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# The Wagner-Peyser Act and U.S. Employment Service: Seventy-Five Years of Matching Job Seekers and Employers

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# **The Wagner-Peyser Act and U.S. Employment Service: Seventy-Five Years of Matching Job Seekers and Employers**

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# **The Wagner-Peyser Act and U.S. Employment Service: Seventy-Five Years of Matching Job Seekers and Employers**

## **Executive Summary**

### Executive Summary

The U.S. Employment Service was established 75 years ago by the Wagner-Peyser Act in response to massive unemployment during the Great Depression. The Employment Service (ES) started as an agency to refer unemployed to extensive public works programs established under the New Deal. It has evolved over the years to meet changing economic and labor market challenges facing the nation. The ES has weathered social, economic, and political storms, and the federal-state partnership faces new challenges in the coming years.

### Services and Customers of the Employment Service

Employment services provided with Wagner-Peyser Act funding are available to all job seekers and employers. About 19 million people register for job search with the ES each year, and the number receiving services is even higher since not all users are required to register. Each year the ES serves more than 200,000 employers who report more than seven million job openings to state ES agencies around the country.

The ES provides any job seeker with self-assisted services such as Internet-based job postings, resume preparation, and skills assessment tools; it provides registered job seekers with access to resource rooms with more computer aids and staff assistance as well as individualized screening, job matching, and counseling. The ES serves employers by listing job vacancy orders, sending referrals of suitable job candidates to fill vacancies, and providing information on local labor market activity.

### Role of the Employment Service in Job Matching

Among unemployed job seekers, 19 percent use the ES. This rate is double the proportion using private, for-profit employment agencies. The ES is used more often by job seekers who are African American or Native American, 25 years of age or older, have at most a high school education, live in mid-sized cities, and are members of families with annual incomes less than \$15,000.

In a recent survey of employers, 30 percent responded that they use state ES agencies to find workers. Adding referrals from community-based non-profit agencies raises the proportion of employers who hire through public agencies to 50 percent. Additionally, larger businesses (those with more than 500 employees) were more than twice as likely to recruit through the ES as smaller businesses (those with 1 to 20 employees).

The Employment and Training Administration (ETA) of the U.S. Department of Labor assumed a key role in updating the ES in the 1990s, particularly with response to the use of the Internet. It sponsored and guided the development of an Internet-based job matching system, within which job seekers could post their resumes and employers job vacancies. Career development tools and labor market information were also available on those sites. In the past few years, however, ETA has reduced its involvement with Internet-based job matching, and the National Association of State Workforce Agencies (NASWA) has stepped up to continue these services. NASWA has entered into an agreement with DirectEmployers Association (DEA), a non-profit association of 475 employers 90 percent of whom are Fortune 500 companies, to create Job Central National Labor Exchange (NLX). Job seekers can use JobCentral-NLX ([www.jobcentral.com](http://www.jobcentral.com)) to link directly with human resources departments within these major employers. To date, 47 states have signed participation agreements with DEA. The ES agencies in these states can set up processes to upload job vacancy listings for any employer to JobCentral-NLX. The remaining states are expected to sign on, and systems for job matching are being continuously improved within JobCentral-NLX.

### Financing the Employment Service

Funds for Wagner-Peyser services are collected annually by the Federal Unemployment Tax Act's (FUTA) levy of 0.8 percent on the first \$7,000 of UI covered employment. Eighty percent of that money is earmarked by law for UI administration and Wagner-Peyser Act services. These FUTA revenues are deposited into the Employment Service Administration Account (ESAA) in the federal Unemployment Trust Fund.

The annual discretionary funding appropriation from ESAA by Congress for the ES has remained relatively constant (in current dollars) over the past two decades. With stagnant funding and inflation since 1984, real funding has declined by 49.1 percent. The 2008 Wagner-Peyser Act appropriation of \$703 million falls \$678 million short of the level of funding for ES in 1984, after adjusting for inflation. Meanwhile states have revealed a high value for ES by adding a 25 percent state-financed supplement to Wagner-Peyser Act programs, and by the fact that 70 percent of states chose to use 2002 Reed Act distributions for ES services and administration.

### Interaction with Other Public Workforce Programs

The ES is closely linked with Workforce Investment Act programs and the Unemployment Insurance system, while still preserving its independence as a separate authorization and distinct funding source. The Workforce Investment Act (WIA) of 1998 required ES to be a full partner in state one-stop delivery systems. By federal regulation there must be at least one comprehensive one-stop career center in every Workforce Investment area. Additionally, every comprehensive one-stop center must include 12 specific partners co-located at one physical location in the WIA area. The ES is a compulsory, foundation partner in all comprehensive one-stop centers, while five additional partners are optional. As ES funding has stagnated, the number of both comprehensive and affiliate one-stop centers has declined. Since 2002, the number of comprehensive offices has declined 10 percent, and affiliate offices have

declined more than 25 percent. These reductions are most likely related to the reductions in real funding for ES.

In addition to interacting with other safety net programs in one-stop centers, the ES has a special role with the Unemployment Insurance (UI) system, through job finding and placement services for beneficiaries and in conducting work-test assessments of UI recipients. In addition to administering the UI work test, the ES is the lead agency for the UI program of Worker Profiling and Reemployment Services (WPRS) by providing required reemployment services in three-quarters of all states and cooperating in WPRS service delivery in all other states.

The interactions between the ES and the UI system have weakened. Although all states are mandated to implement WPRS, a substantial number are lax in administering the program in a way that effectively links UI and ES. Further undermining this connection between UI and ES is the recent and widespread practice of allowing jobless workers to file UI claims by telephone voice response or on the Internet without the need to visit the UI office. These practices isolate the ES from its customer base and leave UI beneficiaries without an immediate in-person contact to begin their job search and use reemployment services available at ES offices.

Integrating ES more closely with these programs, while generating benefits for the customers, may jeopardize adequate funding for its services. The problem may be that by losing its identity as a separate program, it may also lose its supporters for future Congressional appropriations.

#### Effectiveness of the Employment Service

National and state-specific evaluations find that job placements through ES referrals shorten unemployment durations and are likely to raise reemployment earnings compared to the outcomes of similar unemployed job seekers not receiving ES referrals. Additionally the cost per referral is quite low, so the most basic ES service is highly cost effective.

By performing the work test for UI beneficiaries, the ES promotes quicker return to work. Research based on comparison group design suggests that if the work test were more thoroughly applied and monitored, the reemployment gains would be even larger. The collected estimates suggest that average UI durations could be at least 0.75 weeks shorter. If applied nationwide this would yield more than \$2 billion annually to serve other jobless workers. Randomized trials removing the work test suggest that benefit year durations of insured unemployment would rise more than three weeks on average, costing the UI system and employers more than \$10 billion annually.

Targeting ES job search assistance (JSA) to UI beneficiaries at greatest risk of long-term unemployment has been found to shorten unemployment durations by at least half a week and by as much as 2.2 weeks. Because targeting is an equitable and automated process, targeted JSA is no more costly to provide than other ES services. The average cost per ES participant has been estimated in the neighborhood of \$330. This is less than one-tenth the cost per participant in the usual WIA job-skill training program.



Results from performance measurement of ES services are more difficult to interpret than evidence from comparison group-designed evaluations. When employers contact the ES to fill a job vacancy, they typically request that more than one job candidate be referred. A placement rate of one-third may be evidence of a perfectly functioning system. However, compared to placement rates for training programs, ES performance may appear disappointing. It is also important to recognize that gross outcome measures do not account for the characteristics of participants in the same way that comparison group designs do. Methodologies to adjust measured performance for labor-market and customer characteristics should be adopted.

## Conclusion

Job search assistance and other services provided by the ES have been shown repeatedly to reduce the length of spells of unemployment and even to increase earnings. The UI work test and ES services are proven ways to get the unemployed back to work. These services yield more earnings for families and place less strain on employer-financed reserves for the UI system.

The questions going forward are these: How will these services be delivered? Will they continue to be offered free of charge through a publicly supported job-search assistance program, or will they be privately provided for a fee from a private vendor? Will the ES remain distinct from WIA, or will it be merged financially and programmatically?

Job-search assistance should be delivered as a seamless service within an array of one-stop services, since JSA and access to labor market information is crucial in finding a job, which is the ultimate goal of the public workforce system. Therefore, ES must continue to cooperate and collaborate, not compete, with other programs and private entities, while ensuring the web-based market for jobs is as comprehensive as possible. Often, ES is the job-finding choice for those least able to afford more expensive job-finding providers or who have special needs, and for these reasons it seems that public policy should continue to support a public ES agency.

Most developed countries have employment policy strategies supported by three main pillars: unemployment compensation, active labor market programs, and a public employment service. Unemployment compensation is an earned entitlement available to those who are jobless through no fault of their own. Active labor market programs such as job skill training, direct job creation, and wage subsidies are discretionary programs which may be expanded or contracted by timely political action as the needs of the workforce and the aggregate economy dictate. The public employment service is a free and open system available to all citizens, unemployed or not, with a statutory funding stream to ensure stability of the service in good times and bad. A public employment service helps to bridge the informational gap between job seekers and employers to support a competitive labor market and foster economic growth.

Current American programs for discretionary active labor market policy are operated under WIA. Any renewal of WIA or a successor program should respect the distinct funding stream for Wagner-Peyser ES programs established by the Federal Unemployment Tax Act (FUTA) in 1939. Additionally, new attention should be focused on the taxable wage base

covered by FUTA and the process for setting annual appropriations from the Employment Security Administrative Account in the Federal Unemployment Trust Fund. Since the effectiveness of the Reed Act as a lever for adequate UI administration and ES financing has diminished, a reexamination of the Reed Act is also order.

# **The Wagner-Peyser Act and U.S. Employment Service: Seventy-Five Years of Matching Job Seekers and Employers**

## **1. INTRODUCTION**

Three months after taking office as president, Franklin D. Roosevelt on June 6, 1933 signed into law the Wagner-Peyser Act establishing a nationwide network of public employment service (ES) offices.<sup>1</sup> The ES played a key role in economic recovery from the Great Depression by referring jobless workers to available private sector jobs as well as to newly created public works and public service jobs.

Today, the national ES network includes other workforce and social programs located at some 3,000 full-service and partial-service One-Stop Career Centers. The ES continues to serve as the foundation for the national One-Stop delivery system established by the Workforce Investment Act of 1998.<sup>2</sup> Over 15 million job seekers and employers receive services from the ES every year—more than from all other publicly funded employment and training programs combined. The high volume of services delivered, together with their success in promoting employment and their relative low cost per participant, mean that ES is a cost-effective public enterprise.

Employment services provided through Wagner-Peyser Act funding are available to all workers—those with jobs looking for better career opportunities, those who have lost their jobs and are seeking reemployment, and those seeking employment for the first time. About 19 million people register for job search with the ES each year, and the number receiving services is even higher since not all users are required to register. Three tiers of services are available for job seekers: 1) self-assisted services such as internet-based job postings, resume preparation, and skills assessment tools; 2) facilitated self-service, which includes access to resource rooms with more computer aids and staff assistance; and 3) staff-assisted services, such as individualized screening, job matching, and counseling. The ES serves employers by listing job vacancy orders, sending referrals of suitable job candidates to fill vacancies, and providing information on local labor market activity. The ES also assists unemployment insurance (UI) agencies in providing job finding and placement services and in conducting work test (i.e., labor market availability) assessments of UI recipients.

This paper provides an overview of the public labor exchange system in the United States, how it came to be, and where it is going. The paper begins by offering a brief history of the development of the U.S. Employment Service, emphasizing the federal-state partnership that has evolved over time and highlighting the differing priorities Congress has placed on the services funded under Wagner-Peyser Act. It then examines the ways workers search for jobs

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<sup>1</sup> This paper relies on chapters in the book edited by Balducchi, Eberts, and O'Leary (2004).

<sup>2</sup>The Wagner-Peyser Act was revised by WIA (1998) to have ES offices serve key roles in one-stop career centers. [http://www.doleta.gov/Programs/w-pact\\_amended98.cfm](http://www.doleta.gov/Programs/w-pact_amended98.cfm)

and employers recruit employees. It also shows the role the ES plays in this job matching process. The complementarity between ES services and the broader workforce development system is then examined. Systems for ES performance measurement and the results of impact evaluations of ES services are then reviewed. The paper concludes with a summary and list of challenges facing the ES.

