5
Profiling in Self-Employment Assistance Programs

Jon C. Messenger
U.S. Department of Labor

Carolyn Peterson-Vaccaro
New York State Department of Labor

Wayne Vroman
Urban Institute

The nature of unemployment has changed dramatically in the last two decades. As global competition and rapidly evolving technologies have resulted in the dislocation of millions of workers from their jobs—even as new jobs are being created—layoffs have become permanent in nature, rather than simply a temporary experience during fluctuations in the business cycle. These "dislocated workers" who have been permanently laid off from a long-term job face substantial earnings losses and often have difficulty finding a new job (U.S. Department of Labor 1995, p. 47). In 1984, the Bureau of Labor Statistics (BLS) initiated a biennial series of special dislocated worker surveys. These surveys have revealed that, on average, over two million individuals are dislocated in the United States each year.[1] The new reality is that a large portion of those who lose their jobs never get them back; thus, affected workers often have to make a transition to a new job.

The U.S. Department of Labor (DOL) conducted a series of national demonstration projects over a 10-year period (1986–1996) that explored innovative alternative ways of using unemployment insurance (UI)—the first stop for most of these dislocated workers—to assist these workers in making the transition to new jobs. Beginning in 1987, DOL sponsored two UI Self-Employment Demonstration Projects, in

the states of Washington and Massachusetts, that rigorously tested the viability and cost-effectiveness of self-employment as a reemployment option for permanently laid-off, or dislocated, workers. Both of these demonstrations were run as field experiments which granted individuals monetary self-employment assistance in lieu of unemployment insurance and provided participants with entrepreneurial training, business planning, counseling advice, and technical assistance. The final evaluation found that self-employment assistance (SEA)—using the Massachusetts demonstration program model, which is the basis for current federal law—is highly cost-effective to program participants, the federal government, and society as a whole (U.S. Department of Labor 1995). The report recommended that the SEA program be made a permanent option for the unemployed.

The establishment of the SEA program was one of the infrequent instances when rigorous policy research led to legislative action. At the time when the UI SEA experiments were undertaken, the field of microenterprise development was just forming, and there was a great deal of skepticism about the utility of self-employment assistance as an employment strategy. The positive results from experimental self-employment demonstration projects conducted by DOL, in collaboration with state employment security agencies, was instrumental in spurring Congress to pass federal legislation in 1993 that authorized self-employment assistance as an alternative use of unemployment insurance.

This 1993 SEA legislation authorized the states to provide unemployed individuals periodic self-employment payments instead of regular unemployment insurance payments. The legislation allows states to use unemployment insurance funds to provide income support to those unemployed individuals who want work full time on starting their own businesses. The program was initially authorized for five years and was made permanent by Public Law 105-306 in October 1998.

The early identification tool commonly known as "profiling" played a key role in one of the two self-employment demonstrations, the Massachusetts project, which became the model for the SEA national legislation. Profiling is based on a set of criteria—a "profile"—that can be used to identify and select those UI claimants who are likely to be dislocated workers out of the broad population of UI claimants. By providing a mechanism for targeting the SEA provided by the demonstration on claimants who are dislocated workers, profiling en-

abled the project to be both cost-effective to the government and politically viable to several key constituency groups, particularly employers. Thus, profiling made a large contribution to the establishment of the SEA program.

This section has provided a brief introduction to the topic of profiling in SEA programs. The next section reviews the background and policy context for the SEA program in the United States and the role that profiling mechanisms were designed to play in this program. The third section summarizes key findings from an evaluation report on the SEA program mandated by Congress as part of the 1993 legislation. The use of profiling in state SEA programs and its implications is the focus of the fourth section, which includes descriptive information from conversations with states that have implemented SEA programs, a review of operational issues arising from the use of profiling in those programs and how states have responded to these issues, and a discussion of how profiling-type techniques might be applied to other aspects of the program. The final section of the chapter draws some conclusions from the analyses presented in the preceding sections and also discusses their implications for the future directions for the now-permanent SEA program and the role(s) that profiling can continue to play in the program.

BACKGROUND AND POLICY CONTEXT FOR THE SEA PROGRAM

Self-Employment as a Reemployment Option

One alternative for promoting the reemployment of UI recipients who are dislocated workers is self-employment. The growing recognition of the contribution of very small businesses to the creation of employment opportunities, as well as the relatively modest financial and managerial requirements of self-employment for participation by workers, have generated interest in using self-employment as a tool for assisting unemployed workers in returning to work. Unlike other services to assist the unemployed in obtaining jobs, SEA is designed to promote direct job creation for unemployed workers—to empower the

unemployed to create their own jobs by starting small business ventures. These very small start-up firms, which are called "microenterprises," are typically sole proprietorships with one or, at most, a few employees, including the owner/operator of the business.

During the 1990s, increasing numbers of dislocated workers in the United States have been coming from professional, technical, and managerial occupations—occupations which provide skills and experience that may make these workers particularly well-suited for entering self-employment.[2] While the primary goal of SEA/microenterprise programs is direct job creation for unemployed workers (or other specific target groups), the microenterprises started by these individuals may also generate additional jobs that could be filled by other workers. Thus, the SEA program provides an opportunity to integrate labor market policy and economic development policy in a dynamic relationship, helping participants to enter employment while simultaneously providing a modest boost to job creation and economic growth in their communities.

Self-employment assistance programs for unemployed workers were first implemented in several western European nations during the early 1980s. These programs were designed to help unemployed workers to "create their own jobs" by starting small businesses, which usually meant microenterprises. The two best known self-employment programs at the time were those in Great Britain and France. The French self-employment program, *Chômeurs Créateurs*, provided eligible individuals with a single, lump-sum payment for business start-up capital; the British program, the "Enterprise Allowance Scheme," provided eligible individuals with biweekly payments to supplement their earnings during the first year of business operations. In designing the UI Self-Employment Demonstration in 1988, DOL and state representatives visited France, Great Britain, and Sweden to observe firsthand the SEA programs in those countries. The British and French programs provided models of how unemployed workers could become self-employed; these models appeared to be transferable to the United States and were subsequently adapted for testing in two demonstration projects.

The Self-Employment Demonstration Projects

Ultimately, DOL conducted two experimental demonstration projects, in the states of Washington and Massachusetts, that tested the via-

bility and cost-effectiveness of self-employment as an alternative reemployment option for unemployed workers. These projects were designed to assist UI recipients interested in self-employment to "create their own jobs" by starting a business venture. The Washington demonstration project was initiated by DOL in early 1987, and all costs were funded by DOL research resources. The Massachusetts demonstration project was authorized by the Omnibus Budget Reconciliation Act of 1987.

These demonstration projects provided a basic model of a self-employment assistance program for unemployed workers. The program model includes two key components: financial assistance and business development services, modeled loosely on the British and French self-employment programs. The Massachusetts project was based on the United Kingdom's Enterprise Allowance Scheme and paid out biweekly cash self-employment allowances that provided microentrepreneurs with a source of income while they started their business. The Washington State demonstration generally followed the French *Chômeurs Créateurs* model and gave a lump-sum payment to unemployed workers interested in developing a microenterprise. In both programs, the financial assistance provided to participants equaled the total amount of unemployment insurance benefits to which workers would be normally entitled. In addition, both projects delivered business development services including entrepreneurial training, one-on-one business counseling, technical assistance, and peer support groups.

The results from the final evaluation of these demonstration projects clearly indicated that self-employment is a viable reemployment option for some unemployed workers. The evaluation found that while only about 2–3 percent of UI benefit recipients are interested in SEA, over half of this subset actually start a business. A final report on the UI Self-Employment Demonstration projects in Massachusetts and Washington was completed and published by DOL (Benus et al. 1995). The report includes a benefit–cost analysis from three different perspectives: project participants, the government, and society as a whole. The key findings from the evaluation of the UI Self-Employment Demonstration are as follows.

- SEA significantly increased the probability that unemployed workers would start a microenterprise. Compared with the con-

trol group, Massachusetts participants were 11 percent more likely to start a business; Washington participants were 22 percent more likely to start a microenterprise than their control counterparts.

- 61 percent of Washington participants and 74 percent of Massachusetts participants that had started a business sometime during the demonstration were still in business nearly three years later. These rates were similar to control group participants that had started businesses.
- Over the three-year follow-up survey period, SEA participants were employed longer than those in the control group by 1.9 months in Massachusetts and by 1.1 months in Washington.
- When both self-employment and wage and salary earnings are considered, the Massachusetts project dramatically increased the total annual earnings of participants: on average, project participants earned $5,940 more than those in the control group.

