Chapter 3.

18. The maximum amount that a student can receive through a Pell grant for one year is currently \$2,300. In addition, undergraduates may borrow up to about \$2,600 for their first year of study through the federal student loan program. Had the proposed income support program been available this year, a worker displaced from a job with at least three years' tenure who was eligible for the average weekly benefit of about \$180 under the regular UI program would have been eligible to receive about \$9,000. In addition, the worker might have received tuition assistance through the discretionary program authorized by title I and might still be eligible for guaranteed student loans.



## **CHAPTER IV**

### **EFFECTS ON THE FEDERAL BUDGET**

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The most important long-term effect of the proposed Reemployment Act on the federal budget is that it would establish a new entitlement program to provide income support during training to certain displaced workers. (See the Appendix for the Congressional Budget Office's analysis of the cost of the entire bill over the 1995-1999 period.)

#### **A NEW CAPPED ENTITLEMENT**

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The proposed legislation, as reported by the Subcommittee on Human Resources of the House Committee on Ways and Means, contains provisions that would effectively limit expenditures on the entitlement program, both during the five-year period shown in CBO's cost estimate and thereafter. Some analysts are concerned, however, that the gap between the limit set by the spending cap and the amount that would be needed to meet the demand for income support could be wide.

Spending for the income support payments during the initial five-year period would be almost completely offset by the phasing out of Trade Adjustment Assistance and the revenues from extending the Federal Unemployment Tax Act surtax. CBO estimates that outlays for TAA would fall by \$830 million over the 1995-1999 period, and the FUTA tax would raise \$900 million (see the Appendix). The net effect of the income support and offsetting provisions would be to increase the deficit by about \$240 million over this five-year period. (The estimated effect on the deficit was much smaller when the bill was introduced because of the one-time revenue increase from voluntary withholding for unemployment insurance recipients included in the bill--a provision that has since been enacted in other legislation.)<sup>1</sup>

Beginning in 2001, the maximum expenditure on income support for participants in the proposed program would be a fixed percentage of the proceeds from the FUTA tax. As described earlier, the amount available for

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1. Unemployment insurance receipts are already subject to the federal income tax. This provision would require states to allow recipients to have federal income taxes withheld at a 15 percent rate on a voluntary basis. One effect of this provision would be that some taxes would be collected sooner than under current law. As noted earlier, this provision was included in the Uruguay Round Agreements Act of 1994.





income support would be limited to one-fifth of the amount collected from employers through the tax.

Thus, in the long run, the bill's entitlement and revenue provisions would not increase the federal deficit. Federal spending for income support authorized by the proposed program would be offset by the receipts from the extension of the FUTA tax surcharge. Moreover, the elimination of the Trade Adjustment Assistance program would provide some savings. The long-term effect of the entire proposal on the deficit, however, would also depend on the amounts that future Congresses appropriated for the discretionary programs.

Nonetheless, errors in forecasting revenue from the FUTA tax could cause the Secretary of Labor to curtail spending, either by lowering the amount of income support going to participants who had already begun the program or by limiting the number of new participants. Such a circumstance could arise if there was an unanticipated shortfall in FUTA revenues caused by a reduction in employment. Unfortunately, a decline in the number of jobs available could also increase the number of workers seeking training.

Moreover, the amount of income support available would be tied to a revenue source that is not likely to grow as rapidly as the demand for income support. The bill would extend a payroll tax that is applied to the first \$7,000 of each covered worker's earnings. Because the tax base is not indexed, long-term growth in this revenue source is mainly tied to the growth in the number of jobs.<sup>2</sup> The long-term growth in the number of workers eligible for income support is likely to be similar, assuming that there are no major changes in the fraction of the workforce displaced. But the total expenditures for these workers would grow by a larger amount--if spending was not capped--because the income support would equal a participant's average weekly benefit amount, which is a function of average weekly nominal wages. Analysts expect these wages to grow by about 5 percent a year in the long run.<sup>3</sup> Thus, pressures could mount to raise the spending cap. Doing so would enlarge the federal deficit unless the increase was offset by reductions in other spending or increases in revenues.

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2. The FUTA tax base is projected to grow by about 2 percent annually during the 2000-2004 period, because of an increase in employment and some additional growth attributable to wage gains in jobs paying below the \$7,000 tax base. Projected growth in employment from 2000 through 2004 is about 1 percent per year.

3. The Social Security Administration's intermediate assumption is that average annual wages in employment covered by Social Security will grow by about 5 percent annually after the turn of the century.



