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Labor Exchange Policy in the United States

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Labor Exchange Policy in the United States
This book is dedicated to our mothers Maria Balducchi and Rita O’Leary, whom we lost during the course of this project, and to Dorothy Eberts, whom we still cherish amongst us.
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Preface

Seventy years ago, during the depths of the Great Depression, the federal government instituted a national labor exchange policy to aid economic recovery and labor market stability. Considered by some an important step toward preserving a capitalist economic system in the United States, the Roosevelt Administration and Congress established a federal–state system of public employment offices. Throughout subsequent economic, social, and political changes, the federal–state system under the Wagner-Peyser Act has provided steady and equitable labor exchange services to job seekers and employers. In the policy debate about workforce development reform since the 1980s, proposals have repeatedly surfaced to assimilate state labor exchange services under the Wagner-Peyser Act into local job training structures. Employment services in the United States are now delivered mainly through one-stop centers established by the Workforce Investment Act (WIA) of 1998. Among all the services available at the nearly 3,500 one-stop centers and affiliated sites nationwide, labor exchange services are used most often.

This book describes the evolution of labor exchange policy in the United States, summarizes the major findings about the effectiveness of labor exchange services, and offers reflections on the future of labor exchange policy. The chapters in this volume provide an overview of U.S. labor exchange policy, focusing principally on the last three decades of the 20th century. One chapter explores how the labor exchange system incorporated tools of the information age during the 1990s to advance one-stop center customer service techniques and self-service job finding methods. Another chapter closely examines the intergovernmental tensions over funding and delivery of services. Other chapters describe how federal, state, and local governments administer labor exchange and other workforce development services. Systems for evaluation and evidence on effectiveness of labor exchange services are also reviewed.

Under the original Wagner-Peyser Act of 1933, state Employment Service (ES) agencies could be affiliated with the U.S. Employment Service only if they provided regular labor exchange services at no cost to employers and job seekers who are eligible to work in the United States. This universal service requirement was expanded to participants of adult and dislocated worker programs under Title I of WIA. Consequently, there has been an increase in the
use of labor exchange services in one-stop centers and at remote self-service locations. As the chapters of this book explain, WIA has brought the ES full circle by returning its function to the original intent of the 70-year-old Wagner-Peyser Act. Under WIA, the ES links customers with service providers who deliver a consolidated array of workforce development services through one-stop centers. As we enter a century marked by the emergence of new work search methods that may significantly alter job finding and employment arrangements, it appears that government will continue to be engaged in efforts to link education, economic development, and employment. Likewise, the role of labor exchange services may continue to expand as new public and private intermediaries are brought into the system.

This book is intended to serve as a ready companion to two other volumes published by the W.E. Upjohn Institute for Employment Research, Unemployment Insurance in the United States: Analysis of Policy Issues (1997), and Job Training Policy in the United States (forthcoming). The past two decades have yielded few overviews and little research on public labor exchange policy. In 1998, The Johns Hopkins University’s Sar Levitan Center for Social Studies published a volume about labor exchange services in selected states entitled The Public Employment Service in a One-Stop World. Aside from that book, policy researchers must go back to either the 1973 book Counter Point: The Changing Role of the Employment Service, or the 1964 book The Role of the United States Employment Service in a Changing Economy published by the Upjohn Institute, to find an entire volume devoted to national labor exchange policy and operations. Similarly, there has been very little direct research on labor exchange policy topics. As this book points out, federal interest in labor exchange policy has been overshadowed by the juggernaut of job training policy, and the paucity of labor exchange research is a result.

Draft chapters of this book were written for and presented at a conference held at Brook Lodge in Augusta, Michigan, during September 2002. The W.E. Upjohn Institute for Employment Research and the U.S. Department of Labor sponsored the conference. At the conference, authors presented overviews of their chapters and discussants provided constructive critiques aimed at improving the coverage and exposition of chapters. Other employment policy experts in attendance at the conference added further suggestions from the floor. In addition to all conference participants, who are listed at the back of this book, we thank others who assisted in publication, including: Claire Black, Allison Hewitt Colosky, Kevin Hollenbeck, Phyllis Molhoek, and Stephen A. Wandner.

The authors and editors have been free to express their own opinions. Consequently, the text does not necessarily reflect the positions or viewpoints of the W.E. Upjohn Institute for Employment Research, the U.S. Department
of Labor, or other organizations with which chapter authors and the book editors are associated.

David E. Balducchi
Randall W. Eberts
Christopher J. O’Leary
1
Overview of Labor Exchange
Policies and Services

Randall W. Eberts
Harry J. Holzer

THE ROLE AND FUNCTION OF LABOR EXCHANGE IN A MARKET ECONOMY

The proper matching of workers with job openings is essential for a well-functioning market economy. In recent years, more than 10 percent of the U.S. workforce search for jobs at any one time. Some people search because they have been recently displaced; others are currently employed but search in hopes of a better job that perhaps pays more, offers more benefits, has better career possibilities, or fits more closely with their personal preferences; while others are entering the labor market for the first time. Whoever is searching and for whatever reason, the process typically requires knowledge of job prospects, the qualifications sought by employers looking for workers, and the ability of workers to communicate to employers their qualifications and worthiness for successfully filling vacancies. Many workers and employers can acquire the appropriate information when needed and understand the steps required to undertake a successful interview. Yet, for some, accessing this information is more difficult. Obviously, it benefits all of society and the economy when everyone is afforded this information and assistance.

The federal and state governments have long recognized the importance of assisting in the job search process. In 1933, the Wagner-Peyser Act was established to provide federal funding to states to op-
erate a nationwide network of public employment offices. Since enactment, labor exchange (e.g., job finding and placement) services under the Wagner-Peyser Act have been available universally to employers and job seekers without charges or conditions. Today, this network includes more than 3,400 offices that are associated with state one-stop delivery systems. The Workforce Investment Act (WIA) of 1998 amended the Wagner-Peyser Act to be part of the one-stop delivery system, which provides universal access to core (i.e., labor exchange) services and Title I adult and dislocated worker programs. The one-stop centers provide services to both job seekers and employers. For the job seeker, services include assessment, counseling and testing, job search workshops, and job placement. For employers, services include job order taking, recruitment, screening, and referral of job seekers. The WIA also mandated the development and continuous improvement of a nationwide system of employment statistics and other information that could aid in the job search process.

This chapter provides an overview of the job search process and the role of local public employment offices in assisting people and employers make the proper match. First we offer a brief history of the functions and organizational structure of the Employment Service (ES). In reviewing its current structure, we focus specifically on how its present operations under WIA are designed to assist in the job search process. Next we focus on the job search process and describe the methods people use to search for jobs, and also the methods employers use to fill vacancies. This discussion includes recent trends in this process and explores various factors that may have prompted such changes. Greater employer demand for highly skilled workers, changes in occupational and industrial structure, and the rapid adoption of the Internet as a means of sharing information are but a few of the factors that may affect the job search process. We also present evidence of the effectiveness of the ES vis-à-vis other job search methods.

The following chapters provide detailed coverage of key issues regarding the public ES. Historically, state employment security agencies (lately referred to as state workforce agencies) in the United States are comprised of the ES agency and the unemployment insurance (UI) agency. When considered together, these agencies have administered three workforce development functions: 1) labor exchange (e.g., job brokering) services, 2) labor market information, and 3) administration
of labor adjustment programs and UI programs. The role of the state ES agency in providing labor exchange services has varied with changes in the economy, both cyclically and structurally, and with changes in the emphasis placed on finding jobs for different segments of the population. Chapter 2, written by David Balducchi and Alison Pasternak, looks at the federal–state relations in labor exchange policy. Since its inception, the public employment service has been a partnership among the federal and state governments, and the authors follow the evolution of that relationship up through the partnerships forged under the Workforce Investment Act of 1998. In Chapter 3, Neil Ridley and William Tracy turn their attention to trends affecting the delivery of labor exchange services by state agencies, particularly their relationships with other public programs. Based on interviews with local ES administrators, they see the future of ES as creating paths for individuals and employers to gain access to emerging labor market intermediaries.

Chapters 4 and 5 address the issue of performance. First, David Smole examines the performance and accountability mechanisms under which ES offices operate, then Christopher O’Leary reviews the studies that have assessed the effectiveness of ES services in helping job seekers find jobs. Smole concludes that performance measurement is a valuable tool for effective service delivery and that federal and state agencies have made considerable progress in establishing such systems. O’Leary, based upon nearly a dozen evaluations of ES functions conducted over the past two decades, concludes that job search assistance programs are cost effective, more so than job training and public employment programs.

In Chapter 6, Jim Woods and Pam Frugoli examine the burgeoning number and assortment of tools and sources of information available on the Internet that can help people find jobs. One of the challenges this trend presents, they argue, is the ability to discern quality information and to use it effectively. Douglas Lippoldt and Melvin Brodsky, in Chapter 7, present an international perspective of job brokerage functions, highlighting the diverse approaches but underscoring significant, common features in the attempts by various countries to modernize and reform their labor exchange systems. Chapter 8, by David Balducchi, Randall Eberts, and Christopher O’Leary, provides an overview, as well as a discussion of the current and future role of labor exchange services.
What is the appropriate role for government in helping job seekers and employers make the proper match? Examining this question is one of the major objectives of this volume. Economic theory posits that government intervention is necessary if there are market failures or inequities in the access to resources. In the case of the job search process, the ultimate issues are information about the job seeker and the vacancy and equal and open access to employers. An efficient job-matching process requires that all job seekers and recruiters have sufficient information to make the proper match. This requires access to information about job openings and information about how to contact employers and how to present a job seeker’s qualifications in a way that employers will take notice (Holzer 1998).

In other countries, the ES typically encompasses four functions—job brokering, labor market information, administration of labor market adjustment programs, and administration of unemployment compensation. While the employment service in the United States has focused primarily on labor exchange services, it has over its 70-year history partnered with other programs that have been responsible for the other functions listed above.

Table 1.1 offers a synopsis of the way in which key federal employment programs have addressed these four functions in the United States. The federal role in the employment service began during the Great Depression with the passage of the Wagner-Peyser Act in 1933, by providing funds to provide a national network of state ES offices. These offices acted primarily as a placement agency to refer applicants to public sector jobs. Although its mandate was broader in providing free services to everyone looking for gainful employment, the lack of private-sector jobs relegated the ES to placing workers in public works programs, such as the Works Projects Administration and Civilian Conservation Corps. This primary focus on job placement, however, did not last long. Title III of the Social Security Act of 1935 created the unemployment insurance program and directed that benefits be paid through the public employment offices or other agencies. This role brought the ES into partnership with the UI program. In order to receive UI benefits, 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 job, even though it may not be the preferred match. This relationship between ES and UI has prevailed over its entire history. In recent years, however, it may be decoupled to some extent as more states are implementing phone and Internet UI claim taking. Research in this area is as yet only expositive.

The ES underwent another transformation after World War II. With 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. 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 areas—job training and labor market information. Both initially came about with the enactment of the Area Redevelopment Act in 1961. This legislation required the ES 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, passed in 1973, established a
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<td>Comprehensive Employment and Training Act, 1973; and Job Training Partnership Act, 1982</td>
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<td>Universal access to core reemployment services</td>
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<td></td>
<td>Enhanced the labor market information</td>
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<td>Integrated reemployment and training programs</td>
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<td>Worker Profiling and Reemployment Services system established in 1994</td>
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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. A decade later, the Job Training and Partnership Act 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.

As more responsibility was devolved to the states and local entities, the federal government became less involved with the labor exchange functions. For the most part, the U.S. Department of Labor (USDOL) 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 were also reduced and some states experienced further reductions as ES funding to states was based on need. Smole (Chapter 4 in this volume) estimated that funding (measured in real terms) fell by 37.2 percent from 1984 to 2002. Some states during this time period tried to augment these funds through special assessments or by tapping UI funds (Balducchi, Johnson, and Gritz 1997).

As funding fell, so did the delivery of key placement-related services. Two reports by the U.S. General Accounting Office (USGAO), both mandated by Congress, documented the deterioration in services. A 1989 report (USGAO 1989) noted a significant decline in the provision of one-on-one assistance, counseling, and testing throughout much of the 1980s. 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. Another USGAO report a year later (USGAO 1990) 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. Several key groups—including USDOL, organized labor, and local workforce agency associations—formed a working group to address these issues and try to refocus and revitalize the ES. The working group released a report entitled the Employment Service Revitalization Work Plan in 1994 that called for the ES to become the “nation’s recognized leader in providing efficient labor exchange services and a universal gateway to workforce development resources by professional, empowered employees” (p. vi). The report became the blueprint for revitalizing the ES.

The Employment and Training Administration (ETA) of 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. The CareerOneStop portal Web site (formerly known as America’s Career Kit) includes a nationwide electronic resume and vacancy databases, referred to as America’s Talent Bank and America’s Job Bank, respectively. Other job search services are available through this Web site. In addition, America’s Career InfoNet provides information about alternative occupations, including which occupations have the most job openings, the highest growth rate, the best wages, and the most employment. It also allows a job seeker 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 incorporated in the Workforce Investment Act (WIA) of 1998. The main philosophy behind the bill is the integration and coordination of employment services. Central to achieving this aim is the criterion of one-stop centers, where providers of various employment services, including ES, within a local labor market are assembled in one location. This arrangement is expected to coordinate and streamline the delivery of employment-based programs and to meet the needs of job seekers and employers more effectively than did the previous system.

In many respects, WIA may have brought the ES full circle by returning its function to the original intent of the Wagner-Peyser Act, passed nearly 70 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: core, intensive, and training. The core services include basic labor exchange and may be provided by the ES or Title I adult and dislocated worker service providers. These services are available to all and may be 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 and the ES, as appropriate. Training services comprise the third tier and require the most staff time, and are provided by Title I service providers. 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 to provide basic labor exchange services, while consolidating these activities into a broader array of workforce development services.

HOW PEOPLE SEARCH FOR JOBS

The purpose of this section is to describe the various methods by which people gather information about jobs and apply for work. As we shall see in this section, the public ES is but one of several ways in which job searchers gain information about job prospects and contact employers. We consider two broad groups of job searchers—each of which have different motivations for searching. The first group includes the unemployed who are actively searching for work; the second includes those currently employed who are actively searching for a different job.

One would expect that the motivation for searching is different for people in the two groups. The unemployed are trying to find a job to replace the one they lost and to restore their lost source of income. The employed are looking for jobs with higher salary, better benefits, more favorable working conditions, or better career prospects, to name a few
prominent reasons. In addition to these factors, the two groups are likely to vary by other characteristics—some of which (e.g., age and education) we can observe and control for in our statistical work, while others (e.g., quality of personal networks, ambitions, and cognitive or other labor market skills) we cannot. These other characteristics should affect not only the search methods that employed and unemployed individuals choose to use, but other dimensions of their search strategies as well.\(^3\)

Since 1967, the Current Population Survey (CPS) has included specific questions about job search activities, but only of those who are currently unemployed and actively looking for work. Originally six methods were included:

1) checked with public employment agency,  
2) checked with private employment agency,  
3) checked with employer directly,  
4) checked with friends or relatives,  
5) placed or answered ads, and  
6) used other search methods.

More recently, three other methods were added to the survey:

1) sent out resumes and filled out applications,  
2) checked with university and school placement centers, and  
3) checked union/professional registers.

To be counted as unemployed, individuals must answer affirmatively to one or more of these questions (respondents may report more than one method).

Some researchers have categorized these methods as being either formal or informal. Formal methods include the use of either public or private agencies, or other institutions (schools, unions, etc.). Informal methods include checking with friends and relatives and direct applications to firms.\(^4\) Formal and informal methods differ systematically from each other in that more informal search methods 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. On the other hand, the public ES, while less expensive than other formal methods, has been widely perceived as generating potential jobs that offer lower wages and benefits and require fewer skills.

In the standard economic models of how search choices are made (e.g., Holzer 1988), individual job seekers choose one or more of these methods based on their expected benefits to the job search process relative to their costs, in terms of time and/or money. The expected benefit is the likelihood that using that method will generate a job offer that is acceptable to the job seeker (in terms of wages, benefits, working conditions, etc.). As the likelihood increases that an acceptable offer is generated, the duration of search (and therefore unemployment for some) shortens.

But the benefits accruing from the use of any particular method are also likely to vary across individuals. For instance, African Americans may encounter less hiring discrimination when using more formal methods, since informality might breed a kind of subjectivity that lends itself to greater discrimination (Bradshaw 1973; Holzer 1987; Moss and Tilly 2001). Furthermore, those whose social networks include fewer people or only those working at very low wages may find informal networks somewhat less useful than other methods, such as the use of the public employment agency.

In fact, these arguments suggest more broadly why it is important for the government to offer assistance with the labor exchange process, despite the availability of several other methods of search among which individuals are free to make their optimal choices. For one thing, the privately available methods might generate some type of market failure, and therefore inefficiency, if information about the quantity and quality of jobs is very imperfect among private networks and organizations. Furthermore, even if the markets do not exhibit any failure, there may be some ability of the public employment agency to help redistribute job opportunities to those with fewer opportunities on their own, such as minorities or other disadvantaged groups.

Of course, whether or not the public employment agency successfully improves the efficiency of the market or redistributes its benefits depends on the cost-effectiveness of its activities, an issue to which we return below and one that will be considered in greater depth in Chapter 5.
Job Search by the Unemployed

The unemployed, those without jobs who are actively seeking employment, are comprised of at least three groups: 1) displaced workers, 2) those dismissed or who voluntarily quit, and 3) those entering the workforce for the first time or after a long hiatus. We distinguish among these three groups because their motivations for finding work, and thus their process for doing so, may differ.

Recognizing such differences may be important in understanding the best role for the ES. People in the first two groups are obviously searching for a job to replace the one they recently lost. Those displaced from previous jobs may collect regular UI benefits for up to 26 weeks while they look for work. The income support, while not replacing their entire previous earnings, offers job searchers an opportunity to look for a good job match without forcing them to take the first job offer that comes along, which may be an inferior match. Studies show, however, that most displaced workers accept jobs that offer wages that are lower than they received in their previous job. The number of displaced workers actively looking for work, relative to other categories of unemployment, also depends on economic conditions.

Those dismissed or who quit voluntarily are also included in the group of unemployed but are typically not eligible for UI benefits, so they might face some greater urgency in finding new employment. On the other hand, those who quit and become unemployed choose this status voluntarily, and might therefore feel less constrained than those who lose their jobs involuntarily.

Finally, individuals who are entering the labor force, such as recent high school or college graduates or older women who have never worked outside the home, may be unfamiliar with the job search process and the techniques necessary to find a job. These individuals may be more likely to ask advice from friends and relatives on how to proceed or to seek assistance from public and private employment agencies.

Of course, individuals across three categories of unemployment differ from one another not only in their access to UI benefits, but also in terms of skills, attitudes, and a variety of other personal characteristics, as we note below.

According to the CPS, the most widely used job search method is to contact employers directly. In 2001, 62 percent of job seekers listed
that method as one of their job search activities, as shown in Table 1.2. 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 was ranked a distant third, with 19 percent of the respondents indicating that they checked with the public employment agency in the past four weeks for help in finding a job. Interestingly, slightly more than twice as many respondents indicated that they checked with the public employment agency than with a private employment agency. Since temporary help agencies are likely

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

NOTE: Percentages in the columns do not add up to 100 because job seekers can use more than one search mode. Percentages in the first column are based on all unemployed 16 years or older looking for work and are not on layoff. Percentages in the second column are drawn from the same group as column one except that percentages in this column are also based on those who reported using the public employment agency. Percentages in the third column are constructed in the same way as in the second column except it includes all those who reported not using the public employment service.

included in the latter category, the role of temporary employment agencies among the unemployed overall thus remains fairly small.\textsuperscript{11}

Slightly more than half of the job seekers engaged in two or more methods during their job search. For those listing the public employment agency as one of their search activities, 87 percent of the job seekers used at least one other search mode. Public ES applicants have a tendency to contact employers directly a little less frequently and to send out resumes and fill out applications slightly less often than non-ES users (Table 1.2). On the other hand, they are more likely to contact friends and relatives, place or answer ads, check with university/school placement centers, and check union/professional registers. Interestingly, they are three times more likely to use private employment agencies than those not using public employment agencies. Therefore, it appears that the private employment agency is not necessarily a substitute for the public ES, at least not for the overall population of active job seekers.

The use of public ES services (and other search methods) varies by the reason for unemployment. As shown in Table 1.3, job losers who are not on layoff use the public employment agency more often than other types of unemployed. Twenty-seven percent of job seekers in this group used the public employment service, which is about 40 percent more often than for the entire group of job seekers. New entrants into the labor force, on the other hand, are the least likely to use the public ES.

These results might, at least in part, reflect the fact that the use of public employment agencies also differs by the personal characteristics of job seekers. Analysis of the CPS reveals that the public ES is used more often by job seekers who are African Americans or Native Americans, 25 years or older (but not after 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 or 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.\textsuperscript{12}

Differences in the use of the ES by education level, along with increases in the educational attainment of the labor force over time, also might help to account for the apparent decline in the use of public employment agencies in the search process. For instance, Ports (1993)
Table 1.3 Percentage Unemployed using Job Search Methods by Reason of Unemployment

<table>
<thead>
<tr>
<th>Search method</th>
<th>Other job loser</th>
<th>Temp. job ended</th>
<th>Job leaver</th>
<th>Reentrant</th>
<th>New entrant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contacted employer directly</td>
<td>65.7</td>
<td>61.4</td>
<td>65.2</td>
<td>59.0</td>
<td>57.3</td>
</tr>
<tr>
<td>Public employment agency</td>
<td>27.1</td>
<td>21.3</td>
<td>19.1</td>
<td>12.9</td>
<td>10.6</td>
</tr>
<tr>
<td>Private employment agency</td>
<td>12.2</td>
<td>10.3</td>
<td>9.2</td>
<td>5.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Contacted friends and relatives</td>
<td>20.2</td>
<td>16.4</td>
<td>12.7</td>
<td>12.8</td>
<td>12.4</td>
</tr>
<tr>
<td>Contacted school/university emp. ctr.</td>
<td>2.4</td>
<td>2.2</td>
<td>2.4</td>
<td>3.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Sent out resumes/filled out applications</td>
<td>54.5</td>
<td>43.6</td>
<td>51.0</td>
<td>50.9</td>
<td>52.2</td>
</tr>
<tr>
<td>Checked union/professional registers</td>
<td>3.6</td>
<td>4.3</td>
<td>1.8</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Placed or answered ads</td>
<td>20.7</td>
<td>13.0</td>
<td>17.5</td>
<td>12.3</td>
<td>9.1</td>
</tr>
<tr>
<td>Used other active methods</td>
<td>8.4</td>
<td>7.3</td>
<td>7.5</td>
<td>5.7</td>
<td>3.7</td>
</tr>
</tbody>
</table>

NOTE: Percentages in the columns do not add up to 100 since job seekers can use more than one search mode. Percentages in each column are based on all unemployed 16 years or older looking for work, are not on layoff, and who reported their reason for being unemployed.


shows that more than 30 percent of unemployed job seekers used the public ES in 1970, compared to 23 percent in 1992 and 19 percent in 2001 (as discussed above).

In sum, the data suggest that public employment agencies are not among the most heavily used methods of search by the unemployed, but that they are still used by a significant fraction of unemployed job seekers, especially among those who lose their jobs involuntarily.

Job Search by Employed Workers

Employed workers also actively search for jobs. According to the CPS, 4.5 percent of the employed wage and salary workers, slightly
over 5 million people, actively searched for different jobs in 1999. This number is comparable in magnitude to the 5.6 million unemployed workers who searched during the same time period.

As stated earlier, employed workers may consider changing jobs in order to receive higher compensation, better benefits, more flexibility, better future job and career prospects, or simply a more enjoyable working environment. Meisenheimer and Ilg (2000), using a special supplement of the CPS, conducted research that supports these reasons. They found that younger workers 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 who were without retirement benefits were also more likely to explore job options. In addition, salaried workers with higher levels of education were more likely to look for other jobs, while those with longer tenure were less likely to explore job options.

Unfortunately, the CPS supplement does not ask employed job seekers to list the methods of search that they used. If one can draw parallels between both employed and unemployed job seekers by demographic characteristics, it appears that the larger portion of employed job seekers may be less likely to use the public employment agency because employed job seekers are younger and have higher levels of education. Unemployed job seekers with these characteristics were less likely to use the public ES.

In fact, data pertaining to the use of different search methods by all recent job seekers—both employed and unemployed—are available from a variety of other sources, but only for specific age groups (such as youth) and/or in specific times and places. The general results on search methods in these data differ somewhat from those presented here for the unemployed (especially on the role of friends and relatives in the search process). But they confirm that the ES is used by significant fractions of job seekers—for example, roughly 10–20 percent among whites and 15–30 percent among minorities in the most recent and representative of these samples (Falcon and Melendez 2001).

**Job Search and the Internet**

Within the past few years, use of the Internet to conduct business, shop, and gather information has grown at an incredible pace. It has also changed the way many people search for jobs. Today, there are
more than 2,000 Internet job search sites in operation, offering job
seekers more convenient ways to access information about job postings
and to submit their resumes to prospective employers.

Analysis of a supplement of the Current Population Survey in Sep-
tember 2001 reveals that 31.9 percent of the unemployed (those active-
ly looking for work) and 11.3 percent of employed workers used the In-
ternet to search for a job. For the unemployed job seeker overall, the
Internet was the third most popular job search method. Only two search
methods—checking with employers directly and sending out resumes
or filling out applications—were used more often. For unemployed job
seekers with access to the Internet, 56 percent used the Internet to
search for a job, which was the same frequency of use as reported for
sending out resumes or filling out applications. About a third of the un-
employed Internet users submitted resumes or applied on-line, three
quarters researched potential employers, and nearly everyone searched
on-line for job listings (Table 1.4). Unemployed job seekers who con-
tact the public employment agency are more likely to search for a job
on the Internet than those who do not use the public ES (69 percent ver-
sus 53 percent).

While the Internet has given job seekers more options for where
and how they search for jobs, access to the Internet varies by race and
ethnicity. For those in the workforce, a smaller proportion of blacks and
Hispanics have access to the Internet than whites—51 percent for
blacks and 38 percent for Hispanics compared with 68 percent for
whites. The difference is slightly more pronounced for the unemployed,
with only 40 percent of blacks and 31 percent of Hispanics able to ac-
cess the Internet compared with 61 percent for whites. However, when
Internet access is available, the gap between groups in using the Inter-
et to search for jobs narrows markedly. Fifty-one percent of blacks and
46 percent of Hispanics search on the Internet, compared with 57 per-
cent for whites. Interestingly, for those employed with Internet access,
a higher percentage of blacks and Hispanics use the Internet to search
for jobs than do whites.

Effectiveness of the Public ES

How effective are the various methods of finding a job, particularly
the public ES? To provide a definitive answer to this question, one
Table 1.4  Use of the Internet for Job Search

### A. Access to Internet

<table>
<thead>
<tr>
<th></th>
<th>All persons</th>
<th>All workforce</th>
<th>All employed</th>
<th>All unemployed (looking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>120,000</td>
<td>94,121</td>
<td>90,417</td>
<td>3,402</td>
</tr>
<tr>
<td>Black</td>
<td>10,692</td>
<td>85,151</td>
<td>7,954</td>
<td>531</td>
</tr>
<tr>
<td>White</td>
<td>103,000</td>
<td>80,883</td>
<td>78,004</td>
<td>2,618</td>
</tr>
<tr>
<td>Hispanic</td>
<td>7,810</td>
<td>6,028</td>
<td>5,739</td>
<td>267</td>
</tr>
<tr>
<td></td>
<td>33.5</td>
<td>38.0</td>
<td>38.7</td>
<td>31.2</td>
</tr>
</tbody>
</table>

### B. Job search on the Internet for those with Internet access

<table>
<thead>
<tr>
<th></th>
<th>Employed</th>
<th>Unemployed (looking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>16.9</td>
<td>56.3</td>
</tr>
<tr>
<td>Black</td>
<td>21.8</td>
<td>51.2</td>
</tr>
<tr>
<td>White</td>
<td>16.2</td>
<td>56.8</td>
</tr>
<tr>
<td>Hispanic</td>
<td>17.5</td>
<td>45.6</td>
</tr>
</tbody>
</table>

### C. Search methods for those who have searched on the Internet

<table>
<thead>
<tr>
<th>Search method</th>
<th>Unemployed (looking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search on-line job listings</td>
<td>96.2</td>
</tr>
<tr>
<td>Research potential employers</td>
<td>72.6</td>
</tr>
<tr>
<td>Submit resume or application on-line</td>
<td>65.2</td>
</tr>
<tr>
<td>Post resume on a job listing site on-line</td>
<td>48.9</td>
</tr>
<tr>
<td>Post resume on own Web site</td>
<td>6.2</td>
</tr>
<tr>
<td>Other methods on-line</td>
<td>6.0</td>
</tr>
</tbody>
</table>

would need to specify the outcomes by which one is defining effectiveness—these might include higher rates of gaining employment (or shorter durations of search/unemployment), higher wages, and perhaps lower turnover rates. Of course, exactly how one quantifies these “benefits” of search, and especially how they might be compared to the “costs” of search in time and money, might be problematic.

Furthermore, to deal with the fact that individuals with different unobserved characteristics select search methods differently, one would also need to conduct a random assignment experiment to accurately gauge the effects of search method use on outcomes. Such an approach is difficult to administer, however, since the ES is mandated to provide services to all those who request it, 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 those who use the ES and those who do not. Chapter 4 in this volume offers a detailed examination of the various studies that have assessed the effectiveness of the various functions of the ES. These studies in general provide evidence that the ES might be a cost-effective method of searching for jobs, particularly because of its relatively low cost and its ability to place some referrals into jobs.

We set the stage for Chapter 4 by offering a broader perspective of the effectiveness of the ES relative to the other search methods. We update the study conducted by Bortnick and Ports (1992), which uses the CPS to follow job seekers over time. We record the employment status of job seekers one month after they reported searching for a job. We then relate the job search method that they used to their employment status in the following month.\(^\text{15}\)

In 2001, 26.5 percent of the unemployed reported finding a job the next month. The success rate varied to some extent by method of search, as shown in Table 1.5. Those contacting employers directly had the greatest success in finding a job (28.9 percent), while those using the public ES had the least success (24.3 percent). The difference, however, was relatively small—4.6 percentage points. This difference could result from differences in demographic characteristics among those who use various search modes. For instance, white
job seekers have higher success rates than black job seekers (28.8 percent versus 19.6 percent), and men have slightly more success finding jobs than women (27.3 percent versus 25.9 percent). In addition, younger job seekers are more likely to find jobs than older workers. Since the employment service is more likely to serve those groups who are less successful finding a job, it is understandable that the employment rates for the employment service is lower than other modes.

When two search methods are considered in tandem, the ES fares better. For example, when the ES is combined with answering ads and filling out applications, it ranks second with a success rate of 31.5 percent. This is close behind the combination of direct employer contact and use of the private employment agency, which had a success rate of 32.6 percent (Table 1.6). It is also interesting that the success rate for those using a private employment agency and answering ads is in last place with a 5.6 percent success rate. The demographic composition of those using these search methods undoubtedly plays a significant role in the success rates.

Results from other studies clearly indicate that the public ES accounts for very small percentages of all jobs attained by job seekers—indeed, usually well under 10 percent. This reflects the fact that the ES is used less frequently than other methods, but also that it is less effective in generating employment when used.\textsuperscript{16}

Furthermore, a wide range of studies shows that job seekers using the public ES experienced worse employment outcomes along many dimensions, including lower wages and higher subsequent turnover (Bishop and Abraham 1993; Holzer 1998). However, it is impossible to infer anything about the productivity or cost-effectiveness of the search method in these cases, because these results may be driven partially or completely by the relatively weaker skills and personal characteristics of those who choose to use this method.

Indeed, the relevant question for the public ES is whether those who use it have significantly better outcomes than they would have had the service not been available, and how any such gains compare to the public cost of providing the service. As we stated earlier, without a random assignment evaluation (or something close to it), it is very difficult to provide definitive answers to such questions.\textsuperscript{17}
Table 1.5 Employment Status of Job Seeker in Month after Reported Searching for a Job, by Mode of Search

<table>
<thead>
<tr>
<th>Method of search in first month</th>
<th>Total job seekers in first month</th>
<th>Labor force status in second month (percent distribution)</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Total</td>
<td>Employed</td>
<td>Still searching</td>
</tr>
<tr>
<td>Employer directly</td>
<td>13,465</td>
<td>100.0</td>
<td>28.9</td>
</tr>
<tr>
<td>Men</td>
<td>7,209</td>
<td>100.0</td>
<td>29.4</td>
</tr>
<tr>
<td>Women</td>
<td>6,256</td>
<td>100.0</td>
<td>28.3</td>
</tr>
<tr>
<td>Private agency</td>
<td>1,878</td>
<td>100.0</td>
<td>26.8</td>
</tr>
<tr>
<td>Men</td>
<td>1,007</td>
<td>100.0</td>
<td>26.2</td>
</tr>
<tr>
<td>Women</td>
<td>871</td>
<td>100.0</td>
<td>27.4</td>
</tr>
<tr>
<td>Other methods</td>
<td>12,937</td>
<td>100.0</td>
<td>25.7</td>
</tr>
<tr>
<td>Men</td>
<td>6,548</td>
<td>100.0</td>
<td>25.8</td>
</tr>
<tr>
<td>Women</td>
<td>6,389</td>
<td>100.0</td>
<td>25.6</td>
</tr>
<tr>
<td>Placed or answered ads</td>
<td>3,322</td>
<td>100.0</td>
<td>25.7</td>
</tr>
<tr>
<td>Men</td>
<td>1,675</td>
<td>100.0</td>
<td>26.6</td>
</tr>
<tr>
<td>Women</td>
<td>1,647</td>
<td>100.0</td>
<td>24.8</td>
</tr>
<tr>
<td>Friends and relatives</td>
<td>3,268</td>
<td>100.0</td>
<td>25.6</td>
</tr>
<tr>
<td>Men</td>
<td>1,855</td>
<td>100.0</td>
<td>26.4</td>
</tr>
<tr>
<td>Women</td>
<td>1,413</td>
<td>100.0</td>
<td>24.6</td>
</tr>
<tr>
<td>Public agency</td>
<td>4,499</td>
<td>100.0</td>
<td>24.3</td>
</tr>
<tr>
<td>Men</td>
<td>2,381</td>
<td>100.0</td>
<td>24.4</td>
</tr>
<tr>
<td>Women</td>
<td>2,118</td>
<td>100.0</td>
<td>24.1</td>
</tr>
<tr>
<td></td>
<td>Total unemployed job seekers</td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------------------------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>22,055</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>26.6</td>
<td>27.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>46.0</td>
<td>47.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.4</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>26.0</td>
<td>23.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25.9</td>
<td>44.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.9</td>
<td>29.1</td>
</tr>
</tbody>
</table>

NOTE: Calculations are based on all unemployed 16 years or older looking for work, and are not on layoff. Job seekers are counted once for every job search method they reported in the first month. Therefore, there is overlap among the different search modes.

Table 1.6 Employment Status of Job Seeker in Month after Reported Searching for a Job, by Combinations of Two Modes of Search

<table>
<thead>
<tr>
<th>Two methods of search in first month</th>
<th>Total job seekers in first month</th>
<th>Labor force status in second month (percent distribution)</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Employed</td>
<td>Still searching</td>
</tr>
<tr>
<td>Employer/private agency</td>
<td>144</td>
<td>100.0</td>
<td>32.6</td>
</tr>
<tr>
<td>Ads/public agency</td>
<td>89</td>
<td>100.0</td>
<td>31.5</td>
</tr>
<tr>
<td>Employer/friend, relative</td>
<td>449</td>
<td>100.0</td>
<td>29.8</td>
</tr>
<tr>
<td>Employer/public agency</td>
<td>773</td>
<td>100.0</td>
<td>27.8</td>
</tr>
<tr>
<td>Private agency/other</td>
<td>178</td>
<td>100.0</td>
<td>25.5</td>
</tr>
<tr>
<td>Ads/friends, relative</td>
<td>68</td>
<td>100.0</td>
<td>23.5</td>
</tr>
<tr>
<td>Employer/ads</td>
<td>467</td>
<td>100.0</td>
<td>23.1</td>
</tr>
<tr>
<td>Private agency/public agency</td>
<td>94</td>
<td>100.0</td>
<td>21.3</td>
</tr>
<tr>
<td>Friends, relatives/public agency</td>
<td>86</td>
<td>100.0</td>
<td>20.9</td>
</tr>
<tr>
<td>Private agency/friends, relative</td>
<td>34</td>
<td>100.0</td>
<td>20.6</td>
</tr>
<tr>
<td>Other/public agency</td>
<td>559</td>
<td>100.0</td>
<td>19.5</td>
</tr>
<tr>
<td>Other/friends, relatives</td>
<td>373</td>
<td>100.0</td>
<td>19.3</td>
</tr>
<tr>
<td>Private agency/ads</td>
<td>18</td>
<td>100.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Total unemployed job seekers</td>
<td>22,055</td>
<td>100.0</td>
<td>26.6</td>
</tr>
</tbody>
</table>

HOW EMPLOYERS RECRUIT WORKERS

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 has conducted several studies that examine the methods employers use to recruit and hire. This section borrows heavily from a study that reports the results of the most recent survey, which was administered in 1992 and 1994 to workers in four large metropolitan areas (Holzer 1998). Holzer’s survey asks employers to list the methods that they recently used to search, and which method generated their most recent hire. The search options included in the survey are similar to those included in the CPS for households, with a few exceptions.18

Not surprisingly, the results reveal several similarities in the way in which workers and employers search.19 As is the case with job seekers, direct contact is one of the most often used methods of recruiting and screening workers. Seventy-two percent of the establishments surveyed relied on direct walk-ins to find prospective workers. The most frequently used method of recruiting workers was informal referral. Almost 90 percent of employers considered informal referrals when looking to hire new workers. In contrast, only 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 those businesses using public agencies to recruit workers.

The use of public employment agencies by businesses varies 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. Holzer’s 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, but at the same time they also use informal referral methods more often.
than anyone else. Businesses in the retail trade industry, on the other hand, are most likely to use informal referral to recruit workers.

When businesses were asked which method they actually used in recruiting their most recent hire, they reported that state ES agencies generated very few hires. Only 2.6 percent of businesses reported that state ES agencies generated their most recent hires. This percentage is quite small compared with the most frequently used methods—informal referrals (40 percent) and newspaper ads (28 percent). Even private employment agencies, which were not used as often in recruiting workers, generated more hires than state employment agencies (6.4 percent versus 2.6 percent). Among the different types of industries and jobs, the public employment agency was most successful in generating hires in white-collar jobs requiring no college education, for the largest establishments, and for the manufacturing sector. They were least effective for jobs requiring a college education, in small firms, and for public-sector employers.

The results of Holzer’s study are thus consistent with others that have found that the public employment agency generates relatively few hires overall. Studies have also shown that the role of the public employment agency has declined in recent years. One explanation has been that employers perceive referrals from the employment service as consisting of relatively low-skill workers and for those job seekers with few options. Therefore, as the ES has focused more over the years on providing labor exchange services for the economically disadvantaged, it is difficult to disentangle the effectiveness of this source of referrals and job search method from the customers that it seeks to serve.

CONCLUSION

During its 70-year history, the public ES has provided labor exchange services to a large and diverse number of people and to employers. Originally conceived as a provider of free services to anyone looking for a job, it has undergone significant changes over the years in response to economic and political demands. It has partnered in various ways with other federal programs to direct resources to various subgroups of the population and to support different types of employment
programs. Yet, despite these diversions, the public ES has not strayed far from its core purpose of promoting an efficient job-matching system. With the passage of the Workforce Investment Act, the public ES has been firmly established, once again, as providing universal access to labor exchange services.

Yet, the public ES faces several challenges. First, the use of the public employment agency has declined over the past few decades. Today, roughly 19 percent of the unemployed use the public employment agency compared with 30 percent three decades before. The public ES competes with private placement agencies and perhaps more importantly with the Internet and its countless number of job listing Web sites and direct links to employers. Second, the public ES is seen by many employers and workers as the labor exchange for minorities, less-educated workers, older workers, and displaced workers. This limits the extent to which many on both sides of the labor market are interested in using it, which could undermine its effectiveness. Third, fewer jobs are found through the public ES than through other search methods, such as private employment agencies and direct employer contacts. Also, wages earned among those using public agencies are lower and subsequent turnover rates higher than for those finding jobs through other methods. These lagging measures of effectiveness, while not conclusive evidence of the performance of the public ES, underscore how the three issues are related. Lower placement rates, lower wages, and higher turnover may be related to the average ability of those using the public ES to find and hold higher-paying jobs, which in turn may explain the declining reliance over time on the public ES by both workers and employers.

These findings raise questions about the future of the public ES and how well it is positioned to face the challenges generated by the Workforce Investment Act, the use of one-stop centers, the Internet technologies now available, and the implementation of remote UI claim processing. Obviously, it is impossible to foresee perfectly what lies ahead for the public ES. The following chapters in this book are intended to provide more detailed information about the history, institutional arrangements, and effectiveness of the public ES. By providing this information, it is our hope that practitioners and policymakers can more clearly understand the factors affecting the public ES and become better informed in their efforts to improve the reach and effectiveness of labor exchange services in the United States.
The authors gratefully acknowledge the helpful and insightful comments of David Balducchi and the excellent assistance of Wei-Jang Huang in analyzing the CPS files. Opinions expressed in this paper are those of the authors and not those of the Upjohn Institute or Georgetown University.

1. States must administer a basic labor exchange system that has the capacity to assist job seekers in finding employment, assist employers in filling jobs, facilitate the match between job seekers and employers, participate in a system of clearing labor markets between states, meet the work test requirements of the state UI program (20 CFR 652.3), and deliver services as part of the state one-stop delivery system (section 7(e), Wagner-Peyser Act).

2. This section relies on Balducchi, Johnson, and Gritz (1997) and Fay and Lippoldt (1999).

3. These other dimensions of job search include the intensity with which individuals seek new work (i.e., how many hours per week they spend searching) and their lowest acceptable wages (known among economists as “reservation wages”).

4. 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.

5. The costs of search among the unemployed can also be affected by the availability of other income from spouses or unemployment insurance.

6. Interestingly, Latinos use informal networks more heavily than other whites or blacks, despite the relatively low wages that these networks sometimes generate. See Falcon and Melendez (2001).

7. An additional group, those who are on temporary layoff awaiting recall to their previous jobs, are also considered unemployed but generally are not in the category of job seekers.

8. The loss of training that is somewhat specific to that job, as well as lost “tenure” (or seniority), account for much of the lost earnings that we observe. See, for example, Jacobson LaLonde, and Sullivan (1993).

9. Those who quit can do so either before or after they have already located another job. Afterward, they would fall into the category of employed rather than unemployed job seekers.

10. We include those who are unemployed and looking for work but who are not on layoff.

11. But the temporary agencies’ role for some groups of disadvantaged workers, such as welfare recipients, might be greater. See Autor and Houseman (2002).

12. Estimates (not shown) are by the authors using the 2001 monthly files of the CPS and are available from the authors by request.

13. For instance, the National Longitudinal Survey of Youth (1979 cohort) included questions on search methods used, as well as employment outcomes, in 1981 and 1982. Similar questions were used in the household surveys of the Multi-City
Study of Urban Inequality (MCSUI) during the mid 1990s in Atlanta, Boston, Detroit, and Los Angeles. Data from a survey of methods used by all job seekers can also be found in the U.S. Department of Labor (1976).

14. The papers by Holzer (1987, 1988) using the National Longitudinal Survey of Youth document much larger percentages of workers using friends and relatives in the search process and also finding their jobs that way than does the CPS sample, as does an early analysis from the Panel Survey of Income Dynamics (Datcher 1983) and also one from the Multi-City Study of Urban Inequality sample (Falcon and Melendez 2001).

15. We recognize that this method has several obvious drawbacks. First, as we have demonstrated in the previous sections, the use of different search methods differ by demographic characteristics and income, which are related to the likelihood of finding employment. Therefore, it is difficult to compare employment outcomes across different search modes. Second, job seekers use more than one mode during their search efforts, as we also showed. Following Bortnick and Ports, we counted job seekers once for every job search method they cited using in the first month. However, the search methods overlap and the employment outcomes cannot be attributed to only one specific outcome.

16. For instance, the data collected by the U.S. Department of Labor (1976) indicated that, while 27 percent of job seekers used the ES, only 6 percent of workers found their jobs that way. Though no such data have been recently reported for job seekers, the data discussed below from employers confirm that use of the employment service generates fewer new employees per method used than do other search methods.

17. An alternative, if the data were available, might be to use panel data on individuals who have been through at least two episodes of job search, and compare the results obtained from using the employment service with those obtained from other methods. Of course, such an analysis would control for fixed personal characteristics, but not those that might vary over time.

18. For instance, in addition to the state ES, the survey also asks whether businesses used community agencies to recruit workers.

19. In fact, for complete samples of jobs and job seekers, the results should be identical by definition.

20. This is also consistent with the evidence of lower wages paid in and higher turnover out of jobs filled by the ES compared to other methods, e.g., Bishop and Abraham (1993).
References


2
Federal–State Relations in Labor Exchange Policy

David E. Balducchi and Alison J. Pasternak

In 1933 the United States Employment Service was created—a co-operative State and Federal enterprise. . . . The Federal–State cooperation has been splendid.

Franklin D. Roosevelt
September 6, 1936

This chapter will describe noteworthy policy issues over the past decade that affected federal–state relations in the delivery of labor exchange services funded under the Wagner-Peyser Act of 1933. We will explain how the intergovernmental structure of the public employment service (ES) established under the Wagner-Peyser Act faced serious challenges during the 1990s and ultimately was strengthened. This was an era aptly described by Nathan and Gais (2000) as Second Order Devolution—a type of federalism that extols the merits of local authority and privatization of government services. While we will focus primarily on labor exchange policy of the 1990s, we also will summarize labor exchange policies from President Roosevelt’s New Deal of the 1930s to President Reagan’s New Federalism of the 1980s, and speculate on President George W. Bush’s labor exchange policy.

The division of power between state and local control of workforce development programs is a pivotal issue of workforce federalism. Since the 1970s, a constant tension in workforce federalism has existed between state-administered labor exchange programs under the Wagner-Peyser Act and local-administered job training programs under the Comprehensive Employment and Training Act (CETA), the Job Training Partnership Act (JTPA), and the Workforce Investment Act (WIA).
The division of power between the Wagner-Peyser Act and job training laws during three eras of New Federalism is the subject of this chapter. Our policy lens will be focused primarily on federal policy making, leading up to and following the enactment of WIA in 1998.

We aim to demystify some of the seeming contradictions of workforce federalism during the era of New Democrat President Clinton that paradoxically strengthened state control of labor exchange policy while consolidating control of local workforce development services under the one-stop delivery system. We will examine the relationships between the federal government and state and local authorities during a decade marked by notable changes in national labor exchange policy.

LABOR EXCHANGE POLICY, FEDERALISM, AND THE APPORTIONMENT OF RESPONSIBILITY BETWEEN LEVELS OF GOVERNMENT

More than 30 years ago, Richard H. Leach (1970, p. 57) wrote that federalism was designed as a negative device to inhibit the use of power in the United States. The examination of federal–state relations in the administration of a public ES requires study of federalism’s competing ideologies during the last century: centralized government to meet the economic crisis of the Great Depression; and its counterassault, decentralized government dubbed New Federalism, which shifted power to state and local authorities in order to reduce big government and deficit spending.

The Federal–State Relationship

Under the U.S. Constitution, responsibility between the central (i.e., federal) government and subgovernments (i.e., states) is divided. A federal system limits the centralization of power by defining spheres of authority. The Tenth Amendment specifies that those “powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.” The term local government does not appear in the Constitution. Throughout the Republic’s history, the division of authority between
the federal government and the states has been contentious. Resulting from that tension has been a remarkable elasticity in the relationship between the levels of government. This relationship has sustained the people’s general welfare and the capitalist market as authority has shifted back and forth to meet political and economic circumstances.

