

CONFERENCE ON JOB LOSS: CAUSES, CONSEQUENCES, AND POLICY RESPONSES  
FEDERAL RESERVE BANK OF CHICAGO

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**Welcoming Remarks**

It is my pleasure to welcome each of you to our conference “Job Loss: Causes, Consequences, and Policy Responses.”

The topic of this conference has been intertwined with most of the jobs I’ve held throughout my career. In addition to my current job as president of the Federal Reserve Bank of Chicago, I have also served as under secretary of labor at the U.S. Department of Labor and deputy U.S. trade representative. So, I have been involved with the causes, the consequences, and the policy responses to job loss dating back over 30 years.

To me, the fact that I have been involved with these topics for so long highlights their persistence. If we want a dynamic economy, where technology is changing and markets are increasingly open to competition, some workers are going to lose their jobs and we are going to need policies to address their job loss. Moreover, we are going to need to rethink our policies as new industries and different types of workers are affected by change.

I have seen both the pain and the promise of these types of changes first hand as the president of this Bank. Twenty years ago, the Chicago Fed had nearly 3,000 employees; today, we have 1,800. Much of the recent reduction was in check processing, and has been the direct result of new payments technology. As a business, electronic payment methods allow us to process payments much more quickly and efficiently. As a society, it is better in a number of dimensions not to have paper checks flying across the country to be debited to customers’ accounts. However, from an individual perspective, people who were doing a good job processing checks have to go find something else to do. That is a difficult transition for us to oversee, and I know it is very painful for those most directly affected.

In the United States, we enjoy higher productivity, and a higher standard of living, thanks to our openness to change. However, that doesn’t mean that there aren’t winners and losers. From 2001 to 2003, 5.3 million

people lost a job that they had held for 3 or more years. Such workers, known as displaced workers, are only a small portion of those who experienced joblessness during that period. However, displaced workers are the job losers that deserve particular attention. They are the workers who had major investments in their jobs. Many had developed skills that were highly specific to their employer or industry. Of course, the value of those skills often disappeared along with their jobs. As a consequence, even after they find new jobs, these new jobs tend to pay substantially less than the jobs they lost. In fact, the reduced earnings represent the largest part of the loss suffered by displaced workers.

Helping displaced workers is the right thing to do for several reasons. If we benefit overall from the changes that lead to job loss, through lower prices for example, the many winners should be willing to compensate the few losers. The costs borne by displaced workers can be very high indeed, and we, as a society, should be willing to do something about it.

In addition, there are very practical reasons to help displaced workers. These are workers who have held jobs for many years, proving they are good workers who have much to contribute to the economy. When they are unemployed for an extended period, it represents a real loss to the economy.

On a further practical note, if we aren't willing to compensate those who suffer when, for example, a trade policy is implemented, it increases the likelihood that powerful political opposition will thwart those policies. As a trade negotiator, offering assistance to displaced workers was often an important ingredient to getting trade agreements approved by the Congress. Well-crafted compensation packages can ensure that we implement policies that redound to the benefit of all.

In order to formulate policies that help redistribute the gains in an equitable manner, however, we need to know who benefits and who is hurt, and be able to quantify their gains and losses. This requires research. In the past, research has helped bring to the fore the long-term losses suffered by displaced workers, and this research has helped bring policymakers' attention to the issue.

Research may also help us design more efficient policies for displaced workers. The standard unemployment insurance, or UI, system is not well designed to serve the needs of displaced workers. It was designed to assist workers who suffered a short spell of joblessness while they moved between jobs of a similar nature. Typically, benefits are only paid for 26 weeks, and displaced workers often need longer periods to find appropriate jobs. At the same time, the current UI system may not provide them with sufficient incentives to find new jobs. While UI typically replaces less than half of a worker's former income, displaced workers can face significantly lower wages on their future jobs. Thus UI benefits may be a relatively attractive alternative for some. The resulting delays in returning to work are bad for the economy and may cause the workers' skills to atrophy. In order to design better policies, policymakers need a better understanding of the incentives faced by displaced workers, as well as the strategies that would help them quickly find jobs that best utilize their substantial skills.

If displaced workers need new skills before they can move into a new job, what are the costs and benefits of training? In the past, research has helped shed light on which workers benefit the most from training, and how best to deliver training programs. However, much of this research has addressed the delivery of training to very low skilled individuals who have perhaps, never held a steady job. Much less is known about the costs and benefits of training displaced workers, who often have substantial work histories. Are there alternative ways to get people back to work, such as wage subsidies, and if so, how should they be designed for maximum effect?

Other important questions relate to the training programs themselves: Who should do the training, and how should they be chosen and evaluated? Do workers do better when they have a choice about their retraining? A big issue we faced in the 1970s was that some organizations were not training workers in the skills that were in high demand. If an organization had several welding instructors, for example, it often turned out that they trained a lot of welders—whether or not anybody wanted to hire welders. Today, the funding of retraining displaced workers has moved closer to a voucher system, giving the worker greater choice over his own retraining. This is a step in the right direction, because the worker is more likely to choose training that will relate to current job opportunities, rather than the preference of training organizations.

I hope the upcoming discussions will clearly settle all the policy issues. But, I'm realistic enough to know that won't happen. One outcome of this conference may be a clearer understanding of what we need to learn to make better policy. To get such answers, whenever possible, policymakers ought to subject their policies to rigorous evaluations. Just because a politician or policymaker thinks a policy will work doesn't mean it will. Time and again, we have seen well-intentioned ideas that failed in practice. If policymakers are going to ask the public for more resources, they ought to be prepared to subject their policy initiatives to objective evaluation. One of the best things I did at the Labor Department was to hire Orley Ashenfelter in the early 1970s, and let him assemble a strong group of economists to evaluate manpower training programs. The work he started while at the Labor Department is still having an impact, as evidenced by the number of his former students and collaborators that are here today.

There are also important questions about the role of firms in job loss. How do firms make decisions about whom to layoff and how and when to do it? Can firms structure this process in ways that lead to better outcomes for laid-off workers? Are there choices firms can make that are better for the surviving workers, the firm overall, and the firms' customers? In our own case, the Chicago Fed was recognized by the Council for Adult Experiential Learning and the City of Chicago for the way we handle our layoffs. In particular, we give people a good deal of warning and, in addition to severance benefits, provide funds for outplacement services or retraining. A number of people have chosen to get training for jobs that are different from check processing. Anecdotally, they appear to be doing well and greatly appreciate the opportunity to get retraining. In our case, providing access to training makes sense and is the right thing to do—but it would be extremely helpful to know if this strategy makes sense on a larger scale.

Yesterday we heard about new research on some of these topics. Today we will hear about two facets of the issue of job loss: the "process and policy" affecting firms, and what to do for workers post-layoff. We have an impressive line up of panelists. We will hear from those intimately acquainted with the inner workings of firms and those with a wealth of experience on getting displaced workers back to work. This is an area where creative ideas are critical, rigorous evaluation of those ideas is needed, and communication among researchers, practitioners, and policymakers is essential for success. I'm pleased that the Chicago Fed could host this conference and help further all of these goals.