A related issue is whether an extension of the FUTA tax on employers is an appropriate source for aid in preparing displaced workers for their next jobs. The FUTA tax has traditionally been used to fund UI benefits and administrative costs, not stipends, whereas education and training programs have normally been funded through general revenues. The Secretary of Labor, in supporting this use of the FUTA tax, argues that doing so would help to transform the traditional UI system into a reemployment system. Opponents maintain that doing so would break the implicit agreement with employers that the taxes they pay will be used for short-term income support and related purposes. Moreover, critics argue that when the 0.2 percent FUTA surtax was originally enacted in 1976, employers were promised that it would be temporary. It was subsequently extended several times. Now, they say, it should not be extended to fund a new program.

## OTHER ISSUES

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The Reemployment Act would increase discretionary spending, assuming that subsequent appropriation acts fully funded the new programs, largely because the estimated outlays for the proposed Comprehensive Program for Worker Reemployment, the one-stop career centers, and the National Labor Market Information System would exceed estimated outlays for the Economic Dislocation and Worker Adjustment Assistance program that is being replaced. No additional savings would be achieved by eliminating the special programs for workers displaced because of the Clean Air Act or defense cutbacks, because no funds were appropriated for those programs in 1994 or 1995.

CBO's estimate of the net increase in discretionary spending for the 1995-1999 period, reported in the Appendix to this paper, is lower than that of the Administration, largely because of differences in the assumptions used for estimating the cost of a bill for years in which the authorization is expressed as "such sums as may be necessary." CBO's scoring rules require that these amounts in the years after the initial one simply be scored as the amount stated in the first year, adjusted for projected inflation. Thus, the authorization level for Title I shown in the cost estimate for 1999 is about \$1.6 billion, even though the Administration's plans, as presented in the budget request for 1995, call for \$2.4 billion for 1999.



**APPENDIX****COST ANALYSIS OF THE REEMPLOYMENT ACT OF 1994**

This appendix analyzes the cost to the federal government of the proposed Reemployment Act of 1994. The estimates are for titles I, III, and IV as introduced on March 16, 1994, and title II as ordered reported by the Subcommittee on Human Resources of the Committee on Ways and Means on July 22, 1994. A provision of title II as ordered reported would grant recipients of unemployment insurance benefits the option to have 15 percent of their benefits withheld for federal income tax purposes. Because that provision was subsequently included in the Uruguay Round Agreements Act, the receipts from it would no longer be available and are not included here.

**ESTIMATED COST TO THE FEDERAL GOVERNMENT  
OF THE REEMPLOYMENT ACT OF 1994**  
(By fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999
<b>Direct Spending</b>					
<b>Title II--Income support payments</b>					
Budget authority <sup>a</sup>	350	0	500	550	580
Estimated outlays	18	326	497	549	579
<b>Title II--Repeal Trade Adjustment Assistance</b>					
Estimated budget authority	-36	-214	-215	-222	-219
Estimated outlays	<u>-21</u>	<u>-166</u>	<u>-210</u>	<u>-217</u>	<u>-217</u>
<b>Total</b>					
Estimated budget authority	314	-214	285	328	361
Estimated outlays	-3	160	287	332	362

(Continued)



(Continued)	1995	1996	1997	1998	1999
<b>Revenues</b>					
<b>Modifications to federal unemployment tax</b>					
Total	0	0	0	0	898
	0	0	0	0	898
<b>Net Effect on the Deficit (Outlays)</b>					
	-3	160	287	332	-536
<b>Discretionary Spending</b>					
<b>Title I--Reemployment program</b>					
Authorization level	1,465	1,505	1,546	1,587	1,631
Estimated outlays	73	1,028	1,422	1,534	1,575
<b>Titles III &amp; IV--One-stop career center and labor market information system</b>					
Authorization level	250	250	250	250	250
Estimated outlays	63	250	250	250	250
<b>Repeal Title III of Job Training Partnership Act</b>					
Estimated authorization level	-1,148	-1,180	-1,212	-1,244	-1,278
Estimated outlays	<u>-57</u>	<u>-806</u>	<u>-1,115</u>	<u>-1,202</u>	<u>-1,235</u>
<b>Total</b>					
Estimated authorization level	567	575	584	593	604
Estimated outlays	79	472	557	582	590

SOURCE: Congressional Budget Office.

- a. The budget authority estimates are stated in the bill. The budget authority shown in fiscal year 1995 is available July 1, 1995 through September 30, 1996.





