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The Response of the U.S. Public Workforce System to High Unemployment during the Great Recession

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Unemployment and Recovery Project

Working Paper 4, September 2012

Unemployment and Recovery Project

This working paper is part of the Unemployment and Recovery project, an Urban Institute initiative to assess unemployment's effect on individuals, families, and communities; gauge government policies' effectiveness; and recommend policy changes to boost job creation, improve workers' job prospects, and support out-of-work Americans.

This report was supported by a grant from the Rockefeller Foundation to study unemployment and the Great Recession, Grant Number 2011 CAW 204. Any opinions expressed herein are solely the author's and should not be attributed to the Rockefeller Foundation, the Urban Institute, the Urban Institute trustees, or other Urban Institute funders.

Contents

Glossary of Workforce Programs and Workforce Legislation

American Reemployment and Reinvestment Act (ARRA, also called the Recovery Act): ARRA was the economic stimulus legislation enacted in February 2009, appropriating a total of $787 billion. It included workforce provisions that covered all major workforce programs, providing them nearly $5 billion in additional funds.

Reemployment and Eligibility Assessments (REAs): REAs were developed as an initiative of the UI program starting in 2005. UI beneficiaries are called in to local workforce offices to show they are searching for work and continue to be eligible to receive UI benefits. They also are offered reemployment services, including labor market information and referral to job openings.

Reemployment Service Grants (RESs): These grants to states have funded the reemployment services authorized by the Worker Profiling and Reemployment Services initiative signed into federal law in 1993. Small grants were provided during 2001–2006 and much larger grants were provided by the ARRA. RESs were not renewed after ARRA funds were exhausted.

Trade Adjustment Assistance (TAA): A special form of unemployment compensation paid to workers adversely affected by international trade. TAA has been reauthorized periodically, and reauthorization and expansion of the program was included in the ARRA.

Unemployment Insurance (UI): Established in 1935, the UI program provides temporary, partial wage replacement to workers unemployed through no fault of their own. The program normally pays benefits for up to 26 weeks. Early in the Great Recession, Congress enacted temporary Emergency Unemployment Compensation in 2008 as well as a temporary modification of the permanent Extended Benefit program. These provisions were extended through 2012. At the maximum, unemployed workers could receive as many as 99 weeks of UI benefits in states with high unemployment.

Wagner-Peyser Act Employment Services (WPA ES): Enacted in 1933, the ES provides job referral and other reemployment services to all workers searching for work, whether or not they are unemployed or collect UI. The Wagner-Peyser Act requires that the ES conduct the UI work test, registering unemployed workers for employment and providing them with reemployment services.

Workforce Investment Act (WIA): Enacted in 1998, WIA is the current federal employment and training program. It provides a variety of services—called Core, Intensive, and Training Services—to three groups of participants—WIA Adults, WIA Dislocated Workers, and WIA Youth.

Executive Summary

This paper examines the workforce public policy response to the Great Recession of 2007–2009. The Great Recession earned its name because of the havoc it wreaked on the U.S. financial sector and the economy as a whole, but particularly on the U.S. labor market. Millions of workers permanently lost their jobs, and many could not find new ones. Workers' need was two-pronged: First, and most immediately, they needed income support to partially replace their lost wages and salaries. Second, and equally important, was their need for help in finding a new job or to obtain support while improving their skills through education and training.

The U.S. policy response was unbalanced. On the one hand, the unemployment program provided massive amounts of income support, mostly from temporary recessionary programs. Between 2008 and 2010, over $300 billion was spent on unemployment insurance. On the other hand, increased access to reemployment services and training was limited and unsustained.

Resources for the organizations delivering reemployment services and training—the Workforce Investment Act (WIA) and Wagner-Peyser Act Employment Service (ES) programs—had been declining for decades and were inadequate to serve the flow of participants before the recession. Temporary recessionary funding was also inadequate ($11 billion in regular funding was supplemented in 2009 with nearly $5 billion in one-time funding from the American Recovery and Reinvestment Act (ARRA). Currently, these programs have returned to their lower pre-recessionary funding levels. Expenditures for ES have declined to $30–$40 per participant—far too little to provide comprehensive reemployment services. WIA Adult expenditures per participant are $200–$300 per participant—approximately $500 per participant for WIA Dislocated Workers—both far too little to provide effective training services to many participants.

