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The Obama's Administration Likely Changes in U.S. Employment Policy

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The election of Barack Obama as the 44th president of the United States was an historic event for the nation.[1] He is the first African American to be elected to the nation's highest office, breaking through the last racial political barrier that has confronted Americans of color since the founding of the country more than two centuries ago. Yet, no president since perhaps Franklin Roosevelt, who took office in the throes of the Great Depression, faces the seismic challenges standing squarely in front of the 47 year old president when he is sworn into office on January 20, 2009. Since the presidential campaign began in earnest nearly a year ago, the nation's economy has steadily slipped into a recession. During the past year the unemployment rate has climbed from 4.7 percent to 6.7 percent, with forecasts pushing it to eight percent or even higher before it begins to retreat and the economy starts to recover. The ranks of the unemployed job seekers have swelled by more than 2.7 million bringing the total to 10.3 million people. The log jam in the financial markets, precipitated by the sub-prime mortgage fiasco, has brought many sectors, particularly construction and the financial system, to its knees. But there is no safe haven as all sectors, except for health care, has experienced job losses during the past several months.

Stimulating a Staggering Economy

Any thoughts the President-elect may have had early in his campaign of placing health care or social security or labor relations reforms at the forefront of his political agenda have quickly taken a back seat to the critical and urgent need to stimulate the economy. President-elect Obama has indeed wasted no time in putting together a recovery package. Of course, he has no official power until he takes office, but his transition team and top economic advisers have crafted a set of measures that it can deliver to Congress immediately after he is sworn into office. Early in December, Obama offered the first glimpse of the massive government spending program that he proposes to help lift the country out of the economic recession and create at least three million jobs in the next two years. It includes retrofitting public buildings to make them energy efficient, rebuilding the nation's highways, renovating aging schools and installing computers in classrooms, extending high-speed, broadband internet to underserved areas and modernizing hospitals by giving them access to electronic medical records. While the transition team has offered no estimate of the recovery package, it is speculated that

[1] Information for this article was gathered from the Obama Transition website, newspaper articles, President-elect Obama's press conferences, and conversations with individuals close to the Obama labor transition team. Opinions expressed in this article are entirely the author's and do not necessarily reflect the opinions of the Upjohn Institute or the Board of Trustees of the W.E. Upjohn Unemployment Trust Corporation.

the price tag could be between $400 billion and $500 billion and may be as high as $850 billion over two-years. Governors, who recently met with Obama, estimate that there are $136 billion worth of projects that are ready to go once the money is appropriated and released to the states. Many of these projects are designed for a dual purpose—to create jobs and put people back to work and to invest in the long-run productivity and prosperity of the country.

The proposed massive investment in public infrastructure, possibly the largest since the construction of the federal interstate highway system beginning in the 1950s, is intended to be part of a broader effort to stimulate economic activity. Another proposed job creation initiative is a jobs creation subsidy to business, referred to as the New American Jobs Tax Credit. Similar to programs initiated two decades ago, it would give existing businesses a $3,000 refundable tax credit for each additional full-time employee hired. For example, if a company that currently has 10 U.S. employees increases its domestic full time employment to 20 employees, this company would get a $30,000 tax credit -- enough to offset the entire added payroll tax costs to the company for the first $50,000 of income for the new employees. Based on evaluations of previous job subsidy programs, the Upjohn Institute estimates that the program could increase US payrolls by 1.3 million workers per year at a cost of $26 billion, or less than $20,000 per job.[2]

Improve the Nation's Competitiveness

Obama also proposes a longer-run agenda of investing in the country's future. One initiative is to invest in a clean energy economy by spending $150 billion over the next 10 years to advance the next generation of biofuels and fuel infrastructure, accelerate the commercialization of plug-in hybrids, promote development of commercial scale renewable energy, invest in low emissions coal plants, and begin transition to a new digital electricity grid. They expect that this would create 5 million jobs over the next decade. Also included in the package is a proposal to provide tax relief for small businesses and start-up companies.

