Governance Studies at BROOKINGS

February 2013

Creating a Virtuous Circle:

Workforce Development Policy as a Tool for Improving the Prospects of America's Unemployed Workers

Elisabeth Jacobs

Elisabeth Jacobs is a fellow in Governance Studies. Her research draws on economics, political science, and sociology in order to inform domestic social policy, with a particular focus on the government's role in fostering a balance of economic security and opportunity for American families.

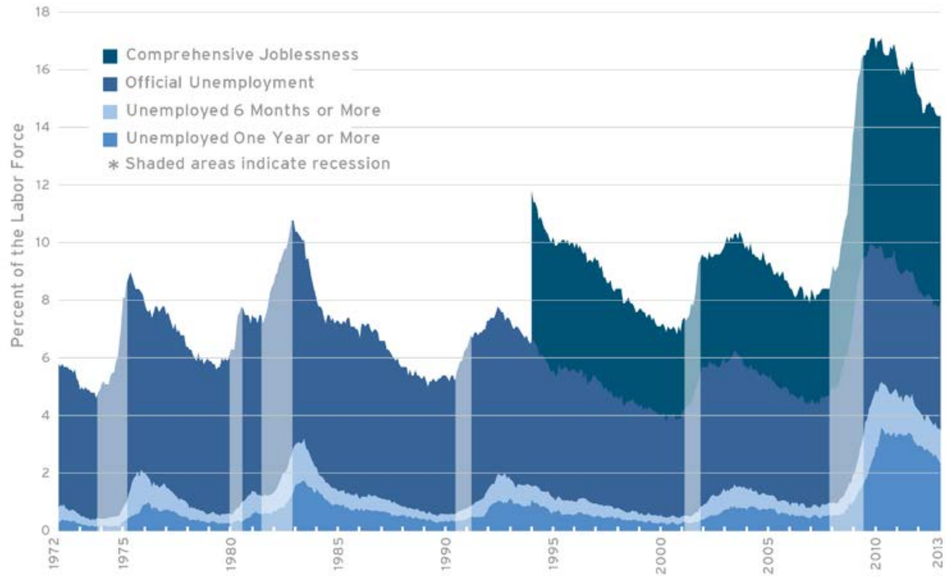
The latest jobs reports suggest that the labor market is continuing its slow but steady recovery. For the first time in three years, the unemployment rate is below 8 percent. The private sector added 5.1 million jobs between 2009 and 2012, and nearly a third of that job growth occurred last year alone. Yet unemployment, particularly long-term unemployment, remains at near-crisis levels. While Washington's attention has shifted away from jobs and onto deficits, 12.3 million people remain unemployed, 4.7 million have been out of work for six months or more, and over 3 million people have been out of work for a year or longer. These remain historically high figures, and suggest that the labor market's woes continue to inflict real pain on many American workers and their families.

It seems reasonable to expect politicians to focus on job training policy, given persistent labor market fragility characterized by historically-high levels of long-term joblessness. The current state of affairs would seem the perfect opportunity to marry long-standing concerns over the skills profile of the American workforce to the aftermath of a deep recession that has left many Americans out of work. Yet Washington has remained largely silent on workforce development issues since the beginning of the Great Recession. This silence is all the more surprising given the fact that the nation's main policy vehicle for addressing workforce development, the Workforce Investment Act, has been up for reauthorization since 2003. In the brief that follows, I outline the need for job training opportunities for displaced workers, with a focus on the long-term unemployed. I then address the policies currently in place for serving the unemployed, and offer a set of suggestions for future reforms that would better serve the large population of out-of-work individuals who could be expected to benefit from improvements to the nation's workforce development policy architecture.

The Great Recession Hangover

While the unemployment rate has improved substantially since its peak at 10 percent in October 2009, the share of Americans without work remains high compared to historical averages. As of January 2013, the official unemployment rate stood at 7.9 percent, meaning that over 12 million Americans remained out of work. The official unemployment rate likely understates the depth of the joblessness problem, however. In order to be counted as unemployed by the Bureau of Labor Statistics, an individual must be actively searching for work. The severity of the jobs crisis means that many jobless workers have dropped out of the labor force entirely, or have taken part-time work purely because full-time employment is not available. A measure of joblessness that takes into account these discouraged and involuntary part-time workers reflects the deeper problems persisting in the labor market: this comprehensive measure is nearly twice the official unemployment rate, at 14.4 percent of the labor force.[1]

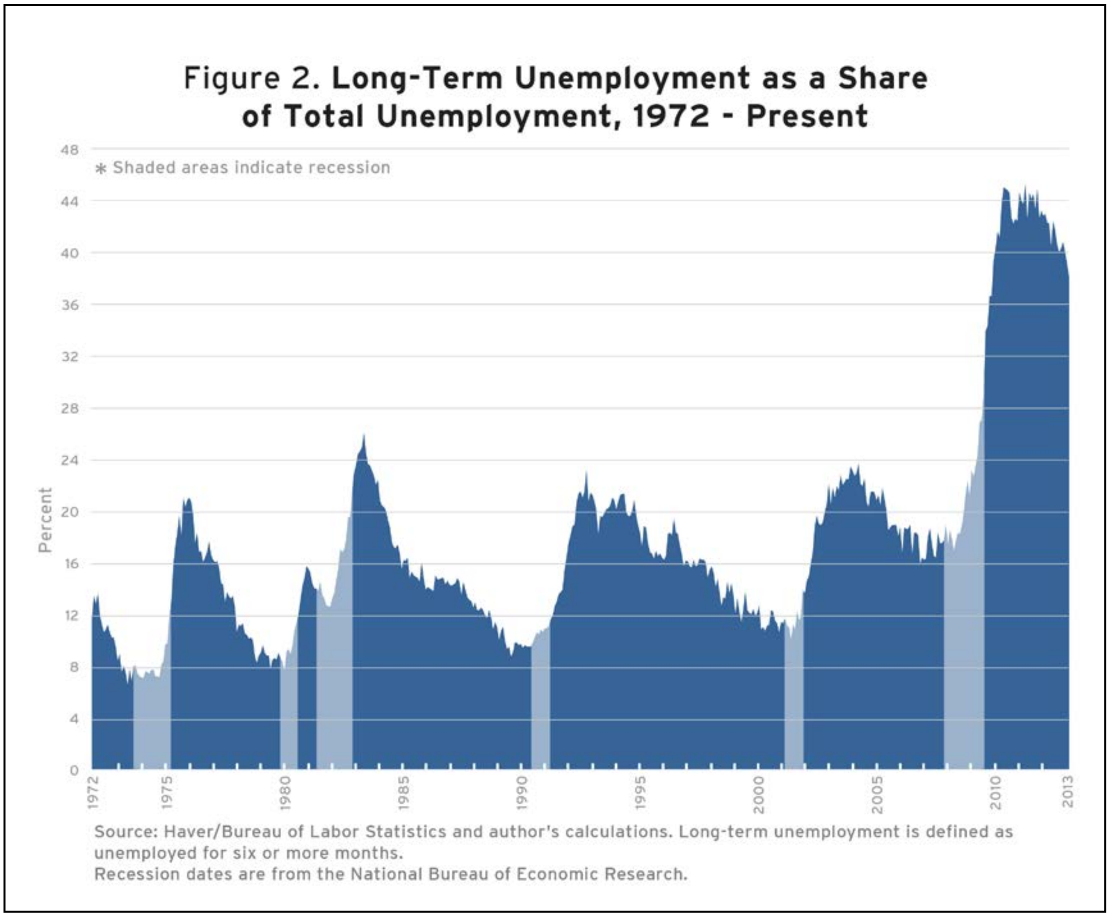
Figure 1. Joblessness in the United States, 1972 - Present



Source: Haver/Bureau of Labor Statistics and author's calculations.
"Comprehensive Joblessness" reflects the U6, which takes into account discouraged and involuntary part-time workers; BLS began collecting this data in 1994.
All rates are calculated as a share of the total labor force.
Recession dates are from the National Bureau of Economic Research.

