

Helping More Unemployed Workers Find Jobs and Build Skills

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First let me begin by thanking Lou Jacobson for putting together what I think is an excellent paper about Strengthening One-Stop Career Centers.¹ In my remarks, I will aim to do three things:

- First, I'll share with you what I believe has been learned about finding jobs and building skills from psychology and behavioral economics, which turns out to be quite complementary to many of Lou's recommendations based on his study of labor markets and institutions.
- Second, I'll talk about implications of these ideas specifically for Workforce Investment Act reauthorization.
- Third, I'll propose ways in which research capacity at the Labor Department could be strengthened to support innovations potentially proposed in the reauthorization, and sustain high quality work over time.

Labor policy through the lens of behavioral economics

Behavioral economics is a field of social science at the intersection of psychology and economics. New research is changing our understating of how individuals choose and act, and with it, our conclusions for policy design. Labor market programs are key components of economic policy, supporting the unemployed, providing educational and training opportunities, and ensuring the fairness, safety, and accessibility of the workplace. These programs, however, succeed in meeting their objectives only to the extent that they accurately account for how individuals make decisions about work.

In joint work by Linda Babcock, Larry Katz, Sendhil Mullainathan, and me, we have identified aspects of existing policy design that are at odds with behavioral findings, as well as unrealized policy opportunities those findings suggest. The results of this review are prescriptions for policy design that reflect a synthesis of traditional and behavioral economic insights. These policies both recognize the fallibility of individuals and harness the power of markets. They guide choice while preserving options. I'll discuss those findings here, along with our recommendations for either policy reform or further study, according to what the evidence supports.

¹ See http://www.brookings.edu/papers/2009/0402_jobs_skills_jacobson.aspx

General lessons for the focus and direction of labor market policy include:

- Providing job search assistance to recipients in a way that both reflects and takes advantage of the way people process information, and
- Structuring choices of job training to reflect the limited abilities of individuals to manage complexity and exert self-control.

The research is sufficiently clear and informative that we recommend some changes to policy, such as:

- Providing more accessible and meaningful information about occupational projections to support job search assistance, and
- Simplifying training program take-up, navigation, and completion, and providing information on the quality of training providers.

The promise of behaviorally informed policy changes is clear in some other areas while the specific policy implications less clear, so we propose several demonstration and evaluation programs, including:

- Studying the impact of alternative framings of employment opportunities and methods for managing of wage expectations
- Experimenting with choice platforms in which providers compete to offer services, as a way to encourage innovation in meeting worker needs.

Behavioral economics of job search assistance

To elaborate on job search assistance, a goal of labor market policy is to match the right person to the right job. Programs include informational services as well as active job search assistance and labor exchange activities. The main design objective is to help individuals return to work quickly and while improving the quality of matches between workers and jobs. Behavioral economics stresses two psychological tendencies that make meeting this goal difficult. First, the speed and quality of matches both suffer due to the tendency of individuals to manage complex tasks, such as job search, only imperfectly. Second, biases, errors, and tendencies toward procrastination represent general barriers to helping individuals return to work quickly.

Job search assistance programs can present information better on local labor market conditions and occupational projections with an eye to how it will be construed by recipients. For example, it is one thing to say that a certain sector is expanding or contracting but it requires a different level of information transmission to convey what it means to actually work in that sector and to incorporate this information into labor exchange systems. This search assistance can be useful both as people are thinking about training opportunities and about immediate employment.

Behavioral barriers to returning to work – biases and error in setting wage expectations, procrastination in searching and taking work, and so on – are all operative in the context of job search. Policymakers can innovate in the way that employment services are presented to individuals. Behavioral research suggests that the way in which job opportunities are framed can matter for how individuals respond. In addition, findings from behavioral economics and psychology offer lessons for debiasing wage expectations. Variants of these ideas have been tried

in job search assistance demonstrations. Those demonstrations found that most of the impact of job search assistance happens immediately, which is consistent with reductions in procrastination and wage expectation debiasing; improvements in search skills would be more likely to generate impacts that accumulate over time. While the evidence is suggestive, more detailed study of these issues would be useful.