## **2. A BRIEF HISTORY OF THE U.S. EMPLOYMENT SERVICE**

Free public employment services originated in Europe (Guzda 1985). The concept can be traced to 1563 when English trade unions were charged by Queen Elizabeth I with placing apprentices in jobs. An employment service role was given to faith-based institutions by the English Poor Laws of 1601, which assigned church parishes the duty of job placement for the poor until 1834, the beginning of the Industrial Revolution.

Some American labor unions with European ties operated hiring halls before 1890, but the first public employment offices opened that year in five major Ohio cities (Guzda 1985). These public employment offices served many unskilled immigrants and internal migrants who might otherwise have had to pay fees to secure employment (Lee 2007). The Minnesota employment commissioner reported in 1892 that “men paid \$2 and women 25 cents just to apply for jobs at private agencies, and if a worker was hired the employer paid the agency an additional \$1” (Guzda 1985, p. 13). The U.S. Immigration and Naturalization Service operated a free placement service for immigrants starting in 1907 (Witte 1923). Problems with fee-charging employment agencies led the International Labor Office (ILO) to adopt conventions against them, and to support establishment of public employment services (ILO 1919, 1948). In a 2008 legal settlement, 159 of the 335 licensed private employment agencies in New York City admitted breaking laws meant to protect job seekers (Hess 2008). Violations included refusal to refund application fees, which typically run about \$40 per job. New York State regulates placement fees by occupation. For example, chambermaids and domestic workers can be charged up to 10 percent of their first month’s earnings on a new job.

An agency named the U.S. Employment Service (USES) was first organized in 1918 to recruit manufacturing workers for a military buildup during the Great War. Before that, President Wilson had begun to build a federal network of local ES offices, and it grew to 350 offices and 2,000 staff members, but federal funding withered soon after the armistice and the USES declined (Balducci, Johnson, and Gritz 1997, p. 459; Guzda 1983, p. 15). Congress refused to continue emergency funding levels in March 1919, but many individual states continued to provide financial support. In 1923 Wisconsin outspent the federal government on the ES in the state by a ratio of 30 to 1 (Witte 1933).

Recalling her efforts to enroll unemployed participants for the newly created Civilian Conservation Corps, Labor Secretary Frances Perkins described the 1933 revitalization of the federal-state ES, saying,

“I had just told [President Roosevelt] that the Employment Service was practically non-existent although its name was still on a letterhead . . . We were trying to assist in the passage of the Wagner-Peyser bill in Congress, which in time would make an effective agency out of the service He said, ‘Resurrect the Employment Service right away’ . . .” (Perkins 1946, p. 178-179).

The Wagner-Peyser Act created a network of high-quality ES offices operated with federal funding and national standards for merit-rated professional staff. It improved labor market performance by providing free information to job seekers and employers who might otherwise resort to costly profit making job market intermediaries.

The expansion and long-term improvement of the ES is related to provisions in the Social Security Act of 1935 establishing unemployment insurance (UI) and financing mechanisms for both ES and UI administration.

## **2.1 The Wagner-Peyser Act**

The Wagner-Peyser Act provided federal funds to transform an uneven collection of state and local ES offices into a unified system with consistent operating procedures nationwide and the ability to meet a mounting surge of unemployment. In the early years these offices acted primarily as a placement agency to refer applicants to public-sector jobs. The Wagner-Peyser Act addressed the four main responsibilities of a public labor exchange (Thuy, Hansen, and Price 2001, p. 27). These require that each state shall administer a labor exchange system that has the capacity to

1. facilitate the match between job seekers and employers,
2. provide labor market information to job seekers and employers,
3. make appropriate referrals to related employment and training programs,
4. meet the work test requirements of state unemployment compensation systems.

Although its mandate was broader in providing free services to everyone looking for gainful employment, the lack of private-sector jobs during the Great Depression relegated the ES to placing workers in public works programs, such as the Works Projects Administration (WPA) and the Civilian Conservation Corps (CCC). In essence, the Wagner-Peyser Act set up a federally directed, state-run system of public employment offices (Balducchi and Pasternak 2004). During the Great Depression, ES placed 26 million workers in jobs (Balducchi, Eberts, and O’Leary 2004, p. 250). As the economy gradually improved, the focus of the employment service also changed. Thus began the evolution of the federal-state partnership in providing labor exchange services to U.S. workers, which continues to change even today.

## **2.2 Evolution of the U.S. Employment Service**

A synopsis of the evolving programmatic framework in which federal employment and training programs have addressed the key functions of public employment service in the United States is given in Table 1. As a companion to the intergovernmental approach to federalism

authorized under the Wagner-Peyser Act, Title III of the Social Security Act of 1935 also established a federal-state UI program and directed that benefits be paid through public employment offices or other agencies. This role brought the ES into partnership with the UI program. In order to receive UI benefits, in almost all states, a worker must be actively searching for work and willing to accept a suitable job offer. Staff members were asked to help job seekers find jobs that met their preferences and offered the best match, but they were also required to report workers to the UI system who failed the work test by not accepting a referral or a job offer, even though it might not be the preferred match. This structural relationship between ES and UI has prevailed over its entire history. In recent years, the work test may have weakened somewhat as states have implemented phone and Internet UI claim-taking, and as ES service delivery staffing levels have declined while funding has stagnated (O’Leary 2006).

**Table 1 Evolution of U.S. Programs Delivering the Four Functions of Labor Exchange Services**

Federal programs	Functions of Labor Exchange Services			
	Job brokering	Labor market information	Labor market adjustment programs	Unemployment compensation
Wagner-Peyser, 1933	Job placement in private jobs		Job placement in public works	
Social Security Act, Title III, 1935				Eligibility determination and benefit payments
Post-World War II changes	Priorities on placing veterans, dislocated workers, youths, older, and disabled			Administration of the UI work test
Area Redevelopment Act, 1961		Expanded role in collecting labor market information	Training programs in depressed areas	
Manpower Development and Training Program, 1962	Redirected emphasis to disadvantaged workers		Increased role in job training and human resource development	
Comprehensive Employment and Training Act, 1973	Started to devolve activities to states			Worker Profiling and Reemployment Services system established in 1994
Job Training Partnership Act, 1982				
Workforce Investment Act, 1998	Universal access to core employment services	Enhanced the system for labor market information	Integrated reemployment and training programs	

Source: Eberts and Holzer (2004).

The ES underwent another transformation after World War II. With 12 million war veterans returning to civilian life and the economy shifting from war production to civilian operations, the ES was asked to turn its priorities to finding jobs for veterans and for those

workers who were displaced by the transition (Balducchi, Eberts, and O’Leary 2004, p. 251). Instead of focusing on universal access to ES services, the ES targeted veterans and civilian workers whose skills or age made it difficult for them to find work in the new economy. By the mid-1950s, preferential treatment was expanded to youth, older workers, and the disabled (Balducchi, Johnson, and Gritz 1997). During this same period, the ES took on another compliance role by certifying foreign workers and showing that the admission of foreign workers would not harm the employment opportunities or wages of domestic workers.

During the decade of the 1960s, which ushered in sweeping programs for the economically disadvantaged under the Great Society legislation, the ES became involved through partnerships in two additional services—job training and labor market information. Both initially came about with the enactment of the Area Redevelopment Act in 1961. This legislation first required the state ES agencies to help establish training programs in depressed areas. Furthermore, in order to determine which areas qualified for the services, the legislation also mandated that the ES collect information on unemployment levels by labor market areas. The role of the ES in providing job training and an even broader array of human resource development services to the disadvantaged was reinforced with the passage of the Manpower Development and Training Act in 1962 and the Economic Opportunity Act in 1964.

Reliance on the ES to provide an integrated set of services to the economically disadvantaged was short-lived, however. Within a decade, the institutional structure of providing services moved toward local design and delivery of employment and training programs. The Comprehensive Employment and Training Act (CETA), passed in 1973, established a nationwide network of local entities to design and administer training programs for the economically disadvantaged and for dislocated workers. The role of the ES was not well defined in this new system, and consequently the ES returned to its primary function of referring applicants to job openings and assisting UI claimants.

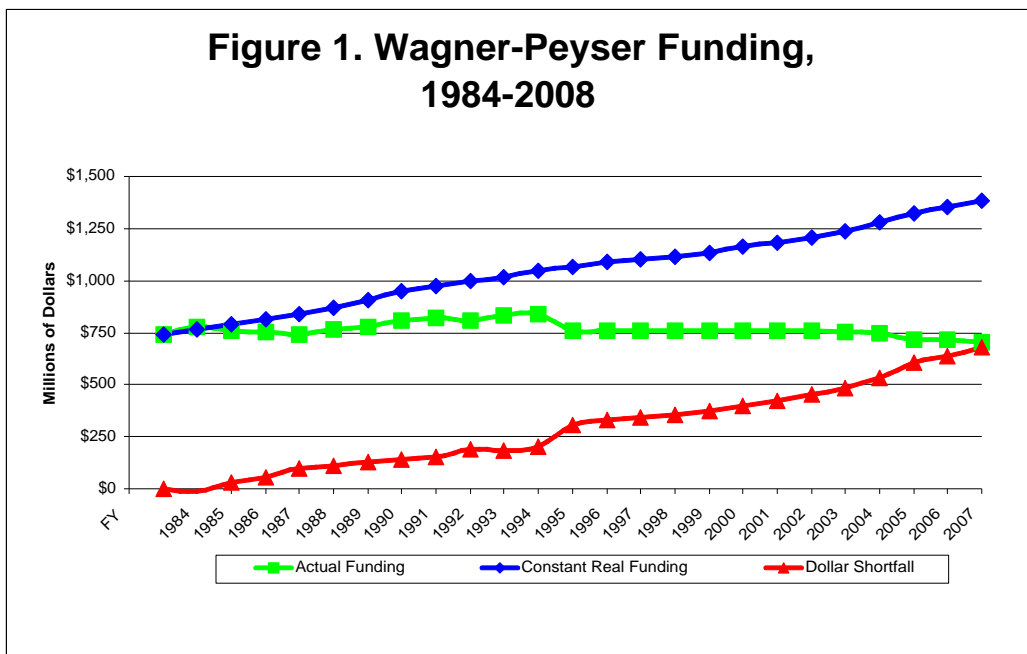
A decade later, the Job Training and Partnership Act (JTPA) further decentralized responsibility for training. This time, the legislation was more explicit about the role and structure of the ES by amending the Wagner-Peyser Act to give states more authority in designing and administering ES services through federal special-purpose block grants. The direction of the ES during this period of decentralization increasingly placed it in the hands of state governments. Some states implemented innovative approaches to the delivery of services and the integration of ES labor exchange services with other reemployment services. Other states deemphasized the labor exchange role of the ES in assisting job seekers to find reemployment, stressing work-ready skills and self-initiated services instead of acting as mediators and advocates for workers in referring them to jobs.

### **2.3 Financing the Employment Service**

The Internal Revenue Code was revised in 1939 under the Federal Unemployment Tax Act (FUTA) to authorize the Internal Revenue Service to collect a federal employer tax, which would be used to fund state employment security agencies (later dubbed state workforce agencies). Employers in UI-covered industries pay FUTA taxes on taxable payrolls; employees

do not directly pay FUTA taxes. Eighty percent of FUTA tax revenues flow into the Employment Service Administrative Account (ESAA) to cover the costs of administering the ES and UI programs in all states; the remainder flow into the Extended Unemployment Compensation Account. From the ESAA an annual appropriation is made for ES administration, with the amount set at the discretion of Congress. Allocations to the states and territories are made by a formula specified in the Wagner-Peyser Act (USDOL 1998) and announced by the Assistant Secretary of Labor for Employment and Training. State allocations are two-thirds based on state shares of the national labor force and one-third based on the state shares of national unemployment.<sup>3</sup>

The discretionary funding appropriation for the ES has remained relatively constant (in current dollars) over the past two decades. Compared to 2007, the ES appropriation for 2008 declined by 1.75 percent in nominal terms. In the years since 1984, real funding has declined by 49.1 percent (Figure 1). The 2008 Wagner-Peyser Act appropriation set total funding for ES at \$703.4 million, which was \$678 million short of what it would have taken to keep ES funding at the real level of 1984 (Table 2).



<sup>3</sup>Wagner-Peyser allocations to Guam and the Virgin Islands remain at the amount of their shares in 1983, a year of relatively high unemployment.