Thus, during the recession, American workers received substantial amounts of temporary income support, but mostly were given limited help in finding jobs or improving their skills. When the ARRA supplemental workforce funding was exhausted in 2011, it was not immediately replaced, and legislation enacted in February 2012 provided only a fraction of the ARRA funding. Today, unemployment remains high, yet income support is declining rapidly and funding for reemployment services and training has plummeted.

The workforce ARRA funds were available for two years beginning in mid-2009. State workforce agencies were encouraged to expand reemployment services and training, with an emphasis on training. States were also encouraged to spend the funds quickly to stimulate the economy as well as help return unemployed workers to productive employment.

States expended the ARRA funds rapidly and effectively, most in the first year of availability. They hired new workers to provide additional reemployment services and spent more on training and some reemployment services than the ARRA funds provided. These results, however, meant that funding quickly returned toward pre-recession levels (in many states by late 2010), even though unemployment remained high.

U.S. policymakers considered innovative approaches to encourage reemployment during the recession—Reemployment Service Grants, Work Sharing/Short-Time Compensation, Self-Employment Assistance, temporary try-out employment, and wage supplements. Reemployment Service Grants were funded under ARRA but allowed to lapse in 2011. In February 2012, an underfunded form of Reemployment Service Grants was enacted, as were Work Sharing and Self-Employment Assistance initiatives, but they did not become effective until the spring of 2012, nearly three years after the recession officially ended.

The Response of the U.S. Public Workforce System to High Unemployment during the Great Recession

Stephen A. Wandner

Introduction

The Great Recession officially began in December 2007 and ended in June 2009. It was the worst recession since World War II as measured by all key labor market indicators—unemployment, employment, labor force participation, and hours per worker. The demographic groups most affected by unemployment were consistent with those most affected in other severe recessions—younger workers, less-educated workers, male workers, and minority workers. The increased unemployment numbers stemmed from both the increased inflows of workers into unemployment and declines in workers flowing out of unemployment, resulting in record unemployment durations. Even after the recession ended in 2009, unemployment continued to be high and durations of unemployment soared, because even when the wave of unemployment inflows receded in the latter part of the recession, unemployment outflows continued to decline (Elsby, Hobijn, and Sahin 2010).

Record levels of unemployment and of durations of unemployment are also related to long-term changes in the nature of unemployment. Temporary layoffs no longer increase sharply during recessions, remaining low during good times and bad (Groshen and Potter 2003). Instead, many more layoffs have become permanent. The result is that during recessions a significantly greater proportion of laid off workers will not be recalled, and they will need reemployment services, education, and training to gain new employment.

The number of workers unemployed for long periods of time reached record highs during the Great Recession. As measured by the Current Population Survey, the median duration of unemployment (whether or not the unemployed workers ultimately found jobs) reached a record 21.4 weeks in 2010. By contrast, for completed spells of unemployment, it took an unemployed worker a median 5.2 weeks to find a job in 2007 and 10.4 weeks in 2010, while the number of weeks before unemployed workers stopped looking for work and left the labor force increased from 8.7 weeks to 21.4 weeks between 2007 and 2010. The effects of the Great Recession, thus, were to decrease the likelihood that unemployed workers would find jobs, and that likelihood decreased as the time spent searching for work increased. The results yielded the longest unemployment durations of any post-World War II recession (Eig and Theodossiou 2012).

Permanent unemployment increased massively during the Great Recession. The number of displaced workers surged during 2007–2009, reaching 15.4 million, compared to 8.3 million in 2005–2007. This number was also considerably higher than during the prior recession of 1999–2001. In 2007–2009, the number of long-tenured displaced workers reached 6.9 million, the greatest number since the Bureau of Labor Statistics began its survey of worker displacement in 1984. As of January 2010, reemployment of long-tenured workers displaced during 2007–2009 was 49 percent, and their unemployment rate was 36 percent.[1] This was the lowest reemployment rate and the highest unemployment rate since measurement began in 1984 (Borbely 2011).