Cooperative Federalism and Labor Exchange Policy

By the early 20th century, nearly half the states and a small number of local governments created public employment offices to address Industrial Age dislocations resulting from economic downturns. In the 1930s, the mounting surge of unemployment incited a public demand for a national labor exchange policy. After an attempt to create a national ES system failed in 1931, two years later President Roosevelt signed into law the Wagner-Peyser Act.1

Under the Rooseveltian New Deal, federal programs to aid states were implemented under a cooperative partnership. According to Vines (1976, p. 13), cooperative federalism refers to cooperative procedures to accomplish national policies established by the federal government; state and local governments receive federal funds called grants-in-aid2 to administer public programs. During this period, direct federal intervention in state labor exchange policy helped shore up the U.S. economy through referral of unemployed workers by public employment offices to public works projects and establishment of a national ES system.

Under section 1 of the Wagner-Peyser Act, the U.S. Department of Labor (USDOL) was charged with 1) establishing a national system of public employment offices through a “confederation of permanent State employment services operating in cooperation with the Federal Government . . . ” (Persons 1934), and 2) revitalizing the U.S. Employment Service (USES) by vesting responsibility for administration of the federal–state ES system under its aegis. In essence, the Wagner-Peyser Act set up a federal-directed, state-run system of public employment offices.

The Wagner-Peyser Act was enacted as a federal–state grants-in-aid3 program. States created ES agencies through legislation in order to receive federal grants for administration of local ES offices. Except during World War II, when state ES agencies were federalized to recruit
labor for industrial defense production, the ES has remained a federal–state cooperative program. Preceding enactment of the Wagner-Peyser Act and for the next three decades, policy debates on governance centered on whether the ES should be nationalized or whether the federal–state structure should be maintained (Haber and Kruger 1964, p. 67). The federal–state arrangement was chosen over an entirely federal scheme for several reasons, among them was that state control allowed greater flexibility and efficiency in the management of local ES offices (Persons 1934, p. 4).4

Coordination of the UI and ES programs

The Social Security Act of 1935 required the payment of unemployment benefits through public employment offices or other offices approved by the Social Security Board. The Social Security Board designated only state ES offices for the payment of benefits. With the passage in 1938 of UI laws in all states, the states charged their ES offices with administering the so-called work test whereby to qualify for benefits, UI claimants must be able to work, be available for suitable work, and must register for work (in most states).

According to some observers, this new responsibility brought a mixed windfall. While it increased the number and diversity of workers on file, over time it dulled the image of state ES offices through their relationship with UI and identification as “unemployment offices”—places that did not attract workers seeking first or better jobs. Despite this, and due in part to postwar prosperity, from 1946 to 1962, when the Manpower Development and Training Act (MDTA) was enacted, state ES agencies were viewed as employer oriented, as they were the sole

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**Labor Exchange Services**

State ES agencies administer public labor exchange services without fee to job seekers or employers. Services for job seekers include assessment, together with interviewing, counseling, and testing; job search workshops; and job placement. Services for employers include job order taking, recruitment, screening, and referral of job seekers. Other services include matching job seekers and employers, administering work test requirements of state unemployment insurance (UI) laws, and producing and disseminating labor market information. Services under the Wagner-Peyser Act do not include skill training (section 7 of the Wagner-Peyser Act). Under Title I of WIA, adults and dislocated workers receive, without eligibility requirements, labor exchange services as core services from public and private service providers.
public employment agency designed to meet employers’ production requirements. The federal role in state labor exchange policy was mostly passive, and no attempt was made to manipulate the labor market (Johnson 1973, pp. 13–15).

**Creative Federalism and Labor Exchange Policy**

By the late 1950s, America began to address the problems of poverty, race, and class. Early job training programs were contained in the Area Redevelopment Act of 1961 and the MDTA of 1962. State ES agencies were assigned responsibility to designate areas of high unemployment, analyze the local labor market to determine suitable occupations for training, and select and refer job seekers to training (Guttman 1990). In 1964, President Johnson declared an “unconditional war on poverty” and signed the Economic Opportunity Act (EOA) into law. To this end, the federal government instituted job training programs, called “manpower programs,” in local areas to aid disadvantaged workers.

Johnson referred to this period as *Creative Federalism* (Wright 1997, p. 583), in which grants established direct intergovernmental relations at substate levels, often bypassing state or local governments. According to Guttman (1990), an alternative workforce development structure was created under EOA, in part because of concern that state ES agencies might not be responsive to disadvantaged workers. Localities administered most manpower programs through grants-in-aid, and the job matching role of state ES agencies was deemphasized (Balducchi, Johnson, and Gritz 1997, p. 408). The ES was tradition-bound and slow in instituting active labor exchange policies to assist disadvantaged workers (Sundquist 1968, p. 68). State ES agencies played a subordinate role in the delivery of services to the disadvantaged.

**New Federalism**

During the 1970s, President Nixon reduced federal grants-in-aid and replaced them with block grants to state and local governments, with the intention of decentralizing welfare and workforce development programs that provided services to localities. This approach became known as *New Federalism*—a domestic policy framework that exalts state and local control over federal control. The evolution of New
Federalism as it applies to labor exchange policy is examined during three eras:

1) Permissive New Federalism (Vines 1976). Nixon’s decentralized approach to workforce policies reduced grant-in-aid programs, instituted block grants, and established a federal–local training delivery structure under CETA.

2) Devolution New Federalism. Reagan’s devolutionary approach to workforce policies revamped the federal–local training structure and labeled it JTPA, expanded state control of ES activities, joined state ES and local job training planning and budgeting cycles, and nearly abdicated federal oversight of state ES agencies.

3) Second Order Devolution New Federalism. Clinton’s third-way approach to workforce policies gave preference to local control of workforce policies, sought to incorporate market-based principles into state one-stop delivery systems under WIA, and, after considerable political agitation, strengthened state control of labor exchange policy.

**Permissive New Federalism and Labor Exchange Policy**

The seeds of Permissive New Federalism in workforce development reform were sown when state ES agencies lost authority to federal–local community action agencies established under EOA (Guttman 1990). In 1973, Nixon approved a job training bill called CETA. This act provided job training funds through block grants to local governments, called prime sponsors. Prime sponsors were responsible for administering the delivery of job training through public and private agencies. According to Guttman (1990), it was recognized that services such as testing, counseling, job referral, and job development under CETA duplicated state ES services, so CETA contained provisions allowing for subcontracting to state ES agencies and requiring coordination. Decisions about how to accomplish subcontracting and coordination were left to local areas with varied results.

In 1978, as part of the renewal of CETA, President Carter supported the Nixon decentralized, local control approach to job training. Under Carter, prime sponsors were encouraged to establish private indus-
try councils that included business representatives to oversee job training priorities and promote employment. During this period, the federal–state structure of the Wagner-Peyser Act remained intact, and the role of state ES agencies was not at the forefront of workforce policy. Carter’s workforce development policy embraced Nixon’s New Federalism, ratifying a bipartisan preference for permissive, decentralized federalism.

**Devolution New Federalism and Labor Exchange Policy**

The goal of Reagan’s Devolution New Federalism⁶ was to devolve the federal role in the design, finance, and operation of social programs. Reagan was ideologically opposed not only to centralization of the New Deal and Great Society programs, but also to the decentralization of the Permissive New Federalism programs. Dissatisfaction with repeated allegations of fraud and abuse in CETA public service employment and training programs led to enactment in 1982 of JTPA, a trimmed-back version of CETA job training. Under JTPA, state governors “were promoted from merely overseeing the rural ‘balance of state’ [activities] to a dominant position in governing the program” (Mangum 2000, p. 296). Local prime sponsors were reorganized as service delivery areas and job training continued to be delivered by public and private agencies (Balducchi and Pasternak 2001).

Incorporation of state ES agencies into job training reform under JTPA was spurred by the politics of limited government. The Reagan Administration and the 97th Congress agreed that to achieve authentic coordination between state ES agencies and local job training agencies, the New Deal era Wagner-Peyser Act required an overhaul. To conform to Devolution New Federalism, Title V of JTPA included makeover amendments to the Wagner-Peyser Act. While the cooperative structure was retained, the amendments to the Wagner-Peyser Act shifted additional authority to states in three ways: 1) they allowed governors extensive discretion in the use of Wagner-Peyser Act funds to administer state ES agencies; 2) they provided for joint planning between state ES agencies and local job training agencies, and the review of both plans by state JTPA councils (which included employers); and 3) they created for the first time a needs-based state allocation formula based on la-
bor force size and unemployment rate. To the extent possible, federal involvement in the planning and administration of job training and ES programs was eliminated.

There is no legislative history explaining what Congress intended when it expanded state authority in the administration of ES programs (Guttman 1990). Perhaps the devolution of authority to states derived from the deregulatory climate of the Reagan era. Ardent USDOL political aides, whose policies reflected Reagan’s view of limited government, developed the Wagner-Peyser Act regulations issued in November 1983, and in 1987 supported a bolder legislative attempt by the Reagan Administration to devolve ES as part of the Trade, Employment and Productivity Act. The bill\textsuperscript{7} called for further reduction of federal involvement in the ES system and decentralizing to states ES planning, financing, and administering authority. The 100th Congress did not take action on the legislation. For the remainder of the decade and into the early 1990s, Congress and USDOL had little interest in revisiting the federal–state ES partnership or the role of ES agencies in labor exchange policy.

**Second Order Devolution New Federalism and Labor Exchange Policy**\textsuperscript{8}

Between 1994 and 1998, Congress considered three major workforce development reform bills, each of which included the establishment of a one-stop delivery system to consolidate delivery of workforce development services. The first two bills failed to pass.

The first unsuccessful bill was the Reemployment Act of 1994. This bill reflected the themes of \textit{Reinventing Government} (Osborne and GaeblHer 1992), which heavily influenced the early Clinton presidency. The book’s thesis is that many public programs could be improved if they competed in the marketplace. The idea of introducing competition into Wagner-Peyser Act service delivery—a concept presented through a series of public consultation papers developed by Clinton policymakers in late 1993 and early 1994—met resistance, with some states and labor unions arguing that the proposal was defective. Among the proposal’s defects, three were often mentioned: 1) private agencies were likely to help only those customers who were easiest and most profitable to serve; 2) employer UI taxes were levied to support state ES agencies, not pri-
vate agencies; and 3) competition created duplication of services. Opposition to competition in the delivery of ES services convinced Clinton to modify the competitive model advocated by Osborne and the New Democrats. The modified bill, unveiled in March 1994, ensured that the state ES agency would be a preemptive deliverer of labor exchange services. However, Clinton was unable to marshal broad support for the Reemployment Act, due largely to a preoccupation with complex health care reform. The 103rd Congress ended without decisive action on the bill, and in December 1994 Clinton issued a renewed workforce policy proposal called the G.I. Bill for America’s Workers.

In the 104th Congress, legislators passed two versions of workforce development reform: the House version, called the Consolidated and Reformed Education, Employment, and Rehabilitation Systems Act (CAREERS Act), and the Senate version, called the Workforce Development Act. Both bills reflected features of Clinton’s policy proposal; however, the bills contained major differences in the division of federal authority between the Secretaries of Labor and Education. The Senate bill also amended section 1 of the Wagner-Peyser Act by deleting the word “public” before “employment offices,” which could have resulted in privatizing Wagner-Peyser Act service delivery.9 In May 1996, to aid House and Senate deliberations, Clinton defined his views on workforce federalism. In a letter to Congress, he endorsed local control of job training programs, yet he declared that governors should remain responsible for federal grants-in-aid to administer a public ES and should have approval authority over job training plans. Clinton’s letter went on to assert that local one-stop centers should be administered by local boards, and job training funds should be allocated to local communities for adults, dislocated workers, and youth (Clinton 1996). The conference bill died when the Senate would not relinquish its view that state governors should be given greater control (Fine 1996).

Finally, a revised bill, WIA (H.R. 1385), was introduced in the 105th Congress on April 17, 1997, and enacted August 7, 1998 (P.L. 105-220), culminating a five-year struggle to achieve workforce development reform. The paramount feature of WIA is that workforce development programs, including ES, must be delivered through local one-stop centers. However, WIA did not change the supervision for the bulk of one-stop services; supervision continues to be divided between state and local governments. Under Title I of WIA, states distribute to local
boards federal job training funds for adults, dislocated workers and youth, and local boards decide how these funds are to be spent. In contrast, state agencies retain responsibility for the administration of federal grants-in-aid for ES and UI programs, and state merit-staff employees deliver ES and UI services.10

ONE-STOP DELIVERY SYSTEM AND WORKER PROFILING AND REEMPLOYMENT SERVICES

In the early 1990s, states began to consolidate the delivery of workforce development programs. The National Performance Review’s (NPR) policy recommendation in 1993 challenged the United States to “(c)reate a system of competitive, one-stop, career development centers open to all Americans” (NPR 1993, p. 49), and in October 1994 USDOL launched the one-stop implementation grant initiative. In the same month, a federal–state work group issued an ES revitalization work plan advocating that state ES agencies be a gateway for workers in the new one-stop system.11 Still, governors were allowed to select the lead agency for the one-stop effort, and between 1994 and 2000, each state received a one-stop implementation grant distributed over a three-year period. The amount of the grant was based on need, and it included no provision to cover ongoing costs. In most states, governors selected their unified workforce development agencies to administer the grants, with state JTPA policymakers often directing the projects.

In 1993, Congress amended the Social Security Act by requiring states to establish a Worker Profiling and Reemployment Services (WPRS) system to identify UI claimants who are likely to exhaust benefits and will need job search assistance and refer them to reemployment services so as to expedite their return to work. By 1996, all states had implemented a WPRS system, with state ES agencies providing the bulk of reemployment services to claimants.12 Meanwhile, USDOL’s welfare-to-work grants, which supported job-finding and placement services for welfare recipients, were directed to JTPA agencies.13 Yet, state ES job search workshops grew as a result of the WPRS system, and this growth had a distinct policy consequence: the WPRS system bolstered the case of some USDOL program managers, who in 1997
began advocating for an increase in annual Wagner-Peyser Act funds for reemployment services. During fiscal years (FYs) 2001–2003, USDOL’s annual appropriation included an additional $35 million in Wagner-Peyser Act funds to provide reemployment services, enabling more UI claimants to be served than would otherwise be possible.

**ORIGINAL INTENT OF THE WAGNER-PEYSER ACT AND THE PRIVATIZATION CHALLENGE**

In configuring workforce development reform in the 1990s, Democrat and Republican political leaders supported decentralized, local control of state one-stop systems, but they were less certain how to consolidate the administration of ES and job training services. Under WIA, the coexistence of the state ES system and local job training programs has continued, but only after some state and local policymakers sought to decentralize the authority of ES and to contest the delivery of Wagner-Peyser Act services, thereby setting in opposition cooperative federalism and second order devolution. The framework of the original Wagner-Peyser Act was the battleground.

**Original Intent and Federalism**

The original Wagner-Peyser Act framework as implemented by USDOL consisted of five requirements for a state to become affiliated with the national ES system: 1) establish a state ES agency to cooperate with USES; 2) develop a plan of service; 3) institute a merit personnel system; 4) appropriate matching funds;15 and 5) appoint an advisory council.16 The Secretary of Labor was allowed discretion in developing requirements for the receipt of grants. The first three requirements were still in effect during the Clinton era, and debate about the fate of the Wagner-Peyser Act centered on the following three rootstock requirements.

1) **Establish a state ES agency.** “State legislatures must accept the provisions of the Wagner-Peyser Act and designate or authorize the creation of a state agency to administer” the provisions of the Act (Persons 1934, p. 5). Congress envisioned a strong role for the state agency in
operating labor exchange policy. In fact, the Committee on Education and Labor report that accompanied the Wagner-Peyser Act (S. 510) stated:

We are of the opinion that it is essential that there be a centralized employment service in each State and that it is highly important that there be a coordinated service between the States. This bill proposes a scheme of Federal leadership, with the placement work done by the States, in cooperation with such leadership. (U.S. Congress 1933, p. 4)

2) Develop a plan of service. “[A] plan for the operation of the state ES must be submitted by the state agency and approved by USES” (Persons 1934, p. 5). In 1937, a cooperative agreement between the Secretary of Labor and the Social Security Board provided that USES and the Bureau of Unemployment Compensation act as a single agency in all matters affecting state operations, including development of joint plans of service (U.S. Congress 1964, p. 270). Until the Wagner-Peyser Act amendments of 1982, ES plans were developed with UI plans. Since then, state ES plans have been developed in conjunction with job training agencies. To some degree, this has resulted in a lack of attention to statewide labor exchange policies.

3) Institute a merit personnel system. “[In] the plan of service, the state ES must have agreed to conform to the standards of USES relating to personnel, premises, procedure, and to submit reports on expenditures and operations as required” (Persons 1934, p. 5). Shortly after the Wagner-Peyser Act was enacted, USES adopted a requirement that states must administer a merit personnel system in which appointments and promotions are based upon competence. This requirement ensures that hiring is not affected by patronage, that the execution of program services is impartial and nonpartisan, and that the delivery of services is not affected by favoritism (Balducchi and Pasternak 2001, p. 159). According to Persons (1934), the requirement was a subject of much discussion; yet to ensure the highest quality of state ES operations, USDOL concluded that state staff must be of superb quality and politically impartial. It seemed to USDOL that a merit personnel system—in which individuals are rated objectively on their experience, education, understanding of the job, and personality—was the most reliable means to ensure the highest quality of ES operations.
In sum, the USDOL requirements for the Wagner-Peyser Act mandate that a state agency administer the Wagner-Peyser Act, submit a plan of service to USDOL for approval, utilize a merit personnel system, and deliver Wagner-Peyser Act services using state agency employees. In due course, the market-based urges of New Democrats and Republicans seeking workforce reform were tested against the potency of these long-standing Wagner-Peyser Act requirements. Moreover, the end-of-century march toward workforce development reform raised a high order issue of federalism: whether the federal government has the power to set and enforce requirements upon states in dispensing grants-in-aid to administer programs of a national realm, namely the ES. The federal–state disputes that advanced this issue are described below.

Privatization, State Control, and Labor Exchange Policy

Whether states may delegate the administrative functions of state ES agencies to local boards and allow Wagner-Peyser Act services to be delivered by employees of public or private agencies rather than of the state ES agency (Lazerus et al. 1998, p. 17) became a policy controversy that could have resulted in workforce reform deadlock. The states of Massachusetts, Texas, Colorado, and Michigan introduced alternatives to state ES agency delivery of labor exchange services before USDOL had fully settled on a Wagner-Peyser Act policy of its own making.17

Massachusetts. In October 1994, Massachusetts received a federal one-stop implementation grant. The grant authorized local boards to contest the delivery of Wagner-Peyser Act labor exchange and job training services, and allowed both public and private agencies to deliver such services. The grant reflected views of USDOL policy officials who sought market competition as a method to raise the quality of services. In April 1998, during the Michigan compliance dispute (see below), USDOL revisited the Massachusetts model and instructed the state to restrict competitive delivery of Wagner-Peyser Act services to four local areas (Boston, Springfield, Cambridge, and Brockton) where it remains.18

Texas. In January 1996, Texas sought to replicate the Massachusetts model through state legislation. In June, USDOL advised Texas that it should not proceed until a federal policy review was completed.
Further, it warned Texas not to decentralize control of Wagner-Peyser Act funds to local boards or contest the delivery of Wagner-Peyser Act services. At that juncture, USDOL began to weigh the legal and policy merits of privatization as it applied to the Wagner-Peyser Act.

**Colorado.** In 1997, Colorado was granted permission to devolve the delivery of state ES services to county governments under the authority of its one-stop implementation grant and Wagner-Peyser Act plan of service. In August 1999, Colorado was instructed to ensure that county employees who deliver Wagner-Peyser Act services were protected by a merit personnel system consistent with federal merit staff requirements.

**Michigan.** Michigan began reorganizing its workforce development structure in August 1997. The confusion caused by an inconsistent federal policy allowing alternative ES delivery structures in Massachusetts and Colorado, contributed to a pitched brawl for intergovernmental control between USDOL and Michigan on whether Wagner-Peyser Act services may be privatized (see Appendix 2A). In February 1998, Governor John Engler reorganized Michigan’s ES agency by delegating responsibility for the delivery of public ES services to local boards, which were required to administer labor exchange services through competitive contracts with public or private agencies. Further, job seekers and employers were directed to use computerized self-services for most Wagner-Peyser Act services.

Michigan proceeded unilaterally to implement its reorganization despite notice from USDOL that it should not move forward without approval of a modified Wagner-Peyser Act plan of service or it would risk sanctions. Michigan argued that the Wagner-Peyser Act did not require a merit personnel system. In February, Secretary of Labor Alexis Herman imposed sanctions on Michigan by placing a hold on its letter of bank credit to draw Wagner-Peyser Act funds and putting it on a cost-reimbursement payment system; USDOL also revoked Michigan’s one-stop implementation grant. Despite the sanctions, USDOL enabled services to job seekers and employers in Michigan to continue, but a congressional inquiry was held on March 25 to examine USDOL’s actions.

The reorganization raised four marquee federal concerns. First, Michigan’s reorganization permitted ES services to be delivered by
public or private agencies. USDOL requires that merit-staff employees of a state agency (working in local offices) deliver ES services. Second, the reorganization restricted staff-assisted counseling, job search assistance, and job referrals to veterans, disabled job seekers, and migrant and seasonal farmworkers. Job seekers and employers would be able to access self-services through Michigan’s computer job bank, which was linked to America’s Job Bank (AJB). USDOL contended that such an unbalanced service strategy would undercut the national purpose of the Wagner-Peyser Act: to provide a full-range of Wagner-Peyser Act services that include self-services and staff-assisted services. Third, under Michigan’s proposed “self-services only” approach, it was not clear how ES could identify a job opportunity for a specific UI claimant, refer that UI claimant to a job, and determine the result of the referral. The Wagner-Peyser Act requires state ES agencies to participate in the administration of the UI work test, which often necessitates staff-assisted services. Fourth, the reorganization was executed notwithstanding repeated notice from USDOL that an approved modification of the Wagner-Peyser Act plan of service was needed.

In response to federal sanctions, Michigan sued USDOL, and on May 15, 1998, the U.S. District Court issued an opinion in *State of Michigan v. Alexis M. Herman* (W. D. MI, Southern Div.) granting USDOL’s motion for summary judgment. The court concluded that USDOL’s long-standing construction of section 3(a) of the Wagner-Peyser Act (and the Intergovernmental Personnel Act of 1970) to require merit staffing is a reasonable and permissible interpretation of the Act. Michigan filed an appeal and set in motion other intricate political measures to support its case.

On July 31, Herman and Engler announced agreement on a framework for the administration of Michigan’s labor exchange program. USDOL consented to the delivery of Wagner-Peyser Act services by public agencies other than a state agency, provided that such agencies utilize a merit personnel system and that the provisions of the agreement apply only to Michigan. Michigan agreed to consult with public employee unions in implementing the agreement. As a final point, Michigan agreed to withdraw its appeal of the lawsuit and not to press for other legal, legislative or policy solutions (USDOL 1998). By October, USDOL approved Michigan’s modified Wagner-Peyser Act plan of
service, which incorporated the provisions of the agreement, and lifted sanctions.

**Florida.** The first consequential post-WIA test of the Wagner-Peyser Act interim regulations occurred in 1999 with legislative actions in Florida. The Florida legislature took up several complicated legislative bills that decentralized responsibility for Wagner-Peyser Act funds to local boards, allowed for competition in the delivery of labor exchange services, and split state responsibility for ES and UI programs between two cabinet departments. During the state legislative process, USDOL raised serious objections to privatization of labor exchange services and, for the first time in the Clinton era, objected to legislative attempts to bifurcate state agency responsibility for UI and ES programs. In 2000, Florida enacted the Workforce Innovation Act, creating a single, new state agency (the Agency for Workforce Innovation) to administer WIA, UI, and ES programs without privatizing labor exchange services.

**Summary**

Prior to WIA, USDOL exercised its administrative authority under section 3(a) of the Wagner-Peyser Act to allow alternative service delivery approaches in three states: Colorado, Massachusetts, and Michigan. USDOL is sponsoring a third-party evaluation of the three alternative delivery approaches. In each situation, USDOL is examining different methods of Wagner-Peyser Act service delivery. 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 nonprofit 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. Efforts to privatize Wagner-Peyser Act services in Texas and Florida were averted, and in Florida the locus and exercise of authority of the state ES agency were affirmed and the organizational proximity of UI and ES was sustained.
FEDERAL POLICY MAKING: WAGNER-PEYSER ACT AMENDMENTS AND REGULATORY REVISIONS

Separate authorization and distinct funding for Wagner-Peyser Act services were retained under WIA. Yet, Title III of WIA requires Wagner-Peyser Act labor exchange services to be part of state one-stop delivery systems; UI claimants to receive Wagner-Peyser Act reemployment services; and state Wagner-Peyser Act plans to be integrated with state WIA plans. In concert with the development of WIA regulations, revisions to Wagner-Peyser Act regulations began earnestly in fall 1998. Interim regulations were issued in April 1999, and final regulations were issued in August 2000.

Throughout the regulatory process, debate ensued over several matters affecting the intergovernmental balance of the federal–state ES structure. These matters focused on the degree of supremacy of the state agency in administering Wagner-Peyser Act funds and the delivery of statewide services in the new, local one-stop delivery systems made up of for-profit, nonprofit, and public service providers. The contenders included New Democrats and Republicans eager to privatize government services, and a dominant faction of federal policymakers attracted ideologically to the federal–local job training structure established under CETA and JTPA. Others were state Wagner-Peyser Act agencies and local boards who vied for authority of Wagner-Peyser Act funds. Still others were labor unions that wielded the clout of the ballot box to uphold the supremacy of the state agency and protect their constituencies.

USDOL made an early tactical decision to make minimal changes to the Wagner-Peyser Act regulations at 20 CFR 652, Subpart A, Employment Service Operations, and to place the rules that govern Wagner-Peyser Act amendments contained in WIA in a new regulatory Subpart C, Wagner-Peyser Act Services in a One-Stop Delivery System Environment. Policymakers, including an author of this chapter, reasoned that Subpart A contained the long-standing requirements of the Wagner-Peyser Act and to incorporate the new rules into it might place the vital features of the ES program under regulatory scrutiny, especially from those seeking to privatize the delivery of Wagner-Peyser Act services. The tactic proved successful.
Six key federal–state subject areas illustrate new labor exchange policies that arose from amendments to the Wagner-Peyser Act and other federal actions. These labor exchange policies are examined, including descriptions of the contentious issues and the federal policies rendered.

1) Role of the state Wagner-Peyser Act agency and merit-staffing requirements. During the development of the Wagner-Peyser Act regulations, the issues of whether only public employees would deliver Wagner-Peyser Act services and whether the employees would be protected under a merit personnel system were not high-order concerns. As policy matters, these issues were resolved in the Michigan agreement, and USDOL crafted federal interim regulations to ensure uniform application nationwide.

Similar policy clarity was not easily attained with what became the supreme issue of the regulatory process: which levels of subgovernment (i.e., state, county, or city) were eligible to deliver Wagner-Peyser Act services. During 1999 and 2000, the policy choice within USDOL regarding eligible Wagner-Peyser Act service providers whipsawed back and forth between state agencies or all public agencies. In the Michigan agreement, Secretary Herman allowed merit-staff employees of public agencies to deliver Wagner-Peyser Act services, but held that the demonstration only applied to Michigan. However, interim regulations authorized subgovernments to deliver Wagner-Peyser Act services. Prominent labor unions assailed the policy. They viewed the delivery of Wagner-Peyser Act services by subgovernment employees as severely weakening state agency authority. Labor unions charged that allowing merit-staff employees of public agencies to dispense Wagner-Peyser Act services would undermine the supremacy of the state ES agency, and disrupt the statewide delivery of uniform, impartial labor exchange services.28

Interim regulations on the merit-staff issue were crafted by USDOL to serve several policy objectives. USDOL sought to meet the perceived needs of local one-stop delivery systems by allowing multiple public service providers to deliver Wagner-Peyser Act services while preserving the merit personnel requirement. Labor unions precisely identified USDOL’s policy intention. They and others charged that the result of this policy would be the unraveling of the single, ag-
agogated state ES agency. To address stakeholders’ concerns, USDOL officials met with various groups, including public employee unions that sought meetings to convey their views on behalf of their members. After heated debate, USDOL policymakers resolved that the secretary’s declaration in the Michigan agreement that her decision applied exclusively to Michigan meant just that. USDOL declared that employees of a state agency must deliver Wagner-Peyser Act services.

**Federal policy.** The final Wagner-Peyser Act regulations affirmed that state ES agencies have exclusive authority to deliver Wagner-Peyser Act services through state employees. The policy consequence was nothing less than preservation of a single state agency under the governor’s control to administer statewide labor exchange policy.

2) **Local ES offices in the one-stop delivery system.** At the time WIA was enacted in 1998, the national structure of federal–state ES offices reached nearly 2,400 and each state operated a network of computer job banks linked to AJB. To incorporate the delivery of Wagner-Peyser Act services into local one-stop delivery systems, as required by the amendments to the Wagner-Peyser Act, interim federal regulations stipulated that the state ES agency must make Wagner-Peyser Act services available in at least one comprehensive one-stop center in each local area, and that it may operate other ES offices in each local area as affiliated sites or through electronically connected access points.

This regulation raised inquiries about the nature of affiliated ES offices. In one instance, some of North Carolina’s local ES offices were not designated as one-stop centers. The North Carolina ES agency questioned whether it was required to provide a full range of labor exchange services on a full-time basis in all one-stop centers, in addition to its existing, affiliated local ES offices. The interim federal regulations had not contemplated the state ES agency providing only partial services or part-time staffing at comprehensive one-stop centers. During the approval process of North Carolina’s five-year WIA and Wagner-Peyser Act plan, USDOL determined that for the one-stop delivery system to be viable in each state, a full range of Wagner-Peyser Act services must be provided on a full-time basis in a one-stop center in each local area.

**Federal policy.** The intent of federal policy was to require com-
plete consolidation of Wagner-Peyser Act services into the one-stop delivery system. Accordingly, final regulations do not allow states to operate unaffiliated standalone ES offices, and a full range of Wagner-Peyser Act services must be made available during normal and customary business hours in at least one comprehensive one-stop center in each local area.29

3) Responsibility for Wagner-Peyser Act funds. Amendments to the Wagner-Peyser Act under WIA require the state ES agency to participate in the one-stop delivery system and be a member of the state and local boards. The amendments did not alter the Wagner-Peyser Act requirement that vested authority to the state agency designated by the governor to administer Wagner-Peyser Act funds and deliver services. Federal interim regulations reinforced the requirement that state ES agencies retain responsibility for Wagner-Peyser Act funds. During the regulatory comment period, the New York ES agency expressed concern about a state legislature’s authority to determine the distribution of Wagner-Peyser Act funds. During the period between issuance of interim and final regulations, this concern made a valuable contribution by helping define USDOL policy in addressing issues raised by the Florida legislature.

During 1999 and 2000, the state of Florida proposed two distinct legislative initiatives (see previous discussion) that attempted to localize the authority of the Florida ES agency and abolish merit staffing. Both legislative proposals conflicted with requirements of the Wagner-Peyser Act and regulations. The proposed Florida legislative actions focused USDOL policy. USDOL took a firm stance that the Florida ES agency controlled the distribution of Wagner-Peyser Act funds and administration of services.

Federal policy. Final federal regulations clarified that the state agency, under the direction of the governor, is responsible for the distribution and oversight of Wagner-Peyser Act funds. However, USDOL stated in the preamble to the regulations that state legislatures have the authority to set priorities for uses of Wagner-Peyser Act funds.

4) Relationship between UI and ES. In the 1990s, WPRS legislation, WIA, and policy stances taken by USDOL strengthened the alliance between UI and ES programs first cultivated by the founders of the federal–state employment security system. Under an amendment to
the Wagner-Peyser Act in WIA, state Wagner-Peyser Act agencies were required to provide reemployment services to UI claimants. In crafting regulations, USDOL anticipated that some state ES agencies might be financially unable to provide reemployment services and included language in the preamble to allow delivery of reemployment services by other service providers. Also, compliance issues that arose in Michigan regarding the delivery of staff-assisted services to UI claimants and the administration of the UI work test prompted the strengthening of Wagner-Peyser Act regulations in these areas.

**Federal policy.** State ES agencies retain responsibility for the delivery of reemployment services to UI claimants and administration of the work test under state UI laws. In order to ensure that UI claimants receive help to reenter the labor market, other one-stop partners may provide services to them. Subsequently, USDOL policies to promote the use of UI call centers and Internet claims filing may have weakened the relationships between UI and ES, as well as other service providers.

5) **Universal access to Wagner-Peyser Act services and methods of service delivery.** Since the inception of the Wagner-Peyser Act, a condition of state agency delivery is that services be made available statewide and universally to employers and job seekers eligible to work in the United States. Under Title I of WIA, the requirement of universal access to core (i.e., labor exchange) services was extended to programs that fund services for adults and dislocated workers. During the regulatory process, several stakeholders questioned whether Wagner-Peyser Act funds should provide most of the universal access to core services. Through regulations, USDOL reinforced WIA language to ensure that Wagner-Peyser Act funds would not be the sole support for core services in one-stop centers. This strong federal stance was taken perhaps in recognition of the historic paucity of state Wagner-Peyser Act funds, and to affirm the promise of the one-stop solution.

Another federal issue that arose in the regulatory process was how to integrate Wagner-Peyser Act services and WIA adult and dislocated worker core services. Although WIA defines core and intensive services, these services are neither defined nor referenced in the Wagner-Peyser Act. In an effort to consolidate service delivery and increase the availability of funds at one-stop centers, USDOL cross-referenced WIA
definitions of core and applicable intensive services in Wagner-Peyser Act regulations.

While Title I of WIA defines two types of job finding services (i.e., core and intensive), the Wagner-Peyser Act regulations require services to be available through three service delivery methods: 1) self-service, 2) facilitated self-help service, and 3) staff-assisted service. The three service methods are closely aligned with WIA core and intensive services. The genesis of the three Wagner-Peyser Act service methods sprang from state Wagner-Peyser Act practices, technological advances in job finding, recommendations of the ES Revitalization work group, and compliance issues that arose in Michigan.

A key provision of the Michigan agreement surrounds the meaning of staff-assisted services. During a meeting between USDOL and Michigan officials on June 25, 1998, Michigan asserted that the requirement of staff-assisted services was met by having “proctors” in one-stop centers’ resource rooms to assist job seekers in the use of self-service job finding software. In response, USDOL averred that Michigan proctors were only providing “facilitated self-help” service and not staff-assisted job finding and placement services. As a result, in the Michigan agreement, USDOL required a Michigan service strategy that included job search assistance and staff-assisted referrals to job openings, in addition to a cadre of “proctors” providing facilitated self-help services. Wagner-Peyser Act regulations were crafted to make a clear distinction between facilitated self-help service and staff-assisted service methods.

Federal policy. Regulations require state ES agencies to provide three methods of service delivery (cited above) in at least one comprehensive one-stop center in each local area. Services must be available statewide and their application should be described in state and local WIA memoranda of understanding. Also, each one-stop partner in the comprehensive one-stop center must make available the core services of its program. It is USDOL’s contention that funding core and intensive services under both WIA and the Wagner-Peyser Act enables state and local boards to make choices that maximize the use of funds.

6) State plans. Prior to the Wagner-Peyser Act amendments of 1982, state UI and ES programs prepared joint, yearly planning documents to coordinate the delivery of services to job seekers, UI
claimants, and employers. These plans, called the Program Budget Plan, were submitted to USDOL to ensure compliance with federal requirements and national policy priorities. Beginning in program year 1984, Wagner-Peyser Act requirements were revised to require state ES plans to be developed jointly with JTPA programs. Over the years, annual state ES plans became flat and pro forma.

Under WIA, states are required to submit five-year plans. During the regulatory process, USDOL made two determinations that impacted state Wagner-Peyser Act plans. The first decision was that Wagner-Peyser Act plans must be functionally integrated within states’ strategic WIA or unified plans. State governors are not permitted to submit their statewide Wagner-Peyser Act plans as separate components of a joint plan; instead they must be submitted as integrated documents. Secondly, integrated WIA and Wagner-Peyser Act plans are developed for five years without annual updates, notwithstanding changes in the organization of the states’ workforce structure or levels of performance. In our view, these decisions have produced state WIA and Wagner-Peyser Act plans that are compliance documents rather than strategic blueprints, and states would be better served if five-year plans were required to be updated annually.

Federal policy. To ensure a collaborative planning process between state boards and state ES agencies, federal regulations require states to submit integrated plans encompassing Title I of WIA and Wagner-Peyser Act programs. States may utilize either of two planning documents: 1) Strategic Five Year State Plan for Title I of WIA and the Wagner-Peyser Act, or 2) State Unified Plan.

Regulatory Shifts in Workforce Federalism

During the initial two eras of New Federalism, USDOL abrogated to states much policy and program control of Wagner-Peyser Act service delivery. Federal Wagner-Peyser Act regulations in 1983 devolved authority of labor exchange policy to state control, and regulations were intentionally silent on issues of national sovereignty (e.g., services and merit standards). The federal–state ES program tilted toward states in the spirit of New Federalism. Job training programs began to dominate the workforce development scene, and funds shifted to local job training agencies.
In 2000, USDOL failed to hardwire the vision of some New Democrat and Republican policy makers at each level of government who sought local control of Wagner-Peyser Act policy. Supporters of local control argued that it is sensitive to labor markets, is innovative and promotes stronger employer involvement. Backers of state control asserted that to ensure impartial and equitable service delivery statewide, a state agency under the direction of the governor must administer Wagner-Peyser Act policy.

The triumph of cooperative federalism over second order devolution thwarted attempts to push Wagner-Peyser Act authority through the knothole of state government to local agencies. Revised Wagner-Peyser Act regulations reversed 15 years of federal inaction in the oversight of labor exchange policy, and new regulatory provisions recognized the exclusive authority of the state ES agency and prescribed service and merit requirements that supported that authority. The requirement of a merit personnel system ensures the solidarity of a single state agency to administer labor exchange policy at the local level. Without it, statewide labor exchange policy would likely be diffused among local boards and lose its state composition. A single state Wagner-Peyser Act agency provides state governors with the power to reach down to their local communities to direct labor exchange policy. Workforce federalism shifted labor exchange policy in four areas:

1) Rather than devolve state agencies’ authority over Wagner-Peyser Act funds and services to the control of state and local WIA boards, federal regulations strengthened the authority of state ES agencies.

2) The Wagner-Peyser Act regulations of 1983 were silent on many issues of state agency administration. Similarly, amendments to the Wagner-Peyser Act in WIA did not include changes to state authority, merit personnel protection, or coordination with UI. However, challenges during the 1990s to USDOL’s authority to set conditions and enforce them on states required the Wagner-Peyser Act regulations of 2000 to strengthen the federal–state ES program in those areas.

3) Under Title I of WIA, the principle of universal access was expanded beyond the Wagner-Peyser Act to include adult and dislocated worker programs. In the Wagner-Peyser Act regula-
tions of 2000, USDOL mandated that Wagner-Peyser Act services include three distinct service delivery methods (i.e., self-service, facilitated self-help, and staff-assisted services) to meet the needs of a statewide labor exchange structure.

4) The state ES agency was not designated in WIA to administer the one-stop delivery system, although it is required to be a partner in the system and provide a full-range of Wagner-Peyser Act services in at least one comprehensive one-stop center in each local area.

LABOR EXCHANGE POLICY CHALLENGES

An emerging federal issue in the reauthorization of WIA in 2003 indicates a new challenge for U.S. labor exchange policy. Some believe that WIA failed to provide state governors with sufficient power to direct state job training and economic development policies within states because WIA funding formulas mandate that most job training funds go to local areas. The ascendancy of governors in WIA may be an issue of hefty political debate and thus could signal the twilight of second order devolution and local control of workforce federalism.

On the other hand, the Bush Administration’s FY 2003 budget included a far-reaching UI/ES reform proposal dubbed “New Balance.” Introduced in September 2002, the New Balance bill (H.R. 5418) proposed to add a new player to the federal–state–local relationships: the state legislatures. Under the bill, the federal government would no longer provide funds to administer services under the Wagner-Peyser Act; instead, financing of ES and UI programs would be shifted to states through a multiyear phase-out of 75 percent of the federal unemployment tax paid by employers. The new player—the state legislatures—would have the potential to increase or reduce the funding of state ES programs by requiring governors to justify their funding requirements.

While the bill is a vestige of Reagan-era Devolution Federalism, it is motivated by two decades of complaints by the states and employers about inadequate funding of ES and UI administrative expenses. Concurrent to the underfunding of administrative expenses, employer UI
taxes have generated large balances in the UI Trust Fund. Further, some employers have been effectively double taxed by states supplementing ES and UI funds. In devolving the financing of ES and UI programs to the states, the New Balance bill requires states to continue labor exchange services. However, it does not ensure that state legislatures would authorize funds to maintain state labor exchange operations at current levels. As of this writing, the New Balance bill was not reintroduced in the 108th Congress.

**WIA Reauthorization**

In its FY 2004 budget request, the Bush Administration continues to press for fundamental changes in the administration of labor exchange policies. The authorization of WIA expires on September 30, 2003, and a provision in President Bush’s proposal to consolidate Wagner-Peyser Act and WIA Adult and Dislocated Worker funding streams is intended to integrate the majority of services at one-stop centers. To accomplish this, the Bush proposal would repeal the long-standing Wagner-Peyser Act and incorporate some of its features into WIA. The funding for core services of one-stop centers would be provided to states and local areas through one consolidated block grant. Federal funds would be derived from general revenues appropriated by Congress. If enacted, this provision would unravel the mutual funding of UI and ES services through the UI trust fund. However, efforts in Bush’s companion bill (H.R. 444, “Back to Work Incentive Act”) to promote the use of Personal Reemployment Accounts to UI recipients who need the most help in getting back to work may increase the use of some labor exchange services, such as job placement.

Nonetheless, Bush’s proposal raises as a prime issue the distribution of power between state governors and local leaders for control of labor exchange policy. Currently, Wagner-Peyser Act funds are retained at state levels under the purview of governors. Under the Bush proposal’s consolidated funding approach, 50 percent of the combined adult funding stream must be sent to local areas according to statutory distribution. Hence, in comparison to the Wagner-Peyser Act, state governors could lose authority over the bulk of their labor exchange funds and, as a possible consequence, their ability to steer labor exchange policies statewide. This provision may be contested in the enactment process.
While it is too early to predict the consequences of most provisions in the Bush proposal, the provisions would clearly provide for greater flexibility in the use of labor exchange funds by local areas. Conversely, they would nullify the public charter of ES, allow private service providers to deliver labor exchange services, and may hamper the coordination of labor exchange and UI services.

SUMMARY

This chapter tracked federal–state relations in labor exchange policy throughout the life of the Wagner-Peyser Act. During the first 35 years of the act, efforts to shift the federal–state balance of power were directed at “federalizing” the program; during the last 35 years, efforts were directed at “localizing” it. Beginning in the 1970s and throughout the three eras of New Federalism, weak federal stewardship of the Wagner-Peyser Act was noticeable in reduced Wagner-Peyser Act grants-in-aid, as well as in ambivalence and skepticism toward labor exchange policy. At the same time, the role of local job training agencies was nurtured and training grants-in-aid were increased.

During these eras, there was a preference for local control of workforce development programs. In 1978, Carter affirmed the primacy of local control by embracing the Nixon federal–local job training arrangement, and in 1996 Clinton reaffirmed it as a matter of public approbation. Through the one-stop solution, Clinton devised a “third-way” approach to workforce federalism that ultimately did not reapportion political control of ES and job training programs. The role of governors in administering labor exchange policy was strengthened, and state ES agencies and local job training agencies were fastened together by local one-stop delivery systems. The effect of the third-way approach on statewide labor exchange policy outcomes is as yet unknown. As the new century beckons new approaches to labor exchange policy, we make the following observations:

- Fragmented governance is the result of local workforce federalism, and it appears to foster intrastate rivalries and fragmented delivery of workforce services.
Despite the federal–state character of ES programs, local workforce federalism has sometimes precipitated uneven labor exchange services from one-stop center to one-stop center within states and across states.

Local control of workforce programs may have inhibited the ability of state governors to connect economic development and workforce development in local areas.

At the end of the 20th century, federal–state conflicts in grants-in-aid policy under the Wagner-Peyser Act established that states do not have the right, absent federal approval, to subrogate to subgovernments or private agencies funds for administration or delivery of labor exchange services.

Merit personnel requirements help ensure the continuity of a single state Wagner-Peyser Act agency and the equitable delivery of labor exchange services statewide.

The journey of the Bush presidency perhaps bids another turn of federalism’s historic wheel as it applies to labor exchange policy. President Bush’s New Balance bill and WIA reauthorization proposal would shift some workforce development control to state governors, but would dismantle the New Deal era administrative structures of ES and UI programs. As in the past, centralization, and decentralization will continue to pose splendid tensions in U.S. workforce federalism.

Notes

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1. The Great Depression, according to Humphrey (1970, p. 47), necessitated expansion of the federal role through preventive measures (e.g., national employment system) as well as other corrective interventions. Humphrey explains the federal government’s new purpose during the 1930s by excerpting from Roosevelt’s October 1936 address at Worcester, Massachusetts, a quote from Lincoln: “The legitimate object of government is to do for the people what needs to be done but which they cannot by individual effort do at all, or do so well, for themselves.”
2. While federal grants-in-aid mushroomed in the 20th century, the first grants to states were under the Articles of Confederation, when in 1785 Congress earmarked a section of every township in the federal territory for the support of public schools (Vines 1976, p. 14).
3. In 2003, grants are allotted to states by USDOL under a formula at section 6 of the Wagner-Peyser Act that distributes 97 percent of the annual ES appropriation according to each state’s relative share of the civilian labor force and number of unemployed workers. USDOL distributes 3 percent of the total available ES funds to states to assure maintenance of statewide ES systems. Ninety-seven percent of state ES grants is derived from the Federal Unemployment Tax Act, an employer-based tax, and 3 percent is derived from general tax receipts.
4. The adoption of a federal–state structure for the ES program in 1933 may have helped sway politicians to select an identical arrangement in 1935 for the UI program (Blaustein 1993, p.137).
5. In 1966 the U.S. Senate passed a bill (S.2974) to reform the Wagner-Peyser Act and make ES agencies the centerpiece of a comprehensive manpower system. The House did not take up the bill because the bill mandated the separation of ES from UI and increased the authority of the federal government in state ES activities (Guttman 1990).
6. Barnow (1993, p. 94) and King (1999, p. 63) refer to workforce development after 1978 as “coercive federalism,” where the federal government offers states greater authority but adds significant constraints. Labor exchange policy was established during the period of cooperative federalism, and the basic requirements of the Wagner-Peyser Act remain unchanged. Therefore, as labor exchange policy applies to federalism, we do not refer to it as coercive.
7. Introduced in February 1987 by Representative Michael (H.R. 1155) and Senator Dole (S.539), the bill at Title I, Subtitles F and G contained the Employment Security Financing Act of 1987 and the Employment Services Act of 1987, expanding the role of governors and the private sector in ES activities. While the legislation garnered only 30 House cosponsors and 2 Senate cosponsors, it did spotlight a political trend toward decentralized governance.
8. This section draws from Balducchi, Johnson, and Gritz (1997) and Balducchi and Pasternak (2001).
9. If enacted, the amendment may have raised serious accountability, equity, and continuity of service issues in the statewide delivery of impartial labor exchange services. However, the amendment did express the views of some policymakers at each level of government who wanted USDOL to liberalize restrictions on the uses of Wagner-Peyser Act funds.
10. Except in the cases of Colorado, Massachusetts, and Michigan, where demonstrations of alternative delivery systems are under way.
11. The work group’s vision statement declared, “The ES is the Nation’s recognized leader in providing labor exchange services and a universal gateway to workforce development resources by professional, empowered employees” (USDOL 1994).
In over two-thirds of states, ES was the major provider of reemployment services, serving more than 75 percent of UI claimants (USDOL 1999, p. II-14).