Other proposals to enhance the economy's productivity focus on the manufacturing sector. Obama's economic advisors see manufacturing as an important sector of the U.S. economy that needs to be strengthened if the U.S. is to maintain and improve its standing in the world economy. They propose to double funding for the long-established and successful Manufacturing Extension Partnership (MEP). MEP works with manufacturers across the country to improve efficiency, implement new technology and strengthen company growth. This highly successful program has engaged in more than 350,000 projects across the country and in 2006 alone, helped create and protect over 50,000 jobs.

Another proposed initiative is to invest in the next generation of innovators and job creators by creating an Advanced Manufacturing Fund to identify and invest in the most compelling advanced manufacturing strategies. The Fund will have a peer-review selection and award process based on the Michigan 21st Century Jobs Fund, a state-level

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[2] Timothy J. Bartik, "The U.S. Economic Crisis and a Revised New Jobs Tax Credit," October 16, 2008, W.E. Upjohn Institute website, www.upjohn.org, accessed December 19, 2008.

initiative that has awarded over $125 million to Michigan businesses with the most innovative proposals to create new products and new jobs in the state. Completing these programs are proposals to make the research and development tax credit permanent and to create a national network of public-private business incubators.

Unemployment Insurance and the Workforce Development System

While measures to stimulate the economy take center stage in the Obama employment policy, other programs designed to help the jobless also need attention. Two such programs are the unemployment insurance system and active labor market programs, specifically job training and the employment service. There is broad consensus that the 73-year-old unemployment insurance system is in need of reform. Established in 1935 as part of the Social Security Act, the unemployment insurance system was intended to provide short-term financial assistance for full-time workers who temporarily lost their jobs for no fault of their own. The system is intended to be self funded by levying a small tax on the earnings of workers. Employers benefit because they have a workforce readily available when the economy improves, and employees benefit by receiving a portion (initially intended to be half) of their lost wages to tie them over until they are rehired. Seventy-three years later the structure of the economy has changed with a much larger percentage of workers employed in non-manufacturing, a more mobile labor force, and a greater number of part time and contract workers, all of which the system is less equipped to accommodate.

Furthermore, the funding system has deteriorated as some states are reluctant to build up their reserves during prosperous times and thus do not have the funds to payout benefits during economic downturns. Currently, Michigan has depleted its reserves and must borrow from the federal government to meet the demands on their system. Other states are likely to follow. In addition, many believe that the length and amount of benefits are insufficient to sustain many laid-off workers. Regular benefits typically extend for 26 weeks and make up on average about 36 percent of lost wages. This amount is supposed to supplement other personal resources an unemployed person can draw upon during short-term joblessness, since the average weekly benefit of $262 (in 2004) was 10 percent below the poverty level for a family of three. Of course, the current drop in the stock market and other financial assets has left workers' savings in shambles, and this source is much less of an option.

So far, Obama has not proposed much more than extending benefits for 13 weeks to those who have already exhausted the regular 26 weeks of benefits and to temporarily suspend taxes on unemployment insurance benefits as a way of giving more relief to families. Few administrations have been willing to undertake a full-scale revamping of the unemployment insurance system, and Obama may not be ready to divert attention away from more immediate concerns. However, the need to plug the holes in the jobless worker's only government-provided safety net is becoming ever more pressing. As the economy continues to deteriorate, it is critical to maintain the unemployment insurance system, since it is the front line of recession fighting, helping to preserve some level of acceptable living standard for the unemployed and in turn offering another stimulus to the economy. Prior to their appointment as Obama's top economic advisers, Lawrence

Summers and Peter Orszag recommended reforms to the unemployment insurance system that include wage insurance, which would offer a subsidy to workers who are reluctant to take a job that pays less than their previous one. Proponents of this approach argue that the wage supplement would encourage workers to return to work sooner by offering higher wages. They also point out that as global competition continues to restructure the U.S. economy, sending high paid manufacturing and other "export" related jobs overseas, the prospects of workers returning to jobs that equaled their previous compensation has diminished. Often a displaced worker is required to take a job in other field, and it is argued that a wage subsidy is necessary to entice workers back into the workforce so they can gain the on-the-job training and experience necessary to advance in their new careers.