An array of programs and services to assist unemployed workers can be accessed through more than 2,700 local workforce offices across the United States.[2] More than 20 million workers per year have been served by workforce offices in recent years, and all are eligible to receive some reemployment services. The great majority of workers receive job search assistance and job matching services, but many do not receive staff-assisted services. Because of severely limited funding, only a small percentage of workers who use workforce services—1 to 2 percent—are referred to and receive career training. Funding for reemployment services and training comes from the appropriated funds for grants to states for Wagner-Peyser Act/Employment Service[3] and Workforce Investment Act programs. Employment Service staff members provide reemployment services, while WIA staff provide some WIA Core and Intensive Services and refer workers to training.[4]

The public workforce system has limited resources. These resource constraints could be seen even at the height of the Great Recession when supplemental funding was available. Thus, Program Year 2009 (July 2009—June 2010) shows a narrowing pyramid of reemployment services available through the workforce system. In that year, the Wagner-Peyser Act employment service programs served 22.4 million participants, of which only 14.2 million received staff-assisted services. The WIA program provided Core and Intensive Services to a much smaller number of customers—to 549,019 Adult and Dislocated Worker program exiters—but training services to only 257,840 exiters.

During the Great Recession, most workers who became unemployed were permanently displaced from their jobs. These dislocated workers generally had strong labor

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[1] Long-tenured workers are workers who lost or left jobs held for three or more years.

[2] Local workforce offices have been called One-Stop Career Centers for over a decade, but President Obama announced on March 12, 2012, that they will be rebranded as the American Job Center network. As of July 26, 2012, there were 2,747 local workforce offices in the United States (http://www.servicelocator.org).

[3] This report frequently uses the term *Employment Service* for programs funded by the Wagner-Peyser Act.

[4] Employment Service reemployment services are similar to WIA Core and Intensive Services.

force attachment, and most were eligible for unemployment insurance. In 2009, during the height of the recession, the number of newly unemployed workers who became UI beneficiaries exceeded 14 million. In most states these permanently displaced workers registered for work with the Employment Service: nearly 5.7 million received staff-assisted reemployment services (a “reportable service”) at their local workforce offices. Yet ES staff only referred approximately 200,000 UI beneficiaries to WIA education and training services.

Policy Response to the Great Recession

As the Great Recession began in 2007, local workforce offices had inadequate resources to respond to the flow of unemployed workers. Policymakers recognized the resource shortfall and provided additional resources beyond the pre-recession funding with which the programs were operating. The most significant workforce policy responses to the Great Recession were a series of four legislative initiatives: (1) additional weeks of UI benefits, (2) expanded eligibility for the UI program, (3) increased funding for reemployment and training services, and (4) new or improved reemployment programs. The major legislative activities were legislation implementing and extending the Emergency Unemployment Compensation program; the American Recovery and Reinvestment Act of 2009 (ARRA); the American Jobs Act (AJA) of 2011; and the Middle-Class Tax Relief and Job Creation Act of 2012.

Emergency Unemployment Compensation. In June 2008, Congress passed the Emergency Unemployment Compensation program, the first major workforce program enacted during the Great Recession. It is called EUC08 to distinguish it from an earlier temporary program by the same name. EUC08 greatly increased the potential duration of UI benefits for long-term unemployed workers who qualified for up to 26 weeks of Regular UI benefits. The program also expanded and increased federal funding of the Permanent Extended Benefit program. The EUC08-EB initiative, renewed or revised many times, was by far the largest workforce response to the Great Recession. EUC08 paid out $160.0 billion between FY 2008 and FY 2011and is expected to pay out an additional $26.5 billion during FY 2012 (USDOL 2012). It is scheduled to expire at the end of 2012.

American Recovery and Reinvestment Act of 2009. The American Recovery and Reinvestment Act of 2009 was signed into law on February 17, 2009, at the beginning of the Obama administration. It was principally designed to be a fiscal stimulus package that would help bring the United States out of the Great Recession. A total $787 billion was appropriated, with a portion of these funds dedicated to workforce programs.

Workforce program funding and staffing had declined over the last several decades. Basic funding remained constant during the Great Recession, but workforce programs received a one-time bump in funding from appropriations enacted as part of the ARRA.

Appropriations for the ARRA workforce component amounted to approximately $12 billion in increased funding for most existing workforce programs or activities: UI administrative funding; Wagner-Peyser Act state grants; Wagner-Peyser Act Reemployment Services and Reemployment and Eligibility Assessments; WIA Adult, Dislocated Worker, and Youth grants; WIA Dislocated Worker National Reserves; the Job Corps; and the Community Service Employment for Older Americans (see table 1).[5]

Table 1. Major Workforce Program Initiatives of the 2009 American Recovery and Reinvestment Act and Their Funding

ARRA funding category	Funding amount ($billions)
UI Administration	0.500
UI Modernization	7.000
Wagner-Peyser Act Grants to States	0.150
Wagner-Peyser Act Reemployment Services	0.250
WIA Adult	0.500
WIA Dislocated Workers	1.250
WIA Dislocated Worker National Reserve	0.200
High Growth and Emerging Industry Grants	0.750
WIA Youth	1.200
Job Corps	0.250
YouthBuild	0.050
Community Service Employment for Older Americans	0.120

Source: Bradley and Lordeman (2009).