Politicians viewed Temporary Assistance for Needy Families as a state program and welfare-to-work as a local program. Mayors and county officials argued that hard-to-serve welfare recipients reside in urban areas, and USDOL grants should be under their control (Uhalde 2002).

In October 1997, the Employment and Training Administration issued policy guidance to state ES agencies to spur growth of reemployment services to UI claimants (USDOL 1997).

A matching requirement was placed in the original act in some measure to take advantage of state funds in 23 states that already operated ES offices. The requirement was in effect until federalization of the ES in 1941 and not resumed when Congress returned the ES to federal–state administration in 1946 (Haber and Kruger 1964, pp. 27 and 35). In 1950, the Wagner-Peyser Act was amended to eliminate the matching provision.

The original language of the Wagner-Peyser Act required states to appoint advisory councils composed of employers, workers, and the public to formulate labor exchange policies. In 1939, through presidential order, USES and the Bureau of Unemployment Compensation were merged in the Social Security Board to form the Bureau of Employment Security, and the scope of federal and state advisory councils was broadened to include the formulation of UI policies.

USDOL did have an initial policy position on competition in one-stop center operations, and the Massachusetts model reflected the views of high-level White House and USDOL officials. USDOL’s policy changed over time, and formal ETA policy was established in the Wagner-Peyser Act regulations of 2000.

Early results of the Massachusetts demonstration are varied. Drake Beam Morin, a for-profit placement firm, dropped its contract to deliver services at the JobNet Boston one-stop center when it could not select job seekers to serve and meet profit expectations (Westat, Inc. 2001).

This section is drawn from Balducchi and Pasternak (2001).

Palmer (2002) asserts that the basis for Michigan’s reorganization was inadequate federal ES funding, the prospect of cost savings through competitive selection of service providers, and expansion of service access points and technology.

According to Palmer (2002), Michigan proposed to exercise the flexibility it believed it had under existing federal law and policy to “utilize a combination of state government, local government, and private entity-provided services to carry out the Wagner-Peyser Act and meet employer and job seeker needs in accordance with state needs and priorities.”

In 1935, USDOL suspended Missouri’s Wagner-Peyser Act grant for violation of merit staffing under section 3(a) of the Wagner-Peyser Act. A USDOL letter dated August 24, 1935, to Missouri (apparently based upon a USDOL solicitor’s opinion of March 7, 1935, sent to Iowa) was included in USDOL’s court brief. Although USDOL also argued that Michigan had violated section 5(b) of the Wag-
ner-Peyser Act, the court ruling was based solely on section 3(a) as cited in the Missouri precedent. As far as we know, the Michigan compliance dispute marked only the second instance of sanctions under the Wagner-Peyser Act imposed upon a state.

23. Congress advised USDOL to work out an agreement with Michigan. Both Michigan and organized labor could have blocked Senate passage of the workforce development bill (Uhalde 2002).

24. Engler and Herman met on July 23, 1998. Engler did not come to the meeting with a compromise proposal; he recalls that the agreement was developed at the meeting. Herman and Engler met alone in a small library adjacent to the Secretary’s office (Engler 2002; Uhalde 2002).

25. USDOL did not raise a legal objection to Missouri’s 1999 reorganization that separated UI and ES agencies but did not privatize ES activities. The authors believe in the importance of close linkages between UI and ES activities, and that such linkages are generally achieved under the aegis of a single agency. In a letter to Florida, USDOL (2000) stated, “... (A)s a policy matter, the State should appreciate the centrality to the One-Stop delivery system of the administrative relationship between Wagner-Peyser Act services and UI services.”

26. USDOL permitted Massachusetts and Colorado to use alternative service delivery approaches under the authority of their one-stop implementation grants, which were distributed to states under Wagner-Peyser Act authorization. Prior to its one-stop implementation grant, Colorado utilized limited county-based delivery of services consistent with its Wagner-Peyser Act plan of service. Michigan received permission to use alternative service delivery approaches through its Wagner-Peyser Act plan of service. The statutory authority that allows for alternative delivery approaches is section 3(a) of the Wagner-Peyser Act.

27. Administrative regulations at 20 CFR 652 are rules that implement Wagner-Peyser Act provisions and establish federal requirements for receipt of Wagner-Peyser Act funds. Policy directives are ETA program guidelines issued to state ES agencies.

28. Public employee unions raised a residual concern over the degree of supervision that private or other public one-stop operators could exercise over state Wagner-Peyser Act employees. The Service Employees International Union (1998) stated, “private supervision of the employment service creates an opportunity for the diversion of public resources to further private interests.” Early in the process, federal policymakers determined that private or other public agency one-stop operators must dispense only guidance to state Wagner-Peyser Act employees in administering labor exchange services. The term guidance was not defined in federal regulations or subsequent policy directives.

29. One result of these decisions has been that in some local areas of a number of states, one-stop centers and ES offices are located near each other, which might be redundant. It would be interesting to know why in some instances customers prefer to go to ES offices rather than nearby one-stop centers selected by local boards, and in other instances the opposite.
USDOL’s appropriation laws for FYs 1996–98 contained language, incorporated in WIA, which enabled states to seek waivers of ES plan requirements at section 8 of the Wagner-Peyser Act. Requests for waivers of the plan requirements at section 8 and of the audit and reporting requirements at sections 9 and 10 were scantily requested, as they were ministerial in nature or rendered moot by virtue of other federal requirements that prohibited granting of such waivers.

We refer to this as Knothole Federalism. A knothole is used as a metaphor to illustrate this trend in federalism. In the case of WIA, state entities responsible for job training programs act as wooden planks through which the federal government punctures a knothole in state authority to pass federal policy and funds to local boards and operating entities.

On March 13, 2003, Representatives McKeon (R-CA) and Boehner (R-OH) introduced H.R. 1261, “Workforce Reinvestment and Adult Education Act.” H.R. 1261 was not the Bush Administration’s bill, but its provisions were substantially similar to the Bush proposal.

Interestingly, Block (1993, p. 103) suggests that “... decentralization often has the opposite effect of its intention” as each new self-ruling division begins recreating within itself the ethos of the larger organization that was taken apart.
## Appendix 2A
### Reorganization of the Michigan Jobs Commission: Chronology & Anatomy of a Wagner-Peyser Act Compliance Dispute

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/6/97</td>
<td>John Engler, Governor of Michigan, issues Executive Order 1997-12, which sets in motion reorganization of the Michigan Jobs Commission (MJC).</td>
</tr>
<tr>
<td>8/18/97</td>
<td>Letter from Melvin Howard, Acting ETA Regional Administrator, to Douglas Stites, MJC Chief Operating Officer, raises questions relating to federal requirements.</td>
</tr>
<tr>
<td>9/12/97</td>
<td>Letter from USDOL to Douglas Rothwell, MJC Chief Executive Officer, advising MJC to suspend implementation and submit Wagner-Peyser Act plan and one-stop grant modification.</td>
</tr>
<tr>
<td>9/30/97</td>
<td>MJC shares draft Wagner-Peyser Act plan modification with USDOL at Washington, DC, meeting. USDOL indicates that merit-staffing requirements apply to Wagner-Peyser Act services.</td>
</tr>
<tr>
<td>10/6/97</td>
<td>Letter from USDOL to Rothwell regarding effects of reorganization on UI program. USDOL sets forth Wagner-Peyser Act requirements that include UI work test and reemployment services provisions.</td>
</tr>
<tr>
<td>10/21/97</td>
<td>Letter from USDOL to Stites commenting on draft Wagner-Peyser Act plan modification and requesting submission of One-stop plan modification. USDOL describes areas of deficiencies with MJC reorganization.</td>
</tr>
<tr>
<td>10/31/97</td>
<td>Letter from Stites to Raymond Uhalde, Acting ETA Assistant Secretary, responding to October 6 letter and informing USDOL that UI claimants will register for work via America’s Talent Bank.</td>
</tr>
<tr>
<td>11/17/97</td>
<td>Engler issues Executive Order 1997-18, which completes the MJC reorganization.</td>
</tr>
<tr>
<td>12/8/97</td>
<td>USDOL receives formal copy of Michigan’s Wagner-Peyser Act modification, which is identical to draft modification. Letter from Stites to Uhalde addresses Wagner-Peyser Act issues raised in October 21 letter.</td>
</tr>
<tr>
<td>12/24/97</td>
<td>Letter from USDOL to Rothwell advising that the Wagner-Peyser Act plan modification will not be approved, describing deficiencies in the plan modification, and requesting its withdrawal.</td>
</tr>
</tbody>
</table>
12/30/97 MJC withdraws its request for a Wagner-Peyser Act plan modification. During this period, Alexis Herman, USDOL Secretary, contacts Engler by telephone to discuss the MJC reorganization.

1/21/98 MJC officials attend meeting at USDOL to discuss major issues, including merit staffing and over-reliance on computer self-services. USDOL offers potential opportunity for sub-state pilots of alternate delivery systems. MJC officials indicate that they will apprise Engler and get back to USDOL.

1/30/98 Herman contacts Engler by telephone to notify him that issues remain unresolved.

1/30/98 Two letters from USDOL to MJC: 1) Uhalde to Rothwell stating that unless ETA receives notification from MJC that reorganization will be suspended on February 2, Wagner-Peyser Act and one-stop grants will be adversely affected; 2) Howard to Stites stating that Wagner-Peyser Act plan modification must be approved prior to implementation of reorganization. USDOL prepares to freeze MJC’s drawdown authority, provide reimbursement for only approved Wagner-Peyser Act activities, and terminate Michigan’s one-stop grant.

1/30/98 Letter from Stites to Uhalde resubmitting Wagner-Peyser Act plan modification without changes required by USDOL.

2/2/98 Stites informs Howard by telephone that MJC is going to execute the reorganization plan. MJC files motion for temporary restraining order and order to show cause in U.S. District Court.

2/3/98 Two letters from USDOL to MJC: 1) Howard to Stites to withhold drawdown authority until modification to Wagner-Peyser Act plan; 2) Janice Perry, ETA Grant Officer, to Stites notifying MJC that (a) second year One-stop grant funds denied, and (b) first year funds not available after February 2, 1998.

2/6/98 Preliminary hearing held in U.S. District Court in Grand Rapids, MI, before Judge Robert Holmes Bell.

2/10/98 Bell denies MJC’s request for injunction against USDOL actions. Sets April 15 to hear merit-staffing issue. (Hearing subsequently postponed until May 1, 1998.)

2/27/98 Letter from Howard to Stites denying approval of January 30 Wagner-Peyser Act plan modification.

3/13/98 USDOL and MJC file briefs on merit staffing in U.S District Court.

3/26/98  Letter from Stites to Uhalde addressing issues raised in February 27 disapproval letter.

4/1/98  ETA officials meet with Stites and John Palmer, MJC ES Director, in Washington, DC, to clarify issues and seek resolution of concerns outside of the merit-staffing issue.

5/1/98  Bell holds a hearing on the merit-staffing issue.

5/15/98  Bell issues an opinion and an order granting USDOL’s motion for summary judgment. The court upholds USDOL’s position on merit staffing, indicating that it “is neither arbitrary or capricious nor in excess of the Department’s authority.”

6/12/98  Letter from Byron Zuidema, ETA Regional Administrator, to Stites denying Michigan’s PY 1998 Wagner-Peyser Act plan. Issues unresolved: 1) merit staffing; 2) stakeholder input; 3) UI work test; 4) universal access to computer self-services; 5) program data reports; 6) staff-assisted job search assistance; and 7) VETS concerns.


6/25/98  Stites and Palmer meet with Uhalde, John Beverly, USES Director, and David Balducchi, USES Chief of Planning and Review, in daylong dialogue to bring Michigan’s Wagner-Peyser Act plan into compliance.

7/23/98  Herman and Engler meet at USDOL to discuss the MJC issue.

7/31/98  Herman and Engler announce a resolution to the dispute and a framework for the administration of Michigan’s ES program. MJC agrees to drop judicial, legislative and policy actions.

8/12/98  Letter from Stites to Zuidema submitting revised Wagner-Peyser Act plan.

8/20/98  Uhalde meets with Stites and stakeholders in Lansing, MI, to discuss implementation issues and obtain stakeholder input.

9/2/98  Letter from Zuidema to Stites raising issues with revised Wagner-Peyser Act plan.

9/10/98  Letter from Stites to Zuidema addressing September 2 letter. USDOL not satisfied with response.

9/13/98  Kitty Higgins, USDOL Deputy Secretary, meets with labor union leaders from AFL-CIO, AFSCME, and SEIU regarding implementation of the Michigan agreement.

9/16/98  Letter from Zuidema to Stites requesting additional time (no later than September 30, 1998) to resolve four outstanding issues: 1) presence of at least one state merit-staffed employee in each workforce area to perform UI work test; 2) accelerating
commencement of staff-assisted services; 3) content and submission of transition plan; and 4) performance benchmarks. Letter declares that MJC may treat this as a denial of plan submitted August 12. Letter authorizes reimbursement of $2.9 million for February 1998 Wagner-Peyser Act costs.

9/18/98 Letter from Stites to Zuidema addressing the four issues raised in September 16 letter. USDOL not satisfied with response.

9/21/98 Conference call between Beverly, Balducchi, Stites and Palmer to clarify the four issues raised in the September 16 letter. Achieve potential resolution of issues regarding staff-assisted services, transition plan, and performance benchmarks; however, no resolution of UI work test issues.

9/25/98 Higgins meets again with union leaders (same participants as September 13 meeting). Unions express dissatisfaction with September 16 letter from USDOL to MJC (releasing funds) and indicate that former state ES employees are not receiving an opportunity to fairly compete for jobs.

9/25/98 Herman calls Engler to relate that agreement has broken down and MJC needs to be flexible.

9/29/98 Uhalde and Beverly travel to Lansing, MI, to discuss terms of agreement with MJC and union leaders.

10/13/98 Letter from Stites to Zuidema providing sufficient information to resolve remaining four issues.

10/14/98 Letter from Barry Dale, ETA Regional Grant Officer, to Stites indicating that October 13 letter fully resolves issues and Michigan’s PY 1998 plan is approved. Letter removes reimbursement provision on remaining PY 1996–97 Wagner-Peyser Act expenditures and enables MJC to again draw down Wagner-Peyser Act funds.

10/30/98 USDOL restarts Michigan’s one-stop grant for second and third years.

11/3/98 MJC effectuates one-stop agreement.
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Palmer Jr., John S. Deputy Director of Workforce Programs, Michigan Department of Career Development. 2002. Personal communication (via e-mail) with David E. Balducchi, October 30.

Persons, W. Frank. 1934. An address before the 20th Annual Meeting of the International Association of Governmental Labor Officials, held in Boston, MA, September 29.


Uhalde, Raymond. ETA Deputy Assistant Secretary. 2002. Interview by David E. Balducchi, June 14.


One of the most striking trends in the American labor market is the explosive growth of intermediaries—organizations that match workers with employers. In the 1990s, the number of temporary staffing agencies multiplied rapidly, and they broadened their services to employers in multiple sectors (Osterman 1999, p. 56). With increasing use of the Internet, the number of on-line job banks that provide electronic matches between workers and employers grew from nearly zero at the beginning of the decade to an estimated 3,000 at the end (Autor 2001, p. 26). At the same time, new community-based intermediaries, such as the Wisconsin Regional Training Partnership and Project Quest in Texas, developed increasingly sophisticated relationships with employers in targeted local industries.

The last two decades have also been a time of dramatic change for the public Employment Service (ES), one of the oldest labor market intermediaries. Faced with declining federal funding and the potential of information technology, states and the federal government provided an array of new self-service options. Public job banks made their debut on the Internet alongside Monster.com and other private job boards. These new tools allowed individuals and employers to make their own job matches, reducing the need for individualized assistance traditionally provided by staff. With the expansion of self-directed services, ES staff increasingly focused on providing group-oriented assistance rather than
individualized services. Job search assistance for those with special needs and dedicated funding for target groups, such as the economically disadvantaged and veterans, expanded dramatically during this period. Some states also developed new labor market information services and explored other approaches to meeting employer needs.

Since the 1980s, the drive to “do more with less” prompted new partnerships between the ES and other public programs, particularly with the locally run employment and training programs that were established in the 1970s. One-stop centers that pulled together staff and resources from multiple programs first emerged in Wisconsin and a few other states in the mid 1980s. Spurred on by federal investments and later federal legislation, the one-stop concept spread to the rest of the country during the 1990s.

The impact of new one-stop systems on the ES and its customers has been substantial. One-stop partnerships, where successful, expanded the range of labor exchange and other services available to customers. Co-location of staff from multiple programs also led to increased specialization as the ES took on key responsibilities for core services delivered under the Workforce Investment Act (WIA). The ES’s flexible funding and focus on a universal customer base have been crucial assets to the fledgling one-stop system.

Even as the ES strengthened linkages with a number of public programs, other trends strained the historically close relationship between the ES and the Unemployment Insurance (UI) system. The implementation of automated claims filing systems in the 1990s pulled apart ES and UI staff that had been co-located since the 1960s, creating new barriers to service coordination. To overcome these challenges, some states have begun to reinforce the ES/UI connection through technological links and targeted services for UI claimants.

The purpose of this chapter is to describe these “sea changes” in the public labor exchange and its relationships with other public programs. The chapter is largely based on interviews with state administrators with long service in workforce development. It also relies on the relatively sparse recent literature on the public ES. The first section provides the historical background for shifts in ES administration and service delivery. The next sections describe the shift from active job matching to self-directed services, the changing mix of intensive labor exchange services, the impact of one-stop partnerships on the ES, and
the evolving relationship between ES and UI. The final section suggests future directions for the public labor exchange based on the trends described here.

FROM THE WAGNER-PEYSER ACT TO THE WORKFORCE INVESTMENT ACT

In the late 19th century, a number of states began to operate employment agencies that provided placement services, primarily to poor individuals (Bendick 1989, p. 89). The Wagner-Peyser Act of 1933 established for the first time a federal–state ES and asserted a strong federal role in assisting the unemployed. A few years later, the Social Security Act of 1935 instituted a system of unemployment insurance, combined new ES and UI programs in a network of state employment security agencies (SESAs), and made registration with ES a condition for receiving UI benefits.

During the next fifty years, the federal government largely set the terms of the federal–state partnership. State ES agencies were put under federal control during World War II, serving as the recruitment arm of the war effort. Federal rules largely governed state administration, services, and even the look of local offices. As late as the 1970s, an observer could note that the interior of an ES office in Alaska closely resembled that of an office in New York or San Francisco, even though the offices were located in different labor markets and run by different state agencies (Lazerus et al. 1998, p. 5).

From CETA to JTPA

In the 1970s, a third player was added to the federal–state partnership. The Comprehensive Employment and Training Act (CETA) of 1973 introduced local government as a new power center in employment and training programs. Under CETA, local elected officials received direct allocations of federal funds, using them to create an independent network of employment and training services for disadvantaged individuals. In addition, CETA did not clearly define the role of the ES in the newly established employment and training system (Bal-
ducchi, Johnson, and Gritz 1997, p. 469). As a result, competition and conflicts arose between state agencies and local governments with their service providers. These tensions were partly relieved by the massive infusion of funds for public service employment after 1975. Many state ES offices received local allocations that were used to add staff to organize public service employment activities.

The replacement of CETA with the Job Training Partnership Act (JTPA) in 1982 reinforced local control of employment and training services for disadvantaged individuals and displaced workers. JTPA firmly established Private Industry Councils (PICs), local committees composed of a majority of business representatives, service providers, and other community partners. PICs became responsible for overseeing and administering a battery of services that often operated independently of the local ES operation.

JTPA also contained amendments to the Wagner-Peyser Act that gave state agencies new flexibility to manage ES programs. These policy changes provided states with authority to use federal special purpose block grants to tailor labor exchange programs to state and local needs (Balducchi, Johnson, and Gritz 1997, p. 469). At the same time, federal oversight and technical assistance diminished as a result of budget cuts and staff reductions at the U.S. Department of Labor (USDOL). Nearly 10 years after the passage of JTPA, the U.S. General Accounting Office (USGAO) could observe that the Labor Department was taking a “hands-off” approach to helping states manage their ES programs (USGAO 1991).

**From JTPA to WIA**

By the early 1990s, policymakers had begun to express concerns about fragmentation and duplication of workforce services. A series of USGAO reports pointed to a patchwork of JTPA, ES, and other publicly funded programs that were “bewildering and frightening to clients.” The programs also seemed inefficient since they funded similar services to individuals with similar needs (USGAO 1994, p. 1).

In response to this criticism, Congress and the president enacted the WIA of 1998 to strengthen the links among federal workforce programs. A central purpose of the legislation was to establish a framework for organizing public programs designed to build the nation’s
workforce. WIA establishes a governance structure composed of state and local boards (called workforce investment boards) to provide leadership and oversight for workforce programs. It also authorizes one-stop centers that bring together services from 17 federal programs (including ES). One-stop centers must provide any adult citizen with basic services, such as information on jobs and careers and job search assistance. In addition, one-stop centers provide certain eligible individuals with opportunities for intensive services, such as case management and training services. As a result of WIA, a range of federal programs, including the ES, are expected to become components of a more coordinated and efficient “system” of workforce development.

THE SPREAD OF SELF-SERVICE TOOLS

Only a decade or two before WIA was enacted, job seekers had to trudge to “unemployment offices” to find public labor exchange services. There, they would probably sit down with an ES interviewer to discuss available job openings in the local area. Today, however, job seekers can find jobs themselves by using Internet-based Web sites that list vacancies across the United States. Alternatively, they can use publicly funded resource rooms in one-stop centers where they can prepare a resume on a computer and e-mail or fax it to an employer. The spread of self-service options is the most visible and probably the most significant innovation in labor exchange services in recent times.

Shift to Self-Service and New Paradigm of Service Delivery

For many years, the core function of the public employment service was active job matching—collecting job orders from employers, and screening and referring applicants to firms for suitable positions. Since the mid 1980s, there has been a gradual but marked shift from active matching to self-directed services, spurred by three factors. First, limited federal funding for Wagner-Peyser Act services placed tight constraints on staffing in many states and local areas. After plunging in the early 1980s, state ES grants stabilized in the late 1980s and remained mostly flat during the 1990s, leading to a decline in real or (inflation-
adjusted) terms. Second, the spread of computer technology and Internet access facilitated development of automated job-matching systems. Third, economic and cultural changes emphasized individual responsibility for charting job and career transitions.

The shift toward self-directed services is reflected in a new paradigm of service delivery. Although the terminology varies from place to place, most states and local areas have adopted a three-tiered structure for delivery of labor exchange services. At the first level is self-service, which includes computer-based tools such as Internet-based job banks and skills-assessment tools. Self-service is available to the broadest possible group of potential customers. The next level of assistance features facilitated self-service, which involves access to resource rooms stocked with computers and staffed with knowledgeable employees. The third level consists of staff-assisted services, such as individualized screening and job matching as well as counseling. A similar tiered service structure is available for employers.

**Self-Service Tools**

In the past, access to state job banks was limited to individuals who visited public employment offices. Since the mid 1980s, nearly all states have built automated job banks that greatly expand the reach of public labor exchange services. In the early 1990s, Wisconsin developed and launched JobNet, drawing on a combination of Wagner-Peyser Act, ES automation, and federal one-stop implementation grant funds. The current version of JobNet allows job seekers to search for job openings by county, job title, employer, and occupation. Jobs from neighboring states are also searchable. Employers can enter job postings through a specialized and secure Web site. Access to JobNet is widely available through easy-to-use, touch screen terminals located in all of the state’s one-stop centers or through the Wisconsin agency’s Web site.

States have developed other tools to complement job banks. Michigan was one of the first states to implement a Talent Bank, an on-line repository for resumes. Job seekers can post resumes to a Web site and employers can search the resumes by keyword, education level, salary, and location. As of July 2002, the Talent Bank held nearly 600,000 resumes on a daily basis. Meanwhile, Oregon is developing (and preparing to launch) an Internet-based iMATCH enrollment and job place-
ment system that targets job seekers’ skills, not simply their qualifications or work experience. Using the O-NET coding system, the iMATCH system allows job seekers to identify the type and level of skills they possess. It also allows employers to identify the qualifications and skills needed by prospective employees.

The federal government has made similar investments in automated job-matching systems. In 1979, the U.S. Department of Labor (USDOL) created the Interstate Job Bank, a national database containing state job openings from employers who requested nationwide listings. In the mid 1990s, the Interstate Job Bank was renamed America’s Job Bank (AJB) and was connected to the Internet. AJB became an electronic network that combines vacancies submitted daily from state job banks. In addition, employers can post jobs directly to the Web site and job seekers can submit resumes. Between 1995 and 2000, AJB experienced dramatic growth, attaining an average stock of 1.5 million job openings that represent most occupations from professional to blue collar (Balducchi and Pasternak 2001, p. 148).

Since the introduction of the national job bank, the capabilities of AJB have expanded. Job seekers can build resumes and search current job openings by location, job title, occupational codes, and key words. Employers can search resumes by occupation, key words, resume number, or military code. A feature called Job Scout and Resume Scout allows users to rerun previously saved searches, store any new matches that are found, and receive an e-mail notification of new resumes or job listings.

In addition to AJB, USDOL invested in a suite of complementary tools. America’s Talent Bank, a repository of on-line resumes piloted by several states, was launched as a separate tool and later integrated with AJB. Three additional electronic tools are now accessible through www.careeronestop.org:

- **America’s Career InfoNet** combines federal and state data to provide information on occupations, employment and wage trends and state economic profiles.
- **America’s Service Locator** connects job seekers to local one-stop centers in their area.
- **O*NET Online**, the Occupational Information Network, contains information on the knowledge, skills and abilities required for specific occupations.
Impact of Automated Systems

The spread of automated job-matching systems and self-help tools has provided easy access to services previously limited to what was available at local offices. Following AJB’s launch, the number of “hits” by users jumped astronomically, rising from only 15,000 in early 1995 to 8.5 million only a year and half later (USDOL data on usage). The more popular state job banks have broadened the customer base for labor exchange services. An internal state analysis conducted by Wisconsin in the late 1990s found that the computerized job bank contained a range of jobs that represented the key industries in the state’s economy and a spectrum of job seekers that was highly representative of the state’s citizens.

The spread of automated systems, combined with declining staff capacity, has altered the traditional role of the ES in screening candidates sought by employers. In the past, the ES stood between the job seeker and the employer, screening applicants, and referring only suitable ones to the employer. States are increasingly offering employers the option to submit open or unsuppressed job orders that allow candidates to contact firms directly or at least to provide sufficient information for the employer to contact promising candidates.

Still, the use of open job orders varies widely. A few states, such as Georgia, continue to maintain mostly suppressed job orders that require screening. Some states, such as Utah, are just beginning to offer employers the option of open job orders. Other states have shifted largely to unsuppressed job orders. After experiencing initial staff resistance, Wisconsin now operates with over 90 percent unsuppressed job orders. Screening services are now limited to assistance with writing job orders and assessing their legality.

Resource Rooms

Like computerized self-service tools, resource rooms have transformed customers’ interaction with the public labor exchange. Usually located in local one-stop centers, they are designed to be attractive and welcoming to customers. They generally contain a wide range of self-help information and services. Every one-stop center in Utah, for example, contains a Job Connection room that provides access to labor
market information, resume and cover letter preparation tools, career exploration software, and an orientation to soft skills required in the workplace. There are also fax machines and phones to facilitate the job search. Some one-stop centers, such as the Anoka workforce center in Minnesota, are well stocked with libraries of pamphlets, books, and videos that provide guidance to job seekers.

Resource rooms also require trained staff. Many first-time customers need assistance with using self-service tools and finding information that matches their needs. Staff assistance is particularly critical for those customers who lack work or job search experience. In addition, staff members carry out a “triage” function, identifying job seekers that may have barriers to employment and referring them to intensive or more specialized services (Social Policy Research Associates 1999, p. VII-7).

Resource rooms for employers are less common. Where they exist, these rooms generally contain information and other materials useful to employers, such as guides to employment law and tax credits (Social Policy Research Associates 2001, p. V-27).

**CHANGING MIX OF STAFF-ASSISTED SERVICES**

During the last decade or so, the scope of intensive, staff-assisted services has narrowed, largely driven by declining federal funding, the spread of information technology, and the shift to self-help services. Traditionally, individuals visiting public employment offices 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 become increasingly focused on those who have trouble using self-service systems or who require considerable assistance in navigating the labor market.

**Staff-Assisted Services for Individuals**

In the past, state agencies retained full-time, certified counselors who were available to advise individual job seekers on career planning and career decision making. During the 1960s, a time of peak funding
for the ES, over 20 percent of new applicants met with a counselor (Balducchi, Johnson, and Gritz 1997, p. 463). During the last decade or so, the counseling function has weakened, and has even disappeared in some places, as states have shifted limited resources to infrastructure, information technology, and other functions. ES counselors no longer exist in Oregon, and the number of designated ES counselors in Florida and Wisconsin has dwindled markedly over the last 20 years. National-ly, only 3 to 4 percent of ES registrants currently receive employment counseling (Balducchi, Johnson, and Gritz 1997, p. 463).

Testing has declined along with counseling. Traditionally, ES coun-selors would administer a variety of aptitude and interest tests, such as the General Aptitude Test Battery, to help young people decide on ca-reers and to determine the qualifications of adult job seekers. During the 1960s, about 20–25 percent of all applicants underwent testing. By contrast, only 2 to 3 percent of ES applicants currently receive testing services (Balducchi, Johnson, and Gritz 1997, p. 463).

As individualized counseling and assessment services have de-clined, other group-oriented services have become more significant. Some local one-stop centers employ Wagner-Peyser Act–funded staff to run workshops geared toward groups of job seekers. Although work-shops tend to vary widely in availability and in the types of groups tar-geted, they generally tend to provide guidance on the job search pro-cess, resume building skills, interviewing skills, the hidden job market, and similar topics. At some one-stop centers, workshops specifically target UI claimants or certain occupational groups. Many one-stop cen-ters, on the other hand, offer regularly scheduled workshops that are open to all job seekers.

Another group service available to some job seekers is a job club or job search network. Although not available everywhere, job clubs bring together groups of unemployed individuals who meet to support one another and share job-finding tips. ES staff typically facilitate the meet-ings.

Wagner-Peyser Act–funded staff still provide individualized assist ance with job search and placement. In the past, active placement of individuals into jobs was the dominant role of local staff. With the in-troduction of self-service technology and the general decline in staffing capacity, active matching for most has given way to active matching for a few. Staff now tend to reserve individualized assistance for cus-
tomers who struggle with using self-service technology and for targeted groups of customers, such as UI claimants, veterans, people with disabilities, and individuals eligible for case-managed programs.

Some states provide placement services to targeted groups of job seekers as a result of interagency agreements or contracts, which supplement ES funding. For example, in Iowa, the Department of Human Services contracts with the Department of Workforce Development to operate the Promise Jobs placement program for welfare recipients. ES staff provide a range of services, including assessment, development of an employment plan, job search assistance, administration of job clubs, and job fairs with local businesses (Lazerus et al. 1998, p. 75). Vermont’s Department of Employment and Training has a similar arrangement with the state human services agency to find jobs for welfare recipients and people with disabilities.

Although most states have cut back staff-assisted services in the face of limited federal funding, some states have maintained such services by supplementing their federal ES grants with state funds. A few states, such as Oregon, have established reserve funds with a special assessment on employers through the UI tax system. Interest drawn from the reserve is commonly used to support ES and UI administration, including labor exchange services. Other states, such as Colorado and Georgia, have instituted special assessments that are regularly collected from employers through the UI tax system to support delivery of labor exchange services and UI administration¹ (USDOL 2002, p. 2.32–2.34).

**Staff-Assisted and Specialized Services for Employers**

Staff-assisted services for employers, like those for job seekers in many states, have become more targeted to specific groups of customers. These services generally entail developing job orders, referring applicants that match job requirements, and providing information on tax credits and government regulations. Other services may include using local one-stop centers for interviewing and recruitment and assisting with layoffs. As a result of a decline in staffing capacity, local ES staff in many states tend to focus on providing staff-intensive assistance to firms in specific industries or with specific characteristics (such as high-wage jobs or jobs with benefits).
Throughout most of its history, the ES emphasized services to job seekers. During the 1990s, however, some states and local one-stop centers began to develop more specialized services for employers (OECD 1999, p. 97). For example, field offices in Georgia have assisted new businesses with screening applicants and conducting large-scale recruitment for new businesses moving into local communities (Lazerus et al. 1998, p. 39). In one case, a field office screened about 50,000 applications for a brewery that was opening in the area. Such initiatives have promoted economic development and increased employer awareness and use of public labor exchange services, according to state officials.

Another example is Montana’s deployment of “business advocates” to provide specialized services to employers. Beginning in the 1990s, every local ES office designated a staff person to be the “business advocate”—charged with identifying and meeting the needs of local business customers. These staff members are expected to be proactive. They provide economic information, prepare employee handbooks, and perform other tasks requested by local employers.

States have also increasingly marketed labor market information as a service to business. In 1995, Oregon hired 16 regional labor market information specialists by converting positions from ES field operations. Based in local offices, these specialists help employers keep up to date with changing labor market trends, and help increase awareness of the public labor exchange. The specialists also serve as a resource for public partners and local workforce boards. Wisconsin is using Wagner-Peyser Act discretionary funds reserved for the governor to place seven labor market economists in local one-stop centers. Like the specialists in Oregon, the economists in Wisconsin provide customized information to employers, partners, and local boards.

A few states still rely on Job Service Employer Committees to increase input from employers on the types of labor exchange services they need. Employer committees serve primarily as a “sounding board” to provide feedback on services to the business community. Moreover, they are sometimes involved in suggesting and implementing new products or services. The contribution of such committees varies widely. They have disappeared entirely in most states, but still retain a strong presence in certain states or in certain regions within states. For example, both Georgia and Montana have maintained a state-level em-
ployer committee alongside local employer committees attached to field offices.

THE GROWTH OF ONE-STOP PARTNERSHIPS

The spread of self-service tools and a new mix of staff-assisted services are the most visible changes in the provision of labor exchange services. Less visible, but equally important, is the growth of partnerships that bring together a range of publicly funded workforce programs. These partnerships have expanded in response to declining federal funding, limited staff capacity and concerns about efficiency of services.

Establishment of One-Stop Centers and New Consolidated Agencies

Beginning in the 1980s, states created one-stop centers that brought together services from a range of workforce programs. Some of the first one-stop centers emerged in rural parts of Wisconsin when ES and JTPA staff agreed to share resources in an effort to keep local offices open (Lazerus et al. 1998, p 143). Indiana required collaboration between ES and JTPA staff during the 1980s and later enacted state legislation establishing one-stop centers (or workforce development centers) as the primary approach to service delivery. New York, Pennsylvania, and Massachusetts also launched early pilots of community one-stop centers. The ES was a major player in nearly all of the experimental one-stop initiatives, contributing leadership, staff, and resources.

States also strengthened links among programs by reorganizing agencies. Indiana became one of the first states to consolidate ES, UI, JTPA, and a variety of other programs in a new Department of Workforce Development. Colorado merged JTPA with ES in a new unit within the Department of Labor and Employment. As a result of that action, ES and JTPA staff reported to a single director and took a team approach to joint planning and decision making.4

A few states created “super-agencies” with a broad array of workforce, welfare, and social services programs. In one of the most sweep-
ing overhauls, Utah in 1997 established the Department of Workforce Services by combining ES, JTPA, Temporary Assistance for Needy Families (TANF), Food Stamps, and other programs. The merger led to the creation of a new identity for the agency. State officials replaced the old Job Service Bureau and other program divisions with a field operations unit with staff funded by multiple programs. Staff shifted from managing services for a single program to administering a number of programs through a network of local offices.

**Federal One-Stop Center Initiative and Transition to WIA**

Building on state efforts to coordinate workforce programs, USDOL launched the One-Stop Center initiative in 1994. Between 1994 and 2000, every state received a three-year implementation grant ranging from $3 million to $24 million. ES was generally a core partner in emerging one-stop center systems. In fact, a condition of the federal grants was inclusion of the ES (with JTPA and other USDOL-funded programs) in the development of state plans. Most states used federal grant funds to establish or renovate physical sites and build the communications and information systems needed to link disparate public programs (Lazerus et al. 1998, p. 6).

By the time WIA was enacted in 1998, many states had begun to establish one-stop centers as the front end to a range of publicly funded programs. The passage of WIA had three significant consequences for the ES. First, the legislation authorized provision of core services, such as job search and placement assistance, which were similar to the labor exchange services funded by the Wagner-Peyser Act. States and local areas were expected to coordinate closely to avoid duplication of services.

Second, WIA included ES as one of 17 mandatory partner programs that were required to make services available through the local one-stop system. Services must be accessible through at least one physical center in each local area. They can also be accessible through affiliated sites that bring together one or more partner programs and through a local network of partner programs.

Third, the WIA altered the roles of state agencies and the local boards that replaced PICs. During the federal one-stop grant period, state agencies generally oversaw planning and implementation of one-
stop centers as well as Wagner-Peyser Act services. WIA shifted responsibility for selection and oversight of one-stop centers to business-led local boards. However, control of Wagner-Peyser Act staff and funding remained with state agencies.

**The Impact of One-Stop Partnerships on Labor Exchange Services**

The growth of one-stop partnerships since the 1980s has changed the management and delivery of labor exchange services. Increasingly, Wagner-Peyser Act staff and funds contribute to a comprehensive range of services available to all citizens through local networks of one-stop centers.

**Co-location of Partners in One-Stop Centers**

Since the federal grant period, most states and local areas have adopted a similar approach to implementing one-stop centers. A set of core partners from public programs comes together to select a physical site for the one-stop center—either one of the partners’ existing offices, a complex of existing offices, or 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.

Although implementation tends to follow a common pattern, the composition of partnerships varies widely. According to the USGAO, ES and WIA are the only two mandatory partners that have consistently supported operations of one-stop centers across the sites that USGAO visited (USGAO 2001, p. 19). Participation by other partners is more varied. Some states, such as Florida, require participation of the TANF program in every local one-stop center system. By comparison, some local areas have broadened partnerships to include community-based organizations and employer organizations.

Just as the mix of partners tends to reflect state and local needs, so the extent of co-location among core partners varies from state to state and even from site to site. Three dominant patterns have emerged. The first pattern is found in many small, rural states. Old SESA offices that housed ES and UI programs have been converted to full-service one-
stop centers and ES staff are then co-located with other partners at every site.

A second group of states requires co-location of ES with other partners at nearly all comprehensive one-stop centers. These sites include a wide range of sites from new facilities to renovated grocery stores or bowling alleys to upgraded public offices. Stand-alone SESA offices housing only ES and UI staff have disappeared.

A third group of states has adopted a more flexible approach to co-locating core partners. These states encourage co-location of ES with other partners at selected comprehensive one-stop centers. In addition, a number of old SESA offices housing ES and UI staff are allowed to continue as affiliate sites within local one-stop systems. Full co-location of ES staff in comprehensive one-stop centers is typically hampered by limited funding, overextended staff, and the constraints of long-term leases on existing facilities (USGAO 2002, p. 19).

Different Approaches to Managing ES in Local One-Stop Centers

States have also adopted different models for managing Wagner-Peyser Act staff and funds in local one-stop center systems. The most common model is dual state and local management of personnel in one-stop centers. In Wisconsin, for example, the Department of Workforce Development oversees and manages ES staff and funds assigned to one-stop centers, while the local workforce board, the county, or other entity is responsible for WIA and other program staff. In many centers, state and local staff are represented on management teams that oversee operations. In some instances, the partners appoint a site manager to help coordinate services and make day-to-day operational decisions. However, final decisions about resources and personnel are the responsibility of on-site or off-site ES administrators.

A second model—common in small states with a single workforce area—features centralized administration of ES, WIA, and other workforce programs. In 1983, North Dakota unified JTPA and ES service delivery by charging the ES with administration and delivery of JTPA services. Since then, this model has spread to other states that are single state local areas. For example, Vermont has established 12 Career Resource Centers that bring together state staff from ES, UI, and WIA. In
Vermont, Utah, and other “state-administered” jurisdictions, decision making about funding and staffing for these programs is highly centralized.

A third model emphasizes decentralized oversight and responsibility for ES staff and funds. Indiana was one of the first states to attempt such a transfer. In 1982, the state issued “The State of Indiana Policy for Vocational Education, Training, and Employment,” a plan for ceding administration of local ES services to local PICs. However, court challenges by state ES workers and their unions blocked the proposed plan and reasserted the role of state merit system employees in performing Wagner-Peyser Act functions.

Although Indiana’s attempt failed, other states have succeeded in decentralizing ES functions. In the late 1990s, Colorado became one of three states that can allow nonstate merit system staff to provide Wagner-Peyser Act services. The state is gradually devolving responsibility for maintaining a public labor exchange to local workforce regions. As state ES positions become vacant through attrition or retirement, the funds tied to that position are transferred to the local board. Boards can then employ county merit system staff instead of state staff in the one-stop centers. Until the transfer of positions takes place, the counties work with regional ES managers (who are not on-site) to supervise the local ES staff. At the same time, several rural local workforce regions have opted not to accept responsibility for ES functions and have turned over administration of their one-stop centers to the state Department of Labor and Employment. In those regions, state managers supervise state ES staff and also oversee delivery of WIA services. Colorado’s unique state–local agreement has thus led to decentralized decision making for multiple programs in most parts of the state and, conversely, has increased centralization in several regions.

Massachusetts illustrates another variation of decentralized management of ES functions. In 1995 the Boston PIC chartered three one-stop centers, which were intended to compete with one another for customers. One of the centers is operated by the state employment service, the second is managed by a partnership of three community-based organizations, and the third is administered by a partnership of the City of Boston and a community-based organization. Each of the centers receives an allocation of Wagner-Peyser Act funds and is required to deliver a fully integrated set of public labor exchange services.
The Role of Labor Exchange in One-Stop Partnerships

As one-stop partnerships have expanded, the ES has continued to perform its traditional function of providing labor exchange services. What has changed is that Wagner-Peyser Act staff and funds have become part of a comprehensive battery of services available through local one-stop center systems (Social Policy Research Associates 2001, V–5).

The ES has played a central role in successful one-stop partnerships because its flexible funding can be used to provide services to a universal customer base. In many sites, ES staff and funds tend to be the sole or primary support for operation of resource rooms and other core services under WIA (Social Policy Research Associates 2001, V–7). Co-location of staff from other programs has allowed ES staff to specialize in staffing the resource room or providing other core services. The use of flexible Wagner-Peyser Act funds for core services allows WIA, TANF, and other more targeted program funds to be targeted for more intensive services.

In other successful centers, the ES is simply one of several programs that contribute to delivery of high-volume labor exchange services. For example, at the Kenosha County Job Center in Wisconsin, staff from different agencies provide services in Employment Central, the resource room that provides self-service and facilitated self-service to the general public and businesses (Heldrich Center for Workforce Development 2002). Other sites support core services by combining multiple funding streams, including ES, WIA, and others (Social Policy Research Associates 2001, V–7). The result is an expansion of the level and range of labor exchange services available to customers.

Some successful one-stop centers also have formed integrated employer service teams composed of representatives of multiple partners, including the ES. For example, the Golden Crescent Workforce Center in Victoria, Texas, has a multiprogram employer services unit that performs a high level of recruitment and prescreening at no cost to the employer (Heldrich Center for Workforce Development 2002). Many integrated teams designate account representatives, organized by location, industry, or other method, to conduct outreach and serve as a single point of contact for designated firms. In other sites, by contrast, the ES has taken the lead responsibility for managing employer services. However organized, ES staff and funds have begun to contribute to a richer and more diverse mix of services for business customers.
While the one-stop movement was strengthening linkages among workforce development programs, other trends were contributing to a “disconnect” between ES and UI. The operations of these two programs were closely linked as a result of the Social Security Act of 1935, which made registration with ES a condition for receiving UI benefits. UI staff took claims from applicants, verified information, and issued benefit checks. ES staff in most states registered claimants for work, referred applicants to suitable job openings, and informed UI staff when claimants did not meet work requirements (Balducchi, Johnson, and Gritz 1997, p. 466). Beginning in the late 1950s, UI and ES staff were typically co-located in local SESA offices and sometimes cross-trained to perform similar duties.

The close relationship between ES and UI programs forged over time has been tested in the 1990s. Beginning with Colorado in 1991, a growing number of states have adopted automated systems that allow applicants to file claims by telephone and, most recently, by the Internet. As of 2002, nearly all states are either planning or implementing systems to take telephone and Internet-based initial claims (Information Technology Support Center 2003). Implementation in most states has led to the transfer of UI staff from local offices to centralized call centers and adjudication offices. As a result, ES and UI staff in many states have become physically separated, creating new barriers to communication and coordination.

To address this challenge, some states are establishing technological linkages between ES and UI services. Colorado, the first state to implement telephone-based claims-taking, recently developed an online work registration Web site that is tied to the UI Web site. Customers can move easily from filing a UI claim to registering for employment services. Utah is also linking the ES and UI databases through the UWORKS Web site, thus allowing customers to file an electronic claim and then begin a self-directed job search.

States are also targeting UI claimants and providing enhanced reemployment services. In some states, the ES participates in the eligibility review process, which is used to determine continued eligibility of selected UI recipients and evaluate the progress of the job search. In
Florida, for example, teams of ES and UI staff members conduct eligibility reviews at six-week intervals. Staff members interview selected groups of UI recipients, verify their eligibility, and provide guidance on getting back to work quickly.

Another linkage is the use of “profiling” under the Worker Profiling and Reemployment Services System. Enacted in 1993, this system requires all states to identify claimants who are likely to exhaust their UI benefits and refer them to reemployment services, such as job search assistance and training. In Wisconsin (as in a number of states), ES staff are responsible for providing reemployment services to individuals who have been “profiled” and referred by UI staff.

Since fiscal year 2000, Congress has authorized reemployment services grants under the Wagner-Peyser Act to increase targeted services for UI claimants. With funding from that grant, Oregon has established an “enhanced enrollment” process for UI claimants. ES staff conduct interviews, provide labor market information and job referrals, and develop a plan for UI claimants before they reach their eighth week of insured unemployment. In Colorado, the reemployment services grant has supported case management and specialized job search workshops for selected groups of UI claimants.

Although many states have struggled to maintain the traditional linkages between ES and UI in the 1990s, Georgia has reinforced them. In 1995, the state developed the Reemployment Units Program (REU), a unique combination of intensive services for a large pool of unemployed individuals. Services were geared for three groups of individuals:

1) UI claimants who are eligible for at least 14 weeks of benefits,
2) dislocated workers, and
3) other UI claimants who have been profiled and determined to be likely to face difficulty in finding employment.

Program participants begin with an assessment and then enter a required three-to-four-hour job search workshop with a group of other claimants. Participants must also attend subsequent one-hour eligibility review program workshops in which they receive job search advice and undergo a review of their UI eligibility. In addition to the required workshops, the REU program offers optional workshops on financial and stress management, individual counseling, and a variety of informational resources (Lazerus et al. 1998, pp. 32–35).
KEY TRENDS IN ADMINISTRATION AND DELIVERY OF PUBLIC LABOR EXCHANGE SERVICES

This chapter has described the “sea change” in the administration and delivery of public labor exchange services during the last two decades. Beginning in the 1980s, states implemented job banks, resource rooms, and other self-service options that transformed customers’ experience with the public labor exchange. At the same time, the mix of staff-assisted services shifted, as counseling and testing declined and individualized job matching became more focused on targeted individuals and employers.

Another major trend was the growth of partnerships among public programs in response to limited funding and growing criticism of the performance and efficiency of public institutions. New consolidated agencies in some states combined the ES with job training and other services. At the local level, one-stop centers established by WIA brought together ES and a range of state and local partners, expanding the mix of services available to labor exchange customers.

While the one-stop movement tended to deepen partnerships between ES and other public programs, other trends beginning in the 1990s weakened the historically close relationship between ES and UI. Implementation of telephone and Internet-based claims-filing systems led to the physical separation of ES and UI staff, hampering communication and coordination of services.