More troubling still are the figures on long-term unemployment in the wake of the Great Recession, which remain well above record levels. The share of the labor force that has been out of work for six months or more remains at 3.5 percent, above its pre-recession peak during the height of the 1980s double-dip downturn. 2.3 percent of the labor force has been out of work for a year or more, well above historical levels. While these numbers are relatively small as a share of the total labor force, they represent a sizeable share of contemporary unemployment. 38 percent of all unemployed individuals have been looking for work for six or more months, while nearly a quarter have been looking for more than a year. In essence, today's unemployment problem is a long-term unemployment problem.

[1] The U-6 includes not only jobless individuals who report to the Bureau of Labor Statistics that they are actively seeking employment, but also "discouraged workers" who are not actively seeking work as well as workers who report that they are employed "part-time for economic reasons."



Cyclical or Structural?

Many, particularly those in the business community, have been quick to suggest that the labor market's current problems are explained by a structural mismatch characterized by a skills problem. In other words, unemployment remains high because jobless workers' skills, and most especially long-term jobless workers' skills, are poorly suited to the skills demanded by employers.[2] Yet it is important to note that the broad consensus amongst economists is that a skills

[2] See, for example, Wells Fargo Securities chief economist John Silvia's remarks to *BloombergBusinessweek* last spring. (John Detrixhe and Tom Keene. May 2, 2012. "Skills Mismatch to Keep Unemployment High, Silvia Says." *BloombergBusinessweek*. http://www.businessweek.com/news/2012-05-02/skill-mismatch-to-keep-unemployment-high-silvia-says.) For a more nuanced take, see GE CEO Jeff Immelt and American Express Company CEO and Chairman Ken Chenault's *Wall Street Journal* op-ed, "How We're Meeting the Job Creation Challenge." (Jeff Immelt and Ken Chenault. June 13, 2011. "How We're Meeting the Job Creation Challenge." *Wall Street Journal*. http://online.wsj.com/article/SB10001424052702304259304576380323311523538.html?KEYWORDS=Immelt.)

[T]he main driving force behind the continued high levels of unemployment…is persistent slack demand relative to the extraordinary growth necessary to dig the economy out…

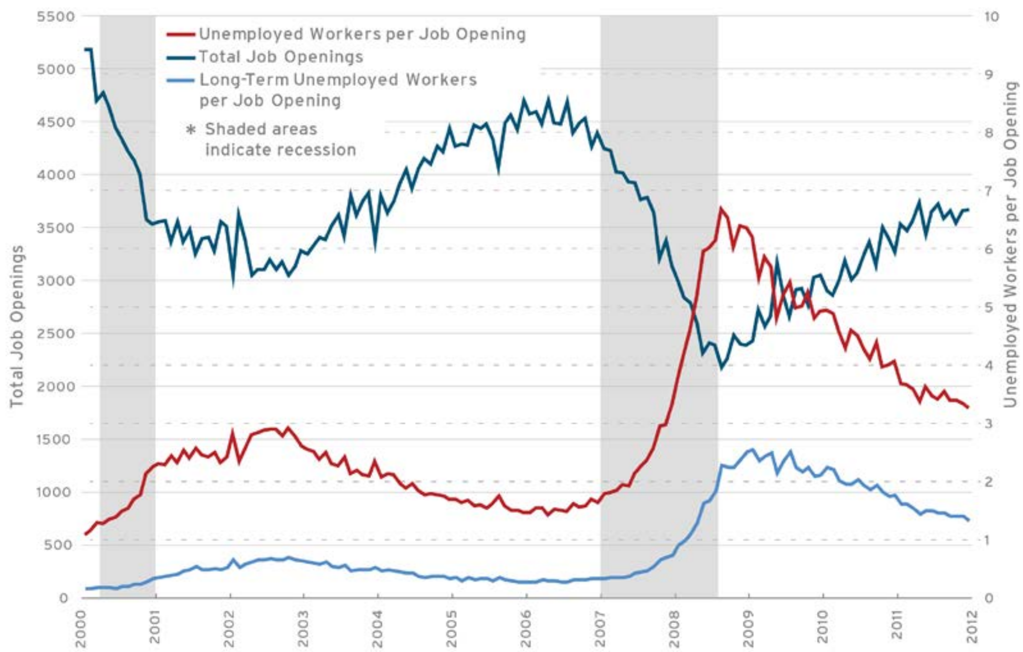
mismatch is not the main culprit of continued elevated unemployment. For instance, a recent paper from the Federal Reserve of New York suggests that while skills mismatch increased by as much as 10 percentage points during the 2007-2009 downturn, that increase explains just 0.4 to 0.7 percentage points of the five point rise in the unemployment rate that occurred during that same period.[3] A second major paper summarizes the recent research on structural unemployment and concludes that " … most of the increase in the unemployment rate during the past several years is due to cyclical factors rather than structural factors."[4] Indeed, the uptick in skills mismatch that the Federal Reserve researchers identified during the recession appears to have receded completely during the recovery. Unemployment rates remain elevated across all industries and most skill groups. Indeed, re-training manufacturing and construction workers into nurses and teachers would not provide those workers with immediate jobs, as there is already a surplus of unemployed nurses and teachers.[5]

To be clear, the main driving force behind the continued high levels of unemployment, including long-term unemployment, is persistent slack demand relative to the extraordinary growth necessary to dig the economy out of the deep hole created by the financial crisis-driven downturn. The economy shed 7.4 million jobs during the official recession between December 2007 and June 2009, a devastating number comparable only to the employment losses of the Great Depression. By way of contrast, the most severe modern downturn was the double-dip recession of the 1980s, when the economy shed 2.7 million jobs. The pace of job creation required to make up for the deep losses of the recession is simply far greater than what the economy has generated to date, and GDP growth has been significantly below the average rate of growth for the last few recessions.

[3] Şahin, Ayşegül, et. al. 2012. "Mismatch Unemployment." Federal Reserve Bank of New York. http://www.newyorkfed.org/research/economists/sahin/USmismatch.pdf. Şahin and her co-authors define "skills mismatch" as the level of symmetry between the number of unemployed workers in a given industry to job vacancies in that same industry.
[4] Lazear, Edward and James Spletzer. 2012. "The United States Labor Market: Status Quo or a New Normal?" NBER Working Paper 18386, page 5. http://www.nber.org/papers/w18386.pdf.
[5] Lazear and Spletzer.

A look at the data on job openings illustrates the demand slack that continues to weigh on the labor market. The number of job openings has climbed since the end of the downturn in mid-2008, yet it remains well below its pre-recession levels. Similarly, while the ratio of unemployed workers per job opening has fallen, the number of jobless workers still far outstrips the number of available positions. The most recent data, from November 2012, indicate that there are 3.3 unemployed workers for every one open position. For every one job opening, there are 1.3 workers who have been jobless for at least six months. The ratio between job openings and the unemployed and long-term unemployed remains well above historic highs dating back to 2000, when these data were first collected.