ARRA workforce funds were to be spent “expeditiously and effectively” so they would stimulate recovery. States and localities were encouraged to interpret broadly how they could use the funds—taking “an expansive view of how the funds can be integrated into transformational efforts to improve the effectiveness of the public workforce system”—such that ARRA moneys could not only be used to provide services to individuals and employers but also to build and improve workforce system infrastructure (USDOL 2009).

ARRA funding was generally available for obligation from the date of enactment until September 30, 2010, for Wagner-Peyser Act programs and until June 30, 2011, for WIA programs. Funds for both Wagner-Peyser Act and WIA programs had to be expended by June 30, 2011 (USDOL 2009). A rough estimate of how much ARRA increased funding can be made by comparing ARRA funds to regular funding availability during

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[5] This paper does not deal with WIA Youth programs, the WIA Dislocated Worker National Reserve, the Job Corps, or the Community Service Employment for Older Workers program.

the approximately two-year ARRA period. For the Wagner-Peyser Act, the increase was about 30 percent. For WIA Dislocated Workers, the increment was over 50 percent. One might expect that the funding increase would be roughly proportional to increased program activity. In fact, program activity increased a great deal more than the supplementation in funding.

The ARRA also included three large income support components. Extensions and expansions of UI benefits were funded from general revenues and do not appear as part of the ARRA funding, since they were entitlements and of uncertain magnitude. A new incentive program, UI Modernization, was initiated to provide states with grants for expanding regular state UI eligibility provisions. Finally, the Trade Adjustment Assistance program was renewed and expanded.

American Jobs Act of 2011 Bill. The ARRA workforce provisions expired and funding was exhausted by mid-2011. The American Jobs Act bill attempted to supplement regular funding of workforce programs to a limited extent, as well as to initiate new reemployment approaches. The bill was proposed by the Obama administration, but it received no Republican support and was not enacted.

The bill had a number of mostly temporary workforce provisions that would have included (1) Reemployment Service grants and Reemployment and Eligibility Assessments to serve all new EUC08 claimants; (2) Work Sharing/Short-Time Compensation reform and financial support; (3) Self-Employment Assistance support; (4) a Bridge to Work program giving workers a chance to take temporary, voluntary employment to keep up their skills and train for new jobs at a workplace; and (5) wage supplements for older workers to compensate them for taking lower-paid jobs. A more limited version of the first three proposals was enacted half a year later in the Middle-Class Tax Relief and Job Creation Act of 2012.

Middle-Class Tax Relief and Job Creation Act of 2012. Enacted on February 22, 2012, MCTRJCA contains workforce provisions that accompanied an extension of EUC. Key workforce provisions are the extension of EUC08 and Extended Benefits through the end of 2012, an appropriation to provide Reemployment Services and Reemployment and Eligibility Services, incentives to adopt and improve the work-sharing program with temporary federal funding, and incentives to adopt state Self-Employment Assistance programs with temporary funding for program administration. The wage supplement and Bridge to Work provisions of the American Jobs Act bill did not survive.

The Emergency Unemployment Compensation and Permanent Extended Benefit provisions were extended through the end of 2012, but their scope was reduced by more limiting weeks of eligibility.

The Reemployment Services (RES) and Reemployment and Eligibility Assessment (REA) provisions require that states provide RES/REA services to individuals receiving EUC08 benefits.RES/REA provisions are funded with “such sums” as are necessary to carry out the provision of the Act. States are reimbursed $85 for each EUC08 beneficiary who receives RES/REA services.

The Work Sharing/Short-Time Compensation provisions (1) permanently change the definition of STC to fix a technical problem in the law and (2) temporarily provide partial or complete funding for state STC programs—providing states that had programs full reimbursement for up to three years of STC payments, and states that did not have STC programs with 50 percent reimbursement for up to two years. MCTRJCA also provides $100 million in grants to states for implementation and improved administration of STC programs. MCTRJCA requires an STC evaluation and appropriates $1.5 million to conduct it.

