Self Employment Assistance:
Revised Report

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Table of Contents

Introduction

State Unemployment Insurance (UI) programs in seven states permit unemployed workers to become reemployed by starting their own businesses. Self Employment Assistance (SEA) pays weekly allowances to participants and provides support services for business start-ups.

This report which examines SEA programs was prepared for the U.S. Department of Labor for delivery to the Congress as required by the North American Free Trade Agreement (NAFTA) Implementation Act (PL 103-182). The report has eight sections. Section I reviews the research-evaluation background which influenced the legislative authorization and key structural elements Of SEA programs. Section II discusses the national legislation that permitted the creation of SEA programs. Section III, IV and V review the State legislative responses, the approval of SEA plans, and the main details of the State programs respectively. Section VI describes SEA program size and client characteristics. Section VII examines the economic outcomes and costs of SEA. Finally, section VIII has summary observations and recommendations.

At present, the States are authorized to offer SEA only through December 1998. A major purpose of this report is to make a recommendation regarding a possible permanent extension of SEA. The report recommends that SEA be made a permanent feature of UI programs in the States.

Three caveats accompany this recommendation. 1) The appropriate way to view SEA is as a limited program appropriate to just a small fraction of UI claimants. It can help some dislocated workers to make successful labor market adjustments, but it cannot be expected to serve more than one or two percent of UI claimants. For some, however, SEA can facilitate the transition to a new employment arrangement.

2) The recommendation to make SEA permanent is not based on a benefit-cost analysis of the current State programs. Instead, the recommendation reflects considerations such as the changes in

the global economy, enacted legislation (NAFTA), and proposed legislation (fast track) all of which could cause worker dislocation and prompt the need for such a program. As the U.S. labor market continues to evolve within an increasingly interdependent global economy, it will be increasingly important to provide a wide array of services to the unemployed and self employment assistance should be one component within the array of available services. The elements needed for a benefit-cost analysis of SEA are not available at the present time. i) The follow-up surveys by the States that gather information on post-program outcomes have low response rates and likely indicate more favorable outcomes than would information gathered from all SEA participants. ii) SEA program benefits accrue mainly as increased earnings realized over several years. The earnings histories of participants need to be followed for two to three years before accurate estimates of post-program earnings could be derived. iii) There is no control group with which to compare the earnings of SEA participants in order to estimate earnings gains attributable to the program. iv) Cost data from the States, both the added administrative costs experienced by the UI agencies and the costs of providing training and other services to SEA participants, are incomplete. Given the reporting requirements of the current SEA program, it is not likely that these four limiting factors will be surmounted in the near future. However, the States should make greater efforts to gather and report the relevant cost data as well as data on participant earnings. Specific suggestions intended to improve data collection are made in Section VIII.

3) Although a benefit-cost analysis cannot be undertaken, it can be concluded that SEA does not represent a threat to the solvency of State unemployment funds. The simple reason is that SEA programs are so small that the associated benefit payments are not an important component of payouts from these funds.

I. The Research-Evaluation Background

Several advanced market economies in Western Europe and North America promote self employment through their unemployment insurance (UI) programs. UI benefit payments are made to individuals interested in starting new businesses when they engage in entrepreneurial training, market research and other activities intended to promote successful business start-ups. Among the foreign programs, payments to participants are made either periodically, as in the United Kingdom, or as a lump sum, as in France. A review of these programs is given in Scott (1992).

In the early 1990s, demonstration projects were conducted that examined the effectiveness of UI-related self employment initiatives. These projects in Massachusetts and Washington were evaluated using a random assignment methodology, i.e., those selected to participate were assigned to two groups (the treatment group and the control group) on a random basis. Treatment group members underwent training, counseling and other interventions (or treatments), while control group members were not allowed to receive these services. Because the people were assigned to the two groups on a random basis, differences in outcomes such as the probability of a business start-up and the level of subsequent earnings could be attributed to the treatments and not to other unmeasured factors. Relatively large numbers participated in the projects, about 1500 in Washington and 1200 in Massachusetts. The evaluation of the implementation and outcomes of the projects was undertaken by ABT Associates and the Battelle Institute.[1]

In both States, treatment group participants were paid periodic allowances equal to their weekly UI benefit payments

[1] For a summary of the projects see Benus, et. al.,(1995).

while undergoing training, counseling and preparing business plans. The business preparation activities were similar in content in the two States, but in Washington, the total time needed to complete these activities was shorter. The projects differed in three important ways. 1) in Washington, each member of the treatment group who completed the designated self employment milestones was paid a lump sum amount equal to their remaining UI benefit entitlement, i.e., the total entitlement at the start of unemployment less the periodic UI allowances already received. In Massachusetts, there were no lump sum payments, only payments for the period when participants were engaged in training and other business start-up activities.

2) Selection into the projects differed markedly. Washington selected persons who expressed an interest in self employment by attending a preliminary information session and then submitting a formal application. Applications were received from roughly 1900 persons of whom about 1500 were selected for assignment into the treatment and control groups. In Massachusetts, eligibility was restricted to persons profiled as likely UI benefit exhaustees.[2] Thus, participation was conditioned on the likelihood of exhaustion as well as interest in self employment. Roughly 1500 persons submitted applications and about 1200 were accepted for assignment in Massachusetts. Participants in the demonstrations represented 3.6 percent of eligibles in Washington and 1.9 percent in Massachusetts.

3) In Massachusetts, there was a requirement that the self

[2] Profiling of dislocated workers is a technique that utilizes personal and economic characteristics of UI claimants to assign a probability of UI benefit exhaustion. It was introduced into UI programs with Extended Unemployment Compensation (EUC) legislation of 1992. Those profiled as likely exhaustees, and in need of reemployment services, are (subject to availability of local office resources) required to participate in activities intended to reduce their likelihood of benefit exhaustion. However those offered SEA were not required to participate if they did not want to.

employment demonstration have a zero impact on the state's unemployment fund. The total amount of UI support payments was not to exceed the amount that would have been paid if the demonstration's participants had been served just by the state's regular UI program. Washington had no similar constraint on benefit costs.[3]

The projects were active in Washington from September 1989 to March 1991, and in Massachusetts from May 1990 to April 1993. Information used to assess the impacts of the projects was derived from follow-up surveys of participants in both States and, in Washington, from administrative records such as UI earnings records and State tax records. Two waves of follow-up surveys were undertaken. These occurred roughly 20 months and 32 months after participants' initial selection into the demonstrations. Usable responses were obtained from 80-86 percent of participants in the first wave of follow-ups, and from 72-76 percent in the second wave.

The following paragraphs review the principal findings in six areas: i) self employment, ii) wages and salaries, iii) total earnings, iv) secondary employment, v) UI benefits, and vi) benefit cost analysis. The discussion will focus on results from the follow-up surveys. Where dollar amounts are given they are expressed in dollars of 1990 purchasing power.[4]

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[3] The lump sum bonus payments in Washington were financed by the U.S. Department of Labor's research budget. In Massachusetts, any added payouts from the State's unemployment fund due to the demonstration had to be repaid. The requirement of a zero unemployment fund impact was a deterrent to state participation in the demonstration projects. Minnesota and Oregon, which had originally been selected as demonstration states, eventually decided not to go forward, partly due to the possibility of having to use state monies to repay their **unemployment fund for any "excess"** UI benefit payments.

[4] To inflate the dollar amounts from the evaluation report to 1996 levels (the year of the State SEA reports to be reviewed later in Section VII), they should be increased by 16.35 percent. This is the percentage increase in the All Items Consumer Price

The results from Washington State were provided in two forms. First there were the results from the demonstration as originally structured. Second, results also were presented using a subset of the original participants chosen as if they had been selected through a profiling algorithm. The rationale for emphasizing the second method of selection was its affinity to the structure of allowable self employment programs subsequently authorized in federal legislation. As will be seen presently, the method of selection used in the Self Employment Assistance (SEA) programs established in the States mandated the use of profiling (for likelihood of UI benefit exhaustion). The ensuing summary emphasizes the results from Washington State based on the profiling subsample.[5] In their presentation of findings, the authors display treatment group-control group differences both as unadjusted differences in averages (means) for the two groups and as regression-adjusted differences. The ensuing discussion will emphasize the unadjusted differences,

Effects on Self Employment: Compared to the control group, the treatment group in each State was significantly more likely to experience self employment sometime following enrollment into the demonstration. over half of the treatment groups in both States had self employment experiences. The differentially higher self employment percentages in Massachusetts and Washington were 17 and 28 percent, respectively, in the first wave interviews (about 20 months after enrollment), and 11 and 22 percent, respectively, in the second wave interviews (about 32 months after enrollment).

Index (CPI) between 1990 and 1996.

[5] See Chapter 9 of Benus, et. al.(1995). In fact, most of the findings from Washington are quite similar for the two analytic groupings. The smaller "profiled" subsample consisted of 933 participants, or 62 percent of the full demonstration sample. Those selected for the "profiled" subsample were likely to exhaust UI benefits and entitled to at least 26 weeks of benefits at initial enrollment.

Apparently, temporary entry into self employment was speeded up by the demonstration, causing the first wave effects to be larger than the second wave effects. The treatment groups in both States also spent significantly more time in self employment, were more likely to be self employed at the time of the follow up interviews and experienced significantly higher self employment earnings (however, the latter difference was significant only in Washington). It should be noted that the average times in self employment were less than four months per year among all treatment groups. Also, the levels of self employment earnings and increments attributable to the demonstration were modest. For treatment members, total self employment earnings ranged from $2627 to $3029, while the increments attributable to the demonstration averaged just $1350 in Massachusetts and $2250 in Washington.[6]

Effects on Wage and Salary Employment: Among the most interesting findings of the evaluation was that the likelihood of wage and salary employment was significantly reduced in Washington but not in Massachusetts. The average number of months in wage and salary employment by the treatment group was significantly higher in Massachusetts but significantly lower in Washington. Estimated effects on annualized wage and salary earnings mirrored the time in employment, e.g., higher for the treatment group in Massachusetts but lower in Washington. The point estimates for the positive increments to annual wages and salaries in Massachusetts were $2698 and $2322 for the first and second waves, respectively, while in Washington the decreases were $1925 and $1718 for the first and second waves, respectively.

The importance of wages and salaries to members of the treatment groups in both States is noteworthy. Average months per year spent in wage and salary employment was higher than

[6] The individual point estimates for wave one and wave two are shown in Table 9.4 of Benus, et. al.(1995).

months in self employment in both States for both waves of interviews. There also was a clear tendency for average time in wage and salary employment to increase between the first and the second follow-up interviews.[7]

Effects on Total Employment and Earnings: The combined (self employment plus wage and salary employment) labor market experiences of treatment group members in both States entailed longer spans of employment vis-a-vis control group members. In Massachusetts, treatment group members worked 2.0 and 1.6 annualized months more than the controls at the time of the first and second follow-up interviews, respectively. In Washington, the treatment-control differential was 1.2 months at the time of both follow-up interviews.

Most significant were the findings regarding total earnings. For treatment group members in Massachusetts, the combined sum of self employment plus wage and salary annualized earnings was $4668 higher at the time of first interview and $4608 higher at the second interview. In Washington, the increments to total earnings were only $687 and $1086 at the times of the first and second interviews, respectively. Neither of these treatment-control differences were statistically significant in Washington. Overall, Massachusetts was more successful at increasing total earnings, but most of the increment was in wages and salaries, and not in self employment earnings.

Effects on Other Employment: Business start-ups by the self employed can provide additional jobs besides jobs for the entrepreneurs, i.e., other employees of new businesses. In both States, there was evidence of positive employment effects on other employees. While the number of "added jobs" was negligible in Massachusetts, it was significant in Washington. At the time

[7] See Table 9.6 in Benus, et. al.(1995).

of the second wave of interviews, the treatment group-control group difference was 0.3 jobs per treatment group member.