Figure 3. Demand Slack, 1972 - Present



Source: Haver/Bureau of Labor Statistics and author's calculations.
Recession dates are from the National Bureau of Economic Research.

Recent research suggests, however, that a rise in the number of job openings may not generate the expected decline in the unemployment rate. The empirical relationship between unemployment and job vacancies typically follows a curved path along which job vacancies rise and the unemployment rate falls.[6] A rise in vacancies accompanied by a flat or slower-than-expected fall in unemployment can

[6] Economists typically refer to this relationship between vacancy rates and unemployment as the Beveridge curve, named after British economist Lord William Beveridge.

be an indication of structural mismatches in the labor market. Federal Reserve researchers have identified this shift occurring in the contemporary data, and find that the entire increase in vacancies relative to unemployment has taken place amongst the long-term unemployed.[7]

The decoupling of the relationship between job openings and unemployment for the long-term unemployed suggests that cyclical demand-driven problems are evolving into structural issues with the labor market that are not likely to be resolved by basic stimulus efforts.[8] To be sure, demand remains a problem, as evidenced by the low levels of vacancies relative to pre-recession numbers. And, to be sure, short-term stimulus efforts on the part of the federal government would be entirely appropriate. But the long-term unemployment numbers suggests a looming problem that demands a broader set of policy tools beyond those designed to lubricate consumer demand in order to create jobs.

[M]ost importantly, the underdevelopment of workers' skills is indeed a real problem for the American economy…

While research suggests that a skills mismatch is not the primary force driving the current labor market woes, there are several compelling reasons to believe that ignoring human-capital-driven policy solutions such as job training would be foolish. First, the decoupling of the relationship between the vacancy rate and the long-term unemployment rate raises the possibility that the long-term unemployed may simply not have the qualifications required for posted job vacancies. Research on the skills mismatch problem has not focused narrowly on the long-term unemployed, and it is certainly possible that part of the long-term unemployment issue is explained by an inefficient match between the skills supplied by the long-term jobless and those demanded by employers. Second, research on the skills mismatch may define "skills" too broadly to truly capture the mismatch issues holding back the labor market. For instance, a long-tenured manufacturing worker who lost his job as a line-worker during the recession may be ill-suited for re-employment in a manufacturing sector that is increasingly moving away from basic assembly line work and toward a high-tech, high-skill model of advanced manufacturing. Most economic models of skills-driven structural unemployment would miss this skills mismatch due to the way in which skills are defined by the available data.

Third, and most importantly, the underdevelopment of workers' skills is indeed a real problem for the American economy, and is likely to hinder economic growth and global competitiveness moving forward in the absence of concerted action. These issues are not to blame for the immediate problems with the labor market. But the pre-recession status quo was not particularly sanguine in terms of matching the supply of worker skills to the demands of employers. For instance, as

[7] Ghayed, Rand and William Dickens. 2012. "What Can We Learn by Disaggregating the Unemployment-Vacancy Relationship?" Federal Reserve Bank of Boston Policy Brief No. 12-3. http://www.bostonfed.org/economic/ppb/2012/ppb123.pdf.

[8] Unless otherwise noted, long-term unemployment refers to unemployment durations of 27 or more weeks.

of 2005, over half of manufacturing firms faced difficulty in recruiting workers with adequate skills. 54 percent reported that the shortage of available skills was negatively impacting their ability to serve customers, and 84 percent reported that the K-12 education system was not doing a good job preparing students for the workplace.[9] The skills shortage is likely to only grow in the future. One estimate suggests that in the next two decades, two-thirds of the 47 million projected job openings will require some level of post-secondary education or training (including industry certification).[10] Today, about one quarter of the adult population is in need of additional education and training to perform the jobs of the future.[11]

Skills shortfalls, declining wages, and persistently high levels of joblessness amongst certain sectors of the workforce are especially concerning. Wages for the median male with a high school diploma fell by 41 percent between 1970 and 2010.[12] The gap between a college-educated worker's median wage and that of the high-school educated worker has yawned wide open in the last quarter century. As of 1979, the median hourly wage for a college-educated worker was 34 percent higher than that of a high-school educated worker. As of 2005, the college advantage had reached 56 percent.[13] The rising relative wages of better-educated workers suggest that demand for skills outstrips supply, indicating a longstanding structural problem with the match between workers' skills profiles and those demanded by employers.

The lack of employment opportunities for substantial sectors of the population not only creates severe problems for those individuals and families, but also for their communities and for the nation's economy as a whole. Any policy platform aimed at retaining America's globally competitive edge must make skills development a priority. A newly-released survey of 550 global CEOs and senior leaders in manufacturing finds that the landscape for competitiveness is in the

[9] Deloitte. 2005. "2005 Skills Gap Report – A Survey of the American Manufacturing Workforce." http://www.themanufacturinginstitute.org/~/media/738F5D310119448DBB03DF30045084EF/2005_Skills_Gap_Report.pdf.

[10] Carnevale, Anthony P. 2010. "Breaking Down the Silos Between the Employment Services, the One Stops and the Postsecondary Education and Training System." Testimony before the Senate Committee on Health, Education, Labor, and Pensions. February 24, 2010. http://www.help.senate.gov/imo/media/doc/Carnevale.pdf.

[11] Kelly, Patrick and Julie Strawn. 2011. "Not Just Kid Stuff Anymore: The Economic Imperative for More Adults to Complete Collge." Center for Law and Social Policy and the National Center for Higher Education Management Systems. http://www.nchems.org/pubs/docs/NotKidStuffAnymoreAdultStudentProfile-1.pdf.

[12] Greenstone, Michael and Adam Looney. 2012. "The Uncomfortable Truth About American Wages." Brookings Institution.October, 23, 2012. http://www.brookings.edu/research/opinions/2012/10/22-wages-greenstone-looney.

[13] Lerman, Robert I. 2008. "Are Skills the Problem?: Reforming the Education and Training System in the United States." In *A Future of Good Jobs? America's Challenge in the Global Economy*. Eds. Timothy J. Bartik, Susan N. Houseman. Kalamazoo, MI: W.E. Upjohn Institute, pp. 17-80.

midst of a "massive" power shift.[14] Many emerging economies are primed for rapid growth, enabled by their development of sophisticated economic infrastructures. As a result of this growth, competition for high-value jobs is likely to intensify, leading to increasing levels of competition for talent.[15] Access to talented workers remains the primary predictor of a nation's competitiveness at a global level.[16] If the United States continues to fail to invest sufficiently in its workers, the nation is likely to fall behind in the years to come.

The Cost of Job Loss

A growing body of research suggests that unemployment has deep and lasting consequences for job losers, implying substantial room for improvement in policy efforts aimed at assisting this population. The costs of job loss are far broader in scope and longer-lasting than the expected short-term drop in income associated with loss of earnings stream. Indeed, unemployment's economic consequences reverberate for the remainder of a worker's career, even if he is relatively quickly re-employed. The costs of job loss spill over onto a worker's family as well.