The Self-Employment Assistance provisions encourage all states in adoption and use of the SEA program. Financial incentives were funded by a $35 million appropriation in grants to states for the development, implementation, and administration, as well as the promotion, of the program and participant enrollment. Workers who wish to participate can do so during their period of EUCO8/EB eligibility and can draw SEA allowances from their EB or EUC08 benefit entitlements.

The MCTRJCA, originating in the House Ways and Means Committee, was enacted with bipartisan support. Republicans supported an extension of EUC08 through the end of 2012 but did not want to enact an EUC extension without some constraints on program cost. The RES/REA provisions require states to conduct eligibility reviews of EUC beneficiaries and provide limited funding for reemployment services. As a result, long-term unemployed workers collecting EUC are required to demonstrate that they are searching for work and being helped to search for and find work, with the expectation of reducing the cost of EUC. In addition, the STC and SEA provisions were incorporated into the bill to encourage Democratic support, since their cost fit within the budget constraints imposed on the legislation. Other reemployment services included in the American Jobs Act bill were discarded.[6]

Response of Individual Workforce Programs to the Great Recession

The Great Recession was the biggest challenge that state workforce agencies have ever faced. UI programs paid out more benefits to more unemployed workers and for longer periods of time than they ever had before. Similarly, local workforce offices faced more unemployed workers in need of the WIA and Employment Service programs than ever. These programs also faced the challenge of implementing major new programs in response to the Great Recession. Below are examined the implementation and outcomes for seven programs: Unemployment Insurance, Trade Adjustment Assistance, Reemployment

[6] Richard A. Hobbie, Executive Director, National Association of State Workforce Agencies, telephone interview, June 1, 2012.

Services Grants and Reemployment and Eligibility Assessments, Employment Service Grants, WIA Adult and Dislocated Worker programs, Work Sharing, and the Self-Employment Assistance program.

Unemployment Insurance

The UI program is generally the first public workforce program to serve unemployed workers, and this was certainly true in the Great Recession. The UI system pays partial, temporary benefits to unemployed workers who are unemployed through no fault of their own, generally for up to 26 weeks. Beneficiaries must also have recent and substantial experience in the labor markets. Unemployment began to increase in 2008, mostly for dislocated workers who qualified for UI benefits. Workers now usually apply for benefits by telephone or by computer. However, in most states, workers register with the Employment Service for referral to jobs or receipt of job search assistance, and they may be asked to report to local workforce offices under the provisions of the Worker Profiling and Reemployment Services system.

Employers pay taxes into the Unemployment Trust Fund so balances will be available to make future UI benefit payments. The financing system is designed to build up funds during periods of high employment, so they are available during periods of high unemployment. Thus, the UI system is designed as part of the countercyclical fiscal system that leans against the forces of recession.

The Regular UI program operates as an automatic stabilizer for the U.S. economy. When there is a downturn, more benefits are automatically paid out because the UI program is a budgetary entitlement not subject to budget appropriations by either the state or federal governments. As the U.S. economy moved into the Great Recession, unemployment rates—as measured by both the Bureau of Labor Statistics Current Population Survey and insured unemployment program enumerations—more than doubled between the cyclical unemployment low in 2007 and the cyclical unemployment highs in 2009 and 2010 (table 2).

State UI agencies responded quickly to the Great Recession, succeeding in determining program eligibility for and making payments to a greatly increased flow of UI claimants. The Regular UI program served nearly double the number of unemployed workers receiving first payments in 2009 compared to 2006. Because of longer durations of insured unemployment, the total amount of Regular UI benefits paid out increased 280 percent during this period.

However, the severity of the Great Recession is not measured only by the increased number of workers falling into unemployment; it is also measured by how long workers remained unemployed. The enormous increase in the number of long-term unemployed—measured in the CPS as more than 26 weeks—corresponds to insured workers who would have exhausted their entitlement to Regular UI benefits. The great increase in durations of unemployment resulted in unprecedented numbers of UI beneficiaries who exhausted their entitlement to Regular UI benefits, increasing from 2.6 million in 2007 to 7.0 million in 2010.