**Table 2 Employment Service Public Labor Exchange Fiscal Year (FY) Allotments to States, 1984 to 2008 (millions of dollars)**

FY	Actual funding (\$)	GDP deflator (%)	Constant real funding (\$)	Dollar shortfall (\$)	Shortfall (%)
1984	740	--	740	0	--
1985	777	3.40	766	-11	-1.5
1986	758	2.70	787	29	3.7
1987	755	3.20	812	57	7.0
1988	738	3.00	836	98	11.7
1989	764	4.20	871	107	12.3
1990	779	4.10	907	128	14.1
1991	805	4.30	946	141	14.9
1992	822	2.90	973	151	15.6
1993	811	2.70	999	188	18.8
1994	833	2.00	1,019	186	18.3
1995	839	2.50	1,044	205	19.6
1996	762	2.20	1,067	305	28.6
1997	762	2.20	1,090	328	30.1
1998	762	1.20	1,103	341	30.9
1999	762	1.30	1,117	355	31.8
2000	762	1.50	1,134	372	32.8
2001	762	2.36	1,161	399	34.4
2002	762	1.91	1,183	421	35.6
2003	757	2.02	1,207	450	37.3
2004	752	2.60	1,238	486	39.2
2005	746	3.21	1,278	532	41.6
2006	716	3.31	1,320	604	45.8
2007	716	2.68	1,355	639	47.2
2008	703	1.93	1,381	678	49.1

Source: U.S. Department of Labor, ETA, Budget Office.

In recent years ES program responsibility has devolved to the states and local entities. The federal government has become less involved with labor exchange functions. The U.S. Department of Labor (USDOL) has assumed the limited role of providing technical assistance to states and monitoring compliance requirements for various programs. At the same time, overall funds for ES services declined; some states experienced more dramatic reductions, as the ES funding allocations to states were based on their shares of the national labor force and unemployment.

Some states have augmented federal funding for the ES through special assessments or by tapping UI funds (Balducci, Johnson, and Gritz 1997). As of 2008, supplementary ES funding was provided by 15 states (USDOL 2008, Table 2-17, pp. 2-31 to 2-32). Based on the annual NASWA survey of state employment security agencies, state supplementary spending on ES totaled \$187 million (NASWA 2008). This is evidence that state program administrators value ES programs for their customers.

Additional evidence about the value states place on the ES emerged from a NASWA study of state uses of the 2002 Reed Act distribution. The Reed Act passed by Congress in the 1950s set ceilings on the levels of funding held in the ES Administrative Account and other accounts in the federal Unemployment Trust Fund (UTF). If accumulated reserves in these accounts exceed the thresholds set as a percentage of total wages paid by UI covered employers, then a compulsory Reed Act appropriation is made to the states from these accounts. An \$8 billion Reed Act distribution was made in 2002. Of the 35 states responding to the NASWA survey, 25 used money from the 2002 Reed Act distribution to pay for ES services and program administration (Hobbie, Harris, and Langley 2004, p. 12). States demonstrated the high value they placed on ES by voting with their dollars to support the program with supplementary funding they could have chosen to use in several different ways. The Reed Act ceilings have become less binding rising from 0.33 percent of covered employers total payrolls in 1982 to 1.02 percent of covered payrolls today (Vroman 2008). Consequently the Reed Act incentive for adequate UI administrative and ES funding has diminished.

As funding in inflation-adjusted dollars to the ES declined, so did the delivery of key staff-assisted job-finding and placement services. Two reports mandated by Congress and prepared by the General Accounting Office, documented a decline in delivery of Wagner-Peyser Act services. The GAO (1990) report noted a significant reduction in the 1980s in the provision of one-on-one assistance, counseling, and testing. The report also revealed significant variation across local offices in placement rates as a result of state and local discretion over the design and administration of ES services. A subsequent GAO (1991) report expressed further concern about the decline in system performance and the variation in performance across states. It found that placement rates were better in states that focused on measurable goals and on-site evaluations. These studies echoed the growing frustration among ES staff and customers regarding the lack of funds and attention given to labor exchange functions.

Two-thirds of the federal appropriations for employment and training listed in Table 3 were for WIA programs. The ES received 14.5 percent of the total. During the second Bush administration, the Department of Labor proposed to Congress that Wagner-Peyser Act funding be combined with WIA Adult, WIA Dislocated Worker, and WIA Youth programs. However, Congress rejected this block grant approach for employment and training programs.

**Table 3 Federal Employment and Training Funding for Program Year 2008**

	Funding (\$)	Share (%)
WIA Youth	924,069,465	19.0
WIA Adult	861,540,083	17.7
WIA Dislocated Workers	1,464,707,055	30.1
Dislocated Workers Emergency Reserve	859,386,233	17.7
Wagner-Peyser	703,376,524	14.5
Workforce Information Grants	31,863,448	0.7
Work Opportunity Tax Credits (WOTC)	17,368,183	0.4
Total	4,862,310,991	100.0

Source: USDOL (2008c).

## 2.4 Federal Internet Job Search Solutions

The Employment and Training Administration (ETA) of the USDOL played a key role in revamping the ES during the mid-1990s. The ETA sponsored and guided the development of an Internet-based information system for labor exchange services. Beginning in the late 1970s, ES led development of an interstate job bank, which was connected to state ES job banks, and in February 1995 it was linked as America's Job Bank (AJB) to the Internet (Balducchi and Pasternak 2001). The CareerOneStop portal web site (formerly known as America's Career Kit) included nationwide electronic resume and vacancy databases, referred to as America's Talent Bank and America's Job Bank (AJB), respectively. Other job search services were also available through this website. In addition, America's Career InfoNet provided information about alternative occupations, including which occupations have the most job openings, the highest growth rates, the best wages, and the most employment. It also allowed job seekers to learn about the education and training requirements for an alternative occupation.

Development of these tools and other efforts to improve the coverage and effectiveness of the ES were included in the Workforce Investment Act (WIA) of 1998. The main philosophy behind the bill was the integration and coordination of employment services. Central to achieving this aim was the concept of one-stop centers, where providers of various employment services, including ES, are assembled in one location in every local labor market—in other words, every Workforce Investment Area. This arrangement was intended to coordinate delivery of employment programs and to meet the needs of job seekers and employers more effectively than the previous system.

On July 1, 2007, the seventh anniversary of WIA implementation nationwide, the USDOL suspended funding for AJB. On that date the AJB system was replaced by the Career One-Stop Internet site ([www.careeronestop.org](http://www.careeronestop.org)). This new system provides O\*Net-based tools for self-assessment of occupational skills inventory and exploration of related occupations and supplementary skill requirements. O\*Net is the new occupational coding system developed by USDOL to update the Dictionary of Occupational Titles (DOT) system previously used. The Career One-Stop Internet site permits job seekers to access separate state job banks, but it does not support a nationwide search for jobs by occupation through deep links between state job banks.

To provide a truly nationwide Internet-based job-matching system, NASWA entered into an agreement with DirectEmployers Association (DEA) to provide the JobCentral National Labor Exchange (JobCentral-NLX). The DEA is a non-profit association of 475 employers, 90 percent of whom are Fortune 500 companies. Job seekers using JobCentral-NLX ([www.jobcentral.com](http://www.jobcentral.com)) can link directly to the human resources departments of these major employers. At this one Internet site, job seekers can also search nationwide for job openings by O\*Net-defined occupations in the job banks of all affiliated employers and state employment agencies. Furthermore, employers who commonly receive federal government contracts can meet their Federal Contractor Job Listing (FCJL) requirement by posting vacancies on JobCentral-NLX. This capacity helps state workforce agencies meet their federal requirement to facilitate public job postings by employers who are federal contractors.

To date, 47 states have signed participation agreements with DEA. The ES agencies in these states can set up processes to upload job vacancy listings for any employer to JobCentral-NLX. The remaining states are expected to sign on, and systems for job matching are being continuously improved within JobCentral-NLX.

In many respects, WIA brought the ES full circle by returning its function to the original intent of the Wagner-Peyser Act, passed 75 years ago. Under WIA, the ES joins Title I service providers to provide a consolidated array of workforce development services through One-Stop Centers. Services under Title I of WIA are offered in three tiers: 1) core, 2) intensive, and 3) training. The core services include basic labor exchange and may be provided by the ES or by Title I adult and dislocated worker service providers. These services are available to all and may be either self-service or staff-assisted. Intensive services include activities that may require greater staff involvement, such as comprehensive assessment and case management. These services may be provided by Title I service providers or by the ES, as appropriate. Training services, provided by Title I providers, make up the third tier and require the most staff time. Job seekers access these services sequentially, moving from one tier to the next if they have not been successful in securing a job. While the first tier of core services is open to all job seekers and employers, only those who meet specific criteria, including lack of skills to qualify for a job, are eligible to receive Title I services in the next two tiers. Therefore, WIA may have restored the role of the ES in providing basic labor exchange services by enabling jobseekers to receive services without regard to core or intensive Title I eligibility criteria. At the same time, WIA consolidated these activities into a broader array of workforce development services.

## **2.5 Use of the Employment Service**

Public labor exchange services in the United States are delivered through a network of local offices that operate within a federal-state system.<sup>4</sup> The federal partner, the USES, cooperates with 54 state agencies to oversee the system. In addition to the 50 states, the network includes the District of Columbia, the Commonwealth of Puerto Rico, and the territories of Guam and the U.S. Virgin Islands.

The ES provides information to both the supply and demand sides of the job market, which can increase the speed of matches between qualified job seekers and employers wanting to fill specific job vacancies. By bridging the information gap and speeding matches, the level of economic activity and employment can be expanded faster than otherwise possible.

The Workforce Investment Act of 1998 required the ES to be a partner in One-Stop centers for public employment services in each workforce investment area around the country. Services offered at One-Stops are divided into three levels: core, intensive, and training. Services within each level are characterized by the amount of staff involvement and the extent to which customers can access the service independently. Core services typically have the broadest

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<sup>4</sup>This section relies on O'Leary (2004).

access and the least staff involvement of the three categories. Intensive services require a greater level of staff involvement and, consequently, access is generally more limited than for core services. Training services involve the highest level of service intensity and are open to job seekers by ES only through referrals.

The core services are the least costly to deliver and include most ES services; many are accessible on a self-serve basis. Table 4 provides an overview of ES service use during the 1999 program year, which extended from July 1999 through June 2000.<sup>5</sup> In that 12-month period at the end of the 1990s business expansion, 16.7 million people applied for public labor exchange services in the United States. Among those who applied, 65.5 percent received some reportable service; many others availed themselves of self-service activities, which go unrecorded.

The four categories of reportable services tracked by the USES (and their percentage use among applicants receiving some reportable service in Program Year 1999) are as follows: 1) referred to employment—sent to a job interview with an employer who listed a job opening (61.5 percent); 2) received job-search activities—resume preparation assistance, job-search workshops, job-finding clubs, provision of specific labor market information, and development of a job search plan (61.3 percent); 3) assessment services provided—assessment interview, employment counseling or testing (16.2 percent); and 4) referred to skills training—referred to any federal, state, or locally funded job skills training program (3.6 percent).

In nearly all states, UI claimants must register for job search with the ES in order to establish and maintain eligibility for weekly benefits. As indicated, this linkage between the UI and ES programs is part of the work test in UI, and it has been a key area of program cooperation and labor exchange evaluation research. Interventions that speed return to work by UI beneficiaries can generate significant savings in UI benefit payment expenditures.

Table 4 reports that in Program Year 1999 UI claimants made up 36.9 percent of ES customers. Columns 4 and 5 of the table display the number and percentages of UI claimants using various reportable employment services. Compared to all ES applicants, a smaller fraction of UI claimants actually received some reportable service (i.e., staff-assisted), suggesting either a somewhat grudging use of the ES or that less in-depth services were necessary for some claimants. However, 71.1 percent of UI claimants with some reportable service received job search activities, compared to 61.3 percent among all ES applicants.

The higher JSA usage rate may be due in part to the Worker Profiling and Reemployment Services (WPRS) systems that began operation in all states in 1996 (Wandner 2008). The WPRS identifies UI claimants who are not job-attached and are likely to exhaust their UI benefit entitlement, and quickly refers them to job search orientation and assistance. Benefit payments

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<sup>5</sup>Summaries of service activities are based on the report of ES activity for Program Year 1999 from July 1, 1999 through June 30, 2000 (U.S. Employment Service 2001). While the ES continues to operate with Wagner-Peyser Act funding, Program Year 1999 was the last report on annual program activity produced by the USES. Workforce Investment Act programs started July 1, 2000. Since that time there has been increasing coregistration of customers in ES and WIA. Disaggregated ES program statistics are no longer published.

are suspended for those profiled and referred who fail to report for job search. This targeted job search assistance is one of the evaluated program innovations discussed later in this chapter.