Another promising area of study here is in manipulations to the way in which job search assistance is framed for participants. The presentation and context of this information can potentially invoke frames of loss or gain, emotions such as anger or sadness, different propensities toward risk taking, and so on. So, for example, attitudes toward job opportunities, and subsequent behavior, may be sensitive to the reference point they are provided with respect to – whether it is an old job, or the type of job the participant has been told to expect, or unemployment. Another aspect of this problem worthy of some study is the potential of employment services for debiasing individuals who hold unrealistic wage expectation. Research from other contexts suggests that having people question their own judgment by explicitly considering counterarguments to their own thinking can be effective. Job search assistance could potentially incorporate such an exercise with respect to wage expectations.

Behavioral economics of job training

Another important set of labor market policies are those concerned with providing access to opportunities to acquire and upgrade skills and earning power. These include programs for dislocated adults and disadvantaged adults provided through One-Stop Career Centers, as well as Job Corps and other youth programs. Financial aid such as Pell grants and tax credits such as the Lifetime Learning Credit also serve as important sources of funding for job training.

Over recent decades, job training policy has moved from a model in which the policy problem was conceived of as publicly providing effective job training services to one in which the policy problem is taken to be one of ensuring individuals have access to funding to pursue training opportunities in a marketplace of competing providers. Behavioral economics revises our thinking on this problem once more, by noting that while markets and choice solve some problems, they create others. In particular, behavioral economics stresses that the choices involved in job training are inherently daunting to people due to their complexity, and to some extent due to the degree of self-control they require.

The determination of whether and when to undertake job training, the selection of a field to be trained in as well as a provider, and the pursuit and completion of that training, represent an intrinsically challenging sequence of choices and actions. Research in behavioral economics and psychology tells us that individuals often fail to choose optimally in the face of such complexity. It also tells us that individuals can have difficulty exerting the self-control necessary to engage and follow through with involved tasks, and may therefore procrastinate in choosing a training plan. Job training programs themselves remain fragmented and can be complicated to access and navigate. This complexity is likely to be a deterrent to use of these programs out of proportion to what standard economics would predict, and a substantial barrier to persistence and completion.

A number of policy recommendations follow from these observations. First, programs of all stripes should seek to minimize barriers to take up. For example, application forms should be as simple as practicable. These policies should also take active steps to ensure that requirements to take them up are not, in practice, most onerous for the neediest individuals who might benefit from them the most. In addition, job training funded directly, such as by Pell grants, should be more integrated with other services. The One-Stop system is a good model, but policy must reflect a renewed emphasis on the centrality of ease of use from the perspective of participants.

An entirely different model for ensuring that individuals qualifying for job training services receive effective guidance would be to experiment with creating a market for providers of these services. This approach would create a market in which providers of counseling about job training compete to serve individuals. Note that this differs from a market for the entire suite of One-Stop services, which would likely be less effective due to economies of scale with a number of those services. With a properly designed incentive scheme for counseling, competition would then lead to innovation in addressing the behavioral barriers to job training. Counseling providers could be rewarded for meeting performance targets that correspond to these particular difficulties in some way, thus giving some indication of whether they were solving these problems. Examples might be take-up rates, completion rates, and longer-term outcome measures like intermediate-term employment or earnings. Practical considerations for making such a proposal would be paramount. Competition among providers could work by having firms doing well according to these measures gain market share, perhaps by reallocating the flow of beneficiaries over time. Considerable attention would need to be devoted to preventing selection of particular trainees by providers. One possible solution may be to assign individuals to providers by lottery. Finally, to avoid conflicts of interest, it would be necessary that these intermediaries have no connection to the service providers.

Recommendations for Workforce Investment Act reauthorization

I want to shift now from looking at labor policy through the lens of behavioral economics to focus specifically on the Workforce Investment Act (WIA). The reauthorization of WIA has the potential to be the key connective element that links a variety of disparate policy initiatives on recovery in the labor market, green jobs, the demographic transition of the labor force, transitions in the auto industry, and the future of manufacturing. The broader narrative linking policy in all of these areas is that there is a proactive role for government in improving occupational projections and training information, making them personalized, and making them easily accessible. These tools will help people make sense of the turbulent U.S. labor market and where it is going, and help policymakers understand how goals of specific workforce policy initiatives can be incorporated into the architecture of a workforce development system.