The most current research finds that job displacement reduces the present value of future earnings by 12 percent in an average year.[17] In dollar terms, the typical high-tenure displaced worker will bring home about $220,000 less than if he had stayed in his job until retirement.[18] These figures are in keeping with the classic study on the impacts of job displacement, which finds that in the early 1980s, job displacement led to average earnings losses of more than 50 percent. Five years after the initial job loss, displaced workers still faced losses of 30 percent relative to their pre-displacement mean earnings.[19] Ten years later, these earnings

[14] Deloitte/U.S. Council on Competitiveness. 2013 Global Manufacturing Competitiveness Index. http://www.deloitte.com/view/en_GX/global/industries/manufacturing/3e4898b27c50b310VgnVCM3000003456f70aRCRD.htm.
[15] Giffi, Craig A. 2012. "Talent Driven Innovation: The Key to Competitiveness." Deloitte. November 28, 2012. http://www.themanufacturinginstitute.org/Initiatives/Global-Symposium/~/media/7E12595DA43044DC8FC1028F5A88519B.ashx.
[16] Deloitte/U.S. Council on Competitiveness.
[17] Davis, Steven J. and Till von Wachter. 2011. "Recessions and the Costs of Job Loss." *Brookings Papers on Economic Activity*. http://www.brookings.edu/~/media/projects/bpea/fall%202011/2011b_bpea_davis.
[18] Jacobson, Louis S., Robert J. LaLonde, and Daniel G. Sullivan. 2011. "Policies to Reduce High-Tenured Displaced Workers' Earnings Losses Through Retraining." Hamilton Project at the Brookings Institution. http://www.brookings.edu/~/media/research/files/papers/2011/11/displaced%20jacobson%20lalaonde%20sullivan/11_displaced_jls_paper.pdf. Note that "high-tenured displaced workers" are defined as individuals who had accumulated three or more years on the job prior to displacement.
[19] Jacobson, Louis S., Robert J. LaLonde, and Daniel G. Sullivan. 1993. "Earnings Losses of Displaced Workers." *American Economic Review.* 83(4): 685-709.

losses endured.[20] Present value losses for displacements that occur in recessions are nearly twice as large as those incurred during expansions.[21] In other words, individuals who lost their jobs during this recession are likely to face a serious earnings penalty for the remainder of their careers.

Lost earnings in the years following initial job loss could be due to both employment reductions and wage reductions; workers could see pay drop both because they are not able to (or do not want to) find new work, and because new jobs pay less than their old jobs (and offer lower earnings growth). Multiple studies suggest that the main cause of the long-term earnings losses for displaced workers stems from earnings losses; employment reductions after job loss tend to be temporary.[22] Lasting post-displacement earnings reductions occur alongside recurring earning instability, multiple spells of joblessness, and multiple switches of industry and occupation.[23]

Individuals who lost their jobs during this recession are likely to face a serious earnings penalty for the remainder of their careers.

In simple terms, job loss – especially job loss during a recession – bumps a worker off of his current career trajectory and onto a lower, less remunerative track. Unlike during the 1980s deep double-dip recession, when much of the spike in joblessness was due to temporary layoffs, job loss in the Great Recession is largely explained by permanent separations. As a result, the level of urgency for policies targeting displaced workers today is at a historic high.

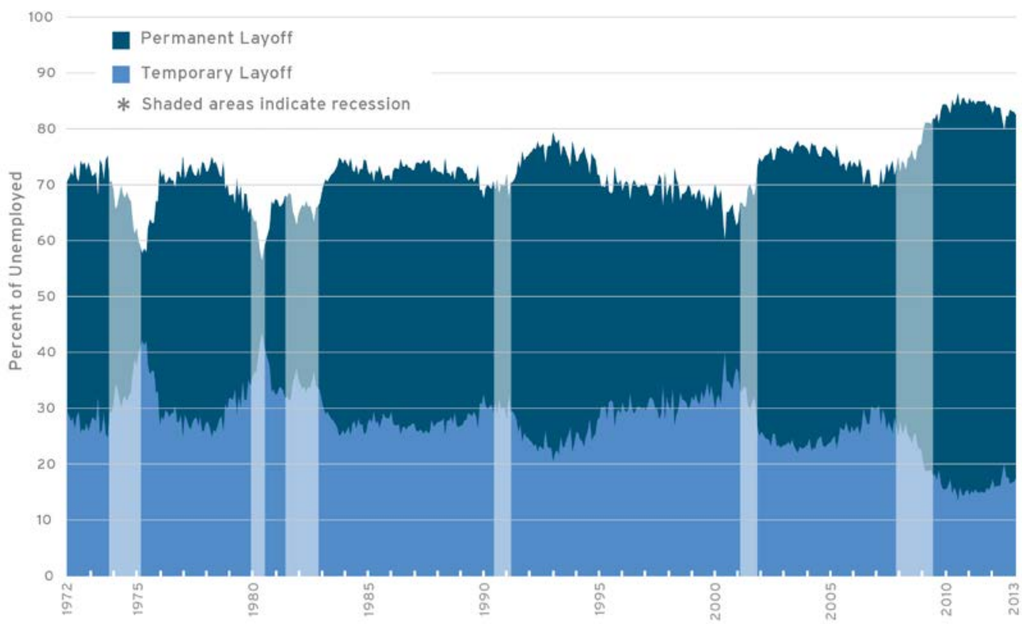
[20] Sullivan, Daniel and Till von Wachter. 2009. "Job Displacement and Mortality: An Analysis Using Administrative Data." *Quarterly Journal of Economics.* 124(3): 1265-1306. http://qje.oxfordjournals.org/content/124/3/1265.full.pdf.

[21] Davis, Steven J. and Till von Wachter.

[22] See Davis and von Wachter for a summary. Relevant studies include Von Wachter, Till, Jae Song, and Joyce Manchester. 2009. "Long-Term Earnings Losses due to Mass Layoffs During the 1982 Recession." http://www.columbia.edu/~vw2112/papers/mass_layoffs_1982.pdf.; Schoeni, Robert F. and Michael Dardia. 2003. "Estimates of Earnings Losses of Displaced Workers Using California Administrative Data." PSC Research Report No. 03-543. http://www.psc.isr.umich.edu/pubs/pdf/rr03-543.pdf; Farber, Henry S. 1999. "Alternative and Part-Time Employment Arrangements as a Response to Job Loss." NBER Working Paper No. 7002. http://www.nber.org/papers/w7002.pdf.

[23] Von wachter, Song, and Manchester. See also Stevens, Ann Huff. 1997. "Persistent Effects of Job Displacement: The Importance of Multiple Job Losses." *Journal of Labor Economics*. 15(1): 165-188.

Figure 4. **Temporary versus Permanent Layoffs, 1972 - Present**



Source: Haver/Bureau of Labor Statistics and author's calculations."Permanent Layoff" includes unemployed workers who are not on temporary lay-off and unemployed workers who completed temporary jobs. "Temporary Layoff" includes unemployed workers who expect to be recalled. Recession dates are from the National Bureau of Economic Research.