The Workforce Investment Act (WIA) was enacted in 1998 and has been the mainstay of the nation's system of providing training and other employment services, besides labor exchange services, for the past decade. During that time, funding for the system has declined and the ability of the system to provide the integrated training and job search assistance mandated by the legislation has diminished. Congress has attempted to reform the program but has succeeded only in extending the existing program. The system is based on a few basic principles. First, the system relies on locally driven strategic planning to meet the needs of businesses and job seekers. This is achieved through a partnership among federal, state, and local government entities, with much responsibility for designing and delivering services devolved to state and local entities. In addition, the system encourages partnerships with local educational institutions, and workforce development entities, which helps to leverage public funds with private funds. Second, the system is business driven, giving businesses a prominent leadership role in local workforce investment boards. Third, the system offers universal access to core services and the integration of services through one-stop service centers.

One of the primary concerns with WIA is the decline in funds for job training. As the economy continues to restructure, in part because of the increased globalization and the current economic crisis, the mismatch between worker skills and employer needs must be addressed in order to provide employment opportunities for workers and future competitiveness for the country. The Obama transition team has advocated increasing WIA funding, but they have not weighed in on WIA reform, per se. They have, however, addressed the need to reform another training program, the Trade Assistance program. It is designed to provide training to workers who are displaced because of foreign competition. It is a smaller but more generous program than WIA, but still has several similarities. The Obama transition team has discussed plans to modernize the Trade Assistance Act (TAA) by creating flexible education accounts to help workers retrain, and to expand retraining assistance for workers in sectors of the economy vulnerable to dislocation before they lose their jobs. The Bush Administration instituted training accounts, through a voucher system, under WIA. It appears from their stance regarding the Trade Assistance Act that the Obama team might advocate continuing that approach for WIA and expanding it to TAA.

In addition, Obama has indicated a strong desire to further encourage partnerships among workforce development, economic development and educational institutions in order to better align their efforts to serve business and workers. This may indicate that he would be in favor of continuing in some modified form programs such as WIRED, Workforce Innovation in Regional Economic Development, which the U.S. Department of Labor has funded to encourage regional workforce development, economic development and educational institutions to work closely with businesses to help identify their needs and design programs to effectively address them. The federal program has been patterned after programs in several states, such as Michigan's Regional Skills Alliance, which is a regional-based initiative to bring key stakeholders together to address the needs of workers and employers in a specific sector within their area. In particular, the transition team has stressed the need to bring the community college system more in line with the workforce development system.

Funding for the Employment Service (ES) has been drastically reduced under the Bush Administration, even more so than the WIA programs. The ES celebrated its 75th anniversary in 2008, another labor program that grew out of the Great Depression. Its initial purpose was to direct the masses of jobless workers into public works programs. With Obama's massive infrastructure program set to be launched, it's equally important to have a system to direct the currently unemployed into those jobs. Funding for labor exchange and job search assistance services should, therefore, be increased. An evaluation of the ES shows that it is a cost-effective means of getting people into work.[3] Yet, the effectiveness of ES has suffered in recent years with its decoupling from the UI system. As telephone and internet claims processing has become increasingly popular, fewer UI benefit recipients are required to physically visit the ES offices and use their resources. In addition, the requirement for active job search has been loosened since a physical appearance is not mandated. These and other issues need to be addressed to restore the ES system as a viable element of the nation's workforce system. Yet, little indication has come from the Obama team as to the importance they place on ES and what they intend to propose as a way of rebuilding the program.