FUTURE DIRECTIONS FOR THE PUBLIC LABOR EXCHANGE

As the public Employment Service enters its 70th year, it faces serious challenges. Limited funding will constrain the ability of states to maintain and upgrade new technology and services. The aging of state workforces and a looming retirement “bubble” among state and local government personnel will limit the supply of trained staff needed to provide effective services. In addition, the complex issues that arise from co-location of multiple programs in one-stop centers and joint
delivery of services create difficulties for both the ES and other partners.

A more fundamental challenge is the need to remain relevant in a labor market characterized by a plethora of new options for job seekers and employers. The role of the ES in the labor market of the future remains an open question. Will the public labor exchange continue its traditional role of job matching when new technology permits active job matching through the Internet? Will the ES need to maintain a public access job bank when there is a proliferation of private and nonprofit job banks tailored to different niches in the labor market? Will new labor market intermediaries reduce or even eliminate the need for a public labor exchange?

In our view, the public labor exchange must play a continuing role to support economic security and the healthy functioning of the American labor market. However, its role is likely to change to keep pace with an increasingly “wired” labor market (Autor 2001). Below, we lay out six potential options for the public labor exchange.

1) **Ensure access to information tools.** A key role for the public labor exchange is to become the information backbone for the labor market by ensuring easy and equitable access to a wide array of information tools. One of the most important tools is labor market information, the collection and dissemination of data on the economy and occupations. Other tools include public and private job and talent banks, corporate Web sites containing on-line applications as well as computerized career guidance software.

Although self-help and information tools will become more effective and widely used, staff-assisted services will be essential. Trained staff members are needed to assist job seekers who are unable to use advanced information tools and who need referrals to intensive and specialized services. They also provide a much needed “human touch” (Social Policy Research Associates 1999, p. VII–7). In the future, staff will need to be accessible not only in person through one-stop centers, but also on-line as “help desk” representatives and counselors.

2) **Create paths to new intermediaries.** In the last two decades, new intermediaries have emerged to mediate between employers and individuals in the on-line world and in local labor markets. These intermediaries include
• private temporary and staffing agencies that provide “temp to perm” routes to employment,
• cluster-based organizations that provide networking opportunities for firms and employees within a regional cluster, and
• community-based organizations such as Project Quest that prepare low-income individuals for jobs in targeted industries.

Because many individuals and employers may not have access to such organizations, a role for the public labor exchange is to provide direct access to the new intermediaries. In other words, the ES can become a navigator or “concierge” for an array of intermediaries. By taking on this new role, the ES can transition from its traditional role as a broker between individual job seekers and employers to become a facilitator of an expanding number of transactions in the broad labor market.

3) Collaborate, don’t compete, with private agencies. Helping job seekers navigate the labor market will require strong collaboration, not competition, with private labor exchange agencies. Some states are using the public labor exchange to connect individuals with a wide array of options for finding jobs and building careers. For example, the Utah Department of Workforce Services Web site—www.jobs.utah.gov—incorporates links to public job banks as well as corporate human resources sites and private job boards. In Portland, Oregon, the local workforce board and one-stop system worked with EmployOn, a Cleveland-based on-line employment matching service, to launch a Web site that provides access to employment opportunities in the semiconductor, teaching, health care, and other local industries. This joint venture brings a high-quality job finding site to local job seekers interested in high-demand fields.

What is needed in the future is a more systematic and energetic approach to public–private collaboration. The agreement between USDOL and Monster Board to share transaction data and jointly use SOC codes is a first step in this direction. A more ambitious goal is to promote a common architecture for the public–private labor exchange (Sheets 2002, p. 44). USDOL, working with state and private sector partners, could help develop a common language and protocol for the electronic labor exchange. As a neutral party, the government could negotiate the necessary agreements on standardization and confidentiality
of private records. Such a common architecture would facilitate access to both public and private databases and transfers of information among them. O-NET provides an excellent framework and taxonomy upon which to build such collaboration. The robust array of career information and guidance embedded in O-NET would provide a foundation of career management for workers at all skill levels.

4) Upgrade services for employers. Building strong public–private partnerships and joint ventures will be essential to improving services to employers. At the Racine County Workforce Development Center in Wisconsin, public partners invited the Chamber of Commerce and Economic Development Corporation to provide services to local employers through the one-stop center. These two organizations brought instant recognition and credibility with the business community.

Upgrading services for employers will also require strong partnerships among public programs. Many successful one-stop centers have organized integrated teams to maximize the level and variety of services to employers. These teams are composed of representatives from multiple partners, including ES, WIA, and other programs. In the future, the public labor exchange must contribute to a robust array of services that are valued by employers, such as recruitment, screening, customized training, and other human resource functions.

5) Reconnect UI with reemployment services. Another important goal for the future is to reconnect UI with the public labor exchange. Reestablishing the relationship is important for both individual customers and employers. Evaluations demonstrate that UI claimants who receive job search assistance and other services shortly after or even before job loss find new jobs faster, shortening the length of unemployment for workers and reducing the costs of UI for employers.

Some states have begun to explore creative solutions for bridging UI and reemployment services. For example, Missouri’s new Auto-Match System speeds up the referral of UI claimants to job openings available through the state’s one-stop center system. Shortly after a UI claim is filed, information is extracted to match the UI claimant with job openings and is shared with one-stop centers. Missouri’s system is simply one example of many promising technological and other solutions that are needed to reestablish the historically close connection between UI and the public labor exchange.
6) **Clarify administrative structures at the state and local levels.**

As this chapter has discussed, three approaches to administration of workforce programs have emerged during the last two decades:

1) joint state administration of ES, WIA, and other workforce programs (most common in small states with a single workforce area),

2) divided administration with state-driven ES and locally driven WIA programs (most common in most medium and large states), and

3) devolved oversight of Wagner-Peyser Act staff and/or resources to local authorities.

Few, if any, evaluations have established any relationship between administrative structure and overall performance. Nevertheless, case studies and other qualitative research suggest that divided oversight of staff in local one-stop centers tends to create inefficiencies and perpetuate barriers to smooth coordination of services for customers. To improve public partnerships in one-stop centers, states and their local partners should have flexibility to pilot and promote models of unified management of multiple workforce programs.

All of these options suggest future directions for a public institution that has experienced dramatic change over the last few decades. A powerful combination of flexibility, creativity, and commitment to reform are needed if the public labor exchange is to remain relevant in the competitive new marketplace for employment services.

**Notes**

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1. As of 2002, at least 28 states collected surtaxes through UI and used them for UI administration, ES administration, and training. At least five states had established reserve funds to pay for ES and UI administration and training.

2. Labor market information is the compilation and dissemination of data showing trends in the economy, labor market and occupations. The Bureau of Labor Statistics prepares national data, and units within each state workforce agency prepare state reports.

3. Governors can reserve 10 percent of the Wagner-Peyser Act state allocation to provide performance incentives, services for groups with special needs, and exemplary models of service delivery, including labor market information tools.

4. At least 33 states have combined most USDOL-funded programs (such as ES, UI, WIA, veterans, and the Trade Act) in a single agency.

References


In program year (PY) 2002, the Employment and Training Administration (ETA) of the U.S. Department of Labor (USDOL) implemented a new outcomes-based performance measurement system for the public labor exchange. This came during a period that saw the federal government place renewed emphasis on performance measurement of federally funded programs in general and workforce development programs in particular. Policymakers embraced performance measurement both for its potential as a management tool and as a means of informing the federal budget process. The enactment of the Government Performance and Results Act of 1993 (GPRA) and the Workforce Investment Act of 1998 (WIA) exemplify the federal emphasis on performance measurement. Both emphasized the measurement of programmatic outcomes and greatly influenced the development of the labor exchange performance measurement system.

Since the early 1980s and until only recently, the public labor exchange operated during a period in which the federal role in performance measurement had been rather limited. During that time, ETA required state employment security agencies (SESAs) to collect and report summary statistics on labor exchange activities; however, little emphasis was placed on using this information to assess program performance across states, such as through the use of performance indicators or the establishment of performance targets or standards. This had partly been a result of the management and administrative authority for labor exchange programs having been devolved to the states under the 1982 amendments to the Wagner-Peyser Act that were included in the
Job Training Partnership Act (JTPA). In the present one-stop delivery system environment, states still are afforded wide latitude in the administration and management of labor exchange service delivery as part of state one-stop delivery systems. For example, each state may offer a different mix of services and draw upon a range of funding streams in providing labor exchange services.\(^1\) However, the new labor exchange performance measurement system requires SESAs to use common performance indicators to assess their performance in delivering labor exchange services under the Wagner-Peyser Act.

This chapter examines the performance measurement practices of the public labor exchange during an era where increased scrutiny is being placed on the accountability of government programs. It describes efforts to develop a comprehensive system to measure and account for the delivery of labor exchange services under the federal–state Employment Service (ES) program authorized under the Wagner-Peyser Act and which operates as part of state one-stop delivery systems as required under WIA. The chapter also describes how labor exchange performance measurement has been influenced by WIA and GPRA.

**THE FEDERAL ROLE IN PERFORMANCE MEASUREMENT**

We begin with a brief overview of performance measurement in general and how it applies to government programs. Performance measurement can be viewed as the process of assessing the operation of a program for purposes of providing program managers, policymakers, and the public with relevant information about whether the program is accomplishing its intended purpose. The *National Performance Review* (NPR 1997, p. 6) has defined *performance measurement* as:

A process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose), and the
effectiveness of government operations in terms of their specific contributions to program objectives.

Performance indicators may be used to assess progress toward achieving overarching goals. Again, the NPR (1997, p. 6) has defined a performance measure as, “a quantitative or qualitative characterization of performance.” Performance measures also commonly are referred to as performance indicators.

A performance measurement system typically consists of a number of broad performance goals, performance indicators, associated standards to measure progress toward the achievement of those goals, and a means of reporting on that progress. Information obtained through program evaluation may be used to enhance a performance measurement system. For example, information from net impact estimates, which measure the added value attributable to a program, may be used to help establish benchmarks or performance standards.²

Performance measurement requirements for federal programs generally can be traced to either of two sources: the program’s enabling legislation or governmentwide mandates. The former might require or authorize the use of performance indicators; for instance, in monitoring aspects of program operations across states or for purposes of providing awards or imposing sanctions based on program performance in relation to performance standards. States or grantees exhibiting strong performance according to designated performance indicators might be provided with additional funding or might be authorized to distribute a portion of the funds they receive according to criteria based on performance. If awards or sanctions are to be based on performance measurement information, however, care must be taken to apply awards or sanctions based on program effectiveness, rather than raw or unadjusted outcomes.

Governmentwide mandates generally require agencies to measure and report on the performance of the programs they administer as a means of informing the federal budget process or to account for the use of federal funds. The executive branch and Congress might view programs that demonstrate sound performance according to established performance criteria as being effective in serving their intended purpose and worthy of continued or increased funding. Conversely, those demonstrating poor performance might receive decreased funding or be targeted for elimination.
PERFORMANCE MEASUREMENT AS ADMINISTERED UNDER THE WAGNER-PEYSER ACT

From the early 1980s, when the Wagner-Peyser Act was amended under JTPA, until only recently, ETA has acted under the Secretary’s authority to exercise only a limited role in ES labor exchange performance measurement and offered minimal guidance. SESAs, meanwhile, were left to their own to develop techniques for performance measurement. Many SESAs were innovative in developing their own performance measurement systems which provided them with valuable information for management purposes. It has only been since the ES labor exchange began operating alongside other workforce development programs as part of state one-stop delivery systems that ETA has again made labor exchange performance measurement a federal priority. In doing so, ETA has been keen to work in partnership with SESAs as it has begun reestablishing a federal role in labor exchange performance measurement. This section provides a brief history of labor exchange performance measurement.

Performance-Based Funding

Prior to the 1982 amendments to the Wagner-Peyser Act, the secretary of labor was authorized to consider performance measurement information in determining the allocation of funds to states. In the 1970s, for instance, annual grants to states were based on funding formulas that were weighted according to a number of performance-based criteria. The Balanced Placement Formula (BPF) was used in 1975 and 1976 to determine states’ funding allocations based on a combination of performance factors, including individuals placed per staff year, placement transactions, placements of target group members, and job market penetration, with the greatest weight applied to the first of these factors (USDOL 1977, p. 184). Basing states’ grant allocations on performance-based criteria proved effective in focusing SESAs’ attention on the secretary’s priorities, which at the time had included job placements within the labor exchange function. In 1977, the BPF was superseded by a slightly revised performance-based funding formula, the
Resource Allocation Formula (RAF), which used similar performance factors, as well as other criteria, in determining states’ funding allocations.

However, allocating state grants according to performance criteria resulted in some unintended consequences, most notably providing inadequate services to hard-to-serve clients. In many cases, local office staff became so focused on placements that they concentrated their efforts on placing the most job-ready of applicants at the expense of those with greater needs. This often is referred to as “cream skimming” or “creaming.” In labor market programs, the occurrence of creaming raises concerns about social equity and also about the efficient use of public resources. If only the most able are served, those with the most pressing needs might be denied adequate service, and the benefit to society may not be maximized. Ultimately, some of these practices raised concerns about ES’s compliance with Titles VI and VII of the Civil Rights Act of 1964 (USGAO 1980). To address these concerns, ETA proceeded to make further modifications to its funding formula and to develop new procedures for performance measurement.

In 1980, an advisory committee and a technical working group comprised of representatives from SESAs, public interest groups, and the national and regional offices convened to develop and make recommendations on performance standards for the labor exchange (USDOL 1981). Based on the working group’s recommendations, ETA planned to implement a single performance indicator on a test basis for fiscal year (FY) 1983: the number of individuals placed in jobs. As part of the Program and Budget Planning process, a performance standard would be developed for each state through the use of an analytic model. The model would adjust the performance standard based on eight local factors using data for the preceding seven years (USDOL 1982). During the initial test year, ETA would not apply any awards or sanctions.

Wagner-Peyser Act Funding and Performance Measurement in the JTPA Era

In 1982 the Wagner-Peyser Act was amended under JTPA to provide for state grant allocations to be based on each state’s proportionate share of the civilian labor force and unemployed individuals, rather
than on performance-based criteria.\textsuperscript{6} The secretary’s authority over performance measurement also was enhanced, although specific performance indicators were not mandated. Rather, the Wagner-Peyser Act provides the secretary with authority to establish performance standards for the activities carried out under the Wagner-Peyser Act.\textsuperscript{7} It also requires the reservation of 10 percent of the funds granted to each state for use by the governor, among other purposes, to provide performance incentives consistent with the performance standards established by the secretary.\textsuperscript{8}

While the 1982 amendments to the Wagner-Peyser Act had added language authorizing the secretary to develop performance standards for the delivery of labor exchange services, performance standards were not implemented in a timely fashion. Some observers have charged that ETA’s failure to implement a labor exchange performance measurement system may have been a contributing factor to the decline in funding provided for state ES administration. Others suggest that reductions in funding would have occurred even had ETA implemented a labor exchange performance measurement system due to a favoring of job training programs over job search assistance programs by policymakers, and due to competing national priorities, such as federal debt reduction. Nonetheless, there seems to be some recognition that institutionalizing performance measurement might have supported the case of those who advocated for increased Wagner-Peyser Act funding.

Since FY 1984 and the implementation of JTPA, federal Wagner-Peyser Act funding for state ES administration of labor exchange service delivery has remained fairly constant at approximately three-quarters of a billion dollars, rising above that amount for only a few years in the early 1990s. Adjusting for inflation,\textsuperscript{9} over the 19-year period through FY 2003, this represents a real decline of 33.9 percent in funding (see Figure 4.1).

States have used a variety of strategies to respond to diminishing federal Wagner-Peyser Act grants. Some have attempted to offset the relative decline in federal grants by enacting additional taxes or tax surcharges on employers through diversions of unemployment insurance (UI) tax contributions. Others have attempted to achieve cost savings by decreasing their reliance on costly staff-assisted services and in-
increasingly relying on automated or electronic self-services to meet the needs of job seekers and employers. A few have been forced to close local offices and cut services.

In the 1980s and early 1990s, the U.S. General Accounting Office (USGAO) issued a number of reports to Congress critical of labor exchange performance measurement practices (USGAO 1983, 1989a, 1989b, 1991). These reports stimulated a number of initiatives to bring improved performance measurement to the labor exchange. In large part, however, the task of bringing performance measurement to the labor exchange has not been slowed by an aversion to performance measurement in principle. Rather, it appears that the challenges of developing and agreeing to appropriate indicators and of achieving an acceptable balance between federal authority and state autonomy in managing the federal–state labor exchange system have been more substantial stumbling blocks.

**Figure 4.1 Wagner-Peyser Act Funding for State ES Administration (FY 1984–FY 2002)**

![Graph showing funding trends from FY 1984 to FY 2002.](image)

**SOURCE:** USDOL, ETA Budget Office.
Labor Exchange Reporting

As already noted, for much of the past two decades, the public labor exchange has operated without a comprehensive national system of performance measurement (i.e., one consisting of performance goals, performance indicators and standards, and regular reports, common across all states). However, SESAs have been required to submit quarterly reports to ETA with summary information on labor exchange activities, both for applicants seeking employment and job vacancies listed. Prior to 1985, SESA reported performance information in a uniform manner to ETA through the Employment Security Automated Reporting System. After July 1, 1985, however, ETA stopped requiring all states to use the same standardized automated reporting system, and through the end of the 1990s, SESAs provided ETA with data on labor exchange services through the Public Employment Reporting System.

The primary structure for reporting performance information has been the ETA 9002 quarterly report (financial information is reported separately on SF 269 Reports). The ETA 9002 reports have provided ETA regional and national office staff with an array of data on job seekers who registered with the labor exchange in each state. These data include their demographic characteristics; the number who received various types of labor exchange services; and outcome information, such as the number who were placed into jobs, or who obtained employment on their own. The reports also have provided ETA with summary information on jobs listed with the labor exchange according to occupation and industry. ETA has used this basic information for purposes such as monitoring the operation of the labor exchange in each state and for justifying budget requests.

During the period when ETA received ETA 9002 reports from the SESAs through PERS, however, a number of concerns were raised about the validity and reliability of the data being reported. A 1996 review by USDOL’s Office of the Inspector General (OIG) found at least eighteen different reporting systems being used by the states to compile the information reported on the ETA 9002. In its review, OIG found that ETA accepts the ES performance data from these offices at face value, and does not test or verify the source data for the USES an-
annual performance statement, prior to its publication in the annual DOL report. ETA national office and regional office staff state also that they do not conduct monitoring activities which would provide reasonable assurance of the accuracy and reliability of reported ES data on a statistically valid basis. (USDOL 1996a, p. 14)

In part as a result of the OIG’s findings, ETA has engaged in an agencywide data validation project to ensure that the data reported for performance measurement of all ETA administered programs are of sufficient reliability for its performance measurement purposes. Also, ETA is implementing a new agencywide reporting system called the Enterprise Information Management System, which will integrate the reporting of performance and financial information. The ES labor exchange is part of ETA’s data validation project. ETA recently released guidance on the reporting of labor exchange performance measurement information, which includes data validation procedures (USDOL 2002c).

Through the 1990s, the ETA 9002 reports have provided ETA with an array of data about the operation of the labor exchange, nearly all of which has been in the form of basic summary information for each state. This has sufficed for indicating counts of a range of service outputs and a limited number of outcomes. ETA has used this information to report on performance indicators included in its annual performance plans required under GPRA. However, these plans have not been clearly linked to performance requirements applicable at the state agency level.

Selected data from ETA 9002 reports are presented in Figure 4.2. The data indicate that over the most recent seven years for which data are available—PY 1995 through PY 2001—the number of job openings employers listed with the labor exchange trended upward. The number of job seekers registering with the labor exchange increased in PY 2001 after a period of decline in the late 1990s. Approximately two-thirds of these job seekers received reportable services beyond registering with the labor exchange. During this period, the number of job seekers reported as entering employment has increased from year to year, except for a slight dip in PY 1998. The data also reveal a striking change in the role of the labor exchange in assisting job seekers enter employment. Whereas more than two-thirds of those reported as entering employment in PY 1995 did so by being placed into jobs by ES staff, by PY 2001 less than one-third were placed into jobs. The proportion of those reported as entering employment after being served by the labor ex-
change, but not being placed into jobs (i.e., obtaining employment), has increased precipitously.

It is difficult to interpret these trends because over the time period for which data are presented, a number of states began registering and recording employment outcomes for job seekers who only received labor exchange services through the self-service mode (and hence would not have been placed into a job). Many states also began verifying entry into employment through the use of UI wage record matching, whereas previously this was done primarily by staff follow-up. Thus, it is unclear whether there is a shift in the relative proportion of job seekers obtaining employment as opposed to being placed into jobs, or if a greater proportion of job seekers who registered with the labor exchange have been counted as obtaining employment due to the increased use of UI wage record matching. Issues such as these suggest that a comprehensive performance measurement system, with the capacity for making adjustments based on various factors is needed to assess the performance of the labor exchange with any degree of confidence.

INITIATIVES TO DESIGN A LABOR EXCHANGE PERFORMANCE MEASUREMENT SYSTEM

Following USGAO’s reports to Congress critical of labor exchange performance measurement practices, many in the labor exchange community, both within and outside of ETA, sought to develop a performance measurement system for the labor exchange. Several efforts during the 1990s resulted in a number of proposals that included a wide array of performance indicators.

In 1992, state ES directors, under the coordination of the Interstate Conference of Employment Security Agencies (ICESA), proposed a performance measurement strategy for the state employment services that consisted of performance indicators for employer-oriented activities and job-seeker activities, cost-effectiveness indicators, and the use of customer satisfaction surveys (ICESA 1992). The proposal was developed around parameters that called for consistent measurement of basic ES functions across states, the preservation of a degree of state flexibility in service delivery, and the prospect for increased funding, particularly for high performance.
In embarking on this initiative, ICESA recognized that the labor exchange could not continue to function effectively without challenging performance measurement requirements. ICESA and its members also perceived advantages to seizing the initiative in developing performance measurement requirements themselves. These included the belief that ETA and Congress might favorably consider their recommendations for implementation, given that they had the backing of the states, and that in the absence of state action, performance measurement requirements would be mandated by the federal government.

Following ICESA’s proposal, ETA contracted with Social Policy Research Associates (SPRA) to explore the prospects for implementing ES performance requirements (USDOL 1992). SPRA analyzed the availability of data that could support a range of performance indicators, including many of those proposed by ICESA. Primary sources of data identified were the ETA 9002 reports, data collected by SESA but not reported to ETA, and UI wage records. SPRA also examined the relationship between different potential performance indicators and po-
ential procedures for setting performance standards based on a statistical model. Ultimately, however, this did not lead to the implementation of a performance measurement system.

In 1998, the Workforce Development Performance Measures Initiative (WDPMI), organized under ETA stewardship, led to a proposal for a system of performance indicators organized around the one-stop delivery system (USDOL 1998b). The WDPMI’s guidance for developing a system of performance indicators was twofold: first, to establish a “core” of system indicators that would allow for comparisons across states and localities, and which could be compiled at the state or national levels; and second, to develop other indicators that could be applied in a more flexible manner across states with different service strategies. The WDPMI proposal consisted of nine core performance indicators, nine noncore performance indicators, and six developmental indicators. As a component of the one-stop delivery system, performance of the labor exchange would be measured using the WDPMI performance indicators.

At approximately the same time as WDPMI, a federal–state workgroup was organized to develop performance indicators for labor exchange services provided under the Wagner-Peyser Act. The workgroup developed and recommended a series of labor exchange performance indicators to ETA that were primarily organized around the three modes for delivering labor exchange services: self-help services, facilitated self-help services, and staff-assisted services. The proposed self-service indicators were counts of services provided through the America’s Job Bank (AJB) system. Indicators proposed for facilitated self-help services included a count of customers served and a measure of customer satisfaction, which could be determined by each state. A series of more rigorous indicators were proposed for staff-assisted services to job seekers and employers. Finally, two systemwide indicators were proposed: cost per entered employment, and a measure of the impact of staff-assisted services on the duration of UI benefits provided to UI claimants. Just prior to WIA being enacted into law, ETA published the proposed performance indicators in the Federal Register for public comment (USDOL 1998a).

In large part due to the uncertainty surrounding the implementation of WIA, action on these performance indicators proceeded little beyond the analysis of the comments received. After the enactment of WIA, ETA became focused on implementation issues, to include the drafting
of regulations to implement WIA and the amended Wagner-Peyser Act, and the development of a performance measurement system for WIA Title I-B programs. Once again, performance measurement of the labor exchange ceased to be a top priority for ETA.

However, upon the enactment of WIA, ETA did not abandon labor exchange performance measurement entirely. For instance, it funded a study by Westat, Inc. of the feasibility of developing performance indicators that would express the value of the staff-assisted labor exchange services provided to clients (Jacobson and Petta 2000). This study of the effects of referrals and placements on the duration of unemployment of job seekers in the states of Oregon and Washington revealed potential for developing performance indicators for the labor exchange that could be used to monitor net impacts. ETA may consider referring to this study should it seek to develop measures of the net impact of the labor exchange. Based on data from the two states, Westat’s analysis revealed that the benefits of providing job seekers with placements outweighed the costs by a ratio of 1.8:1.

In 2000, ETA would engage in yet another initiative aimed at developing a performance measurement system for the public labor exchange. This initiative would have the benefit of learning from all that had preceded it over the past two decades. It also would operate in an environment where the performance measurement requirements of other federal legislation could not be ignored. In partnership with the SESAs, ETA would develop a new performance measurement system for the public labor exchange and begin its implementation in PY 2002. Before discussing the new performance measurement system in detail, however, it is first useful to discuss briefly the performance accountability requirements of WIA, for they would have a significant influence on the development of a system of performance measurement for the labor exchange.

WIA AND ITS INFLUENCE ON LABOR EXCHANGE PERFORMANCE MEASUREMENT

In 1998, WIA supplanted JTPA as the primary federally funded employment and training program administered by ETA. Under WIA, the delivery of federally funded workforce development programs (in-
cluding labor exchange services provided under the Wagner-Peyser Act) is coordinated through state one-stop delivery systems. Title I-B of WIA authorizes funding for employment and training programs targeted to adults, dislocated workers, and youth. WIA also establishes a performance accountability system for Title I-B programs. Many characteristics of the WIA performance accountability system would prove influential as ETA developed a performance measurement system for labor exchange services provided under the Wagner-Peyser Act.

The WIA Title I-B performance accountability system specifies performance measurement requirements for the program at both the state and local levels. Statutory performance measurement requirements for each state include core indicators of performance and customer satisfaction indicators, and the establishment of performance standards for each indicator. It also provides that states may develop additional indicators on their own. Under WIA, states were required to include in their five-year plans the targeted levels of performance they had established for each of the specified performance indicators for the first three years that they would administer WIA programs. ETA requires states to modify their five-year plans to include performance targets for the fourth and fifth years of operation prior to the beginning of the fourth year of the plan.

ETA has interpreted WIA to require 17 separate performance indicators, although several of these indicators are similarly defined, differing primarily in the program to which they apply. Several characteristics of the WIA performance accountability system, including the performance indicators themselves, are relevant for this discussion of labor exchange performance measurement.

First, the WIA indicators are applied to programs with respect to individuals who have completed receiving the services provided under the relevant program (with the exception of follow-up services). Here, it is important to note that individuals may receive services under WIA Title I-B for periods ranging from a number of months to a number of years. Second, WIA requires that UI wage records be the primary source of employment and wage information for the core performance indicators. Third, as mentioned earlier, states are required to include performance targets for each of the WIA performance indicators in their five-year strategic or unified plans. Finally, in implementing the performance ac-
countability system, ETA has provided states with flexibility in developing their own policies over when participants are to be included in the measurement pool for performance accountability purposes. Often, states base this on the level of service participants receive.

The WIA core performance indicators for the adult, dislocated worker, and youth (age 19–21) programs are the entered employment rate, the employment retention rate at six months following entry into employment, earnings change (or replacement, for dislocated workers), and a measure of credential attainment. The customer satisfaction indicators apply across programs for individuals served under WIA Title I-B. Customer satisfaction of employers is measured with regard to the services they receive through the one-stop delivery system, regardless of funding stream.

States are required to prepare annual performance reports, which must contain information on the core and customer satisfaction indicators, as well as additional longer-term indicators. States also are to include in their reports information on evaluations that they may conduct on the operation of the WIA employment and training programs. Finally, WIA also contains other performance measurement and reporting requirements beyond those described here, such as fiscal and management accountability.12

The WIA performance accountability requirements only apply to those programs funded under Title I-B of WIA, with distinct performance indicators for each of the adult, dislocated worker, and youth funding streams. While these performance indicators are designed to measure the outcomes of individuals served by each Title I-B funding stream, they do not account for the extent to which services received through other one-stop partner programs (e.g., job search assistance provided under the Wagner-Peyser Act) also have an effect on the outcomes being measured. Thus, the WIA performance measurement system falls short of providing a clear account of the services provided by and the outcomes jointly attributable to the many one-stop partner programs serving job seekers in a seamless fashion. In contrast, a comprehensive and unified performance measurement system that encompassed users of all one-stop partner programs potentially would provide a far better indication of the extent to which the various components of the one-stop system contributed to employment outcomes being measured.
LABOR EXCHANGE PERFORMANCE MEASUREMENT IN THE 21st CENTURY

As ETA completed the initial stages of developing and implementing the WIA performance accountability system, it began focusing on designing and implementing a performance measurement system for the labor exchange. In early 2000, ETA in partnership with ICESA, formed a working group comprised of staff from SESAs, ETA, and the Veterans’ Employment and Training Service (VETS) to develop a performance measurement system for the labor exchange. The working group had three tasks: 1) develop a set of performance indicators, 2) revise ETA’s reporting structure to support data collection on labor exchange activities for performance measurement, and 3) develop procedures for setting performance standards. The labor exchange performance measurement and reporting requirements effective for PY 2002 are the product of the working group’s recommendations. Procedures are not yet in place for the establishment of state performance standards.

Labor Exchange Performance Indicators

At present, ETA’s labor exchange performance measurement system consists of four performance indicators and a series of quarterly reports. There are two outcome indicators—the job seeker entered employment rate, and the job seeker employment retention rate at six months; and two customer satisfaction indicators—one for job seekers and one for employers. These indicators are substantially similar to those required under WIA. The labor exchange performance indicators are presented in Table 4.1.

The entered employment rate measures the percentage of individuals registered with the labor exchange who become 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 histories, a new employer is defined as any employer other than one who employed the job seeker in the quarter prior to the registration quarter. This indicator is designed to show the success of the labor exchange both in assisting unemployed workers and those
new to the labor market find new jobs, and in assisting currently employed workers find different jobs.

The *employment retention rate* measures 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 the 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 in the indicator. This indicator is designed to measure longer-term outcomes of the labor exchange. Such outcomes might be the result of a good initial job match, a series of job matches, or a job seeker successfully applying job search skills enhanced by the receipt of labor exchange services.

Both the entered employment rate and the employment retention rate indicators rely on the use of UI wage records to indicate the attainment of the desired employment outcome. For both indicators, in order for the outcome being measured to be counted, a job seeker’s UI wage records must contain earnings greater than zero for the appropriate quarter(s). UI wage records are discussed in further detail below.

To measure customer satisfaction with labor exchange services, ETA has adopted the American Customer Satisfaction Index (ACSI) methodology that it requires states to use in measuring satisfaction with WIA services. In these telephone surveys, job seekers and employers are asked a series of three questions about their perception of the services they received through the one-stop system. The survey is administered to job seekers 60–90 days after registering with the labor exchange; employers are surveyed 30–60 days after listing a job opening. The job seeker customer satisfaction indicator mirrors the WIA participant customer satisfaction indicator, with the survey questions being slightly modified to refer to labor exchange services, rather than those provided under WIA. As ETA has instructed states to measure employers’ satisfaction with the services they receive through state one-stop delivery systems without regard to funding stream, it has decided simply to use the WIA employer customer satisfaction score as an indicator of employer satisfaction with labor exchange services.

ETA has issued a handbook (*ET Handbook No. 406*) to aid states in implementing the new labor exchange performance measurement sys-
Table 4.1 Labor Exchange Performance Indicators

**Job Seeker Entered Employment Rate (JSEER):**

\[
JSEER = \frac{\text{Number entered employment with a new employer}}{\text{[Number new registered job seekers – Number employed or reemployed with same employer]}}
\]

**Job Seeker Employment Retention Rate at Six Months (JSERR):**

\[
JSERR = \frac{\text{Number retained employment two quarters after entered employment with a new employer (age 19 and over)}}{\text{Number entered employment with a new employer (age 19 and over)}}
\]

**Job Seeker Customer Satisfaction Score:**

Scaled score of the American Customer Satisfaction Index (ACSI) survey administered to job seekers registered with the labor exchange.

**Employer Customer Satisfaction Score:**

Scaled score of the ACSI survey administered to employers who use one-stop services.

ETA has encouraged states to report the results of the WIA employer customer satisfaction survey for this indicator, as the WIA employer survey measures employer satisfaction with one-stop services in general, regardless of funding stream (e.g., services funded under WIA, the Wagner-Peyser Act, etc.).


The handbook contains detailed specifications for calculating the performance indicators and for preparing ETA 9002 quarterly reports—the mechanism for reporting labor exchange performance information. Both the handbook and the reports have been completely revised to support the new labor exchange performance measurement system and are products of ETA’s agencywide data validation project.
Scope of Measurement

Despite developing standardized definitions for each of the performance indicators and the data elements for the ETA 9002 quarterly reports, a key characteristic of the labor exchange performance measurement system allows each state to measure services and outcomes somewhat differently. This is the determination of whom to include in the population that is counted for performance measurement purposes. For the performance indicators and the general reporting requirements applicable to job seekers, ETA has defined the measurement population as *registered job seekers*. According to ETA’s *ET Handbook No. 406*, registered job seekers are:

- Job seekers who complete registration or receive a service with the labor exchange during a reporting period consisting of four consecutive calendar quarters.
- Job seekers may be registered upon contacting the labor exchange through the one-stop delivery system or as required by state law or policy; however, job seekers receiving staff-assisted services funded under the Wagner-Peyser Act must be registered. Job seekers who use self-services or facilitated self-help services also may be registered, but this is not required. (USDOL 2002b, p. 8)

Thus, whereas one state might register (and hence count for performance measurement purposes), only those job seekers who receive staff-assisted services funded under the Wagner-Peyser Act, another state might count all job seekers who receive labor exchange services, regardless of the method of delivery (e.g., self-services, facilitated self-help services, or staff-assisted services) or the funding stream under which they are provided (e.g., Wagner-Peyser Act, WIA Title I-B, Title 38, state funding, etc.). With more job seekers using automated labor exchange services, however, ETA and the SESAs may wish to reexamine this registration policy and further explore ways to encourage and facilitate the registration of self-service users.

ETA has provided similar flexibility to states with respect to the reporting of job openings received. Again, according to the *ET Handbook No. 406*:

- Job openings listed through staff funded under the Wagner-Peyser Act must be included in the count of job openings. Job openings
listed through staff of other partner programs may be included [emphasis in original] in the count of job openings in accordance with state policy. Job openings initially listed with America’s Job Bank and imported into the state job bank may be included in the state’s count of job openings. (USDOL 2002b, p. 9)

This parallels the policy ETA adopted in implementing the WIA performance accountability system and provides states a degree of flexibility in how they deliver and account for labor exchange services. However, it also limits ETA’s ability to make comparisons across states or to compile statistical information at the national level. To make such comparisons requires taking into account the many differences between states in how they deliver labor exchange services.

Unlike for the WIA Title I-B programs, where ETA has interpreted the statute as requiring performance indicators specific to each funding stream, for the labor exchange, ETA adopted a policy of using a single indicator to account for the performance of labor exchange activities funded under multiple funding streams. Thus, while ETA administers the labor exchange performance measurement system under authority of the Wagner-Peyser Act, it does not require states to separately measure and account for labor exchange services provided to job seekers with Wagner-Peyser Act funding and services provided under other funding streams (e.g., WIA Title I-B, Title 38, U.S.C. or state funding).

This policy limits the suitability of information from the performance indicators for use in making comparisons across states or compiling into national totals, unless procedures are instituted for accounting for these differences across states. It does, however, support the concept of measuring the performance of the labor exchange as a system, rather than a program-specific funding stream. There is some indication that policymakers desire a system measurement approach that is supportive of coordinated service delivery across one-stop partner programs. For example, USGAO has identified a need for system indicators “to gauge the effectiveness of the entire one-stop system” in a report to Congress on WIA performance measurement (USGAO 2002, p. 28). Secretary of Labor Elaine Chao also has called for systemwide performance indicators for the one-stop system (USDOL 2002e). Finally, the Office of Management and Budget (OMB) is considering the development of crosscutting “common measures” for job training and
employment programs as part of the President’s Management Agenda (OMB 2002).

**UI Wage Records**

To determine whether the employment outcomes necessary to calculate the entered employment rate and employment retention rate indicators have occurred, ETA has adopted a policy of using UI wage records, similar to that of the WIA performance accountability system. UI wage records exist for all individuals employed by a firm that is covered by a state’s UI system. They contain an individual’s social security number, total quarterly earnings, and the employer’s identification number. In many states, information also is provided on hours or weeks worked. While most employment is covered by the UI system, there are a number of notable exceptions. These include self-employed individuals, military personnel, federal government employees, railroad employees, and independent contractors.

The use of UI wage records as a primary source of data for identifying employment outcomes has a number of advantages over individual follow-up, previously one of the primary means of identifying entry into employment for individuals receiving employment and training services. For example, Kornfeld and Bloom (1999, p. 193), using data from the National JTPA study, found that in estimating program impacts for specific individuals, information obtained from individual follow-up surveys and UI wage records produced similar results. Employment outcome information also can be obtained much more efficiently and at less expense from UI wage records than from surveys.

However, using UI wage records to obtain employment outcome information presents a number of challenges. For instance, there is a considerable delay between when wages are earned and when UI wage records become available. This is due to the time allotted for employers to submit their wage records to the state UI agency and the time it takes the UI agency to compile the information into its wage record database. This, combined with the time allotted in the performance indicators for the employment outcomes to occur, results in performance information not being available for between one and one and a half years after a job seeker registers with the labor exchange. This makes it impossible to
use performance information derived from UI wage records to inform management decisions and short-term planning. Rather, this information may be more useful for long-term planning and in providing information for program evaluation.

Another drawback of using wage records is that they are maintained separately by each state, which makes it difficult to obtain information on individuals who may have crossed state lines in their job search. To facilitate states’ use of wage records for performance measurement under WIA and the Wagner-Peyser Act, ETA has funded the development and implementation of the Wage Record Interchange System. WRIS provides states with an efficient means of requesting wage record data from other states for performance measurement purposes. A final concern with wage record data is that as administrative data, they are subject to reporting and recordkeeping errors. Still, the benefits of using wage records appear to outweigh the costs. The increasing demand for large volumes of employment outcome information makes it likely that the use of wage records for performance measurement will continue to grow.

**Reporting**

ETA requires SESAs to submit quarterly reports (e.g., five ETA 9002 quarterly reports), which contain an array of information about the performance of the labor exchange. The ETA 9002 A quarterly report contains summary information on the demographic characteristics of job seekers registered with the labor exchange and the types of services provided them. The ETA 9002 B quarterly report contains similar information for veterans served by the labor exchange. Both of these reports capture information on the number of job seekers served and the services they have received during a period consisting of four calendar quarters.

Information on the entered employment rate, the employment retention rate, and the two customer satisfaction indicators is reported on the ETA 9002 C quarterly report. This is reported only for the total of job seekers. More limited outcome information (e.g., the number of job seekers that entered employment, but not expressed as rates), is reported for job seekers according to a variety of demographic characteristics. Performance measurement information on services to veterans is
Labor Exchange Performance Measurement

reported on the ETA 9002 D quarterly report. This includes the three performance indicators for services to veterans: 1) the entered employment rate, 2) the employment retention rate at six months, and 3) the entered employment rate following receipt of staff-assisted services. Information from these performance indicators must be reported for several categories of veterans.

The employment outcome information reported on the ETA 9002 C and D reports is derived from UI wage records and customer satisfaction surveys. Because this outcome information cannot be collected until some time after job seekers register with the labor exchange and receive services, and because of the delays inherent in the use of UI wage records, the ETA 9002 C and D reports cannot be completed in as timely a fashion as the ETA 9002 A and B reports. In order to receive the most current data available, ETA has created a reporting schedule under which SESAs are to complete their reports with the most recent information available. As such, the differing reports will contain information for different cohorts of job seekers. Over time, performance information may be analyzed more comprehensively by matching reports according to job seeker cohorts.

The ETA 9002 E quarterly report contains information on the types of job openings listed with the labor exchange. Information on job openings is displayed in a tabular format and indicates the total number of jobs listed according to the occupation of each job opening and the industry of the employer that posted it. Job openings are classified by occupation using the O*NET-SOC classification system, and are cross-tabulated according to the North American Industry Classification System industry code of the employer posting the job listing. The ETA 9002 E quarterly report arrays job openings received according to 23 major occupation groups and 20 major industry groups.

LABOR EXCHANGE PERFORMANCE MEASUREMENT UNDER GPRA

The Government Performance and Results Act of 1993 (GPRA) requires federal government agencies to set goals, measure performance, and report on the extent of their success in meeting those goals for the
programs they operate. Key requirements of GPRA are that agencies prepare five-year strategic plans, annual performance plans, and annual performance reports. Five-year strategic plans consist of an agency’s mission statement, its long-term strategic goals, and the means through which it intends to achieve those goals. Strategic plans are the product of a strategic planning process, which must include input from stakeholders. In their strategic plans, agencies are expected to outline external factors that might impact the achievement of their goals and to describe any program evaluations that were used to assist in establishing their goals.

Annual performance plans link agencies’ operation and management of programs with their strategic plans. As part of their annual performance plans, agencies are required to develop performance goals to use in gauging their success in meeting their strategic goals. Progress toward meeting performance goals is assessed with performance indicators. Agencies are required to submit their performance plans to the OMB, which consolidates them into an overall governmentwide performance plan that is submitted to Congress with the president’s budget. Agencies prepare annual performance reports for the president and Congress on their success in meeting the goals outlined in their annual performance plans. Performance reports contain information on the current year and the three previous years (USGAO 1997, pp. 39–41). The performance of programs as reported in annual performance reports can be a considerable factor in influencing the budget and appropriations processes.

The planning and reporting requirements imposed on federal agencies under GPRA are not insignificant, and agencies must consider how they might be supported under their own performance measurement systems. This is especially true in federal grant programs in which federally funded services are provided by grantees (e.g., the delivery of employment and training services under WIA Title I-B and the Wagner-Peyser Act, or aid to disadvantaged students under Title I-A of the Elementary and Secondary Education Act), rather than directly by federal agencies themselves (e.g., the provision of social security benefits by the Social Security Administration). Thus, when agencies that oversee federal grant programs develop their performance plans and establish performance goals, they need to consider fully how differences in the
way grantees provide services might impact performance measurement at the federal level.

Establishing agency performance goals based on information collected from a diverse array of grantees can prove challenging. One approach some agencies have taken is to set a goal of a certain number of grantees (e.g., states) meeting or exceeding the performance goals that they have established for themselves based on federal guidelines. As an example, the U.S. Department of Education has included the following performance objective as part of its five-year strategic plan: improve math and science achievement for all students (U.S. Department of Education 2002, pp. 44–49). For this objective, it has established performance targets for math and science for a variety of demographic groups. The targets are expressed as the number of states meeting the eighth-grade achievement targets that the states have set for math and science for each student group. This approach provides states flexibility in allowing them to set their own goals within federal constraints based on factors such as the mix of resources provided from federal, state, and local sources; the rigor of state standards and assessments; and socioeconomic characteristics of student populations. Given considerable differences between states for each of these factors, the Department of Education found it more reasonable to measure the number of states meeting the goals they have established for themselves than attempt to compile diverse state measurement information into a national measure.

ETA has established agency performance goals, performance indicators, and performance targets for a number of the employment and training programs that are administered through grantees. ETA’s performance targets for the WIA Title I-B programs are the weighted average of the statewide performance goals negotiated between the states and ETA. States include these in their five-year strategic or unified plans (USDOL 2002a, p. 7). Thus, in its annual performance reports, ETA’s performance in administering WIA Title I-B is a direct reflection of the performance of the states as a whole.

For labor exchange services provided under the Wagner-Peyser Act, ETA was challenged by having to establish agency performance goals before states did the same. In its FY 2003 annual performance plan, ETA states its aspirations for the labor exchange as Goal 1.1C: Improve the outcomes for job seekers and employers who receive pub-
lic labor exchange services. ETA uses six indicators to measure performance toward meeting this goal (Table 4.2).

Absent state performance standards, however, ETA's agency targets can be based neither on a certain number of states meeting the standards they have set for themselves, nor a weighted average of statewide standards. Rather, ETA has had to establish agency performance targets that are based on projections or estimates of state labor exchange performance. Under this scenario, ETA has set a standard against which to hold itself accountable, but does not expect the same of the states.

CONCLUSION AND RECOMMENDATIONS

ETA and the states have made great strides toward establishing a performance measurement system for the public labor exchange. Still, however, the task is not complete. As this chapter noted earlier, performance measurement involves the assessment of the operation of a program in order to determine its effectiveness in achieving its intended purpose and in meeting predetermined performance standards. Absent clear and defined performance standards, however, measurement and reporting lack significance.

Surely ETA and the states will work to finalize the labor exchange performance measurement system by developing procedures for establishing clearly defined performance standards against which the delivery of labor exchange services can be measured. As ETA and the states do this, they also might consider the following:

- Develop means of adjusting for demographic and economic conditions, as well as differences in state program administration (e.g., registration policy, state funding levels, coordination across one-stop partner programs, etc.) to use both in establishing performance standards and for gauging success in meeting them. Doing so would make for fairer comparisons across states and also would counteract tendencies for creaming in service delivery.
- Develop additional performance indicators for services to employers, such as the market penetration rate.19
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Targeted population</th>
<th>Program</th>
<th>PY 2003 goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job seekers registered with the public labor exchange</td>
<td>Job seekers</td>
<td>Wagner-Peyser Act</td>
<td>58%</td>
</tr>
<tr>
<td>will enter employment with a new employer by the end of the second quarter following registration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job seekers registered with the public labor exchange</td>
<td>Job seekers</td>
<td>Wagner-Peyser Act</td>
<td>72%</td>
</tr>
<tr>
<td>will continue to be employed two quarters after initial entry into employment with a new employer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in the total number of job openings listed</td>
<td>Employers</td>
<td>Wagner-Peyser Act/One-Stop</td>
<td>+5%</td>
</tr>
<tr>
<td>with the public labor exchange (with both SESAs and AJB)</td>
<td></td>
<td></td>
<td>(adjusted for economic cond.)</td>
</tr>
<tr>
<td>Increase in the number of employers that register with AJB</td>
<td>Employers</td>
<td>AJB</td>
<td>286,000</td>
</tr>
<tr>
<td>Increase the number of job searches conducted from AJB by 5% a year</td>
<td>Job seekers</td>
<td>AJB</td>
<td>195.4 mil</td>
</tr>
<tr>
<td>Increase the number of resume search conducted from AJB by 5% a year</td>
<td>Employers</td>
<td>AJB</td>
<td>9.45 mil</td>
</tr>
</tbody>
</table>

• Reconsider how loosely defined registration procedures should be, both for the receipt of labor exchange service and within the one-stop delivery system as a whole.
• Develop performance indicators that apply across the one-stop delivery system.
• Develop methodologies for linking program benefits to costs to demonstrate the added value attributable to the operation of the program.
• Link more closely the performance measurement procedures applicable to state grantees under the Wagner-Peyser Act and to ETA under GPRA.

