PUBLIC POLICY BRIEF

How to Turn Laid-Off Talent into Entrepreneurs

LIBERTAS INSTITUTE

SUMMARY

Hundreds of thousands of tech industry workers were laid off in 2023. But in some states these layoffs provided an opportunity for workers, thanks to alternative reemployment programs called Self-Employment Assistance (SEA).

SEA programs allow motivated and talented workers to start their own businesses and create new jobs. But despite decades of success, only five states still operate active SEA programs. The lack of programs in the remaining forty-five states translates to thousands of missed opportunities for economic growth across the nation.

However, with new rounds of layoffs continuing on into 2024, states still have an opportunity to rethink unemployment by implementing SEA programs. This policy brief details the economic benefits of Self-Employment Assistance programs, stories of entrepreneurs who relied on these programs, the regulatory barriers to expanding these programs, and recommendations for overcoming them.

Leverage the talent of laid off workers by swapping unemployment checks for business licenses.

In December of 2022 - stretching into the better part of 2023 - the tech companies that gobbled up talent during the Covid-19 pandemic began a series of layoffs that boosted quarterly earnings but left many talented workers in an uncertain position. Generous severance packages and hungry recruiting firms softened the blow, but the layoffs forced some into the unemployment office for the first time in their otherwise bright careers.

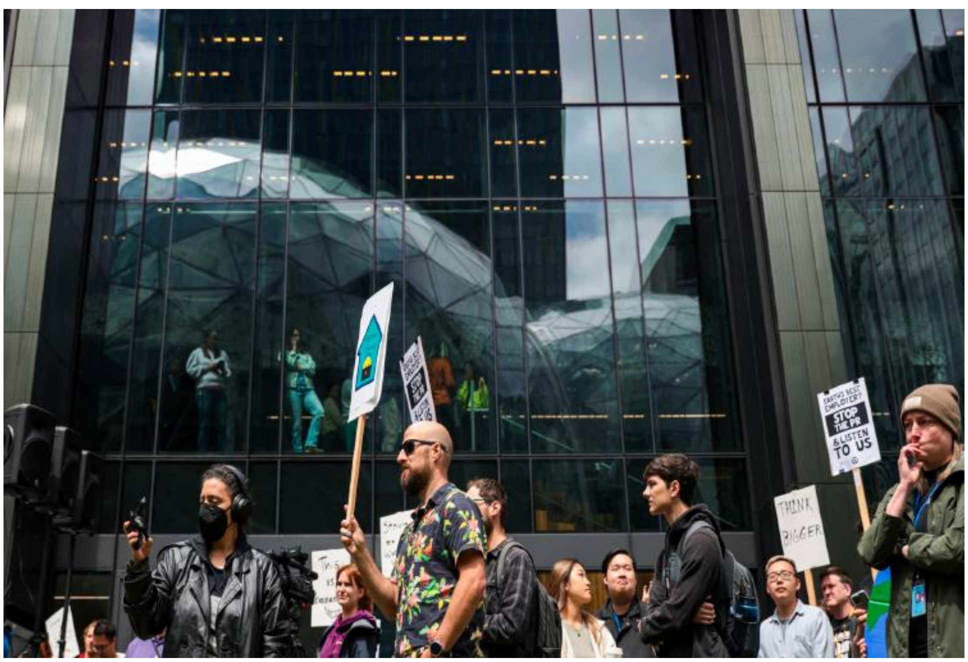
Apart from the immediate cost to workers who were suddenly out of a job, the economic cost of these layoffs will be felt for years to come. States that failed over the last two decades to create opportunities for unemployed workers to apply their talents to entrepreneurial pursuits, rather than receive unemployment checks for sending out a few resumes to check the box, have paid a high price in lost economic opportunity.

When high-caliber tech talent walked through the doors of the unemployment office last year, only to be told they'd need to spend their time applying for similar employment, the states lost out on a significant source of economic opportunity, jobs, and tax revenue.

Exploring alternative unemployment benefits for entrepreneurs could be a compelling way to allow tech talent to create even greater opportunities for themselves.

