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## Staying the Course: U.S. Employment Strategy during the Great Recession

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**Staying the Course:  
U.S. Employment Strategy during the Great Recession**

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**Introduction**

By most accounts, the US economy has turned the corner and is beginning to climb out of the nation's longest and deepest recession since the Great Depression of the 1930s. For the past three quarters, US GDP has grown at a two to five percent annualized rate. Employment, on the other hand, is only beginning to show signs of growth. After losing more than 8 million jobs since the recession began in December 2007, this past March was the first time payroll employment showed any real signs of expansion during that 26-month period. While the gain of 162,000 payroll jobs in March was an encouraging sign, many forecasters see an exceptionally slow recovery for the labor market, predicting that it will take three to four years to make up the number of jobs lost during the recession, and another year beyond that for the economy to return to full employment. Currently, more than 15 million people are unemployed and looking for work (9.7 percent of the labor force), of which 44 percent have been unemployed for more than 27 weeks.

Slow job growth and high unemployment still plagues millions of workers and their families and threatens to undermine the current economic expansion. For this reason, the Obama Administration places job creation and assistance to the unemployed and underemployed as its top domestic priority. Jane Oates, Assistant Secretary for Employment and Training of the U.S. Department of Labor, in her recent testimony before the Senate Finance Committee underscored the President's commitment to these two goals.<sup>1</sup>

This commitment has basically not changed throughout the recession. In signing the American Recovery and Reinvestment Act (ARRA) in February 2009, President Obama stated that its primary purpose was to preserve and create jobs and to assist those impacted by the recession. The provisions in the bill to provide additional funding to existing programs remain the primary response to helping workers impacted by the recession. The bill expanded funding for the federal workforce development system by \$56 billion, of which \$45 billion was targeted for the Unemployment Insurance system and about \$4.4 billion for training and employment services.

The bill created no new workforce programs of any consequence, primarily because the U.S. already has in place a comprehensive public workforce development system. However, the bill did help to reinvigorate the system by doubling the funding for employment services and training above the amount appropriated in the 2009 annual budget. In addition, the increased funding for the Employment Service helped to

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<sup>1</sup> Statement of Jane Oates, Assistant Secretary for Employment and Training, U.S. Department of Labor, before the Committee on Finance, United States Senate, April 14, 2010.

reestablish Wagner-Peyser reemployment services after the program had suffered sizable budget cuts in recent years.

The only other piece of federal legislation enacted during the recession that focused on helping workers was a job creation bill, the Hiring Incentives to Restore Employment Act (HIRE), passed by Congress in January 2010. HIRE introduced a job creation tax credit, which provides payroll tax incentives for employers to hire unemployed workers.<sup>2</sup>

While the ARRA did not contain such a job creation tax credit for employers, one third of the \$787 billion appropriation was intended to put people back to work through spending on infrastructure and other reinvestment projects. Another third was tax cuts to individuals and businesses, which also provides economic stimulus by increasing expenditures. The President's Council of Economic Advisers' most recent estimates suggest that the ARRA has saved or created roughly 2.5 million jobs. That means 2.5 million people are employed today who wouldn't have been without the Act.

Because of their severe financial problems, states have little capacity to increase their efforts to generate jobs in their jurisdictions. They still rely on tax incentives to attract and retain business, but some have had to cut back on these efforts because of falling tax revenues and growth budget deficits. Therefore, most of the efforts to create jobs and to expand the workforce development system come from federal government initiatives, primarily the ARRA.

Yet, both ARRA appropriations and HIRE incentives expire within a year. With the likely prospect of a long and slow employment recovery, concerns are being expressed that the significant reduction in funding as these two laws sunset will cause considerable hardship for those depending upon the UI system for partial wage replacement and on the training programs for skill upgrading and job search assistance. Furthermore, with most states experiencing severe financial problems, their ability to increase funding for workforce programs when the federal funds are cut back is highly unlikely. Most states are already in debt to the federal government. For example, the U.S. Department of Labor projects that by the end of FY2012, 40 states will have federal loans outstanding of more than \$90 billion as a result of borrowing to finance unemployment compensation payments. States are also cutting back on training programs and other workforce-related services because of deep budget deficits brought about by lower state revenue and increased social service needs resulting from the recession.

Therefore, the current policy approach to workforce development is three-pronged. The first is to use the opportunity of the recession to encourage administrators and policy makers to develop innovative ways to deliver workforce services and income support as effectively and efficiently as possible to those who need it. The second is to

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<sup>2</sup> The ARRA did have a small tax credit for individuals. Referred to as the Making Work Pay tax credit, it provided a tax credit in 2009 and 2010 equal to 6.2 percent of earned income up to a maximum of \$400 for individual filers and \$800 for couples.

fix problems with the current programs, particularly the Unemployment Insurance system, that impede their operations and discourage innovative ways of enhancing these programs. The third is simply to recommend that the additional funding for programs under ARRA be extended until the labor market begins to strengthen.