Like the WIA performance measures, the labor exchange performance indicators merely capture the outcomes that occur following a job seeker’s registration with the labor exchange. They do not directly express the value added by labor exchange services. A registered job seeker may enter employment and remain employed as a direct result of using the labor exchange or despite it. Without applying techniques such as comparison group design in the evaluation of labor exchange services, the degree to which the public labor exchange improves the job-matching process remains uncertain. Thus, performance indicators should not be used in isolation but should be part of a broader strategy used to monitor and assess the delivery of labor exchange services. Nonetheless, when properly employed, performance measurement is a valuable tool for effective program administration and management.

Notes

Special thanks go to Lou Jacobson, Chris O’Leary, David Balducchi, and Ann Lorde-man for their helpful comments. The opinions expressed here are those of the author and should not be construed to represent the position of the Congressional Research Service, the U.S. Department of Labor, or the W.E. Upjohn Institute. The author is responsible for all errors and omissions.

1. The Wagner-Peyser Act was amended under WIA (P.L. 105-220) to require labor exchange services to be provided as part of state one-stop delivery systems. The WIA also requires states to coordinate the delivery of services provided under partner programs in their one-stop delivery systems.
2. O’Leary, Nesporova, and Samorodov (2001, pp. 59–61) provide a cogent summary of the distinction between performance measurement (or performance moni-
toring), typically used to track gross outcomes of programs, and net impact estimation, typically used to assess the added value attributable to a program.

3. Previously, the employment service primarily had been engaged in human resource development and was focused on serving large numbers of individuals who were not fully job-ready.

4. A useful discussion of creaming and some of the concerns it raises for performance measurement may be found in O’Leary, Nesporova, and Samorodov (2001, p. 77).

5. The eight local factors were: staff years paid (based on the funding allocation for the budget year), unemployed individuals (projected for the budget year), unemployed individuals (prior year), youth applicants (prior year), UI claimant applicants (prior year), population, population density, and employment in service occupations (estimated for the budget year).

6. Sec. 6 of the Wagner-Peyser Act provides that after awarding funds to Guam and the Virgin Islands, two-thirds of each state’s allocation shall be based on its proportionate share of the total civilian labor force and one-third shall be based on its proportionate share of unemployed individuals. A hold-harmless of 90 percent of the prior year allocation and a small-state minimum of 0.28 percent of the total allotment also apply.

7. Secs. 3(a) and 13(a) of the Wagner-Peyser Act.

8. Sec. 7(b) of the Wagner-Peyser Act; secs. 7(b) and 13(a) were incorporated into the Wagner-Peyser Act in 1982 by amendment under JTPA (P.L. 97-300).

9. Real funding adjusted according to GDP (chained) price index, Office of Management and Budget.

10. Reportable services include referral to jobs and testing, and any service requiring expenditure of staff time even though not required to be reported (see USDOL 1996b, p. I-1).

11. Among the other requirements of WIA are that states prepare five-year plans for the implementation and operation of programs authorized under WIA Title I-B and the Wagner-Peyser Act; or unified five-year plans for programs authorized under WIA Title I-B, the Wagner-Peyser Act, and at least one other one-stop partner program.

12. For a more complete description of WIA performance accountability requirements, see USDOL (2000a, 2001a).

13. ICESA subsequently has redesignated itself as the National Association of State Workforce Agencies (NASWA).

14. VETS’s responsibilities include ensuring that veterans are served according to the requirements specified under Title 38 of the United States Code (U.S.C.). VETS administers funding provided under Title 38, U.S.C. for services to veterans to include services provided by Local Veterans’ Employment Representatives and Disabled Veterans Outreach Program representatives. In addition, veterans also are required to be given priority for services provided under the Wagner-Peyser Act.

15. An additional performance indicator applies only to veterans—the entered employment rate following receipt of staff-assisted services. While it is used to mea-
sure outcomes associated with labor exchange services provided under the Wagner-Peyser Act, ETA does not identify it as one of the labor exchange performance indicators in *ET Handbook No. 406*. This indicator was developed by VETS, and ETA collects information on the indicator to meet the requirements of Title 38, U.S.C.

16. ETA worked in partnership with VETS to develop the ETA 9002 quarterly reports. Some of the information collected on the reports is reported to ETA in order to document services that are required to be provided to veterans under Title 38, U.S.C.

17. In addition, the entered employment and employment retention rates are reported for eligible UI claimants. The employment retention rate also is reported for persons with disabilities, migrant and seasonal farmworkers, and dislocated workers. The number of individuals entering employment (but not rates) is reported for job seekers according to a number of demographic characteristics, including race, ethnicity, educational attainment, and age.

18. The Department of Education has similar goals for reading, high school students, etc. For other programs, the department sets goals based on nationwide performance rather than on state success in meeting state goals.

19. The market penetration rate would be useful in indicating the number of jobs listed with public labor exchange as a proportion of total job openings in the economy. ETA and NASWA explored the viability of the market penetration rate when developing the current labor exchange performance measurement system, but opted not to proceed further until after implementation of the current system.

References


———. Employment and Training Administration. 2001a. Training and Employment Guidance Letter 7-01: Performance Reporting Submission Procedures for the Workforce Investment Act Standardized Record Data (WIAS-RD) and the Annual Report under Title 1B of the Workforce Investment Act (WIA) and (WIASRD Submission Instructions). Washington, DC.


The fundamental goal of public employment programs is to promote nonsubsidized employment and earnings among participants. Evaluations of a wide range of active labor market programs across a variety of countries have produced three essential findings in this regard: 1) job search assistance programs are the most cost-effective; 2) large-scale public service employment programs are the least effective and most costly; and 3) job training programs and employment subsidies fall somewhere in between, with the degree of cost-effectiveness dependent on proper targeting of assistance (Schwanse 2001, p. 22).

A sizeable share of the research supporting these conclusions was undertaken in the United States (Martin and Grubb 2001). However, evidence from recent evaluations in Europe are consistent with American studies, suggesting a broad applicability of lessons learned (Heckman, LaLonde, and Smith 1999, p. 1868).

With confidence bolstered by robust labor markets in the late 20th century, and guided partly by evidence from evaluation research, many nations moved their employment policies in the active direction (Thuy, Hansen and Price 2001, p. 35). A popular initiative has been to increase the level of job search activity expected for continued unemployment compensation eligibility.

This chapter examines evidence from U.S. evaluations of labor exchange activities. To set the context for this discussion, the next two sections review the elements of the labor exchange function and the composition of public labor exchange customers. This is followed by a brief overview of methodologies for labor exchange program evalua-
tion. The next three sections provide summaries of evaluation research grouped into the main themes of studies which have been done: job interview referrals, job search assistance, and targeted job search assistance. The final section offers a summary and some conclusions.1

THE LABOR EXCHANGE FUNCTION OF THE PUBLIC EMPLOYMENT SERVICE

Public employment services around the world have four main functions: 1) labor exchange; 2) administration of unemployment insurance (UI) benefits; 3) management of active labor market programs; and 4) labor market information (Thuy, Hansen, and Price 2001, p. 27). The first of these is the main function of the federal–state Employment Service (ES) in the United States. A crucial role of the ES in UI administration is testing the continued job readiness of beneficiaries.

Public labor exchange services in the United States are delivered through a network of local offices that operate within a federal–state system. The federal partner, the U.S. Employment Service (USES), cooperates with 54 state ES 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 expand 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. There are currently about 600 workforce investment areas in operation. In addition to the ES, each one-stop center must provide access to programs for UI; disadvantaged, dislocated worker, and youth training; welfare-to-work; veterans employment and training; adult education; postsecondary vocational edu-
cation; vocational rehabilitation; Title V of the Older Americans Act; and Trade Adjustment Assistance.

Services offered at one-stop centers 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 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 customers 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 5.1 provides an overview of ES service use during the 1999 program year, which extended from July 1999 through June 2000. 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

| Table 5.1 Public Labor Exchange Data for the United States PY 1999 (July 1, 1999–June 30, 2000) |
|---------------------------------------------|-----------------|-----------------|
| Total                                      | 16,708,228      | 6,165,645       |
| Received some reportable service           | 10,944,034      | 3,417,600       |
| Referred to employment                     | 6,733,180       | 1,652,141       |
| Received job search activities             | 6,704,938       | 2,428,242       |
| Assessment services provided               | 1,777,295       | 659,725         |
| Referred to skills training                | 395,589         | 173,779         |
| Entered employment                         | 3,601,620       | 1,116,840       |
| Placed                                     | 1,771,107       | 359,366         |
| Obtained employment                        | 2,029,411       | 822,906         |

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: 1) referred to employment—sent to a job interview with an employer who listed a job vacancy 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/or maintain eligibility for weekly benefits. This linkage between the UI and ES programs is part of what is called the “work test” in UI, and it has been a key area of labor exchange evaluation research. Interventions which speed return to work by UI beneficiaries can generate significant savings in UI benefit payment expenditures.

Table 5.1 shows that in program year 1999, UI claimants made up 36.9 percent of ES customers. Column 3 of the table displays the number of UI claimants using various reportable employment services. Compared to all ES applicants, a smaller fraction of UI claimants actually received some reportable service. Among UI claimants, 71.1 percent with some reportable service received job search assistance (JSA), 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 1995. WPRS identifies UI claimants who are not job attached and who are likely to exhaust their UI benefit entitlement, and quickly refers them to job search orientation and assistance. Benefit payments 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.

The bottom rows of Table 5.1 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 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 even after receiving some reportable service.

However, such interpretation of gross outcomes is mere speculation. 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 been 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.

CUSTOMERS OF THE LABOR EXCHANGE

The labor exchange serves both sides of the job market: job seekers looking for work and employers looking to hire. This balanced customer view is evidenced in the layout of the Internet-based public labor exchange—America’s Job Bank (www.ajb.org). America’s Job Bank (AJB) offers both job seeker and employer services customized for each state and local labor market.

AJB services available to the supply side of the labor market (job seekers) include: searching a database of around one million jobs nationwide, creating and posting a resume online, and setting up an auto-
mated job search (or job scout). AJB services offered to the demand side of the labor market (employers) include searching an extensive resume database, posting available job openings, getting advice on writing job vacancy announcements, and conducting an automated search for potential employees (a resume scout). In late August 2002, the Web site listed the following inventory:

- Number of new jobs today: 28,566
- Number of new resumes today: 270
- Total jobs available: 938,611
- Total available resumes: 408,790

On the supply side of the labor market, labor exchange customers can be divided into three distinct groups: 1) UI claimants who are referred to WPRS; 2) other UI claimants; 3) 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 5.2. 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 among all unemployed, youth are a smaller share of ES customers, while the less educated are a greater share of job seeking customers.

Labor exchange customers on the demand side of the labor market are employers. About one-third of all U.S. 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 5.3. 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.

Employers in industries which tend to employ higher cost labor may be more willing to incur direct monetary costs for job matching.
Table 5.2  Characteristics of Applicants for Employment Service Programs, PY 1999 and Annual Average Monthly Unemployed, 2000

<table>
<thead>
<tr>
<th></th>
<th>ES applicants</th>
<th>All unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Age—Youth (under 22)</td>
<td>2,305,938</td>
<td>13.8</td>
</tr>
<tr>
<td>Age—Older (over 54)</td>
<td>1,367,086</td>
<td>8.2</td>
</tr>
<tr>
<td>Gender—Female</td>
<td>7,710,699</td>
<td>46.1</td>
</tr>
<tr>
<td>Race—Black</td>
<td>3,588,649</td>
<td>21.5</td>
</tr>
<tr>
<td>Race—Hispanic</td>
<td>2,116,289</td>
<td>12.7</td>
</tr>
<tr>
<td>Education—Less than high school</td>
<td>3,220,905</td>
<td>19.3</td>
</tr>
<tr>
<td>Education—Post–high school degree/certificate</td>
<td>2,344,471</td>
<td>14.0</td>
</tr>
<tr>
<td>Total</td>
<td>16,708,228</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Table 5.3  ES Job Openings Listed by Industry, PY 1999 Average Monthly Employment by Industry, 2000

<table>
<thead>
<tr>
<th>Industry categories</th>
<th>Job openings</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Listed</td>
<td>Share</td>
</tr>
<tr>
<td>Agriculture, forestry, and fisheries</td>
<td>356,158</td>
<td>4.9</td>
</tr>
<tr>
<td>Mining</td>
<td>22,112</td>
<td>0.3</td>
</tr>
<tr>
<td>Construction</td>
<td>344,512</td>
<td>4.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>964,456</td>
<td>13.3</td>
</tr>
<tr>
<td>Transportation and utilities</td>
<td>429,565</td>
<td>5.9</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>234,081</td>
<td>3.2</td>
</tr>
<tr>
<td>Retail trade</td>
<td>964,970</td>
<td>13.3</td>
</tr>
<tr>
<td>Finance, insurance, and real estate</td>
<td>223,802</td>
<td>3.1</td>
</tr>
<tr>
<td>Services</td>
<td>3,168,768</td>
<td>43.8</td>
</tr>
<tr>
<td>Public administration</td>
<td>524,800</td>
<td>7.3</td>
</tr>
</tbody>
</table>

services, because 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 transactions costs are low. Services of the public labor exchange are provided for free. Because the ES provides job-matching services free of charge, they may also be used by employers who can quickly and adequately assess qualifications objectively through means like a resume, professional certification, licenses, or a standardized test score.

The occupational mix of job vacancies listed and filled by the ES in PY 1999 are reported in Table 5.4. 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.

**EVALUATING EFFECTIVENESS**

Performance measurement of labor exchange activities, as discussed in Chapter 4 of this volume, concerns methods for tracking outcomes experienced by program participants. Such data on gross program outcomes are gathered in a consistent manner across all localities on a regular basis. This information is the foundation for management systems driven by objectives. Such information can help in program planning and management.

In contrast to performance management systems, the evaluation studies examined in this chapter all involve a comparison group design which permits estimation of the incremental effect of an intervention. The methodology, called net impact estimation, contrasts postprogram labor market outcomes of participants against an appropriately chosen counterfactual.
Table 5.4  Job Opening Listings by Occupation Received and Filled by the U.S. Employment Service, PY 1999

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


For evaluating labor exchange programs, this means that personal and labor market characteristics enabling success are roughly equivalent in the two groups. Appropriate comparison group specification can be achieved by proper sample selection or through statistical means; that is, either by classical field experiments involving random assignment or by quasi-experimental statistical methods.

Classically designed experiments are the ideal for net impact estimation. If random assignment is achieved, modeling of behavior and complex econometric methods are not needed to obtain estimates. With large samples randomly assigned to treatment and control groups, observable and unobservable characteristics of the two groups should not differ on average, so that any difference in outcomes may be attributed to the program. Program impacts may be measured as the simple difference between the means of the samples of program participants.
and of control group members on measures of outcomes. Because this process is easy to understand, impact estimates computed this way can be very influential in informing policy.

When there is nonrandom assignment to either a program participant group or the comparison group, then to estimate the net impact of a program properly, statistical methods of correction must be used to offset selection bias. Such quasi-experimental evaluations are done because they are cheaper and can be done more quickly than classical experiments. They can often be performed using existing administrative data, which helps control evaluation costs.

The main challenge in quasi-experimental net impact evaluations concerns adequately dealing with the problem of selection bias. A popular approach to dealing with this problem was proposed by Heckman (1976), who characterized selection as an unobservable variable distinguishing program participants from nonparticipants. Other approaches involve strategically selecting a comparison group by matching characteristics of program participants with nonparticipants who appear to be otherwise similar. Such matching may be done on a set of characteristics or on a single summary measure of several characteristics (Heckman, LaLonde, and Smith 1999).

While performance monitoring of gross outcomes is a basis for program management, net impact estimation is a basis for policy development. Policy decisions concerning questions of whether to continue, expand, curtail, or cancel government employment programs require information about the return on government spending—the return on investment. Such cost–benefit analysis of programs requires measurement of net impacts.

Net impact evaluations are not without potential problems, even if the evaluation is done under the ideal conditions of a field experiment. The first type of potential pitfall is called \textit{internal validity problems}. In the context of an experiment, internal validity problems include errors in conducting random assignment to treatment and control groups, and inconsistent experimental conditions. The first of these can lead to lack of homogeneity across groups; the second means that the same treatment was not applied in all cases. One problem of this type is called \textit{dropout bias}, wherein a customer believed to be provided an experimental treatment in fact did not receive the service. The converse problem is called \textit{substitution bias}, wherein a control group member actual-
Evaluating the Effectiveness of Labor Exchange Services

ly receives the treatment, but through an unobserved channel (Heckman et al. 2000).

The second type of evaluation pitfall is called external validity problems. These affect the ability to transfer estimates from the evaluation context to the actual policy context. Time horizon effects can occur when treatment subjects understand that the experimental service is only temporary rather than permanent. Learning effects can take place within a community during the course of an evaluation whereby the first enrollees act differently from those enrolled some time after the evaluation begins. Entry effects not observed during an evaluation can emerge when an appealing service becomes generally available to a customer population. Hawthorne effects are responses to treatments simply due to the special attention, not to the content of service. Displacement effects, which may be the most critical external validity concern, occur, for example, when participants in an evaluation improve their outcome at the expense of others who are not part of the evaluation.

EFFECTIVENESS OF JOB INTERVIEW REFERRALS

The main activity of the public labor exchange in the United States is job interview referrals. In PY 1999, 61.5 percent of customers nationwide receiving an ES service were given a job interview referral. About half of those customers were identified as subsequently entering employment. However, such gross outcome assessments do not indicate the value added by job interview referrals from the ES.

In the past 20 years, three major studies of the ES in the United States have estimated the additional value provided by job interview referrals from the public labor exchange (Johnson et al. 1983; Katz 1991; Jacobson and Petta 2000). A summary of the designs, samples used, and main findings from each of these studies is provided in Table 5.5.

Each of the three studies framed the question of job referral effectiveness differently, but all three used a quasi-experimental approach. Random trial evaluations were ruled out because job interview referrals are a right to all ES applicants and cannot be denied simply to create a control group for experimental measurement. In reviewing these stud-
<table>
<thead>
<tr>
<th>Author/title</th>
<th>Design</th>
<th>Sample</th>
<th>Findings</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>P2: Early ES job referrral</td>
<td>30 offices in 27 states</td>
<td>P2: Large earnings gains for women, modest earnings gains for men. Among men, bigger effects for men over 45 and in urban areas. Comments: Displacement effects possible. Results not affected by selectivity bias correction. Comparison group somewhat advantaged.</td>
</tr>
<tr>
<td></td>
<td>C: Registered but received no services</td>
<td>July 1980 to May 1981</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>8,000 ES applicants</td>
<td></td>
</tr>
<tr>
<td></td>
<td>P2: ES job referral</td>
<td>5% sample of UI recipients, 16,470 jobless spells</td>
<td>P2: Reductions in duration of joblessness increased with time delay in applying for ES. Up to –20.5** weeks.</td>
</tr>
<tr>
<td></td>
<td>C: No ES services</td>
<td></td>
<td>Similar impacts in combination with JSA. Comments: Must control for delay in application, ES as a backstop, JSA most effective early.</td>
</tr>
<tr>
<td>Study</td>
<td>Participant Group</td>
<td>Comparison Group</td>
<td>Details</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------------------</td>
<td>------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>P2: Job referrals</td>
<td>C2: Not referred</td>
<td>Washington survey data: P1: Strong work record –7.2 weeks, weak work record –3.8 weeks.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Oregon administrative data: P1: –4.6 weeks. P2: –1.1 weeks.</td>
</tr>
</tbody>
</table>

**NOTE:** P: participant group; C: comparison group.

** Statistically significant at the 95 percent level in a two-tailed test.
ies and their findings, we see how research has informed employment policy in the United States.

A National Evaluation of the ES in the United States

In the early 1980s, the U.S. Department of Labor sponsored a major nation-wide evaluation of the effectiveness of the ES (Johnson et al. 1983; Johnson, Dickinson, and West 1985). Baseline interviews were conducted with 8,000 new applicants in 30 ES offices nation-wide (in 27 states) between July 1980 and May 1981. To measure outcomes, personal in-home follow-up interviews were conducted six to nine months later.

Because not all ES registrants receive a reportable service, a natural contrast for evaluation existed. Those who received ES services (particularly job referrals) were compared to those who did not receive reportable ES services. The latter group may have perused job vacancy listings or done some other self-service activity. Success was measured on two labor market outcomes: earnings and the time from ES application to first job.

Statistical tests for differences in observable characteristics between service recipients and non-recipients showed the two groups to be quite similar. In fact, those not receiving ES services appeared to be somewhat more job ready than service recipients. The researchers asserted that the slightly more advantaged comparison group imparted a downward bias on estimated ES impacts. Estimates were computed controlling for a long list of observable characteristics commonly measured for ES customers, and three additional variables were constructed from responses to special quizzes administered for the evaluation project. There was also an attempt to apply a Heckman (1976) type selectivity bias correction; however, no suitable ES participation instruments were found. That is, no variables adequately explained ES program use independent of predicting subsequent labor market outcomes. After estimating impacts using a variety of sample definitions and statistical techniques, the authors assert the estimates presented to be robust to a wide range of alternative assumptions.

Overall job interview referrals were found to be effective by increasing earnings and reducing the time until return to work. However, the bulk of these benefits were found to be concentrated among female
users of ES services. A 23 percent increase in earnings was estimated for female service users, who returned to work nearly three weeks sooner than women not using ES services. The impacts for women were similar regardless of whether or not they were UI beneficiaries. The estimated impacts for men were nil.

A finer distinction in the treatment was also investigated. When the job referral is soon after ES application, impacts are still large for women and become somewhat positive for men. For this early ES intervention, two particular subgroups among men had larger impacts: those over 45 and those in urban areas. There were no differences for men who were union or job attached. Subgroup analysis revealed no differential effects between groups of women. About the effects for women, the authors speculate that “[p]art of the reason may be that women have less labor market experience and less access to the traditional network of job finding methods and that an ES referral constitutes more of a service for women” (Johnson, Dickinson, and West 1985 p. 136). In concluding, the study authors cautioned that their analysis focused on only partial equilibrium impact estimates and did not consider possible labor market displacement effects or other general equilibrium aspects of impact estimation.

**Effectiveness of the ES for Dislocated Workers in Pennsylvania**

The National Commission for Employment Policy sponsored research that exploited an uncommon feature of UI to estimate the effectiveness of ES for dislocated workers in Pennsylvania (Katz 1991). The study used data on UI recipients in Pennsylvania during the period 1979–1987. In those years Pennsylvania claimants were not required to register for job search with the ES. Most states require ES registration of UI claimants as part of their work test to reduce moral hazard (Blaustein, O’Leary, and Wandner 1997, pp. 28–29).

Program effects were estimated by comparing labor market outcomes of ES users against nonusers of ES. ES users had lower prior earnings and longer periods of joblessness but were otherwise observationally similar to nonusers of ES services. A 5 percent random sample of Pennsylvania UI recipients during years 1979–1987 yielded quarterly data on 16,470 jobless spells nearly equally split between the two largest cities in the state (8,198 Philadelphia; 8,272 Pittsburgh). De-
scriptive characteristics of claimants in the samples were similar across cities.

By using a sample of UI claimants, the study contributed to deliberations on policy for dislocated workers who emerged as an important program target group in the wake of the 1980s restructuring wave. UI beneficiaries tend to have higher recent earnings and a stronger labor force attachment than the average ES customer seeking work. This evidence was viewed as a supplement to the national ES evaluation that covered the entire pool of ES job seekers (Johnson et al. 1983; Johnson, Dickinson, and West 1985).

In addition to studying job interview referrals, the Pennsylvania study also examined job search assistance (resume assistance, job search workshops, job finding clubs, labor market information, and job search planning) and job placements. Methods for measuring effects of the latter must be clearly stated, as a job placement can be considered an outcome by itself. The effects of ES services given in a particular quarter were checked in subsequent quarters. Essentially, the durability of an ES job placement was measured against that resulting from other avenues of job finding. Katz (1991, p. 22) states that “[i]t is important to note that an ES placement does not automatically imply an end to joblessness as defined for this study. If an applicant was placed in any given quarter, he/she would need to remain employed in the subsequent quarter to be re-employed.”

Net impact estimates were computed in regression models controlling for differences in observable characteristics. Investigation of the timing of using ES services revealed distinct patterns in effects. Job search assistance was most effective right after the start of a spell of joblessness. It was estimated to save up to 8.4 weeks of joblessness if used within the first calendar quarter following job separation.

Both job placements and referrals were found to be most effective two or three calendar quarters after commencement of joblessness. For users after two quarters, placements shortened jobless durations by an estimated 14.8 to 20.7 weeks, while referrals shortened durations by an estimated 10.5 and 13.2 weeks. For users after three quarters, placement impact estimates were as large as –23.7 weeks, and with impact estimates for job referrals between –14.8 and –20.5 weeks. Given their huge magnitude, all the estimates were statistically significant. Placements or referrals combined with JSA were estimated to have similar
effects. The direction of impact estimates for ES services is consistent with other research, but the estimated magnitude of impacts is much larger than anything else reported in the literature.

The key insight gained from this study regards the response to interventions at differing times in the jobless spell. The pattern that emerged led the study author to describe the ES as a “backstop,” or a job-finding path followed when others have yielded no appealing prospects. “The effectiveness of the ES appeared to be much less a function of the characteristics of individual workers than the overall length of their joblessness” (Katz 1991, p. 21).

While results of this study are qualitatively consistent with other ES evaluations, the size of the impact estimates are astounding, being nearly three times as large as the ES impact estimate for women produced by Johnson et al. (1983) and Johnson, Dickinson, and West (1985). Any government program producing such success would likely be swamped with applicants and government funding.

**Effectiveness of Referrals and Placements in Washington and Oregon**

During the 1990s, the U.S. Department of Labor sponsored research to estimate the benefits derived from matching job seekers to openings listed by employers with the public labor exchange in Washington and Oregon. The study comprised investigations using three data sets, two from Washington and one from Oregon. The data for Washington consisted of survey data on 587 job seekers who used the public labor exchange in the first half of 1998, plus administrative data on 328,815 jobless spells that occurred between 1987 and the middle of 1995. The Oregon data were based on administrative records for 138,280 jobless spells in 1995.

Analysis of job placements using the Washington survey data revealed differences in impacts across ES customers depending on their recent patterns of job attachment. For job seekers characterized as having a spotty work record, the impact of a job placement was estimated to be –3.8 weeks, while the impact estimate was –7.2 weeks for those with a strong work record.

Impact estimation based on the administrative data did not distinguish between job seekers with spotty or strong work records. The im-
Impact of job placements based on the Washington data was estimated to be –7.7 weeks, and the estimate based on Oregon data was –4.6 weeks. These estimates of job placement impacts based on administrative data were viewed as broadly consistent with those from the Washington survey data.

The impact of job referrals based on the Washington administrative data was estimated to be –2.1 weeks, and the estimate based on Oregon data was –1.1 weeks. An ES job placement can be distinguished from a job referral by the resources required to deliver the service. Nonetheless, the estimated cost of delivering either referrals or placements was low relative to impact estimates so that benefit–cost ratios were computed to exceed one for both interventions. The authors assert this to be sufficient justification for further public investment in ES activities.

Concern about the degree to which the Washington and Oregon ES evaluations were externally valid regarding displacement led to a related study. Davidson and Woodbury (2000) used a computerized simulation model of the labor market called a general equilibrium search and matching model (Davidson and Woodbury 1993). They calibrated the model with labor market data from Washington State and with impact estimates of Washington public labor exchange (PLX) services (Jacobson and Petta 2000). “The crowding-out effects of PLX referral and placement activities are small both absolutely and relative to the increases in employment that result from PLX activities . . . the benefits generated by PLX referral and placement activities outweigh the costs. The benefits again are twofold: shorter unemployment spells for PLX users and general improvements in the labor market that result from PLX activities” (Davidson and Woodbury 2000, pp. 19–20).

EFFECTIVENESS OF JOB SEARCH ASSISTANCE

Job search assistance comprises a bundle of services available from the public labor exchange which may include resume preparation assistance, job-finding clubs, provision of specific labor market information, development of a job search plan, and orientation to self-service resources (job vacancy listings, resume preparation, word processor competency testing, and telephones for contacting employers). In evalua-
tions of JSA, job search workshops (JSW) are treated as a distinct service.

Three specific evaluations of JSA performed in the past 20 years have been particularly influential in shaping public labor exchange policy. The designs, samples, and findings from these studies are given in Table 5.6. All three evaluations were done as field experiments involving random assignment. As mentioned above, evaluations of job referrals and placements have not applied an experimental design due to the untenable design requirement of withholding from the control group basic services having universal entitlement. Consequently, JSA evaluations have focused on UI claimants and have usually involved providing additional services.

It is well documented that in performing its income replacement function, UI acts as a disincentive to rapid return to work (Decker 1997). The work test that links the UI and ES programs in the United States is an institutional mechanism for monitoring whether UI beneficiaries are available and actively seeking work. The JSA evaluations have investigated various approaches to improving the effectiveness of the work test for UI.

Charleston Claimant Placement and Work Test Experiment

The first field experiment addressing aspects of the UI work test in the United States began enrollment in February 1983 in Charleston, South Carolina. Random assignment of 5,675 new initial UI claimants to three treatment groups and a control group was completed in December 1983. The experiment was designed to evaluate new procedures intended to improve the UI work test and enhance ES practices. The three treatments tested represented successively larger bundles of services. This design permitted contrasts against each other as well as against the single control group.

Claimants assigned to the control group were given the customary work test, which involved informing claimants that ES registration was required but involved no systematic monitoring of this requirement. The three treatments in Charleston were:

1) A strengthened work test. This test required that an ES registration notice be sent after the first UI benefit check was paid,
<table>
<thead>
<tr>
<th>Author/title</th>
<th>Design</th>
<th>Sample</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corson, Long, and Nicholson (1985)</strong> <em>Evaluation of the Charleston Claimant Placement and Work Test Demonstration</em></td>
<td>T1: Stronger work test</td>
<td>Charleston, SC February to December, 1983</td>
<td>T1: –0.55* weeks UI T2: –0.61** weeks UI T3: –0.76** weeks UI Impacts greater on men and construction workers.</td>
</tr>
<tr>
<td></td>
<td>T2: T1 plus enhanced placement services</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>T3: T2 plus JSW C: Customary work test</td>
<td>T: 4,247 C: 1,428</td>
<td></td>
</tr>
<tr>
<td></td>
<td>T2: New work search policy</td>
<td>T: 6,763 C: 2,871</td>
<td></td>
</tr>
<tr>
<td></td>
<td>T3: Intensive services C: Existing work search policy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Klepinger et al. (1998) *Evaluation of the Maryland Unemployment Insurance Work Search Demonstration*

- **T1**: Report four employer contacts weekly
- **T2**: Two contacts required weekly, but no reporting
- **T3**: Report two contacts weekly plus a four day JSW
- **T4**: Report two contacts weekly and both verified

**C1**: Standard policy: report two contacts weekly but contacts not verified

**C2**: Standard policy, but told data was to be used in an evaluation study

**Maryland**

- **Six offices**
- **January 1, 1994 to December 31, 1994**

**Combined sample**

- **23,758 monetarily eligible new initial UI claimants.**

**T1**: −0.7** weeks UI

**T2**: +0.4* weeks UI

**T3**: −0.6** weeks UI

**T4**: −0.9** weeks UI

Impacts identical against either control group, suggesting no Hawthorne effect present. Treatments 1, 3 and 4 had no earnings impacts. Treatment 2 raised earnings by 4** percent.

**NOTE**: T: experimental treatment group; C: experimental control group; JSW: job search workshop.

* Statistically significant at the 90 percent confidence level in a two-tailed test; ** statistically significant at the 95 percent level in a two-tailed test.
with payment of the second check suspended for failure to register with the ES. This required establishment of improved data sharing systems between UI and ES.

2) A strengthened work test plus enhanced placement services; such as a personal placement interview within one week of the first UI check, a job referral or an outreach attempt to contact a prospective employer (job development), and training in using the job vacancy listings. Treatment assigned claimants were also told they would be called for special services again once they drew nine weeks of benefits.

3) A strengthened work test, enhanced placement services, a three-hour JSW, and, after four weeks of UI benefits, a JSW on labor market information.

The strengthened work test had the greatest impact. It alone shortened the duration of compensated joblessness by more than half a week; the impact estimate was −0.55 weeks of UI benefits. This effect was statistically significant, but not significantly different from the estimated effect of the second treatment. The addition of enhanced placement services resulted in an impact estimate of −0.61 weeks, or an insignificant increase over the strengthened work test alone. The impact estimate for the third treatment, which added JSWs, was −0.76 weeks of UI benefits, a modest incremental effect over either of the other treatments.

Impacts of the treatments were concentrated among men who averaged impacts of greater than −1.0 weeks for all treatments, and among workers in the construction industry, who had impacts of over −4.0 weeks. The relatively low cost of treatments resulted in jaw-dropping benefit–cost ratios in excess of 4. That is, more than $4.00 in UI benefit payments were saved for every dollar spent on the work test, JSA, and JSW services. The third treatment, which involved the largest number of components, had an average cost of only $17.58 in 1983 dollars.

In 1969 the UI trust fund was added to the federal unified budget. Conservation of UI funds consequently improves the overall budget picture. In the 1980s political environment of huge federal deficits, the Charleston Claimant Placement and Work Test Experiment drew attention to the strengthened work test, JSA, and JSW as appealing policy tools. These instruments offered the potential of providing positive services while conserving UI trust fund dollars.
Evaluating the Effectiveness of Labor Exchange Services

Washington Alternative Work Search Experiment

Effects of the UI work test and related services of the public labor exchange were further investigated by a field experiment with random assignment between July 1986 and August 1987 in Tacoma, Washington, job service centers. A total of 6,763 UI claimants were assigned to one of three treatments, and 2,871 claimants were assigned to the control group, which followed the existing Washington State work search policy.

The standard work search rule required three employer contacts per week plus an eligibility review interview (ERI) 13–15 weeks after the initial claim was filed. This ERI involved a one-hour group session followed by a 15-minute individual interview. The focus of both sessions was on UI eligibility. The three treatments in Tacoma were:

1) Exception reporting—a complete relaxation of the work test. Claimants were not required to file the standard biweekly continued UI claim form, and were told that UI payments would continue until the claimant reported a change in circumstances, such as return to work or an increased level of earnings.

2) New work search policy—individualized work search requirements, including a group ERI followed by an intensive one-on-one follow-up interview.

3) Intensive services—individualized work search requirements (treatment 2), plus a two-day JSW after 4 weeks (two days of classroom instruction plus 10 hours of phone canvassing), plus a group ERI after 12 weeks with a focus on employability development, plus individual follow-up.

Suspension of enrollment into the first treatment was done earlier than planned because the larger than expected response could easily be detected with a sample much smaller than designed. Claimants were relieved of the work test, and continued claim filing increased their weeks of UI benefits drawn by a statistically significant 3.34 weeks. This impact was bigger for women with children and men without children, and for married women and unmarried men.

The new work search policy providing custom-tailored services and schedules had an effect on UI benefit receipt of +0.17 weeks, and
was statistically indistinguishable from the existing standard work search rule applied uniformly to all claimants.

Treatment number three, which was customized and had a JSW after 4 weeks and an ERI after 12 weeks, had a statistically significant impact of –0.47 weeks. Impacts were bigger for women without children and unmarried women. An analysis of the timing of the treatment and claimant response (at 4 and 12 weeks), compared to the standard treatment given the control group (at 13–15 weeks) provided new insight into claimant behavior. Researchers observed suspension of UI benefit receipt to be more common immediately before a scheduled intervention rather than after the service was provided. Such a response might be termed an “invitation effect.”

This led to the conclusion that the timed elements of the work test—JSW and ERI—acted more like a stick-prodding return to work than a carrot providing nourishment for achieving that end. The researchers speculated that the response to treatment 2 had no identifiable peaks in the timing of exit from UI receipt because the individually customized schedule attenuated the observed response to an ERI invitation.

Needless to say, exception reporting was estimated to be very costly. Individualized requirements generated no differential impact. An invitation to attend either an ERI or JSW shortens duration, with the latter having a bigger effect. Exit rates are lower during and after the ERI and JSW, suggesting it is the requirement to attend rather than the value of the session which shortens duration.

**Maryland UI Work Search Experiment**

Enrollment into the Maryland UI work search experiment was conducted in six public labor exchange offices around the state throughout the entire calendar year of 1994. A combined sample of 23,758 new monetarily eligible UI claimants were enrolled in the experiment.

The standard work search policy was given to the control group. This required two job search contacts per week, which must be reported on the biweekly UI continued claim form but are not verified. The four alternative treatments tested were:

1) Report four weekly employer contacts, which are not verified.
2) Contact two employers per week but need not report the two contacted.
3) Report two weekly employer contacts, which are not verified, plus attend a four-day JSW early in the unemployment spell.
4) Report two weekly employer contacts; claimants are told contacts would be verified.

Requiring four employer contacts per week yielded a statistically significant impact of –0.7 weeks of UI benefits. This reduction in duration resulted even in the absence of any verification of the offers. Requiring two employer contacts per week but removing the requirement to report them resulted in a statistically significant increase in UI benefit durations of +0.4 weeks. The impact of requiring two employer contacts per week, which were not verified, plus attendance at a four-day JSW early in the unemployment spell was –0.6 weeks of UI. Like the Tacoma experiment, this impact was due to raising the hassle associated with staying on UI, not due to increasing claimants’ job search skills. Notable for employers, this third treatment also reduced the probability of returning to the prior employer.

Requiring two employer contacts to be reported and telling claimants that their two contacts would be verified impacted UI benefits by –0.9 weeks. The verification rate of 10 percent appeared to be an adequate threat. Notably, the impact of this fourth treatment occurred during the first spell of joblessness. Similarly, the first treatment generated the bulk of its response during the first spell of joblessness in the benefit year.

The effects of treatments 1, 3, and 4 were not associated with lower reemployment earnings. However, eliminating the work search reporting requirement, as in treatment two, raises reemployment earnings by a statistically significant 4 percent.

A second control group facing the standard work test was also tracked, but claimants assigned to this group were told that their behavior was being tracked as part of an experiment. This was done to permit testing for the presence of a Hawthorne effect. This is relevant in ensuring external validity of the evaluation. If part of the treatment response to a new work test is simply due to added attention on the work test, then such an effect could quickly dissipate after actual implementation. Impact estimates computed as a contrast between the participant group and each of the two control groups were virtually identical, suggesting the absence of any Hawthorne effect.
EFFECTIVENESS OF TARGETED JOB SEARCH ASSISTANCE

Targeting of JSA surfaced as a policy option during the 1990s following the massive economic restructuring and worker dislocation of the previous decade. Earlier research had identified JSA as a cost-effective tool for promoting return to work. The question of whether JSA would be effective for those at risk of long-term unemployment was evaluated in the context of a major field experiment in New Jersey (Corson et al. 1989). Together with earlier evidence on JSA cost effectiveness, results from the New Jersey experiment supported establishment of the Worker Profiling and Reemployment Services (WPRS) system, which required targeted JSA (Wandner 1994).

Three subsequent studies have evaluated the effectiveness of targeted JSA. The first was undertaken around the time of WPRS start-up with special accommodations made to ensure experimental integrity (Decker et al. 2000). The other two evaluations were done in the context of WPRS (Dickinson et al. 1999, 2002; Black et al. 2003). In this section, we briefly review the design and findings of these studies.

New Jersey UI Reemployment Experiment

Enrollment into the New Jersey UI Reemployment Experiment was done between July 1986 and June 1987 (Corson et al. 1989). The sampling frame for random assignment was set to target the evaluation to dislocated workers claiming UI benefits. Characteristics screens were set to construct the sampling frame.

These conditions required that a claimant must receive a first UI payment and that payment must be within five weeks of applying for benefits, must be at least 25 years of age, must have worked for the pre-UI claim employer for at least three years, may not be on standby awaiting return to the previous job with a specific recall date, and may not be a union hiring hall member.

The first three of these eligibility conditions permitted the offer of an intervention early in the jobless spell; the second two ensured that subjects of the experiment were well-established labor force members separated from a long job attachment; the last two conditions pro-
vided the potential for interventions to affect job search plans. Claimants who are awaiting recall to their prior job and members of union hiring halls are not required by the UI system to engage in active job search.

Random assignment sent 2,385 claimants to the control group and 8,675 to one of three treatment groups. All three treatments included JSA, the first being JSA alone. The second treatment added job training to JSA. The third treatment added a cash reemployment bonus to JSA. The bonus was for reemployment within 11 weeks of the claim and was a cash payment of half the remaining UI entitlement, with the initial offer good for two weeks and then declining by 10 percent per week. The bonus was not paid if return to work was a recall, or if the job was temporary, seasonal, part time, or with a relative. For all three treatments, at five weeks into the claim all were given JSA orientation, skills and aptitude testing, JSA workshop, and an assessment or counseling interview.

During the benefit year, the impacts on weeks of UI benefit receipt were –0.47, –0.48, and –0.97 for the three treatments, respectively. All of these impacts were estimated with statistical significance. The cumulative impacts on weeks of UI benefit receipt over the six years after the initial benefit claim were –0.76, –0.93, and –1.72 for the three treatments, respectively, with the impact from the third treatment estimated with statistical significance (Corson and Haimson 1996).

The New Jersey UI Reemployment Experiment demonstrated that JSA targeted to claimants likely to be long-term unemployed had the same cost-effective impact as that found for other groups of UI claimants—about a half-week shorter UI receipt. The encouraging results for the bonus treatment led the U.S. Department of Labor to further investigate the ideal design for a reemployment bonus offer (Deck er and O’Leary 1995).

Job Search Assistance Experiment

The Emergency Unemployment Compensation Act of 1991 authorized the U.S. Department of Labor to conduct the “Job Search Assistance Experiment.” The experiment was designed to evaluate whether providing early JSA to claimants identified by statistical models as likely to exhaust their UI benefit entitlements would be cost effective
(Decker et al. 2000). During the planning stages of the evaluation to be run in the District of Columbia and Florida, federal legislation leapfrogged public policy analysis.

In 1993 President Clinton signed Public Law 103-152, which required state employment security agencies to establish and use a system of profiling all new claimants for regular UI benefits. The Worker Profiling and Reemployment Services (WPRS) system was intended to identify UI claimants most likely to exhaust their regular benefits so that they may be provided early reemployment services to make a faster transition to new employment.

The WPRS established a two-stage process. First, UI recipients who are expecting recall or who are members of a union hall are dropped. These groups are excluded because they are not expected to undertake an active independent job search. Second, remaining UI recipients are ranked by their likelihood of exhausting regular unemployment benefits. Beneficiaries are then referred to early reemployment services in order of their ranking until the capacity of local agencies to serve them is exhausted. The early assistance is comprised of at least eight hours of job search assistance, which usually includes an orientation to self-help facilities available at the public labor exchange and a JSW.

The JSA experiment proceeded with enrollment in Florida between March 1995 and March 1996 in 10 sites around the state where regular WPRS operations were temporarily delayed. Random assignment in Florida involved 8,071 claimants. In the District of Columbia, the experiment counted as the federal district's WPRS implementation. Random-assignment enrollment to the JSA experiment was done in all public labor exchange offices throughout the District between June 1995 and June 1996, and involved 12,042 claimants.

The JSA experiment established an eligible pool of claimants using a two-stage process: exclude job attached and union hiring hall members, then evaluate the probability of exhausting UI entitlement and target those with highest probabilities for the evaluation. These claimants were randomly assigned to control or one of three treatments. The treatments were:

1) Structured job search assistance (SJSA): orientation, testing, JSW, one-on-one assessment interview. Failure to participate
could result in denial of UI benefits. Two additional visits with staff to report job search progress.

2) Individualized job search assistance (IJSA): orientation and one-on-one assessment interview. Individual plan developed which may include additional mandatory services.

3) Individualized job search assistance with training (IJSA+): identical to IJSA plus a coordinated effort with Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) staff to enroll the customer in training.

The impacts of the three treatments on weeks of UI compensation in the benefit year in D.C. were −1.13, −0.47, and −0.61, respectively; all estimated with statistical significance. Estimates of the same parameters in Florida were −0.41, −0.59, and −0.52, all of which were statistically significant. Both evaluations indicated that reemployment occurred at wage rates similar to prior levels. The treatments had generally positive and significant effects on earnings in DC, but no impact on participant earnings in Florida.

Structured JSA emerged as the most cost-effective intervention examined. The authors of the evaluation report attributed the generally larger impacts observed in DC to stricter enforcement of JSA participation requirements. They recommend making particular JSA services mandatory and maintaining clear linkages between UI and ES in the new one-stop environment under the Workforce Investment Act (WIA).

**Evaluation of Worker Profiling and Reemployment Services**

The first national evaluation of WPRS was based on data from two sources: surveys in 1996 and 1997 of administrators in all states about the implementation and operations of their WPRS systems, and claimant-level data from a sample of states (Dickinson et al. 1999, 2002).

Surveys were administered to officials in all states responsible for UI, ES, and EDWAA programs, and state WPRS operations. These surveys found that “by and large, states have met the legislated requirements for implementing WPRS systems and have generally followed ETA guidance as well. Most of the major components of a WPRS system are in place in all states” (Dickinson et al. 1999. pp. II-36). Furthermore, it was found that over time states have refined WPRS systems
by adding variables in statistical referral models and by increasing the timeliness of referrals to services.

For the claimant level data, states were chosen to represent variation in the intensity of reemployment services provided under WPRS. The evaluation was performed using data drawn in six states: Connecticut, Illinois, Kentucky, Maine, New Jersey, and South Carolina. For each of these states, data were compiled from administrative records on all UI claimants starting new benefit years between July 1995 and December 1996 who were eligible for referral to mandatory WPRS JSA. That is, those with either a definite recall date or union hiring hall membership were removed from the sampling frame. The combined samples included 92,401 profiled and referred claimants, and 295,920 claimants who were profiled but not referred to WPRS JSA.

The quasi-experimental evaluation of WPRS impacts in each state contrasted those profiled and referred to WPRS JSA against those profiled but not referred. The mean impact estimate for each of the six states on weeks of UI benefits drawn is reported in Table 5.7. These results suggest that WPRS modestly shortened the duration of UI benefit receipt in five of the states examined. The impact estimates were statistically significant in all states except South Carolina, where the impact was not significantly different from zero. The largest impact was −0.98 weeks in Maine, with the other impacts ranging from −0.21 to −0.41 weeks of UI benefits. Furthermore, in the states studied, those referred to mandatory WPRS had reemployment earnings on a par with those profiled but not referred to services.

Evaluation of the WPRS in Kentucky

While Kentucky was included among the states studied in the national evaluation of WPRS, an independent assessment of WPRS in Kentucky based on an experimental design arrived at a much different conclusion. The profiling model used in Kentucky was developed by economists at the Center for Business and Economic Research at the University of Kentucky (Berger et al. 1997). In working with the Kentucky Department for Employment Services on the WPRS system, the economists advocated a methodology for assignment to WPRS, which provided ready data for an experimental evaluation of WPRS effectiveness.
Kentucky divides the predicted UI exhaustion distribution into 20 groups spanning 5 percentile points each. Every week the local WPRS capacity is hit within one of the 20 groups. That group is referred to as a profiling tie group (PTG). In Kentucky, profiled WPRS customers within PTGs are randomly assigned to WPRS, or not. This is viewed as an appropriate rule for referral to WPRS from a group of UI claimants having scores that are not statistically significantly different. It also provides the basis for evaluation of WPRS based on random trials.

From the PTGs, experimental and control groups were formed by the random trials to conduct an evaluation of the WPRS in Kentucky (Black et al. 2003). Data were collected at the very beginning of WPRS implementation in Kentucky from October 1994 through June 1996. The PTGs yielded a total sample of 1,981 claimants, with 1,236 of these assigned to mandatory WPRS JSA. Compared to the total population of 48,002 profiled and referred Kentucky claimants in that period, means of observable characteristics (age, schooling, gender, race, prior earnings, weekly benefit amount) for the experimental treatment group were not statistically significantly different from those in the control group.