Effects on UI Benefits: In both States, treatment group members experienced UI benefit durations that were significantly shorter than for control group members. In Washington, the average number of weeks of UI was shorter by 7.7 weeks for the treatment group, whereas it was 2.0 weeks shorter in Massachusetts. These findings suggest lower UI benefit payments. However, in Washington, the payment of lump sum bonuses also must be considered. The demonstration found UI benefits were $833 lower in Massachusetts. Periodic UI payments were lower by $1925 in Washington, but after adding bonus payments (an average of $3233), average UI benefits were $1308 higher.[8] Thus, the lump sum payments had the effect of changing the impact from a savings on benefit payments to an increase in total payments.

Benefit-Cost Analysis: In both States, a summary of demonstration project outcomes was presented as a benefit-cost analysis conducted from four separate perspectives: participants, nonparticipants, society and the government. Four factors were considered in the analysis: enhanced earnings, changes in tax payments, changes in UI benefit payments and costs. The cost analysis considered the added costs at local UI offices, central UI offices and the cost of services to participants.

In general, the analyses reached more favorable outcomes in Massachusetts mainly due to two factors: 1) There was a large positive effect on participant earnings, an earnings increment per participant over three years estimated to be $14,859, compared to an increment of just $1093 in Washington; 2) There was a net savings on UI benefit costs in Massachusetts (estimated

[8] These amounts appear in Table 9.14 of Benus, et.al.(1995). The amounts refer to totals at the time of the second wave interviews.

at $876), compared to an increase in UI benefit costs in Washington (estimated to be $1013).[9]

Based partly on the comparative results from these two States, a national self employment program that was legislated in late 1993 was structured to closely resemble the Massachusetts demonstration project. Specifically, eligible participants were selected from the pool of likely UI benefit exhaustees, and there were periodic UI payments but not lump sum payments.

Two final comments regarding the self employment demonstrations also may be appropriate. 1) Dislocated workers, i.e., persons with long job tenure who lose their jobs permanently, encounter serious difficulties in making successful labor market adjustments. In the demonstration projects, average months employed per year fell into the 6.5-7.8 months range for treatment group members, and 4.5-6.7 months range for control group members.[10] There also was a systematic pattern for average months of employment to be higher for the wave two interviews than for wave one interviews. Thus, labor market adjustments were still occurring more than two years after enrollment into the self employment demonstrations. Any assessment of the success of a self employment initiative needs to have a long follow-up period to capture the full extent of worker adjustments. Follow-up limited to the first year after completing a self employment program does not span enough time to capture all adjustments.

2) Self employment participants did realize large earnings gains compared with control group members in Massachusetts, but the bulk of the earnings gains were wages and salaries, not earnings from self employment. At the same time, Washington had more successful self employment outcomes (proportion who started businesses, time in self employment and self employment earnings). Thus, there is a seeming paradox in encouraging self employment with the objective

[9] The estimates of benefits and costs appear in Tables 10.3, 10.4, 10.5 and 10.6 of Benus, et. al.(1995).

[10] See Table 9.10 in Benus, et. al.(1995).

of increasing worker earnings. While the Washington demonstration was more successful in promoting self employment among treatment group members, the time in self employment was associated with significantly lower time in wage and salary employment and lower wage and salary earnings. Hence, success in raising participant earnings in Massachusetts was linked to a faster transition to wage and salary employment.

A possible explanation for this paradoxical finding is that enhanced worker skills and/or information are gained through SEA participation, resulting in higher wage and salary earnings. Anecdotal evidence for this explanation was found in several European SEA programs.

In summary, the primary route to higher earnings (through wages and salaries) is probably surprising to many readers, and the time interval needed to fully gauge the labor market adjustments is lengthy (more than two years).

II. National Legislation

The legislative authorization for States to establish SEA programs is in Section 507 of the NAFTA Implementation Act (PL 103-182). This act stipulated that SEA programs could be established for a temporary five-year period. It also provided guidance on several key structural elements of SEA programs. In particular, the NAFTA Implementation Act SEA provisions addressed: program eligibility, maximum program size, effects on total unemployment fund outflows and "other requirements the Secretary of Labor determines to be appropriate."[11]

[11] For a discussion of the linkage between the self employment demonstration projects and the subsequent NAFTA Implementation Act legislation, as well as other SEA background factors, see Orr, et. al.(1994).

The purpose of SEA is to give some workers the option of establishing their own businesses following economic dislocation. Those permanently terminated from a job held for a lengthy period and not likely to return to that job might want to become reemployed through a business start-up. Persons in this situation usually are eligible for Unemployment Insurance (UI) benefits and collect benefits until they secure another wage and salary job (or exhaust their UI benefit entitlement). Under SEA, the person pursues self employment while receiving weekly SEA allowances equal in value to the UI benefits that would otherwise be received.

The NAFTA Implementation Act specified certain changes that needed to be made in State UI laws to allow claimants to receive payments while pursuing self employment. Most important were the following three changes. 1) It waived the traditional work search requirements (able to work, available for work and actively seeking work) and allowed the person to pursue self employment while receiving support payments (equal in value to weekly UI benefits). 2) It waived the disqualifying income penalty in reference to self employment income received at the same time as support allowances. This permits the person to keep proceeds from the sale of goods and services from their newly established business. 3) Allowances were paid to persons who otherwise would be eligible for UI benefits. This means the person satisfies the conditions for both monetary eligibility (having sufficient past earnings) and nonmonetary eligibility (a compensable separation from the last job such as a permanent termination).

Less than two months after passage of the NAFTA Implementation Act, the Unemployment Insurance (UI) Service of the U.S. Department of Labor issued Unemployment Insurance Program Letter (UIPL) No. 14-94. The UIPL specified the requirements States needed to satisfy in order to establish an

acceptable SEA program.

The "Discussion" section (Section 4) of the UIPL identified thirteen areas to be addressed by interested States.[12] Seven areas are briefly discussed in the following paragraphs.

Eligibility for SEA: Six conditions were given for SEA eligibility. Three already have been noted above: 1)waiver of UI able and available requirements; 2) modifying the definition of disqualifying income to exclude income from self employment; and 3) eligibility for regular UI benefits.

The other three eligibility conditions are also substantial. 4) the worker must be identified by a State profiling system as likely to exhaust regular UI benefits;[13] 5) claimants must participate in SEA activities which are approved by the State agency. 6) Claimants must participate in SEA on a full-time basis. These three requirements all implied that State UI administrative agencies would have to play a very active role in identifying those eligible and monitoring SEA participants.

Of the six eligibility conditions, the use of profiling may be the most controversial. On the one hand, selection of people likely to exhaust their UI benefits implies the cost to the trust fund will be minimal even if the self employment venture does not

[12] The full UIPL is reproduced in Part III of U.S. Department of Labor (1994). Part II of this report has the relevant passages of the NAFTA Implementation Act which permit the establishment of SEA programs in the States.

[13] Profiling is implemented as a two step process. First, screens are used that exclude certain workers, such as those having a definite recall date or those referred to jobs through a union hiring hall. Second, personal and economic characteristics are used to assess the likelihood of exhaustion among those included in the profiling pool. Typically, exhaustion is more likely for persons with longer job tenure, lower educational attainment, previous employment in industrial occupations (as opposed to professional occupations), previous employment in declining occupations and declining industries and those from local labor markets with high unemployment rates.

succeed. However, using profiling as a primary selection criterionmay not be efficient for finding persons likely to succeed in establishing their own businesses. Success undoubtedly is linked to the quality of the idea for offering a product or service p-resented in a fully developed business plan. Making sure there is the germ of such an idea at the earliest stage undoubtedly would help in directing resources towards those most likely to succeed. At least one State (Oregon) now screens explicitly on interest in self employment (as well as likelihood of exhaustion) before informing claimants about SEA and referring claimantsto Small Business Development Centers for assessment.

The 5 percent rule: SEA participants are limited to no more than 5 percent of those receiving regular UI benefits. Monitoring is to occur monthly. As will be demonstrated below, this has not been an issue in any State with an SEA program.

No cost to the Unemployment Trust Fund: The SEA program must not add to total outlays from the Unemployment Trust Fund in comparison to what would otherwise have been paid in regular UI benefits. To satisfy this condition, the States were to provide assurances that their profiling system was accurate in identifying likely exhaustees and to establish participation requirements for SEA at least as stringent as the "able and available" requirements for regular UI claimants. (Both are to be explicitly addressed in State plans submitted to USDOL before receiving approval of an SEA program. State plans are discussed in Sections IV and V.)

Payment of administrative costs: The costs of administering SEA can be paid through *the* normal State UI administrative funding procedures, i.e., from the allocations to the States under the Social Security Act (SSA) Title III. However, SSA Title III monies may not be used to pay for services to SEA participants

such as entrepreneurial training, counseling, or technical assistance.

In effect, this requires the States to identify one or more separate and distinct funding source(s) to pay for the costs of self employment t-raining and other support activities. This requirement has posed problems in some States, and has operated to limit the scope of SEA programs. One funding source often used is the federal allocation to the States for the so-called dislocated worker component (Title III) of the Job Training Partnership Act (JTPA), the federal job training program. However, these JTPA monies have not always been available or available in the amounts needed by the SEA program.

The required State plan: Before receiving approval of its SEA program, interested States were required to submit plans to USDOL that specified the key elements of SEA program operation. (The details of SEA plan requirements are discussed in Section IV.)

State reports: Before June 30th of each year, States with SEA programs are required to submit to USDOL a report summarizing program activities for the preceding calendar year. The State reports for 1996 provide the basis for the later analysis of the present report.

Effective date and termination date of SEA: The authorization for States to operate SEA programs extended from December 1993 to December 8, 1998. Thus, SEA is a temporary program that will not extend beyond December 8, 1998 without further Congressional authorization.

III. State Legislation

Ten States took the initial step of passing laws authorizing the creation of SEA programs, although not all implemented for reasons described later. Table 1 identifies the ten along with dates of their legislation and other important milestones related to the implementation of SEA. Note that nine State laws were passed in 1994 and 1995, while the tenth was passed in January 1996. State legislative responses occurred shortly after the NAFTA Implementation Act permitted States to offer SEA as an option for selected eligible UI recipients. The comparatively short period of SEA authorization under the NAFTA Implementation Act-. (five years, endinq on December 8, 1998) may have acted to deter the adoption of SEA in other States.

States enacting SEA are located almost exclusively along the east and west coasts of the U.S. Minnesota was the only State from the interior of the U.S. to enact a SEA law.

The geographic distribution of States enacting SEA is broadly similar to that of two other specialized UI benefit options offered by some States. In 1992, federal Extended Unemployment Compensation (EUC) legislation allowed States the option of using a second unemployment rate trigger to activate the Federal-State Extended Benefit program. Of the six States that created an alternative trigger, a so-called TUR trigger, five are located along the east coast or the west coast.[14] At present, seven States offer a second monetary eligibility determination for claimants ineligible under the state's regular base period. Six of the seven States with a so-called

[14] The Extended Benefit program is activated when a State Insured Unemployment Rate (or IUR, a measure of UI claims activity) exceeds a specified threshold. The alternative trigger is the unemployment rate for all persons aged 16 and older, the total unemployment rate or TUR. The States that adopted TUR triggers were Alaska, Connecticut, Kansas, Rhode Island, Vermont and Washington.

alternative base period are located along the east coast or the west Coast.[15] Thus the geographic locus of the States with these other voluntary UI benefit options is broadly similar to the locus of States enacting SEA legislation.