**Table 4 Public Labor Exchange Data for the United States Program Year (PY) 1999 (July 1, 1999 to June 30, 2000)**

	Applicants		Eligible UI Claimants	
	Number	Percent	Number	Percent
Total	16,708,228	100.0	6,165,645	100.0
Received some reportable service	10,944,034	65.5	3,417,600	55.4
Referred to employment	6,733,180	61.5	1,652,141	48.3
Received job search activities	6,704,938	61.3	2,428,242	71.1
Assessment services provided	1,777,295	16.2	659,725	19.3
Referred to skills training	395,589	3.6	173,779	5.1
Entered employment	3,601,620	32.9	1,116,840	32.7
Placed	1,771,107	49.2	359,366	32.2
Obtained employment	2,029,411	56.3	822,906	73.7

Source: U.S. Employment Service (2001). This is the last year which such data are available.

The bottom rows of Table 4 are a type of gross outcome performance monitoring data. The outcome definitions are specific to the ES. “Entered employment” is the number of UI claimants who become employed after having received a “reportable service.” A “job placement” occurs when someone begins employment after being referred for a job interview. Those who “obtained employment” had received some reportable service other than direct referral to a job opening. When interpreting these results, it should be noted that most employers who solicit job seeker referrals from the ES require that more than one candidate be sent for an interview. In the absence of such employer requests, the placement rate would probably be much higher.

Establishing UI benefit entitlement requires a significant level of recent employment and earnings. It means that UI beneficiaries have a higher degree of prior labor force attachment than other ES applicants. These two factors might explain the higher obtained employment rate and lower placement rate among claimants compared to nonclaimants. Employer attachment may make new job offers less attractive, and obtained employment counts probably include return to prior employers or occupations even after receiving some reportable service. However, the focus of this chapter is on comparison-group design evaluations. As stated in the introduction, the bulk of comparison group studies of labor exchange services have occurred in three areas: job interview referrals, job search assistance, and targeted job search assistance. The latter two of these have focused on UI claimants but are believed to have broad applicability.

## 2.6 Customers of the Labor Exchange<sup>6</sup>

The labor exchange serves both sides of the job market: job seekers looking for work and employers looking to hire. On the supply side of the job market, labor exchange customers can be divided into three distinct groups: UI claimants who are referred to WPRS, other UI claimants, and ES applicants not eligible for UI. A summary of the background characteristics of ES applicants during Program Year (PY) 1999 (July 1999 to June 2000) is given in Table 5. This table contrasts PY 1999 ES customers with all unemployed during Calendar Year 2000 in terms of demographic characteristics. By gender and race, ES registration for job search occurs at rates similar to the group proportions among all unemployed. However, compared to their share of all unemployed, youth constitute a smaller share of ES customers while the less educated are a greater share of job-seeking customers.

**Table 5 Characteristics of Applicants for Employment Service Programs, PY 1999 and Annual Average Monthly Unemployed, Calendar Year (CY) 2000**

	ES Applicants		All Unemployed	
	Number	Percent	Number	Percent
Age - Youth (under 22)	2,305,938	13.8	1,303,000	23.0
Age - Older (over 54)	1,367,086	8.2	478,000	8.5
Gender – Female	7,710,699	46.1	2,701,000	47.8
Race - Black	3,588,649	21.5	1,269,000	22.4
Race – Hispanic	2,116,289	12.7	876,000	15.5
Education - Less than HS	3,220,905	19.3	771,000	13.6
Education - Post HS degree/certificate	2,344,471	14.0	854,000	15.1
Total	16,708,228	100.0	5,655,000	100.0

Source: U.S. Employment Service (2001) and <http://www.bls.gov/cps/home.htm>

Labor exchange customers on the demand side of the labor market are employers. About one-third of all American employers use the ES for recruiting employees (Holzer 1998, pp. 9–10). The distribution by industry of the nearly 7.5 million job openings listed with the ES in Program Year 1999 can be seen in Table 6. The table shows that industry shares of job listings differ from industry shares of employment. There are appreciably larger shares of job listings than employment for three particular industry groups: 1) agriculture, forestry and fisheries; 2) services; and 3) public administration. Public administration probably has a high listing rate because of government requirements for publicly posting job vacancies. High usage rates for the first two industries listed may be partly explained by high employee turnover rates in these industries, but much of the differences across industries may be attributable to the occupational mix of employment within industries.

<sup>6</sup>This section relies on O’Leary (2004).

**Table 6 ES Job Openings Listed by Industry, PY 1999 Average Monthly Employment by Industry, CY 2000**

Industry Categories	Job openings		Employment	
	Listed	Percent	Number	Percent
Agriculture, forestry and fisheries	356,158	4.9	2,017,000	1.5
Mining	22,112	0.3	567,000	0.4
Construction	344,512	4.8	9,581,000	7.2
Manufacturing	964,456	13.3	18,970,000	14.2
Transportation and utilities	429,565	5.9	9,738,000	7.3
Wholesale trade	234,081	3.2	5,102,000	3.8
Retail trade	964,970	13.3	22,571,000	16.9
Finance, insurance and Real estate	223,802	3.1	8,797,000	6.6
Services	3,168,768	43.8	50,345,000	37.6
Public Administration	524,800	7.3	6,125,000	4.6

Source: U.S. Employment Service (2001) and <http://www.bls.gov/cps/home.htm>.

Employers in industries that tend to employ higher-cost labor may be more willing to incur direct monetary costs for job-matching services, since the costs associated with a poor match would be greater for an employer paying higher wages. Similarly, job seekers in higher-wage labor markets may believe that paying agency fees will buy them access to preferred job opportunities. Low-paying jobs necessarily trade in a market where transaction costs are low. Services of the public ES are provided free of charge at the point of service to jobseekers and employers. However, some past observers miss the fact that Wagner-Peyser Act employment services are actually prepaid through FUTA by employers. Hence, ES job-matching services are also often used by employers who can quickly and adequately assess qualifications objectively through means such as a resume, professional certification, license, or standardized test score.

The occupational mix of job vacancies listed and filled by the ES in PY 1999 is reported in Table 7. Job listings span the range of occupations; however, the fill rates differ across occupations. The ES was successful in filling more than 40 percent of job vacancy listings in three occupational groups: domestic services, processing, and materials handling. These figures square with the industry mix information. Domestic services, other services, and package and materials handling are all main occupations in the services industry. Processing occupations are a major employment component of the manufacturing industry, which is also a good customer of the public labor exchange.



**Table 7 Job Opening Listings by Occupation Received and Filled by the U.S. Employment Service, PY 1999**

Occupational categories	Job Openings		
	Received	Filled	Percent filled
Professional, technical and managerial	1,120,430	136,235	12.2
Clerical	1,479,820	312,961	21.1
Sales	585,145	100,511	17.2
Domestic services	50,643	23,227	45.9
Other services	1,194,364	269,169	22.5
Farming, forestry and fishing	297,151	98,311	33.1
Processing	344,807	158,593	46.0
Machine trades	341,424	107,074	31.4
Bench work	387,940	142,793	36.8
Structural	604,813	178,433	29.5
Motor freight	206,861	55,249	26.7
Transportation	108,201	19,881	18.4
Package and materials handling	666,534	282,719	42.4
Other	64,541	15,814	24.5
Total	7,452,674	1,900,970	25.5

Source: U.S. Employment Service (2001).

## 2.7 Federal-State Partnership

Under the Wagner-Peyser Act, funds are allocated to each state to plan and administer a labor exchange program that most effectively responds to the needs of the state's employers and job seekers (USDOL 1998). The federal government, through the U.S. Department of Labor's Employment and Training Administration (ETA), provides general direction, funding, and oversight. The ETA also assists states with technical aspects of program implementation and development of new tools. For example, ETA has been the leader in development of the Occupational Information Network (O\*NET) as a replacement for the Dictionary of Occupational Titles (DOT). States can and do add their own resources to the federal funds to support services at their One-stop centers. As mentioned above, NASWA (2008) has estimated states add more than 25 percent on top of the federal grants for Wagner-Peyser employment service programs.

Public employment services are available to those legally authorized to work in the United States. In addition, the ES helps to implement provisions of employment laws including: the Immigration Reform and Control Act of 1986, the federal mandate that veterans be provided with priority service, and the federal directive that disabled veterans be given preferential treatment. Federal regulations at 20 CFR 652.3 require each state to administer a labor exchange system that has the following capacities:

- To assist job seekers in finding employment;
- To assist employers in filling jobs;
- To facilitate the match between job seekers and employers;

- To participate in a system for clearing labor among the states, including the use of standardized classification systems issued by the Secretary pursuant to JTPA Section 462(c)(3); and
  - To meet the work test requirements of the state unemployment compensation system.
  -
- Other activities of the Employment Service offices include the following:
- Circulation of information about jobs, training opportunities, and occupational demand-and-supply situations within particular labor markets
  - Preparation of State and local planning information; and
  - Provision of computerized listings of local, State, and national job openings.

### 3. JOB MATCHING IN THE UNITED STATES

To understand the role of the public labor exchange among all the possible avenues for job matching, it is important to understand the search process itself. Among the myriad methods available, the choice by job seekers can be influenced by their status in the labor market. The unemployed may choose different methods from those who are employed, new labor-market entrants, or reentrants. The methods used can also depend on their degree of labor market experience, their network of business and personal contacts, and their economic status.

Some researchers have categorized job search methods as being either *formal* or *informal*. Formal methods include the use of either public or private employment agencies, or other institutions (schools, unions, etc.). Informal methods include checking with business associates, friends and relatives, and direct applications to firms.<sup>7</sup> Formal and informal methods seem to differ systematically from each other, in that more informal methods of search have fewer direct monetary costs but typically generate a smaller set of potential employers for the job seeker (Holzer 1998). In addition, informal networks of friends and relatives might generate more trustworthy information that leads to higher quality matches (Rees 1966). Formal methods, on the other hand, can be more expensive but might generate higher-quality jobs that are difficult for the job seeker to locate informally. This section describes the job search and recruiting process.

The unemployed, those without jobs who are actively seeking employment, are composed of at least three groups: 1) displaced workers, 2) those dismissed or those who voluntarily quit, and 3) those entering the workforce for the first time or after a long hiatus.<sup>8</sup> These three groups are treated separately because their motivations for finding work and their methods for doing so may differ.

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<sup>7</sup> Use of newspapers can be categorized either way, though placing ads (as opposed to only checking and answering them) seems like a relatively more formal activity.

<sup>8</sup> This section borrows extensively from Eberts and Holzer (2004).

Since 1967, the Current Population Survey (the principal government survey of workforce behavior) has asked unemployed workers about their job search activities. The survey includes nine possible methods; respondents may choose one or more of these methods. The choices include:

- checking with employers directly
- checking with an employment agency
- checking with a private employment agency
- checking with friends or relatives
- placed or answered ads
- using other search methods
- sending out resumes and filling out applications
- contacting university and school placement centers
- checking union and professional registers

According to the Current Population Surveys (CPS), the most widely used method of job search by unemployed job seekers is to contact employers directly (Eberts and Holzer 2004). In 2001, 62 percent of job seekers listed that method as one of their job search activities, as shown in Table 8.<sup>9</sup> The second most popular method was filling out job applications and submitting resumes, with 51 percent of job seekers reporting the use of that method. The use of the public ES ranked third, with 19 percent of the respondents indicating that they had checked with the public ES in the past four weeks for help in finding a job. More than twice as many respondents reported using the public employment agency as compared to a private employment agency. The role of temporary help agencies is fairly small among unemployed job seekers.<sup>10</sup>

The use of public ES services varies by the reason for unemployment. Those experiencing involuntary layoffs use the public ES more often than other types of unemployed (Eberts and Holzer 2004). The heavy usage reflects the connection between ES and UI, as most states require UI recipients to register with ES to satisfy the UI work test.

Use of the public ES also differs by the personal characteristics of job seekers. Analysis of CPS data suggests that the public ES is used more often by job seekers who are African American or Native American, are 25 years of age or older (but not over 65), have a high school education only, live in midsize cities, and are members of families with annual incomes of less than \$15,000. Conversely, the ES is least likely to be used by job seekers who are white or Asian, youth under 18 or adults over 65, have a BA or higher or are high school dropouts, live in large metropolitan areas, and are members of families with incomes over \$60,000.<sup>11</sup>

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<sup>9</sup> We include those who are unemployed and looking for work but who are not on layoff.