This evaluation also makes a determination as to the cost-effectiveness of the SEA program models tested from the perspectives of project participants, the government, and society as a whole. The benefit–cost analysis conducted as part of the final report showed that while both program models proved cost-effective interventions for participants and society as a whole, only the Massachusetts model proved to be cost-effective to the government. As a result, the evaluators concluded that for the Massachusetts model,

> These results indicate that SEA is a cost-effective approach to promote the rapid reemployment of unemployed workers and should be permanently incorporated into the U.S. employment security and economic development system (Benus et al. 1995, pp. x–xi).

National SEA Legislation and Key Features of the SEA Program

Based on the preliminary impact results from the UI Self-Employment Demonstration available in mid 1993, a provision allowing states to establish SEA programs as part of their UI programs was enacted into federal law as part of the North American Free Trade Agreement (NAFTA) Implementation Act (Public Law 103-182).[3] This provision allows states the option to offer SEA as an additional tool to help speed

the transition of dislocated workers into new employment. States need to enact legislation that conforms to the federal legislation to establish SEA programs (Orr et al. 1994).

State SEA programs provide participants with periodic (weekly or biweekly) self-employment allowances while they are getting their businesses off the ground. These income support payments will be the same weekly amount as the worker's regular UI benefits, but participants can work full time on starting their businesses instead of searching for wage and salary jobs, and they can also retain any earnings from self-employment. In effect, this provision removes a barrier in the law—one that forced unemployed workers interested in self-employment to choose between receiving UI benefits and starting a business.

Under this legislation, in states that operate SEA programs, only those UI recipients identified through profiling as likely to exhaust their UI benefits are eligible for SEA. Self-employment program participants are also required to work full time on starting a business, as well as participate in SEA services—such as entrepreneurial training, business counseling, and other activities—to ensure that they have the skills necessary to operate a business.

DOL issued federal guidelines regarding self-employment programs in an Unemployment Insurance Program Letter in early 1994. States have the flexibility to establish their own programs within these guidelines. To do so, states first need to enact conforming state legislation to establish their self-employment programs, develop a state plan describing how their SEA program will operate, and then submit the state plan to DOL for review and approval.

The 1993 legislation allowed the SEA program to run for five years, and the initial five-year authorization period for the SEA program was due to expire in December 1998. Ultimately, the program was made permanent by Public Law 105-306 (The Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998), which was signed into law on October 28, 1998.

The Role of Profiling in the Demonstration Projects and in the SEA Program

Self-employment and microenterprise development programs have proliferated since the time that DOL began its demonstration projects

testing self-employment as a reemployment option for the unemployed. Most of these microenterprise programs, however, focus their efforts on self-employment for welfare recipients and other disadvantaged individuals; that is, on using self-employment as an antipoverty strategy. The SEA program has been and still is one of the few self-employment programs targeted specifically to unemployed workers who have significant labor market experience yet are unlikely to return to jobs similar to those they had prior to layoff. Furthermore, SEA is the only such program that provides such individuals with a period of guaranteed income support while they are starting and operating their own businesses. Profiling, the mechanism used to identify dislocated workers eligible for the SEA program out of the broad UI claimant population, helped the SEA program to be both cost-effective to the government and politically viable for several key constituency groups, particularly employers. Profiling helps ease the concern of employers who want their former employees to be available for recall and are not being subsidized to establish microenterprises that might compete with them (U.S. Department of Labor 1994).

The use of profiling to identify eligible individuals for the SEA program is designed to target the program on the subset of UI claimants who have been permanently laid off from their previous jobs and who are most likely to experience extended spells of unemployment and thus likely to exhaust their UI benefits. Profiling uses a set of criteria, called a "profile," to identify those UI claimants who are likely to be dislocated workers out of the broad population of all UI claimants. Typically, profiling models include both individual characteristics (e.g., an individual's level of educational attainment) and economic variables (e.g., whether or not employment in a particular occupation is growing or declining). The rationale for this targeting is that claimants identified as likely to exhaust UI through profiling are those most in need of reemployment services to be able to return to work; thus, the self-employment assistance provided by the SEA program is merely one alternative in an array of tools designed to assist dislocated workers in their efforts to become reemployed.

As in the WPRS initiative, profiling in the SEA program targets dislocated workers for self-employment assistance because they are considered to be most in need of services. In addition, however, targeting on dislocated workers may be particularly appropriate for the SEA

program because an increasing proportion of all dislocated workers are now coming from professional, technical, and managerial occupations—occupations that require knowledge and skills that may be particularly applicable for self-employment. The experiences of the UI Self-Employment Demonstration provide evidence supporting this approach. In Washington State, 37 percent of all participants came from professional, technical, and managerial occupations, and in Massachusetts, more than half of all participants (57 percent) came from these occupations.

SUMMARY ASSESSMENT OF STATE SEA PROGRAMS

Descriptive Information on State SEA Programs

There are currently SEA programs in eight states: listed in chronological order of program implementation, they are New York, Oregon, Maine, Delaware, New Jersey, California, Maryland, and Pennsylvania. These programs are broadly similar but with several identifiable differences. Table 5.1 provides information on detailed aspects of the programs.

Six of the eight 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 and Pennsylvania are exceptions regarding geographic coverage.

All programs are required to use profiling to select eligible SEA participants. The individual profiling threshold probabilities (i.e., the minimum likelihood of benefit exhaustion for SEA program eligibility) range from no minimum threshold probability in the eight Pennsylvania service-delivery areas (SDAs) that offer SEA to a high of 70 percent in New York.[4]

States follow differing practices in contacting potential SEA participants. As indicated in Table 5.1, five 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

Table 5.1 SEA Intake Procedures, Provisions, and Financing of Support Services and Anticipated Enrollment

Characteristic	California	New York	New Jersey	Oregon	Maine	Delaware	Maryland	Pennsylvania
Geographic extent of SEA program	6 of 52 SDAs	Statewide	Statewide	Statewide	Statewide	Statewide	Statewide	8 of 28 SDAs
Profiling cutoff								
Probability of exhaustion (%)								
1995	NA	75	NA	60	40	68	NA	NA
1997	64	70	42	55	40	68	NA	NA
1999	64	70	42[a]	33	40[a]	68	40	None[b]
Primary method of contacting eligibles	Letter	Letter	Benefit rights interview	Profiling session	Letter	Profiling session	Letter	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	Statewide service vendor	One-stop center or vendor
Types of services								
Entrepreneurial training	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Counseling	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Technical assistance	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Peer support	No	Yes	No	No	No	Yes	Yes	No
Financial support	No	No	No	No	No	No	No	No
Funding of services								
JTPA-Title III-state grant	Yes	Yes		Yes		Yes		
JTPA-Governor's reserve monies		Yes					Yes	Yes
Small Bus. Dev. Centers (SBDC)		Yes	Yes	Yes		Yes		
State-financed training budget			Yes					

General revenues								Yes
UI special admin. expense fund					Yes			
In-kind services		Yes			Yes	Yes		
Anticipated enrollment	500–1,000	1,000	750–1,000	200	250–300	75	100	1,000
1996 SEA enrollment	2	2,195	156	111	134	17	NA	NA
1997 SEA enrollment	INA	2,266	776	38	101	INA	INA	560[c]

NOTE: NA = not applicable, no SEA program that year. INA = information not available.

[a] State is considering lowering the cutoff threshold.

[b] All persons who are profiled receive an information letter on SEA.

[c] 1998 enrollment data.

SOURCE: State Annual Self-Employment Assistance Reports, correspondence with DOL, and conversations with state officials as of 1998.

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 little serious interest in self-employment.

In five of eight states, the initial informational meeting where SEA is fully described occurs in offices of the employment service or in one-stop centers. Exceptions are California, where the informational meeting occurs in local SDA offices, and Maryland and Pennsylvania, where the offices of the service provider are used.[5]

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 offered universally. Initial assessment often occurs at an 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. Three states also indicated that peer support sessions are provided to participants (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 is extremely limited.

Financial support other than weekly SEA allowances may be needed to start up new enterprises. Potential sources 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 currently being made by SBDCs or other SEA service providers. State SEA reports for 1996 typically showed that a very small number of loans had been received.[6]

Table 5.1 also identifies how each state pays for support services provided to clients. Most commonly, client services were financed with Job Training Partnership Act (JTPA) Title III monies, a source used in six states. This financing included JTPA discretionary monies controlled by the governors in three states. New Jersey finances most training activities with monies from its Workforce Development Partnership, a state payroll tax–financed reemployment program. Pennsylvania uses monies from its general revenue-supported Projects for

Community Building, a state economic and community development program with eight separate components.