As part of this broader narrative, one possibility to investigate would be the desirability of universal access to funds to pay for certified training activities, with individuals having personal responsibility to repay these funds if future earnings are sufficient. Such a policy of effectively offering income-linked loans to cover at least part of the costs of training could supplement or even replace the current WIA system where training grants are rationed. And such a policy shift could permit the removal of some conditions on receiving any training assistance and help

facilitate the earlier initiation of training for those unemployed workers most likely to benefit from moving directly into training. The mixture of grants, loans, and income-linked repayment would depend on both individual need and total resources available.

The remainder my discussion of WIA is premised on three main ideas:

- First, government can do much more in workforce investment to create public goods and address market failures which turn out to be largest in process of matching individuals to education and employment opportunities; these investments will also increase the returns to training through improved matching of individuals to training and education opportunities.
- Second, specifying a system to create public goods and address market failures based on performance measurement and incentives will encourage providers to give the most beneficial assistance to individuals, whereas specifying the specific form of assistance is unlikely to be sufficiently adapted to local labor market conditions and unlikely to foster innovation over time.
- Third, the system should build in flexibility to rapidly scale up or down with demand for services, and funding should be automatically countercyclical – increasing and decreasing with local unemployment rates.

As Lou has described, One-Stop Career Centers provide services of several forms, all of which could be enhanced in quality and quantity with additional funding:

- Public labor exchange maintenance
- Outreach to employers to list openings
- Resource facilities such as Internet connections, printers, and telephones
- Short-term counseling to help workers identify suitable jobs and/or training and the means to locate these opportunities
- Customized career planning and counseling

Some of these services create public goods by aggregating information that can then be used by many people, and otherwise create infrastructure where government investment can finance large start-up costs, since the use by each individual is very low cost. Others, such as counseling, address a failure of the private market to provide unbiased advice to help individuals access the complex sets of information involved in understanding the occupations that are growing, the geography of job growth, the skill required, how those skill requirements link to individual capacity, how to enhance individual skills, and how to assess the quality of training providers.

Revised performance metrics. For One-Stops to match individuals to the services that are the most effective for them, effectiveness itself must be measured, as Lou emphasized. This measurement will need to shift from current approaches to capture the speed of placement into education or employment and long-term prospects of the chosen opportunity, and to estimate the value-added in comparison to an estimated benchmark of what would have happened without receipt of services. Administrative data will need to be integrated for performance assessment, including services provided, case records including employer follow-up, quarterly earnings records, unemployment insurance claims, community college and other training enrollment timing and completion. These data will drive a decision support system that provides guidance to

individuals (both directly and through their counselors) and feedback to system managers on the performance of particular service providers.

As discussed by Lou, low-cost core job search assistance services provided by the Employment Service currently have no system to gather information on program effectiveness. Without needing new legislation, however, the Department of Labor can alter administrative rules to require data collection. All core clients should be registered and the specific services they receive should be tracked using improved information technology systems. For high-cost intensive services such as counseling and training provided under WIA, new legislation is needed to revise accountability standards. The current rules require useful data on wages and services received to be collected, but new regulations should require this data be used to assess the return-on-investment for these high-cost treatments. Once the value-added of both core and intensive services has been assessed, One-Stops should be required to estimate the cost of each service, and the cost effectiveness of each treatment should be compared. This information alone should help improve service provision, but accountability systems should also be implemented to reward centers for providing the most cost effective services and successfully improving their clients' outcomes. To provide information to individuals and counselors on training quality, a similar system to statistically estimate the value-added of the training could be implemented and combined with other more immediate performance measures predictive of future earnings.

Choice architecture. To get performance data to workers in a form useful to them, and to get more training to more workers who would benefit from it, new tools will need to be created and more resources will be needed to support the use of the tools. A new generation of internet based tools should be developed as the first point of contact for any individual seeking job search assistance. These tools could gather information on an individual's background and interests, provide feedback on the education and employment opportunities pursued by others like them, list job openings they may be interested in, and provide information on the projected growth in occupations and in other local areas in a manner that is easily accessible. The Internet-based tools will be usefully supplemented by call-center staff who can assist individuals in navigating these tools (or navigate them for individuals without internet access), and by training of local non-profits and volunteer organizations to assist individuals in using the tools. This Internet/call-center system could become the entry point to One-Stop services, collecting data, making appointments, and letting people access initial information from anywhere. For those identified by their background as being most likely to benefit from either short-term or more intensive in-person counseling, these individuals will be referred to select providers who will supply these services.