<sup>10</sup> However, temporary job placement agencies may be an important avenue of job search for disadvantaged workers, such as welfare recipients (Autor and Houseman 2002).

<sup>11</sup> Estimates are based on the 2001 monthly files of the CPS (Eberts and Holzer 2004).

**Table 8 Percentage of Job Seekers using Various Search Methods**

Search method	All unemployed looking for work	Those using public	
		employment agencies	Those not using public employment agencies
Contacted employer directly	62.0	59.5	62.6
Public employment agency	18.8	100.0	0
Private employment agency	8.4	18.9	6.0
Contacted friends and relatives	15.4	20.2	14.3
Contacted school/college job placement office	2.7	4.1	2.4
Sent out resumes/filled out applications	51.3	46.7	52.4
Checked union/professional registers	2.3	2.8	2.1
Placed or answered ads	15.4	20.3	14.2
Used other active methods	6.8	4.9	7.2

Source: Eberts and Holzer (2004).

Analysis of CPS data suggests that the public ES is used by a significant fraction of unemployed job seekers, especially those who lose their jobs involuntarily, and those at risk of long-term unemployment, such as those with low educational attainment and low prior earnings.

Employed workers also actively search for jobs. According to the CPS, 4.5 percent of employed wage and salary workers actively searched for different jobs in 1999. Among employed workers surveyed by the CPS, Meisenheimer and Ilg (2000) found that those under the age of 25 were much more likely to search for another job than older workers. Workers who were not covered by health insurance and without retirement benefits were also more likely to explore their job options. In addition, salaried workers with higher levels of education were more likely to look for another job, while those with longer tenure were less likely to explore job options. Among all job seekers, the ES is used by roughly 10–20 percent of whites and 15–30 percent of minorities in the most recent representative sample (Falcon and Melendez 2001).

While employees consider the best methods to gain access to employers, employers must decide how best to locate and recruit qualified workers and to assess their qualifications. Their choices, in turn, heavily influence the effectiveness of different methods that are available to job-seeking individuals, and also where (i.e., in which sectors of the economy) any such effectiveness is likely to be found.

Holzer (1998) examined the methods employers use to recruit and hire in a four-city survey of employers. As is the case with job seekers, direct contact is one of the most-often-used methods of recruiting and screening workers. Additionally, 30 percent of businesses responded that they used state ES agencies to find worker prospects. Adding community agencies raises the percentage to around 50 percent of businesses using a public agency to recruit workers.

The use of public ES by businesses was found to vary by the size and type of business. Larger businesses (greater than 500 employees) are more likely than smaller businesses (1–20 employees) to recruit workers from state employment agencies, by a factor greater than two. The survey shows that 56 percent of large businesses use the state ES agency compared with 22 percent for small businesses. Industry also matters with respect to using the public employment agency to recruit workers. Interestingly, public-sector employers use state ES agencies more frequently than do employers from any other sector.

#### **4. INTERACTION WITH OTHER PUBLIC WORKFORCE PROGRAMS**

By July 1937, all states had approved UI laws. In 1938, UI benefits were paid in all states. Since that time, UI has relied on ES to assure that insured unemployment is compensable. The ES applies the work test for UI eligibility. UI and ES also share the FUTA mechanism for administrative financing. ES is closely allied with a variety of other public employment and training programs.

The Workforce Investment Act (WIA) has governed federal workforce policy in the U.S. since 1998. Under WIA, Wagner-Peyser Act employment services must be integrated into the One-Stop delivery system. The WIA requires that all states and localities offer most employment services to the public through the One-Stop system, which encompasses several employment and training programs, including Wagner-Peyser Act labor exchange services.

The WIA system identifies three sequential broad categories of service—core, intensive, and training. The first level of services, referred to as core services, is typically self-service and includes orientation to the job search process, initial assessment, and introduction to labor market information. The next level of services, labeled “intensive services,” requires more staff involvement, and individuals must be referred to this set of services. Intensive services are provided to eligible individuals who require more assistance in obtaining employment than is allowed for within core services alone. These services include assessment, counseling, guidance and case management, job development and placement services, retention services, and followup services.

The final set of services, training, is reserved for those who have been unsuccessful in obtaining a job after receiving core and intensive services. Training services include occupational skills training, on-the-job training, programs that combine workforce training with related instruction, training programs provided by the private sector, skills upgrading and retraining, entrepreneurial training, job readiness training, dislocated worker education and literacy activities, and customized training.

By federal regulation there must be at least one comprehensive One-Stop career center in every Workforce Investment area. Additionally every One-Stop center has the following 12 partners co-located at one physical location in the WIA area (USDOL 1999, CFR 662.200):

- WIA programs for: 1) Adults; 2) Dislocated workers; 3) Youth; 4) Job Corps; 5) Native American programs; 6) Migrant and seasonal farm-worker programs; and 7) Veterans' workforce programs;
- Wagner-Peyser Act ES programs
- Adult education and literacy
- Rehabilitation Act (A and B of Title I)
- Welfare-to-work programs
- Senior community service employment activities
- Postsecondary vocational education (Perkins Act)
- Trade Adjustment Assistance and NAFTA Adjustment
- Veterans and disabled veterans activities
- Community Services Block Grant employment and training
- Housing and Urban Development employment and training
- Programs under state unemployment compensation laws

Local WIA boards and chief elected officials may approve co-location at One-Stop centers of the following other entities that carry out human resource programs including federal, state, or local programs in public or private sectors (USDOL 1999, CFR 662.210):

- TANF programs
- Employment and training programs of the Food Stamp Act of 1977
- Work programs under the Food Stamp Act of 1977
- Programs under the National and Community Service Act of 1990
- Other appropriate federal, state or local programs, including programs related to transportation and housing, and programs in the private sector.

Wagner-Peyser Act-funded ES services are available in all comprehensive One-Stop centers and in some of the other affiliated WIA offices. Table 9 shows the decline over the past five years in the number of both comprehensive and affiliate offices. Comprehensive offices are down 10 percent, and affiliate offices are down more than 25 percent in number. Certainly the number of ES service delivery locations has decreased in the process. The ES is a foundation partner in all full service One-Stops. It is present in many affiliates. Reductions in real funding for ES has probably contributed to the decline in the number of locations for ES service availability.

**Table 9 Numbers of Comprehensive and Affiliate WIA One-Stop Career Centers in the United States, 2003 and 2008**

Year	2003	2008	Change	Change (%)
Comprehensive	1,955	1,759	-196	-10.0
Affiliate	1,627	1,189	-438	-26.9
Total	3,582	2,948	-634	-17.7

Source: America's Service Locator <[www.servicelocator.org](http://www.servicelocator.org)>

## 4.1 Job Seeker Assistance

Many ES services are now counted among WIA core services, with a few recorded as WIA intensive services. Traditionally, ES services were staff-assisted more often than they are today. Up until the mid-1980s, job seekers visiting public ES would receive a range of staff-assisted services, such as counseling, testing, and direct job referrals. Since the mid-1980s, however, staff-assisted services for individuals have focused on those who have trouble using self-service systems or are unfamiliar with navigating the labor market (Ridley and Tracy 2004).

One major reason for the reduction in staff-assisted services is the steady decline in Wagner-Peyser funding since the 1960s. Thus, the decline in funds to support staff, along with the greater numbers of people accessing services, has brought about significant reductions in staff-assisted services. For example, 3 to 4 percent of ES registrants currently receive employment counseling, compared to 20 percent in the 1960s at the peak of ES funding. The same reduction is seen in testing services. Only 2-3 percent of ES applicants are tested for skills and other aptitudes, compared with 20-25 percent thirty years ago. Also, in the past, active placement of individuals into jobs was the dominant role of the local ES office. Now, active matching is available for only a few, such as veterans, the disabled, and those eligible for case-managed programs.

With funding reductions and dramatic technological advances, principally the Internet, staff has moved from individualized assistance to more group-oriented services. These services vary by state and One-Stop locations, depending upon local needs and the additional resources states and local offices can find to support these services. Some local one-stop centers employ Wagner-Peyser Act-funded staff to run workshops to assist job seekers. Some workshops provide general information designed as an orientation to the resources available at the One-Stop center, while others may target a specific group of job seekers such as UI claimants or first-time job seekers. Another group service available at some One-Stop centers is a job club or job search network or support group. Job clubs bring together groups of unemployed individuals who meet to support one another and share job-finding tips.

Most One-Stop centers have resource rooms, which are spaces in the center that contain banks of computers for use by job seekers, along with a wide range of self-help information and services available through both the computer and printed material. Many resource rooms offer fax machines, copiers, and phones for use by customers. While containing many self-help services, resource rooms also require trained staff to assist first-time job seekers and to provide a “triage” function that identifies those customers who may have substantial barriers to employment.

## **4.2 Employer Assistance**

Wagner-Peyser Act ES funds also provide services to employers, both self-assisted and staff-assisted. The self-assisted services for employers were offered under the umbrella of America's Career Kit, as described in the previous paragraphs. Employers could post job vacancies to and search resumes on America's Job Bank, retrieve labor market information from America's Infonet, and learn more about employment services on America's Learning Exchange. Staff-assisted services include access to staff in One-Stop Career Centers nationwide that can assist employers in posting job opportunities, recruiting candidates for employment, prescreening job candidates, and may include working with individual employers or groups of employers to organize job fairs, on-site recruitment, or other special recruitment drives.

Intensive Services include responding to individual employer business needs, such as assistance with major workforce shifts or reductions in the workforce. Intensive services also include the public employment service participation in rapid response efforts to assist employers who are downsizing their workforce to meet their legal responsibilities and to speed the transition of the workforce to new employment opportunities. In addition, the public ES can provide or facilitate employer access to human resource information and consultation visits. Subjects may include a focus on reducing absenteeism, development of apprentice programs, workforce training resources for meeting Equal Employment Opportunity and Jobs for Veterans Act regulations, UI information, Total Quality Management (TQM), and specialized labor market studies, and this information is available from local or state resources (USDOL web site).

## **4.3 Participation in ES Services**

Job seekers access ES services through several portals, depending upon their circumstances. WIA requires ES services to be delivered in a seamless system along with other workforce development programs, and for ES services to be physically available at One-Stop centers. Therefore, many job seekers may receive ES services as participants in other workforce programs. Most states require the unemployed receiving UI benefits to register with their state ES offices in order to satisfy the work test stipulated under UI law. Participants of the adult WIA program, who are typically economically disadvantaged, may receive ES services to aid in their job-search efforts. All participants of these two programs may receive self-assisted core services, and many may be eligible for staff-assisted intensive services if they fail to find a job after receiving core services. Recent figures from the USDOL show that 52 percent of the eligible UI claimants, 20 percent of Adult Dislocated Workers participants, and 15 percent of WIA adult program participants receive some reportable ES services. These percentages are probably low, since many states do not require visitors to One-Stop centers to register before they use self-assisted services.

National statistics of the labor exchange program give an overall perspective on participation and the types of services received. As shown in Table 10, the largest group of ES participants is made up of eligible UI claimants, who made up 44 percent of the total labor exchange applicants in 2001. These include UI claimants who participate in the Adult Dislocated Worker program and those who do not. The next largest group of labor exchange



applicants is the economically disadvantaged, who include participants of the Adult Worker Program as well as welfare-to-work programs. A close third is veterans, who are statutorily given preference in receiving ES services.

**Table 10 National Summary of Public Labor Exchange**

	1999		2001	
	Number	Percentage	Number	Percentage
Total applicants	16,708,228	100.0	19,016,071	100.0
Eligible claimants	6,165,645	36.9	8,432,026	44.3
Veterans	1,668,317	10.0	1,722,252	9.1
Economically disadvantaged	2,149,156	12.9	1,906,427	10.0
Persons with disabilities	334,123	2.0	392,285	2.1
Received some reportable service	10,944,034	65.5	12,619,999	66.4
Of applicants who received services:				
Assessment services provided	1,777,295	16.2	1,996,614	15.8
Received job search activities	6,704,938	61.3	9,328,629	73.9
Referred to skills training	395,589	3.6	457,527	3.6
Referred to employment	6,733,180	61.5	6,167,401	48.9
Entered employment	3,601,620	32.9	3,924,412	31.1
Placed	1,771,107	49.2	1,180,295	30.1
Obtained employment	2,029,411	56.3	2,877,327	73.7

Source: U.S. Employment Service Annual Reports (1996, 2000)

Of the total number of applicants, two-thirds received some reportable services during the program year in which they registered or were active participants. Reportable services include referral to jobs and testing, and any service requiring expenditure of staff time, even though not required to be reported. The national summary breaks down these services into four categories: 1) assessment services, 2) job search activities, 3) referral to job training, and 4) referral to employment. Nearly three-quarters of those receiving reportable services engaged in job search activities, which not surprisingly was the most dominant service by far. The second more prevalent service was referral to employment; close to half fell into that category. Services that required more intensive staff involvement, such as assessment services and job training, were used sparingly, registering 16 percent and 4 percent, respectively.