Enactment of SEA legislation by ten States may seem to be a small response by the States. But at least three factors should be kept in mind. 1) There already were self employment initiatives in several States funded by Title III of JTPA, the federal job training program, and other State monies. Title III of JTPA is targeted on dislocated workers, the same target population from which many SEA participants are drawn. 2) The SEA program imposes several requirements on the States which are specified in UIPL No. 14-94. The most important of these requirements, that there be no net reduction in the Unemployment Trust Fund, has already been discussed. A State SEA plan must describe how participants are to be identified and how services are to be coordinated and delivered. 3) Perhaps most important, the State must fund the services to participants from sources other than UI administrative monies and the Unemployment Trust Fund. Generally, this will mean seeking financing from some combination of JTPA Title III, small business, and economic development programs. These monies may already be fully utilized in support of existing activities. Given the preceding considerations and the observed history of adoptions of TUR triggers for EB and the alternative base period in the States, the fact that only ten States enacted SEA laws may not be surprising.

In five States the failure to establish a SEA program is particularly interesting. Table 1 shows that only eight of the ten States that enacted SEA laws submitted SEA plans to the U.S. Department of Labor for approval, and only seven received

[15] The seven States are Maine, Massachusetts, New Jersey, Ohio, Rhode Island, Vermont and Washington. Ohio is the only State from the interior of the U.S.

approval of their plans. Thus, the experiences of Connecticut, Minnesota and Rhode Island that passed laws but did not implement SEA, are of interest. Also, since demonstration projects were conducted in Massachusetts and Washington, the failure of these two States to establish SEA programs also merits attention.

Telephone conversations with officials in the five States can be summarized as follows:

Rhode Island: Three considerations were mentioned by Rhode Island. 1) It was comparatively easy to pass SEA legislation. In effect, the legislation gave the State an option to exercise Implementation of SEA at a later time if circumstances warranted. There was no strong force advocating the establishment of SEA. 2) Support for self employment activities was already being offered through JTPA Title 111. 3) There were no available monies within Rhode Island to finance the entrepreneurial training and other support activities required of SEA programs.

Connecticut: Connecticut officials noted three factors. 1) The SEA law enacted in 1994 did not have a strong group of supporters willing to push for enactment of the program. 2) Leadership changes within the Connecticut Department of Labor removed an important source of support behind the 1994 SEA legislation. 3) Self employment support was already being provided under JTPA Title III. Connecticut has a continuing interest in promoting self-employment. Under a national JTPA Title III grant, the State has established a program to promote self employment among economically disadvantaged dislocated workers. Enrollment into this program commenced in October 1997.

Minnesota: Following enactment of SEA legislation in 1995, Minnesota later submitted a draft SEA plan to USDOL for approval. However, when USDOL followed up with a series of detailed questions, there was no State response. Thus, Minnesota advanced

further than Connecticut and Rhode Island but not to the point of establishing an SEA program.

Conversation with State officials identified the following five considerations. 1) Within the UI agency, support was not uniformly strong. 2) Following the requirements of UIPL No. 14-94 would have entailed changes in administrative processes and record keeping that would have meant added administrative costs for the UI agency. 3) Minnesota had a strong dislocated worker training program with two sources of financial support: the standard JTPA allocation from USDOL and a dedicated payroll tax of 0.1 percent. This program already had components for entrepreneurial training. 4) The requirement that SEA services to participants, e.g., entrepreneurial training, be financed from sources other than state's UI administrative allocation or unemployment fund meant that monies would have been taken from existing JTPA sources, or a new source of revenues needed to be found. 5) The JTPA reporting requirements were easier to satisfy than the requirements imposed by the SEA program.

Washington: Neither of the States where the self employment demonstration projects were conducted has enacted a SEA program. In Washington, there is interest in self employment initiatives, and a SEA bill has been introduced each year since 1994. In hearings on these bills, testimony by demonstration project participants was effective in describing how the project was structured and its positive effects on participants.

From conversations with local officials in Washington, three factors were identified as obstacles to enactment of SEA. 1) While bills have been introduced, no major interest group has pushed for a self employment initiative covering all sectors of the state's economy. 2) The employer community has not supported SEA because of its own UI legislative priorities. Washington enacted two separate tax reductions effective in 1994 and 1995. These have reduced the state's unemployment fund balance.

Employers have been reluctant to support an initiative that could lead to increased outlays from the unemployment fund.[16] 3) The State already has a dislocated lumber workers program within JTPA Title III that makes provision for self employment activities. The UI "able and available" requirement is waived for workers in approved training, with entrepreneurial training and other self employment start-up support explicitly recognized as approved training. The existence of this initiative lessens the need for a separate SEA program.

Massachusetts: Developments in Massachusetts, the other self employment demonstration State, have paralleled those in Washington in certain ways. 1) While a SEA program has not been enacted, there have been legislative proposals. Bills were introduced in each year starting in 1994, but because enactment of SEA has not been a legislative priority, there has not been a serious push for SEA. 2) If SEA were to be enacted, the UI program would have to modify its administrative reporting system. At present, the State is focused on establishing a comprehensive one-stop client services network across local offices. Implementing administrative procedures to accommodate SEA activities, e.g., the use of profiling to identify eligible SEA participants, would, to some extent, impede the implementation of the one-stop system. 3) The State already supports self employment activities in its JTPA Title III program. While it is small, it already has established selection criteria and a known funding base. The presence of this JTPA initiative lessens the sense of urgency for having a separate SEA program within the state's UI program.

In several States that have considered but have not implemented SEA, there are self employment activities already

[16] Recall that the Washington State demonstration included lump sum bonus payments 1:o pa=icipants, and that total benefit outlays were increased by these bonuses.

occurring within the JTPA program. Unfortunately, there is no systematic reporting on these activities. The JTPA reporting system (Standardized Participant Information Reporting, or SPIR) does not separately identify enrollees undergoing self employment training as opposed to other kinds of training. Thus, several States have training programs with services to assist in business formation, perhaps focused on dislocated workers, but there is no systematic measurement of the numbers of participants, services received, or the costs of services.

For a State considering establishment of a self employment program, there are at least four factors which might favor establishing such a program separate from the state's UI program. 1) There is no need to use profiling in selecting eligible participants. This would allow a State to select participants with greater emphasis on the merits of the proposed business venture than on the likelihood of exhausting UI benefits. 2) There is no need to demonstrate that there will be no adverse effect on the state's unemployment fund account. 3) There is an established source for funding client services, i.e., the monies from JTPA Title III (and possibly Title II as well). 4) There are easier reporting requirements in JTPA than in SEA. The latter requires monthly reporting on SEA benefit payments and annual reports on the characteristics of SEA participants and the outcomes of SEA activities. The preceding contrasts between JTPA and SEA probably help explain the small number of States that established SEA programs following the NAFTA Implementation Act legislation.

IV. Submission and Approval of State SEA Plans

Eight States that enacted SEA legislation submitted plans to the USDOL describing key elements of their programs. These plans were reviewed, and the States were asked to clarify certain

questions. After these matters were resolved, approval was granted to Seven of those States to move forward with the implementation of SEA. Table 1 shows the dates when the State plans were first submitted to USDOL, and the dates when initial approvals were given to the seven States.

It should be noted that the initial USDOL approvals were conditional in some States. In the process of reviewing State plans, questions were raised, e.g., the accuracy of the planned implementation of profiling, which required additional analysis by the States. Thus, interim approvals, typically for twelve months, were given with the understanding that the additional analyses would be completed as appropriate data became available.

The content of the State plans reflected guidelines provided by the earlier UIPL No. 14-94. Section j of UIPL No. 14-94 specified six areas to be covered by each state's plan. Briefly, the six areas were the following:

1) a description of the profiling system to be used and satisfactory demonstration that the system is highly accurate in identifying potential exhaustees;
2) assurance that an annual SEA report would be submitted with content as specified by the UIPL;
3) a description of participation requirements, including the types of services to be provided, the working relationships among service providers and how assurance would be provided that SEA participants would be engaged on a full time basis in self employment activities;
4) SEA legislative language consistent with UIPL No. 14-94;
5) a description of the sources and amounts of funds to pay for services to clients (entrepreneurial training, counseling and technical assistance) and assurances that monies intended for UI program administration (SSA Title III monies) would not be used for SEA activities; and
6) assurance that payment of SEA benefit allowances would not add to total payouts from the State's unemployment fund account.

The USDOL reviews of the State plans did not encounter many issues and/or problems in areas 2, 3 and 4. The legislative language in most States simply followed model language that accompanied UIPL No. 14-94. This covered topics such as the level of payments, eligibility for SEA, limitations on the number

of SEA participants, experience rating SEA allowances and sunset provisions related to the temporary authorization of SEA under the NAFTA Implementation Act. The eligibility conditions included a waiver of the usual UI program provisions related to the able and available requirement, earnings disregards and a full-time commitment to self employment activities among SEA participants.

However, areas 1, 5 and 6 did pose problems. Most numerous were questions about the accuracy of State profiling models. Since profiling was introduced into UI program administration in 1993, individual States did not have extensive histories in working with profiling models. Some State data were viewed as outdated, e.g., in New Jersey, while sample size was an issue in Delaware. In Maine, State staff worked with USDOL staff to develop a new profiling model. Because of questions about the accuracy of profiling, several States received one-year conditional approvals of their SEA plans with a requirement that added analysis be undertaken to verify the accuracy of profiling. The approval dates in Table 1 are the dates of these initial conditional approvals.

Many States encountered problems in securing financing for the costs of entrepreneurial training and other services to clients. Because monies from JTPA Title III were not readily available, this limited the potential scope of several SEA programs. Oregon proposed allowing the clients themselves to pay for services, but USDOL interpreted this as a potential violation of the unemployment fund withdrawal standard.[17] The issue was eventually resolved by allowing participants to pay, but in restricted circumstances, i.e., only if some basic entrepreneurial training program was available at no cost to the

[17] The reasoning is that monies may, with certain exceptions, only be withdrawn from a State's unemployment fund to pay benefits. If the client paid for services directly the source of funding these payments could potentially be the UI allowance paid to SEA participants.

participant as well.

An issue arose in New Jersey regarding access to business counseling and technical assistance services for all SEA participants. The state's plan as first submitted did not fully specify either the curriculum or which exact organizations would provide self employment training services. The issue was clarified before approval of the state's SEA plan.

The first enrollment of SEA clients usually occurred shortly after the initial approval of a state's plan. Table 1 shows lags of from one to four months in six States with approved plans (all except Maryland). As shown in Table 1, all six of these States submitted the required 1996 SEA annual reports.

Although seven State SEA programs have received USDOL approval, it is more accurate to indicate that five programs are actively offering SEA to eligible persons at present. Through September 1997, California had enrolled only three persons, while Maryland is still establishing the administrative framework for its program. California is unique in offering SEA in only parts of the State. The decision to offer SEA is a local determination made by individual service delivery areas (SDAs) of the state's JTPA program. Since November 1996, just six of California's 52 SDAs have ever offered SEA, and only two SDAs were still attempting to attract enrollees in October 1997. Thus, California's SEA program is effectively a program in name only.

Maryland received approval of its SEA program in April 1997 and anticipated its first enrollments by mid-year. However, there were disagreements over the procedure to be followed in selecting the coordinating entity. After some delays, Maryland issued a competitive solicitation in November 1997, and the process to select a vender will likely be completed during January 1998. Enrollment of SEA clients may commence one or two months later. However, there may be unanticipated developments that could further delay the start of the program.

V. Details of State SEA Programs

The SEA programs in the seven States are broadly similar, but with several identifiable differences. Table 2 provides information on detailed aspects of the programs. Six of the seven States operate statewide programs, meaning UI claimants at any local office may participate if eligible. Entrepreneurial training and other support services are not necessarily available locally, but participants control the decision regarding whether or not to travel to the sites where services are offered.

California is the exception, where the program has been offered in only six of the state's 52 JTPA SDAs. One explanation for the extremely small scale of California's SEA program is that decisions whether or not to offer SEA are made at the local level. Most areas of the State have decided that other uses of (JTPA and other) training monies have much higher priority than SEA. This may reflect local judgments that training resources are more effectively used to support activities leading to wage and salary employment.