The impact estimates for WPRS in Kentucky were dramatic. On three outcomes of interest, the estimated impacts were: –2.2 weeks of UI, –$143 UI benefits, and a $1,054 increase in earnings during the UI benefit year. The difference in these estimates from the national WPRS evaluation were most likely due to the fact that Black et al. (2003) essentially confined their contrasts within PTGs, thereby achieving a closer counterfactual. Dickinson et al. (1999, 2002) compared those assigned to WPRS who had the highest probability of benefit exhaustion against all those profiled but not referred, including many with very low exhaustion probabilities. As a result, the comparison group in the national evaluation was likely to have a shorter mean benefit duration than program participants, even in the absence of WPRS services.

The extraordinary foresight of the Kentucky Department of Employment Services to include randomization in assignment to WPRS should be a model for all state and local employment service delivery agencies. In setting up WPRS administrative rules, the Kentucky agency realized the value of evaluation research and used that orientation to help resolve the resource allocation problem. When resources are limited, randomization in program assignment can always be
## Table 5.7  Studies on the Effectiveness of Targeted Job Search Assistance

<table>
<thead>
<tr>
<th>Author/title</th>
<th>Design</th>
<th>Sample</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corson et al. (1989) <em>New Jersey Unemployment Insurance Reemployment Demonstration Project</em></td>
<td>T1: JSA</td>
<td>New Jersey</td>
<td>T1: –0.47** weeks of UI</td>
</tr>
<tr>
<td></td>
<td>T2: JSA plus training or relocation assistance</td>
<td>July 1986 to June 1987</td>
<td>T2: –0.48** weeks of UI</td>
</tr>
<tr>
<td></td>
<td>T3: JSA plus a cash bonus</td>
<td>T: 8,675</td>
<td>T3: –0.97** weeks of UI</td>
</tr>
<tr>
<td></td>
<td>C: Eligibility: first UI payment, age, tenure, temporary layoffs, union</td>
<td>C: 2,385</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6 Year T1: –0.76 weeks of UI</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6 Year T2: –0.93 weeks of UI</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6 Year T3: –1.72** weeks of UI</td>
</tr>
<tr>
<td>Decker et al. (2000) <em>Assisting Unemployment Insurance Claimants: The Long-Term Impact of the Job Search Assistance Demonstration</em></td>
<td>T1: Structured JSA</td>
<td>DC and Florida</td>
<td>DC T1: –1.13** weeks of UI</td>
</tr>
<tr>
<td></td>
<td>T2: Individualized JSA</td>
<td>DC: June 1995 to June 1996</td>
<td>DC T2: –0.47** weeks of UI</td>
</tr>
<tr>
<td></td>
<td>T3: T2 plus training</td>
<td>8,071 claimants</td>
<td>DC T3: –0.61** weeks of UI</td>
</tr>
<tr>
<td></td>
<td>C: Not on standby or a union hiring hall member, and predicted likely to exhaust UI entitlement.</td>
<td>FL: March 1995 to March 1996</td>
<td>FL T1: –0.41** weeks of UI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12,042 claimants</td>
<td>FL T2: –0.59** weeks of UI</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>FL T3: –0.52** weeks of UI</td>
</tr>
<tr>
<td>Study</td>
<td>WPRS Treatment Group</td>
<td>Comparison Group</td>
<td>Weeks of UI</td>
</tr>
<tr>
<td>-------------------------------------------</td>
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<td>-----------------------------</td>
</tr>
<tr>
<td>Dickinson et al. (1999) <em>Evaluation of Worker Profiling and Reemployment Services: Final Report</em></td>
<td>P: WPRS profiled and referred to early JSA. C: Profiled but not referred (not on standby or a union hiring hall member)</td>
<td>CT, IL, KY, ME, NJ, SC July 1995 and December 1996.</td>
<td>P: 92,401 C: 295,920</td>
</tr>
<tr>
<td>Black et al. (2001) <em>Is the Threat of Reemployment Services More Effective than the Services Themselves? Experimental Evidence from the UI System</em></td>
<td>T: WPRS profiled and referred to early JSA. reemployment services C: Profiled and in the same predicted UI exhaustion cohort as T, but not referred to JSA.</td>
<td>Kentucky October 1994 to June 1996</td>
<td>T: 1,236 C: 745</td>
</tr>
</tbody>
</table>
viewed as an equitable mechanism. It has the added benefit of providing for very strong evaluation evidence.

SUMMARY AND CONCLUSIONS

The ES is the public labor exchange in the United States. Its main functions are job brokering and administration of the work test for UI claimants. The work test requires UI claimants to make an active search for a job, which may involve use of labor exchange services such as assessment services, job search assistance, job interview referrals, and job training referrals. As a job broker, the ES serves both sides of the job market: job seekers looking for work and employers looking to hire.

The job seekers served by the ES are similar to the universe of unemployed in terms of gender and race. However, compared to their share of all unemployed, youth are a smaller share of ES customers, while the less educated are a greater share of job-seeking customers. Among those registered with the ES, job seekers not eligible for UI tend to use ES services more than UI beneficiaries.

Employer services include public listing of job vacancies and screening and referral of job candidates. Among U.S. employers, three industry groups tend to have larger shares of job listings than employment: 1) agriculture, forestry and fisheries; 2) services; and 3) public administration. Public administration jobs are listed at a high rate because of government requirements for publicly posting job vacancies. High listing rates for agriculture and services may be partly explained by high employee turnover rates, but much of the difference across industries may be attributable to the occupational mix of employment within industries. Job listings span the range of occupations; however, the ES 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.

Comparison group design evaluations of ES activities have focused on three topics: 1) job interview referrals; 2) job search assistance; 3) and targeted job search assistance. Each of the studies reviewed in this chapter used a distinct research design, and some satisfied higher methodological standards than others. Impact estimates differ across
the studies because of methodology and also because the samples and time frames for analysis differed. Nonetheless, each of the studies reviewed adds to our understanding of labor exchange services in the United States; taken together, evidence from these studies has helped shape the direction of public labor exchange policy. Research has guided development of programs for dislocated workers, targeted job search assistance, and institutions for coordination of services, such as WPRS, establishment of one-stop career centers, and state ERI programs as part of the ES administered UI work test.

Following is a list of key findings from ES evaluation studies:

- The first national evaluation of the ES in the United States found that job referrals are most effective for women and are also effective for men over 45 years of age, and men in urban areas—evidence for services to middle-aged dislocated workers (Johnson et al. 1983; Johnson, Dickinson, and West 1985).

- A study of ES effectiveness for dislocated workers in Pennsylvania found JSA to be most effective early in a spell of joblessness, and that ES job referrals act as a back stop once job seekers exhaust other avenues of search—evidence for early JSA intervention (Katz 1991).

- An evaluation in Washington and Oregon found ES job placements most effective for those with a strong record of job attachment, providing evidence for JSA as an intervention for dislocated workers (Jacobson and Petta 2000).

- Evaluation studies in South Carolina and Maryland found that a stronger UI work test achieved by requiring reporting of job search contacts and validation of contacts through cooperation between UI and ES leads to significantly shorter periods of compensated joblessness, providing evidence for the importance of interagency cooperation (Corson, Long, and Nicholson 1985; Klepinger et al. 1998). Such cooperation can be facilitated in the one-stop career centers required by WIA in all local areas.

- A field experiment in Washington found that eliminating both continued claim filing and the work test leads to dramatically longer spells of compensated joblessness, providing further evidence of the importance of UI and ES cooperation in requiring and monitoring job search activity (Johnson and Klepinger 1991; 1994).
Evidence from evaluations in Maryland, Washington, DC, and Florida demonstrated that standardized ERI and JSW are inexpensive to administer and have a sizeable effect on reducing periods of compensated joblessness—evidence in support of WPRS and state-adopted ERI programs (Klepinger et al. 1998; Johnson and Klepinger 1991; Decker et al. 2000). Evidence from the New Jersey UI Reemployment Experiment showed that JSA targeted to dislocated workers at risk of long-term employment can be a cost-effective intervention and can be very simple and structured. Those results led directly to WPRS implementation (Corson et al. 1989). Statistical targeting of JSA to those at risk of long-term joblessness tested in DC and Florida through field experiments, providing further evidence supporting the cost effectiveness of targeted JSA (Decker et al. 2000). Recent evaluations of WPRS indicated shorter jobless duration for program participants. An evaluation of WPRS in Kentucky, applying an experimental design, found that WPRS shortens UI duration by more than two weeks (Dickinson et al. 1999; Black et al. 2003).

All studies evaluating the effectiveness of ES interventions consistently report very low costs per customer served by the public labor exchange. This fact is key to the cost-effectiveness of ES interventions. Even services resulting in a modest reduction in jobless duration show a significant return on public investment when costs are low. State and local ES agencies should keep clear and reliable cost records to support effective management, administration, and evaluation.

Legislation authorizing employment and training initiatives nearly always include both a requirement for program evaluation and a sunset clause (O’Leary and Straits 2003). Employment policy makers at all levels of government have an interest in knowing “what works.” Research evaluating the ES has helped to affirm some ideas and discard others. Public employment agencies benefit from evaluation research and would be wise to keep such activity central to their operations. Focusing on results can improve professionalism among the staff and increase customer satisfaction. The case of Kentucky using research principles to set administrative rules in WPRS demonstrates exemplary foresight.
A recent U.S. General Accounting Office (2003) report identified the ES as the employment and training program serving the largest number of customers. In fiscal year 2002, the ES served more than 19 million customers, a total more than seven times the next largest program. In that same year, the ES budget ranked eighth among federally funded employment and training programs. The evaluation studies reviewed in this chapter suggest that many services of the ES are cost effective; however, numerous other activities of the public labor exchange remain to be studied.

The main evaluations to date have examined interventions directed to job seekers. Policy and management of the public labor exchange in the United States would benefit from research into the effectiveness of services provided to employers as well. A variety of in-person services provided by the ES have been found to be cost effective; however, public labor exchange services are becoming increasingly automated. While these services have received a steadily rising share of public labor exchange funding, the effectiveness of automated and self-serve assistance provided by the ES is not well known and should be evaluated. Improved data systems for tracking customers and services would greatly facilitate proper evaluation of both employer and automated services.

Evaluation research over the past 20 years on ES activities has contributed greatly to the direction of public employment policy. It is now standard practice for the Employment and Training Administration of the U.S. Department of Labor to cite evaluation research findings when providing policy guidance to states (DeRocco 2002).

Notes

I thank David Balducchi, John Palmer, Helen Parker and Jeffrey Smith for valuable comments on an earlier version. Opinions expressed are those of neither the W.E. Upjohn Institute nor the U.S. Department of Labor, but are my own. Errors and omissions are mine as well.

1. Excellent previous summaries of ES evaluation research have been provided by Jacobson (1991, 1995); Kulik (1995); Meyer (1995); Balducchi, Johnson, and Gritz (1997); Fay and Lippoldt (1999); Grubb, Benes, and Lippoldt (2000); and Thuy, Hansen and Price (2001).

2. Heckman, LaLonde, and Smith (1999) enumerate the assumptions implicit in such a view of random assignment field experiments as a means for model-free impact estimation.
3. A Hawthorne effect is the initial improvement in a process of production caused by the obtrusive observation of that process. The effect was first noticed in the Hawthorne plant of the Western Electric Company during studies of workplace behavior in the 1920s and 1930s. Production increased not as a consequence of actual changes in working conditions introduced by the plant’s management, but because management demonstrated interest in such improvements. A recent reexamination of the Hawthorne data has called into question whether such an effect actually occurred during the original studies (Jones 1992).

4. This discussion of impact estimation and most of the studies reviewed here focus on partial equilibrium effects of interventions. That is, they assume away any external validity issues. Among external validity issues, entry and displacement effects must clearly be accounted for in estimating general equilibrium effects of interventions. Some ES evaluations have directly accounted for such considerations (Davidson and Woodbury 2000).

5. A relocation allowance was also available in treatment 2, but it was rarely used.

6. Data from 6 additional states were deemed inadequate for evaluation. Samples were originally drawn in 12 states. “Two of these 12 states made errors in implementing their profiling procedures. One inadvertently matched the wrong profiling score to individual claimants’ records; the other incorrectly identified which claimants had the highest scores. Further, in three additional states we found that a substantial number of local offices did not systematically refer claimants with the highest scores to services. None of these states were aware of their implementation problems” (Dickinson, Decker, and Kreutzer 2002, p. 65).

7. Two early studies evaluated the effectiveness of counseling provided by the ES (Benus et al. 1977 and Johnson et al. 1981). Both studies found “no significant impact of counseling on duration of unemployment, earnings or job satisfaction” (Balducchi, Johnson, and Gritz 1997, p. 485).

References


Fueled by the opening of the Internet to public use, the last eight years have witnessed revolutionary changes in the availability of information on the labor market and in labor exchange services provided by both the private and the public sector. Most obvious has been the explosive growth in proprietary and public job search sites on the Web, providing unparalleled access to job openings information through thousands of job search sites. The most visible examples in the public labor exchange and workforce development system are America’s Job Bank and state job banks, but there have been many other public sector investments as well. Technology and the Web have stimulated new methods and processes for bringing together employers and workers. Never before have employers, job seekers, students, counselors, educators, and others had such access to a vast array of job openings, services, higher quality labor market information, and assessment tools.

The U.S. Department of Labor (USDOL) has taken major strides to improve labor market information (LMI), much of it through work of the Bureau of Labor Statistics, state workforce agency LMI divisions, and the Employment and Training Administration (ETA). Investments have been made to automate processes to support workforce development including Unemployment Insurance (UI) systems and one-stop operating systems to organize and track services to customers. The
USDOL also undertook major work to replace the Dictionary of Occupational Titles with the new Occupational Information Network (O*NET) system, which provides a common language of occupational characteristics that better reflects the contemporary workplace. Most importantly, nearly all of the data and information developed through USDOL investments are accessible not only to customers through state and federal Internet sites and other products, but also to other public and private application developers who are building customized products for different customer groups.

The Workforce Investment Act of 1998 (WIA) and its emphasis on providing universal services has stimulated the public workforce development system to develop new ways to serve a wider range of users. The WIA established a national policy that recognizes providing information to the public is one of the primary rather than ancillary functions of the public workforce investment system. As a result of the USDOL investments in information and the potential offered by the Internet, nearly every citizen has reasonably easy access to information that can support their participation in the labor market.

In this chapter, we explore the significance of technology, particularly automation and the Internet, on the labor exchange process and services. Much of this discussion will focus on public sector use of technology to improve labor exchange services. However, we also consider the larger context of private and public operators that have exploited technology and the Internet to provide labor exchange and labor market information services. To a great extent, we argue that advances in labor exchange are due to the greater availability of more extensive and higher quality information and services that provide for the flow, exchange, and interpretation of the information to smooth the operations of the labor market. Another important theme of this chapter is the power of the Internet to provide interconnectivity between Web-based services. This interconnectivity is due in no small part to information standards followed by USDOL and the states in developing and providing labor market and job openings information. To fully appreciate such seamless access to information, the reader is encouraged to try out selected Web resources referenced throughout the text and notes.

While the explosive growth of labor market and job search information on the Internet provides greater potential than ever to smooth the labor exchange and job match connections, it is not a panacea. We must avoid the temptation to rely overmuch on electronic self-service
tools, to assume that these will meet the needs of every employer and person. A balanced approach of electronic self-service and staff-supported services is key to meeting the diverse needs of a wide range of customers (Balducchi and Pasternak 2000). The WIA paradigm of universal service creates a significant challenge to the public workforce development sector: how to serve a much larger audience, theoretically all citizens and employers, while at the same time ensuring that more intensive services are provided to those who need it the most. Automation, technology, and the Internet have provided some of the tools without which the public one-stop delivery system could not begin to meet the needs of this larger audience. Many of the new resources provide the tools for front-office staff in one-stop career centers and other workforce development settings to better serve more customers. It is only with adequate resources to collect, compile, and analyze information, as well as quality staff who are trained and equipped to understand and use the power of information on the marketplace that the public workforce investment system can successfully meet its mission.

There are many factors that have changed the face of labor exchange. Among them are those listed below:

- The profusion of job search sites on the Internet, both public and privately developed and operated.
- The expansion of a nationwide labor market information system with even higher quality and more extensive labor market information.
- The development of a common occupational language and structure through the Standard Occupational Classification (SOC) and O*NET systems, which has significant implications for interconnectivity of information to meet customer needs.
- The migration of career information delivery systems (CIDS), state supported labor market information delivery systems, and a host of private sector products and services to the Web, as well as national products and systems such as the suite of tools available through the CareerOneStop portal (formerly known as America’s Career Kit), O*NET OnLine, the Occupational Outlook Handbook, and others.
- Automation of many of the UI benefit and tax systems and development of statistical profiling models associated with state Worker Profiling and Reemployment Services systems in the states.
• The development of new processes to serve customers in one-stop career centers, including customized information systems such as the One-Stop Operating System, decision support systems, and other means to more effectively serve customers who are preparing for the labor market or seeking employment.
• Transactional data analysis to identify changing marketplace needs.
• And most significantly, the interconnectivity among many different Internet sites to provide easy access to employers and job seekers to information about the labor market to support labor exchange activities.

The full impact of the improved exchange of information in the economy remains to be seen, particularly in regard to how it might improve the connections between employers and workers and what problems might arise. Any judgments made today might well be tempered by the observation and advice offered by Joseph A. Schumpeter in *Capitalism, Socialism and Democracy*,¹ “since we are dealing with a process whose every element takes considerable time in revealing its true features and ultimate effects at a given point of time; we must judge its performance over time, as it unfolds . . . we are dealing with an organic process, analysis of what happens in any particular part of it . . . may indeed clarify details of the mechanism but is inconclusive beyond that” (Schumpeter 1950).

Some consideration of both public and private sector resources, tools, and services are covered in this overview, although much of the detail will focus on the public sector, particularly as related to USDOL efforts. America’s Job Bank (AJB) will be explored in more detail than other resources because it is among the most visible of USDOL investments, and because a recent study of AJB affords a detailed view of the dynamics of Internet-based job search services. There also are tensions between private and public operators in providing information and labor exchange services because the Internet has expanded the capability of both sectors to deliver information directly to the consumer. In spite of, or perhaps because of, concerns with the appropriate roles for the government and private parties, new opportunities have developed for direct or indirect private and public collaboration in both the development and delivery of information, and this issue will be considered as well.
LABOR EXCHANGE: A LIFELONG VIEW

We borrow from Schumpeter’s notion of the economy as an organic process and explore the impacts of automation and information on labor exchange in a much broader context than just the point at which job seekers and employers are matched. Labor exchange is a lifelong, dynamic process for individuals and employers. For convenience of discussion it is useful to consider labor exchange in two contexts: first, from the perspective of the “job market” in which the focus is on the more immediate job search and hiring process—this is the traditional concept of labor exchange; and secondly, within the broader view of a dynamic labor market that encompasses short- and long-term flows and evolution of employer skill requirements, job opportunities, and labor supply.

Viewed in this light, the labor exchange process includes features such as

- the employer/job seeker match—the job market hiring process;
- career planning, guidance, and preparation—preparing for the workplace needs;
- economic development and employer planning, which has a profound effect on labor exchange in terms of skill requirements, the location of needed supply, and preparation of the workforce to meet occupational needs; and
- educational preparation and curriculum development—ultimately for the employer/job seeker to make a successful match, the marketplace must offer the necessary training and education for individuals (and employers) to meet the production needs of the business community.

If job seekers come to the marketplace without the requisite skills demanded by the business community, then inefficiencies in the employer/job seeker match will raise the costs to employers, the job seeker, and the community at large. Similarly, if workers do not keep up-to-date and prepare for changing skill needs, the potential mismatches between business needs and job seekers’ skills will likely grow, leading to longer spells of unemployment and decreases in product and service output with resulting costs to the job seeker, employer, economy, and
taxpayer. A study by the Office of Technology Assessment in 1990 (U.S. Congress 1990) noted, “churning in the economy far exceeds new job creation as a driving force for training . . . This is true even for rapidly growing industries and occupations.” Such churning is to be expected to a degree in the market, but providing information to current workers and the future worker pool, youth and those out of the labor force, to help them better plan and prepare for careers and skill requirements in the workplace, may help reduce some of the churning as well as reducing the time that it takes for an employer and job seeker to make a match.

Whether viewed from the short-term job market perspective or longer-term career preparation context, what is common to all of these features of an organic labor exchange process is the need for shared information: signals from the marketplace on the changing skill needs, listings of job openings, job seekers sharing their background through resumes, information on occupational projections. Information “sharing” is perhaps the most essential component of a successful set of labor exchange services.

INFORMATION: THE FOUNDATION OF LABOR EXCHANGE

A fundamental feature of a free market economy is open access to information about the marketplace in all of its detail. Indeed, economic theory assumes the availability and exchange of “perfect” information. Information is the lifeblood of the economy (Lawrence 1991); without it the free market, or any economic system, would wither and collapse. There would be few understandable signals to producers and purchasers of goods and services. Perfect information and complete access to it as envisioned by theory is, of course, not possible in the complex interactions of the consumer and labor markets. As Autor (2001) writes, “The labor market is replete with imperfect and asymmetric information.” However, the very fact that the marketplace can never produce perfect information emphasizes the importance of discussion and consideration of the ways that technology, automation, and new processes have improved—and may further improve—the labor exchange process.
The Internet has opened the door to a vastly expanded flow of information and to new organizations to deliver information. It has significant implications for improving not only the access to information, but the range, quality, and interconnectivity of information that is available to the job seeker, student, counselor, and employer. The remainder of this chapter examines the significance of information and the impact of technology in improving the quality and timeliness of information, as well as the systems that deliver it on the operation of the labor market.

THE JOB MATCH—CONNECTING JOB SEEKERS AND EMPLOYERS

Undoubtedly the most dramatic and visible change in labor exchange services has been the birth and then explosive growth of job search sites on the Internet. Workers have and will continue to use many methods to find jobs including personal contacts (networking), job postings within a business establishment, family, newspaper want ads, professional association postings, unions, and public one-stop career centers. The Internet does not necessarily replace such sources but vastly expands access to job openings for individuals and access to prospective workers for employers. Prior to 1994–1995, when the first Internet job search sites began to appear on the Web, with AJB being one of the first, it was difficult if not impossible for people to search easily for job opportunities across the country or outside their local area.

Today, only eight years later, in the matter of a few minutes a person can search for job listings throughout the nation using several different Web job search services. Employers can search databases of thousands of resumes that have been posted by individuals to select prospective workers. On-line job search sites provide better, more flexible, and easier search capabilities than other job search resources. For example, in less than five minutes on a 56K modem connection, national job searches of three job sites selected ad hoc were made. The results of these searches are shown in Table 6.1. The table is not intended to compare the three sites but rather to illustrate that almost instantly we have access to information on thousands of job openings. While not shown here, in a few additional minutes, the same searches were car-
ried out for Maryland, California, and four selected local areas. Simply put, the Web has opened the door to greater access by job seekers to employer needs, information that can be used along with other sources in the job search.

While there is little concrete information available on the impact or success of job search sites on the Web, it is clear that job search on the Web is here to stay and will likely continue to increase. However, it is critical that consumers treat the Internet as only one source in their job searches. Margaret F. Dikel writes, “The Internet is merely an added dimension to the traditional job search, and it is not an easy dimension to add. Job hunters need to focus less on the search for job listings and more on the idea of using the information accessible on the Internet as a tool for researching organizations and finding possibilities” (Dikel 2001). Similarly, Richard Bowles suggests that the Internet supports labor exchange in a broader context, that it provides a resource for job listings; posting resumes; finding career counseling or job search assistance; as a means for researching occupations, businesses, and geographical areas; and as a place to make contacts to help you find information (Bowles 2001).

A variety of sources of job information and resume services are available through the Web, including the following types:

- General job search sites covering a wide range of occupations. Examples include sites such as America’s Job Bank, Monster.com, CareerBuilder.com, and Hotjobs.com.
- Specialty sites: focusing on a narrower range of jobs such as information technology. An example in the technology arena is Dice.com
- Mega search–engine sites—these sites search several available job bank sites at the same time.

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<tr>
<th></th>
<th>America’s Job Bank</th>
<th>Monster.com</th>
<th>CareerBuilder.com</th>
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<tr>
<td>Welder</td>
<td>1,568</td>
<td>92</td>
<td>107</td>
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<tr>
<td>Programmer</td>
<td>4,356</td>
<td>2,531</td>
<td>3,241</td>
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<tr>
<td>Secretary</td>
<td>4,007</td>
<td>1,975</td>
<td>1,373</td>
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Table 6.1 Example of a National Job Search on Three All-Purpose Job Search Sites
• Portal search sites that provide links to job search sites, but may or may not include their own job search engines.
• Trade, professional association, and union sites.
• Corporate/employer-based sites—thousands of employers advertise their openings on the Web.
• Newspaper help-wanted ads available on the Internet—hundreds of newspapers are available on the Web, and most include their help-wanted ads.

In general, the more developed job search Web sites provide a variety of capabilities to employers and job seekers that potentially facilitate the job search and hiring process:

• Employers can post job openings information on the site. Some sites may provide a variety of tools to assist employers. For example, AJB allows employers to enter job openings directly into the system or batch load multiple job openings at the same time. Depending on the site, employers may enter a range of information, such as the job description, task statement, skill requirements, educational requirements, experience requirements, wages/benefits, and other pertinent information. A cursory review of Web sites reveals that the Web contains more robust job information than typical help-wanted ads in a newspaper.
• Many sites let users post their resumes on the Web, allowing job seekers to include details about their education and work background, as well as other relevant information.
• Job seekers can search for job openings throughout the nation or throughout entire databases of jobs included on a specific Web site. Most sites provide simple-to-use search capabilities, including keyword, job title, and/or searching by precategorized occupational families. Many sites add optional advanced search capabilities, including parameters such as desired wage level, geographical location, and educational requirements.
• Employers can search resumes that have been posted on the site, again using different methods that typically include keywords, occupational titles, and other criteria.
• Over the last two years, many of the job search resources have added automated features and tools to search the site actively by introducing job/resume “scouts” or “agents.” For example, a job
seeker can store criteria to be used for different searches and have the system carry out the searches and provide the results the next time the job seeker logs on. Similarly, some sites allow employers to request the system to search for resumes that are active and meet their specified criteria. Some sites may e-mail notices to employers or job seekers with results of “agent” searches.

CAREERONESTOP: INFORMATION EXCHANGE ON THE INTERNET

The public labor exchange system has exploited technology to attempt to improve labor exchange services for the last 25 years. While perhaps not recognizable today as “high tech,” efforts were made to begin sharing selected job openings from state employment security (ES) agencies across states in the 1970s through the Employment Security Automated Reporting System (ESARS). Data were processed on mainframe computers and microfiche with job openings provided back to the states. In 1979, USDOL established a national job openings database, dubbed the Interstate Job Bank (IJB), in which jobs were shared among states via microfiche. By November of 1993, there were only 48,000 jobs on the IJB (Balducchi and Pasternak 2000).

These early efforts provided experience and a foundation that positioned USDOL and the states to take advantage of the unanticipated opportunity offered by the Internet. With the Internet opening up to the public in the early 1990s USDOL and state ES agencies working in partnership were among the first to take advantage of the Internet as a medium for labor exchange by Web-enabling AJB in February of 1995. AJB began as a means of electronically sharing job openings from ES offices, a direct descendent of the IJB, but work soon began to expand AJB to include resume services, direct posting of jobs on AJB by employers, and batch uploading of jobs by employers. On August 13, 2002, AJB had over 900,000 active job openings and over 400,000 resumes posted, making it one of the largest job search services on the Web.

With AJB as its core (known originally as America’s Career Kit), USDOL undertook a key strategy to develop a larger suite of labor ex-
change and career planning and preparation services on the Internet. These services have recently been revamped as the CareerOneStop portal. This suite of services takes advantage of the interconnectivity power of the Internet and was designed to provide a seamless source of information on occupations including job openings, occupational projections, wage estimates, industry information, career planning resources, information about states, as well as information on support services. The implementation of this suite recognizes the importance of viewing labor exchange as a much broader activity than just job placement, though the ultimate goal is the successful match between employers and job seekers. The components of this set of Internet sites are described in Table 6.2.

In addition to the CareerOneStop products, there are several other USDOL-sponsored national sources of LMI and occupational information. Most notably, the Bureau of Labor Statistics (BLS) provides a vast amount and range of information for the nation, states, and even local areas at the BLS Web site, http://stats.bls.gov, including data on unemployment, occupation and industry estimates and projections, wage information, labor force participation, the Occupational Outlook Handbook, the Career Guide to Industries, and the Monthly Labor Review. Another key resource provided by the ETA is O*NET OnLine http://online.onetcenter.org/, which provides direct access to the O*NET information.

AMERICA’S JOB BANK: A CASE STUDY IN PUBLIC AUTOMATED LABOR EXCHANGE

As noted earlier, there is little information available on employer or job seeker outcomes using Internet job openings services. Any outcome information for most of the job search sites is generally proprietary in nature and would not be available for any broad-based study of job search site outcomes. While it is easy to track the usage of a site, it is more difficult to determine whether an employer actually makes a hire or a job seeker finds a job using a particular service. However, there is a notable exception, thanks to AJB. In 2001, USDOL commissioned an outcomes study on AJB, which provides useful insight into the dynam-
Table 6.2 CareerOneStop Web Sites

- **America’s Job Bank (AJB) [www.ajb.org]**. This is one of the most used job service sites on the Web. The AJB site advertises, “America’s Job Bank is the biggest and busiest job market in cyberspace. Job seekers can post their resume where thousands of employers search every day, search for job openings automatically, and find their dream job fast. Employers can post job listings in the nation’s largest online labor exchange, create customized job orders, and search resumes automatically to find the right people fast.” With over 900,000 job postings and 400,000 resumes in mid August 2002, AJB provides a foundation for USDOL investment in automated services to support job seekers and employers directly in the labor exchange process.

- **America’s Career InfoNet (ACINet) [www.acinet.org]**. This site is designed to help individuals make better, more informed career decisions. It provides invaluable information for employers, job seekers, human resource specialists, counselors, students, and workforce investment specialists in one-stop career centers and other settings. The Web site helps customers do the following:
  - Obtain information on wage and employment trends for occupations and across industries. Selected information is presented at the state and major metropolitan level with comparisons to national trends. State employment security agency LMI divisions (funded by the Bureau of Labor Statistics and the Employment and Training Administration) develop most of this information.
  - Learn about the education, knowledge, skills, and ability requirements for occupations. Much of this information is from the O*NET system.
  - Search for employer contact information nationwide—a powerful feature of the system that allows any user to directly search employer files or identify employers through occupational and industry searches.
  - Use over 5,000 external links to the most extensive set of career resources on the Internet.
• **America’s Service Locator (ASL)** [www.service locator.org]. This service is offered both through the Web and via a toll-free hot line [www.service locator.org and 1-877-US-2JOBS]. It provides a comprehensive source of information on service providers and services available in local areas including job training, unemployment insurance benefits, education opportunities, seminars, special services for the disabled or older workers, and much more. The site is possible as a result of a partnership among USDOL, state governments, and local agencies that support this nationwide database. This information directly supports public sector efforts to provide re-employment services support to displaced workers and also supports the public at large. By automating this information and making it easier for individuals to access in a self-service mode, it saves staff time and reduces costs and increases productivity, allowing staff in one-stop career centers and other service providers to focus their efforts on direct services.

• **Workforce Tools of the Trade** [http://www.workforcetools.org/]. This service is intended to support the professional growth of workforce development personnel at all levels. The site provides easy access to a large database of training resources, providers, and institutes for human resource development professionals. It also provides features that support collaboration and communication among workforce development personnel.
ics of Internet job search for both employers and job seekers. The unpublished findings from this study, conducted by TATC Consulting (2001), are summarized below and should be reviewed with three caveats in mind:

1) The findings do not provide a definitive evaluation of AJB, rather, they represent an initial investigation into the degree to which employers use and hire applicants from AJB, and similarly the extent to which job seekers find jobs using AJB.

2) The results of the study do not represent all job service sites on the Web, but may at least be suggestive of some aspects of Internet labor exchange job listing services.

3) Internet job search is simply one more means for employers and job seekers to find each other, and the results of the initial AJB study must be viewed in this context.

With these parameters in mind, however, the study does provide the first real glimpse into some of the dynamics associated with Internet-based job search and may be instructive not only for the initial findings, but as a guide for further research and examination as well.

The AJB Outcomes Study, conducted between April 2001 and February 2002, used a short-term longitudinal study to track AJB users (employers and job seekers) posting new jobs and resumes over a three-month period. Both employers and job seekers were interviewed every two weeks on the relevant study questions. The study results are based on 251 employer participants and 264 job seekers. Participants in the study were “recruited” from a sample of AJB customers who had recently posted a job or resume, so there is a degree of self-selection. As such, some of the characteristics of the customers may not be representative of all employers or job seekers using AJB, but we believe this is a minor limitation relative to the insight provided by this study.

During the study period, national unemployment rose from 4.5 percent to 5.5 percent (peaking at 5.8 percent in December 2001). While it is impossible to determine the full impact of this economic downturn on hires, it is conceivable that the percentage of hires may have been less during the study period than in prior years of AJB operation. This provides further context in which to view the findings.

Of the employers participating for the full three months, about one-third represented the staffing industry (31 percent), information tech-
nology (14 percent), manufacturing (14 percent), finance/insurance (7 percent), and retail/wholesale trade (7 percent). Job seekers, by type of job sought, included information technology (19 percent), sales/marketing (8 percent), clerical (5 percent), manufacturing (4 percent), project management (3 percent), administration (3 percent), and management (3 percent). The key findings of the study are listed in Table 6.3, followed by our analysis of the findings.

The study results provide several interesting insights on the use of AJB. A key question is whether AJB appears to be an effective method for making such connections among many methods. In our view, the AJB study provides initial evidence that AJB is an effective resource for several reasons.

First, it appears that employer postings on AJB successfully attract job seekers, with over 80 percent of the employers receiving at least 1 resume; on average, those receiving resumes received nearly 21 resumes. Also, almost 50 percent of the postings of these employers received at least 1 resume. From these results, AJB appears to be a very successful resource to make an initial set of contacts between employers and job seekers.

Secondly, with employers interviewing 665 individuals (about 13 percent of the resumes received), AJB was effective in providing enough quality resumes to interest employers in the second stage of the job match process. This averages out to about three interviews per employer receiving resumes.

The important third stage, hiring, requires a little more analysis. Eight percent of the job orders led to at least one hire compared to 19 percent of job orders filed through non-AJB sources. Because job orders/postings may actually include more than one job opening, it is important to highlight that 4 percent of all openings were successfully filled, compared to 10 percent through all other sources. On the surface, this may raise a question on the relative success of AJB. But on further view, note that this comparison is between AJB and all other sources, including private job banks, other public employment services, help-wanted ads, and private employment agencies. The ratio of resumes received from all other sources to AJB-generated resumes was approximately 3.4 to 1, while the ratio of hires by job orders from all other sources to AJB was 2.4 to 1. This indicates that for the study group of employers, AJB was actually relatively successful in leading to hires.
Table 6.3  AJB Study: Employer and Job Seeker Outcomes

Employer outcomes (251 employers)

- 83% of employers received at least one resume in response to their job postings and 46% of postings by those employers received at least one resume.
- 5,088 total resumes were received in response to AJB postings; employers reported receiving 17,180 resumes from all other sources combined (e.g., other job sites, newspaper ads, etc.).
- Employers who received resumes from AJB received an average of 20.8 resumes.
- 665 job interviews resulted from AJB use by employers in the study.
- Approximately 50% of the employers using AJB conducted at least one interview.
- Employers conducting interviews conducted an average of 4.5 interviews.
- 8% of all job postings in AJB led directly to at least one hire (+/- 3%; – 95% confidence interval) [Note—19% of job orders were filled through all non-AJB sources combined.]
- 4% of all job openings were successfully filled (Note—postings may include multiple job openings, thus the small percentage), (+/-2%) [Note: 10% of all openings posted were successfully filled through all non-AJB sources combined.]
- 35% of the employer sample hired at least one person through AJB.
  - 30% hired at least one person based on job postings.
  - 11% filled jobs using the resume search (5% used only the resume search to make a hire while 6% also hired through resume search and job posting).
- 45% of the employers making a hire through AJB hired more than one person through AJB during the three-month study period.
- A total of 222 hires were made using AJB by employers in the sample during the three months they were in the study.
Job seeker outcomes (264 job seekers)

- 10% (26/264) of participants found jobs directly through AJB. Because of the small sample, this reflects only 26 people. Of those finding a job through AJB:
  - 46% were employed, 46% were unemployed, and 8% did not specify employment status.
  - 38% had some college, 31% were college graduates, and 12% were high school graduates.
- 28% (72/246) found jobs through all other sources.
- 62% (164/246) found no job during the course of the study.
- Characteristics of the job seekers participating in the study (while not an outcome, the characteristics are important in reviewing the above outcomes):
  - 65% were unemployed, 28% were employed, and 10% did not specify.
  - All levels of education were represented, but some college (28%) or college graduate (29%) were the most common levels, followed by graduate degree (17%) and high school graduate (9%).

The study clearly confirms that employers who use AJB also use other resources to recruit prospective employees, and that AJB is an additional resource to facilitate labor exchange.

Finally, the study confirms that employers who register with AJB use the services, with 97 percent of the employers posting at least one order and 76 percent searching resumes at least once during the study period.

From the job seeker perspective, the size of the sample limits our analysis because for each individual, we are studying success in a single job seeker/employer match. However, based on the study findings, AJB appears reasonably successful, with 10 percent of job seekers obtaining a job compared to 28 percent through all other sources (which includes networking, family connections, and other listing services and employment agency support). There is not sufficient information to analyze all of the results in detail, including the observation that 62 percent (164) did not find a job during the study period (a period in which national unemployment increased). This would appear to be a promising area for future research to shed more light on the dynamics of AJB use.

The AJB study goes on to extrapolate the study findings for the July 1, 2000, through June 30, 2001, period. Although such an extrapolation is not exact because the study is not totally random, it does provide a reasonable snapshot of the magnitude of employers and job seekers who have successfully used AJB to make a hire or get a job. The study extrapolated the findings for the year July 1, 2000, through June 30, 2001, as shown in Table 6.4.

Because the sample was not random, the extrapolated results provide only a broad range of estimates. We would expect the number of openings filled to be larger than the number of job postings for which a hire was made (since job postings may have multiple openings). This is not the case in the extrapolation. This is largely explained because the sample employers had on average 2.33 openings per posting, while for PY 2001 the average openings were only 1.6 for each posting. The estimate of 449,100 openings filled is very conservative and may well be higher. Also, we would expect the number of job seekers placed to be similar to the number of openings. While the sample does not allow such precision, there is another significant reason for the difference. The AJB permits job seekers to search and apply for jobs without registering with AJB, so nonregistered job seekers are likely to account for
Table 6.4 Extrapolation of AJB Outcomes Study Findings

AJB data for program year (PY) ending June 2001 (actual data):
- 6,962,692 new job orders posted.
- 11,228,690 new openings posted.
- 66,563 new employers registered; 226,274 total employers registered.
- 8,234,049 resume searches conducted.

Extrapolation of results for PY ending June 2001 for employers:
- Assuming 8% job order fill rate, an estimated 557,000 job posts led to a hire.
- At a 4% opening fill rate, an estimated 449,100 new openings were filled.
- An estimated 23,300 new employers and 79,000 total employers hired at least one person through AJB.

Extrapolation of results for job seekers:
- At a 10% placement rate, an estimated 345,000 people were placed through AJB.

SOURCE: Unpublished data from TATC.

part of the difference. It is likely that the extrapolation of 345,000 job seekers finding jobs is lower than the actual figure. Based on these rough approximations, the data appear to show that at least 450,000 individuals were placed through AJB during the year, and it is likely that the figure is higher.

AUTOMATING LABOR EXCHANGE SUPPORT SERVICES:
UNEMPLOYMENT INSURANCE AND ONE-STOP OPERATING SYSTEMS

In addition to the information and job-matching services provided through the public workforce investment system, USDOL and states have invested in a number of improvements to work processes to support customer needs. Automation has played a key role in supporting UI benefits and employer tax payments and in developing operating systems to better serve customers in one-stop career centers. The use of
technology to improve the way in which customers are served potentially makes it easier for the customer to obtain necessary services and can free up staff time to support direct labor exchange services.

Automation has dramatically changed the face of the UI system over the past few years for both beneficiaries and employers. As of August 2002, the status of computerized and telephone UI claims was as follows:

- **Internet claims (systems that allow individuals to make UI claims over the Internet):** 22 states had operational systems, 24 states were planning systems, 1 state was considering the possibility, and 6 had no plans.
- **Telephone claims (individuals can make claims via the phone):** 29 states had operational systems, 4 were partially implemented, 17 were planning systems, and 3 had no plans.
- **Telephone weeks claimed (individuals can confirm unemployment status over the phone after having registered):** 44 states had implemented systems, 8 were planning such systems, and 1 had no plans.

These automation efforts by states have been supported by 35 state grants for Internet-enabled UI systems and 40 state grants for telephone-based UI systems. In most states, individuals now can register for benefits and subsequently confirm their UI status without coming into an office. This has allowed states to consolidate UI services, reduce costs, and provide efficient service to beneficiaries. However, the lack of contact between UI claimants and staff may impact negatively on the job search and other services that could help claimants find new jobs more quickly. While there are as yet no research study findings to confirm this (see USDOL 2002, pp. 140–142), it would still seem that a key consideration for states must be how they both link claimants to self-service tools on the Web and encourage them to visit the one-stop career centers for staff-assisted labor exchange and training services.

The expansion of USDOL-funded workforce development initiatives to provide universal service through the one-stop delivery system has led to efforts to use automation to streamline and organize registration and intake and determination of appropriate services for different customers. Both USDOL and states, or consortia of states, have funded different systems that generically are referred to as one-stop operating
systems. While the philosophy and features of such systems vary across states, the purposes of such systems generally are to provide staff assisted, self-service resources, and tracking capabilities. They are intended to allow staff to provide services to customers more efficiently and effectively, organize and provide access to self-service resources for direct use by customers, and record and keep track of customers, services provided, and outcomes. Table 6.5 lists features\(^3\) that are illustrative of those offered in the different versions of such systems.

Operating systems such as this can organize a wide range of work processes and information resources, allowing staff and customers to more easily manage and negotiate services facilitating labor exchange activities, both immediate job placement as well as longer-term preparation for the marketplace.

Another interesting state model designed to reduce some of the friction of labor exchange dynamics is a joint demonstration effort by ETA, the Georgia Department of Labor, and the Upjohn Institute for Employment Research to develop a Frontline Decision Support System (FDSS). While bearing some similarities to one-stop operating systems, FDSS is focused more specifically on providing tools and customized information about employment prospects and services (Eberts, O’Leary, and DeRango 2002). The system is comprised of two comple-

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<th>Table 6.5 Illustrative Features of One-Stop Operating Systems</th>
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<tr>
<td>• Intake–universal registration</td>
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<td>• Employer referrals</td>
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<td>• Case-management support</td>
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<td>• Processing UI applications</td>
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<td>• Assessment</td>
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<td>• Placement services</td>
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<td>• Employment plans</td>
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<td>• Automated registration of customers</td>
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<td>• Eligibility determination</td>
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<td>• Job search and matching</td>
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<td>• E-mail notifications</td>
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<td>• Employer relations</td>
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<td>• Individual Training Account management</td>
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mentary modules that generate recommendations to help staff and customers make informed decisions regarding job prospects and service referrals. The Systematic Job Search Module includes a reemployment probability component to determine the likelihood of a person being employed in the industry in which he or she was previously employed (particularly useful for dislocated workers). A second component is an earnings algorithm to estimate the expected range of job earnings for a person. A third component is a related-occupations module that employs an algorithm to identify occupations related to the job seeker’s previous occupation. Together, these components allow a dislocated worker to consider some alternative scenarios. Customers can explore questions such as, “What if I have to seek employment in a different industry, or train for a related occupation, what range of wages can I expect and what training might I need?” The information provided by FDSS can make contemplating such changes less threatening by filling in some of the unknown variables. These components use current labor market information to facilitate informed decision making.

Next, the Service Referral Module provides a list of available services, ranked in order of expected effectiveness. What makes this approach unique is that the rankings in this module are based on information derived from the experience of job seekers with characteristics similar to those of the person being served, using administrative data on the characteristics, services received, and outcomes of people who have participated in employment services offered by one-stop career centers in Georgia. The system also uses related occupations identified in the O*NET system as one input. The FDSS provides an example of the value of transactional data to improve the labor exchange process by using these data to inform the services provided to the customer. Such use of more “real-time” data to improve labor exchange services and outcomes is possible only because of advances in technology and information systems. The combination of more robust labor market information through standardized programs used in conjunction with transactional data may help to better link employers and job seekers, and to better prepare workers. The Frontline Decision Support System serves as a demonstration of such potential. An evaluation of the FDSS demonstration may aid understanding of its effectiveness and exportability to other states.
LABOR MARKET AND CAREER INFORMATION—MEETING MARKETPLACE NEEDS

Labor market information has long been a staple good provided through a federal–state cooperative program between state ES agencies and BLS, with funding support for several LMI-related activities from ETA. Labor market information has supported the needs of employers and job seekers, and of education and workforce development. However, the combination of technology, the Internet, new ways of organizing and sharing LMI databases, and, most significantly, the passage of WIA in 1998, have raised the status of LMI as a primary product and service under workforce investment programs.

WIA, as noted, extended workforce investment programs to a universal audience, with the idea that self-directed services may serve the needs of many citizens. Section 309 of WIA amended the Wagner-Peyser Act by adding a new Section 15, “Employment Statistics”, which states, “The Secretary [DOL] . . . shall oversee the development, maintenance, and continuous improvement of a nationwide employment statistics system . . .” Among the types of data to be gathered are employment, unemployment, industrial distribution of occupations, projected employment opportunities, wages, information on state and local employment opportunities, and other appropriate statistics related to labor market dynamics. Also required under WIA was the development of an annual plan on employment statistics developed for the secretary by BLS in cooperation with the states.

This language led to several developments. In the 1990s, ETA established the America’s Labor Market Information System (ALMIS), which provides both an infrastructure for research and development to improve LMI, as well as state funding to support customer-based products and improved quality of information. A Workforce Information Council (WIC), consisting of representatives from BLS and other federal and state statistical agencies, was set up to plan, guide, and oversee the nationwide workforce information system. The WIC prepares an annual LMI plan for the Secretary of Labor, thus providing for greater participation by states in the planning process and raising the visibility of LMI as a key USDOL product and service to the country. Much of
the information is intended to support improved labor exchange by informing both employers and job seekers of labor market conditions and opportunities and by enabling longer-term planning and preparation by individuals so they are better prepared to enter the labor market more quickly or keep current with changing skill needs. The Secretary of Labor’s Workforce Information System Plan for 2001–2005 established three priorities: 1) strengthen customer feedback for continuous improvement; 2) work to fill critical data gaps, and 3) improve workforce information analysis and delivery. The WIC and ALMIS efforts are directly linked and support a vastly expanded LMI program that produces, wage information, industry estimates, occupational projections for about 450 areas of the country, and a host of other information.

Most critical is how USDOL and the states have worked to make such information available to the public. First, many states have developed sophisticated but easy-to-use LMI sites on the Web. Four of many examples are the Oregon Labor Market Information System (www.olmis.org); Washington’s WILMA (www.wilma.org); North Carolina’s WEBSARAS (http://eslmi12.esc.state.nc.us/websaras/); and New York’s Career Zone (www.nycareerzone.org). Some of these systems, are also designed to support regional labor market analysis for economic development and planning purposes. These systems and information analyses go hand in hand with workforce investment activities to ensure that workers have the skills needed to attract new business.

In addition to sites operated by state LMI programs, there are literally thousands of other sites that provide occupational and career information and services, some proprietary, some public. Among the most important are career information delivery systems (CIDS). These systems are integrated and comprehensive, providing labor market information, occupational characteristics, and education and training program information in a career development framework. Many states have adopted a particular system statewide, though individual school districts may select different systems as well. Most of the systems are licensed, with a school or school district or state paying a licensing fee for their use. Nearly all CIDS are available on the Web as well. All CIDS include various search capabilities, assessments, and detailed information brought together from many different sources.
CIDS have been leaders in the use of technology, with automated mainframe systems appearing in the late 1960s and early 70s, migrating to microcomputers and networks in the 80s and now available on the Web as well as through local networks. These CIDS reach millions of users throughout the country, and nearly all of the major CIDS are now linked to AJB at the occupational level, allowing a user to explore an occupation on CIDS and link directly to the America’s Job Bank to explore job openings information, without having to respecify the occupation or state.