At a high level, Self-Employment Assistance (SEA) programs are an alternative path to standard unemployment assistance, offering laid off workers the opportunity to start their own business and create new jobs.

These programs operate on a similar timeline as unemployment assistance, offering supplemental income to participants for ten to twenty-six weeks so they can focus on planning and executing their business ideas. In addition, SEA Programs offer mandatory self-employment training to give participants the best chance at success.



Amazon employees and supporters gather during a walk-out protest against recent layoffs, a return-to-office mandate, and the company's environmental impact, outside Amazon headquarters in Seattle, Washington, on May 31, 2023.

If created and implemented successfully, the expenses of an SEA program would likely be recouped in GDP growth and tax revenue. But if the trend of layoffs is ignored, especially in the face of rising interest rates and shrinking household budgets, states will only continue to pay the cost by pouring money into a program that discourages workers from creating new jobs and economic activity.

What's So Special about Self-Employment Assistance (SEA) Programs?

There are countless stories of enterprising individuals who picked themselves up by their bootstraps after a devastating career setback and went on to start highly successful businesses. No doubt, these stories often serve as inspirations for generations of entrepreneurs to follow. Yet, the vast majority of workers who find themselves in a tough spot after a layoff can't afford to blaze a new path with their savings alone.

Instead, they turn to traditional Unemployment Compensation (UI) benefits, which means mandatory weekly job searches, occasionally required attendance at state-run workforce training programs, and retooling assistance designed to get them back to work as soon as possible. Unfortunately, for those enterprising workers who rely on

UI benefits, their entrepreneurial ambitions are often inhibited by UI requirements and limitations.

When it comes to self-employment activities, for example, UI benefit claims for Utahns are considered closed and no longer payable if the person receives four consecutive weeks of earnings equal to or more than their weekly benefit amount.[1] This limitation is similar to a "welfare cliff,"[2] because it discourages individuals from doing anything that would jeopardize their stable source of income — like making a significant effort to start a self-sustaining business instead of applying for reemployment. Especially when considering that self-employment income tends to fluctuate week-by-week, this prohibition is a hindrance on entrepreneurial opportunity for workers looking for a fresh start.

However, some states take a different approach called Self-Employment Assistance.

Self-Employment Assistance programs allow workers who are eligible to claim UI to receive a weekly allowance, just like they would through standard UI benefits, while starting a business.[3] This allowance is equal in amount and duration to regular UI benefits.[4] SEA program participants are able to waive the normal job-seeking requirements and income thresholds common in standard UI benefit programs.[5]

SEA programs are not a new idea by any means. Early versions were experimented with by Massachusetts and Washington in 1990, and Congress created the first SEA program using UI funds in 1993.[6] In 1998, those programs were made permanent.[7] However, of the ten states who have ever tried their hand at creating a Self-Employment Assistance Program, only five remain active due to low participation rates and administrative costs.[8]

Stories of Self-Employment: The Human Component

Despite these barriers, the individual success of SEA participants speaks to the potential usefulness of these programs if implemented correctly.

Early reports from 1998, showed that participants often created new full time jobs, in addition to employing themselves, both directly through hiring and indirectly through their economic impact which created job opportunities for other businesses through vendor contracts.[9] In addition, participants in those early programs consisted of workers who had more years of work experience, and the group had a "higher representation from the professional, technical and managerial occupations, and above-average educational attainment."[10] That 1998 report also mentioned that "Nearly all [started their own business] without securing loans from financial institutions (although about one in five did secure such loans in New York)."[11]

Reports since, summarized by the Congressional Review Service, showed that SEA participants are "19 times more likely than eligible non-participants in sample states to be self-employed at any point after their period of unemployment."[12] Participants were also "four times more likely to have obtained any type of employment… than eligible non-participants."[13]

While searching for SEA Programs, it's easy to come across former participants – many of whom encourage others to apply by sharing their story and walking would-be applicants through the process. A video testimonial of multiple participants posted by the Employment Department of Oregon, for example, shows a group of diverse people who enthusiastically encourage others to apply.[14]

Despite barriers, the individual success of SEA participants speaks to the potential usefulness of these programs.