More detail on the use of services through the dislocated program is available at the state level. For example, Table 11 displays the use of services by Adult Dislocated Worker participants in Michigan. It shows that participants were most likely to receive the intensive service of case management (57.6 percent). This is because participants in this program are eligible for case-managed, staff-assisted services. Case management is followed by the core services of basic assessment and information (49.5 percent) and then by the intensive services of individual employment planning (47.3 percent).

**Table 11 Services Received by Participants of the Dislocated Worker Program, Michigan 2000-2004**

<b>Core Services</b>	<b>%</b>	<b>Intensive Services</b>	<b>%</b>
Job referral	5.0	Comp/specialized assessment	24.7
Information/basic assessment	49.6	Individual employment planning	47.3
General information	18.7	Short-term prevocation skills	5.4
Group activities	2.3	Case management	57.6
Job search	28.6	Literacy activity	2.9
Individual job development	27.8	<b>Training services</b>	<b>%</b>
Advanced job club	21.8	On-the-job training	11.2
Advanced screened referrals	2.9	Occupational skills training	25.4
Follow-up	17.1	Classroom training	16.6

Source: WIASRD Records.

#### 4.4 Managing ES in Local One-Stop Centers

WIA calls for the seamless delivery of ES with WIA programs at One-Stop Career Centers. The intent is for a set of core partner organizations to come together to select a physical site for the One-stop center—either at one of the partners’ existing offices, at a complex of existing offices, or at a new site. The core partners then agree to co-locate staff—either full-time or part-time—at the chosen site. Additional partners are connected to the One-Stop center through electronic linkages and a system of referrals (Ridley and Tracy 2004). These offices are best situated close to the customer base. This becomes difficult in small communities and rural areas since the small population can usually support only one center, so a large share of customers must travel considerable distance to the center. In a recent study conducted by the U.S. Department of Labor (Social Policy Research Associates 2005, p IV-4) to understand which providers were delivering services in rural areas, the study found that public ES often delivers the majority of labor exchange (i.e., core and intensive) services in rural areas, and that WIA’s involvement was mainly in delivering training services. In urban areas, many One-Stop centers are located in shopping malls and on public mass-transit routes for easier access.

States have adopted different ways to manage Wagner-Peyser Act staff. As mentioned earlier, the Wagner-Peyser Act and the ensuing practice of USDOL requires that merit-based staff provide public employment services. The most common model is dual state and local management of personnel in One-Stop centers. In Wisconsin, the Department of Workforce Development oversees and manages ES staff and funds assigned to One-Stop centers, while the local workforce board, county, or other entity is responsible for WIA and other program staff. In many One-Stop centers, the staff participates in management teams that oversee operations (Ridley and Tracy 2004).

Before WIA was enacted, and partly in response to an effort by Michigan to subcontract Wagner-Peyser funded service delivery to profit-making third-party providers, USDOL exercised administrative authority allowed by the Wagner-Peyser Act to permit alternative service delivery under clearly specified arrangements in three states: Colorado, Massachusetts, and Michigan. Balducchi and Pasternak (2004) write that

“In Colorado, Wagner-Peyser Act services are delivered through county governments using state and county employees. In Massachusetts, state ES employees deliver Wagner-Peyser Act services except in four local areas where services are delivered by for-profit and non-profit private and public agencies. In Michigan, Wagner-Peyser Act services are delivered by public employees limited to employees of state government, local units of government, special purpose units of government, school districts, intermediate school districts, public community colleges, and public colleges and universities”

USDOL permitted these alternative arrangements, with the proviso that an evaluation be conducted comparing these service delivery designs with traditional arrangements managed by the state employment security agency. The evaluation found large reductions in job openings listed with public employment services (relative to labor force size) in Colorado, Massachusetts, and Michigan. There were even larger declines in referrals and placements to jobs listed with the public ES in these states. The evaluation also found that One-Stop centers managed by the state employment security agency tended to focus on 1) maintaining a statewide system to list job openings and allow job seekers to view those openings and 2) helping UI claimants to rapidly return to work. In contrast, One-Stop centers led by other entities, especially workforce investment boards established under the Workforce Investment Act (WIA), tended to focus on 1) serving economically disadvantaged populations, 2) obtaining job listings that were tailored to the skills of specific low-income job seekers and 3) using a case-management approach” (Jacobson et al. 2004). In reviewing this evaluation comparing traditional labor exchanges with new forms, Krueger (2008) concluded the following:

- Traditional public labor exchanges are highly cost-effective, with benefits exceeding costs by as much as two to three times.
- The benefits were considerably smaller in states with nontraditional placement services than in states with a traditional labor exchange model because the nontraditional states tended to devote relatively less resources to placing unemployment insurance recipients.
- There is much to be gained by maintaining the labor exchange agencies’ separate identities and financing structures.
- “Devolving control to local areas greatly diminished use of statewide computerized systems, and increased job development geared to the needs of WIA target groups rather than the general population of job seekers and employers.”

## 5. EFFECTIVENESS OF LABOR EXCHANGE SERVICES

How effective is the public ES in helping people find jobs? Answers to this question depend on the way the question is framed. One approach is to apply consistent measures of ongoing activities by public employment agencies; this approach is called performance measurement. Regular monitoring of gross program outcomes offers a viable starting point for assessing program effectiveness. The following subsection summarizes researchers' experience with performance measurement of the ES. Performance measurement can provide useful information, feeding into the annual cycle of program planning and management. A necessary supplement to performance monitoring is net impact evaluation based on comparison-group design studies. This approach is based on a snapshot at a point in time and provides estimates of the incremental value of the intervention. Net impact estimates are useful for policy development.

### 5.1 Performance Measurement

When WIA was implemented, Wagner-Peyser services remained independent from the standpoint of authorization and funding. However, starting with implementation in July 2000, WIA required that labor exchange services become an integral part of state One-Stop delivery systems. In so doing, it meant that performance indicators for Wagner-Peyser Act services are substantially similar to those required for WIA programs. These performance indicators were put in place only recently (PY2002), whereas WIA performance indicators were operational earlier based on antecedents in the Job Training Partnership Act (JTPA) program.<sup>13</sup>

At present, ETA's labor exchange performance measurement system consists of three performance indicators. The measures include two outcome indicators: 1) the entered employment rate and the job seeker employment retention rate at six months, and 2) the quarterly average earnings of program participants.

The first outcome indicator is designed to measure the success of the labor exchange in achieving three outcomes: 1) assisting unemployed workers to regain employment, 2) helping those new to the labor market to find a job, and 3) assisting currently employed workers to find different and preferred jobs. The entered employment rate measure is defined as the percentage of individuals registered with the labor exchange who became employed with a new employer in either of the two quarters following the quarter in which they registered with the labor exchange. For job seekers with recent employment, a new employer is defined as any employer other than one who employed the job seeker in the quarter prior to the registration quarter (Smole 2004).

The second outcome indicator measures the longer-term outcomes of the labor exchange. The employment retention rate is defined as the percentage of job seekers counted as having entered employment according to the entered employment rate indicator, who also are employed in the second quarter after they first were counted as having entered employment. According to

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<sup>13</sup> This section is based on Smole (2004). Readers should refer to his chapter for more details about the history and use of performance measures for labor exchange services.

this indicator, job seekers need not remain employed with the same employer to be counted as having retained employment, but rather may be employed by any employer in the time periods specified by the indicator.

Both outcome measures are computed using UI wage records. UI wage records are administrative records used by the UI system to record the employment and earnings histories of individuals. These histories are crucial for determining eligibility for UI benefits. In all states, employers covered under UI are required to report quarterly the earnings of each of their employees. In this way, if no earnings are recorded, then it can be assumed that the individual was not employed. Thus, for both indicators, a job seeker's UI wage records must contain earnings greater than zero in order for that person to be considered employed in a particular quarter.

These performance indicators are used to set performance standards and to monitor outcomes during the program year for states and local workforce areas. Under the Government Performance and Results Act of 1993, federal agencies are required to set goals, measure performance, and report on the extent of their success in meeting those goals for the programs they operate. The annual performance goal for labor exchange is "to improve the outcomes for job seekers and employers who receive public labor-exchange services.

To examine measurement of ES performance over time, Table 12 shows entered employment rates among those receiving some reportable service (RSS) from 1984 to 2006. This table is based on eligible UI claimants who are registered with the ES. As such, it presents evidence on the UI work test. For UI to work as social insurance, compensation is paid only for involuntary joblessness. The work test reduces the insurance moral hazard by having the ES confirm that continued joblessness is unavoidable.<sup>14</sup>

Wagner-Peyser programs are monitored using the same common measures of performance as WIA programs. The WIA performance measurement system is inferior to that used under the Job Training Partnership Act (JTPA) in one important respect, and it is somewhat of an improvement in another regard. The WIA system does not include an adjustment methodology for varying social and economic conditions as JTPA did. However, WIA performance measurement relies on more objective outcome data. Unfortunately, the data are only available with a significant time lag.

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<sup>14</sup> Annual reports on ES program-year activity were produced by the U.S. Employment Service (USES) until 2001; a change in methods for counting UI eligible ES registrants is apparent in the series reported in Table 12. Data for 2002 and after are from performance measurement reports. Data before 2002 are from USES annual reports.

**Table 12 Labor Exchange Activities of UI First Payments, 1984-2006**

Year	UI first pays (1)	UI eligible ES registrants		Received some service		Entered employment	
		(2)	(2)/(1) %	(3)	(3)/(2)%	(4)	(4)/(3)%
1984	7,742,547	6,776,674	87.5	2,264,907	33.4	716,327	31.6
1985	8,372,070	6,504,592	77.7	n/a	n/a	n/a	n/a
1986	8,360,752	7,001,207	83.7	n/a	n/a	651,992	n/a
1987	7,203,357	6,431,701	89.3	n/a	n/a	648,064	n/a
1988	6,860,662	6,256,440	91.2	n/a	n/a	642,178	n/a
1989	7,368,766	6,525,583	88.6	n/a	n/a	647,994	n/a
1990	8,628,557	7,096,457	82.2	n/a	n/a	644,070	n/a
1991	10,074,550	8,973,942	89.1	n/a	n/a	835,251	n/a
1992	9,243,338	10,436,910	112.9	4,681,358	44.9	924,632	n/a
1993	7,884,326	9,235,977	117.1	4,270,711	46.2	890,504	20.9
1994	7,959,281	7,662,050	96.3	4,012,523	52.4	885,721	22.1
1995	8,035,229	7,413,036	92.3	4,004,707	54	879,562	22.0
1996	7,989,615	7,254,009	90.8	3,985,194	54.9	924,322	23.2
1997	7,325,279	6,663,475	91.0	3,599,511	54	918,294	25.5
1998	7,331,890	6,406,794	87.4	3,343,018	52.2	959,248	28.7
1999	6,951,210	6,165,645	88.7	3,417,600	55.4	1,116,840	32.7
2000	7,033,133	6,600,708	93.9	3,788,435	57.4	1,300,663	34.3
2001	9,877,448	8,432,026	85.4	4,965,528	58.9	1,477,455	29.8
2002	10,092,569	6,187,161	61.3	4,799,028	77.6	n/a	n/a
2003	9,935,108	5,648,894	56.9	4,119,382	72.9	2,723,057	66.1
2004	8,368,623	5,655,186	67.6	3,969,739	70.2	2,881,434	72.6
2005	7,917,294	4,822,914	60.9	3,599,279	74.6	2,575,368	71.6
2006	7,350,734	4,805,817	65.4	3,518,276	73.2	n/a	n/a

Note: UI first payments are eligible UI claimants, UI-eligible ES registrants are monetary eligible for UI benefits.