Table 2. Unemployment Insurance First Payments, Exhaustions, and Expenditures, Fiscal Years 2005–2011

	2005	2006	2007	2008	2009	2010	2011
Unemployment rates (percent)							
CPS civilian	5.20	4.80	4.60	5.30	8.60	9.80	9.20
UI	2.10	2.00	1.90	2.20	4.10	3.70	3.00
Program activity ($ millions)							
First payments	8.00	7.40	7.50	8.80	14.40	11.30	9.70
Regular exhaustions	3.00	2.70	2.60	3.10	6.40	7.00	5.10
Payments ($ billions)							
Regular Benefits	31.22	30.15	31.41	38.14	75.34	63.04	48.52
Extended Benefits	0.00	0.02	0.02	0.02	4.12	8.00	11.92
EUC08	0.00	0.00	0.00	3.55	32.66	72.09	52.66
Federal Additional	0.00	0.00	0.00	0.00	6.48	11.71	1.92
UCFE-UCX	1.38	1.31	1.30	1.36	1.09	1.52	1.58
All program payments ($ billions)	32.61	31.46	32.70	43.05	119.69	156.37	116.80
State tax collections ($ billions)	35.08	35.94	33.71	32.22	31.14	38.28	49.27

Source: U.S. Department of Labor (2012).

Note: The sum of individual UI programs may not add to the total because of rounding.

The basic 26-week Regular UI program is considered adequate during periods of low unemployment. Starting in the 1950s, however, Congress found Regular UI to be inadequate when unemployment rises and more workers exhaust their entitlement to all potential weeks of UI benefits. Congress reacted in 1958 and 1961 by enacting temporary extended benefit programs to meet a need for additional UI benefits during a recession. In 1970, Congress enacted a Permanent Extended Benefit (EB) program designed to eliminate the need for temporary extensions. In fact, the Permanent EB program just became a second level (or tier) of entitled benefits, and Congress has enacted additional temporary third-tier programs in response to recessions in 1971, 1974, 1982, 1991, 2002, and 2008. The 1971 temporary recessionary extensions greatly expanded potential durations of benefits, but until 2009 the potential duration of Regular UI, EB, temporary, emergency extensions was never greater than a combined 72 weeks, and frequently was not greater than 52 weeks (Isaacs and Whittaker 2011; Whittaker and Isaacs 2012).

In 2008, Congress reacted to the enormous increase in long-term unemployment as it normally does in a recession. It created a temporary third-tier UI program, Emergency Unemployment Compensation. It also took a further unprecedented step, liberalizing Permanent Extended Benefits by extending access to the program and the duration of benefits. Congress also transferred EB funding from the Unemployment Trust Fund to general revenue, fully relieving state UI trust fund accounts of any financial responsibility for the program.

Just as the Great Recession was unprecedented in its severity, the extension of durations was also. The three UI programs yielded a maximum potential duration of benefits that combined to reach 99 weeks beginning November 2009 and ending for all states in September 2012.[7]

State Unemployment Trust Fund accounts are supposed to build up during nonrecessionary periods so they can fund state Regular UI benefits during recessions. During the 2000s, however, states were frequently unwilling to let their UI tax rates rise. Between 2005 and 2007, state UI tax collections barely exceeded their Regular UI benefit payments; fund balances were not building up for the next recession. When the Great Recession began, Regular UI benefit payments exploded, reaching $75 billion in FY 2009, while state UI tax collections responded slowly. In FY 2011, Regular UI benefit payments were two-and-a-half times the amount of state collections. As a result, by the end of FY 2011, states had borrowed massively from the Unemployment Trust Fund's federal loan account, with the outstanding state loan balance reaching $38.2 billion.

The UI program's financial situation was the most dire since UI's inception in 1935. Between July 2008 and June 2011, 36 states borrowed money from the U.S. Treasury. The Unemployment Trust Fund's positive net reserves of $40 billion at the end of June 2008 dropped to negative $25 billion by the end of June 2011, with 29 states plus the Virgin Islands still in debt to the U.S. Treasury. The problem was particularly acute for seven states that each owed more than $2 billion, including California owing more than $10 billion (Vroman 2011).

The precipitous decline in UI trust fund account balances calls into question the future financial health of the UI program. State workforce agencies must pay off their debts through a combination of tax increases and benefit reductions. This effort will take years to accomplish and will only be successful if the United States does not experience another recession in the near future. Debtor states have already begun to feel the adverse effects of their UI financial situation: funds to repay their debt to the Unemployment

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[7] The February 22, 2012, EUC08 extension imposed more stringent qualifications for states to pay their workers up to 99 weeks of UI benefits. As of the week of May 29–June 1, 2012, workers in only four states—the District of Columbia, Nevada, New Jersey, and Rhode Island—qualified to receive up to 99 weeks. That number is likely to decline before September 30, 2012. (The District of Columbia and the Virgin Islands are "states" under federal unemployment insurance statute.)