In addition to the long-term career impacts of job loss, displacement can lead to a wide range of other troubling consequences.[24] Research suggests links between unemployment and stress-related health problems such as heart attacks and strokes.[25] Near-term increases in mortality rates for male job losers in one recent study were as high as 100 percent.[26] While the initial impact on mortality falls over time, it remains significantly higher for job losers than for comparable workers over the course of several decades. If these losses were sustained through the end of life, higher mortality rates for displaced workers implies a reduction in life expectancy of one to one and a half years.[27] Job loss can also impact the children and families of the unemployed, in both the short- and long-run. For instance, parental job loss increases the probability of a child's grade retention by

[24] See Davis and von Wachter for an excellent comprehensive review of the non-economic costs of job loss.
[25] Burgard, Sarah A., Jennie E. Brand, and James S. House. 2007. "Toward a Better Estimation of the Effect of Job Loss on Health." *Journal of Health and Social Behavior*. 48(4): 369-384.
[26] Sullivan and von Wachter.
[27] Davis and von Wachter.

about 15 percent in the immediate aftermath of displacement.[28] In the long run, adults whose fathers experienced job loss when they were teens have dramatically reduced lifetime earnings.[29] Layoffs can impact family stability; the probability of divorce following a spouse's displacement increases significantly.[30]

Recent research further suggests that unemployment may have spillover effects that impact not only the individual and his or her family, but also the broader community. For example, one study finds that the state-level job losses impact student achievement; states with higher levels of job loss saw poorer student performance on eighth-grade math scores as compared to states with lower levels of job loss. The authors conclude that job-loss induced lower incomes and stress in the school setting inhibit student performance amongst both the children of the unemployed and their peers.[31]

Taken together, these findings on the consequences of job loss suggest substantial room for improvement in the policy architecture in place for serving dislocated workers. In particular, the long-run earnings impacts of job loss suggest that unemployment leaves many workers at a serious disadvantage compared to their prior career trajectories. This is especially true for higher-tenure displaced workers; individuals with three or more years on the job prior to displacement face steeper costs to job loss than relatively new employees. As a result, these workers bear a disproportionate share of the costs of the structural readjustments that come along with globalization, technological change, and other forces that may benefit the economy as a whole.[32] In order to avert a rise in economic protectionism, policy solutions that speak to these workers' needs ought to be both an economic and a political priority.[33] Given these facts, a closer look at the remedial role played by workforce development programs is merited.

---

[28] Stevens, Ann and Jessamyn Schaller. 2011. "Short-Run Effects of Parental Job Loss on Children's Academic Achievement." *Economics of Education Review*. 30(2): 289-299. http://www.nber.org/papers/w15480.pdf.

[29] Oreopoulos, Philip, Marianne Page, and Ann Huff Stevens. 2008. "The Intergenerational Effects of Worker Displacement." *Journal of Labor Economics*. 26(3): 455-483. http://homes.chass.utoronto.ca/~oreo/research/compositions/the_intergenerational_effects_of_worker_displacement.pdf.

[30] Charles, Kerwin Kofi and Melvin Stephens, Jr. 2004. "Job Displacement, Disability, and Divorce." *Journal of Labor Economics*. 22(2): 489-522. http://www.nber.org/papers/w8578.pdf.

[31] Ananat, Elizabeth Oltmans, Dania V. Francis, Anna Gassman-Pines, and Christina M. Gibson-Davis. "Children Left Behind: The Effects of Statewide Job Loss on Student Achievement." Unpublished working paper. Sanford School of Public Policy, Duke University. http://www4.ncsu.edu/~rghammon/workshop/F12_Children_Left_Behind.pdf.

[32] Jacobson, LaLonde and Sullivan. 2011.

[33] For a deeper exploration of this argument and its various implications, see Scheve, Kenneth F. and Matthew J. Slaughter. 2007. "A New Deal for Globalization." *Foreign Affairs* July/August(2007): 34-47. http://mba.tuck.dartmouth.edu/pages/faculty/matthew.slaughter/pdf/A%20New%20Deal%20for%20Globalization%20FA.pdf.

The Efficacy of Existing Job Training Programs for Today's Displaced Workers

[U]nemployment insurance itself is an inadequate answer to the current problems facing the workforce.

Many policy options exist to reduce hardship for displaced workers. Perhaps most obvious is the unemployment insurance program, which provides a very modest income buffer for individuals actively searching for work. The joint federal-state system currently provides a lifeline to millions of workers, including many of the long-term unemployed, thanks to multiple extensions of a special federally-funded program of extended benefits meant to offer support to jobless workers in the wake of the recession and the enduring difficulties with the labor market. However, the unemployment insurance program is not a solution to the long-term earnings losses faced by workers upon re-employment. Indeed, even in the very short-term, unemployment insurance is designed to replace no more than half of a worker's previous earnings, up to a maximum benefit level.[34] While there may be important ways that unemployment insurance programs can be integrated with longer-term solutions aimed at bolstering displaced workers earnings, unemployment insurance itself is an inadequate answer to the current problems facing the workforce.

Wage insurance offers more promise as a long-term solution for displaced workers, but the current political atmosphere of austerity suggests that a new government policy requiring significant dedication of resources is unlikely to gain traction. Wage insurance programs are designed to mitigate the earnings blow that many displaced workers face upon reemployment; workers receive a subsidy designed to replace some portion of the gap between their previous wage and the lower wages of their new job.[35] Economists typically favor wage insurance proposals over other forms of public assistance to displaced workers, for a variety of reasons – the private market is unlikely to provide wage insurance policies due to the difficulty of doing so profitably and the risk of moral hazard in purchasing, the programs are designed to encourage workers to return to the labor market quickly, and well-designed policies could do a relatively cost-efficient job in mitigating the long-term economic hardship faced by the dislocated worker.[36] Despite its potential promise as an effective policy option, wage insurance has had trouble gaining political traction in the past.[37]

[34] Stone, Chad and William Chen. 2013. "Introduction to Unemployment Insurance." Center on Budget and Policy Priorities. February 6, 2013. http://www.cbpp.org/files/12-19-02ui.pdf.
[35] The United States currently funds a very modest wage insurance program through the Trade Adjustment Assistance program, which serves individuals who can demonstrate that their job loss was directly related to global trade competition. Wage insurance subsidies are restricted to workers over the age of 50 earning $50,000 or less.
[36] See LaLonde, Robert J. 2007. "The Case for Wage Insurance." Council on Foreign Relations CSR No. 30. http://www.cfr.org/economics/case-wage-insurance/p13661.
[37] LaLonde.

Job training programs have the potential to offer workers a path toward a more remunerative career future, particularly if structural economic changes have rendered their recent work history less valuable. Well-targeted, well-run programs – including classroom programs, vocational education, on-the-job training, and other initiatives – all offer the promise of providing the dislocated worker population with a much-needed leg up. Training is designed to boost skills, productivity, and hence long-term wages. Moreover, an initial investment in training a worker can create a virtuous circle.[38] The worker receives higher wages due to higher skills. The employer has created a more productive, thus more profitable, employee. And the government has invested in a worker who is less likely to be dependent on the government for aid and more likely to contribute more in taxes, in addition to bolstering national productivity. Thus an investigation of the existing programs and their impacts on this population is in order.

The evidence on the impacts of job training programs for displaced workers is modest, particularly compared to the many studies that focus narrowly on the efficacy of job training for economically-disadvantaged individuals. Randomized controlled studies, the gold standard for evaluating program efficacy, are few and far between.[39] Moreover, the impacts that these studies have found are generally modest, and vary substantially. Based on these relatively weak and often difficult-to-interpret results, some have drawn the conclusion that job training programs simply "don't work."[40] In general, however, the overarching lesson to be drawn from the existing studies are that the efficacy of a program depends strongly on the level and design of funding mechanisms, as well as how well training is matched to displaced workers' prior educational and work experiences.[41]

[38] LaLonde.

[39] The lack of randomized control studies evaluating programs targeting displaced workers is likely due to the fact that specific programs aimed at this population are typically developed quickly, under extreme circumstances to respond to employment contractions. Two examples of randomized control trials include 1980s demonstration projects in Texas and New Jersey, both of which set up "tiers" of services where dislocated workers were randomly assigned to receive either solely job search services, or job search services plus occupational skills training. Both projects suffered from serious design flaws, and initially showed no benefit of adding occupational skills training to the job search assistance services. Subsequent reanalysis of the New Jersey data suggested that participation in training appeared to boost participant earnings relative to those not enrolled. For details, see O'Leary, Christopher J. 2010. "Policies for Displaced Workers: An American Perspective." Upjohn Institute Working Paper No. 10-170. http://research.upjohn.org/cgi/viewcontent.cgi?article=1187&context=up_workingpapers.