Data Sources by Program Years:

1984-2006 UI first payments from Employment and Training Handbook 394 (USDOL).  
 1984-1994 Employment Security Automated Reporting System (ESARS).  
 1993-1995 USDOL 1996.  
 1996-1999 USDOL 2001.  
 2000-2006 USDOL 2001-2007. <http://www.doleta.gov/Performance/Results/reports.cfm>

Performance outcomes are influenced by factors beyond the control of local ES administrators. Customer mix and local economic conditions affect entered employment, earnings, and retention, for example. If performance indicators are to fairly measure the effectiveness of services instead of the happenstance of a favorable customer base or economic conditions, then such factors must be controlled for in measuring performance. Michigan has recently completed the development of a system that adjusts WIA and ES performance outcomes for these factors. Referred to as the Value-Added Performance Improvement System (VAPIS), it is based on a statistical model that relates outcomes to individual characteristics (such as education levels, employment history, etc.) and local labor market conditions. Using this model, the performance measures of each local workforce area can be adjusted according to the personal characteristics of its customer base and its local labor market conditions.

The VAPIS method for adjusting measured performance was developed by the W.E.

Upjohn Institute for Employment Research. Using VAPIS, the performance outcomes of areas that have favorable external factors will be adjusted downward, and the performance outcomes of those with less favorable external factors will be adjusted upward, in order to level the playing field for comparison of performance across areas and programs. Similarly the VAPIS adjusts performance upward if the customers who are served include high proportions of hard-to-employ job seekers, while performance is adjusted downward for low proportions of hard-to-employ job seekers participating in programs. Just as for the adjustment methodology used in performance measurement under JTPA, the VAPIS adjustment system provides local program managers an incentive against “cream-skimming” in program enrollment. When program management is measured in part by the reemployment and earnings success of program participants, an incentive is created for program managers to enroll the most capable program applicants, instead of those who might benefit the most from program services. By adjusting measured performance by the composition of program participants, VAPIS counteracts the incentive for cream skimming by program managers. Adjusting measured performance for labor market and program participant characteristics is essential to an effective performance-measurement system.

Under JTPA, performance measurement was based on followup surveys of program participants conducted by staff of the local administrative entity for the private industry councils. This provided an opportunity for areas to manipulate the outcome of performance measurement. Outcome measurement was changed under WIA to be based on quarterly earnings records submitted by employers for UI tax and eligibility determination. Such records are not subject to manipulation by program administrative staff; complete reemployment earnings records on program participants are only available after a time lag. Employer quarterly earnings reports are due at the end of the month, following the last day in a calendar quarter. For example, employers must report to the state UI agency by April 30 total earnings in the first calendar quarter for any employee who worked between January 1 and March 31 (although not all employers are timely in filing quarterly earnings reports). For a program participant, earnings evidence in quarterly wage records would be available 10 weeks after participation. For those receiving services at the end of a program year, outcome data on service effectiveness would not be available until plans for the following year were already in place. While the data for performance measurement under WIA is more reliable, it is incomplete when needed. To accommodate this, the planning calendar should be adjusted. Perhaps two-year or 18-month performance measurement and planning cycles could be established.

## 5.2 Net Impact Evaluations of Public Employment Services

Furthermore, to deal with the fact that individuals with different unobserved characteristics select different search methods, one would also need to conduct a random assignment experiment to gauge the effects of search methods used on outcomes. Such an approach is difficult to administer, however, since the ES is mandated to provide services to all those who request them, and thus it is not possible to deny services to those who might be assigned to a control group. Short of that approach, most studies are based on comparison-group methodologies that use statistical techniques to control for differences among individuals who use the ES and those who do not. This section examines various studies that have assessed the effectiveness of the various functions of the ES. These studies in general provide evidence that the ES is a cost-effective method of searching for jobs, particularly because of its relatively low cost and its ability to help find jobs for a sizeable proportion of all job seekers.

The ideal design for net impact estimation is to compare the outcomes of a group of individuals receiving treatment with the outcomes of a group of identical individuals who have not received the treatment. In the case of evaluating ES services, this would entail constructing a group with individuals who have not received services but who have characteristics very similar to those who do. As mentioned previously, since the law insists that no one should be denied ES services who wants them, it is not legally possible to randomly place someone in a comparison group that does not receive services. Therefore, the use of random assignment to construct groups is ruled out for most studies. Two criteria must be met in order for net impact estimates from quasi-experimental design to gain credence. The first criteria is that membership in the treatment is random once all of the observed characteristics are controlled for. The second is that there are no observable variables that explain participation in the treatment (Hollenbeck 2004).

Several approaches have been proposed and used to construct such a comparison group. These approaches are based on variations of strategically selecting a comparison group by matching characteristics of program participants with those of nonparticipants who otherwise appear similar (Heckman, LaLonde, and Smith 1999). Another approach is to control econometrically for differences in characteristics between the two groups. A third approach is to take advantage of institutional anomalies or changes that might cause some individuals to receive a service but other persons with similar characteristics not to receive the service. The approaches taken in the evaluations reported in this section follow such methodologies.

A dozen studies performed in the past several years form the basis of our understanding of the net impact of ES services. Two studies focus on the effectiveness of job interview referrals, two examine a stronger work test, two test removing the work test, five consider targeted ES services, one examines UI eligibility reviews, and one links UI and ES in the One-Stop environment.<sup>15</sup> The bulk of ES evaluation studies were conducted in individual States and focused on UI beneficiaries. These studies estimated the effects of ES in reducing insured

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<sup>15</sup>This review is based on O'Leary (2004).



unemployment and the associated savings to the UI trust fund. The first major evaluation of ES job referrals was based on a national sample, and, like evaluations of job training done around the same time, it focused on ES impacts on the earnings of service recipients (Johnson, Dickinson, and West 1985). Those receiving job interview referrals were observed to have higher earnings gains than those not receiving the service. The earnings effect was more pronounced for women, but ES job referrals also showed a measurable benefit to older men in urban areas (Johnson, Dickinson, and West 1985).

Results from evaluation studies of ES interventions measuring the impact on benefit year duration of UI receipt are summarized in Table 13. Duration of UI is a somewhat narrow outcome, but other individual outcomes are highly correlated with UI duration. Most employment programs do not have measurable effects on wage rates; gains come mainly from shortened jobless durations. That means shorter UI benefit receipt translates into more weeks of work and higher earnings for individual participants. From the UI program perspective, shorter UI durations among beneficiaries means the income support helped people return to work.

Beneficiaries need not exhaust UI entitlements to have been helped. Indeed, returning to work before exhaustion means the results are largely favorable. Several studies of UI duration find that a high fraction of beneficiaries return to work just before exhausting entitlement (Decker 1997). Shorter UI durations mean an existing level of employer-provided financing can serve more beneficiaries at a lower cost. Recent estimates suggest that shortening the average duration of UI by one week would save the system almost \$3 billion per year (Hobbie 2008).

Results summarized in Table 13 suggest that those receiving job interview referrals experienced shorter durations of UI receipt than those who did not receive the service. The estimate in Washington was -2.1 weeks and in Oregon -1.1 weeks (Jacobson and Petta 2000). More recent research by this team estimated job referrals reduced unemployment by 0.7 weeks in Colorado and 2.4 weeks in Massachusetts, but resulted in 2.1 weeks longer joblessness in North Carolina (Jacobson et al. 2004). The One-Stop settings in these states differed in degree of ES management devolution. North Carolina maintained statewide control of all One-Stops, and Colorado devolved all authority to local areas, while Massachusetts kept state control in all but three large metropolitan local areas. Additionally, in North Carolina a significant number of job interview referrals were assignments for UI claimants called in by the employment security agency for job search. The great majority of job referrals in other states resulted from voluntary job seeking behavior. Unlike in other studies such as Johnson and Klepinger (1994) and Black et al. (2003), the invitation to services by the North Carolina employment security agency did not in itself motivate a quicker return to work. North Carolina UI beneficiaries participated in reemployment services when invited by the employment security agency.

**Table 13 Net Impacts of Labor Exchange Services**

Service	Impacts on benefit year UI weeks	Study location	Study summary
Employment service (ES) referrals	-2.10	Washington	Jacobson & Petta (2000)
ES referrals	-1.10	Oregon	Jacobson & Petta (2000)
ES referrals	2.10	North Carolina	Jacobson et al. (2004)
ES referrals	-0.70	Colorado	Jacobson et al. (2004)
ES referrals	-2.40	Massachusetts	Jacobson et al. (2004)
Stronger work test	-0.55	Charleston, SC	Corson et al.(1985)
Stronger work test plus placement	-0.61	Charleston, SC	Corson et al.(1985)
Stronger work test plus placement and JSW	-0.76	Charleston, SC	Corson et al.(1985)
Report 4 employer contacts	-0.70	Maryland	Klepinger et al. (1998)
Make 2 employer contacts but no reporting	0.40	Maryland	Klepinger et al. (1998)
Make 2 employer contacts plus JSW	-0.60	Maryland	Klepinger et al. (1998)
Make 2 employer contacts both verified	-0.90	Maryland	Klepinger et al. (1998)
Remove the work test	3.30	Tacoma, WA	Johnson & Klepinger (1994)
Remove the work test	5.28	Northern Ireland	McVicar (2008)
Job search assistance (JSA)	-0.47	New Jersey	Corson et al. (1989)
JSA plus training	-0.48	New Jersey	Corson et al. (1989)
JSA plus reemployment bonus	-0.97	New Jersey	Corson et al. (1989)
Structured job search	-1.13	DC	Decker et al. (2000)
Individual job sSearch	-0.47	DC	Decker et al. (2000)
Individual job search plus training	-0.61	DC	Decker et al. (2000)
Structured job search	-0.41	Florida	Decker et al. (2000)
Individual job search	-0.59	Florida	Decker et al. (2000)
Individual job search plus training	-0.52	Florida	Decker et al. (2000)
WPRS profiled and referred to services			
Connecticut	-0.25	Connecticut	Dickinson et al. (1999)
Illinois	-0.41	Illinois	Dickinson et al. (1999)
Kentucky	-0.21	Kentucky	Dickinson et al. (1999)
Kentucky	-2.20	Kentucky	Black et al. (2003)
New Jersey	-0.29	New Jersey	Dickinson et al. (1999)
Maine	-0.98	Maine	Dickinson et al. (1999)
Wisconsin	-0.60	Wisconsin	Almandsmith et al. (2006)

Notes: JSW means job search workshop. WPRS means Worker Profiling and Reemployment Services.

The study by Corson, Long, and Nicholson (1985) in Charleston, South Carolina examined the UI work test, job placement, and job search workshop (JSW). A job search workshop in a classroom setting provides information about available services such as resume writing assistance, job-finding clubs, labor market information, development of a work plan, and orientation to self-service resources. In this study, strengthening the work test by linking UI and ES information systems for checking job search registration reduced the number of weeks participants claimed UI benefits. The impacts were greater for men than for women. Also, it appears that receiving a job placement and job search workshop enhanced the effects of the work test.

Another evaluation of the work test measured the value of confirming job-search employer contacts (Klepinger et al. 1998). Individuals who were required to make and report four employer contacts a week had a reduction in UI benefits of 0.7 weeks; this was about

equivalent to requiring two employer contacts along with a JSW. Telling continuing UI claimants that two required employer contacts would not be verified lengthened UI durations, but requiring two contacts and promising to verify both reduced insured unemployment by nearly a full week.

Two studies tested even more complete removal of the work test. A field experiment in Tacoma, Washington found UI durations rose by 3.3 weeks when beneficiaries were not required to file continued claim forms. A natural experiment in Northern Ireland estimated UI durations rose by 5.3 weeks when the work test was removed. The Irish study examined UI durations during an 18-month period when local employment offices were irregularly closed during renovations in the six northern counties. The requirement to report for job search at the offices was suspended during renovations. At the 2008 UI payment rates and average durations of benefit receipt, if eliminating the work test lengthened durations by four weeks, then annual UI benefit costs would rise by more than \$10 billion.<sup>16</sup>

The final set of net impact evaluations consider employment services that are targeted to specific groups of individuals. Interest in targeted services appeared in the early 1990s in response to significant economic restructuring and unemployment. Building upon previous research that showed job search assistance as a cost-effective means of assisting the unemployed with finding jobs, the question was explored as to whether job search assistance would be particularly effective in reducing the unemployment spell for those identified as being at risk of long-term unemployment. Results from the New Jersey UI Reemployment Experiment provided early evidence that such an approach was effective. Encouraged by these results, Congress established the Worker Profiling and Reemployment Services (WPRS) system in 1994; the WPRS required each state to identify UI claimants who are likely to exhaust their benefits and provide them with job-search assistance as soon as possible after they file for UI benefits.<sup>17</sup> Two evaluations of WPRS offer additional insights into the effectiveness of targeted job-search assistance.

