

# UPJOHN INSTITUTE

## Employment Research

### Special Issue: National Labor Market Policy

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## Introduction

### Easing Labor Market Troubles in the Short Run and Developing a Skilled Workforce in the Long Run: Some Ideas

**S**ome commentators suggested in late 2008 and early 2009 that the worldwide economic crisis we were going through might spin out of control and result in another Great Depression. Whether such dire predictions will become true is unknown. But we do know that through the middle of 2009 we are still in the midst of the longest recession since the Great Depression. The unemployment rate has risen to 9.5 percent; the underemployment rate has reached 16.5 percent. The average unemployment duration has risen to 24.5 weeks—the longest duration recorded since the government began tracking it in 1948. Since the beginning of the recession, more than 6.5 million net jobs have been lost, which is approximately equal to the net job gain over the previous nine years. This is the only recession since the Great Depression to have wiped out all of the job growth from the previous business cycle.

The Upjohn Institute was born out of the throes of the Great Depression. A very practical but very innovative individual, Dr. W. E. Upjohn of Kalamazoo, a physician and founder of the Upjohn Drug Company, promoted the idea that devising innovative, local solutions through community collaboration was the best way to overcome the drastic consequences

of the Great Depression—widespread unemployment and poverty. In 1932, he established the W.E. Upjohn Trustee Corporation, the forerunner to the W.E. Upjohn Institute for Employment Research.

The mission of the Upjohn Institute is to “find and promote solutions to employment-related problems.” In keeping with that spirit, this issue of Employment Research presents findings and recommendations from recent research conducted by the Institute’s senior economists and coauthors. Their suggestions are offered for consideration in improving U.S. labor market policy. Some recommendations focus on existing programs; others call for new or redirected policies or programs. Some focus on the supply side of the markets; others focus on labor demand. The unifying theme of the articles is that the silver lining in the clouds that have darkened the labor market may be the opportunity to implement improved administrative procedures in current programs and to introduce innovative policies and new programs.

Our national policy toward unemployment and the labor market might be characterized as having three prongs. In 1933, with the passage of the Wagner-Peyser Act, we established a national network of public employment offices under the U.S. Employment

Service. In 1935, the Unemployment Insurance (UI) program was instituted to insure workers against the risk of unavoidable job loss. Finally, in 1962, the Manpower Development and Training Act (MDTA) initiated support at the national level for job training. For unemployed individuals, unemployment compensation partially replaces earnings losses, and services provided by the Employment Service and the Workforce Investment Act (ultimate successor to MDTA) actively promote reemployment.

Less recognized in the current recession than the failures in the financial and automobile manufacturing sectors and the bursting of the housing bubble is the steady deterioration during recent years of the infrastructure that supports the three-pronged labor market policy. Initiatives instituted in the 1990s and intended to strengthen the system have languished. One-stop career centers were an effort to consolidate and integrate the UI and reemployment services to better serve workers and employers. However, administrative funding has been significantly reduced, and the number of one-stop agencies has actually gone down, from about 3,600 at the end of 2003 to fewer than 3,000 at the end of 2008. The Worker Profiling and Reemployment Services (WPRS) system was instituted in 1994 with the intent of targeting reemployment services to individuals most likely to exhaust their UI benefits. All states developed this system, but administrative funding lagged and the U.S. Government Accountability Office (2007) found that states were not providing in-depth reemployment services as recommended. Although the original Wagner-Peyser statute requires the U.S. Employment Service to be housed in the Department of Labor, in the last few years it has been downgraded and is now subsumed within an adult services division with no separate administrator. Job development activities within the Employment Service and the Workforce Investment Act agencies have been curtailed. Many other significant diminutions of our infrastructure can be pointed out.

The first two articles focus on demand side suggestions aimed at reducing the current recessionary levels of unemployment. The first of these articles argues that promoting and expanding the short-time compensation feature of unemployment insurance would reduce the use of and the system bias toward layoffs. Next, we suggest that during recessions, reinstating a revised New Jobs Tax Credit (NJTC) may be a cost-effective way to increase overall employment. Such a revised NJTC would provide tax relief to employers that make net additions to their employment.

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Recognizing that the American Reinvestment and Recovery Act of 2009 reinvests considerable resources back into the infrastructure and activities of the UI Service, the Employment Service, and the Workforce Investment Act, the next two articles in our newsletter suggest that the administration of these programs can be improved by using local macroeconomic data to adjust performance standards and by using software tools to direct clients to appropriate services and careers.

The second half of the newsletter contains articles about enduring policy or program initiatives that would improve labor market outcomes, whether or not the economy is in recession. The persistent labor market problems of disadvantaged workers may be addressed by a selective wage subsidy, according to the first of these articles. A permanent version of a wage subsidy program that was temporarily instituted in Minnesota is suggested as an incentive that, at reasonable cost, could have a substantial impact on the employment rates of disadvantaged groups of workers.

Next, the newsletter addresses the longer-term issue of developing a competitive workforce through educational reform. We first suggest that universal, high-quality preschool programs for four-year-olds will have substantial benefit-to-cost payoffs in the long run. Per dollar spent, such programs will increase the present value of earnings by \$4. Focusing on education that is pursued by older students, the next article articulates a concern that career and technical education may get harmed in the nation's zeal to improve scores on standardized tests for mathematics and language arts. It suggests that up-to-date, rigorous, employer-driven career and technical education is complementary to the goal of improved academic performance, not a barrier to it.

Circling back to Dr. Upjohn's premise that localities may be best-suited to mitigate the dire impacts of recessionary unemployment, the final two articles of our July newsletter focus on communities. The penultimate article addresses the question of how communities can respond to the economic downturn. The final article considers the Kalamazoo Promise, a unique but quickly spreading concept in which private donors in the community have instituted a program (the first of its kind when announced in 2005) aimed at expanding access to postsecondary education and growing the region's economy. The article considers the significant economic benefits that would be gained throughout the country by reducing the financial (and perceptual) barriers to the access of postsecondary education through the expansion of programs like the Kalamazoo Promise.

### Reference

U.S. Government Accountability Office. 2007. *Unemployment Insurance: More Guidance and Evaluation of Worker-Profiling Initiative Could Help Improve State Efforts*. Report to Congressional Requesters. GAO-07-680. Washington, DC: U.S. Government Accountability Office.