### **Innovative Approaches**

In directives to states and local workforce areas regarding the implementation of ARRA funding, the U.S. Department of Labor sees the investment of stimulus funds as presenting “an extraordinary and unique opportunity for the workforce system to advance transformational efforts and demonstrate its full capacity to innovate and implement effective One-Stop service delivery systems.”<sup>3</sup> As the U.S. Department of Labor, along with its state and local partners, responds to the needs of workers and employers, it has established and re-prioritized various principles upon which it operates. These principles include:

- Considering workers and employers as equal customers of the workforce development system;
- Facilitating a seamless movement between the labor market, education, and training in order to advance careers and upgrade their contributions to the workplace;
- Connecting youth to education and training opportunities through multiple pathways;
- Fully aligning education and training with economic and community development strategies;
- Linking assessments and certifications to the requirements of the next level of education and employment.

Many of these principles, particularly those related to the seamless integration of services are embodied in the original pillars of the Workforce Investment Act (WIA), when it was established in 1998. The more recently articulated list of principles de-emphasizes universal access and work-first priorities and replaces them with a greater emphasis on demand-driven human capital development and partnerships with local economic development and educational institutions.

#### ***Emphasis on Training***

The ARRA addresses several of the principles laid out in the Department’s directives to states, including the greater emphasis on training. For instance, one aspect of the UI Modernization component of the ARRA provides incentive payments for states that allow UI beneficiaries to participate in job training and still receive regular weekly UI benefits as a type of training stipend. The ARRA offers an incentive payment to states amounting to one-third of their share of the \$7 billion available if they extend the

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<sup>3</sup> U.S. Department of Labor, Employment and Training Administration, Training and Employment Guidance Letter No. 13-08, March 6, 2009, p. 2.

benefits to UI claimants who are taking approved training courses. For states to receive the incentive payment, they must provide 26 additional weeks of UI benefits, at the claimants usual benefit rate, for those participating in approved job training after they have exhausted their first 26 weeks of regular UI benefits. During the on-the-job training and work experience, the training participants are paid as employees, although sometimes the training wage is somewhat lower than the earnings rate for regular employees. It is similar to the training stipend offered to participants of the Trade Adjustment Assistance program. To date, 22 states have qualified for their full UI modernization incentive payment, but only three have chosen to provide UI benefits to those in training. One reason for the lack of interest in this option is the potentially high cost to states of adopting it.

The U.S. Department of Labor has collaborated with states to promote innovative uses of WIA employment and training funds, such as increasing on-the-the training contracts with employers.<sup>4</sup> Recently, the Department made \$90 million in ARRA funds available for states and their partnering organizations to create on-the-job experiences to help dislocated workers acquire job skills and experiences that enhance their employability. States are also expanding customized training for incumbent workers, as a way to upgrade the skills of existing workers and improve the competitiveness of businesses.

The ARRA has also increased funding for the Federal Pell Grant Program, which provides needs-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. Students may use their grants at any one of approximately 5,400 participating postsecondary institutions. The ARRA provides \$17.1 billion to increase the maximum Pell award for all eligible students from \$4,850 to \$5,350 in 2009 and slightly higher for 2010. In addition, the ARRA replaced the existing Hope tax credit and tuition deduction provisions with a new American Opportunity Tax Credit for 100 percent of the first \$2,000 of tuition and related expenses (including books) paid during the tax year. Forty percent of the credit is refundable to low-income families incurring such expenditures.

### ***Demand-Driven Training, Sector Initiatives, and Partnerships***

In order to prepare the workforce for jobs in emerging industries, the Department of Labor under the ARRA provides \$750 million for a program of competitive grants for worker training and placement in high growth and emerging industries. Of that \$750 million, the ARRA designates \$500 million for projects that prepare workers for careers in the energy efficiency and renewable energy sectors. The Department views these grants as opportunities to demonstrate how partnerships among the public workforce system and other public and private systems, including labor-management partnerships, education institutions, community and faith-based organizations and research institutions, can meet the workforce needs of the energy efficiency and renewable energy sectors and

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<sup>4</sup> Jane Oates' Testimony, April 14, 2010, p. 13.

other industry sectors.<sup>5</sup> These partnerships undertake collaborative activities designed to define emerging energy efficiency and renewable energy jobs and train qualified workers. States will play a key role, working with private and public partners, to coordinate and gather information on skill qualifications for existing, new and emerging careers.