To find state LMI, CIDS, and other key information sites, ACINet provides an excellent set of links at http://www.acinet.org/acinet/library.asp. When you reach that page, select “Career and Labor Market Information” under the heading “State Resources.” Many other states have developed customer-oriented LMI systems, and many are adopting similar systems and customizing them as appropriate to their state.

COMMON LANGUAGE FOR OCCUPATIONS

The O*NET system developed by USDOL supersedes the Dictionary of Occupational Titles and provides a common language to describe occupational knowledge, skills and abilities, worker requirements, tasks, generalized work activities, related interests, and other attributes. “O*NET is the first available system with planned national scope that brings together the most current category and enumerative systems and the most comprehensive descriptive analytical systems and makes the data readily available in electronic form.” O*NET occupations are fully compatible with the Standard Occupational Classification (SOC) system using the same codes, although the O*NET database provides additional occupations within the SOC framework. This integration with the SOC is key, because data such as occupational estimates, projections, and wage information collected by the federal government and by state LMI divisions are collected at the SOC level. As a result, it is now possible for both public and private information and application developers to provide customers, easily and transparently, with information on occupational characteristics and requirements.
(from the O*NET database), along with key LMI related to the occupation. A good example of such power was noted earlier in this chapter in the descriptions of the CareerOneStop products. A customer can search for job openings for welders in Missouri and then link directly to information about welders in ACINet, which includes occupational projections, estimates, and wages along with O*NET characteristics and requirements information, without the need for the customer to reenter information on the search. Once the customer selects the occupation and the state, he or she simply moves between the systems. Similarly, a person could begin career exploration in O*NET OnLine, link over to ACINet by specifying the state, and explore wages and trends information about that same occupation. One could then move to job openings in AJB without having to reenter the occupation or state. Such links are only possible because of the common language afforded by the SOC/O*NET system, the detailed occupational attribute information available in the O*NET database, which is available electronically.

USDOL made an operational decision to provide O*NET information as an electronic database available for free to private and public application developers and, most significantly, that the primary means of providing O*NET information to the end-line customer would be through such private or public (particularly state agencies) developers rather than the federal government serving as the principal developer of applications. This strategy has proved very successful, with hundreds of vendors downloading O*NET from the O*NET Center Web site and developing applications based in part or in total on O*NET. As a result of this approach, O*NET information reaches tens of millions users through state LMI Web sites, through private and public CIDS, through ACINet, through human resources information systems, and through many other sources. The O*NET classification serves as the underlying occupational structure for systems such as AJB and for some proprietary job openings systems, as well.

In addition to the O*NET database, there are three O*NET Career Exploration Tools: O*NET Interest Profiler, O*NET Work Importance Locator, and O*NET Ability Profiler. After a customer takes one of these assessment instruments, the results are tied to O*NET occupations so that an individual can identify and then explore information about the occupations that best match the results of his or her assessment. All of these tools are intended for career planning and explo-
ration to help an individual identify and prepare for the skill requirements of the workplace. Several public and private vendors have computerized the first two instruments (which are designed for both self and staff-assisted service use) and built them into their information systems. Already some systems are available that allow a person to take one of the O*NET assessments on the Internet, access information on occupations that best match the resulting scores from O*NET and LMI sources and then link to AJB—all seamlessly. In addition, several organizations that have developed their own proprietary assessment instruments over the years have now tied their systems to O*NET occupations, and individuals using these assessment tools can be linked to O*NET information as well as LMI and job openings.

Never before has such capability existed for employers, individuals, and intermediaries to so easily use and move between assessment tools, occupational characteristics, LMI, and actual job openings. The implications for improved labor exchange are enormous, allowing individuals to better plan and prepare for workplace needs based on easily accessible information and support tools and services. The public labor exchange and workforce investment systems have played a major role in this effort by working collaboratively with the private sector to provide better LMI and more detailed links to AJB and other USDOL products, and by building a common SOC/O*NET occupational language that provides a foundation for interconnectivity among various information resources.

LOOKING TO THE FUTURE—ISSUES, RESEARCH, AND PROSPECTS

Automation and the Internet have altered the labor exchange process, but the exact nature of the consequences remain to be seen. It is likely that there will be overall gains in the efficiency of labor exchange dynamics, but as is the case with the economy in general, not everyone will enjoy these benefits equally. There are a number of potential issues and opportunities that arise as a result of the ease of electronic access between employers and job seekers and the growing wealth of labor market information, several of which we consider below.
First, there is a risk that the increased capabilities of automated systems to provide easier connections among employers and job seekers may reduce the perceived need for staff-assisted services. Disinvestment in staff-assisted services could put at risk those individuals most in need of intensive workforce investment services. It is important that the public investments in improved automated labor exchange services are used to help frontline staff serve customers more effectively and identify those who require more staff-assisted services and then provide the appropriate interventions. Staff-assisted services are crucial to meeting the needs of many citizens and employers.

Second, the very ease with which job seekers can locate jobs on the Internet and with which employers can advertise jobs and search resumes paradoxically could lead to both frustration and inefficiencies in automated labor exchange. Job search and submitting job applications on the Web comes with little cost to the job seeker other than time (which is significantly reduced), and job seekers can easily send resumes to many different employers. This potentially could lead to too many resumes for employers and, for the job seeker, too many competitors for the same job. From the employer’s perspective it may be difficult to judge quality resumes, and some job seekers may begin to view the search as akin to a lottery system. Autor (2001, p. 30) addresses this issue by suggesting we group information into low and high bandwidth categories. Low-bandwidth data are items that are verifiable, such as diplomas, certificates, credentials, previous salaries, and experience. High-bandwidth data relate more to personal traits, including motivation, quality of work, worker relationships, commitment, or reactions to work situations. The Internet can transmit information related to low bandwidth, but high-bandwidth information generally requires personal interactions; even then, a simple interview often does not suffice. Of course, this is not a new phenomenon, but rather a very natural part of the labor exchange dynamic; however, with the Internet, the issue looms larger.

Even with types of low-bandwidth data, verifying the information in the resume may be problematic. There is a growing interest in standardizing certain types of information, such as verifiable certifications that could easily be checked by an employer. For high-bandwidth information, services on the Web might expand to include additional information, such as samples of work products, evaluations from previous
clients, or online assessments. Ironically, such information needs may lead to new organizations or expanding services by public and private employment agencies to verify information and serve as the intermediary between employers and job seekers, moving away in some cases from the direct employer/job seeker connection. Both employers and job seekers might work with outside organizations (many of which may be Web-based) that carry out the initial resume, job search, and verification, and then present a portfolio of promising candidates to the employer or a list of jobs to job seekers. The public ES has long provided such services, and while about half of the jobs on AJB are direct postings by employers (or staffing agencies), the growth of such Internet capabilities could lead to new opportunities for the one-stop career centers and public ES systems to provide more rather than fewer staff-assisted services for employers and job seekers.

There may be an initial tendency by job seekers to rely too much on the Web for job search, which could lengthen, rather than shorten, the job search. The Web should be considered one more facet of the job search. Job seekers should use the Web not just to search for job openings, but as a job and career research tool to find out about employers, skill requirements, education, and training.

Job and career counselors and facilitators should view the Web as a significant tool to better serve customers and build their expertise in using the Internet as a research “library,” and not just a quick source of job openings information or LMI. The critical need is for human resource development specialists to learn to use and perceive the Internet as a time saver that provides an opportunity for more “quality” time with their customers, rather than one that detracts from their client service.

An area of great potential is the use of job openings information from the Internet as transactional information to identify changing employer skill needs and emerging occupations. For the public sector, investment in analysis of AJB transactions may serve as a first step. Ideally, a consortium of public and private job search sites that are willing to share information that could then be searched using data mining software would provide a more robust source that better reflects the overall economy. Over time, regular analysis of a select number of job search sites might be used to provide more real-time information on current occupational demand, wage rates, and other labor market trends. Such
data could supplement and complement data developed by BLS and state LMI divisions, providing a more dynamic view of the economy.

USDOL might consider larger scale studies of AJB use both to identify improvements and also as a means of understanding the dynamics of labor exchange processes over the Internet. This information could be invaluable for employers, job seekers, and workforce investment professionals on how to use Web services more effectively, and for DOL and states to improve labor exchange services. In addition to expanding the number of employers and job seekers who might be included in studies similar to the first AJB study, information could be gathered from one-stop services (including UI) that provide intermediary services between employers and job seekers to determine how many jobs are filled and job seekers placed using AJB when an intermediary is involved.

CONCLUSION

Use of the Internet as a means for job search and labor exchange will likely grow, although there will be a shaking out of the various players and tools provided. The public ES system will be a direct player in the system. Beyond that, USDOL and the public sector in general can play a major role in working to reduce inequities in access to information and services. As envisioned under WIA, continued or even expanded emphasis on staff-assisted services is one means to achieve equity in service delivery. Another important goal for the public sector is to continue to maintain and enhance a high-quality nationwide LMI system and provide such information through public applications and products, as well as encourage private sector dissemination of such information in customized applications. In partnership with the private sector, USDOL also could encourage expanded use of job openings information as a source of real-time transactional information to provide greater insight into changing skills and market needs.

Finally, the public workforce investment system can work to build the skills of employers and job seekers to better use self-service products and resources. Providing guidance and instruction on the use of resources and career planning will help individuals take direct responsi-
bility for their career planning, preparation, skills development, and job search, and over time will require less staff-assisted service in future career or job transition activities. Ultimately, a successful labor exchange system depends in large part on the flow of quality information between the job seeker and the employer—a challenge that the public workforce investment system has taken on for the last 70 years.

Notes

1. See Chapter VII for discussion of his theory on how the free market grows as a result of changes in technology, new work processes, etc. that tear down the old structures and build new ones. The growth of information technologies and the Internet provide a remarkable example of Schumpeter’s theory, first published in 1942, at play. The same effect seems to be playing out in the labor exchange process, though it is too early to judge how different the labor exchange process will ultimately be.

2. See Yavitz, Morse, and Dutka (1973) for a discussion of job market versus the broader labor market.

3. For examples of features in a specific system, see the America’s One-Stop Operating System Web site: http://ososinfo.ajb.org/.

4. Prior to WIA, the Wagner-Peyser Act, CETA, and JTPA all had requirements for labor market information. The WIA is significant because it outlined in much greater detail the parameters of a nationwide LMI system, it required development of a plan by state and federal partners, and it provided emphasis on the provision of LMI and career information as a primary or core service to support both employers and job seekers.

5. The plan provides additional details for each priority. To access the plan go to the WIC Web site at <www.workforceinfocouncil.org>.

6. See National Research Council (1999, pp. 5–7) for implications of changing nature of work to classification systems and the aegis of O*NET.

7. See <www.onetcenter.org> for information on O*NET system, databases, and other products, resources, and services.
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In 2000, following a decade-long series of public employment service reviews, the Organisation for Economic Co-operation and Development (OECD) held a conference in Prague to take stock of the conclusions and look forward (OECD 2001b). The final report of the conference found that “a sea change” in public employment services’ working methods had taken place during the decade. Public employment services (PES) in many OECD countries have indeed undergone substantial changes during the past decade as policymakers sought to improve the effectiveness and flexibility of labor market measures in the face of change and stress in labor markets.

The aim of this chapter is to provide a succinct, comparative review of key developments in the public provision of employment services in selected OECD countries, with particular emphasis on the job brokerage function (defined broadly to include vacancy and job seeker registration, counseling and placement); reference is also made to mechanisms for referral to active labor market programs. The chapter focuses primarily on a group of OECD countries selected from among those whose PES systems were reviewed by the OECD during the past decade and for which data were available: Australia, Belgium, Denmark,
France, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. For an overview of the PES job brokerage operations in each study country, see Table 7.1. It is important to note that this selection of countries, while covering a broad range of examples, is not necessarily representative of the OECD countries as a whole. The analysis draws substantially on OECD databases and several recent survey papers. Due to the pace of policy change in this area, it has by necessity been illustrative rather than comprehensive in approach.

The role of PES job brokerage services can be important in addressing market failures. First, they can help to improve the transparency of the labor market by registering and listing vacancies for job seekers and employers who might not otherwise have ready access to this information. Second, they provide tools (e.g., access to the Internet) and assistance (e.g., advice on job search strategies) to the job-ready unemployed and other job seekers, potentially helping them to find employment more rapidly or with a better match than might otherwise be the case. Third, for those who are not yet job ready or who face a mismatch vis-à-vis available vacancies, the PES can make and support referrals for training, specialized counseling or other assistance (which may be otherwise under-supplied in the market), with a view to facilitating the early placement of these job seekers. Fourth, access to quality PES brokerage services can reduce the cost of job search and, in association with benefit conditionality, can increase the job search effort and motivation among the unemployed, thereby increasing employment probabilities and reducing unemployment.1

Although the PES play a key role in facilitating the matching of labor supply and demand, they are not generally the main channel for filling vacancies.2 Typically, its market share for placements is one-third or less (measured in terms of placements as a percentage of all hirings in the economy; see Table 7.2).3 In an effort to improve their effectiveness and respond to changing labor market conditions, many PES undertook a restructuring of their job brokerage operations. Thus, the 1990s witnessed government action to modernize and reform PES systems by taking advantage of new technologies, empirical evidence, and policy perspectives, thereby enhancing performance. While countries differed in the resourcing, structure and content of their approaches,
there were also significant, common features in their restructuring strategies.

OVERVIEW

Already by the late 1800s or early 1900s, various types of labor exchanges were functioning in most, if not all, of the study countries. Over the decades, such exchanges were subsumed into PES systems with activities going well beyond basic placement activities. Now, the core PES functions generally comprise job brokerage, administration of unemployment compensation, and administration of labor market programs (OECD 2001b). In addition, the PES play an important role in labor market information systems, both collecting some primary data and helping to disseminate information to users including job seeker and employer clients, among others.

The OECD typology of labor market measures has traditionally made a distinction between passive and active measures. The OECD defined passive measures to include unemployment compensation and early retirement for labor market reasons, while active measures included PES and administration, labor market training, youth measures, subsidized employment, and measures for the disabled. Expenditure on passive measures tends to dominate.

In most OECD countries, some form of activation has been built into most labor market measures, and as a consequence the effective differences between these two categories have been reduced. For example, unemployment compensation is increasingly subject to conditions involving active participation in labor market programs or demonstration of independent initiative (OECD 2001b, pp. 35–68). This emphasis on activation is one key influence on PES restructuring.

The resources devoted to active labor market programs (including direct program costs and payments of subsistence allowances to program participants, as well as PES and related administrative costs) differ greatly among the countries examined. In 1999, for example, Belgium, Denmark, France, the Netherlands, and Sweden allocated between 1.3 percent and 1.8 percent of their GDP to active labor market
<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>The Department for Employment and Workplace Relations is responsible for the job brokerage function. Placement services are provided primarily through the Job Network, which is comprised of hundreds of agencies contracted by the Department (mainly in the private &amp; community sectors).</td>
</tr>
<tr>
<td>Belgium</td>
<td>Placement and vocational training programs are primarily the responsibility of three separate regional public agencies: FOREM, ORBEM and VDAB. These bodies offer their services through a number of subregional and local employment offices (as of 1997, about 100 each in Flanders and Wallonia).</td>
</tr>
<tr>
<td>Denmark</td>
<td>The National Labor Market Authority, working under the Ministry of Employment, provides oversight for the job brokerage function which is implemented by the national employment service (AF). The public employment service is organized into 14 regional offices that direct about 95 local offices.</td>
</tr>
<tr>
<td>France</td>
<td>The French National Employment Office (ANPE) is a national public establishment with a certain degree of financial autonomy which is responsible for administering the job brokerage aspects of employment services. ANPE is organized into 22 regional offices and 750 local offices.</td>
</tr>
<tr>
<td>Japan</td>
<td>The Ministry of Health, Labour and Welfare provides oversight to the Public Employment Security Offices (PESOs). Supported by prefectural governments, the PESOs deliver job brokerage services through a network of some 478 offices plus a number of branch and local offices.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>The job brokerage service is primarily the responsibility of the Dutch Employment Office working in co-operation with the municipalities and social partners. Its regional offices support the delivery of placement and reintegration services at the newly established Centres for Work and Income that are run on a collaborative basis.</td>
</tr>
<tr>
<td>Sweden</td>
<td>The National Labor Market Board (AMS) establishes general goals and guidelines for the 21 county labor boards, which in turn are responsible for the local employment offices. There are 403 employment offices, which operate in nearly all municipalities.</td>
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<tr>
<td>Country</td>
<td>Description</td>
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</tr>
<tr>
<td>Switzerland</td>
<td>The Federal Department of Economic Affairs provides policy direction for the 26 cantons, that have substantial autonomy for implementation of the job brokerage function (through some 153 regional placement offices). They have the option of contracting private placement agencies to provide placement and counseling services to unemployed workers.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>The Department for Work and Pensions provides oversight for the newly established Jobcentre Plus which operates 1,133 local employment offices delivering job brokerage services. The operations are relatively centralized.</td>
</tr>
<tr>
<td>United States</td>
<td>The US Department of Labor provides national level oversight for the PES, including the job brokerage function. States implement policy with considerable autonomy through a network of roughly 2,500 local offices. Core job placement operations must be implemented by government staff, but other operations can be contracted out.</td>
</tr>
</tbody>
</table>
### Table 7.2 PES Workload and Market Share Indicators, 1999

<table>
<thead>
<tr>
<th></th>
<th>Annual newly registered</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Job seekers</td>
<td>Vacancies</td>
<td>Placements by PES</td>
<td>Placements per PES staff member&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Placements as a % of job seeker registrations</td>
<td>Placements as a % of vacancies</td>
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<tr>
<td></td>
<td>as a % of the labor</td>
<td>as a % of the labor</td>
<td>as a % of the labor</td>
<td>as a % of the labor</td>
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<td>force</td>
</tr>
<tr>
<td>Australia&lt;sup&gt;b&lt;/sup&gt;</td>
<td>—</td>
<td>8</td>
<td>4</td>
<td>—</td>
<td>—</td>
<td>53</td>
</tr>
<tr>
<td>Belgium&lt;sup&gt;c&lt;/sup&gt;</td>
<td>—</td>
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<td>—</td>
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<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Denmark</td>
<td>33</td>
<td>8</td>
<td>3</td>
<td>27</td>
<td>8</td>
<td>33</td>
</tr>
<tr>
<td>France</td>
<td>19</td>
<td>12</td>
<td>7</td>
<td>97</td>
<td>34</td>
<td>56</td>
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<td>(46)</td>
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<td></td>
</tr>
<tr>
<td>Japan&lt;sup&gt;b&lt;/sup&gt;</td>
<td>10</td>
<td>9</td>
<td>3</td>
<td>113</td>
<td>26</td>
<td>29</td>
</tr>
<tr>
<td>Netherlands</td>
<td>13</td>
<td>4</td>
<td>3</td>
<td>19</td>
<td>17</td>
<td>50</td>
</tr>
<tr>
<td>Sweden</td>
<td>12</td>
<td>11</td>
<td>—</td>
<td>—</td>
<td>—</td>
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</tr>
<tr>
<td>Switzerland</td>
<td>6</td>
<td>4</td>
<td>1</td>
<td>12</td>
<td>24</td>
<td>37</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>—</td>
<td>9</td>
<td>5</td>
<td>41</td>
<td>—</td>
<td>52</td>
</tr>
<tr>
<td>United States&lt;sup&gt;d&lt;/sup&gt;</td>
<td>13</td>
<td>5</td>
<td>1</td>
<td>27</td>
<td>11</td>
<td>26</td>
</tr>
</tbody>
</table>

<sup>a</sup> Numbers in bold are calculated on the basis of staff in the job brokerage agency only. The nonbold numbers, including the number in parentheses for France, are calculated on the basis of PES-wide staffing including benefit administration but excluding staff in occupational training centers run by the PES.

<sup>b</sup> Data for Australia and Japan refer to 1999–2000.

<sup>c</sup> Data for Belgium refer to 1995.

<sup>d</sup> Data for the United States refer to 1998–1999.

programs, while the United States and Japan spent 0.17 percent and 0.31 percent, respectively. \(^8\) With respect to the PES share of this active expenditure, Martin and Grubb (2001) observe that “In 2000, the average OECD country devoted 17 per cent of active spending to PES administration, a proportion which has been very stable over the period 1985–2000.”

Although the PES in each of the study countries delivers services in each of the core PES functional areas, spending on the PES agencies and related administrative costs varies widely between these countries (see Table 7.3). \(^9\) This expenditure category includes costs of the job brokerage function as well as the administrative costs for unemployment compensation and labor market programs. \(^10\) In 1999, the Netherlands and Sweden expended 0.28 percent and 0.27 percent of their GDP, respectively, on these items. Australia, which has privatized most of its PES activities in 1998, allocated 0.20 percent of GDP or an amount slightly above the average for the 10 countries examined here. The United States allocated just 0.06 percent of GDP for these expenditures.

The amount of PES and related administrative expenditure per dependent employee provides a comparative indication of the available resources. \(^11\) By this measure, Australia, France, Japan, the Netherlands, Sweden, and Switzerland all expended in 1999 more than U.S.$100 per dependent employee, while the PES in the United States expended just U.S.$41 per dependent employee. An indication of the resource intensity of the PES can be had by comparing key results to expenditure on the PES and related administration. For example, the PES and related administrative costs per vacancy registered varied between U.S.$3,483 in the Netherlands to just U.S.$632 in the United Kingdom. In relation to each placement, these costs ranged from U.S.$6,585 in Switzerland to U.S.$1,204 in the United Kingdom.

Staffing of the PES also varies widely, as shown by a review of the indicators in Table 7.4. Due to a lack of consistent data, the table presents these data in two categories: those covering just the job brokerage function and those covering the overall PES. One indicator of the potential personal service availability is the average number of dependent employees per staff member. Among the countries for which data on just the job brokerage function are available, this indicator ranges between 365 for Sweden and 1,198 for France (ANPE, i.e., the French National
Table 7.3  Public Employment Service Expenditures, 1999

<table>
<thead>
<tr>
<th>Country</th>
<th>Active labor market policy expenditure as a % of GDP&lt;sup&gt;a&lt;/sup&gt;</th>
<th>PES and related administrative expenditures as a % of GDP&lt;sup&gt;b&lt;/sup&gt;</th>
<th>PES and related administrative expenditures (in U.S. dollars&lt;sup&gt;c&lt;/sup&gt;)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per dependent employee</td>
<td>Per vacancy</td>
<td>Per placement</td>
</tr>
<tr>
<td>Australia&lt;sup&gt;d&lt;/sup&gt;</td>
<td>0.45</td>
<td>0.20</td>
<td>111</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.34</td>
<td>0.18</td>
<td>—</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.78</td>
<td>0.12</td>
<td>78</td>
</tr>
<tr>
<td>France</td>
<td>1.37</td>
<td>0.17</td>
<td>113</td>
</tr>
<tr>
<td>Japan&lt;sup&gt;d&lt;/sup&gt;</td>
<td>0.31</td>
<td>0.20</td>
<td>84</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.62</td>
<td>0.28</td>
<td>197</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.81</td>
<td>0.27</td>
<td>170</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.66</td>
<td>0.14</td>
<td>115</td>
</tr>
<tr>
<td>United Kingdom&lt;sup&gt;d&lt;/sup&gt;</td>
<td>0.36</td>
<td>0.13</td>
<td>71</td>
</tr>
<tr>
<td>United States&lt;sup&gt;e&lt;/sup&gt;</td>
<td>0.17</td>
<td>0.06</td>
<td>41</td>
</tr>
</tbody>
</table>

<sup>a</sup> The active labor market policy budget figure includes PES and administration costs, labor market training, youth measures, subsidized employment, and measures for the disabled. (See OECD 1994a, pp. 52–53 for full definitions of expenditure categories.)

<sup>b</sup> PES and related administration costs include placement, counseling, and vocational guidance; job search courses and related forms of intensified counseling; support of geographic mobility and similar costs; all administration costs of labor market agencies (including unemployment benefit agencies), and other labor market programs.

<sup>c</sup> The conversion of PES expenditure data is based on market exchange rates as of July 1, 1999.


SOURCE: OECD labor market programs database and OECD PES database.
<table>
<thead>
<tr>
<th>Country</th>
<th>Number of PES local offices</th>
<th>Average number of staff per local office</th>
<th>Geographical area per office (Km²)</th>
<th>PES staff</th>
<th>Dependent employment benefit per staff member</th>
<th>Average stock of benefit recipients per staff member</th>
<th>Average stock of job seekers per staff member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>95</td>
<td>25</td>
<td>454</td>
<td>2,775</td>
<td>889</td>
<td>48</td>
<td>103</td>
</tr>
<tr>
<td>France—ANPE only</td>
<td>750</td>
<td>19</td>
<td>732</td>
<td>15,200</td>
<td>1,198</td>
<td>131</td>
<td>193</td>
</tr>
<tr>
<td>Netherlands</td>
<td>243</td>
<td>27</td>
<td>168</td>
<td>8,500</td>
<td>657</td>
<td>—</td>
<td>89</td>
</tr>
<tr>
<td>Sweden</td>
<td>403</td>
<td>22</td>
<td>1,117</td>
<td>10,455</td>
<td>365</td>
<td>22</td>
<td>41</td>
</tr>
</tbody>
</table>

**PES—Job brokerage and program management only**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of PES local offices</th>
<th>Average number of staff per local office</th>
<th>Geographical area per office (Km²)</th>
<th>PES staff</th>
<th>Dependent employment benefit per staff member</th>
<th>Average stock of benefit recipients per staff member</th>
<th>Average stock of job seekers per staff member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>123</td>
<td>25</td>
<td>248</td>
<td>12,300</td>
<td>245</td>
<td>48</td>
<td>59</td>
</tr>
<tr>
<td>France</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>37,000</td>
<td>570</td>
<td>62</td>
<td>93</td>
</tr>
<tr>
<td>Japan</td>
<td>478</td>
<td>27</td>
<td>790</td>
<td>15,273</td>
<td>3,490</td>
<td>70</td>
<td>165</td>
</tr>
<tr>
<td>Switzerland</td>
<td>153</td>
<td>18</td>
<td>270</td>
<td>4,483</td>
<td>674</td>
<td>25</td>
<td>38</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,133</td>
<td>26</td>
<td>204</td>
<td>34,963</td>
<td>691</td>
<td>32</td>
<td>43</td>
</tr>
<tr>
<td>United States</td>
<td>2,528</td>
<td>28</td>
<td>3,707</td>
<td>70,050</td>
<td>1,825</td>
<td>33</td>
<td>—</td>
</tr>
</tbody>
</table>

**NOTE:** Excludes staff in occupational training centers run by the PES.

- **a** Data for these indicators are not available for Australia due to the privatization of PES service delivery.
- **b** The institution in France responsible for the job brokerage function is ANPE (see Table 7.1 for a description). The number of staff per local office refers to 1995. French data under “PES—Overall” include staff in ANPE, UNEDIC (unemployment benefits), Ministère du travail, and AFPA (training).
- **c** Data for Belgium refer to 1995. The local office count refers to job brokerage offices only. The figure for average staff per office refers to Flanders only.
The Swiss local office count refers to placement offices only.

Data for average stock of job seekers per staff member in the United Kingdom are from (OECD 2001b).

Data for the United States refer to 1998–1999 (U.S. staffing and local office numbers are estimated based on 1997 data). Data for benefit recipients per staff member in the United States are from (OECD 2001b).

SOURCE: OECD PES database, except as noted.
Employment Office). For the other countries, the calculation is based on overall PES staffing data and ranges from between 245 for Belgium to 3,490 for Japan. In terms of actual client loads per staff member, Sweden and Switzerland were the best resourced in their respective groupings, while France (ANPE) and Japan had the largest client stocks per staff member in their respective groupings. Despite low staffing relative to dependent employment, the PES in the United States fell below the average for its grouping in terms of benefit recipients per staff member, reflecting the relatively limited use of unemployment benefits.

ORGANIZATION OF PUBLIC EMPLOYMENT SERVICE PROVISION

In each of the study countries, the PES might be thought of as a network or system comprised of a number of institutions. National governments have established the framework for each PES, assigning the responsibilities for the functions of the PES to various institutional units. Among public institutions engaged in the system, there is a division of labor along functional lines with some responsibilities devolved to the regional or local levels. In most of the countries, there are mechanisms for consultation with the social partners (i.e., employers and worker representatives) on the functioning of the PES. And, increasingly, there is an engagement of nongovernment organizations and other bodies in partnership arrangements with the PES, sometimes on a contractual basis.

In 9 of the study countries, the job brokerage function is administered under a mechanism separate from that for unemployment benefits (Table 7.5). Japan is an exception in the study group, whereby a single institution—the Ministry of Health, Labour and Welfare—administers both the job brokerage and unemployment benefits functions. The United Kingdom has restructured its system over the years first to separate, then to reintegrate the service delivery of the two functions; now, it has moved to establish more fully integrated PES administrative arrangements.

The basic organization for the placement function tends to be a tiered one consisting of a national level, regional offices, and local of-
fices, sometimes with branch offices or part-time service windows in other institutions. Each of the 10 study countries has at the core of its PES a network of local offices to deliver basic placement and counseling services. However, there are many variations in the specific structure and linkages. These variations have been underscored in recent years by differences across countries in approaches toward activation of policy measures, introduction of new technologies, and efforts toward improved policy coherence (among other initiatives).

In 9 of the countries, these local offices operate under national or regional government agencies, some of which have a fair amount of autonomy. Australia is the exception (see “Job Network: The Australian Case,” on p. 229) in that key placement-related services are delivered locally for the central government on a contractual basis by private or nonprofit providers (i.e., most basic placement services are no longer provided directly by the state).

A number of OECD countries have introduced or expanded decentralization in service delivery, as central governments focus increasingly on the policy framework and mandates and on monitoring outcomes while permitting regional or local offices and service providers more flexibility in implementation (OECD 2001b). In Denmark, this involved greater engagement of the social partners in the oversight of the PES. In some countries, this may involve local engagement of other partner institutions (e.g., municipal government, educational institutions, or nongovernmental organizations) with a view to expanding the pool of knowledge and expertise in addressing labor market problems and potentially expanding “buy-in” to agreed policy approaches (as in some areas of the United States).

The study countries, with the exception of Japan and the United Kingdom, have substantially decentralized the implementation of the placement function (Table 7.5) such that regional or local operations can be tailored to needs in specific areas. Belgium, Switzerland, and the United States have devolved responsibility for local PES placement offices to subnational levels of government, with the result that different office networks operate in different regions while still conforming to the national PES frameworks. Under recent PES reforms that came into effect in January 2002, the Netherlands has established centralized oversight for the job brokerage function under the Ministry of Social Affairs and Employment, but has given the local Centers for Work and
<table>
<thead>
<tr>
<th></th>
<th>Separate administration of PS and UBs?</th>
<th>Separate PS and UB local client service units?</th>
<th>Significant decentralization in management of local placement offices?</th>
<th>Adult training provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Yes (separate ministries)</td>
<td>Yes</td>
<td>Yes (privatized to outside providers)</td>
<td>Most ALMPs abolished; but contracted assistance providers may offer training at own initiative.(^a)</td>
</tr>
<tr>
<td>Belgium</td>
<td>Yes (UBs under a national agency, PS under regional agencies)</td>
<td>Yes</td>
<td>Yes (autonomous at regional level)</td>
<td>Most is provided by the regional PES agencies.</td>
</tr>
<tr>
<td>Denmark</td>
<td>Yes (UBs through autonomous funds, PS through national agency)</td>
<td>No, in practice (i.e., most clients register for UBs at PS office, but separate UI offices address any complications)</td>
<td>Yes (semi-autonomous at regional level)</td>
<td>Most is purchased from a PES institution, some externally.(^a)</td>
</tr>
<tr>
<td>France</td>
<td>Yes (UBs through autonomous funds under social partners, PS through a national agency)</td>
<td>Yes</td>
<td>Yes (through managerial autonomy under management by objectives approach)</td>
<td>Most is purchased externally or provided via a government supported association (AFPA).</td>
</tr>
<tr>
<td>Japan</td>
<td>No (both under Ministry of Health, Labour and Welfare)</td>
<td>No (but separate ES and UI sections within offices)</td>
<td>Limited</td>
<td>Purchased by participants externally on a reimbursable basis</td>
</tr>
<tr>
<td>Country</td>
<td>Yes (UBs through industrial insurance boards &amp; joint bodies, PS through national agency &amp; partners)</td>
<td>Yes, but moving to co-locate services with one-stop Centers for Work and Income</td>
<td>Yes (under regional boards and through some autonomy for local Centres of Work and Income)</td>
<td>Most is purchased externally.(^a)</td>
</tr>
<tr>
<td>---------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Yes (UBs through autonomous funds &amp; municipalities, PS through national agency)</td>
<td>No (claims handled usually via the PS office)</td>
<td>Yes (through substantial autonomy for local office managers)</td>
<td>Most is purchased externally.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Yes (although both under same federal department, they have separate administrative mechanisms engaging different institutions)</td>
<td>Yes</td>
<td>Yes (semi-autonomous at the canton level)</td>
<td>Most is purchased externally, with some provided through PES &amp; its partners.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Implementing a merged system</td>
<td>Generally no, with some variation by locality (but implementing a merged system)</td>
<td>Limited</td>
<td>Most is provided through PS referral to an external partner institution (Learning &amp; Skills Council).</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Yes (although both under same federal department, they have separate administrative mechanisms engaging different institutions)</td>
<td>Mixed (there is a national initiative for one-stop shops, but some state variation; e.g., UB telephone/internet initial claims in some states)</td>
<td>Yes (semi-autonomous at state level)</td>
<td>Purchased externally(^a)</td>
</tr>
</tbody>
</table>

NOTE: PS = Placement service; UB = unemployment benefit.

\(^a\)In these countries (Australia 1999–2000, Denmark 2000, Netherlands 2000, United States 1998–1999), adult training was the largest ALMP category in terms of participant inflows (excluding PS).

SOURCE: PES Internet sites and OECD PES reviews; OECD 1993a,b; 1996a,b,c; 1997; 1999; 2001a.
Income a degree of independence in management and mandated “integrated co-operation” with similar departments in the municipalities (Struyven and Steurs 2002).

As a complement to the network of local placement offices, some countries have set up separate PES offices for special target groups. For example, in France, special local units have been set up to place and counsel youth (espaces jeunes), professionals (espaces cadres), or employees in specific industries. In Belgium, each of the three regional placement agencies runs separate (for profit) offices for placements into temporary work. In Japan, the work of the main PES offices is bolstered by satellite branch and local offices set up to serve particular local areas or client groups (e.g., students, part-time workers, women with children) (Ministry of Labour 1995).

Provider networks extend well beyond the local offices in the study countries and are used to address job seeker needs beyond the basic placement, counseling, and unemployment benefit services. Placement offices refer individuals to active labor market programs or to other service providers addressing special needs (e.g., to respond to psychological problems). While subsidized employment programs are often administered directly through the placement offices, most of the other programs and measures are operated through PES partners or contractors. For example, in most if not all of the study countries (Belgium may remain an exception), training referrals are generally made to outside providers (Table 7.5). This is the case even in those countries that 20 years ago may have relied more on state-run training centers (e.g., Netherlands or Sweden). The use of networks of providers enables the PES to provide individuals with access to a broad range of targeted assistance.

Even though placement services are often administered separately from unemployment benefits and program services, there is nevertheless a move toward functional integration across providers. This is seen, in part, as a means of rendering the system more transparent to users and more capable of capitalizing on synergies between the various services available in an area. In some cases, this has involved actual co-location of placement services and registration for unemployment benefits, as in Denmark, Japan, the Netherlands (now being implemented), Sweden, the United Kingdom, and the United States (some areas). In others, it has involved “virtual” links, as in some areas of the United States.
A broader approach can be seen in the ongoing implementation of one-stop shop facilities in countries such as the Netherlands and much of the United States. While the exact definition of one-stop shops varies by country, these offices are generally structured to include a local employment center at their core (providing placement services, counseling, and referral to programs), plus unemployment benefit administration and representation of other partners such as government agencies, nonprofit organizations, educational institutions or private-sector firms. One-stop shops sometimes take the form of unified intake points for labor market and social services provided by different agencies or suppliers; sometimes they are even more ambitious, with a co-location of service delivery.

Another organizational development in the PES structure of several of the study countries is the increase in contestability of employment services. Australia has perhaps gone the furthest in this regard, maintaining a public vacancy and resume database system, but delivering most other labor exchange and reintegration services through private providers (see “Job Network: The Australian Case,” on p. 229). The Netherlands has gone part of the way down this pioneering path by moving toward contestability in the delivery of reintegration services (Struyven and Steurs 2002). On the other hand, most OECD countries have introduced contestability in the delivery of at least a portion of their long-term training (Table 7.5). In a twist on the theme of contestability, the Swiss system has introduced performance-related payments to the cantons, which have management responsibility for the local public providers. Moreover, treatment of private employment services has been liberalized in many OECD countries, even those that formerly maintained a monopoly for the PES (e.g., Denmark). In sum, the employment services market has become much more competitive.

In 1997, a new International Labour Office convention (C 181) recognized that private employment services could contribute to the healthy functioning of labor markets and advocated PES cooperation with them, while still envisaging regulation to prevent abuses (Thuy, Hansen, and Price 2001). This reflected the (sometimes newly developed) thinking in most OECD countries that such agencies could complement the PES. In all of the study countries, private employment services now play a significant role. For example, in the United States...
there are over 31,000 private employment agencies that offer labor exchange services (Balducchi and Pasternak 2001).

The shift to decentralized systems with networks of providers and functional integration across core PES activities has been helped by new technologies and management information systems. Office automation and communication technology has expanded the possibilities for exchange of information concerning labor market conditions (supply, demand, wages), job seekers, and employers (e.g., resumes and vacancies), or program administration (within the bounds of privacy constraints on sharing of client information). While potentially benefiting all labor market participants, these systems play a critical role in the operation of the PES. The information they generate empowers PES managers with timely information on local conditions and the performance of their offices. The information also feeds back into the policy and budget formation processes. For example, local performance is taken into account in the contracting process in Australia and the determination of central budget funding for PES operations in Swiss cantons. A number of other OECD countries (e.g., Sweden, the United Kingdom, and the United States) have invested in developing performance measurement systems that provide incentives for managers

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**JOB NETWORK: THE AUSTRALIAN CASE**

In recent years, the Australian government has energetically pushed forward with far-ranging employment service reforms that extend and combine a number of the innovations discussed above. In particular, major PES reforms were implemented from 1998, whereby the former Commonwealth Employment Service was shut down and most labor market programs and the previous case management system were abolished. The government established a new system depending substantially on contracted service providers.

Centrelink, a single point of initial contact for job seekers, was established for individuals wishing to access income support and employment services (as well as certain other government benefits and services). This government-sponsored service provider operates under a business partnership arrangement funded by several government agencies. At intake, it employs a “job seeker classification instrument” to profile clients and—together with other criteria—determine the level and types of assistance that can be offered.

Centrelink refers eligible job seekers (primarily the unemployed and new or reentrants to the labor market) to the Job Network, which consists of hundreds of competitively contracted service pro-
to deliver outcomes and satisfy their clients.

CLIENT FLOWS: FINDING A JOB

The OECD publication *Labour Market Policies for the 1990s* laid out a labor market policy agenda highlighting three priorities: 1) mobilizing labor supply, 2) developing employment related skills, and 3) promotion of a spirit of active search among job seekers. Service provision was to focus first on steps that would rapidly act to motivate the job seeker while increasing the individual’s search efforts and job readiness. The more intensive measures were to be reserved for later in the period of job search, to be made available only if the first round of services failed. This agenda was affirmed in 1992, when OECD labor ministers endorsed a “long-term strategy for a progressive shift from passive to active labor market measures and related social policies.” (OECD 2001c). Subsequent OECD reviews of the PES approaches to client flows indicate that many have substantially followed through in the implementation of such a strategy.
Is the Future PES a “Virtual” Institution?

In terms of organization, the development of the Internet has transformed many PES into “virtual” institutions that are accessible from any computer with Internet access. While PES maintain “bricks and mortar” office networks, their virtual services can decouple the job-matching process from the physical confines of the employment office. PES agencies also use the Internet to deliver practical information to job seekers on topics such as job search, how to apply for a job, training opportunities, labor market information, benefit entitlements, or additional services available to clients in their facilities. In some cases, job seekers can request via the Internet e-mail notification of vacancies that match their preferences or they can post their resumes for review by prospective employers; or registered employers can list their vacancies directly over the Internet (e.g., in Australia, Sweden, and the United States).

However, it is clear that the use of the Internet has limitations. Disadvantaged job seekers, for example, may not have ready access to a computer with Internet access or may not have the skills to track their contractual arrangements online.

As part of the reforms, income support measures were further activated with mutual obligation requirements imposed for younger unemployed (and the middle-aged, ≤ 49 years of age) and Work for the Dole activities (delivered via contracted providers separate from the Job Network and generally targeting young benefit recipients after six months on benefit, but also often taken up by other unemployed). The number of unemployment benefit sanctions increased significantly as a consequence of the activation requirements, with many sanctions linked to a failure to attend measures (e.g., IA).

A recent OECD review of Australian labor market policies (2001a) found that the results of the first years of Job Network operation were mixed. Job seeker and employer satisfaction surveys indicate that clients of the new system were generally happy with it. Placement results were comparable to the previous system (e.g., in terms of market share) and, more recently, improving. Moreover, these results were achieved at significantly less cost. However, it was not clear that opportunities to serve the disadvantaged were fully exploited. For example, a substantial number of IA participants reported that they had little contact with their providers after the first or second visit. Another concern was the integration of the various elements of the system, particularly with respect to the very long-term unemployed. As individuals are serviced by different elements of the system over time, expertise on their cases may be lost and thus their needs may not be systematically treated. Efforts are under way to address such shortfalls.  

Source: OECD (2001a)
to use the services effectively. Highly qualified job seekers also may need advice or information that is most efficiently delivered via an employment center with trained job counselors and ready access to reference tools and guidance materials. Thus, even where vacancy listings are readily accessible, many job seekers continue to approach the PES for additional information or services. For example in Belgium (Flanders), although more than 90 percent of registered vacancies are advertised on a fully open basis, direct referrals by employment counselors account for a quarter to a third of the job applications that are made in response to registered vacancies (OECD 2001b).

In sum, it appears that the employment office still has a critical role to play in the PES organization. However, even in this regard, technology is playing an increasing role. Employment services in many OECD countries are tending to promote the primary responsibility of individual job seekers for their own job search. In order to allocate scarce resources with a view to targeting the most intensive services on those most in need, the PES are increasingly relying on self-service approaches to deliver at least a portion of their services to other job seekers.

**Self-Service Initiatives and Job Seeker Access to Vacancy Listings**

While a primary focus of PES systems is to facilitate reemployment of the unemployed, all of the study countries make at least some basic job placement services available to all job seekers, including employed individuals seeking a change of employment. Generally, this includes access to information from a national job vacancy database.

In many countries, job seekers can gain access to searchable vacancy listings of the PES even without registering. Where employer information is provided in at least some of the vacancy listings (i.e., vacancy listings are open), as in Australia, Belgium, France, Sweden, or the United States, the job seeker can find a job match directly. The PES in countries as diverse as Singapore and Slovenia have moved to post open vacancies on the Internet. Similar initiatives have been undertaken by private firms such as TMP (which operates Monster.com). And, some PES Web sites provide links to such commercial vacancy listings (e.g., as in the United Kingdom). Overall, the advent of the searchable
vacancy listing has enhanced the transparency of the labor market, potentially expediting the job-matching process.

Where such services are sought by job seekers who face no particular disadvantage on the labor market, the PES tend to emphasize self-service approaches. While the Internet is a key part of this strategy, job seekers are also able to access a broad range of tools at local placement offices. For example, some PES provide access to desktop computers or reference materials. Japan is currently setting up “Hello Work Information Plazas” as a way of providing a range of employment information to job seekers. France has developed a computerized system of references and descriptions of occupations and required skills. Touch-screen kiosks are also widely employed in OECD countries (e.g., Australia, Belgium, Sweden, and some U.S. states), powered by intuitive software to assist job seekers—even to those who are not computer literate—with easy access to vacancies and other information.

In some of the study countries, many vacancies remain listed in a semi-open fashion by the PES. Although countries such as Australia or the United Kingdom have Internet-accessible vacancy databases, employer information is often not provided (i.e., such vacancy listings are semi-open). This forces job seekers to contact the employment office for details. The use of semi-open vacancy listings and employment office contacts can facilitate prescreening of potential applicants (e.g., as a service to employers), monitoring of the PES effectiveness and, in the case of Australia, tracking the delivery of contracted services by suppliers.

**Job Seeker Registration**

Unemployment benefit claimants are generally required to register as job seekers at a PES placement office as a precondition for benefit payment (OECD 2001b, pp. 35–68). Registration is also generally required of other individuals seeking more intensive forms of assistance. While all of the study countries encourage early placements of unemployed who are job ready, only about one-third of OECD countries “positively affirm that the placement service sometimes attempts placement at the initial registration.” Following the first registration contact, most countries conduct a detailed registration interview that may fol-
low a week or more afterwards. Among other functions, the PES may use this process to promote self-service job search, or in some cases to establish individual action plans (e.g., in Australia, Belgium, France, Switzerland, and the United Kingdom).

Subsequently, for benefit recipients, regular signing-on or confirmation of status is required in most OECD countries as a condition of benefit receipt (OECD 2001b, pp. 35–68). Australia, Belgium, Japan, the Netherlands, Switzerland, and the United Kingdom require in-person visits, whereas in Denmark, France, Sweden, and some areas of the United States, this is done by mail.26 In Australia, the Netherlands, Switzerland, the United Kingdom and the United States, these procedures involve reporting on job-search efforts, but in Denmark, France, and Sweden, job search is reviewed relatively infrequently. In Belgium, there are no general procedures for reporting on job search. Research reported by Martin and Grubb (2001) found that countries whose PES effectively monitors unemployment insurance claimants’ search for work can reduce the duration of unemployment and unemployment insurance payments.27

In seeking to improve the functioning of labor markets, the PES often take special initiatives to address the needs of those job seekers facing particular disadvantages. For example, this might include targeting special initiatives on groups such as the long-term unemployed (a substantial share of total unemployment in most of the study countries) or youth. Or, for example, in a few countries those with low educational attainment are targeted.28 Youth and those with low educational attainment both experience above-average rates of unemployment (see Table 7.6).

Early in the registration process, Australia, the Netherlands, and the United States use profiling to identify those likely to require and benefit from intervention with more intensive assistance to address employment-related issues early in spells of unemployment.29 Some countries use categorical targeting to respond to the needs of “at risk” groups, such as youth and young adults (e.g., Australia’s Mutual Obligation initiative); others classify the unemployed into groups according to their placement prospects, but rely on the judgement of the PES officers to do so (e.g., Sweden and Switzerland).