One such story is Chuck Copenspire,[15] who applied to Oregon's SEA program for assistance in starting a digital media agency.[16] His experience, prior to being laid off, included 10 years in the field, and he held a computer science degree with a minor in graphic design and animation. In addition to his experience as an employee, he freelanced in Washington State serving business and enterprise clients.

Without the SEA Program, their plan was to start the business by using savings and the $4,000 severance he received when he was laid off.

Instead, thanks to Oregon's SEA program, he was able to claim $2,600 a month in unemployment benefits to help offset their living expenses as he paid attention to the digital media agency.

As of October 2022, the digital media agency had not only succeeded, it expanded.

Chuck's foray into business ownership through the establishment of his digital media agency was made easier by the experience and qualifications he already had. But in other cases, SEA programs can empower recently laid off workers to make a career pivot and pursue side-businesses and hobbies.

This was the case for Derrick Pickett, who participated in New York's SEA program to start a screen printing design business called Passion, Paint, Print.[17]

As Derek recounts, he was laid off from the financial services industry just before Thanksgiving in 2017. Around the same time he was also enrolling his young child in daycare services. He had fifteen years of experience in the financial services industry which helped him make a living and support his young family. But on the side, he had been operating a fashion design business using a vinyl machine and a heat press, called Unfltrd Passion.[18]

While in the process of filing for unemployment, he saw an option on New York State's website for Self-Employment Assistance. After a conversation with his wife, he decided to pursue self-employment instead, creating the screen printing business as part of his SEA program participation.[19]

Like Chuck, Derek made how-to videos and testimonial videos to discuss how others can use their state SEA program like him. In part two of his SEA discussion published in 2019, he recounts his experience and progress after a year of self-employment. As of May, 2019, he still operated two businesses, the clothing business he started in the SEA program called Passion, Paint, Print, and the business he was able to expand called Unfltrd Passion.[20]

The missing piece to these two success stories, however, is the business environments they have been able to start their businesses in. Most notable is the move away from in-person office space traditionally meant to attract clients and take meetings.

With the advent of fast/reliable internet connections and powerful personal computers, remote offices and virtual meetings make in-person offices unnecessary for an up-and-coming entrepreneur. That shift from in-person to remote office space significantly reduces overhead costs.

Another unique opportunity in today's day and age is gig work , which accounts for roughly 12 percent of the global labor market.[21] As Chuck mentioned, he was able to pick up freelancing and grow that into a full digital media agency. The expanded opportunities for gig workers to reach clientele on platform apps has made earning a living as a solopreneur, even in niche areas like graphic design and copywriting, that much easier.

Going back to the 1990s, there were limited opportunities for entrepreneurs, which had a negative effect on SEA participation. That's part of the reason why there are only five active SEA programs remaining today. But with so many opportunities available now to quickly and affordably start a business, the time is ripe to build these programs out again.

Finally, it's worth noting that the states with the most successful

SEA programs are not considered "business friendly." With some of the highest business tax rates in the country, it's shocking that so many participants enter into a self-employment program. The question for policy makers then is how much more successful an SEA program could be in more business-friendly states like Utah, Texas, and Florida, where there is even greater opportunity available for entrepreneurs.

Individual Barriers to Successful SEA Program Participation

Success stories are important examples of a successful SEA program experience, but there are issues below the surface that prevent otherwise qualified and motivated entrepreneurs from doing the same. Even for participants, there are some blind-spots that deserve more attention and study.

Primarily related to low-participation, as noted in the latest Congressional Research Service report on Self-Employment Assistance, participating in these programs can often disqualify claimants from extended benefits and reemployment services should the self-employment venture fail.[22] In this case, people may instead prefer to receive a secure stream of income while looking for a job instead of seizing the opportunity for self-employment.