Even before the recession and the enactment of ARRA, the federal government and several states saw the importance of encouraging and supporting partnerships. Specifically, the U.S. Department of Labor sponsored a program, the Workforce Innovation in Regional Economic Development (WIRED), to support the development of a regional, integrated approach to workforce and economic development and education. The ultimate goal of WIRED was to expand employment and advancement opportunities for workers and catalyze the creation of high-skill and high-wage opportunities. Currently, the WIRED Initiative funded three generations of regional collaborations, with each of the 39 regions receiving from \$5 million to \$15 million over three years. Several states have initiated similar arrangements. Michigan's Regional Skills Alliance and the California Regional Workforce Preparation and Economic Development Act are two examples. Michigan policy makers have placed such importance on skill alliances that they have recently expanded its program, even when facing a sizeable state budget deficit.

Local workforce investment boards have also focused on partnerships as a way to enhance worker training. For example, the Lehigh Valley WIB, located in Pennsylvania, recognized the importance of education and used ARRA funds to help local residents attain an education after high school. The community colleges in the state were already providing one free semester of education for unemployed workers, but these financially-strapped students were still responsible for the tuition, fees and books for additional semesters of classes. The local WIB decided to cover the tuition, books, and fees for up to three additional semesters for these students if they wanted to continue with their education. Another example is the partnership formed by the Lorain County Workforce Development Agency, located outside of Cleveland Ohio, with local higher educational institutions. With ARRA funding, they launched "Stimulate Your Career," which provided one-stop guidance counseling, career awareness activities, and information on scholarships and other financial assistance for local residents.

### ***Performance Monitoring***

Another area in which the ARRA and the current recession have prompted a change in operations of the federal workforce system is performance monitoring. WIA requires that all states negotiate performance targets for federal workforce programs with the U.S. Department of Labor. However, as the recession increased the number of job seekers, state and local administrators expressed concern that since these negotiated performance targets did not take into the precipitous rise in unemployment, providing services to large groups of hard-to-serve individuals would jeopardize their ability to meet their targets. In response, the U.S. Department has changed the way in which

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<sup>5</sup> U.S. Department of Labor, Employment and Training Administration, Training and Employment Notice 44-08, May 15, 2009, p. 2.

performance targets are determined. At the national level, the federal workforce development program performance targets are adjusted for changes in the national unemployment rate. In the next two program years, state and local performance targets for WIA programs will be adjusted for these outside factors using similar methods.

### ***Targeting Resources and Evidence-Based Decision Making***

The U.S. Department of labor has encouraged states and local workforce areas to:

- Target the use of funds on services that most efficiently and effectively assist dislocated workers;
- Integrate the implementation of Dislocated Worker services with reemployment services and UI programs;
- Integrate data-driven counseling and assessment into service strategies;
- Provide easy and seamless access to all programs regardless of their point of entry.

Some of these suggestions enhance existing systems, such as targeting UI claimants who are likely to exhaust their benefits and directing them to services. The ARRA provides additional funds for states to update their profiling models, which under the Worker Profiling and Reemployment Services (WPRS) identifies through statistical methods those claimants who are most likely to exhaust their UI benefits. Some states, with the encouragement and funding from USDOL, have extended WPRS to include statistical algorithms that identify which services are most effective for claimants with certain attributes and employment history. The States of Kansas and Georgia are developing such algorithms, with assistance from the Upjohn Institute.<sup>6</sup>

The Data Quality Initiative is another program that uses administrative data to make more informed decisions. The ARRA provides \$250 million to states to enable state education agencies “to design, develop, and implement statewide, longitudinal data systems to efficiently and accurately manage, analyze, disaggregate and use individual student data. This funding is to be used for statewide data systems that, in addition to K-12 data, include postsecondary and workforce information. This requires a partnership with the federal and state labor and education departments in order to merge UI wages records (which record the earnings and employment of all covered employees) with educational data. The result is a longitudinal data system that links student outcomes to their workforce outcomes, giving decision makers and individuals useful information to make operational and strategic policy decisions.

### **Fixing the Unemployment Insurance System**

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<sup>6</sup> Since 2005, the U.S. Department of Labor has encouraged states to improve reemployment outcomes for UI claimants. The Reemployment and Eligibility Assessment (REA) initiative awards grants on a competitive basis to states for the development and support of reemployment plans that better link UI claimants to One-Stop services.