All programs are required to use profiling to select eligible SEA participants. The individual profiling cutoff percentages, i.e., the projected likelihood of benefit exhaustion, range from a low of 40 percent in Maine and Maryland to a high of 70 percent in New York.

officials in several SEA States have indicated that the profiling cutoffs may be too high. As the labor market has strengthened over the past few years and state-level unemployment rates have declined, the number of initial claims for UI benefits have also declined. This decrease in the intake volume for the regular UI program affects the numbers profiled as SEA eligibles. Two States currently operate with lower cutoff percentages than contemplated when their SEA programs were being formulated: New York at 70 percent rather than 75 percent and Oregon at 55 percent rather than 60 percent. Two others, New Jersey and

Maine, are considering reducing their cutoff percentages as well. If SEA programs are reauthorized and labor markets continue to be as robust in upcoming years as in 1996 and 1997, further reductions in these cutoff percentages can be anticipated.

States follow differing practices in contacting potential SEA participants. As indicated in Table 2, four States send letters informing claimants of the SEA program and inviting them to attend an initial informational meeting. The other three provide information during an initial face-to-face meeting (benefits rights interview or profiling session). While the latter approach may take more time per client, it seems more efficient in making early identifications of those with definite interests in self employment. Oregon, in fact, changed its procedures so that screening now occurs at the profiling session, and avoids situations where individuals go to Small Business Development Centers (SBDCs) with little background and/or serious interest in self employment.

In five of six States with fully established intake procedures, the initial informational meetings where SEA is fully described occurs in offices of the Employment Service or One-Stop Centers. The exception is California, where the informational meeting occurs in local SDA offices. Since practically no one has enrolled in California,[18] it seems likely that SDA employees are being highly selective in contacting potential clients.

All SEA programs provide a similar set of basic services to support those interested in pursuing self employment. Entrepreneurial training, counseling and technical support are all offered. Initial assessment typically occurs at a SBDC. Specialized services may be recommended and counseling may also be available. The SBDCs further provide assistance in developing and reviewing business plans prepared by participants.

[18] As of May 31, 1997, California had sent only 272 invitation letters to potential clients over a seven-month history of its program.

Three States indicated that peer support sessions are also provided (at least in some local geographic areas). However, given the low levels of SEA enrollment (to be discussed presently), the number of such meetings and total participation must be extremely limited.

Financial support other than weekly SEA allowances may be needed to start up new enterprises. other potential resources available to individuals include personal savings, other family sources, or loans from financial institutions. Often SBDCs advise on loan availability and loan application procedures, but loans are relatively infrequent. State SEA reports for 1996 typically showed a very small number of loans had been received.[19]

Table 2 also identifies how each State pays for support services provided to clients. Most commonly, client services are financed with JTPA Title III monies, a source used in five States. Additionally, JTPA discretionary monies controlled by the Governors are used in two States. New Jersey finances most training activities with monies from its Workforce Development Partnership, a State financed reemployment program.

Support services are also commonly provided by SBDCs. In Maine, SBDC support is provided through a contract with the Maine Department of Labor. The Labor Department monies are derived from the Penalty and Interest Account of the Unemployment Insurance agency. Table 2 explicitly identifies this source of financing in Maine. SBDC activities in four other States are supported by SBDCs' own resources.

Less common funding sources include in-kind services. Services provided by the Service Corps of Retired Executives (SCORE) in three States have included help in preparing

[19] For example, the 1996 annual reports indicated that very few loans were received in Oregon, Maine and Delaware. Loans were relatively common only in New York, but many of these came from personal sources, not from financial institutions. See Table 5 and associated discussion below in Section VII.

contracts, counseling program participants and assistance in preparing business plans. In New York, the Internal Revenue Service also conducts seminars informing participants on tax obligations of small businesses.

Thus, for five of seven SEA programs, services to clients are financed largely by the combination of JTPA and SBDC monies. The two exceptions are New Jersey and Maine, where financing is predominantly provided by the Workforce Development Partnership program and by the UI Penalty and Interest Account, respectively.

The final feature of the SEA programs covered by Table 2 is their size. The NAFTA Implementation Act specified that enrollment in SEA could not exceed 5 percent of those receiving regular UI benefits. Each program in its planning stages was to indicate the anticipated number of clients. These numbers are shown at the bottom of the Table 2 along with actual 1996 enrollment. Except for New York, all States have had many fewer enrollees than originally anticipated. In New Jersey, Oregon and Maine, the actual numbers were about half of those anticipated, while the fraction was about one quarter in Delaware and practically zero in California. Only in New York has actual enrollment exceeded original expectations.

States with SEA programs have modified their administrative procedures to accommodate the program. Three changes relate to: 1) data reporting, 2) monitoring time spent on self employment activities and 3) addressing disputes over SEA eligibility.

All SEA States track and report on selected program activities. First payments to participants, total weeks compensated and total support payments are reported monthly.[20]

Participants are to engage in self employment activities on a full-time basis as a condition for receiving SEA allowances. The States have developed forms for participants to fill out that

[20] Certain of these data will be noted and discussed in Section VI of the report.

document their time spent in training, preparing the business plan and other activities related to business start-ups.

Not all applicants are allowed to participate in SEA. This has proved a point of contention in the States and has led to disputes of both nonmonetary determinations and appeals decisions denying eligibility. one source of problems has been the use, of the profiling cutoff as a condition of eligibility. Some claimants have not understood that likelihood of exhaustion is a necessary element in determining eligibility. There have also been disputes over the scores received by individual applicants.

Two actions have been taken by States to reduce disputes over SEA eligibility. 1) The JTPA Title III program in many States now has a self employment component. Those deemed ineligible for SEA are informed that self employment can be pursued through JTPA. For those participating in approved training under JTPA Title III, the UI able and available requirements are waived. Thus, UI benefits can be received while undergoing such training, but outside the SEA program. 2) Procedures for re-scoring profiled workers have been developed for use when there has been a questionable assignment regarding, say, the industry and/or occupation of the previous job. These two changes have served to reduce claimant-initiated disputes over eligibility.

VI. SEA Program Size and Client Characteristics

SEA is a small program, small relative to the regular UI program and small in absolute numbers of participants. Table 3 displays summary data from the 1996 SEA annual reports of the five States which had measurable levels of SEA program activity. The top row of the table shows first payments in the regular UI program during 1996. The next three lines, respectively, show counts of persons who attended SEA orientation sessions, submitted applications and enrolled in SEA. The following line

then shows enrollments as a percent of regular UI first payments.[21] These percentages range from lows of 0.064 percent in Delaware and 0.076 percent in Oregon to a high of 0.405 percent in New York. In not one of the five was 1996 enrollment as much as 0.5 percent of regular UI first payments.

Three States supplied information on SEA completers during 1996, while all five reported the number of dropouts. Table 3 displays percentage drop-out rates which range from a low of 6.0 percent in Maine to a high of 31.5 percent in Oregon. However, it should be noted that the drop-out rates for New Jersey and Maine understate the total number of drop-outs. These data record only persons who dropped-out during 1996. Neither New Jersey nor Maine could estimate how many completed SEA, because many were still receiving services at the end of 1996. Thus, it is likely that program drop-out rates would fall into the 15-30 percent range for all five States if data on completions among all SEA participants were known for each State.

It should be emphasized that Oregon's drop-out rate, the highest in Table 3, was influenced by experiences during the first half of 1996 when program intake was structured differently. Because there was no screening of eligibles for possible interest in SEA, a large share of early applicants were found to have inadequate backgrounds for SEA during their SBDC assessments. After procedures were revised to include questions about interest in self employment during the profiling session, fewer applied for SEA.

The next rows of Table 3 show success in securing follow-up interviews with enrollees following their exit from SEA. Interviews were obtained from 30-50 percent of enrollees. Note the absolute count of these interviews. New York's 1026 is ten

[21] Since New Jersey's program accepted enrollees for only four months in 1996, its enrollment rate is based on an annualized estimate of enrollments, i.e., three times 156, or 468.

times the counts from Oregon, Maine and Delaware combined. In fact, New York obtained more interviews from its SEA dropouts (173) than the overall total for dropouts plus completers for these three States. By far, the largest amount of information about post program experiences is available from New York.

It should also be noted that the very small scale of SEA has continued into 1997. The SEA monthly data reporting system indicated that the rate of enrollment (first payments) during 1997 was not markedly different from 1996. The bottom two lines of Table 3 show monthly enrollment rates in 1996 (annual report data) and the first eight months of 1997 (monthly data reported to the UI Service). The enrollment rate in New York was clearly higher in 1997 (representing a 47 percent increase over 1996.), while Oregon's 1997 enrollment rate declined by more than half. The SEA program has been small throughout its history in each of these five States.

Given the scale of SEA as it has existed to date, the 5 percent rule from the original NAFTA Implementation Act legislation has not posed a problem in limiting the program's size. During 1996, no State had an SEA program with enrollment as large as 0.5 percent of its regular UI program intake. In other words, no state's SEA enrollment totaled as much as one tenth of the limit implied by the NAFTA Implementation Act 5 percent rule.

The personal and economic characteristics of 1996 SEA participants in five States are displayed in Table 4. For comparative purposes, the table also shows information on the characteristics of the insured unemployed (regular UI claimants) in these States.[22] SEA participants differ from regular UI claimants in several respects. Table 4 provides comparative information on age, gender, ethnicity, occupation, education and

[22] Note that SEA participants are counts of individuals, whereas insured unemployment refers to weekly averages measured in thousands.

UI weekly benefits for the two groups.

SEA participants in every State are, on average, older than the insured unemployed. The differences in average age range from a low of 1.8 years in Maine to a high of 5.6 years in both New York and Oregon. These systematic age differences mirror the age differences typically observed between the self employed and wage and salary workers.[23] The likelihood of self employment increases among workers as they attain older ages. SEA participants share this characteristic with the wider self employed population.

Across the five States there are no dramatic patterns of gender differences between SEA participants and the insured unemployed. The 1996 percentages of women in the two groups were nearly identical in New York. SEA participants had noticeably higher representation of women in Maine (53.7 percent versus 42.9 percent), but a lower representation in Delaware (29.4 percent versus 46.9 percent).

Ethnic differences between SEA participants and the insured unemployed also are apparent in Table 4. In both New Jersey and Delaware, the percentages in SEA who are black are lower than among the insured unemployed. For the other three States, SEA participation among blacks is virtually identical to the black insured unemployed percentages.

For Hispanics, SEA participation is consistently low. In the three States with sizeable Hispanic populations, the SEA and insured unemployed Hispanic percentages were respectively, as follows: New York, 3.6 versus 10.7 percent; New Jersey, 2.6 versus 17.0 percent; and Oregon, 0.0 versus 8.0 percent.

Based on the reported numbers of black and Hispanic SEA participants, there appears to be a greater degree of under-

[23] In 1996 data from the monthly household labor force survey (Current Population Survey or CPS), the average age of those working as self employed in nonagricultural industries was 44.4 years, compared to 38.4 years for wage and salary workers.

representation among Hispanics. However, it also should be noted that both ethnic groups work as self employed relatively less often than whites. In 1996, for example, of those employed in nonagricultural industries nationwide, 7.28 percent were self employed. However, the self employment percentages were 8.34 percent for whites, 3.57 percent for blacks and 5.09 percent for Hispanics.[24] From the national averages based on employment, it again appears that SEA representation among Hispanics was low in 1996, whereas for blacks the SEA percentages were not low considering the overall prevalence of self employment within the black labor force.

Direct evidence on SEA participation by ethnic group is found in data from New York's 1996 report.[25] Overall, 235,126 workers were identified as likely UI exhaustees through profiling. The 2195 SEA participants represented 0.93 percent of the total. However, participation rates by major ethnic groups were sharply different: 1.27 percent for whites, 0.66 percent for blacks and 0.28 percent for Hispanics. Among those profiled as eligible for SEA, the participation rate among blacks was roughly half and among Hispanics roughly one-fifth, when compared to whites. For likely exhaustees in New York, minorities, especially Hispanics, were less likely to participate in SEA.