Trust Fund are now being collected through automatic statutory increases in their employers' federal UI tax rates (Vroman 2011).

The ARRA included a variety of UI provisions designed to ease the problems of both unemployed workers and the financially strapped state UI programs. ARRA provisions went beyond extending the EUC08 program through December 26, 2009. The ARRA also funded a temporary increase in weekly UI benefits by $25; it was called Federal Additional Compensation, and it was available to all unemployed workers participating in all UI programs at a cost of $20.1 billion in 2009–2011. Permanent Extended Benefits became 100 percent federally funded, and states could temporarily ease EB eligibility requirements to include more workers. These EB provisions cost the federal government $24.0 billion between 2009 and 2011 (see table 2). Taxation of UI benefits was also partially suspended, with state UI agencies given relief from the repayment and accrual of interest on their outstanding federal loans. Further, state UI agencies received $500 million in additional UI administrative funds to respond to increased workloads. Finally, the UI Modernization provisions were enacted as part of ARRA (Shelton and Whittaker 2010).

UI Modernization

During and after the Great Recession, the UI program was affected by several major policy changes in addition to the extended durations of UI benefits. UI Modernization encouraged states to make it easier for workers to qualify for UI, to provide additional benefit payments to workers engaged in training, and to provide children's allowances.[8]

UI Modernization represented the first time the federal government had ever provided states with financial incentives to change provisions of UI law under their control.[9] The statute offered up to $7.0 billion in state workforce agency incentive payments for having or newly adopting some or all of five UI Modernization provisions (table 3).

States were eligible for grants according to a formula relating to their proportion of employed and unemployed workers. States were paid one-third of their share of the funds if they had in place an alternative base period provision to calculate UI monetary eligibility based on recent earnings that included the most recent calendar quarter before a UI claim was filed.[10] The remaining two-thirds was paid if the state adopted or had in place at least two other provisions. Almost all states (41) adopted the alternative base period, but five of these states did not collect the other two-thirds of their incentive payments.

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[8] Children's allowances are supplemental payment to UI beneficiaries in addition to their weekly benefit payments. Historically, children's allowances have been offered in just a few states and are not considered to be UI benefits.

[9] UI Modernization, a proposal developed by an employee advocacy group, was considered by the House Ways and Means Committee in early 2008. The proposal was one of several recommendations the Center for American Progress supported. In January 2009 the proposal was incorporated into the ARRA initiative and then enacted into law.

[10] The alternative base period takes into consideration recent employment excluded from the normal base period, which is the first four of the last five completed calendar quarters. The normal base period, therefore, can lag between three and six months at initial application for UI benefits.

Resistance to enacting the UI Modernization provisions was regional, concentrated in the Deep South, the Rocky Mountain region, and portions of the Midwest.[11] As a result, only $4.42 billion—just under two thirds—of the $7.0 billion made available by Congress was paid out by the Department of Labor.

Except for the alternative base period, few states had enacted the UI Modernization provisions before ARRA enactment. The UI Modernization provisions made UI more available to workers who only had more recent labor force attachment, who worked part-time and were looking for part-time work, or who had left their jobs for compelling family reasons (e.g., to follow a spouse moving to a new job, to escape domestic violence, to care for an ill or disabled family member). It also encouraged the provision of dependents' allowances and training stipends to UI recipients engaged in training. UI Modernization had a substantial impact on the adoption of all provisions except dependents' allowances (see table 3).

Table 3. Unemployment Insurance Modernization: States with Provisions before and after ARRA

UI modernization provisions	Number of states with provisions before ARRA	Number of states with provisions after ARRA
Alternative base period	19	41
Part-time work	6	28
Compelling family reasons	0	21
Dependents allowance	4	7
Training extension	0	16

Source: U.S. Department of Labor, Employment and Training Administration, http://www.workforcesecurity.doleta.gov/unemploy/laws.asp#modern, updated September 14, 2011, accessed March 28, 2012.

Although the UI Modernization provisions were supposed to be permanent, their additional cost raised a concern about whether participating states would maintain them after the recession. While the long-term answer to this question is not known, to date there has been no pulling back. Another concern was whether states would make other reductions in their UI programs, especially in light of the enormous state debt to the federal government after most state UI trust fund accounts were depleted.