Additionally, the issue goes beyond safety nets. For Derrick, who tried reentering the financial services industry after his first year of self-employment, leaving his unrelated fashion design experience off of his resume resulted in a problematic gap year in employment that made getting call-backs difficult.[23]

Another issue is investment capital. While Chuck's digital media agency required little capital investment up front,[24] Derek's investment in screen printing equipment was significant. As Derek mentioned in his 1-year progress video, "if you are applying for the SEA program, that means you've been unemployed, and chances are you may have some money saved… but I'll probably venture that you really don't have, you know, hundreds of thousands of dollars, you know, just sitting around to start… your business."[25]

"I think it's a great resource, but at the same time it's kind of… marketed toward those of us who need money and don't really have money to really invest and really get your creation off the ground."[26]

Unfortunately for those enterprising workers who rely on UI benefits, their entrepreneurial ambitions are often inhibited by statutory requirements and limitations.

Finally, it's worth noting that not everyone is cut out to be an entrepreneur. Some people are too risk averse to build a business. Others lack the skill, discipline, and know-how to run a successful business — even with business training.

For some, success and failure as an entrepreneur is just a matter of coming up with a viable business idea, a unique challenge of its own. These barriers should not be understated as they are not likely to be overcome, even with the substantial support and financial assistance that SEA programs offer.

Federal Barriers to Successful SEA Program Participation

At the regulatory level, however, there are barriers that inhibit the success of SEA programs. As of 2023, only five of the ten states that had one still operate an SEA Program: Delaware, Mississippi, New Hampshire, New York, and Oregon.[27] The reason for this decline in state participation is multi-faceted.

Federal law stipulates that states cannot use any funds otherwise intended for traditional unemployment compensation to administer their SEA Program.[28] State payroll taxes (SUTA) and federal unemployment taxes (FUTA) can be used to pay SEA claims, but states are forced to find a separate funding source for the rest.[29]

Whatsmore, some of these administrative costs are legislative requirements, like mandatory training programs, consulting, tracking, and SEA program promotion.[30] All this, compared to the limited participation that SEA Programs experience often exceeds what states are willing to spend.[31]

The second federal barrier to greater participation in SEA programs is an artificial cap. Going back to when SEA programs were first introduced through federal legislation,[32] the number of SEA participants has been limited to only 5 percent of all unemployment claimants.[33] This limitation remains in effect, despite definitive analysis commissioned by the DOL (Department of Labor) that shows participation limits are unnecessary.[34]

State Barriers to Successful SEA Program Participation

The most successful SEA programs in terms of participation are New York and Oregon.[35] Yet New York and Oregon's participation rates are still low compared to the overall population of UI recipients year-over-year. The federally mandated 5% limitation certainly contributes, but beyond that there are a number of other factors that contribute to the low participation rates as well.

One key factor is each state's Worker Profiling and Reemployment Services (WPRS) scoring system, which is used to determine if a UI claimant is either likely to be reemployed or need additional benefits and services beyond regular unemployment compensation.[36] This test, also referred to as the "exhaustion requirement" in state codes, is a prominent criteria in whether a worker is eligible to apply for an SEA program instead of staying in the standard UI program.[37]

The WPRS scoring system usually gives a UI claimant a score, based on a number of criteria like job tenure in an occupation or industry, educational levels, the person's reemployment rights with a regular employer, employment conditions in the individual's occupation and industry, and the local insured unemployment rate where the person lives or works.[38]

Despite its success in attracting SEA participants compared to the other five states, New York's WPRS scoring system is somewhat inflexible. The state uses a similar criteria to the one mentioned above to determine a profile score. Those who score 50 or above are deemed most likely to exhaust regular benefits.

In this sense, New York's WPRS scoring system is a prominent criteria in admitting an SEA program applicant, which is generally the case in Delaware, Mississippi, and New Hampshire as well. However, New York's ability to attract more participants than the other four states may be due to its population size and the breadth of information made available to would-be applicants.[39]

The vast majority of workers who find themselves in a tough spot after a layoff can't afford to blaze a new path with their savings alone. That's where SEA programs come in.