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 (or special administrative expense fund) of the unemployment insurance agency. Table 5.1 identifies this source of financing in Maine. SBDC activities in four other states are supported by their SBDC's 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 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 six of eight SEA programs, financial support for SEA services to clients is derived from more than a single source. Monies are most often derived from JTPA (now WIA) and SBDC. The two exceptions are New Jersey and Maine, where financing is predominantly provided by the Workforce Development Partnership program and the UI penalty and interest account, respectively.

The final feature of the SEA programs covered by Table 5.1 is their size in terms of their anticipated and actual numbers of enrollments. 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, along with actual 1996 and 1997 enrollments (1998 enrollments in Pennsylvania). With the exceptions of New York and New Jersey, the SEA states have had many fewer enrollees than originally anticipated. Thus, it is clear that SEA is a small program, both relative to the regular UI program and in the absolute numbers of participants.

Personal and Economic Characteristics of SEA Program Participants

Table 5.2 shows the 1996 and 1997 personal and economic characteristics of SEA participants in the first five states to implement SEA

Table 5.2 Personal and Economic Characteristics of SEA Participants, 1996 and 1997

	New York			New Jersey			Oregon			Maine			Delaware	
Characteristic	SEA participants		Insured unemployed (thousands)	SEA participants		Insured unemployed (thousands)	SEA participants		Insured unemployed (thousands)	SEA participants		Insured unemployed (thousands)	SEA partici-pants	Insured unemployed (thousands)
Year	1997	1996	1996	1997	1996	1996	1997	1996	1996	1997	1996	1996	1996	1996
Total	2,266	2,195	208.1	832	156	108.2	38	111	44.2	101	134	14.6	17	8.1
Age														
Under 22		10	45.0	1.0	1	4.6	0.0	0	3.3		0	0.5	0	0.2
22–24		35	10.0	2.0	2	6.8	0.0	1	3.3		2	0.9	0	0.4
25–34	605	460	49.5	155.0	30	31.3	6.0	18	12.9		31	4.0	2	2.4
35–44	777	788	45.2	287.0	56	28.9	13.0	42	12.8		52	4.0	9	2.6
45–54	587	654	32.5	241.0	44	20.9	9.0	40	8.0		39	2.8	4	1.5
55–59		137	11.4	86.0	15	7.2	8.0	7	2.2		10	0.9	2	0.5
60–64	297[a]	63	7.9	44.0	5	5.0	1.0	2	1.0		0	0.6	0	0.3
65+		30	6.4	17.0	3	3.6	1.0	1	0.6		0	0.3	0	0.2
Unknown		18	0.4									0.6		
Average age	43.0	42.2	36.6	44.0	43.0	39.9	45.3	43.1	37.5	INA	41.4	39.6	42.7	39.7
Gender														
Women	1,135	957	89.7	319	63	47.4	19	50	17.6	47	72	6.0	5	3.8
Men	1,131	1,231	117.9	513	93	60.7	19	61	26.6	54	62	8.0	12	4.3
Unknown		7	0.5									0.6		

Women (%)	50.1	43.7	43.2	38.3	40.4	43.8	50.0	45.0	39.8	46.5	53.7	42.9	29.4	46.9
Ethnicity														
White	1,269	1,503	112.8	680	134	66.4	34	106	37.3	99	130	13.8	14	5.2
Black	543	292	27.0	105.0	13	20.7	0	3	1.0	0	2	0	3	2.6
Hispanic	159	68	22.3	22	4	18.4	2	0	3.5	0	0	0	0	0.2
Other	68	28	46.1	25	5	2.6	2	2	2.4	2	2	0.8	0	0.1
Unknown	227	304				0.2					0.1			
Black (%)	26.6	15.4	13.0	12.6	8.3	19.1	0.0	2.7	2.2	0.0	1.5	0.3	17.6	32.0
Hispanic (%)	7.8	3.6	10.7	2.6	2.6	17.0	5.3	0.0	8.0	0.0	0.0	0.2	0.0	2.4
Occupation														
Prof/tech/mgr.		1,029	36.8	141	21	47.9	22	71	9.5	27	50	1.9	10	1.8
Clerical		707	43.3	49	17	17.2	8	15	8.4	19	39	2.6	1	2.3
Sales		Note b	Note b	11	9	Note b	4	7	Note b	15	10	Note b	1	Note b
Service		151	23.9	24	12	9.2	0	3	5.3	6	12	1.9	0	0.9
Ag/forest/fish		0	0.4	1	22	2.7	1	1	2.9	2	1	0.4	0	0.1
Industrial		308	102.2	564	75	30.1	3	14	18.0	31	22	6.1	5	2.9
Unknown			1.2	42		1.0				1		1.7		0.1
Prof/tech/mgr (%)	46.9	17.8	17.8	13.5	44.7	57.9	64.0	21.5	27.0	37.3	14.7	58.8	22.5	
Industrial (%)		14.0	49.5	71.4	48.1	28.1	7.9	12.6	40.8	31.0	16.4	47.3	29.4	36.3
Education														
Less than high school	122	INA	29	8	INA	1	5	INA	7	6	INA	2	INA	
High school		638	INA	229	32	INA	16	38	INA	74	57	INA	6	INA
More than high school	1314													

Table 5.2 (Continued)

Characteristic	New York			New Jersey			Oregon			Maine			Delaware	
	SEA participants		Insured unemployed (thousands)	SEA participants		Insured unemployed (thousands)	SEA participants		Insured unemployed (thousands)	SEA participants		Insured unemployed (thousands)	SEA participants	Insured unemployed (thousands)
Education (cont.)														
Some college		INA	INA	256	50	INA	9	29	INA	6	46	INA	5	INA
4-yr. college		INA	INA	279	55	INA	7	29	INA	14	23	INA	4	INA
Adv. degree		INA	INA	39	11	INA	5	19	INA	0	2	INA	0	INA
Unknown		21												
More than high school (%)	63.4		69.0	4.4		55.3	64.2		19.8	53.0			52.9	
UI WBA[c] ($)	246	249	206	326	INA	258.5[d]	274	241	191	165	179	171	271	224
SEA WBA differential (%)		20.8			26.2			26.5			4.9		21.1	

NOTE: INA = information not available.

[a] Aged 55 and over.

[b] Sales combined with clerical.

[c] Weekly benefit amount; statewide WBA from *UI Financial Handbook.*

[d] WBA in 1997.

SOURCE: SEA data from state reports, counts of participants. Insured unemployment data from required reports, in thousands.

programs. For comparative purposes, the table also shows information on the characteristics of the insured unemployed (regular UI claimants) in these states in 1996.[7] SEA participants differ from regular UI claimants in several respects. Table 5.2 provides comparative information on age, gender, ethnicity, occupation, education, and 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 in 1996 to a high of 7–8 years in New York and Oregon. These systematic age differences mirror the age differences typically observed between the self-employed and wage and salary workers.[8] The likelihood of self-employment increases among workers as they attain older ages. SEA participants share this characteristic with the wider self-employed population.

Among 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 a noticeably higher representation of women in Maine and Oregon but had a lower representation in Delaware.

Ethnic differences between SEA participants and the insured unemployed also are apparent in Table 5.2. In both New Jersey and Delaware, the percentages of blacks in SEA are lower than among the insured unemployed. New York, the other state with a sizeable black population, had somewhat higher participation in SEA than among regular UI claimants. For Hispanics, on the other hand, SEA participation has been consistently low.

The occupational distributions in Table 5.2 reveal a consistent pattern for four of the 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 in 1996 were professional, technical, and managerial, compared to just 17.8 percent among the insured unemployed. The industrial occupations in New York supplied just 14.0 percent of SEA participants in 1996 but 49.5 percent of the insured unemployed.

New Jersey appears to be an outlier in its SEA occupational distribution. Compared with 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. Note that this pattern was observed in both 1996 and 1997.

In all five states, SEA participants showed a relatively high level of educational attainment. For the eight education distributions appearing in Table 5.2, the percentage whose schooling exceeded 12 years (high school) exceeded 50 percent in seven (Maine in 1997 was the exception). In four instances, 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 (Vroman 1998, Appendix B). The average participation rate among those profiled and identified as likely UI exhaustees was 0.93 percent (2,195 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.