The occupational distributions in Table 4 reveal a consistent pattern for four of five States. In New York, Oregon, Maine and Delaware, a very high percentage of SEA participants were from the professional, technical and managerial occupations, while low percentages were drawn from industrial occupations. In New York, for example, 46.9 percent of SEA participants were professional, technical and managerial, compared to just 17.8 percent among the insured unemployed. The industrial occupations

[24] These percentages are based on the monthly household survey and reported in Table 12 of the January 1997 issue of EmDlovment and Earnincrs.

[25] See Appendix B for further analysis of the New York data.

in New York supplied just 14.0 percent of SEA participants but 49.5 percent of the insured unemployed.

New Jersey appears to be an outlier in its SEA occupational distribution. Compared to the insured unemployed, SEA participants were less likely to be professional, technical and managerial, but more likely to be from industrial occupations. Conversations with New Jersey officials did not identify an explanation for this situation.

In all five States, SEA participants reported high levels of educational attainment. The percentage whose schooling exceeded 12 years (high school) consistently exceeded 50 percent, and for three States the percentage exceeded 60 percent. While the regular UI programs' reporting systems do not record educational attainment for the insured unemployed, their average attainment is undoubtedly lower than for SEA participants.

Data from New York's 1996 SEA report are instructive regarding the link between educational attainment and SEA participation and SEA completion. Recall that the average participation rate among those profiled as likely UI exhaustees was 0.93 percent (2195 participants out of 235,126). By education level, however, the participation rates were 0.28 percent for those with less than high school education, 0.64 percent for those with high school education and 1.59 percent for those with more than a high school diploma.[26]

SEA completion rates in New York were also linked to educational attainment. The overall completion rate was 0.80, i.e., 1751 of 2195. Completion rates by education levels were 0.66 for those with less than high school, 0.76 for those high school education and 0.82 for those with more than high school. From these New York data, it is clear that the probability of entering and the probability of completing SEA both increase with the level of educational attainment.

[26] See Table B2 in Appendix B.

For four of five States (New Jersey again is the exception), it can be inferred that SEA participants had much higher pre-unemployment wages than the wages of the insured unemployed. Weekly benefits in UI programs are based on high quarter earnings or average weekly wages during the base period.[27] For four States, the weekly benefit of SEA participants was from 11.8 percent to 36.7 percent higher than for the insured unemployed. The smaller proportional differential in Maine could reflect the high percentage of women (and associated lower earnings) among its SEA participants. While the SEA reports do not indicate the pre-unemployment levels of earnings among participants, their percentage differentials vis-a-vis the insured unemployed undoubtedly exceed the percentage differentials in weekly benefits shown in Table 4.[28] Thus, for four of the five States, SEA recruited high wage workers, i.e., workers with systematically higher wages than the wages of the insured unemployed.

New Jersey again presents a differing situation regarding weekly UI benefits and pre-unemployment wages. SEA participants had lower average weekly benefits than the insured unemployed, and the differential was substantial, 18.3 percent. Again, State officials did not provide an explanation for the seeming anomaly.

Profiling is a key determinant of SEA eligibility in all States. In most States, the profiling procedure that identifies likely benefit exhaustees uses personal information on occupation and educational attainment. Profiling as implemented in New Jersey applies these factors like other States. The likelihood of exhaustion is higher for those from industrial (as opposed to

[27] Typically the base period is the earliest four of the five fully completed calendar quarters that precede the claim.

[28] The presence of weekly benefit maximums places an upper limit on weekly benefits for many high wage workers. There is no similar upper limit on weekly and quarterly earnings. Thus, the earnings differentials would be larger than the differentials in weekly benefits, which have a constrained maximum.

professional, technical and managerial) occupations and those with lower educational attainment.

While profiling to identify eligibles does not appear to be unusual in New Jersey, two outcomes in terms of SEA participation are unusual. Compared to other States, New Jersey's SEA participants are disproportionally drawn from industrial occupations and have unusually low weekly benefits (and implied low weekly wages as well).[29] It appears that application rates among workers from industrial occupations are unusually high in New Jersey. This outcome seems to reflect high participation rates among these workers and not to the way profiling is implemented to identify the pool of eligibles. No explanation for these high participation rates has been found.

To summarize, there were clear differences in 1996 between the characteristics of SEA participants and the insured unemployed. On average, SEA participants were older and less likely to be Hispanic. They also were more likely to be drawn from the professional, technical and managerial occupations and from the higher ranks of the educational attainment distribution. Finally, SEA participants earned considerably more on average than the insured unemployed prior to the onset of unemployment. Clearly, SEA participants are not a random group drawn from the pool of eligibles. Participation rates are systematically higher for whites, those with higher educational attainment and those from the professional, technical and managerial occupations.

[29] In two other respects, New Jersey's SEA participants have characteristics like those in other States. SEA participants are older than the state's insured unemployed and they have high average levels of educational attainment.

VII. Economic Outcomes and Program Costs

SEA programs are required to report on the economic outcomes of participants for each year when SEA operated for more than six months. This requirement applied to four SEA States in 1996: New York, Oregon, Maine and Delaware.

Data on economic outcomes for program participants were obtained through personal interviews using mail questionnaires. Interview data are particularly important for the self employed, because such persons are not covered by the UI system and self employment earnings are not subject to UI reporting. However, self employment income is frequently episodic, especially at the early szages of new business ventures. Data on self employment earnings are subject to the twin problems of faulty recall and misreporting (under reporting). Survey-based estimates of self employment earnings provide systematically downward-biased estimates of actual earnings.

Table 5 displays data on economic outcomes for participants in four States in 1996. The table shows estimates of labor force status, self employment business activity and post-SEA wage and salary earnings of participants. Wages and salaries are shown for the fourth quarter of 1996.[30] In New York, the data distinguish SEA program completers from drop-outs.

As noted earlier in Table 3, the respondents to follow-up interviews in New York and Delaware represented just less than half of all SEA program participants. Response rates were much lower in Oregon (36.0 percent) and Maine (31.4 percent). In New York, a much higher response rate was obtained from SEA completers (48.7 percent) than from dropouts (39.0 percent). The response rates from all four States are much lower than in the self employment demonstration projects, where wave one interviews were secured from 80-86 percent of participants.

[30] In New York, 1996 fourth quarter wage and salary data are based on State income tax records.

The low response rates present problems of interpretation because of potential biases in the information obtained from respondents. It is possible that respondents would have better labor market outcomes than nonrespondents. Lacking information from other sources, however, the analysis will be based upon these data.

The interview samples from three States are uniformly small, each with fewer than 50 individuals. Note that the number of drop-outs from New York's SEA program who were interviewed exceeds the combined total of interviews obtained from Oregon, Maine and Delaware. Except for New York, an analysis of SEA outcomes is based on very few interviews.

Note the incomplete nature of the data in Table 5. New York reported nothing on SEA business failures, gross business sales and net business income. Information on labor force status at the time of the follow-up interview was not given for Oregon and Delaware.

Even if these data were complete and based on much larger samples, there is still the issue of the short elapsed interval between program completion and the time when these State surveys were undertaken. From the demonstration project results, it would be expected that important adjustments would still be occurring two and three years following SEA participation. For 1996 SEA participants, labor market experiences of 1997 and 1998 would be highly relevant in assessing economic outcomes.

The data from New York and Maine both recorded the employment situation of SEA participants using three employment categories: self employed only, wage and salary employment only, and both types of employment at the same time. New York further noted those unemployed and retired. At the time of the interviews, the vast majority of SEA participants were employed with employment proportions of 0.89 for participants in Maine and for SEA completers in New York. Of the New York drop-outs, 0.66 were employed. The latter group also had high unemployment, 0.28

of all drop-outs. Among New York SEA completers not employed, about half were retired and the proportion unemployed was only 0.02.

In both Maine and New York, about three quarters of those employed were working exclusively as self employed or working both as self employed and for wages and salaries. Only the New York drop-outs were working mainly as wage and salary workers. At the time of the interviews, about half of the drop-outs were working exclusively as wage and salary workers, while less than one-tenth were exclusively self employed.

Across all States, a consistently high proportion of SEA participants undertook business start-ups. The proportions in Table 5 range from 0.65 to 1.00 Oregon, Maine, Delaware and in New York among SEA completers. For New York drop-outs, the business start-up proportion was only 0.21. The low proportion for the latter group probably reflects both the appeal of wage and salary job offers received after starting SEA and a realization that self employment was less desirable than originally anticipated.

The business start-ups were heavily concentrated in two broad industry groupings, services and trade (wholesale plus retail). For the three States that reported the industry of the start-up businesses, the percentages in these two industries combined were as follows: New York - 83.4 percent, Oregon - 69.3 percent and Delaware - 50.0 percent. In New York, where information was also given on previous industry of SEA participants, there were large increases in employment in services (increasing from 33.0 percent to 68.3 percent) and decreases in employment in finance, manufacturing, transportation and utilities and "industry not available." The combined percentage for these latter four industries decreased from 47.1 percent to 12.9 percent. Clearly, many of the business start-ups involved large changes in the types of work activities now being undertaken by SEA participants.

Only a minority of the new businesses received business start-up loans. The proportions with loans were close to 0.10 in Oregon, Maine and Delaware, but much higher in New York, about 0.40. Details on the identities of the lenders in New York indicated that individual SEA participants often used their own resources, and that loans from financial institutions like banks represented less than half of all start-up loans.

Oregon and Delaware were the only States to report data on businesses that ceased operations. Given the size of its SEA sample, the absence of data from New York on business failures is especially unfortunate.

The gross income data from three States indicate that annual business sales were low in all three, less than $10,000 in both Maine and Delaware. Oregon's average of $37,049 is much higher. Fortunately, net self employment income (gross sales less business costs) also was reported in Oregon, where the average was $6180. Thus, for these three States there is a consistent picture of low levels of business sales and net income. This is not surprising given the results previously noted for the self employment demonstration projects.

Each State reported on the number of jobs added by the new businesses, besides those for the entrepreneurs. Table 5 indicates there were significant indirect employment effects in all four States. The average number of added (or indirect) jobs ranged from 0.6 per business start-up in Delaware to more than 1.4 per business start-up in New York. These added employment effects were larger than reported in the Washington State demonstration.

Measurable numbers of participants worked as wage and salary workers following enrollment in SEA. The proportions in the interview data at the top of Table 5 were 0.30 in Maine (16 of 53), 0.30 for New York completers (255 of 853), and 0.58 for New York drop-outs (100 of 173). A second perspective on this phenomenon is provided by the data in the bottom rows of Table 5.

The table's bottom panel shows counts of persons who worked as wage and salary workers during the fourth quarter of 1996. The lowest proportions were 0.18 in Oregon and 0.23 among New York completers. The highest proportions were 0.48 in Maine and 0.50 in Delaware. Thus, both sources of data indicate the proportions in wage and salary employment were sizeable.

For all four States, the amounts of wages and salaries earned by SEA participants during 1996 fourth quarter were reported. These amounts and the per-person averages appear in the bottom panel of Table 5. The averages range from $3130 in Maine to $6525 for New York drop-outs. Since wage levels differ widely across States, it seemed more appropriate to compare these averages with average wages in the same States. Estimates of average quarterly wages in UI covered employment are shown for each State. Finally, the bottom line shows the ratio of the SEA average to the all worker average. These ratios range from 0.53 in Oregon to 0.69 in New York.

For SEA participants with wages and salaries in the fourth quarter of 1996, the averages represent substantial amounts of earnings. Recall from Table 4, however, that SEA participants in all four States earned more than the average for all UI claimants prior to the onset of unemployment (as indicated by above-average weekly UI benefits). Thus, the quarterly averages in Table 5 represent much lower average earnings for participants than they earned before unemployment.