[40] See, for instance, Moran, Rachel. 2012. "Do Job Training Programs Actually Work?" *Reason*. October 22, 2012. http://reason.com/blog/2012/10/22/do-job-training-programs-actually-work.

[41] For a very useful review of the evidence on training programs' efficacy for displaced workers, see Jacobson, Louis S., Robert J. LaLonde, and Daniel G. Sullivan. 2011. "Policies to Reduce High-Tenured Displaced Workers' Earnings Losses Through Retraining." Hamilton Project at the Brookings Institution. http://www.brookings.edu/research/papers/2011/11/displaced-jacobson-lalaonde-sullivan.

The more substantial a workers' investment in training is...the greater the earnings gain.

The main federal vehicle funding job training for the unemployed is the Workforce Investment Act (WIA), which channels funding to this population through Title I's Adults and Dislocated Workers Program.[42] A general evaluation attempting to synthesize existing quality evaluations of the efficacy of WIA services for dislocated workers suggests that training for unemployed workers is indeed effective, both in increasing employment rates and boosting earnings. The results are consistent across states (with the one exception of Indiana), and across multiple studies.[43]

In addition to WIA, the Trade Adjustment Assistance (TAA) program provides a specific population of displaced workers with job training, amongst other benefits. TAA is available only to workers who can demonstrate that they have lost their jobs due to increased imports and is implicitly designed to decrease political resistance to trade liberalization efforts.[44] Like other job training-related programs targeting displaced workers, TAA has not been subject to extensive empirical evaluation, and the existing studies on the policy's efficacy are mixed. However, recent research provides strong suggestive evidence that workers who participate in TAA-funded training opportunities are more likely to obtain reemployment, and at higher wages, than TAA beneficiaries who receive cash benefits but do not participate in training.[45]

Many training opportunities are academic or quasi-academic in nature, e.g. community college or private educational institution-based programs where coursework can eventually add up to a credential or degree. The more substantial a workers' investment in training is – the more courses he completes – the greater the earnings gain. For instance, earnings gains for workers in a Washington-state community-college-based training program were nearly twice as large for displaced workers who completed the equivalent of one academic year of retraining as they were for those who completed just one semester, and the largest gains of all were for women who completed two academic years of retraining.

---

[42] WIA also funds job training efforts for many other target populations, including the economically-disadvantaged, youth, and the disabled.

[43] Hollenbeck, Kevin. 2009. "Does the Workforce Investment Act Work?" Presented at the 31st Annual Research Conference of the Association for Public Policy Analysis and Management (APPAM), Washington, DC. http://research.upjohn.org/confpapers/59. Note that analysis of the efficacy of WIA-funded programs as well as other job training programs often lump together economically-disadvantaged clients and unemployed workers, making it difficult to distinguish for whom the program is working and how. Hollenbeck and the other authors cited throughout this paper are careful to distinguish between the two populations in order to isolate impacts of training programs for unemployed workers, many of whom may be economically-disadvantaged as well, but who are primarily characterized by their recent job loss rather than their socio-economic profile.

[44] Indeed, Congress has approved additional funding for TAA with virtually every new free trade agreement that has been implemented since the program's inception. See Reynolds, Kara M. and John S. Palatucci. 2012. "Does Trade Adjustment Assistance Make a Difference?" *Contemporary Economic Policy* 30(1): 43-59.

[45] Reynolds and Palatucci.

Moreover, the impact of the retraining program was entirely concentrated in a subset of "high-return" subject areas, specifically technically-oriented vocational skills (e.g. dental hygiene, respiratory therapy) and academic math and science courses.[46]

Perhaps most importantly, however, is evidence suggesting that displaced workers systematically under-invest in training following job loss. Despite the earnings gains associated with retraining, very few displaced workers complete enough classes to obtain even a certificate, let alone a degree.[47] This underinvestment suggests that unemployed workers may lack information about the returns to training programs, they may face uncertainty about their level of academic readiness and/or vocational aptitudes, or they may lack the resources to pursue training.[48]

The Workforce Investment Act is designed to serve a variety of populations, including not only displaced workers but also economically-disadvantaged individuals and youth facing an uphill battle to adequate work. As compared to the economically-disadvantaged population, displaced workers typically have longer work experience and higher earnings. As a consequence, the cost of engaging in the intense level and duration of training that empirical research suggests may actually benefit them in the long run is likely much higher for this population than for an economically-disadvantaged individual or a young person looking for job training. In comparison to these less-experienced groups, displaced workers may perceive high levels of foregone earnings. This is particularly true in the case that an unemployed worker expects that to find a new position at approximately the same wage (and on the same upward trajectory) as his or her previous job. While the research overwhelmingly suggests that this is highly unlikely, particularly in the wake of the deep recession, workers' expectations typically are not well-calibrated to the economic reality.[49] Moreover, even a worker who has fully internalized the poor likelihood of finding a new job equivalent to his former position is unlikely to be able to cover the out-of-pocket cost of effective retraining. Unemployment insurance replaces about 47 percent of prior earnings, and many workers who have been fortunate enough to find new jobs following their initial displacement are earning no more than 20 percent of their prior earnings.[50]

---

[46] Jacobson, Louis S., Robert J. LaLonde, Daniel G. Sullivan, and Kevin Hollenbeck. 2002. "Measures of Program Performance and the Training Choices of Displaced Workers." In Randall W. Eberts, Christopher J. O'Leary, and Stephen A. Wandner, eds. *Targeting Employment Services*. Kalamazoo, MI: W.E. Upjohn Institute, pp. 187-220. http://research.upjohn.org/up_bookchapters/175.

[47] Jacobson, et. al. 2002.

[48] Jacobson, LaLonde, and Sullivan. 2011.

[49] For a general explanation of the problem of bounded rationality and its constraints on human rationality in economic decision-making, see Mullainathan, Sendhil and Richard H. Thaler. 2000. "Behavioral Economics." NBER Working Paper 7948. http://www.nber.org/papers/w7948.pdf.

[50] Jacobson, LaLonde, and Sullivan. 2011.

Taken together, the existing evidence on the efficacy of current programs suggests room for improvement. Moreover, the specific challenges facing displaced workers imply a need for innovative policies that create a job training architecture encouraging a virtuous circle of investment. Effective job training can benefit the individual, the employer, and the nation as a whole.

Future Policy Directions for Bolstering the Career Prospects of the Unemployed

While the United States' contemporary workforce development system does include an element specifically designed to meet the needs of unemployed workers, much work remains if that system is to achieve the goal of creating a virtuous circle of security and prosperity for the worker, the employer, and the nation. The current political climate of austerity makes an aggressive expansion of any government effort particularly challenging, yet the workforce development arena is one with a great deal of promise when viewed as a mid- to long-term investment rather than a short-term expenditure. Several types of reforms deserve serious consideration by policy-makers.