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## BASIS OF THE ESTIMATE

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### Direct Spending

**Income Support Payments.** Title II would create a new capped entitlement within the unemployment trust fund. The entitlement funding would be used to provide additional unemployment benefits to eligible individuals. Individuals who have been permanently laid off, were entitled to and have exhausted their unemployment benefits, and have been in an approved training program since the 16th week of their unemployment spell would be entitled to additional unemployment benefits. For fiscal years 1995 through 1999, those additional benefits would be available to workers who had three or more years of tenure with their former employer. Beginning in fiscal year 2000, the additional benefits would also be available to workers who had at least one year of tenure. Individuals who had three or more years of tenure would be entitled to up to 52 weeks of additional benefits, whereas those who had one to three years would be entitled to up to 26 weeks of additional benefits.

The benefits would be funded from the federal unemployment tax. The bill authorizes 20 percent of the tax collected to be used for additional income support payments. For fiscal years 1995 through 2000, however, the bill limits the payments to \$350 million for July 1995 through September 1996, \$500 million for fiscal year 1997, \$550 million for fiscal year 1998, \$580 million for fiscal year 1999, and \$920 million for fiscal year 2000. Outlays are estimated to be approximately \$2 billion over the period from 1995 through 1999, based on historical spending patterns for unemployment benefits.

**Repeal Trade Adjustment Assistance.** In addition, title II would eliminate the Trade Adjustment Assistance (TAA) program on July 1, 1995. The bill provides for a continuation of TAA benefits to people who were collecting benefits on June 30, 1995. The bill creates a transitional TAA program for the four years beginning July 1, 1995, and ending July 1, 1999. This transitional program would be funded out of the federal unemployment tax transfer. Workers who meet the TAA requirements would be eligible for 52 weeks of additional unemployment benefits without meeting the three-year tenure requirement. After July 1, 1999, trade-impacted workers would no longer have a separate qualification process. The Congressional Budget Office (CBO) estimates that the outlay savings from eliminating the TAA program would be \$831 million over the five-year period.



Finally, this bill would make several changes to the regular state unemployment insurance program. It would clarify current law regarding short-time compensation programs. Also, the bill would allow states to make payments for reemployment bonuses from their unemployment trust funds as long as those payments did not increase trust fund spending above what it would have been without the bonus payments. Furthermore, the bill would eliminate the sunset provision on self-employment payments. Under current law, states are allowed to withdraw money from their unemployment trust fund for the purpose of paying self-employment allowances as long as trust fund expenditures do not increase above what they would have been through 1998 without this provision. This provision eliminates the 1998 sunset date. CBO estimates that the above provisions would cost the federal government nothing.

### Revenues

Modifications to the Federal Unemployment Tax. The Federal Unemployment Tax Act (FUTA) imposes a net tax rate on employers of 0.8 percent on the first \$7,000 of earnings for each employee. The net FUTA rate of 0.8 percent consists of a permanent tax of 0.6 percent and a temporary surtax of 0.2 percent, which is scheduled to expire at the end of calendar year 1998. The provision would permanently extend the 0.2 percent surtax, resulting in a new permanent net FUTA rate of 0.8 percent.

### Discretionary Spending

Reemployment Program. The bill would authorize \$1.465 billion in fiscal year 1995 and such sums as may be necessary thereafter for a worker reemployment program. The program would replace the existing dislocated worker program under the Job Training Partnership Act. The new program would be similar to the existing one and would provide grants to states to provide reemployment services to dislocated workers--that is, the long-term unemployed or those permanently laid off.

One-Stop Career Center System and Labor Market Information System. The bill would authorize \$250 million each year for fiscal years 1995 through 1999 and such sums as may be necessary for fiscal years 2000 to 2003 for a one-stop career center system and a National Labor Market Information System. A one-stop career center system would provide grants to states to develop one-stop career centers, which would provide universal access for workers and employers to information about employment, education, and training opportunities. A National Labor Market Information System would provide



locally based, up-to-date information about the labor market, including information about job openings, labor supply, occupational trends, skill requirements, and other data necessary to assist economic development planners, education planners, and training agencies.

### Comparison of Estimates

Although CBO does not have a formal estimate of the bill's cost from the Administration, it has supplementary materials that indicate that the new reemployment discretionary program would expand over time by more than the rate of inflation. The Administration's policy estimate is \$1.864 billion in 1996, \$2.066 billion in 1997, \$2.081 billion in 1998, and \$2.397 billion in 1999. The bill authorizes such sums as may be necessary for fiscal years 1996 through 1999. CBO estimates that the authorization levels would be \$1.505 billion in 1996, \$1.546 billion in 1997, \$1.587 billion in 1998, and \$1.631 billion in 1999. The difference between the Administration's estimate and CBO's estimate for the reemployment program is attributable to different estimating methods for the sums necessary. The Administration estimates its policy requests in future years, but CBO follows long-standing scoring rules that require estimating such sums by increasing the stated authorization amount for projected inflation.