It is also clear, although not specifically stated by Obama's transition team, that the mounting federal budget deficit resulting from the recession, the cost of the recovery packages, and the continued commitment to military expenditures, leaves little resources for workforce development efforts. Therefore, the new administration will need to stress efficiency in these programs. One approach is to be more targeted in program design and delivery, attempting to tailor programs to the needs of specific individuals, or groups, instead of providing "one-size-fits-all" programs that spread resources over a broad group of participants with diverse needs. One such approach is the Worker Profiling and Reemployment Services system (WPRS), which was enacted in the 1990s as an early warning system that identifies UI recipients who are likely to exhaust their 26-weeks of regular benefits. By identifying these individuals early not later in their unemployment spell, they can be directed to reemployment services that can get them started on finding a new job instead of waiting for their benefits to end before looking. There have also been attempts to experiment with other systems to target resources. Georgia set up a pilot

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[3] Jacobson, Louis and Ian Petta, 2000. "Measuring the Effect of Public Labor Exchange Referrals and Placements in Washington and Oregon." OWS Occasional Paper 2000-06. Washington, DC: US Department of Labor, Office of Workforce Security, Employment and Training Administration.

that used statistical means to help front-line staff in their One-Stop service centers identify WIA services that could best meet the needs of their customers based on evidence of what worked for customers with similar attributes and employment histories.

Workplace Relations

President-elect Obama has also promised to reform workplace relations and help balance family life and work. Probably the most controversial of these proposals is the Employee Free Choice Act, which Obama supported as a Senator when it was brought to vote in the Congress. The Act changes the voting process by which unions certify representation in a workplace. Currently, the National Labor Relations Board will certify a union as the exclusive bargaining agent if it is elected by either a majority signature drive or by a secret ballot election if 30 percent of the workers in a bargaining unit sign statements asking for representation by a union. The Act, if passed, would amend this procedure by requiring the National Labor Relations Board to certify a union if the majority of the bargaining unit employees signed cards, eliminating the need to hold an election and the use of secret ballots. In addition, the Act allows for federal mediation, which could lead to binding arbitration, if the union and the employer cannot agree upon the terms of the first contract within ninety days. The House passed this bill, but the Senate has not. The unions, who were strong supporters, are squarely behind this amendment, citing that it is a more efficient and fairer system of certification which they believe will level the playing field in their attempts to establish bargaining units in businesses. Many employers oppose the bill because they believe that without a special election and a secret ballot, union organizers do not need to make public their intentions of establishing union representation and they may coerce workers into signing cards. In addition to the Employee Free Choice Act, Obama has supported a ban on employers from replacing striking workers with permanent workers and in preventing workers from unionizing by classifying them as supervisory employees.

Another workplace issue is the expansion of mandatory paid sick leave. President-elect Obama supported the Healthy Families Act, which required employers with more than 15 employees to offer seven paid sick days per year, when it was considered by the Senate, and he is likely to support legislation to this effect early in his administration. Other measures that the President-elect has endorsed to help balance work, personal needs, and family include encouraging states to adopt paid-leave by setting up a $1.5 billion fund to help defray the costs incurred by businesses, promoting flexible work arrangements such as work-sharing and telecommuting, protect workers from discrimination as caregivers, and expanding the child and dependent care tax credit.

Implementation

The likelihood that many of these measures that President-elect Obama and his team have proposed may be implemented has been greatly increased by the Democratic Party’s dominance of both houses of Congress. Still, the deep recession and the large federal budget deficit will undoubtedly leave little money for programs that are not directly tied to an immediate stimulus package. And even then, we have seen symptoms of “bailout fatigue” in the deliberations of the current Congress, and if the economy sinks deeper into recession that attitude is likely to permeate into the next Congress. Therefore, given the current crisis and the urgency to get the economy back on its feet, the country will probably have to wait until later in President-elect Obama’s four-year term before he has the time and resources to turn to more deep-rooted reforms in the unemployment insurance system, the workforce system, and health care.