SEA completion rates in New York were also linked to educational attainment. The overall completion rate was 0.80 (i.e., 1,751 of 2,195) as shown in Table 5.2. Completion rates by education levels were 0.66 for those with less than high school, 0.76 for those with a high school education, and 0.82 for those with more than high school. From the 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.

For all five states in Table 5.2, 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 quarterly earnings or average weekly wages during the base period.[9] The weekly benefit amount (WBA) of SEA participants in 1996 ranged from 4.9 to 26.5 percent higher than the average WBA for the insured unemployed, and four percentage differentials exceeded 20 percent. 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-à-vis the insured unemployed undoubtedly exceed the percentage differentials in weekly benefits shown in Table 5.2.[10] Thus, for four of the five states, SEA enrolled relatively high-wage workers, i.e., workers with much higher wages than the wages of the insured unemployed.

To summarize, there were clear differences in 1996 and 1997 between the characteristics of SEA participants and the insured unemployed. On average, SEA participants were older, substantially less likely to be Hispanic, and more likely to be drawn from the professional, technical, and managerial occupations and from the higher ranks of the educational attainment distribution.[11] SEA participants also 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 identified as likely exhaustees through state profiling models; rather, SEA participants are a self-selected subgroup of likely UI exhaustees. Participation rates are systematically higher for whites, those with higher educational attainment, and those from the professional, technical, and managerial occupations.

Early SEA Program Outcomes and Costs

SEA programs are required to report on the economic outcomes of program participants for each year that SEA operated for more than six months. This requirement applied to four SEA states in 1996 (New York, Oregon, Maine, and Delaware) and to one state in 1997 (New Jersey). Due to the small scale of Delaware's program, it will not be included in the present discussion.

Data on economic outcomes for program participants were obtained from questionnaires, sent by mail. 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 stages of new business ventures. Data on self-employment earnings are subject to the twin problems of faulty recall and misreporting (underreporting). Survey-based estimates of self-em-

ployment earnings provide systematically downward-biased estimates of actual earnings.

Table 5.3 displays selected data on economic outcomes for participants in four states in 1996 and 1997. 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 also shown for the fourth quarter of 1996 and 1997.[12] In New York, the data distinguish SEA program completers from dropouts.

The respondents to follow-up interviews in New York represented just less than half of all SEA program participants. Lacking information from other sources, however, the analysis will use these data. Note also the generally small sample sizes, especially in Oregon.

The data in Table 5.3 are seriously incomplete. 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 or three years following SEA participation.

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 89 percent and 86 percent for participants in Maine and 89 percent for SEA completers in New York. Of the New York dropouts, 66 percent were employed. The latter group also had high unemployment, 28 percent of all dropouts. Among New York SEA completers not employed, about half were retired and the proportion unemployed was only 2 percent.

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 as wage and salary workers. Only the New York dropouts were working mainly as wage and salary workers. At the time of the interviews, about half of the dropouts were working exclusively as wage and salary workers, while less than one-tenth were exclusively self-employed.

Among all states, a consistently high proportion of SEA participants started businesses. The proportions in Table 5.3 range from 65 to 77 percent in New Jersey, Oregon, Maine, and New York (among SEA program completers). For New York dropouts, the business start-up proportion was only 21 percent.

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; New Jersey, 66.7 percent; and Oregon, 72.0 percent. In New York, where information was also given on previous industry of SEA participants, there were large employment increases 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 compared with their previous jobs (Vroman 1998).

The gross income data from three states indicate that annual business sales were low in all three: $26,429 in New Jersey, $37,049 in Oregon, and less than $10,000 in Maine. Note that net business income was less than $7,000 in both New Jersey and Oregon. Thus, for these three states there is a consistent picture of relatively low levels of business sales and net business income. This is similar to findings from the self-employment demonstration projects.

Each state reported on the number of jobs added by the new businesses, besides those for the entrepreneurs. Table 5.3 indicates that there were significant indirect employment effects in all four states. The average number of added (or indirect) jobs ranged from 0.8 per business start-up in Maine and New Jersey to more than 1.4 per business start-up in New York. These added employment effects were larger than those reported in the Washington State demonstration.

In addition to the self-employment outcomes, substantial numbers of participants worked as wage and salary workers following enrollment in SEA. The proportions in the interview data at the top of Table 5.3 were 30 percent in 1996 and 54 percent in 1997 in Maine, 30 percent for New York completers (255 of 853), and 58 percent for New

Table 5.3 Labor Market and Business Outcomes for 1996 and 1997 SEA Participants

Outcome	New York		New Jersey	Oregon		Maine		Delaware
	Completers (1996)	Dropouts (1996)	(1997)	(1996)	(1997)	(1996)	(1997)	(1996)
Completed questionnaires	853	173	136	40	15	53	72	8
Labor force status								
Self-employed only	506	15	INA	INA	INA	31	23	INA
Self-employed and wage and salary emp.	154	22	INA	INA	INA	9	22	INA
Wage and salary emp.	101	78	INA	INA	INA	7	17	INA
Unemployed	15	48	INA	INA	INA	INA	9	INA
Retired	45	3	INA	INA	INA	INA	0	INA
Other	17	5	INA	INA	INA	INA	1	INA
Not known	15	2	INA	INA	INA			
Number employed	761	115	INA	INA	INA	47	62	INA
Proportion employed (%)	89	66	INA	INA	INA	89	86	INA
Business activity								
Business start-ups	660	37	98	26	10	40	44	8
Proportion with start-ups (%)	77	21	72	65	67	75	63	100
Business start-up loans	276[a]	Note a	10	3	3	3	INA	1
Business closings		INA		3	1	INA	INA	2
Gross sales ($, 000)		INA	2,590.1	963.3	INA	291.9	INA	75.0
Average gross sales ($)		INA	26,429	37,049	INA	7,298	INA	9,370
Self-employment income ($, 000)		INA	650.5	160.7	INA	INA	INA	INA
Average self-employment income ($)		INA	6,637	6,180	INA	INA	INA	INA
Added jobs		Note a	82	24	14	32	INA	5

Wages of SEA participants								
Number, fourth quarter		154[b]	10	7	3	48[b]	56	4[c]
Proportion with wages	0.23	0.35	0.07	0.18	0.20	0.48	0.55	050
Total quarterly wages ($, 000)	2,648.1	1,004.9	47.4	24.8	2.3	150.2	200.1	19.8
Average participant wages ($)	6,443	6,525	4,743	3,538	773	3,130	3,573	4,956
Avg. wages of all UI covered workers[c] ($)	9,405	9,405	9,314	6,637	7,005	5,775	6,059	7,726
Ratio of participant wages to covered wages	0.69	0.69	0.51	0.53	0.11	0.54	0.59	0.64

NOTE: INA = information not available.

[a] Combined data for completers and drop-outs. New York's report stated that more than 1,000 additional jobs were created by SEA firms.

[b] Numbers based on all 1996 SEA participants in New York and participants from the first three quarters of 1996 in Maine. New York data from six tax files. Maine data from UI wage records.

[c] Calculated as 13 times the average weekly wage.

SOURCE: Data from 1996 and 1997 SEA state reports.

York dropouts (100 of 173). A second perspective on this phenomenon is provided by the data in the bottom rows of the table. These show counts of those who worked as wage and salary workers during the fourth quarter of 1996 and 1997 based on administrative data. Five of the six proportions range from 18 percent to 55 percent, with only New Jersey's proportion being lower. Thus, both survey data and administrative data show sizeable proportions working in wage and salary employment.

For all four states, the amounts of wages and salaries earned by SEA participants during the fourth quarter were reported. These amounts and the per-person averages appear in the bottom panel of Table 5.3. Five of the six averages range from $3,130 in Maine to $6,525 for New York dropouts.[13] Since wage levels differ widely among 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 (1996) to 0.69 in New York.

For SEA participants with wages and salaries in the fourth quarter of 1996 and 1997, the averages represent substantial amounts of earnings. Recall from Table 5.2, 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 5.3 represent much lower average earnings for participants than they earned before unemployment. This finding is consistent with previous work on dislocated workers, such as findings based on the CPS dislocated worker surveys.

The data examined in Table 5.3 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 dropouts could be compared, the dropouts 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 65 percent or higher; and

4) in each state, a sizeable proportion of SEA participants (ranging from 18 to 50 percent) had wage and salary earnings during the fourth quarter of 1996.

The average wage and salary earnings for these persons generally ranged from 0.51 to 0.69 of statewide average wages for the quarter.