It is well established that dislocated workers often experience very large earnings reductions following displacement. It also is well known that many experience substantial earnings recovery when tracked for two and three years after displacement. Thus, it would be particularly interesting to follow these individuals to the fourth quarters of 1997 and 1998 to note the further evolution of their earnings histories. While it seems possible and even likely that their average wages and salaries will grow faster than statewide averages, there are no data in

these reports to either support or refute this presumption.

The data examined in Table 5 suggest the following four conclusions. 1) The vast majority of SEA participants were employed at the time of their interviews. 2) In New York, where SEA completers and drop-outs could be compared, the drop-outs had lower rates of employment, higher rates of unemployment, higher rates of wage and salary employment, and lower rates of self employment. 3) In all four States, SEA program participation was followed by a high rate of business start-ups. The start-up proportions were 0.65 or higher. 4) In each State, a sizeable proportion of SEA participants (ranging from 0.18 to 0.50) had wage and salary earnings during the fourth quarter of 1996. The average amounts for chese persons ranged from 0.53 to 0.69 of statewide average wages for the quarter.

Some caveats also should be emphasized. 1) Most data on labor market outcomes came from surveys with low response rates. The nonrespondents may have had inferior outcomes vis-a-vis the outcomes reported by the respondents. 2) A longer time interval following SEA participation would be more appropriate for measuring labor market outcomes. Measurement over a longer time period would probably reveal larger numbers of business start-ups, business failures, and moves to wage and salary employment. 3) Unlike the self employment demonstrations, there is no control group against which the labor market outcomes for participants can be compared. Thus, there is no way to assess the impacts of SEA. Instead, the outcomes as summarized in Table 5 should be characterized as gross outcomes, not as net impacts.

The 1996 SEA annual reports from the States provided only limited information on the costs of SEA. No quantitative estimates of costs were supplied by California, New York and Delaware. Limited data were supplied by Oregon and Maine. Only New Jersey provided a reasonably complete accounting of costs. Reporting instructions directed the States to provide information on two main kinds of costs: the added costs of UI program

administration and the costs of providing entrepreneurial training and other services to SEA participants. The States were instructed not to report on allowances paid to SEA participants.

For both UI administrative costs and the costs of services to participants, there could be both fixed costs associated with the establishment of SEA, as well as variable costs that increase directly with the numbers served by SEA. It seems likely that the fixed costs incurred by providers of training services are minimal. SEA participants receive services from training providers that already have established contractual relationships with training programs and small business development programs, e.g., local JTPA Private Industry Councils and SBDCs.

The variable costs of training and other SEA client services are often incurred by JTPA programs and SBDCs without direct measurement. Maine provides an exception, because the UI agency makes an explicit financial transfer from its UI Penalty and Interest Account. This transfer totaled $38,454 in 1996, or an average of $287 for the state's 134 SEA participants. In New Jersey, training grants averaged $1500 per client, with a breakdown of $800 for 60 hours of entrepreneurial training, $600 for 12 hours of counseling and $100 for administration. Coordination provided by a training umbrella organization (Network for Occupational Training and Education, or NOTE) added $240 per client in 1996. Thus, New Jersey's variable cost was $1740 per SEA participant, or about six times the cost in Maine. Probably, the actual differential between the two States was smaller, as in-kind services provided in Maine were not explicitly estimated.

The information on the variable costs of UI administration provided by New Jersey and Oregon yielded quite similar estimates. Per SEA participant, these costs averaged $318 in New Jersey and $284 in Oregon.

As noted, New Jersey provided information on start-up costs incurred in UI program administration. Making changes in two

management information systems and associated reports cost $246,500, or $1580 per participant. This was the only estimate of fixed UI administrative costs supplied by any State.

A summation of the variable costs of SEA training and other support services plus UI administrative costs can be done only in New Jersey, where the total was $2059 per client. Based on the incomplete variable cost data reported by Oregon and Maine, it appears that variable costs may be considerably lower in other States, because the variable costs of training and other support services may be lower. Since costs are influenced by the content of training provided, however, comparing average cost estimates without a clear depiction of the quantity and quality of services received could yield misleading conclusions.

From the data supplied in the 1996 annual SEA reports, two tentative conclusions may be drawn. 1) New Jersey's average variable costs of $2059 exceeded the costs of the self employment demonstrations, where inflated estimates from Massachusetts and Washington were $1182 and $462, respectively.[31] 2) The wide range of these three estimates arises mainly from differences in the average cost of providing training and related services, e.g., $1740 for New Jersey in 1996, compared to averages from the demonstration projects (after inflation 1996 levels) of $910 in Massachusetts and $293 in Washington.

Given the scale of its SEA program relative to all others, the absence of cost data from New York is especially unfortunate.

From the 1996 data reported by the States, there is no way to undertake a benefit-cost analysis of SEA. Four obstacles are obvious. 1) There is a strong possibility of selectivity bias from the follow-up surveys, where response rates ranged from 30 percent to 50 percent. The reported outcomes for employment and

[31] The variable cost estimates shown in Table 10.2 of Benus, et.al. (1995) have been inflated by a ratio of 1.1635, which Items CPI to its 1990 level.represents the ratio of the 1996 All

earnings may be systematically different, i.e., quite likely better, for the respondents, when compared to outcomes for all SEA participants. 2) There was not a sufficiently lengthy post-program period to trace the long run labor market adjustments of SEA participants. 3) The absence of a control (or comparison) group makes it impossible to estimate marginal differences on labor market outcomes, as was done in the demonstration projects. 4) The cost data from the States is too partial and fragmentary to make cost estimates. In short, the SEA programs cannot be supported or rejected using benefit-cost analysis.

VIII. Summary

To summarize this report, some final observations will be offered in six specific areas.

Feasibility: Five States that legislated SEA, and received approval for their SEA plans, now have functioning statewide programs. Reporting on participants occurs monthly (through the ETA 5159, or Claims and Activities Report) as well as annually as required by the NAFTA Implementation Act. Profiled eligible workers are informed, enrolled, receive services and complete SEA in measurable numbers in five States. Administrative procedures related to enrollment have been modified to more effectively target persons interested in self employment (Oregon) and to reduce controversies related to denials (New York).

Program Size: SEA has been and remains small in all States with programs. Concerns to keep the program small as reflected in the NAFTA Implementation Act's 5 percent rule now seem exaggerated. During 1996, no State experienced SEA participation that reached even 0.5 percent of the number of regular UI recipients. Because the program is so uniformly small, there should be little concern

about possible negative effects on UI trust fund balances caused by support payments to SEA participants exceeding what would otherwise be paid to them as regular UI beneficiaries.

Two factors were identified by State officials as contributing to the small scale of SEA. 1) Many States provide training and other services designed to promote self employment through other programs, e.g., JTPA, other training programs, and micro enterprise programs. These alternatives allow participation in training while at the same time receiving UI benefits (because the training is "approved"). Selection and reporting related to these alternatives to SEA are viewed as easier to satisfy. For example, there is no need to select eligibles only from the pool of likely UIL exhaustees. 2) State labor markets during 1996 and 1997 have been very strong, with low unemployment and associated opportunities for wage and salary employment. This has operated to reduce the attractiveness of new business start-ups through SEA. The combined effects of these two factors imply that SEA will continue to be a very small program.

Benefits and Costs of SEA: The report examined the feasibility of undertaking a benefit-cost analysis, as was done in the Massachusetts and Washington self employment demonstration projects. Four factors were identified that mitigate against such an analysis. These are: 1) the likely selectivity in the follow-up survey responses that report on post-program outcomes, 2) the need for a long follow-up period, say three years, to accurately measure post-program labor market outcomes, 3) the absence of a control group against which to compare SEA outcomes, and 4) incomplete data on SEA costs, both the added costs of UI administration and the costs of providing training and other services to participants. Supporters and opponents of SEA would have to base their positions on criteria other than benefits and costs (as measured in the self employment demonstrations),

because such measures are not available from the existing SEA programs.

Improving the measurement of the benefits and costs of SEA programs should be undertaken. The national office of the UI Service could undertake three specific actions to bring this about. (1) Require more aggressive follow-up in the personal interviews with SEA participants. Response rates in the 30-50 percent range raise concerns about biases in the data obtained from only one-third to one-half of participants. States should be encouraged to initiate contact with participants more than once, and the use of financial incentives to secure improved response rates could be considered. (2) All States with SEA programs should be required to analyze quarterly earnings records to trace the flow back into wage and salary employment of program participants. This type of tracking should extend one or two years after the year in which the person participates in SEA training activities. (3) The reporting of SEA cost data should be improved. This is not easy for the States, but, given their closeness to the program, easier for them than for others. At a minimum, point estimates should be provided for the variable costs of both the SEA treatments and UI agency administrative costs. Accompanying these estimates, there should be a methodological explanation showing how they were derived.

The difficulty of undertaking a complete benefit-cost analysis should be recognized. The following two obstacles will always be present. (1) There is no obvious control group for a program like SEA that accepts all applicants. (2) The post-SEA time path of earnings should be followed for two or three years to develop reliable estimates of earnings growth.

While a fully convincing benefit-cost analysis may not be possible, the data reported by the States can be improved.

Client Characteristics: SEA participants differ systematically from other UI claimants. Among the most obvious differences

noted in Section VI (and in Appendix B) were their older average age, lower minority representation (particularly among Hispanics), higher representation from the professional, technical and managerial occupations, and above-average educational attainment. Many participants are dislocated workers facing difficult labor market adjustments following the permanent loss of long-held jobs. Participants have demonstrated a definite interest and commitment to self employment that has been aided by SEA.

New Business Start-ups: The report found that in four SEA programs (New York, Oregon, Maine and Delaware), two-thirds or more of SEA participants started their own businesses. Nearly all did this without securing loans from financial institutions (although about one in five did secure such loans in New York). Gross sales were modest (where reported), and sales would need to increase substantially to assure the viability of the enterprises in the long run. These new businesses, however, already were creating numbers of indirect jobs, i.e., hiring employees, and at a rate that exceeded the indirect job creation rate of the Washington demonstration project.

Wage and Salary Employment: In four States (again New York, Oregon, Maine and Delaware), a sizeable share of SEA participants worked in wage and salary employment during the fourth quarter of 1996. These proportions ranged from 0.18 to 0.50. Their average quarterly wages and salaries were from 0.53 to 0.69 of the statewide average for the quarter. These average earnings levels were substantial, but much less than the average wages earned before the onset of unemployment.

On balance, five States established functioning SEA programs. They disproportionately serve a client base that would be expected to become self employed, i.e., older, highly

educated, and from professional, technical and managerial occupations. The programs do realize a high rate of business start-ups. In trying to serve a diverse population of clients, it would seem the States wishing to offer SEA should be given the authority to do so on a permanent basis.

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Table 1. SEA Program Implementation Milestones in the States

State	Enactment of State Legislation	SEA Plan Submitted to USDOL	Initial USDOL Approval	First Client Enrollment	1996 Annual Report
California	Sept. 1994	April 1996	July 1996	Nov. 1996	Yes
New York	July 1994	March 1995	April 1995	May 1995	Yes
New Jersey	Jan. 1996	Feb. 1996	June 1996	Sept. 1996	Yes
Oregon	May 1995	July 1996	Sept. 1995	Oct. 1995	Yes
Maine	April 1994	March 1995	Aug. 1995	Oct. 1995	Yes
Delaware	June 1995	June 1995	Oct. 1995	Nov. 1995	Yes
Maryland	June 1995	Jan. 1997	April 1997	Early 1998	No
Minnesota	April 1995	Aug. 1996	No	No	No
Connecticut	1994	No	No	No	No
Rhode Island	1994	No	No	No	No

Source: State SEA annual reports for 1996 and correspondence files at the Unemployment Insurance Service of the U.S. Department of Labor.