Funding

The current workforce development system is woefully underfunded, and is simply unable to meet the demand for its services. Empirical evidence suggests that high-intensity, expensive "human capital development" approaches are ultimately more cost-effective than short-term, less expensive "labor force attachment" or "work-first" programs.[51] Fully assimilating this knowledge into policy would mean a substantially greater financial commitment to the federal funding of job training. Current expenditure levels on dislocated workers are estimated at about $500 per participant, which is not nearly sufficient to provide substantial training services.[52]

The American Recovery and Reinvestment Act (ARRA) included a one-time infusion of new money into the Workforce Investment Act system, which allowed for the temporary expansion of access to services. Evidence suggests that this additional funding met an immediate need. For instance, the number of participants in the Adult Program increased by 10 percent in the first quarter of

[51] King, Christopher T. 2008. "Does Workforce Development Work?" The Annie E. Casey Foundation. http://www.aecf.org/news/fes/dec2008/pdf/ChrisKing.pdf.

[52] Wandner, Stephen A. 2012. "The Response of the U.S. Public Workforce System to High Unemployment during the Great Recession." Urban Institute. http://www.urban.org/UploadedPDF/412679-The-Response-of-the-US-Public-Workforce-System-to-High-Unemployment.pdf.

2009 compared to the final quarter of 2008, and the number of participants receiving training increased by 13 percent.[53] A broad survey of the country's WIA activities found many states expanding their job training programming for unemployed individuals. For instance, New York City more than doubled the number of participants receiving training through Individual Training Accounts.[54] Michigan used all of its ARRA funding to expand the reach of its *No Worker Left Behind Strategy*, which has enrolled more than 108,000 workers in training since August 2007. Yet even after the infusion of ARRA WIA funds, Michigan's program had a waitlist of 16,000 individuals, suggesting that the workforce development system is simply not meeting current needs.[55] In Seattle, the region's seven one-stop centers (jobs centers funded through WIA) were able to provide training for less than 5 percent of the 120,000 people who came in last year seeking help. Last spring, officials in Dallas reported annual funds left to support only 43 people in training programs at a time when over 23,000 people had lost their jobs in the previous ten weeks.[56] Even during the ARRA expansion, however, growth in WIA provided services was concentrated in "core services" (resume-preparation, etc.) rather than the more costly training services.[57] In simple terms: the demand for job training vastly outstrips the supply.

In simple terms: the demand for job training vastly oustrips the supply.

In the absence of continued bolstered federal funding to the workforce investment system, demand is likely to continue to dramatically outpace the supply of training opportunities, particularly given persistent elevated levels of long-term unemployment. Funding for training under WIA is 18 percent less than in 2006, yet there are six million more unemployed workers today.[58] During the last recent major recession, workforce development was at the core of the government's policy response. The Comprehensive Education and Training Act (CETA), which evolved into the contemporary Workforce Investment Act, was created in 1979. If WIA was funded at the same level as CETA had been upon its

[53] Workforce System Results. July 1-September 30, 2009. Employment and Training Administration, United States Department of Labor.
[54] Survey for the U.S. Department of Labor by the National Governors' Association, the National Association of State Workforce Agencies, the National Association of Workforce Boards, and the U.S. Conference of Mayors. See Ganzglass, Evelyn. 2009. Testimony to the House Subcommittee on Labor, Health and Human Services, Education and Related Agencies Committee on Appropriations. Hearing on Labor and Education 2011 Budget Priorities. March 17, 2009. http://www.clasp.org/admin/site/publications/files/workforcedevelopmenttestimony.pdf.
[55] Ganzglass.
[56] See Rich, Motoko. April 8, 2012. "Federal Funds to Train the Jobless Are Drying Up." *New York Times*. http://www.nytimes.com/2012/04/09/business/economy/federal-funds-to-train-jobless-are-drying-up.html?pagewanted=all.
[57] Wandner.
[58] Krepcio, Kathy and Michele M. Martin. 2012. "The State of the U.S. Workforce System: A Time for Incremental Realignment or Serious Reform?" John J. Heldrich Center for Workforce Development at Rutgers University. http://www.heldrich.rutgers.edu/sites/default/files/content/State_of_US_Workforce_System_Report.pdf.

inception, it would receive nearly $25 billion in federal dollars. Today, WIA receives somewhere between three and four billion federal dollars.[59]

While historical comparisons suggest systemic atrophy over time, international comparisons make clear how underdeveloped the American workforce development system is relative to many of our global competitors. The United States ranks 28th amongst OECD nations in total federal expenditures on active labor market policies, including job training. This puts our nation at second-to-last in the rankings. America spends just 0.1 percent of GDP, as compared to an OECD average of 0.7 percent. Countries with heralded workforce development systems, including Germany and Denmark, spend upwards of 1 percent.[60]

The contemporary debate over the federal budget has once again put federal workforce development funding in the cross-hairs, with WIA funding slated to be slashed as part of the budget sequester's impact on discretionary spending. Republican budget proposals, most notably Representive Paul Ryan's FY2013 budget "roadmap," imply substantial cuts; the House Republicans' budget cuts education, training, employment, and social services programs by $16 billion (a 22 percent reduction).[61] In contrast, President Obama's FY2013 budget proposed consolidating and simplifying existing programs (and achieving cost savings in the process), coupled with more than $17 billion in new investments in workforce development.[62] It remains to be seen whether the President's recognition of the importance of bolstering funding in this critical area turns into meaningful resources for the workforce development system

Additional funding to meet the demands on the current training system is a beginning. Moreover, both Republicans and Democrats agree that the existing workforce development system includes programmatic duplications and redundancies that could be simplified in order to more effectively use resources and serve those seeking training. Yet more than additional funding and smart streamlining is needed if the system is to effectively meet the needs of the millions of unemployed workers who might benefit from job training.

---

[59] Carnevale.
[60] OECD. 2012. "Public Expenditures on Active Labour Market Policies: % of GDP." http://www.oecd-ilibrary.org/employment/public-expenditure-on-active-labour-market-policies_20752342-table9.
[61] National Skills Coalition. February 2012. "Fiscal Year 2013 Budget Analysis: Key Federal Workforce and Education Programs." http://www.nationalskillscoalition.org/federal-policies/federal-funding/federal-funding-documents/nsc_fy2013_budgetanalysis_2012-02.pdf.
[62] National Skills Coalition..

Develop Approaches to Mitigate the (Perceived) Opportunity Cost of Training for Displaced Workers

Displaced workers, especially those long-tenured individuals who incur higher earnings losses due to unemployment, face steep and enduring earnings losses in the wake of losing a job. The cost of training that mitigates these losses and opens up true opportunity for such workers is far steeper than what current policy supports. As a result, this population is likely to under-invest in training, with consequences that spill over beyond their individual and family well-being onto society as a whole. Proposals that enable these workers to obtain sufficient, high-quality training to substantially increase their earnings should be a critical element of workforce system reforms.

[The] consequences …spill over beyond their individual and family well-being onto society as a whole.

Elements of a successful approach might include the following elements:

- Link benefits to earnings losses rather than household income;
- Cover more intensive (and thus more expensive) training than does the Pell grant program;
- Cover child care and other expenses;
- Waive disqualifying provisions of the Pell program related to already having a college degree, and taking courses that lead to a career-oriented certificate rather than a degree.
- Provide adequate funding to the Department of Labor's One-Stop Career Centers to serve as true "honest brokers" that can assess and counsel grantees so that workers select high-return fields of training that match their basic competencies and interests.[63]

Shore Up Funding for Community Colleges

Community colleges serve as the backbone of the nation's adult education system, housing many of the nation's most effective public and public-private partnerships for skills development. Yet funding for community colleges is subject to severe cyclical vacillations. Community colleges' historical role in serving local labor markets means that their funding is typically heavily dependent on states

[63] For an excellent in-depth discussion of a proposal aimed at better serving the needs of high-tenure displaced workers, see Jacobson, Sullivan, and LaLonde, 2011. Note that while a variety of job search and counseling services are available to displaced workers through WIA (and through the Employment Service, housed in WIA-funded One-Stop Centers but funded through state unemployment insurance programs), these services have long suffered from funding constraints that hamper their ability to hire and train workers to adequately meet the demand for such services. For instance, expenditures on Employment Service funding have fallen to just $30-$40 per participant, which means that officials are able to provide most clients with little more than self-services and modest group-administered staff-assisted services. See Wandner.

and localities, whose budget outlooks and ability to spend flexibly in times of contraction are severely limited by state balanced budget requirements.