Some caveats in the SEA outcomes data also should be emphasized. First, most data on labor market outcomes came from surveys with low response rates. The nonrespondents may have had inferior outcomes vis-à-vis the outcomes reported by the respondents. Second, 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. Finally, unlike the self-employment demonstrations, there is no control group against which the labor market outcomes for participants can be compared.[14] Thus, no easy way exists to assess the impacts of SEA. Instead, the outcomes that are summarized in Table 5.4 should be characterized as gross outcomes, not as net impacts.

The 1996 and 1997 SEA program annual reports from the states provided 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.

A summation that includes the variable costs of SEA training and other support services plus UI administrative costs can be done only in New Jersey. The average cost per enrollee was $1,127 in 1997. Given the limitations of the cost data supplied by the states, we hesitate to make strong conclusions about program costs.

From the data supplied in the 1996 and 1997 annual SEA reports, two tentative conclusions may be drawn. First, New Jersey's average

variable costs of $1,127 in 1997 did not differ widely from the costs of self-employment demonstrations, where inflated estimates from Massachusetts and Washington were $1,213 and $474, respectively.[15] Second, there would probably be a wide range of estimates of average costs related to the scale of the SEA program. The estimates of UI agency costs in Oregon in 1996 and 1997 illustrate this point, i.e., $801 in 1997, compared with $384 in 1996.

It should also be noted that, from the 1996 and 1997 data reported by the states, there is no way to undertake a benefit–cost analysis of state SEA programs such as the one completed as part of the evaluation of the UI Self-Employment Demonstration projects.

THE USE OF PROFILING IN SEA PROGRAMS AND ITS IMPLICATIONS

How Profiling Is Being Used in SEA Programs

Since profiling is used to select persons eligible for SEA, some description of the use of profiling in SEA programs is warranted. Table 5.4 provides details of profiling in six states with SEA programs.[16] The table highlights four aspects of SEA profiling: 1) the screening criteria used in the first stage of the profiling process to exclude UI claimants from the second stage of profiling (the statistical model); 2) the variables used in the statistical model; 3) information on updating the statistical model; and 4) the profiling probability of exhaustion threshold used to determine if persons are eligible to participate in SEA programs.

Profiling has two main operational functions in UI programs: to provide rankings of claimants to local UI offices (used to select persons to receive enhanced reemployment services), and to identify persons eligible to participate in SEA. The state criteria used to screen out people in the first stage of the profiling process are identified in the top rows of Table 5.4. Claimants with definite dates of recall and those hired through a union hiring hall are excluded from profiling in all states. These exclusions are based in authorizing statutory language. Persons involved in labor–management disputes and persons with part-

time employment are also often screened out during the first stage of the profiling process, as they are job-attached. Most states also exclude persons with interstate claims.[17] Table 5.4 shows these latter three exclusions are not universally applied in the six states. Less common are exclusions based on potential duration of benefits and nonpayment of benefits within 35 days of claim filing. Each of the latter variables is used in just one of the six states.

The profiling statistical model in SEA states typically includes variables reflecting the person's industry and occupation and educational attainment. Of the six states, Oregon does not include industry while Pennsylvania does not include occupation.

States also use a wide variety of variables in their statistical models reflecting aspects of base period earnings and benefit entitlements. Among the six states, only New York does not utilize at least one such variable. Note that two states utilize information on the length of the delay in filing a claim for UI benefits to predict probability of exhaustion.

Job tenure (the length of time the individual spent working in their previous job) and reason for separation are utilized in three and two states, respectively. Besides these personal characteristics, the unemployment situation in the local labor market enters four of the six states' profiling statistical models. In short, the profiling models in these six states rely on a variety of explanatory variables to predict the probability of benefit exhaustion.

The labor market of the late 1990s has much lower unemployment rates than the mid 1990s, when most profiling algorithms were first estimated. Between 1993 and 1998, the nationwide exhaustion rate for regular UI programs declined from 39 percent to 31 percent. Table 5.4 shows two aspects of change in the profiling models being used in 1999. All states have updated time-dependent variables such as the local unemployment indicator, industry employment growth, and variables related to benefit entitlements. It would be interesting to know how closely the time path of the average of the state profiling scores (the predicted probabilities of exhaustion) matched the actual decreases during the period.

However, the specifications of the underlying profiling models have been unchanged in three states and changed only once in two states. In New Jersey the statistical model was reestimated in early

Table 5.4 Details of Profiling in Six SEA Programs

	Maine	Maryland	New Jersey	New York	Oregon	Pennsylvania
Criteria to screen out claimants						
Definite recall date	X	X	X	X	X	X
Exclusive hiring hall	X	X	X	X	X	X
Labor-mgt. dispute				X		X
Part time employment[a]		X	X		X	X
Interstate claim	X	X	X	X		
Potential duration	X					
No first pay within 35 days						
Variables in profiling function[b]						
Industry, industry growth	XX	XX	X	X		X
Industry exhaustion rate						X
Occupation, occ. growth	XX	X	X	X	X	
Education	X	X		X	XX	XX
Wage replacement rate	X				X	XX
Weekly benefit amount						
Base period earnings (BPE)					X	
Potential duration			X			
BP wages for 26 weeks					X	
High quarter earnings/BPE	X					
Filing delay	X				X	
Job tenure		X		X		X
Mass layoff status				X		

Indefinite recall			X			
Reason for separation	X				X	
Local unemployment rate		X	X		X	X
Updating of profiling function						
Specification changes						
Number of times	0[d]	0	0	1	2[c]	1
Date(s)			1997–98		1996, 1998	1995
Updating variables	X	X	X	X	X	X
SEA profiling threshold (%)	40	40	42	70	33	None

[a] Equivalent to a partial first payment.

[b] Number of X's indicates the number of variables.

[c] Reestimation planned in 2000.

[d] Reestimation planned in 1999.

SOURCE: Conversations with professional staff in the six states, as of 1998.

1997, but the revised function was first used in January 1998. Two states had plans to reestimate their model in either 1999 or 2000. The changes in specification in Oregon have been more substantial, in part because of changes in the state's base period eligibility criteria. Oregon used to rely on weeks of employment but now uses earnings (with base period hours worked used in a second eligibility calculation) in its monetary determinations. The relative infrequency of these changes is somewhat surprising since the unemployment rates in the states have changed so much since the mid 1990s.

The final aspect of Table 5.4 is the variation in the probability of exhaustion threshold used by the states. New York is at the high end of the distribution, using a probability threshold of 70 percent. In contrast, Pennsylvania uses no probability threshold for persons who pass the initial set of screens in the first stage of the profiling process. Oregon has the next lowest threshold, at 33 percent. It should also be noted that the proportion of UI claimants who are identified through profiling as likely exhaustees varies widely among states. For example, under its 70 percent probability threshold for SEA, New York identified 235,126 likely exhaustees in 1996, while Maine only identified 2,475 using its 40 percent threshold. These numbers represented about 42 percent and 5 percent, respectively, of UI first payments in the two states.

Operational Issues Arising from Profiling in SEA Programs and State Responses: The New York State Experience

SEA programs were implemented in eight states between 1995 and 1998, beginning with a prototype SEA program in the state of New York. At the same time, all states were required to implement worker profiling to identify UI customers who were likely to exhaust benefits as part of the federal requirement to establish Worker Profiling and Reemployment Services (WPRS) systems. The states that simultaneously implemented both WPRS and SEA had an interesting challenge before them. Not only did staff have to acclimate to a profiling model with WPRS services, they also had the added challenge of having their SEA programs tied into profiling. This section provides a look at the operational experiences of the first and largest of the state SEA programs—New York—including some comparisons with other SEA states where comparable information is available.

Under normal circumstances, when the profiling model is applied, UI claimants are not cognizant of the mechanics behind profiling. They are told to report to the UI office for a WPRS orientation (called a "profiling" orientation in New York). Although state staff explain to profiled claimants identified as likely exhaustees that they have been "selected" because they have been determined as likely to exhaust benefits, the assumption they often make is that the computer has randomly selected participants for a WPRS orientation. Very few claimants question why they have been selected for reemployment services, and they generally are quite appreciative of the information gleaned from the profiling orientation.

Customarily, during profiling orientations in SEA states, several options are given to the claimants who have been identified as likely exhaustees via profiling and referred to services. The first choice is reemployment services. These services can range from job search workshops to resumé preparation assistance to career testing and counseling. The vast majority of profiled and referred UI customers choose to take advantage of reemployment services. Statistically, most of these WPRS participants are interested in seeking a wage or salary position, but they have not been in the job market for a number of years and just need assistance with their job search.