Oregon's emphasis on a WPRS score, on the other hand, is somewhat unique. The state uses the score in its determination, but the Employment Department can consider other factors as well.[40]

A person's application to participate in Oregon's SEA program, for example, may be used to make the decision. This may be why Oregon's SEA program participation rate is higher, because it is more flexible in its reliance on WPRS scoring. This also may allow claimants to apply for SEA Program benefits much sooner,[41] giving them the most of their eligible benefit period to start a business.

Another issue at the state level is available SEA program information. Promotion efforts in each state have a noticeable impact on participation. Oregon and New York, for example, have clear information and instructions posted on their respective SEA program websites. As a result, their participation levels have been consistently higher than any other state. In stark contrast, Delaware does not have a dedicated website for SEA information, and only saw fifty-four participants from 2017 to 2022 combined.[42]

Finally, an issue at the state level is a matter of reporting. As identified in the early SEA reports commissioned by the DOL, entrepreneurial training programs offered alongside traditional UI assistance are not tracked or measured separately, and are instead grouped into standard UI program participation[43] - despite the fact that the effect is relatively similar to an SEA Program.

Tracking training program participants and adding them as analogous benefits to SEA Programs could show a more accurate picture of participation and how many people are able to transition from unemployment to self-employment under state self-employment programs.

POLICY RECOMMENDATIONS TO CREATE MORE SEA OPPORTUNITIES FOR WORKERS: TWO PATHS

Funding restraints, like those described by Derrick, will continue to be an issue faced by entrepreneurs regardless of states' involvement.[44] The same can be said of resume gaps that result when individuals pivot careers to start a business in a different industry. But for participants who stick to their industry, as Chuck demonstrated, there may be an opportunity to overcome both.

Creating an AI company, for example, is becoming cheaper for those with the skills to do it. To add, time spent creating a tech startup translates easily into a return to the tech industry for those whose ventures don't go as hoped.

However, without changes to federal stipulations, creation of state programs, and an overhaul in some existing state programs, the opportunity for talented workers to start a value-generating business will continue to lag behind their potential.

To grow these SEA opportunities, state and federal lawmakers should do the following:

1. Federal: As the leading reason cited by others, the federal limitations on SEA Programs are unnecessarily restrictive. Congress should revise the federal limitations as follows:
    - Raise the threshold of SEA participants who can be admitted as a percentage of overall UI recipients.
    - Remove the stipulation that states may not use UI funding to administer SEA Programs.
2. State: In addition to creating an SEA program, States should do the following to ensure adequate participation for the investment:
    - Ensure that SEA program participants are still classified as unemployed for purposes of extended benefit eligibility.
    - Review WPRS profiling criteria to ensure that adequate discretion is vested in the state labor department to determine claimants are eligible for SEA program participation as an extended benefit.
    - Track and report training programs that are geared toward business creation and entrepreneurship, offered to UI claimants separate from SEA program training.
    - Set aside funding specifically geared toward providing information to would-be participants.

Endnotes

1. Jobs.utah.gov FAQ [link].
2. Howard Baetjer, The Welfare Cliff and Why Many Low-Income Workers Will Never Overcome Poverty, Learn Liberty (Aug 14, 2016) [Link].
3. Weigensberg Elizabeth, et al. A Study of the Self-Employment Assistance Program: Helping Unemployed Workers Pursue Self-Employment, at xv, Jan. 11, 2017, [Link].
4. Ibid.
5. Ibid.
6. The Self-Employment Assistance (SEA) Program, Congressional Research Service, (2016)[hereinafter "2016 CRS Report"] available at [Link].
7. Weigensberg supra note 3.
8. DOL, Self-Employment Assistance (last accessed Nov. 27, 2023, at 10:42 pm), available at https://oui.doleta.gov/unemploy/self.asp.
9. Self Employment Assistance: Revised Report (1998), Wayne Vroman of the Urban Institute [Link].
10. Ibid.
11. Ibid.
12. 2016 CRS Report at page 7.

For the remainder of the endnotes, please visit Libertas.org/laid-off-into-entrepreneurs

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