The New Jersey experiment offered results from several combinations of services, including job search assistance, reemployment bonus, and job training (Corson et al. 1989). It demonstrated that job search assistance alone reduced the number of weeks of UI benefits, but that adding job training to these services had no additional effect. Adding a cash reemployment bonus of half the remaining UI entitlement for those reemployed within 11 weeks of the claim, on the other hand, reduced the number of weeks on UI by almost a full week, which is double the effect of job-search assistance alone. Over a six-year period, the cumulative impacts on weeks of UI benefit receipt nearly doubled compared with the impact over one benefit year. The findings regarding targeted job-search assistance and training were substantiated by another study conducted in Washington, DC, and Florida (Decker et al. 2000).

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<sup>16</sup> For the 12 months completed November 30, 2008 there were 9,309,204 UI first payments in the US averaging 15.14 weeks duration with average weekly UI benefit amounts of \$296.18 (USDOL 2008b). If the average benefit duration increased by one week about \$2.8 billion more would be paid in UI benefits per year.

<sup>17</sup> See the volume edited by Eberts, O'Leary, and Wandner (2002) for more detailed descriptions of WPRS and of the net impact evaluations of that program.

Two evaluations of WPRS provide further insights into the effects of targeted services. In both cases, early identification of those likely to exhaust benefits and quick referral of them to job-search assistance reduced the number of weeks receiving UI benefits (Dickinson et al. 1999; and Black et al. 2003). According to the national study of the WPRS system, in 65 percent of states the ES is the lead agency involved in the development and provision of WPRS reemployment services to UI claimants (Dickinson et al. 1999, IV-4). The evaluation conducted in Kentucky found much larger effects on duration of UI benefits, presumably because, using an experimental design with randomization at the margin of assignment to reemployment services, they were able to construct a comparison group that was closer in characteristics to the treatment group. The Kentucky evaluation also found that WPRS reduced the amount of UI benefits received and increased earnings (Black et al. 2003).

Two recent efforts provide additional evidence on how work-search requirements and JSA affect the duration of insured unemployment: 1) Reemployment and Eligibility Assessment (REA) programs, and 2) a Wisconsin reemployment demonstration in One-Stop Career Centers. Both studies strengthened work-search enforcement and linkages to reemployment services. The REA initiative was a U.S. Department of Labor demonstration project with a budget of \$20 million to provide assistance to states establishing new or significantly revamped REA programs. REAs are an eligibility review program, run within the UI program without the participation of One-Stop center staff. REA efforts were implemented in 21 states in 2005. Federal funds for REAs were appropriated with the proviso that research would be conducted in the demonstration states to learn if REAs can be a model for shortening jobless durations and reducing insured unemployment.<sup>18</sup> In a study conducted by the U.S. Department of Labor in nine states that implemented the REA initiative, seven states (Connecticut, Florida, Nevada, North Dakota, Ohio, South Carolina, and Washington) selected ES to conduct the REA eligibility review, and two states (CA, MN) had the review conducted by UI, which maintains staff in workforce centers (Benus et al. 2008, p. 8). Evidence from one of the states, Minnesota, suggests that REAs, either through increased eligibility reviews or through the provision of reemployment services, reduce the duration of UI benefit receipt by 1.2 weeks (Benus et al. 2008).

Another promising approach was embodied in the ambitious Wisconsin demonstration project (also sponsored by the Employment and Training Administration of the U.S. Department of Labor), which brings UI and One-Stop center staff together to provide reemployment services and eligibility reviews in the One-Stop center. In this UI-ES cooperative approach, some UI staff members were periodically out-stationed in the One-Stop centers, while call center operations were maintained without disruption. The Wisconsin demonstration, with its quasi-experimental evaluation design, provides further evidence that ES cooperation in the UI work test is cost effective. Those WPRS UI claimants receiving additional attention through a combination of increased job-search assistance and eligibility reviews in One-Stop centers

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<sup>18</sup> See the Employment and Training Administration's Field Memorandum No. 17-04, "Fiscal Year (FY) 2005 Unemployment Insurance (UI) Reemployment and Eligibility Assessment Grants," dated August 12, 2004.

shortened UI durations by 0.6 weeks compared to others who received only a One-Stop orientation (Almandsmith, Adams, and Bos 2006, pp. 3-19).

In addition to the favorable net impacts of labor exchange services, all studies evaluating the effectiveness of ES interventions consistently report very low costs per customer served by the public ES. It is difficult to find reliable data on the cost per service, since most cost-accounting is at the program level and not the service level. Estimates derived from expenditure data for Georgia put the cost per staff-assisted service between \$360 and \$712 (O’Leary and Eberts 2004). Jacobson and Petta (2000) put the average cost per staff-assisted service in Oregon and Washington at \$330. In comparison, training costs are at least \$1,400, and can be considerably higher (O’Leary and Eberts 2004). Consequently, ES interventions are relatively inexpensive. Combining inexpensive services with significant estimated benefits yields a benefit-cost ratio significantly greater than one.

## **6. SUMMARY AND CHALLENGES**

Seventy-five years ago the U.S. Congress created a national labor exchange system to aid economic recovery and labor market stability. Established by the Wagner-Peyser Act in 1933 in response to massive unemployment during the Great Depression, the public ES has evolved over the years to meet the changing economic and social challenges facing the nation’s labor markets. The national labor exchange system is an unusual yet enduring partnership between the federal and state governments. This relationship has experienced various splendid tensions over the years, as the federal and state governments have not always agreed on priorities and programmatic frameworks or on how the partners should share the financial responsibilities of providing employment services (Balducci and Pasternak 2004). The partnership has weathered social, economic, and political storms, at least up until now.

During the past few years, several developments in the labor market, the administration of employment programs, and public policy priorities have put considerable strain on the public ES. One challenge is the rapid advances in technology—principally the Internet, which has revolutionized the way in which employees and employers exchange information in consummating a job match. More than 2,000 Internet sites are available to offer job seekers and employers more convenient ways to access information about job postings and to submit resumes to their prospective employers. The USDOL developed a Web-based system for job postings, resume submissions, and labor market information. However, funding for this system stopped in July of 2008. NASWA, along with DirectEmployers Association (DEA), jumped in to fill the void in providing state employment agencies with a new Internet-based platform that offers deep links to job postings across states and direct contacts to employers for job seekers.

There has recently been a movement toward the privatization of some employment services. There were trials with Personal Reemployment Accounts and hints about individual unemployment accounts. Some states have flirted with the notion of privatizing the public employment services, or at least subjecting them much more to market forces. In seeking to reorganize the administration and delivery of ES services, former Michigan Governor John

Engler asserted a responsibility to his constituency to unleash the “dynamism of the marketplace” to benefit all employers and job seekers. Exposing ES partners to market competition was expected to strengthen the system by improving efficiency of service delivery and resulting in improved service outcomes for both employers and job seekers. The expectation in Michigan was that such an environment would result in the great majority of service-delivery activities migrating to an Internet-based, self-service job matching system. USDOL contested the move on the grounds that the Wagner-Peyser Act as carried out by USDOL required merit staffing of ES offices. Privatizing, or subcontracting the services to private vendors, would violate this requirement. Michigan sued USDOL, the courts found in favor of USDOL, and both agreed to a compromise that kept in place the requirement to use public merit-based staff. A prime concern of the USDOL in contesting the Michigan plan was that staff assistance delivered by public officials is a crucial ingredient in maintaining impartiality in the delivery of employment services for the ES customer base, which includes both high- and low-wage job seekers and both small and large employers.

It is worth noting that the United States has ratified neither ILO Convention 34 (1933), which recommends that member states prohibit fee-charging employment agencies, ILO Convention 88 (1948), which recommends that member states establish and maintain free public employment agencies, nor ILO Convention 96 (1949), which recommends that member states regulate fee-charging private employment agencies. Nonetheless, the U.S. federal government has provided funding to the states to operate free public employment service (ES) offices since passage of the Wagner-Peyser Act in 1933. This public system has coexisted with a wide variety of private employment agencies, some of which charge fees. In most states, the fees charged by private employment agencies are regulated by law. Funds for Wagner-Peyser services are collected annually by the Federal Unemployment Tax Act (FUTA) levy of 0.8 percent on the first \$7,000 of UI-covered employment. Eighty percent of that money is earmarked by law for Wagner-Peyser Act services and administration of the ES and UI. In real terms, funding to states has fallen by half since 1984. Meanwhile states have demonstrated a high valuation of ES by adding a 25 percent state-financed supplement to Wagner-Peyser Act programs, and by the fact that 70 percent of states have chosen to use Reed Act distributions for ES services and administration. The effectiveness of the Reed Act as an incentive for adequate funding has diminished over the past 25 years, rules for determining annual appropriations to the ES should be reexamined.

Another challenge for the public employment service is the erosion of the connection between UI and ES. Ever since the UI system was established by the Social Security Act of 1935, there has been a close relationship between UI and the US Employment Service (ES). The systems are closely linked through ES administration of the UI work test (Balducchi, Johnson and Gritz 1997). The work test in UI is the requirement that UI beneficiaries be actively seeking work. It seemed in the mid-1990s, with the passage of the Worker Profiling and Reemployment Services (WPRS, 1994) system, that there was a renewed interest in linking cash assistance in the form of UI benefits to job search assistance. WPRS was seen as reinvigorating the ES. Although all states are mandated to implement WPRS, a substantial number are lax in administering the program in a way that effectively links UI and ES.

Further undermining this connection between UI and ES is the recent and widespread movement to allow jobless workers to file UI claims by phone or via the Internet without the need to visit a UI office. Furthermore, despite increased UI-One-Stop center collaboration under the REA initiative that was conducted in 18 states in FY 2009, a growing number of states are dropping their requirement that beneficiaries report to an ES office for the UI work test. However, with the rise of remote claims taking, UI offices are closing, leaving the ES isolated from its customer base and leaving customers without an immediate incentive to begin their job search and use the aids available at the ES offices.

The WIA also has required that ES be a full partner in the state One-Stop delivery systems; this requirement is in effect nationwide. Although WIA preserved the independence of Wagner-Peyser Act services as a separate authorization and a distinct funding source, ES risks losing its identity as a separate program. While seamless delivery of services has many benefits and should be encouraged, some proponents of the traditional ES under the Wagner-Peyser Act fear that without ES maintaining a distinct identity, interest in adequate funding for ES may wane, and cost-effective services may be discontinued or subsumed in other programs, resulting in the loss of a network of public agencies delivering impartial job finding and placement services to all job seekers and employers.

Despite these challenges, job search activities and other public employment services have been shown repeatedly to reduce the length of spells of unemployment and even increase earnings. With such strong evidence as to the cost-effectiveness of these services, there should be little doubt that these services should prevail. The UI work test and ES services are proven ways to get the unemployed back to work—a function that means more earnings for families and less of a burden on employer-financed public reserves.

The question is how these services will be delivered. Will they continue to be offered free of charge through a publicly supported job-search assistance program, or will they be privately provided for a fee from a private vendor? It is clear that the ES must be delivered as a seamless service within an array of One-Stop services, since job search assistance and access to labor market information is crucial to finding a job, which is the ultimate goal of the public workforce system. Therefore, ES must continue to cooperate and collaborate, not compete, with other programs and private entities, particularly in ensuring that the Web-based market for jobs is as comprehensive as possible. Often, ES is the job finding choice for those least able to afford more expensive job-finding providers or those who have special needs. For these reasons it seems that public policy should continue to support a public ES agency.

Furthermore, this also means that employers should be given an incentive to post jobs with the public ES at the same time they post jobs with private Internet job search systems. Through the DirectEmployer Association and the JobCentral National Labor Exchange, state ES agencies have shown an openness to collaborate with private workforce intermediaries. Moreover, in a recent discussion paper done by long-time workforce development expert Garth Mangum for the AARP, Mangum concludes that Congress should remove core services from WIA and fully fund the Wagner-Peyser Act to provide labor exchange services nationwide to job seekers and employers (Mangum 2008, p. 17). Finally, the ES must reconnect with the UI, either

by co-locating physically or co-locating electronically. A dynamic and well-functioning labor market and economy depend upon an effective public labor exchange system. At no time has this been more true than today, as joblessness is jumping monthly by more than half a million Americans.



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