The second choice offered to UI claimants in a WPRS orientation is retraining. This option allows profiled and referred UI customers to be excused from the full-time work search requirement in order to take advantage of a full-time training course. The training could be in a Workforce Investment Act (WIA) class (e.g., in a community college), a college course, or training in a private vocational school. This is also a popular option with profiled and referred claimants because in a number of states, getting into a training class extends unemployment benefits for an additional one to six months. It is important to note that even individuals interested in starting a business may choose the training option as more colleges establish degrees and certificates in entrepreneurism.

The third available option (at least in the eight SEA states) is exploring the SEA program. Generally, less than 3 percent of profiled claimants identified as likely exhaustees are interested in going to an SEA orientation session. In many of the SEA states, supplemental letters are sent to all UI customers identified as likely exhaustees to inform them about the SEA program. Even with this, there is still a very

small percentage of profiled customers taking advantage of SEA—less than 1 percent of all UI claimants. Thus, SEA is an option for a small number of people with the motivation and skills necessary to start their own business.

The primary problem with profiling and SEA does not occur with an individual who has been profiled and identified as likely to exhaust UI benefits, it occurs when an individual does not meet the probability threshold for SEA eligibility but still wants to participate in SEA. Not all applicants are eligible to participate in the SEA program, and this has proved to be a point of contention in some states, leading to disputes of both nonmonetary determinations and appeals decisions denying SEA eligibility. One source of operational problems has derived from the use of a minimum probability of exhausting UI benefits as a condition of eligibility for the SEA program. Some claimants have not understood (or do not agree) that likelihood of exhaustion is a necessary element in determining eligibility. There have also been more general disputes over applicants' profiling scores and whether these scores reflect their true likelihood of being unemployed for 26 weeks or more. Generally, however, the volume of disputes has declined in more recent periods.

In New York state, the probability threshold (or "cutoff") for SEA program eligibility is 70 percent (which has been lowered from 75 percent when the program first started). UI customers with a profiling probability score below the 70th percentile are told in the local UI office that they have been found ineligible for the SEA program. When they inquire why they are ineligible, the topic of profiling inevitably comes into discussion. From the claimant's perspective, suddenly a statistical, computerized model stands between them and their ability to be able to start their own business and still collect benefit payments. Although the situation has improved since the beginning of the SEA program, most local office staff still have difficulty understanding profiling models, whether it is one using characteristics screens or a statistical model (or, most typically, a two-stage process similar to the DOL profiling model, which uses both screens and a statistical model).

In an attempt to explain why the profiling "score" is not high enough to participate in SEA, the situation becomes even more complicated and potentially confusing to the claimant. This is due to the fact that, to the lay person on the street, when they hear the word "score"

they make the assumption that there has been a test given and they did not pass. States vary as to what statistical percentage they use as the threshold (or cutoff) probability for SEA eligibility. Inevitably though, whenever there is an eligibility cutoff, there will be individuals on the other side of the cutoff who do not qualify for the program and who are frustrated and unhappy.

Note that officials in several SEA states have indicated that the profiling cutoffs used in their SEA programs may be too high. As the labor market has strengthened in the late 1990s and state-level unemployment rates declined, the number of initial claims for UI benefits also declined. This decrease in the intake volume for the regular UI program affected the numbers identified as SEA eligibles via profiling. Two states currently operate with lower threshold probabilities than contemplated when their SEA programs were being formulated: New York, at 70 percent rather than 75 percent, and Oregon, at 33 percent rather than 60 percent. Two others, New Jersey and Maine, have considered reducing their thresholds. Finally, as noted earlier in this chapter, Pennsylvania has no probability threshold for SEA eligibility; all of those claimants who pass the screens in the first stage of Pennsylvania's profiling process are informed about the SEA program.[18] Further reductions in the cutoff percentages can be anticipated if labor markets become as robust as they were in the late 1990s.

Administratively, UI claimants with a low statistical probability of exhaustion present a real challenge to the SEA states. The easy way out would be to lower the profiling threshold to a point where nearly anyone could participate in the SEA program. This approach, however, presents the following problems. First, to lower the score to such a point compromises the integrity of the profiling system in terms of its ability to identify claimants who are likely to exhaust UI benefits. Not all UI claimants are likely to exhaust their benefits. As a matter of fact, New York has estimated that, in times of full employment, only 15 to 30 percent of all claimants will be highly likely to exhaust benefits. In the late 1990s in New York State, because the UI recipiency rate was so low (averaging approximately 5 percent), the proportion of claimants who were likely to exhaust benefits dropped even lower to only 11 percent of the total UI claimant population in the state.[19]

A second issue regarding reducing the profiling threshold arises in those states where employers' benefit rating is charged back to a specif-

ic firm, thus affecting the employer's experience-rated UI tax liability. In this situation, the use of profiling helps to ensure that only those who will truly have a difficult time becoming reemployed will be eligible for the SEA program and thus receive self-employment allowance payments. This helps in assuring employers that they will not be paying for benefits that claimants would not otherwise have received, and that there will be fewer instances of direct competition against the former employer; in fact, for workers laid off through a mass layoff or plant closing, quite often there is no existing former employer.[20]

CONCLUSIONS AND FUTURE DIRECTIONS

Conclusions Regarding Targeting in the SEA Program

As we have seen, the use of profiling in state SEA programs has had both positive and negative effects on these programs. On the positive side, the use of statistical profiling models in the SEA program has targeted the program on a subgroup of UI claimants who have the characteristics typically associated with dislocated workers. Moreover, in those states where outcomes data are available, those dislocated UI claimants (selected through the profiling process) who participated in the SEA program have generally shown positive outcomes, in terms of both high rates of business start-ups (65 percent or higher) and also entry into wage and salary employment (with employment rates of between 18 and 50 percent). It was difficult, however, to estimate self-employment earnings, and wage and salary earnings of SEA participants were generally lower (0.51 to 0.69 percent) than statewide average wages.

The ability of the profiling models to meet their objective of targeting the SEA program solely on individuals who are permanently separated from their previous job is less ambiguous. As Table 5.4 clearly shows, all states have included a variable in their worker profiling process that screens out those UI recipients who are on recall status, although a WPRS evaluation report to Congress shows that states varied in how they defined "recall status" (Dickinson, Kreutzer, and Decker 1997, p. II-2). Of course, these recall status screens will not be 100 per-

cent accurate. For example, over 45 percent of the states screened out not only those individuals who did not have a definite date of recall to their former employer, but also claimants who indicated that they expected to be recalled but did not have a definite date (Dickinson, Kreutzer, and Decker 1997, p. II-2). Moreover, it is clear from the results of state follow-up surveys of SEA participants described earlier that many of the business start-ups involved large changes in the types of work activities being undertaken by SEA participants compared with their previous wage and salary jobs. Thus, it appears that the presence of these permanent layoff/recall status screens have served to minimize any potential the SEA program might have for disrupting an employer/employee relationship. Also, because SEA program participants are likely to draw no more in SEA allowances than they would have drawn anyway in regular UI benefits, it appears unlikely that SEA will have a significant impact on employers' experience-rated UI tax liability.

The requirement that profiling be used in SEA programs, however, has not been without its downsides. There are at least two major problems that states have experienced in using some type of profiling method in their SEA programs. First, profiling has restricted the access of some UI claimants to the SEA program who might otherwise be good candidates for self-employment. This is not surprising, since individuals identified by profiling as likely to exhaust their UI benefits are likely to be individuals who have *more* barriers to reemployment than UI claimants in general. Thus, although there are obviously exceptions, profiling will identify a group of the unemployed who, on average, are less likely to have the knowledge and skills necessary for self-employment.

For this reason, state economic development agencies and microenterprise practitioners interested primarily in promoting microenterprise and small business development have often viewed profiling as the wrong approach to targeting individuals who would be successful in business. However, their concern about the conflict between targeting SEA on likely UI exhaustees and service providers' desire to focus on those most likely to succeed in business has failed to materialize because of the self-selection factor in SEA. That is, even if a particular claimant is judged to be likely to exhaust UI benefits, they must still be interested in pursuing self-employment, and if so, be

motivated enough complete the sequence of self-screening activities (e.g., the orientation and "reality check" about the pros and cons of self-employment).