The Federal-state Unemployment Insurance system is the primary social safety net for individuals and their families who have lost their jobs for no fault of their own. However, the U.S. Department of Labor estimates that in some states less than 3 out of 10 jobless workers qualify for unemployment compensation, due in part to eligibility restrictions in some state laws. The federal Unemployment Compensation (UC) Modernization provisions, introduced under ARRA, provide incentives for states to change these restrictive practices. These provisions are not novel, however; many states already have updated their laws to include many of these provisions. The provisions include: 1) pay UC to workers seeking only part-time employment, 2) ease qualifying requirements for workers who separate from their employment due to compelling family reasons, 3) extend benefits to workers in qualifying training programs who exhaust regular UC, and 4) add dependents' allowances to weekly benefits.<sup>7</sup> To date a little over one-third of the appropriated \$7 billion has been disbursed to 32 states. The remaining states and territories have not yet applied for their share.

### *Short-time Compensation*

In a fragile economy, many workers are at risk of losing their jobs because their skills have become outdated or their employers lack the productivity improvements needed to stay competitive. The services of most federal and state workforce development programs are available to workers only when they are displaced. Many businesses and policy makers recognize the need to avoid layoffs and maintain a stable, innovative, and highly qualified workforce. Several states have attempted to use federal workforce development funds to provide innovative programs that keep workers in jobs and avoid the personal and social costs of associated with worker displacement and extended unemployment. One such program is short-term compensation or work sharing. Seventeen states have adopted a program that provides benefits to workers still working but are in jeopardy of losing their jobs. This approach, also referred to as work sharing, allows employers to reduce the weekly hours for all workers in their firm, rather than temporarily laying off some workers. Under this program, workers receive a pro-rated portion of their weekly benefit amount based on the percentage by which their work is reduced. However, many states are reluctant to adopt this program or use it more widely for fear of violating a clause in the unemployment insurance law related to the "fact or cause" of a worker's unemployment. Recent testimony by the Assistant Secretary for Employment and Training of the U.S. Department of Labor signals the department's recognition of the benefits of avoiding layoffs and its willingness to discuss the possibility of providing an exception to the requirement and going even so far as providing incentives for states to participate in work sharing.<sup>8</sup>

### *Solvency*

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<sup>7</sup> Training and Employment Notice, No. 27-09, U.S. Department of Labor, Continued Availability of UC Modernization Incentive Payments, January 29, 2010.

<sup>8</sup> Statement of Jane Oates, Assistant Secretary for Employment and Training, U.S. Department of Labor, before the Committee on Finance, United States Senate, April 14, 2010, p. 8.



The recent recession has placed considerable stress on the UI system. States were ill-prepared going into the recession for the demands placed on their state reserves. Previously mild recessions lulled some states into thinking that they could lower the amount placed in reserve. According to the U.S. Department of Labor, states entered the current recession with the lowest level of pre-recessionary reserves ever recorded. Now, states are borrowing and will continue to borrow considerable amounts from the Federal government in order to pay UI benefits. At this rate, repaying advances and rebuilding state fund reserves will take some time, placing many states in jeopardy of not being ready for the next recession. Moreover, the high level of debt undermines the integrity of the original intent of the UI system to be an insurance system and not a transfer system. Several proposals have been presented to restore solvency to the system, including raising the payroll tax rate and offering federal assistance or even forgiveness in repaying the loans. However, many recognize the costs of raising taxes too high and slowing job growth at a time when the economy needs to do whatever it can to encourage job growth. In addition, the large federal fiscal deficit and its future ramifications on the economy argue against the federal government being too lenient toward states in forgiving their loans. The U.S. Department of Labor is actively working with states as they seek to restore to the system.

## **Summary**

The US employment strategy to create jobs and help the unemployed get back to work has remained basically the same since the American Recovery and Reinvestment Act was passed at the beginning of 2009. The basic approach has been to provide additional funds to help those directly harmed by the recession, to shore up state and local governments struggling to maintain employment and services, to fund direct government investments in everything from conventional infrastructure, to health information technology, to a smarter electrical grid, and to provide tax cuts to individuals and businesses. The first provides financial assistance and training to those workers and their families displaced by the recession; the latter two create new jobs. Because of the dire financial situation of most states, funding and guidance for these initiatives come primarily from the federal government.

However, many of the workforce development programs are federal-state partnerships, and states play an important role in implementing changes and developing more innovative ways of delivering services and meeting the needs of workers and businesses. The ARRA encourages transformative thinking about the delivery of services and provides incentives to improve the delivery of services by funding upgrades to the current information system and by encouraging the development of more tools to help individuals, workforce staff, educators, and policy makers make better informed decisions. Although no new initiatives have been pursued of any consequence, Department of Labor directives emphasize the quality of services over the quantity of participants served, demand-driven training, partnerships, and sector initiatives. In response to these incentives, many states and local workforce areas have sought more effective ways to provide these services as they cope with the increased number of participants.