The Great Recession highlighted this problem, as emergency federal spending between 2008 and 2011 helped stem the consequences of major cutbacks from the state and local governments that provide the majority of the community colleges' funding. Moreover, recent longer-term trends indicate a structural shift away from public funding. At the same time that community college enrollment has been rapidly increasing (at more than twice the rate of that of four-year colleges), state funding for colleges has fallen by 23 percent for students over the last decade.[64] As a result, one of the core institutions at the heart of the workforce development system remains vulnerable and under-capacity.

Efforts to address the expanded demands on community colleges are badly needed. Elements of a successful proposal might include:

- Expanding the federal government's role in supporting community colleges, in conjunction with a performance management system that allows a significant share of awards to be based on college's performance in meeting key federal goals;[65]
- Developing mechanisms for boosting community college funding during recessions, such as a "recession community college fund" tied to local labor market conditions;[66]
- Investigating and implementing policies (including waivers to or revisions of WIA policies) to remove barriers to successful public-private partnerships between employers and community colleges;[67]

---

[64] Berube, Alan and Sara Goldrick-Rab. 2009. "Stimulus for America's Community Colleges." Brookings Institution. February 3, 2009. http://www.brookings.edu/research/opinions/2009/02/03-community-college-berube; Kiley, Kevin. 2011. "A Shifting Burden." *Inside Higher Ed*. October 26, 2011. http://www.insidehighered.com/news/2011/10/26/reports-find-student-aid-shift-states-federal-government.

[65] For elaboration on this proposal, see Goldrick-Rab, Sara, et. al. 2009. "Transforming America's Community Colleges: A Federal Policy Proposal to Expand Opportunity and Promote Economic Prosperity." Brookings Institution. http://www.brookings.edu/~/media/research/files/reports/2009/5/07%20community%20college%20goldrick%20rab/0507_community_college_full_report.pdf.

[66] See Jacobson, LaLonde, and Sullivan 2011 for more on the idea of a recession community college fund.

[67] For example, WIA's Local Workforce Investment Board structure is organized geographically such that a local employer may not be able to easily collaborate with the closest and/or most capable community college to develop training programs that lead directly to employment.

Incentivize Employer-Based Training for Unemployed Workers

The Obama Administration has proposed providing tax credits for businesses that hire long-term unemployed workers, an expansion of the Hiring Incentives to Restore Employment (HIRE) Act of 2010. While the initial proposal was aimed at spurring job creation, policymakers might consider the potential of linking tax credits for hiring with an additional incentive for employers who demonstrate meaningful upward-career ladders and/or on-the-job training opportunities for new hires. In the absence of such incentives, a tax credit for hiring the unemployed risks locking displaced workers into downward earnings trajectories.

Create Meaningful "Bridge to Work" Programs

Currently, recipients of unemployment insurance are not typically allowed to work if they are to continue receiving benefits. A meaningful exploration of funding for on-the-job training for unemployed individuals, perhaps coupled with a public-private partnership funding a degree or credential-focused program for successful trainees, could provide a meaningful "bridge to work" for displaced workers.[68]

Expand the Availability of Wage Insurance

As discussed earlier, the United States has a small wage insurance program currently available through the Trade Adjustment Assistance Program. As a general proposition, wage insurance provides re-employed workers with a subsidy designed to help make up some of the difference between their prior earnings and lower earnings upon re-employment. In order to insure against wage insurance simply being used as a subsidy for low-wage employment, policymakers might explore tying wage insurance subsidies to employment offering on-the-job training or concurrent credential or degree programs.

---

[68] Note the distinction between this concept and that of the Georgia Works model on which the Obama Administration has based their "Bridge to Work" proposals. The state of Georgia's Georgia Works program subsidizes "on-the-job training" of no more than 24 hours per week by unemployment claimees for a period of up to six weeks. Employers accepting Georgia Works placements do not pay participants' wages for the time spent working, and they do not agree to hire participants at the end of the training period; unemployed individuals participating in the program are treated as volunteers who receive training with an employer and unemployment insurance benefits. Empirical studies of the program's outcomes suggest that the Georgia Works model is largely a way of subsidizing low-wage jobs for employers; the vast majority of those workers who enrolled in Georgia Works and later found work were employed in very low-skill, low-wage occupations (e.g. janitorial and security jobs). See National Employment Law Project. 2012. "Protecting Our Unemployment Lifeline." http://www.nelp.org/page/-/UI/2012/UI_Toolkit_Final.pdf?nocdn=1.

Emphasize Effective Evaluation

The emphasis on tracking performance and understanding results has revolutionized the federal government's approach to K-12 education, yet the workforce development system remains woefully under-capacity in terms of meaningful data on outcomes. Much of this problem stems from an over-emphasis on short-term outcomes in the current system. Evaluation efforts are further complicated by the diverse populations whom the existing system is designed to serve (economically disadvantaged individuals, displaced workers, youth, etc.). Many advocates are (rightly) wary of allowing evaluation of programs that focus on the "wrong" metrics for fear that apparent poor outcomes will lead to program defunding. The result has been a lack of meaningful policy advocacy for good evaluation, with the exception of the academic community's repeated calls for such efforts. It is high time for the creation of a well-designed, long-term, well-funded evaluation that utilizes the gold-standard approach of randomized control trials; such an evaluation would help policymakers, advocates, and the general public better understand what works and what doesn't, in addition to providing valuable evidence of the full benefits of effective workforce development.

Conclusion: Creating a Virtuous Circle

The current employment picture has certainly improved from the bleak outlook in the months immediately following the Great Recession, but unemployment – and particularly long-term unemployment – remains elevated and is likely to stay that way for quite some time. The cost of job loss for many of these unemployed workers is severe, and opportunities for new work remain limited due to continued slack demand in the labor market. Yet broader, long-term structural trends indicate that a boost in demand is likely not sufficient to solve many of the labor market's deepest problems. Earnings inequality and falling wages and employment were problems well before the financial crisis spurred the deep tailspin in the labor market. Moreover, the nation's workforce development system has been deeply underfunded for decades, and remains far too feeble to meet the demands of a workforce badly in need of the "lifetime learning" approach that will propel America toward a competitive global future.

While a boost in funding for the basic workforce development policy architecture that is already in place is necessary, it is almost certainly not sufficient to meet the needs of jobless individuals, employers, or the nation going forward. Innovative solutions will demand not only additional federal dollars, but also creativity, flexibility, and a willingness to experiment. Our nation's ability to compete on the global stage in future decades depends on it, as do workers' long-term economic fortunes.

Governance Studies
The Brookings Institution
1775 Massachusetts Ave., NW
Washington, DC 20036
Tel: 202.797.6090
Fax: 202.797.6144
www.brookings.edu/governance.aspx

Editor
Christine Jacobs

Production & Layout
Donna Ra'anan-Lerner

Email your comments to gscomments@brookings.edu