The characteristics of SEA participants presented above clearly show that SEA participants are not a random group drawn from the pool of eligibles identified as likely exhaustees through state profiling models. Rather, SEA program participants are a self-selected subgroup of dislocated UI claimants. SEA participation rates are higher for whites, individuals with higher educational attainment, and those from the professional, technical, and managerial occupations. This evidence, in combination with the very small proportions of likely UI exhaustees (i.e., as eligible for SEA) who actually apply for SEA, demonstrates that this strong self-selection process is at work in current state SEA programs, just as in both of the UI Self-Employment Demonstration projects. The end result of this process is that, while the use of profiling in SEA targets the program on dislocated UI claimants, the self-selection process used for SEA appears to be further targeting SEA participation on a subset of dislocated claimants who have the knowledge and skills necessary for self-employment.

For program operators, the restriction on access to the SEA program resulting from the use of profiling has also created a second problem—dealing with those individuals who are interested in self-employment but are not eligible for the SEA program due to their (relatively low) profiling scores. By restricting the access of individuals with (relatively) low profiling scores to the SEA program, profiling can generate administrative headaches for SEA program operators as they attempt to explain to these individuals why they are ineligible for the SEA program, what the profiling model is and does, and how profiling relates to self-employment in the first place (which, as noted earlier, is far from an obvious relationship). The experience of the first and largest SEA program, the New York program, provides an illustration of how the use of profiling as a targeting mechanism for SEA can result in unhappy and frustrated claimants, as well as additional work for the few SEA program staff. It is certainly possible that the reductions in the probability of exhaustion thresholds for SEA eligibility that occurred in state SEA programs in the late 1990s was due in part to a desire to minimize the administrative burden on state staff by reducing the proportion of claimants interested in SEA who do not qualify for the program. On

the other hand, it is just as likely that this occurrence was simply a temporary response by states to attempt to maintain SEA program enrollments in a time of declining UI caseloads.

Future Directions

Some future directions that the permanently reauthorized SEA program may take are as follows:

- The use of profiling will remain an important feature of SEA programs as a dislocated worker program. The use of profiling is essential for targeting SEA on a subpopulation of UI claimants who are dislocated workers, and it remains a requirement for SEA programs under federal law. The continuing concern about employer attachment issues means that this situation is not likely to change anytime soon. However, the specific variables used in profiling models for SEA are likely to change over time and eventually may be more customized to SEA needs.
- There will be interest in looking at which SEA participants succeed in their business ventures over the long term. Even with the very small numbers of SEA participants, the program has already provided a pool of well over 6,000 individuals who can be studied to see if there are common characteristics of "typical" entrepreneurs that can be developed. New York plans to look at this issue over the next several years to see if any conclusions can be drawn on the elements of the "typical" entrepreneur for future use in developing customized profiling models for the SEA program that take into account these "entrepreneurial" characteristics, in addition to those factors associated with the likelihood of benefit exhaustion.
- Now that SEA has become a permanent program, DOL's direct oversight role in the SEA program will likely diminish. Changes to the SEA program in a UI Program Letter (UIPL 11-99) that eliminated the requirement for states to submit a state SEA plan to DOL for review and approval prior to implementing a SEA program mean that it is easier than ever for states to establish programs. The fact that a state's SEA legislation conforms to the basic tenets of federal SEA legislation, including the requirement that profiling be used in selecting SEA pro-

gram participants, will now be sufficient for DOL approval of a state's approach to implementing SEA.

- The SEA program will gradually expand to additional states. In fact, three additional states, Arkansas, Washington State, and Massachusetts, have been working on enacting the conforming state legislation necessary to establish their own SEA programs.
- There may be a need for a self-employment program that serves a broader population of the unemployed, so that individuals who are not dislocated workers would be eligible to participate. Such a program could not use WIA dislocated worker funding for business development services (e.g., microenterprise training), but states would have the option to fund such services for a broad range of jobseekers. Such a program, however, would have the potential problem of employer opposition if nondislocated UI claimants are permitted to participate.
- The availability of technical assistance to additional states interested in implementing SEA programs will be critical in creating effective programs. With diminishing direct involvement of DOL staff in the planning process, a "how-to" manual for states to assist them in developing and operating these programs becomes a particularly critical need.
- If SEA programs are to be successful in the long-run, states will have to strengthen the interprogram linkages between UI programs and self-employment service providers. In particular, state SEA programs will need to establish strong working relationships with both microenterprise training providers under the Workforce Investment Act and with the Small Business Administration's network of small business development centers, which can provide SEA program participants with extensive business counseling and technical assistance services.

Notes

This paper represents the views of the authors and does not necessarily reflect the policies or positions of the U.S. Department of Labor, the New York State Department of Labor, or the Urban Institute. Jacob Benus and Wayne Gordon provided substantive comments which helped improve on a prior version of this paper.

1. Based on data from the series of BLS Displaced Worker Supplements to the Current Population Survey (Wandner 1997, p. 96). Also see U.S. Department of Labor (1998).
2. Based on data from the biannual displaced worker surveys conducted by the Bureau of Labor Statistics (BLS), "blue-collar workers," in particular those workers in manufacturing industries, accounted for half of all displaced workers in the early 1980s. However, the most recent BLS displaced worker survey (February 1998) indicates that slightly more displaced workers were from managerial, professional specialty, and technical occupations (30 percent) compared with those "blue-collar" occupations more typically associated with worker displacement (defined here as precision production, craft, and repair workers plus operators, fabricators, and laborers).
3. For an in-depth review of these preliminary results and their impact on federal SEA program legislation, see Messenger and Wandner (1994).
4. Like many states, Pennsylvania uses screens in the first stage of their profiling process to exclude claimants who do not meet certain criteria; e.g., claimants with definite dates of recall. However, all claimants who reach the second stage of the profiling process (the statistical model) are informed about SEA in the eight SDAs with active SEA programs.
5. Maryland has one statewide vendor who hosts the initial meeting. However, correspondence from the UI agency precedes this meeting. Claimant letters are forwarded to the service vendor, who then extends invitations to attend an information meeting. Pennsylvania's SDAs follow different procedures including holding the initial meeting at the vendor's site.
6. For example, the 1996 annual reports indicated that very few loans were received in Oregon, Maine, and Delaware. In that year, loans were relatively common only in New York, but many of them came from personal sources, not from financial institutions.
7. Note that SEA participants are counts of individuals, whereas insured unemployment refers to weekly averages measured in thousands.
8. In 1996, household data from the monthly Current Population Survey (CPS) indicated that the average age of those working as self-employed in nonagricultural industries was 44.4 years, compared with 38.4 years for wage and salary workers.
9. Typically the base period is the first four of the five most recent fully completed calendar quarters preceding the UI claim.
10. The presence of WBA 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 WBAs that have a constrained maximum.
11. New Jersey and Maine present partial exceptions to this statement.
12. In New York, 1996 fourth-quarter wage and salary data are based on state income tax records.
13. In 1997, only three people participated in Oregon's SEA program. This explains the low figures.

14. There is a question of whether new businesses started by SEA participants displace existing businesses. Although the potential displacement effect is likely to be quite small given the small number of SEA participants, it is impossible to estimate this effect with existing data.
15. The variable cost estimates shown in Benus et al. (1995, Table 10.2) have been inflated by a ratio of 1.1938, which represents the ratio of the 1997 all items consumer price index (CPI) to the 1990 level of the CPI.
16. While California and Delaware have enacted all the necessary legislation to operate SEA, the programs in both states were inactive in 1998. During 1997, these states reported 19 and 40 weeks compensated by their respective SEA programs. Both reported zero weeks compensated in 1998 (ETA report 5159). It should be noted that the Delaware SEA program actively enrolled participants in previous years, but SEA has never been actively pursued in California. States also curtailed their SEA operations due to the scheduled expiration of SEA in December 1998.
17. A profiling process for interstate claimants has not yet been established.
18. It should be noted that among states with an SEA program, only Pennsylvania does not use a probability threshold determining program eligibility. Many states do not establish explicit probability thresholds as part of their profiling procedures for WPRS. Typically, claimants who pass the initial screens in the first stage of the profiling process are ranked in order of their probability of benefit exhaustion, from those with the highest exhaustion probabilities to those with the lowest probabilities. Then, individuals are referred to services beginning with those at the top of the ranking (with highest exhaustion probabilities) and proceeding down the list until the supply of available reemployment services is exhausted.
19. Data provided by the New York State Department of Labor, Unemployment Insurance program office.
20. See the discussion on profiling and employer attachment in the second section of this chapter for an analysis of this issue.

References

Benus, Jacob M., Terry R. Johnson, Michelle Wood, Neelima Grover, and Theodore Shen. 1995. *Self-Employment Programs: A New Reemployment Strategy, Final Report on the UI Self-Employment Demonstration*. Unemployment Insurance Occasional Paper no. 95-4, Washington, D.C.: U.S. Department of Labor.