As Layard, Nickell, and Jackman (1991) note, “the experience of unemployment has an adverse effect on search effectiveness.” Conse-
# Table 7.6 Labor Market Indicators and PES Flow Data, 1999

<table>
<thead>
<tr>
<th>Country</th>
<th>Standardized unemployment rate</th>
<th>Incidence of long-term (^a) unemployment as a percentage of total unemployment</th>
<th>Unemployment among those with less than upper secondary education (%)</th>
<th>Unemployment among population aged 15 to 24 years (%)</th>
<th>Dependent employment (000s)</th>
<th>Hiring rate (% of dependent employment, monthly)</th>
<th>Total vacancies notified (000s, annual flow)</th>
<th>PES placements (000s, annual flow)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia(^b)</td>
<td>7.0</td>
<td>29.4</td>
<td>8.4</td>
<td>13.5</td>
<td>7,701</td>
<td>2.2</td>
<td>742</td>
<td>397</td>
</tr>
<tr>
<td>Belgium(^b)</td>
<td>8.6</td>
<td>60.5</td>
<td>12.0</td>
<td>22.6</td>
<td>3,015</td>
<td>1.1</td>
<td>149</td>
<td>109</td>
</tr>
<tr>
<td>Denmark</td>
<td>4.8</td>
<td>20.5</td>
<td>7.0</td>
<td>10.0</td>
<td>2,468</td>
<td>1.8</td>
<td>227</td>
<td>74</td>
</tr>
<tr>
<td>France(^c)</td>
<td>10.7</td>
<td>40.4</td>
<td>15.3</td>
<td>26.5</td>
<td>21,079</td>
<td>3.1</td>
<td>3,031</td>
<td>1,710</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
<td>22.4</td>
<td>5.6</td>
<td>9.3</td>
<td>53,305</td>
<td>1.2</td>
<td>5,862</td>
<td>1,730</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.2</td>
<td>43.5</td>
<td>4.9</td>
<td>7.4</td>
<td>5,581</td>
<td>1.7</td>
<td>315</td>
<td>204</td>
</tr>
<tr>
<td>Sweden</td>
<td>7.2</td>
<td>30.1</td>
<td>9.0</td>
<td>14.2</td>
<td>3,816</td>
<td>—</td>
<td>468</td>
<td>—</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3.0</td>
<td>39.6</td>
<td>5.0</td>
<td>5.6</td>
<td>3,020</td>
<td>1.7</td>
<td>143</td>
<td>53</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.9</td>
<td>29.6</td>
<td>10.0</td>
<td>12.3</td>
<td>24,172</td>
<td>2.2</td>
<td>2,724</td>
<td>1,430</td>
</tr>
<tr>
<td>United States(^b)</td>
<td>4.2</td>
<td>6.8</td>
<td>7.7</td>
<td>9.9</td>
<td>127,842</td>
<td>—</td>
<td>7,372</td>
<td>1,886</td>
</tr>
</tbody>
</table>

\(^a\) Long-term unemployment refers to spells of 12 months or more.

\(^b\) Dependent employment, hiring rate, total vacancies notified and PES placements data refer to 2000 for Australia, 1995 for Belgium and 1998 for the United States.

\(^c\) For France, the hiring rate is based on data for the private sector only.

SOURCE: Unemployment rates are from the OECD (2002), except for those with less than upper secondary education, which are from OECD (2001c). Entries for other items are from the OECD PES database.
quently, as durations of unemployment spells increase, many PES agencies take the initiative to suggest that job seekers should apply for a specific vacancy; in effect, they imply an obligation to attend a job interview with an employer (e.g., Belgium, Denmark, the Netherlands, Sweden, Switzerland, and the United States). While most PES target additional assistance on the long-term unemployed to promote job readiness and motivation for job search, the United Kingdom has adopted a work first approach that more aggressively seeks to place individuals into employment as soon as possible, even while seeking to address any potential impediments to successful labor market experiences (Wells 2001). Both obligations to interview and placements into temporary employment help job seekers to maintain some contact with the labor market, which can provide them insights into possibilities for finding a job.

Alternatively, the PES may seek to place job seekers into active labor market programs as their job search lengthens. Countries such as Australia, Denmark, the Netherlands, Sweden, Switzerland, or the United Kingdom have used preestablished durations as triggers for referral of clients to such programs. In the Netherlands, for example, about half of the unemployed are likely to be placed in a program after 12 months on the job seeker register (Thuy, Hansen, and Price 2001). In many cases, employment counselors have some discretion and may use other criteria in making referrals. Some programs are also open to job seekers who voluntarily request admission as a way of improving their job prospects. In Denmark and Sweden, upgrading workforce skills is an integral part of the PES remit, and there is relatively open access to training programs.

**Vacancy Registration and Employer Services**

While employers in some OECD countries increasingly register their vacancies directly via the Internet, local employment offices still strive to maintain direct contact with employers. This allows counselors to cultivate an understanding of the local labor market and to increase employer awareness of additional services available through the PES beyond the basic vacancy listings (e.g., prescreening of candidates or tailored training). New resume talent banks enable employers in some countries to search actively for suitable job applicants, including direct-
ly via the Internet (e.g., Sweden and the United States). In some cases, the PES has sought to market fee-for-services options to employers along with the basic free provision of the core job brokerage services (e.g., in Belgium).

Vacancy registrations are for the most part voluntary. A few countries require employers to list their vacancies with the PES (Belgium and Sweden), but this is rarely enforced. The French ANPE includes in its vacancy listings not only those vacancies about which it has been directly notified, but also vacancies advertised in newspapers and magazines. The Danish PES also registers job announcements placed by employers in newspapers.

A study by de Koning, Denys, and Walwei (1999) found the PES to be a very important recruitment tool for employers because it provides a ready source of available workers and is free of charge. The PES in the examined countries have employed a variety of strategies to increase the number of registered vacancies. Some countries (including Belgium, France, Japan, and the United Kingdom) have organized marketing campaigns to get employers to increase vacancy notifications. In the United Kingdom, the PES has appointed specific officers as account managers to manage the PES relationship with particular firms. In Sweden, every employer has one counselor as a point of contact (about 150 employers per counselor). Counselors are expected to spend 15–20 percent of their time visiting employers. In Belgium (Wallonia), the PES has established units to conduct vacancy searches. In Denmark, approximately 30–40 percent of PES staff are required to keep in continuous contact with employers, and their performance in listing vacancies is systematically evaluated (Thuy, Hansen, and Price 2001).

PES PERFORMANCE

Goals and Objectives

The study countries employ a variety of management tools to provide policy direction and results-orientation in the work of the PES, with goals and objectives set through different channels depending on institutional arrangements. Implementation is monitored through PES
performance indicators and management information systems. Fulfillment is assessed through a variety of strategies, such as external evaluations and audits or client satisfaction surveys.\(^3\) For example:

- The Australian labor market reforms launched in 1998 incorporated provisions for a three stage evaluation (including an element of external evaluation) focused on four key criteria: 1) effectiveness, 2) efficiency, 3) quality of service, and 4) equity. The elaboration of these criteria helped to provide direction for the PES and its service providers (whose contracts were specified with these criteria in mind).
- In Denmark, local PES management contracts with each employee or team with regard to annual resources and targets. Regional offices also have agreements with local offices and with the National Labor Market Board.
- In France, a *Contrat de Progres* agreement between the ANPE and the Ministries of Labor and Finance sets the direction of the agency for a four-year period. The agreement contains a number of qualitative targets, such as widening the range of services, fighting social exclusion, and decentralizing budget management.\(^3\) A *tableaux de bord* report provides monthly information for managers on the PES results for the regions and the country as a whole.
- The Netherlands sets the total number of placements as its main goal but differentiates between placements in regular jobs versus subsidized jobs, and direct placements made by job centers versus indirect placements made by other public institutions such as local community organizations cooperating with job centers.
- The Swedish PES uses four indicators to measure PES success: 1) rate of filling vacancies; 2) proportion of previously unemployed persons as part of total hiring; 3) the vacancy registration rate; and 4) the job seeker registration rate. A computerized management information system called “Leda” displays operational targets for various levels and organizations of the PES on an annual, quarterly and monthly basis. Access to the system is open to all PES employees.
- Switzerland has recently implemented a system to measure the placement performance of local employment offices in terms of
the average duration of job search, the proportion of unemployment spells which result in benefit exhaustion, and the proportion of unemployed workers who reregister after leaving the unemployment rolls (OECD 2001b).

- In the United Kingdom, a recent employment service annual performance agreement lists performance requirements and targets for six major elements (Mosley, Schütz, and Breyer 2001). For example, the PES aims to offer unemployed people, particularly the long-term unemployed and other disadvantaged people, help and advice in finding work or appropriate training. Its effectiveness is measured in terms of such absolute figures as the total number of vacancy registrations and the total number of placements. In addition, the government hires an independent research company to survey the PES performance at local job centers.

- In the United States, the evaluation system for the PES consists of three components: 1) a set of labor exchange performance measures (e.g., job seeker entered-employment rate and employment retention rate at six months); 2) reporting requirements for labor exchange services and outcomes; and 3) procedures for establishing performance goals that state agencies and the U.S. Department of Labor can use in assuring the quality of labor exchange services (U.S. Department of Labor 2001).

- In addition, in recent years the PES in a number of the OECD countries have placed more emphasis on how PES customers (i.e., employers and job seekers) rate the services they have been receiving from the PES. This customer service orientation has been reinforced in some countries, such as Australia, Belgium (VDAB), France, Sweden,32 the United Kingdom, and the United States through the use of client satisfaction surveys.

Comparative Review of PES Performance

International comparisons of PES performance indicators can help to provide a rough appreciation of PES outcomes. However, care must be taken in drawing any conclusions due to the important influences of specific national contexts.
Market share indicators can help to situate PES performance in the labor market. Examples include PES vacancy listings as a percentage of all hirings in the economy, and PES placements as a percentage of all hirings in the economy (Table 7.2). Among the countries examined, the Japanese PES reported the highest percentage of registered vacancies relative to hirings. The PES in Japan and the United Kingdom delivered the highest percentages of placements relative to hirings. Switzerland delivered the lowest market share results in these two indicators (24 percent and 9 percent, respectively).33

In terms of internal performance, the ability of the PES to place job seekers into vacancies is regarded as one of the most important factors. An indicator for PES placements as a percentage of new job seeker registrations with the PES, which can sometimes be readily calculated from PES reporting, provides a rough gauge of performance in this area. Table 7.2 shows the wide range in this indicator for the study countries, which range from 8 percent in Denmark and 11 percent in the United States, to 34 percent in France and 26 percent in Japan.

The number of placements per PES staff member provides a rough indicator of the labor intensity of one aspect of the PES operations.34 Here again, there is wide variation. In 1999, among countries for which the basis of the calculation was PES-wide staffing, this indicator ranged from 113 placements per staff member in Japan to 12 placements in Switzerland.35 Among the countries for which the calculation was based on job brokerage agency staff only, it ranged from 97 in France to 19 in the Netherlands.

When comparing the data on placements, the following caveats should be kept in mind. First, the number of placements says nothing about the quality of the job or the labor market readiness of the job seeker. It is much more difficult to place someone from a disadvantaged labor market group in a well-paid job than it is to place a highly qualified applicant into a temporary job. Second, PES placements are difficult to measure. For example, many PES placements achieved through self-service or general PES job search assistance are not easily tracked. Third, PES placements are sometimes not well defined or properly recorded.36 Moreover, while the PES takes credit for many placements, job seekers often do not recognize the PES as the main reason for finding a job.37
Effectiveness of PES Placement-Related Programs

The OECD has actively reviewed the growing evaluation literature on placement-related programs (among other areas). The evidence, while not without qualification, indicates positive findings with respect to several approaches that help to support and motivate active job search:

- Job-search assistance\(^{38}\) tends to be viewed as an effective and inexpensive way of getting the unemployed back to work quickly.\(^{39}\)
- Efforts to maintain closer contacts with unemployed workers through an intensified interview process can help to motivate job search.\(^{40}\)
- Compulsory referral of job seekers to labor market programs after a specified period in unemployment has been effective in reducing unemployment.\(^{41}\)
- Tightening unemployment benefit eligibility requirements and increasing their enforcement (along with increased monitoring of job search) have been found to help motivate effective job search.\(^{42}\)

As for active labor market programs that go beyond job-search assistance, the literature has tended to indicate that large-scale public employment programs deliver the least positive postprogram effects.\(^{43}\) Training programs and recruitment incentives to the private sector fall somewhere in the midrange between job search assistance and public employment programs, with their success depending largely on design characteristics and the type of target groups addressed (Schwanse 2001).

CONCLUSION

This chapter has underscored current approaches to implementation of the PES job brokerage function in 10 OECD countries. While there is wide variation in the resourcing, structure, and content of the various approaches, there are some crosscutting themes and principles
that have emerged as part of efforts to improve the effectiveness of the PES. These touch on the following aspects of PES operations:

- Institutional structure: emphasizing decentralization and networking among service providers, combined with functional integration in the field operations.
- Delivery of job brokerage services: emphasizing contestability through the liberalization of private employment services, increasing competitive contracting of services by the PES, and performance monitoring of service delivery within the PES.
- Service delivery: emphasizing customer service orientation.
- Reemployment strategies: emphasizing job search and activation measures, while targeting or tiering more intensive services on disadvantaged job seekers.
- New information technologies: emphasizing delivery of information over the Internet, self-service approaches, and management information systems.

While OECD countries have found that diversity in approach is appropriate in view of the differing national contexts, experience in many has highlighted the common utility of certain of these recent innovations.

Notes

The views expressed are those of the authors and do not necessarily reflect those of the Organisation for Economic Co-operation and Development (OECD) or U.S. Department of Labor. The authors would like to thank David Grubb and Peter Tergeist at the OECD and Christopher O’Leary at the W.E. Upjohn Institute for Employment Research for their comments on an earlier draft of this paper. Naturally, the authors alone are responsible for the content, including any errors and omissions.

1. See Layard, Nickell, and Jackman (1991) for a useful discussion of job search and unemployment.
2. In many labor markets, the PES market share for placements is smaller than such channels as newspaper advertisements, direct application to employers, or contacts through personal networks.
3. For example, figures from the European Commission indicate that the PES in European Union member states intervene in between 10 percent and 30 percent of total hiring, although the number of unemployed people receiving help from the PES in finding employment is higher (European Commission 1998).
4. Janoski (1990) and OECD (1999), for example, provide information on the origins of employment services in the United States and certain other OECD countries.

5. In some countries, such as the Netherlands, the PES have a regulatory or legal oversight role (e.g., related to dismissal procedures or work permits).

6. Among policymakers in most OECD countries, activation had already become an important theme by 1990 (e.g., see OECD 1990).

7. See the notes to Table 7.4 for an explanation of these terms.

8. One factor contributing to this divergence is the prevalence of long-term unemployment (defined as spells of 12 months or more, see Table 7.2) in certain European countries and their use of active labor market programs to address the problem. It is interesting to note that among the study countries, Sweden tended to devote the highest share of its overall labor market program expenditure to active measures (more than one-half in 1993 and 1998), whereas most of the other study countries expended between one-fifth and two-fifths of the total on active spending during these two years (OECD 2001c, p. 24).

9. In the Netherlands, for example, the share of GDP spent on these costs was more than seven times greater than the share in the United States.

10. To the extent that this expenditure category also includes the administrative costs related to unemployment benefits (but not the cost of unemployment benefits themselves), it is not a “purely” active category.

11. Dependent employment refers essentially to wage and salary jobholders.

12. There is some debate about the importance of PES institutional issues. de Koning (2001), for example, argues that OECD governments have tended to “overestimate the role of the institutional framework,” but also acknowledges that “organisation and implementation of active policies matter to outcomes.” An ILO survey of the PES around the world (Thuy, Hansen, and Price 2001) found that most of the well-established PES had been through a phase whereby a standardized and structured set of services, procedures, and processes were the norm throughout local offices. The authors observe a broad “recognition that a standardized organization fails to produce the desired results” and note a broad shift internationally “toward a more flexible and decentralized service-delivery approach tailored to the conditions and needs of local areas.”

13. In about half the countries, the social partners (i.e., employers representatives and unions), or the unions alone, participate in the actual administration of benefits (e.g., France or Sweden). But, with respect to the labor exchange function, their role tends to be advisory.

14. This is one area where bias is evident in the selection of countries for the present study. The share of OECD countries with fully integrated systems is higher than 10 percent. Austria, Germany, Greece, Italy, Korea, and Norway have fully integrated systems.

15. At the local office level in the United Kingdom, the delivery of employment services and unemployment benefits has been reunited for about a decade. Now, administrative operations of the former Employment Service and certain elements from the former Benefits Agency (including some benefits in addition to unem-
Employment benefits) are being merged under the new Jobcentres Plus service in the Department for Work and Pensions.

16. For example, state offices in the United States have a fair amount of autonomy to innovate within the federal framework or, in France, ANPE has a fair degree of autonomy governed in part by the contrat de progrès agreement with the government.

17. Interestingly, the United States has taken the opposite position. Despite the heavy use of contracted services in some PES areas such as training, the U.S. Department of Labor insists that basic placement services must be delivered by government personnel (as a way of ensuring that these basic services are delivered to job seekers in an objective fashion).

18. By the early 1990s, a number of OECD countries were already applying decentralization in service delivery (e.g., the Netherlands and the United States). Still, even where decentralization already existed, often new means of implementing it were applied during the course of the 1990s.

19. In another example, Austria shifted a substantial share of implementation discretion to the regional and local offices, with greater engagement of the social partners in oversight. The Netherlands, Sweden, and the United Kingdom abandoned tripartite approaches in 1994, 1991, and 1987, respectively.

20. Canada has also substantially decentralized its placement services, transferring nearly all of the resources and responsibilities for this function from the federal to the provincial level.

21. For example, this occurs under “conversion agreements” with companies to provide services to employees being laid off.

22. Japanese secondary school students are served primarily by the PES, whereas university students are served by their school guidance/placement services (http://www2.mhlw.go.jp/english/e_text/outline/02-5.htm).

23. In France, “single window” facilities exist for access to a range of services for certain client groups (e.g., some facilities target youth or professionals), but they do not integrate unemployment benefits. Australia has unified unemployment benefit administration with job brokerage intake; delivery of job brokerage services remains separate (see “Job Network: The Australian Case,” on p. 229).

24. The ILO previously sought to restrict such agencies via Convention 96.

25. There are some exceptions, such as benefit claimants in the United States who are temporarily laid off with a specific recall date.

26. In some parts of the United States, such as Wisconsin, benefit claimants confirm their status via telephone.

27. Chapter 5 in this volume by Christopher O’Leary underscores importance of monitoring and verifying active work search by UI claimants. Also, a useful summary of PES administration of the work test can be found in (Thuy, Hansen, and Price 2001).

28. For example, measures targeted on those with low educational attainment exist in Belgium (via individual action plans) and France (Contrat Jeunes).

29. See Dickinson, Decker, and Kreutzer (2002) for an overview on the statistical models of UI benefit exhaustion used by U.S. states in Worker Profiling and
Reemployment Services systems for targeting of early reemployment services on those at greatest risk of long term UI benefit receipt.

30. For a discussion of approaches, see Mosley, Schütz, and Breyer (2001) and Walwei (1997).

31. The 1999–2003 agreement emphasizes modernization of the ANPE, integrating of youth into the labor market, and reducing long-term unemployment.

32. In 1998 and 1999 the Swedish National Labor Market Board promoted customer satisfaction as a PES goal. However, this indicator was dropped at the national level in the year 2000 in order to simplify the performance management system and to concentrate PES work on reducing the unemployment rate to 4 percent by the end of the year 2000 (Mosley, Schütz, and Breyer 2001). Local employment offices continue to carry out their own client interview surveys as a basis for local operations’ planning.

33. In the United States, Holzer (1998) reports that PES agencies account for about 3 percent of newly hired workers in all jobs.

34. The use of placement indicators must be taken in the national context, controlling for a variety of factors (discussed below).

35. The PES in Japan has a well-developed self-service information system that has operated for a number of years. The use of this system and related self-service tools is well established and may account partly for the low labor intensity of its PES operations (Thuy, Hansen, and Price 2001).

36. For example, repeated short-term placements of a relatively small proportion of job seekers are sometimes found to account for a large proportion of all placements, or local offices are sometimes found to be recording placements in situations where they did not really achieve the match (e.g., in cases of recall following a temporary layoff or where the employer has applied for a hiring subsidy to be granted in respect of a specific candidate who was not identified with PES assistance).

37. For example, the Swedish National Labor Market Board (AMS) asked workers who had been hired during 1992 and 1993 where they received the decisive information about these jobs (OECD 1996b). The proportion mentioning the PES was 13–14 percent. Yet a review of PES job placements as a percentage of vacancy registrations using AMS data implies that the PES was in part responsible for 47 percent of job placements.

38. Job search assistance is a term covering a variety of relatively low-cost and generally short-term services aimed at equipping and motivating job seekers to find a job. Examples include initial interviews at PES offices, in-depth counseling during an unemployment spell, reemployment bonuses, and jobs clubs (Martin and Grubb 2001). Such services are also sometimes combined with increased monitoring and enforcement of the job search requirements for receipt of unemployment benefits.

39. For example, Martin and Grubb (2001) report that evaluations in Canada, Sweden, the United Kingdom, and the United States support this finding, although a study in the Netherlands found no significant impact.
40. For example, the *OECD Jobs Study* (OECD 1994b) found that increased PES efforts to maintain closer contacts with the unemployed through frequent job interviews was effective, and that interviewing unemployed people, when such a procedure was rarely used before, resulted in 5–10 percent of benefit claims being dropped. In the Netherlands, employment counselors who increased the amount of time spent interviewing the unemployed found an almost one-third increase in the number of job applications.

41. For example, evaluations in Denmark and Switzerland found that establishing an obligation to enter a labor market program increased the rate at which the unemployed found a job.

42. For example, Abbring, Van Den Berg, and Van Ours (1999) found that imposing benefit sanctions on the unemployed in the Netherlands raised their subsequent transition rate to employment by 77 percent in the metal sector and 107 percent in the banking sector. A Danish study (Ministry of Finance 1998) on the strictness of eligibility criteria in 19 OECD countries concluded that strict benefit eligibility criteria can reduce long-term unemployment and offset the impact of high replacement rates in countries such as the Netherlands and Sweden.

43. However, as noted in Martin and Grubb (2001) the preprogram or motivation effects of potential referral to such programs can be significant. For example, in U.S. welfare reform, the decline in entries to welfare has been as important as the increase in exits from welfare in accounting for the caseload declines (Moffitt 2002). Beyond the United States, public employment programs with emphasis on training have often been a component in strategies where motivation effects play an important role (e.g., the New Deal in the United Kingdom or Work for the Dole in Australia). Moreover, such programs can help severely disadvantaged labor market groups to stay economically active as part of an overall strategy against social exclusion (Brodsky 2000).
References


Seventy years ago, in the depths of the Great Depression, the United States instituted a national labor exchange policy to aid economic recovery and labor market stability. To implement it, the new Roosevelt Administration and Congress established a federal–state system of public employment offices. Throughout subsequent economic, social, and political changes, the federal–state system under the Wagner-Peyser Act has provided steady and equitable labor exchange services to job seekers and employers. This chapter describes the evolution of labor exchange policy in the United States, summarizes the major findings in the preceding chapters, and provides reflections about the future of labor exchange policy.

EVOLUTION OF LABOR EXCHANGE POLICY

In the 1890s, state labor departments started denouncing as immoral the practices of many private employment agencies accused of fleecing the unemployed. Guzda quotes Iowa’s Commissioner of Labor, J. R. Sovereign, who complained that Iowa’s private employment
agents were the “most unscrupulous, despicable, double-dyed villains that ever lived . . .” (Guzda 1983, p. 13). Around this time, reformers in Ohio established the first continuous public employment offices in the five largest cities in the state (Guzda 1983, p. 13). A number of other states and cities soon followed the Ohio example and set up public employment offices offering no-cost job-matching services.

To help accommodate the influx of European immigrants during the early years of the 20th century, the first federal employment office was set up in 1907 on Ellis Island in New York harbor. The Division of Information within the U.S. Department of Commerce and Labor administered federal employment activities until it was reassigned to the new U.S. Department of Labor (USDOL) in 1913. With America’s entry into the First World War, the Division of Information was renamed the U.S. Employment Service. It established federal–state employment service (ES) offices in 40 states with the purpose of recruiting defense workers, advertsing labor shortages, and aiding industrial production. Most of the employment offices were shut down after the first world war ended. “The economic prosperity that followed World War I left little policy sentiment for retaining a national ES system until the tumult of the Great Depression” (Balducchi, Johnson, and Gritz 1997, p. 495).

Not until 1933, when unemployment reached 13 million, was the contemporary federal–state ES system established under the Wagner-Peyser Act. At the time, only 135 employment offices existed under public administration in 24 states (Persons 1933, p. 6). To fill the gap until states could establish public employment offices under the federal–state program, the National Reemployment Service (NRS) was set up as part of the U.S. Employment Service. By November 1933, NRS established 2,000 federal reemployment offices to function as placement agencies for the Public Works Administration, Civil Works Administration, Works Progress Administration, other public works agencies and private employers. The NRS was a successful incubator for the federal–state ES system, and by 1939 it was dissolved when all states established ES programs under the Wagner-Peyser Act (Balducchi 2002, p. 103). During the Great Depression of the 1930s, the ES system placed 26 million workers in jobs.

The federal–state ES system was started as a service to employers who could voluntarily use the service free of charge for screening and referrals of job seekers to vacancies. The first major expansion of labor exchange policies came when the Social Security Act of 1935 created
the federal–state Unemployment Insurance (UI) program. Functions of the ES were expanded to provide the UI system validation that beneficiaries were engaged in active and useful job search activity while being paid jobless benefits.

During the Second World War, the federal government nationalized the ES system. It was placed under the Federal War Manpower Commission and charged with helping fill job openings for employers deemed essential for the war effort, directing the flow of migrant workers, and recruiting new workers (Kulick 1994, pp. 1–3). At the close of the war, USDOL resumed responsibility for the ES system and the federal–state structure was reestablished. In the years immediately following World War II, the ES system aided the return of nearly 12 million veterans to civilian jobs. To achieve this, it adopted a labor exchange policy known as the “Six-Point Program,” which included job placement, employment counseling, services to special applicant groups, management services to employers, labor market information, and services to community constituencies (Haber and Kruger 1964, p. 34). In the 1950s, the ES system provided additional manpower services for older and disabled workers, and created special local offices devoted to the placement of professional workers.

In the 1960s, the policy focus of the ES system ostensibly shifted from employers to job seekers, and attempts were made to separate ES systems from UI operations. During this period, labor exchange policy emphasized job placement, and industry-specific offices were established in some urban areas. Moreover, human resource development policies initiated through Great Society legislation unevenly steered the ES system to act as a job-finding medium for economically disadvantaged groups (Trutko and Barnow 1996, pp. 6 and 8).

These changes were not warmly welcomed by some employers. In response, the National Employer Committee, known as the Vickery Committee, was formed in 1971. Two years later, based upon the Vickery Committee report, USDOL launched the Job Service Improvement Program. The program was designed to reestablish relations between the ES system and the business community, and to return the ES system to the delivery of basic labor exchange services (Trutko and Barnow 1996, p. 15).

In the 1980s, a major shift in labor exchange policy took place. Amendments to the Wagner-Peyser Act contained in the Job Training Partnership Act (JTPA) of 1982 and accompanying regulations de-
volved the bulk of federal responsibility for labor exchange policy to the states. Writing in 1994, Kulick asserted that the single most important goal of the amendments—to devolve responsibility for ES operations from the federal to state governments—succeeded (Kulick 1994, pp. 1–5). During the 10-year span following JTPA’s enactment, ES effectiveness slipped because of diminished attention by the federal partner—including decreased federal funding to support state ES operations.

In the first decades of the federal–state ES system, the focus was on service to employers. As part of the broad agenda for social justice in the 1960s, the ES was reoriented to address economic and social disparities and focused services on to hard-to-employ job seekers. By the 1980s, federal labor exchange policies reflected a political and budget conservatism that consigned to states a greater responsibility for program administration. The current labor exchange environment, codified in the Workforce Investment Act (WIA) of 1998, regards the public labor exchange system as a central feature of the federal–state workforce development system.

As mandated by WIA, each local area receiving federal job-training funds must establish a one-stop center that is a central physical location for the provision of services by the following federal and state programs: UI, ES, Dislocated Worker and Youth Training, Welfare-to-Work, Veterans Employment and Training Programs, Adult Education, Post-Secondary Vocational Education, Vocational Rehabilitation, Title V of the Older Americans Act, and Trade Adjustment Assistance. Other programs may also be included under a one-stop center’s umbrella of services. Services provided by the one-stop centers 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 access and the least staff involvement of the three categories. Many core services are accessible on a self-serve basis. All adults and dislocated workers can access core services, which include assessment interviews, resume workshops, labor market information, and interviews for referral to other services. Intensive services require a greater level of staff involvement, and consequently access is more limited than for core services. Services within the intensive category include individual and group counseling, case management, aptitude and skill proficiency testing, job-finding clubs, creation of a job...
search plan, and career planning. Training services, the third and highest level of service intensity, are open to customers only through referrals. Training services typically include adult basic skills education, on-the-job-training, work experience, and occupational skills training. Services delivered with Wagner-Peyser Act funds are either in the core or intensive categories.

WIA spawned a fresh interest by governments in constructing workforce development systems to meet the changing job and training needs of workers and employers in the emerging information economy. As a result, there was resurgence in the type and use of labor exchange services. Together with WIA, a variety of contemporaneous institutional changes contributed to the renewal of ES activity. These include:

**Federal–state implementation of WPRS.** Between 1993–1996, nationwide implementation of Worker Profiling and Reemployment Services (WPRS), a legislative mandate for states to identify UI claimants who are likely to exhaust benefit entitlements and refer them to reemployment services, resulted in states’ establishing new job search workshops and linkages between UI, ES and job-training programs. Between PY 1993 and PY 2001, the use of job search workshops by UI claimants increased from 37.2 percent to 78.8 percent. In concert with this growth, state workforce development agencies expanded the availability of both self-service and staff-assisted employment services. In many one-stop centers, the presence of WPRS job search workshops likely expanded the availability of such workshops to other job seekers.

**Customer service.** In the 1990s, a customer service revolution swept the public sector. State and local workforce development agencies incorporated many customer-driven techniques commonly used by private sector companies (e.g., surveys and focus groups). The WPRS initiative complemented this revolution as job search workshops prompted strong customer satisfaction and increased service usage.

**One-stop implementation funds and WIA one-stop delivery systems.** Between PYs 1994–2000, ETA distributed to states $826.5 million in one-stop grants to replace disparate job finding and training structures with consolidated one-stop delivery systems. Many states selected their ES systems as the frameworks for consolidating new one-stop delivery systems. Under WIA, 17 separate workforce development programs are required to be part of the one-stop delivery structure. In 2003, an estimated 3,459 local
offices comprise the public workforce system and are designated as one-stop centers or affiliated sites.

**Resource rooms.** Many one-stop centers provide job seekers and employers with easy access to labor exchange services through resource rooms that contain personal computers, telephones, work areas, and fax and copy machines. Resource rooms provide job seekers and employers with information and equipment to conduct their job searches in a professional and effective way.

**Technology.** In most resource rooms, job seekers and employers may access Web-based job-finding software through portal sites called Career One-Stop. Its major component is a national database of job openings and resumes called America’s Job Bank (AJB), a computerized job vacancy and resume listing system. Between 1995 and 2000, AJB experienced a tremendous growth, rising to an average stock of 1.5 million job openings. “(S)tates voluntarily connect their job openings to AJB, and one-third of the job openings are listed directly by employers” (Balducchi and Pasternak 2001, p. 148).

**Universal access to Wagner-Peyser Act and WIA Title I services.** Under the original Wagner-Peyser Act, a requirement for state agency affiliation with the U.S. Employment Service was that state ES agencies make labor exchange services available at no cost to employers and job seekers who are eligible to work in the United States. This universal service requirement was expanded to Title I programs of WIA that fund services for adults and dislocated workers. As a result, there has been an increase in the use of labor exchange services in one-stop centers and at remote self-service locations.

**ETA policy leadership.** ETA issued numerous WPRS, one-stop, and WIA policy directives, technical guides, and regulations to spur systemwide capacity building and compliance. To promote effective service delivery, ETA hosted numerous national WPRS, one-stop, and WIA conferences that showcased state and local approaches.

**Sustained economic growth.** Prior to the recession of 2001, the United States experienced an unprecedented economic expansion that began in 1993. A bustling U.S. economy with a strong demand for workers may have enabled states to expand labor exchange service availability. These expanded self-service and staff-assisted services are designed for employers and three types of job
AN OVERVIEW OF LESSONS LEARNED

In the opening chapter of this book, Eberts and Holzer tackle the broad issue of who uses public ES services and how often. They note that federal and state governments have long recognized the importance of providing free labor exchange services. They assert that if labor exchange services were restricted to only privately provided sources, a type of market failure may result. In particular, a public agency has the potential to redistribute job opportunities to those individuals with limited opportunities, such as disadvantaged and disabled workers. Eberts and Holzer report that public employment agencies are not the most heavily used avenues of job search by the unemployed, but that public services are used by a significant fraction of the unemployed, especially those who lose their jobs involuntarily. They conclude that the Internet may be seen as complementing the public ES and other search methods, while substituting for informal networks of family and friends. Eberts and Holzer suggest that the “relevant question for the public ES is whether those who use it have significantly better outcomes than they would have had the service not been available, and how any such gains compare to the public cost of providing the service” (p. 21). They conclude that without a random assignment evaluation, or a close approximation, it is difficult to provide definitive answers to these questions. Eberts and Holzer assert that WIA has restored the role of the public ES to provide basic labor exchange services, while consolidating those services into a broader array of other workforce development services.

Balducchi and Pasternak examined the division of power between federal, state, and local partners managing workforce development programs. They point out that since its inception as part of the New Deal, with the exception of the World War II period, the ES has remained a cooperative federal–state program administered by governors, while
job-training programs have been locally administered since the 1960s. They observe that the one-stop approach implemented under WIA did not reapportion political control of ES and job-training programs. During the first three decades following the 1933 Wagner-Peyser Act, there were efforts to shift the federal–state balance of power toward federal control, while during the last three decades efforts have been directed at localizing power. Power sharing under the Wagner-Peyser Act is framed by federal requirements that a state agency must administer programs, the agency must submit a plan of service to USDOL for approval, a merit personnel system must be utilized, and services must be delivered by state agency employees. During 1997 and 1998, a compliance dispute in Michigan tested the federal government’s power to set and enforce requirements upon states when dispensing financial grants to administer the ES. A federal court decided that the requirement for administration by state merit personnel was a reasonable rule to ensure consistent and equitable delivery of labor exchange services statewide. Balducchi and Pasternak state that in the face of this court decision, Wagner-Peyser Act regulations promulgated by USDOL in 2000 strengthened the authority of state ES agencies. They anticipate that issues of centralization and decentralization will continue to pose “splendid tensions” in American workforce federalism.

Ridley and Tracy observe that one impressive trend in the U.S. labor market is the explosive growth of intermediaries—organizations that match job seekers with employers—and the present challenge of a public ES is to, in their words, “remain relevant.” WIA firmly established one-stop centers as the entry to a full range of publicly funded workforce programs, and mandated that ES be one of the programs providing services through one-stop centers. They describe and explain the shift from in-person job matching to self-directed services, and identify a list of those activities that would benefit most from staff intervention, such as working with employers to develop and list new job orders. In addition to automated services, resource rooms containing a host of job-finding aids have also transformed the way customers use ES services. A key new role for Wagner-Peyser Act–funded staff in many one-stop centers is to maintain these rooms and provide core services. Ridley and Tracy assert that under the three-tiered service strategy of self-services, facilitated self-help and staff-assisted services, staff-assisted services tend to be provided mainly to subgroups of job seekers
with particular barriers to employment. They also argue that since en-
actment of WIA, ES has forged new partnerships with other social and
workforce programs, but there has been a breakdown in the close rela-
tionship between ES and UI due largely to remote claims-taking tech-
nologies. Ridley and Tracy conclude that a key role of the public ES
may be to act as a “concierge for intermediaries” by creating pathways
for job seekers and employers.

Smole writes that ETA has worked with the states and made great
strides toward establishing a performance measurement system for the
public labor exchange, yet the task remains unfinished. Performance
measurement involves the ongoing monitoring of program outcomes to
provide guidance for managers and staff to improve program adminis-
tration and service delivery. In finalizing the labor exchange perform-
ance measurement system, Smole recommends that states establish
clearly defined performance standards against which the delivery of la-
bor exchange services can be measured. As ETA and the states do this,
they should consider instituting a methodology for adjusting standards
for demographic and economic conditions, as well as differences in state
program administration. He asserts that doing so would make for fairer
comparisons across states and also would counteract tendencies for
“creaming” in service delivery. Smole suggests instituting performance
indicators for services to employers, such as the market penetration rate;
performance indicators that apply across the one-stop delivery system;
and methodologies for linking program benefits to costs to permit track-
ing of program cost effectiveness; and more closely linking the perform-
ance measurement procedures applicable to state grantees under the
Wagner-Peyser Act and to ETA under the Government Performance and
Results Act of 1993. Performance indicators merely track gross out-
comes; they do not measure the incremental value of a service. To do
that would require contrast of program participant success with that of
an appropriately specified counterfactual. Without more closely exam-
in ing the effectiveness of the labor exchange through program evalua-
tion, the degree to which the public labor exchange aids the job-match-
ing process remains uncertain. Thus, performance indicators should not
be used in isolation, but should be part of a broader strategy used to mon-
itor and assess the delivery of labor exchange services. Nonetheless,
when properly employed, performance measurement is a valuable tool
for effective program administration and management.
O’Leary reports that evaluations of job search assistance have focused on three main topics: job interview referrals, job search assistance, and targeted job search assistance. He asserts that evidence from these studies has helped shape the direction of public labor exchange policy in the United States. ES job referrals are most effective for women and for men over 45 years of age and for men in urban areas. Linking the ES to UI through the work test leads to significantly shorter periods of compensated joblessness. Standardized UI eligibility review interview and job search workshops are inexpensive to administer and have a sizeable effect on reducing periods of compensated joblessness. Targeting job search assistance to dislocated workers at risk of long-term employment can be a cost-effective intervention, by shortening the duration of compensated joblessness. This research has shaped the development of programs for dislocated workers, targeted job search assistance, and institutions for coordination of services. These include WPRS, establishment of one-stop centers, and state eligibility review interview programs as part of the UI work test.

Woods and Frugoli examine the most revolutionary change in labor exchange services: the explosive growth in public and private job search sites available on the Internet. ETA has made substantial investments in automation to state and local workforce development. These have included development of one-stop computer operating systems, UI telephone and Internet claims processing, and a new computer-based occupational coding system called O*Net. Woods and Frugoli see a natural tension developing between public and private labor exchange operators because the Internet has expanded the capacity of both sectors to deliver information directly to consumers. However, they assert that information sharing may be the most essential ingredient of a successful labor exchange system, and a public role is critical to ensuring access for all. Labor market information provided through the Internet can augment other means of job search. The USDOL strategy was to provide labor exchange and career planning services through the Internet, with America’s Job Bank (AJB) at the core. The system was intended to facilitate the expansion of universal services through the one-stop delivery system. It has helped streamline program registration, intake and referral to services. Woods and Frugoli suggest that the increased capabilities of automated systems to provide easy
Experience and Prospects for Labor Exchange Policy

Connections between job seekers and employers may reduce the demand for staff-assisted services in one-stop centers.

Lippoldt and Brodsky provide a comparison of public labor exchange programs in 10 selected OECD countries: Australia, Belgium, Denmark, France, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. The market share of all job matches for the public labor exchange differs widely among these economies. For example, in 1999 fully one-third of the labor force in Denmark enlisted the public employment service (PES) in job search, while only 6 percent of the labor force did so in Switzerland. Lippoldt and Brodsky explain the difficulties in comparing performance measures of the PES across countries, but they provide evidence that the Swiss PES was relatively effective by placing 24 percent of the job seekers who registered for assistance. In contrast, the Danish, who register the broadest cross-section of the labor force, placed only 8 percent of registrants. Naturally, neither of these gross outcomes is a measure of value added by the PES. Lippoldt and Brodsky summarize international evaluations indicating positive findings with respect to several approaches that help to support and motivate active job search: job search assistance, intensified personal interviews, compulsory referral of unemployment compensation recipients to labor market programs, and tightening of unemployment benefit eligibility requirements. Each country has pursued a distinct path, but certain trends in policy were identified. Most countries are decentralizing management of programs by giving more authority for decision making to the local level which is closest to the problems. Simultaneously, central governments are requiring that local areas improve their systems for cooperation among service providers, including the PES, for-profit service providers, community-based agencies, and not-for-profit service providers. Local areas are also commonly accountable for performance through regular monitoring of program outcome performance standards. The PES, driven by results, is also emphasizing a customer-service orientation and active job search assistance for those receiving public compensation for joblessness. In a world of tight budgets, the PES is pursuing these ambitious goals using new automated methods of including Internet job matching, self-service assistance modules, and improved management information systems for PES management and frontline staff.
THE FUTURE OF PUBLIC LABOR EXCHANGE POLICY

Like previous federal job training programs, WIA was enacted in 1998 with a “sunset” clause. WIA would end in five years if not renewed. The Bush Administration’s 2003 proposal to reauthorize and revise WIA includes a further shift of power and authority from federal and state governments to local governments. The Bush proposal contains the following key elements (Executive Office of the President 2003):

- consolidating and improving workforce development programs for adults,
- strengthening accountability for achieving results,
- improving workforce development services to youth by targeting funds to out-of-school youth, and
- creating more effective state and local workforce investment boards.

The proposal also calls for elimination of the distinct funding stream for the ES, and abolishes the U.S. Employment Service, which was created to administer national labor exchange policy. To accomplish this, the proposal repeals the first 13 sections of the long-standing Wagner-Peyser Act and incorporates the Act’s existing provisions related to the collection of labor market information, administration of the UI work test, and assistance to veterans, migrant, and seasonal workers into Title I of WIA.

Ever since the Wagner-Peyser Act was amended in 1982, funds for the ES have been distributed to states as special purpose block grants. Under the Bush proposal, the Wagner-Peyser Act would be superseded by a WIA block grant for adults. The block grant would consolidate three funding streams: adult and dislocated workers under WIA of 1998, and the Wagner-Peyser Act. States and localities would receive a single block grant funding the bulk of all core, intensive, and training services at one-stop centers. While other provisions in the Bush proposal provide expanded authority to state governors, the proposal reduces the power of governors to determine how funds are used for labor exchange services. Under the proposal, states must send 50 percent of their adult block grants directly to local areas. Hence, in comparison to
the Wagner-Peyser Act, state governors could lose authority over the bulk of their state labor exchange funds, thereby compromising their ability to steer statewide policies for workforce and economic development.

Proponents of the Bush proposal argue that repeal of the Wagner-Peyser Act would increase state and local flexibility to develop and merge service delivery that best meets labor exchange priorities and economic circumstances. They assert that it would simplify state and local one-stop center administration, eliminate separate accounting for labor exchange services, and increase the efficiency in delivery of core services by public and private WIA service providers. Under the proposal, Congress would appropriate federal funds for labor exchange services from general revenues instead of the UI trust fund. Backers of the proposal say that combining the three funding streams into a single formula block grant would result in streamlined program administration and avoid the duplication in reporting and inefficiency of service delivery that now exists in state and local one-stop delivery systems (DeRocco 2003b).

Opponents argue that, if enacted, the proposal would eliminate the 70-year-old U.S. Employment Service, created to establish and maintain a system of public employment offices, and unravel the mutual funding of UI and ES services through the UI trust fund; thereby raising as a prime issue the apportionment of power and authority between state governors and local leaders for labor exchange policy. Other critics such as the American Federation of State, County and Municipal Employees (AFSCME) contended that eliminating ES is a harbinger for privatizing the UI program. AFSCME anticipated that passage of the proposal would resurrect an attempt in the 107th Congress to turn the federal financing of UI administration back to the states (Loveless 2003).

Reflecting diverse political sentiments among its members, the National Association of State Workforce Agencies (NASWA), took a middle-of-the-road position. Supporting Bush’s proposal to provide greater flexibility in the delivery of core, intensive, and training services, NASWA acknowledged that some members were concerned that repeal of the Wagner-Peyser Act would result in service disruptions as many states used their ES structures as the foundation for building their one-stop delivery systems (Leapheart 2003). Others, such as Oregon’s Gov-
ernor Kulongoski (2003), expressed more serious concerns of equity and fairness:

We are concerned that the proposed repeal of the Wagner-Peyser Act, would eliminate the Employment Service (ES), and undermine the principle of an unbiased, nonpartisan agency to administer job referrals and assist in the payment of UI benefits. The strong ES infrastructure in Oregon must be kept in place for the benefit of employers and job seekers.

The Republican Party controlled the 108th Congress. In the House, Republicans held 229 seats to the Democrats’ 205 seats and 1 Independent. On March 13, 2003, Representatives McKeon (CA) and Boehner (OH) introduced H.R. 1261, the “Workforce Reinvestment and Adult Education Act” to reauthorize WIA. The Bush Administration did not submit a separate bill in the House, but its policy proposal was substantially the same as H.R. 1261. One difference in the House bill that typified the 30-year tendency of Congress to support federal–local workforce federalism was in the distribution of state funds for the adult block grant. Under H.R. 1261, like the Bush proposal, 50 percent of the adult block grant must be sent directly to local areas. But, unlike the Bush proposal, which reserves the remaining funds to state discretion, the House bill requires one-half of the state’s 50 percent share must also be sent to local areas either in funds or staff to support core services in one-stop centers. The House took quick action on the bill, with the Rules Committee limiting floor debate to one hour. As a result, there was no substantial debate on the future of the Wagner-Peyser Act. However, a floor amendment was approved that assured states would receive the same proportional amounts of annual funds that they would have received if the three adult workforce programs had not been consolidated. The House passed the bill on May 8, 2003, on mostly a party-line vote of 220 to 204.

Upon passage, the Bush Administration strongly endorsed H.R. 1261, declaring that it “would promote economic development and better equip businesses and workers for success” in the information economy (Executive Office of the President 2003). Expressing the views of the opposition, Democratic Leader Nancy Pelosi (CA) declared that the bill “will consolidate funding for services for adults, dislocated workers, and employment services into a single block grant, forcing these groups to compete against each other for assistance and likely leading
to reduced funding. It will eliminate the U.S. Employment Service, which maintains a free nationwide labor exchange that matches job seekers and employers” (Pelosi 2003).

Since the mid-term election of 1994, a broadly backed part of the Republican agenda has been to reduce the role of the federal government in the everyday lives of Americans by shifting power and authority to other levels of government (Downs 1996). Establishing a second order devolution block grant (see Chapter 2) to states and localities not only reduces the role of the federal government, but also is likely to curb the labor exchange policy-making role of state governors. Congress may be shifting too much power to localities. Thus, Congress may be exacerbating the innate conflict between the state and regional characteristics of economic growth and the fragmented self-interests of localities. If the bill is enacted, it will be interesting to see whether local workforce boards consider state and regional economic perspectives in carrying out labor exchange policies.

The fate of the Wagner-Peyser Act may be a marquee issue in the Senate debate. The Bush Administration hopes to complete action on the bill during the fall of 2003. While it may be too early to predict the consequences of the House-passed bill if it were enacted without amendment, it does appear that it would provide for greater flexibility in the use of labor exchange funds. On the other hand, it would nullify the public charter of ES, allow private service providers to deliver labor exchange services, and may hamper coordination of labor exchange and UI services.

While the destiny of the Wagner-Peyser Act is unknown as of this writing, we foresee the continued emergence of new work methods that may significantly alter job finding and employment arrangements. As a result, it appears that government will continue to be engaged in efforts to link education, economic development, and employment. Likewise, the role of labor exchange services may continue to expand as new public and private intermediaries are brought into the workforce development system.
Notes


2. Block grants, sometimes referred to as “special revenue sharing” during the Nixon era, are transfers of funds to state and local governments in broad functional areas; they are more flexible than categorical grants (Nathan 1983, p. 22). During the House Committee on Appropriations testimony, Assistant Secretary DeRocco disputed a reference to block grants and called them a “formula grant program, through a single consolidated grant” (DeRocco 2003a). The authors use the term “block grant.”

3. Under H.R. 1261, power and authority vary between state governors and local leaders. For example, local workforce boards received a greater say in the use of adult block grants, but state governors received the power to certify one-stop centers and, in consultation with state workforce boards, divert federal funds that go to one-stop partners programs to fund one-stop center administrative costs. The answer to who won or lost in the power game often depends upon the political and policy viewpoints of the person you ask.

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