Incentives for effective counseling. Once performance is measured well, there will be various ways to encourage service effectiveness. One-Stops and other providers could be monitored by state management and potentially have funding adjustments depending upon performance. Introducing competition among providers of decision-support and counseling services may also be beneficial, and could be undertaken in particular areas where there is strong local interest and/or demonstrated lack of performance among current providers. Individuals could register with the government through the internet tools (either at a One-Stop, elsewhere with an internet connection, or over the phone with a call center) and then be referred to one of several providers of counseling operating under a government charter outlining their responsibilities. The referrals

would be on a rotational basis, so that the pool of those referred to each provider would have the same characteristics on average. This approach would allow direct comparisons of the average performances of different providers. A regulatory firewall would prohibit financial ties between providers and employers with whom individuals are placed, to solidify the counselors' role as honest brokers. The providers would be evaluated on the outcomes of everyone referred to them, encouraging them to reach out to everyone and to match services to individuals as cost-effectively as possible. More effective providers would be given progressively more referrals, while ineffective providers will see their client base decrease. It could be possible for government and private providers to operate in the same market, with each receiving fixed funding per person served. More generally, funding and institutional capacity for such providers should be scaled to increase when demand for services is high and to decrease when low. Through incentives to counseling providers, the matching of individuals to training opportunities will be improved and can be implemented and refined over time more flexibly than under detailed specific program rules determining training and other service eligibility. Upgrading of the skills of counselors will likely be needed for this approach to realize its potential.

Incentives for effective training. Training providers will be directly affected by the demand (or lack thereof) for their services by individuals (who will be making informed choices with the assistance of decision support systems and counseling.) Employer-provided training is likely to be particularly effective in being relevant and leading directly to an upward trajectory with that employer, and supplements to employers (either directly or in the form of lower wages) should be encouraged to facilitate firm investment in the general human capital of the individual on top of the value that will accrue specifically to the firm.

Building research capacity in the labor sciences

In response to new directions for One-Stops described by Lou – and more generally for labor policy described by me today – it will be imperative to strengthen our research capacity in the labor sciences. 2009 is a year of opportunity for labor sciences in at least two respects. First, there is an immediate need to help match individuals to the education, training, and employment opportunities that will be the most productive for them and the nation, and labor sciences can bring to bear the best data and analysis available to support this effort. Second, the beginning of a new administration is a chance to address the long-term need to institutionalize robust and independent research capacity so that high quality work can be sustained over time.

I'll focus my remaining remarks on five issues about research capacity at the Labor Department, and the discuss options for building research strength. Research for the purpose of these notes includes program evaluation and cost-benefit analysis of both programs and regulations. It excludes policy development -- e.g., much analytical activity within the Office of the Assistant Secretary for Policy, the Employment and Training Administration (ETA), and the Employee Benefits Security Administration (EBSA) -- and excludes the data collection and descriptive statistics work of the Bureau of Labor Statistics (BLS).

- The first issue is *scale*. Substantially more research on performance assessment of counseling and training programs will be needed if future workforce development policy

is to successfully implement data-driven performance assessment systems. Increasing activity in other ongoing research streams, such as improvement of unemployment insurance delivery, also has large potential returns on investment to taxpayers.

Across policy issues, from the practice of medicine to the practice of education, we are striving to use data and evidence to improve our practices and to improving the matching of service provision to the people who need these services the most. For example, the Employment Projections Program of the BLS could be enhanced to form the backbone of data-driven counseling. There is a robust five-year Research, Demonstration and Evaluation Strategic Plan for 2007-2012 in ETA, but the most immediate need for more research will likely be in workforce development in order to operationalize data-driven performance assessment, where there is a base of research knowledge that will need to be scaled-up.

- The second issue is *capacity-building*. The type of research activity supported by the Labor Department could be expanded to include more support for data accessibility, grant-funded research, and graduate study.

The vast majority of Labor Department-driven research is currently done by contractors. Relatively small investments in making confidential data more accessible to non-contract researchers, in a manner similar to that for Census data centers, could leverage the research activity of universities. The pipeline of university researchers knowledgeable about labor issues would be built up with grants for research projects and graduate study.