Table 2. SEA Intake Procedures, Provision and Financing of Support Services and Anticipated Enrollment.

	Cal.	New York	New Jersey	Oregon	Maine	Delaware	Maryland
Geographic Extent of SEA Program	6 of 52 SDAs	Statewide	Statewide	Statewide	Statewide	Statewide	Statewide
Profiling Cutoff- Prob. of Exhaustion	64 Pct.	70 Pct.	42 Pct.-a	55 Pct.	40 Pct.-a	68 Pct.	40 Pct.
Primary Method of Contacting Eligibles	Letter	Letter	BRI- Ben. Rights Int.	Profiling Session	Letter	Profiling Session	Letter
Location of Initial Information Meeting	Local SDA Office	Local UI-ES Office	Regional ES Office	Regional ES Office	One Stop Center	One Stop Center	b
Types of Services:							
i) Entrepreneurial Training	Yes	Yes	Yes	Yes	Yes	Yes	Yes
ii) Counselling	Yes	Yes	Yes	Yes	Yes	Yes	Yes
111) Technical Assistance	Yes	Yes	Yes	Yes	Yes	Yes	Yes
iv) Peer Support	No	Yes	No	No	No	Yes	Yes
v) Financial Support (besides Ul payments and loan information)	No	No	No	No	No	No	No
Funding of Services:							
i) JTPA-Title III-State Grant	Yes	Yes		Yes		Yes	Yes
ii) JTPA-Governor's 40 Pct. Monies		Yes					Yes
iii) Small Bus. Dev. Centers (SBDC)		Yes	Yes	Yes		Yes	
iv) State-financed Training Budget			Yes				
v) Ul Penalty and Interest Account					Yes		
vi) In-Kind Services		Yes			Yes	Yes	
Anticipated First Year Enrollment	500-l000	1000	750-1000	200	250-300	75	100
1996 Enrollment	2	2195	156	111	134	17	b

Source: State Annual Self Employment Assistance Reports, correspondence with USDOL and conversations with state officials.

a - Threshold may be lowered to increase potential enrollment.

b - Not known as the program has not started to enroll participants.

Table 3. SEA Intake in Five States, 1996

	New York	New Jersey	Oregon	Maine	Delaware
Regular UI Program First Payments	541,784	312,370	145,835	47,439	26,755
Number Attending SEA Orientation	3902	513	141	240	INA
Number SEA Program Applications	2241	252	INA	177	INA
Number Enrolled in SEA	2195	156	111	134	17
SEA Enrollment as a Percent of First Payments	0.405	0.150-a	0.076	0.282	0.064
Number Completing SEA	1751	INA	76	INA	14
SEA Dropouts	444	26	35	8	3
Dropout Percentage	20.2	16.7	31.5	6.0	17.6
Follow-up Interviews	1026	INA	40	53-b	8
Follow-up Percentage	46.7	INA	36.0	31.4	47.1
Monthly Enrollment, 1996	182.9	39.0-a	9.3	11.2	1.4
Monthly Enrollment, 1997	269.1	54.9	4.0	9.6	0.8

Source: First Payments from the Ul Service. Other data from 1996 SEA state reports.
a - Enrollment for four months measured at an annual rate.
b - Responses from 169 questionnaires mailed in two separated waves.
INA - Information not available.

Table 4A. Personal and Economic Characteristics of SEA Participants, 1996

Characteristic	New York		New Jersey		Oregon		Maine		Delaware	
	SEA	Insured Unemp.	SEA	Insured Unemp.	SEA	Insured Unemp.	SEA	Insured Unemp.	SEA	Insured Unemp.
Total	2195	208.1	156	108.2	111	44.2	134	14.6	17	8.1
Age										
Under22	10	45.0	1	4.6	0	3.3	0	0.5	0	0,2
22-24	35	10.0	2	6.8	1	3.3	2	0.9	0	0.4
25-34	460	49.5	30	31.3	18	12.9	31	4.0	2	2.4
35-44	788	45.2	56	28.9	42	12.8	52	4.0	9	2.6
45-54	654	32.5	44	20.9	40	8.0	39	2.8	4	1.5
55-59	137	11.4	15	7.2	7	2.2	10	0.9	2	0.5
60-64	63	7.9	5	5.0	2	1.0	0	0.6	0	0.3
65 and Up	30	6.4	3	3.6	1	0.6	0	0.3	0	0.2
INA	18	0.4						0.6		
Average Age	42.2	36.6	43.0	39.9	43.1	37.5	41.4	39.6	42.7	39.7
Gender										
Women	957	89.7	63	47.4	50	17.6	72	6.0	5	3.8
Men	1231	117.9	93	60.7	61	26.6	62	8.0	12	4.3
INA	7	0.5						0.6		
Pct. Women	43.7	43.2	40.4	43.8	45.0	39.8	53.7	42.9	29.4	46.9
Ethnicity										
White	1503	112.8	134	66.4	106	37.3	130	13.8	14	5.2
Black	292	27.0	13	20.7	3	1.0	2	0	3	2.6
Hispanic	68	22.3	4	18.4	0	3.5	0	0	0	0.2
Other	28	46.1	5	2.6	~2	2.4	2	0.8	0	0.1
INA	304			0.2						0.1
Pct. Black	15.4	13.0	8.3	19.1	2.7	2.2	1.5	0.3	17.6	32.0
Pct. Hispanic	3.6	10.7	2.6	17.0	0.0	8.0	0.0	0.2	0.0	2.4

Source: SEA data from state reports, counts of participants. Insured Unemployment data from required reports, in thousands.

INA - Information not available

Table 4B. Personal and Economic Characteristics of SEA Participants, 1996

Characteristic	New York		New Jersey		Oregon		Maine		Delaware	
	SEA	Insured Unemp.	SEA	Insured Unemp.	SEA	Insured Unemp.	SEA	Insured Unemp.	SEA	Insured Unemp.
Total	2195	208.1	156	108.2	111	44.2	134	14.6	17	8.1
Occupation										
Pro./ T/Mgr.	1029	36.8	21	47.9	71	9.5	50	1.9	10	1.8
Clerical	707	43.3	17	17.2	15	8.4	39	2.6	1	2.3
Sales	a	a	9	a	7	a	10	a	1	a
Service	151	23.9	12	9.2	3	5.3	12	1.9	0	0.9
Ag./For./Fish.	0	0.4	22	2.7	1	2.9	1	0.4	0	0.1
Industrial	308	102.2	75	30.1	14	18.0	22	6.1	5	2.9
INA		1.2		1.0				1.7		0.1
Pct. Pro./T/Mgr.	46.9	17.8	13.5	44.7	64.0	21.5	37.3	14.7	58.8	22.5
Pct. Industrial	14.0	49.5	48.1	28.1	12.6	40.8	16.4	47.3	29.4	36.3
Education					5	INA	6	INA	2	INA
Below High Sch.	122	INA	8	INA			57	INA	6	INA
High School	638	INA	32	INA	38	INA				
Above High Sch.	1314									
Some College	INA	INA	50	INA	29	INA	46	INA	5	INA
4 Yr. College	INA	INA	55	INA	29	INA	23	INA	4	INA
Adv. Degree	INA	INA	11	INA	19	INA	2	INA	0	INA
INA	21									
Pct. Above HS	63.4		74.4		64.2		53.0		52.9	
Weekly Benefit	$248	$191	$203-b	$249-b	$240	$175	$179	$160	$264	$214
SEA Pct. Diff.	30.0		-18.3		36.7		11.8		23.3	

Source: SEA data from state reports, counts of participants. Insured Unemployment data from required reports, in thousands. a - Sales combined with clerical. b - Data for January-August 1997. INA-Information not available.

Table 5. Labor Market and Business Outcomes for 1996 SEA Participants

	New York, Completers	New York, Drop-outs	Oregon	Maine	Delaware
Completed Questionnaires	853	173	40	53	8
Labor Force Status					
i) Self employed only	506	15	INA	31	INA
ii) Self employed and Wage and Salary Emp.	154	22	INA	9	INA
iii) Wage and Salary Emp.	101	78	INA	7	INA
iv) Unemployed	15	48	INA	INA	INA
v) Retired	45	3	INA	INA	INA
vi) Other	17	5	INA	INA	INA
vii) Not Known	15	2			
Number Employed	761	115	INA	47	INA
Proportion Employed	0.89	0.66	INA	0.89	INA
Business Activity					
i) Business Start-ups	660	37	26	40	8
ii) Proportion with Start-ups	0.77	0.21	0.65	0.75	1.00
iii) Business Start-up Loans	276-a	a	3	3	1
iv) Business Closings	INA	INA	3	INA	2
v) Gross Sales ($000s)	INA	INA	963.3	291.9	75.0
Avg. Gross Sales	INA	INA	37049	7298	9370
vi) Self Emp. Income ($000s)	INA	INA	160.7	INA	INA
Average Self Emp. Income	INA	INA	6180	INA	INA
vii) Added jobs	1 000-a	a	24	32	5
Wages of SEA Participants					
i) Number, 1996 Fourth Quarter	41 1-b	154-b	7	48-b	4-c
ii) Proportion with Wages	0.23	0.35	0.18	0.48	0.50
iii) Total Qtly. Wages ($000s)	2648.1	1004.9	24.8	150.2	19.8
iv) Avg. Participant Wages	6443	6525	3538	3130	4956
v) Average Wages of All Covered Workers-d	9405	9405	6637	5775	7726
vi) Ratio of Participant Wages to Covered Wages	0.69	0.69	0.53	0.54	0.64

Source: Data from 1996 SEA state reports. INA - Information not available.

a - Combined data for completers and drop-outs. New York's report stated that more than 1000 additional jobs were created by these firms.

b - Numbers based on all 1996 SEA participants in New York and participants from the first three quarters in Maine. New York data from state tax files. Maine data from Ul wage records.

c - Persons who entered covered employment two and three quarters after completing SEA.

d - Calculated as 13 times the average weekly wage.

Appendix A. The Wyden-D'Amato Bill

During the 104th Congress, Senator Wyden of Oregon introduced a bill to make Self Employment Assistance a permanent program. The bill was co-sponsored by Senator D'Amato of New York.

The bill was simple and straightforward, with only three sections. Section 1 repealed the five year sunset provision for Self Employment Assistance in section 507(e), paragraph (2), of the NAFTA Implementation Act. Section 2 addressed Short Time Compensation (STC)[32] programs by making changes within Sections 3306 and 3304 of the Internal Revenue Code and Section 303 of the Social Security Act. The changes make STC permanent programs in the States and allow the payment of the associated STC benefits from State unemployment fund accounts. Section 3 specified that the amendments would become effective upon their date of enactment. In effect, this bill makes both SEA and STC permanent features of Unemployment Insurance in the States that elect to offer these options to workers.

A copy of the Wyden-D'Amato bill is displayed in the following pages.

[32] STC pays unemployment benefits to workers in jobs where weekly hours temporarily fall below the standard hours worked per week. For example, under STC a person who works four days per week can receive unemployment benefits during the fifth day. The amount would be one-fifth of the weekly benefit for full unemployment.

104TH CONGRESS **S.**

2D SSSSION

IN THE SENATE OF THE UNITED STATES

Mr. WYDEN introduced the following bill; which was read twice and referred to the Committee on

A BILL

To make permanent certain authority relating to self-employment assistance programs, and for other purposes.

Be it enacted by the Senate and Howe of *Representatives of the United States of America in Congress assembled,*

SECTION 1. SFLF-EMPLOYMENT ASSISTANCE PROGRAMS.

(a) IN GENERAL.-Paragraph (2) of section 507(e) of the North American Free Trade Agreement Implementation Act (26 U.S.C. 3306 note) is hereby repealed.