Dickinson, Katherine P., Suzanne D. Kreutzer, and Paul T. Decker. 1997. *Evaluation of Worker Profiling and Reemployment Service Systems: Report to Congress*. Washington, D.C.: U.S. Department of Labor, Employment and Training Administration.

Messenger, Jon C., and Stephen A. Wandner. 1994. *Self-Employment as a Reemployment Option: Demonstration Results and National Legislation*. Unemployment Insurance Occasional Paper no. 94-3, Washington, D.C.: U.S. Department of Labor.

Orr, Larry, Stephen A. Wandner, David Lah, and Jacob M. Benus. 1994. "The Use of Evaluation Results in Employment and Training Policy: Two Case Studies." Paper presented at the annual research conference of the Association of Public Policy Analysis and Management, Chicago, Illinois, October 26–29.

U.S. Department of Labor. 1994. *The Worker Profiling and Reemployment Services System: Legislation, Implementation Process, and Research Findings*. Unemployment Insurance Occasional Paper no. 94-4, Washington, D.C.: U.S. Department of Labor.

———. 1995. *What's Working (and What's Not): A Summary of Research on the Economic Impacts of Employment and Training Programs*. Washington, D.C.: U.S. Department of Labor, Office of the Chief Economist.

———. 1998. "Worker Displacement: 1995–1997." Washington, D.C.: U.S. Department of Labor, Bureau of Labor Statistics, August 19.

Vroman, Wayne. 1998. "Self Employment Assistance (SEA) Program." Report to Congress. Washington, D.C.: Unemployment Insurance Service, Employment and Training Administration, U.S. Department of Labor.

Wandner, Stephen A. 1997. "Early Reemployment for Dislocated Workers in the United States." *International Social Security Review* 50(4): 95–112.

Comments on Chapter 5

Jacob M. Benus
IMPAQ International

The chapter by Jon Messenger, Carolyn Peterson-Vaccaro, and Wayne Vroman effectively describes the likely benefits and the potential problems generated by the implementation of profiling in self-employment assistance (SEA) programs. The chapter also speculates about the impact of profiling on SEA programs. I believe that the impact of profiling on SEA programs can and should be analyzed more rigorously. In fact, the U.S. Department of Labor (DOL) may already have the data to measure this impact. Before describing how DOL might evaluate the impact of profiling on SEA programs, I will first briefly review the contents of the chapter.

The first section of the chapter describes the UI Self-Employment Demonstrations project.[1] These demonstrations were part of an experimental design project to evaluate the impact of SEA programs on the unemployed. The project was funded by DOL and implemented in the states of Washington and Massachusetts.

To reduce the potential for "excess costs," the Massachusetts demonstration incorporated a UI exhaustion algorithm. Only those above a cutoff probability (i.e., 0.25) were invited to participate in the program (this cutoff eliminated 12 percent of the UI claimants). This exhaustion algorithm was included in the demonstration largely in response to legislative requirements and states' concerns about excess costs. Another feature of the Massachusetts demonstration was the withdrawal of the work search waiver after 24 weeks. That is, after 24 weeks, participants had to drop out of the SEA program and search for regular wage and salary employment in order to remain eligible for the remaining 6 weeks of UI benefits (approximately $1,500).

Between these two features of the demonstration (i.e., profiling and the 24-week benefit cutoff), I believe that the 24-week benefit cutoff was much more important in promoting budget neutrality. If this assertion is correct, the chapter's statements about the effectiveness of profiling on budget neutrality may not be warranted. The problem is that without a rigorous evaluation, we cannot be certain about the impact of profiling.

The chapter next goes into an assessment of the implementation of SEA in eight states. Essentially, the findings in this section confirm the results of the Self-Employment Demonstrations. That is, highly educated individuals from professional, technical, and managerial occupations with high prior earnings make up the bulk of SEA participants. Following this discussion, the chapter describes the use of profiling in the state programs, the implementation of profiling, and the operational issues that profiling raises.

One of the more interesting operational issues described in the chapter is reprofiling. That is, UI claimants who are determined to be ineligible for SEA as a result of a low profiling score may request that their score be recalculated in an effort to become eligible. In New York, the only state to permit reprofiling, one-third of the 1,800 participants in 1997 came into the program after having been reprofiled.

The chapter concludes with the authors pointing out the positives and negatives of profiling for SEA programs. One of the positives claimed for profiling is that profiling results in, or at least enhances, budget neutrality. This conclusion is partly based on evidence from the Massachusetts demonstration. This evidence, however, is weak and, in my opinion, not convincing.

I believe we can get more definitive evidence on this issue from data available in the UI Self-Employment Demonstrations. To analyze the impact of profiling, we can apply a profiling model to the Washington State sample (where profiling was not used). That is, we can profile the treatment and control group members in the Washington sample and eliminate those who fall below the threshold. Using this approach, we can estimate excess costs with and without the eliminated group. This exercise can quantify the impact of profiling. If profiling has no impact on budget neutrality, we should reconsider the assertion that profiling is essential to promote budget neutrality in SEA programs.

The above analysis can be enhanced by altering the threshold level. For example, we can alter the threshold level from 0.25 to 0.50. If profiling reduces excess costs, one might expect excess costs to be lower under the 0.50 threshold than under the 0.25 threshold. This is clearly a testable hypothesis, and the data for testing the hypothesis are available from the UI Self-Employment Demonstrations.

My main conclusion is that the argument in favor of profiling in SEA programs rests heavily on the presumed impact of profiling on budget neutrality. Let's measure whether this presumption is correct. DOL has the data to do it! It would be a shame to leave such an important issue unanswered.

Note

1. For a description of this project, see Benus et al. (1995).

Reference

Benus, Jacob M., Terry R. Johnson, Michelle Wood, Meelima Grover, and Theodore Shen. 1995. *Self-Employment Programs: A New Reemployment Strategy, Final Report on the UI Self-Employment Demonstration*. UI Occasional Paper no. 95-4, Washington, D.C.: U.S. Department of Labor.

Comments on Chapter 5

Wayne Gordon
U.S. Department of Labor

It should first be understood that the self-employment assistance (SEA) program is small, as measured by the number of states having implemented programs in the six years since authorization. Eleven states took the first step of implementation by changing legislation, but only eight can claim any significant effort. Of the eight, three started relatively late in the initial five-year authorization.

Achieving widespread state commitment to the program was made difficult because of uncertainty about the continuation of the program after December of 1998. Now that the authorization is permanent, the U.S. Department of Labor (DOL) expects several more states to implement SEA programs soon, and DOL is encouraging more states to consider doing so. This is vital to long-term survival of the program.

An important question that the chapter fails to address is: With profiling thresholds so low in many of the SEA states, what role does profiling play? It appears that the first step of the profiling process, which applies screens to exclude those with union hiring hall and employer attachment, as well as self-selection, are the more powerful determinants of who enrolls in SEA programs. For example, many people express an interest in SEA-type programs. DOL handles many letters and phone inquiries about how to get into the SEA program. Second, the profiling models exclude some demographic characteristics that are key predictors of successful entrepreneurial success. Third, not all entrepreneurial activity in SEA is in direct competition with past employers. Finally, if it can be shown that the self-employed hire new workers, then widening the SEA offer to more initial claimants would not threaten trust-fund solvency if these employers are paying UI taxes on behalf of new employees.

Under the Workforce Investment Act, new administrative relationships are being forged between the public employment service and other agencies like small business development centers and the Service Corps of Retired Executives. It would be interesting to hear more in the chapter about what states are doing to make these specialized services available to SEA participants, and how continuous improvement principles can be achieved. In relation to such supplementary services, it would be useful to 1) identify which entrepreneurial services would be useful in promoting success of SEA recipients, 2) determine the costs of these services which are often provided "in kind," and 3) establish a feedback loop between these new service providers and the UI system to ensure that SEA claimants are satisfying eligibility requirements.

State and federal reporting of SEA activity needs to be revisited to determine the best type of information for policymakers and the general public. Currently, since only a small number of states have programs, the annual report method described in the chapter is adequate. However, if many more states were to operate SEA programs, this type of reporting would be excessively burdensome. Furthermore, not all successful outcomes for SEA participants can be captured under current WIA performance measures. Separate measures will need to be incorporated under WIA to properly capture performance outcomes that are unique to SEA. A specialized program such as SEA, which targets a small slice of the UI claimant population, requires regular evaluation to ensure effectiveness and use of best practices. Performance monitoring should be the first system in this continuous improvement loop.