Nationally, Labor Department-driven research would draw upon the 3000 members of the Labor and Employment Relations Association (formerly the Industrial Relations Research Association), the 800 members of the Society of Labor Economists, and many other researchers with labor expertise. Investments in this scientific field would likely create leverage by also increasing the amount of work in labor sciences supported by general university revenue due to increased interest in labor as a field of inquiry.

- The third issue is *leadership*. In order to drive a strong program of labor research forward, the most successful model will likely empower one integrated group with leadership from an eminent social scientist having a clear voice in both Administration discussions and in public discourse who is responsive both to government and to the scientific community.

The leadership of labor sciences research will need to make the government's research valuable to policymakers and the scientific community, building credibility with many constituencies. It will be critical that this leadership be able to attract research talent into government, to develop a research agenda that can address immediate concerns and basic questions, to foster connection with the academic community, and to push forward the contractors working on government-sponsored research. Creating a new high-level position will be invaluable in recruiting a leader with the requisite skills. Setting a lengthy appointment term, such as six years, would help establish expectations that would facilitate sustained activity. The Director of the Institute for Education Sciences, for example, is positioned to provide analogous leadership in education by

being an Executive Schedule Level II position reporting directly to the Secretary of Education, receiving oversight from the National Board for Education Sciences.

- The fourth issue is *independence*. Research activities that bear on labor policy can generate pressures for results and conclusions to conform to established political positions and accepted professional wisdom, and a substantial degree of independence is needed to ensure that the research products of are free of inappropriate influence and sustained over time.

The BLS has successfully operated with independence for many years. The independence of the Office of Policy Development and Research's Division of Research and Evaluation in ETA and the Office of Policy Research's Division of Research and Economic Analysis in EBSA is not imbedded in the structure of government, and has varied greatly depending upon the Assistant Secretaries in charge. To give one example, highlighted in Alan Krueger's January 4th, 2006, New York Times Economic Scene column, the October 2005 Jobs Corps evaluation was held back from public release by the Labor Department when the results did not reflect well on current policy. As another example, discretionary research declined precipitously from 2000-2008.

The Department of Education has greatly enhanced the independence of its research and evaluation work by removing the evaluation function from the program offices, and placing research and evaluation under the Director of the Institute for Education Sciences. The Institute has various independence-enhancing provisions in its Education Sciences Reform Act of 2002 authorizing legislation.

- The fifth issue is *scope*. The topics covered by research driven by the Labor Department could be expanded to include those where extremely little is currently being undertaken, such as occupational health and safety, employment standards, pensions, and other employee benefits.

While there is a long tradition of Labor Department activity in employment and training research and in improving labor statistics, other areas are also very important but have much less Labor Department involvement in research. The development and institutionalization of independent cost-benefit analysis of regulations, for instance, could be particularly beneficial.

- There are several options for *building research strength*. Scaling-up of existing activity and capacity-building could be accomplished with resources added to existing infrastructure. Attracting strong leadership, increasing independence, and broadening the scope of work would require new infrastructure.

One approach would be to increase the resources for existing research divisions. This could address scale and capacity-building, but would not address the leadership, independence, or scope issues. It would address the most immediate needs, but would not put the long-term infrastructure in place needed to foster a new generation of labor science research.

Another option would be to build research capacity within the BLS, which has an analytical culture and a well-established tradition of independence. Research offices could be relocated to the BLS. The primary mission of the BLS is data collection, and data collection would continue to be the vast bulk of the BLS's activity even if there were substantial new research resources with it, although it could be rebranded as the Bureau of Labor Sciences if its leadership were given a new charge. While this would avoid creation of a new entity, in my view the BLS functions rather well as-is, and introducing substantial change would need to be carefully considered.

My own preferred approach would be to elevate the Division of Research and Evaluation out of ETA and the Division of Research and Economic Analysis out of EBSA and to consolidate these under new leadership. A consolidated research office could potentially be structured to provide enhanced leadership and independence and to expand the scope of activity to address other critical topics.

At this point, I'd love to hear and discuss reactions to what Lou and I have said and to other ideas, so I'll stop here. Thank you.