(b) CONFORWNG AMENDMENTS.-Subsection (e) of section 507 of such Act is further amended-

(1) by amending the heading after the subsection designation to read “EFFECTIVE DATE.-", and

(2) by striking "(1) EFFECTIVE DATE.-" and by running in the remaining text of subsection (e) immediately after the heading therefor, as amended by paragraph (1).

SEC. 2. TREATMENT OF SHORT-TIM COMPENSATION PROGRAMS.

(a) GENERAL RULE.-Section 3306 of the Internal Revenue Code of 1986 is amended by adding at the end the following:

"(U) SHORT-TIME COMPENSATION PROGRAM.-For purposes of this chapter, the term 'short-time compensation program' means a program under which-

"(1) the participation of an employer is voluntary;

"(2) an employer reduces the number of hours worked by employees in lieu of temporary layoffs;

"(3) such employees whose workweeks have been reduced by at least 10 percent are eligible for unemployment compensation;

"(4) the amount of unemployment compensation, payable to any such employee is a pro rata portion of the unemployment compensation which would be payable to the employee if such employee were to tally unemployed;

“(5) such employees are not required to meet the availability for work or work search test requirements while collecting short-time compensation benefits, but are required to be available for their normal workweek;

"(6) eligible employees may participate in an employer-sponsored training program to enhance jobs skills if such program has been approved by the State agency;

"(7) the State agency may require an employer to continue to provide health benefits, and retirement benefits under a defined benefit plan (as defined in section 3(35) of the Employee Retirement Income Security Act of 1974), to any employee whose workweek is reduced pursuant to the program as though the workweek of such employee had not been reduced;

"(8) the State agency may require an employer (or an employers' association which is party to a collective bargaining agreement) to submit a written plan describing the manner in which the requirements of this subsection will be implemented and containing such other information as the Secretary of Labor determines is appropriate; and

"(9) the program meets such other requirements as the Secretary of Labor determines are appropriate.".

(b) CONFORMING AMENDMENTS.

(1) Subparagraph (E) of section 3304(a)(4) of such Code is amended to read as follows:

"(E) amounts may be withdrawn for the payment of short-time compensation under a short-time compensation program (as defined in section 3306(u));".

(2) Paragraph (4) of section 3306(f) of such Code is amended to read as follows.

"(4) amounts may be withdrawn for the payment of short-time compensation under a short-time compensation program (as defined in subsection (u));".

(3) Section 303 (a) (5) of the Social Security Act is amended by striking "the payment of short-time compensation under a plan approved by the Secretary of Labor" and inserting "the payment of short-time compensation under a short-time compensation program (as defined in section 3306(u) of the Internal Revenue Code of 1986)".

SEC. 3. EFFECTIVE DATE.

This Act, and the amendments made by this Act, shall take effect on the date of the enactment of this Act.

Appendix B. Characteristics of SEA Participants in New York

As noted in Section VI, New York operates the largest SEA program. Between June 1995 and May 1996, it enrolled 2195 persons in SEA, of which 1751 o-- 79.8 percent- completed the program. New York also has provided detailed information on persons profiled as likely exhaustees during this period. From these data, one can compute both participation rates among likely exhaustees, as well as SEA program completion rates. Because the New York program is quite large, one can examine these data to note patterns of participation and completion according to the demographic and economic characteristics of participants.

Tables B1 and B2 summarize the New York data for the June 1995-May 1996 period. Both tables share a common format. The first five columns, respectively, display counts of likely exhaustees, SEA participants, completers, drop-outs, and the annual average of insured unemployment. The two right-hand columns show SEA participation rates and completion rates, both measured as percentages. Overall, New York profiled 235,126 persons as likely exhaustees, and 2195 or 0.93 percent enrolled in its SEA program. As noted, 1795, or 79.8 percent of enrollees, completed SEA.

Participation in SEA increases sharply with age, attracting only 0.12 percent of likely exhaustees under age 22, but peaking at 1.75 percent of likely exhaustees aged 45-54 (nearly twice the overall average), and then declining at older ages. On average, SEA participants were about two years older than the universe of likely exhaustees (42.2 years compared to 40.1 years), and more than five years older than the insured unemployed (average age of 36.6 years). Note also that SEA drop-outs were younger than those who completed SEA (40.1 years compared to 42.7 years). Thus SEA in New York attracts workers who are older on average than the pool of likely exhaustees, and program completers are even older.

Note that SEA program completion rates are also age-related. Completion rates were above-average in the central age ranges (35-44, 45-54 and 55-59), and below-average at younger and older ages.

Participation in SEA is clearly linked to the gender of likely exhaustees. The male participation rate (1.29 percent) was almost twice the female rate (0.68 percent). Thus, while women represented 59.5 percent of likely exhaustees, they represented only 43.7 percent of SEA participants. Men also exhibited somewhat higher SEA completion rates than women (81.4 percent versus 77.5 percent).

White New Yorkers are more likely to enroll in SEA than persons from other ethnic groups, and somewhat more likely to complete SEA training. Table B1 shows that the white participation rate of 1.27 percent was 37 percent above the overall average, while all other ethnic groups had below-average participation. Especially low participation occurred among Hispanics, 0.28 percent or only about one fourth of the overall average. Hispanics also had below-average SEA completion rates (72.1 percent), while the rates for all other ethnic groups were close to the overall average. Thus, Hispanics represented 12.5 percent of likely exhaustees, but only 3.3 percent of those who completed SEA training.

Table B2 shows clearly that SEA in New York recruited very heavily from the professional, technical and managerial occupations. Their participation rate of 2.04 percent was more than twice the overall average. In contrast, those from service occupations were least likely to enroll in SEA. Completion rates also were highest for professional, technical and managerial occupations, and lowest for service occupations. As a consequence, while the professional, technical and managerial occupations represented only 21.4 percent of likely exhaustees in New York, they represented 46.9 percent of SEA participants and 49.2 percent of completers. Their share of SEA completers was

nearly triple their share of the insured unemployed.

Clearly, SEA in New York draws participants from high status occupations. It would be most instructive to track the participants for several years to determine if these same occupations supplied a disproportionate share of persons who remained self employed, and to document the financial success of their businesses.

In contrast, those from industrial, clerical, sales and service occupations all had below-average participation rates and below-average completion rates. Thus, for example, industrial occupations accounted for nearly half of the insured unemployed and 18.1 percent of likely exhaustees, but only 14.0 percent of participants and 13.5 percent of SEA program completers.

Table B2 also shows that SEA draws participants from the high segment of the educational attainment distribution. For those with greater than high school education, the participation rate (1.59 percent) was more than five times the rate for persons who did not complete high school (0.28 percent). Among SEA enrollees, the SEA completion rate was also much higher for those with more than high school (82.4 percent) compared to those who did not complete high school (65.6 percent). Thus, while only 38.3 percent of those identified as likely exhaustees had educational attainment above the high school level, this schooling group accounted for 67.2 percent of SEA program completers.

The industry pattern of participation in SEA also is noteworthy. Table B2 shows that unemployed workers from manufacturing had the highest participation rate, 1.60 percent, or more than 70 percent above the overall average. Manufacturing and construction both exhibited above-average SEA participation rates and program completion rates. Lowest participation occurred among workers from the trade and service industries.

Overall, participation in SEA, as summarized in Tables B1 and B2, has a number of distinct patterns. Those who participate

are drawn disproportionately from certain high status occupations (professional, technical and managerial), from above-average educational backgrounds, and from the manufacturing sector. Participants also are disproportionately represented among workers who are older, male and white. Perhaps the most interesting feature of the New York data is a consistent association between high participation rates and high completion rates among SEA enrollees. The groups with high participation when arrayed by age, gender, ethnicity, occupation, educational attainment and industry also exhibited high rates of completing SEA programs. Since high completion rates may signal a good match for recruitment into self employment, the completion rate data may provide useful information on the characteristics of likely future successful entrepreneurs.

Of course, absent data on the outcomes of SEA training, one cannot be confident in making inferences about the post-program successes measured in terms of earnings, profits and hiring additional employees. This kind of information on labor market outcomes is needed for a thorough assessment of the success of New York's SEA program.

Table B1. Personal and Economic Characteristics of New York's SEA Participants, 1996

Characteristic	Likely Exhaus-tee	SEA Parti-cipant	SEA Com-pleter	SEA Drop-out	Insured Unemp-loyed	Partici-pation Rate-%	Comple tion Rate-%
Total	235,126	2195	1751	444	208.1	0.93	79.8
Age							
Under22	8,147	10	7	3	45.0	0.12	70.0
22-24	12,488	35	22	13	10.0	0.28	62.9
25-34	55,571	460	321	139	49.5	0.83	69.8
35-44	49,761	788	647	141	45.2	1.58	82.1
45-54	37,448	654	550	104	32.5	1.75	84.1
55-59	12,676	137	116	21	11.4	1.08	84.7
60-64	9,317	63	47	16	7.9	0.68	74.6
65 and Up	7,534	30	24	6	6.4	0.40	80.0
INA	42,184	18	17	1	0.4	0.04	94.4
Average Age	40.1	42.2	42.7	40.1	36.6		
Gender							
Women	139,838	957	742	215	89.7	0.68	77.5
Men	95,280	1231	1002	229	117.9	1.29	81.4
INA	8	7	7	0	0.5	87.50	100.0
Pct. Women	59.5	43.7	42.5	48.4	43.2		
Ethnicity							
White	118,057	1503	1208	295	112.8	1.27	80.4
Black	44,315	292	226	66	27.0	0.66	77.4
Hispanic	24,061	68	49	19	22.3	0.28	72.1
Other	5,320	28	22	6	46.1	0.53	78.6
INA	43,373	304	246	58		0.70	80.9
Pct. Black	23.1	15.4	15.0	17.1	13.0		
Pct. Hispanic	12.5	3.6	3.3	4.9	10.7		

Source: SEA data from 1996 New York SEA report. Insured Unemployment data from required federal report and measured in thousands. INA - Information not available

Table B2. Personal and Economic Characteristics of New York's SEA Participants, 1996

Characteristic	Likely Exhaus-tee	SEA Parti-cipant	SEA Com-pleter	SEA Drop-out	Insured Unemp-loyed	Partici-pation Rate-%	Comple tion Rate-%
Total	235,126	2195	1751	444	208.1	0.93	79.8
Occupation							
Pro./ T/Mgr.	50,352	1029	861	168	36.8	2.04	83.7
Clerical	103,471	707	550	157	43.3	0.68	77.8
Sales	a	a	a	a	a		
Service	38,700	151	104	47	24.3	0.39	68.9
Industrial	42,603	308	236	72	102.2	0.72	76.6
INA					1.2		
Pct. Pro./T/Mgr.	21.4	46.9	49.2	37.8	17.8		
Pct. Industrial	18.1	14.0	13.5	16.2	49.5		
Education							
Below High Sch	43,449	122	80	42	INA	0.28	65.6
High School	99,745	638	488	150	INA	0.64	76.5
Above High Sch	89,012	1414	1165	249	INA	1.59	82.4
INA	2,920	21	18	3	INA	0.72	85.7
Pct. Above HS	38.3	65.0	67.2	56.5			
Industry							
Construction	2,373	31	26	5	29.8	1.31	83.9
Manufacturing	25,998	416	349	67	37.7	1.60	83.9
Trans. & Util.	11,399	132	101	31	10.8	1.16	76.5
Trade	52,943	404	321	83	40.8	0.76	79.5
Finance	36,441	351	285	66	13.7	0.96	81.2
Service	95,502	725	565	160	57.0	0.76	77.9
Other & Unkn.	10,470	136	104	32	18.5	1.30	76.5
Pct. Mfg.	11.1	19.0	19.9	15.1	18.1		
Pct. Service	40.6	33.0	32.3	36.0	27.4		

Source: SEA data from 1996 New York SEA report. Insured Unemployment data from required federal report and measured in thousands. INA - Information not available a - Sales combined with clerical