In 2011 and 2012, these concerns became real as seven states reduced their potential durations of Regular UI benefits. Arkansas, Florida, Georgia, Illinois, Michigan, Missouri, and South Carolina each reduced the maximum potential duration of benefits to

[11] The states that only collected one-third of the UI Modernization funds were Michigan, Ohio, West Virginia, Virginia, and Utah. The states that collected no UI Modernization funds were Florida, Alabama, Louisiana, Texas, Arizona, Wyoming North Dakota, Missouri, Indiana, Kentucky, and Pennsylvania.

less than26 weeks.[12] These changes reflect a dramatic shift for the UI program. Although under federal law, states have always been able to determine the duration of Regular UI benefits, potential durations had increased steadily from a standard of 15 weeks in the 1930s as states found they could afford to pay out more benefits and still maintain UI trust fund solvency. States gradually reached a consensus, and potential durations remained at 26 weeks from the mid-1970s until 2011.[13]

Assessing the Impact of Longer UI Durations

Because potential UI durations were raised as high as 99 weeks during the Great Recession, policy analysts and politicians have raised concerns about a possible adverse effect of the UI program—its impact on the behavior of beneficiaries. For many years economists have expressed this concern as a labor supply issue: would the availability of UI benefits act as a disincentive to UI beneficiaries returning to work? Although this concern has usually been directed at the 26-week Regular UI program, it was magnified by the unprecedented increase in the potential duration of UI benefits during the Great Recession.

Recent estimates of the labor supply disincentive effects suggest that reduced job search efforts by UI recipients may have contributed to the increase in the unemployment rate. The estimated effects of the UI expansions on the unemployment rate, however, are somewhat modest, ranging from 0.3 percentage points out of the 5.5 percentage point recessionary increase in the unemployment rate (Rothstein 2011) to approximately 1 percentage point (Mazumder 2011). Another study (Elsby et al. 2010) essentially splits the difference, finding that the EUC 08 program increased the unemployment rate by approximately 0.7 percentage points.

It is important to distinguish between UI's effect on the unemployment rate and its effects on unemployment and economic activity. For example, part of the rise in the unemployment rate is due to the increased labor force participation of UI recipients. Without UI benefits, some jobless workers would have stopped looking for work and thus would not have been counted as unemployed. Katz (2010) cites a number of positive offsetting impacts of the UI program, including consumption-smoothing effects for unemployed workers, spillover effects of shorter spells of unemployment for workers not receiving UI benefits, the macroeconomic stimulation of the economy from expenditures made with UI benefits, and long-term positive impacts from keeping workers in the labor force rather than encouraging them to leave it.

The UI program had a significant macroeconomic effect on the U.S. economy during the Great Recession. The increase in UI benefit payments represented a significant portion of the economic stimulus provided by the ARRA and other UI expansions. The

[12] Most of the seven states that reduced their potential durations of Regular UI benefits did so after receiving UI Modernization funds. Arkansas, Georgia, Illinois, and South Carolina collected the full payment, and Michigan received one-third, while only Florida and Missouri refused to participate.

[13] In 2010, all states had maximum potential durations of 26 weeks of UI benefits, except Massachusetts (30 weeks) and Montana (28 weeks).

Congressional Budget Office (2012) estimated that each dollar spent on extended unemployment insurance benefits generated $1.90 in increased economic activity. Burtless and Gordon (2011) point out that UI is a particularly effective way to target economic stimulus funds for both equity and practical reasons. The equity argument is that unemployed workers suffer the biggest income loss, while the practical argument relates to effectiveness, since these individuals are more likely to spend, and spend quickly. Burtless and Gordon also argue that even though potential UI benefit durations were unprecedented during the recession, the United States normally has the shortest UI duration of all industrial nations. Even at 99 weeks, the United States was still only on par with Spain, Portugal, Norway, Finland, and France, and it was below Australia, New Zealand, and Belgium.

Trade Adjustment Assistance

The Trade Adjustment Assistance (TAA) program is a more generous form of UI targeted to workers adversely affected by international trade. Employers, workers, or worker representatives can file petitions on behalf of workers in individual firms if they believe unemployment is a result of international trade. The petitions are investigated and reviewed by the U.S. Department of Labor. Between 1,000 and 4,000 petitions are filed each year on behalf of hundreds of thousands of workers, and approximately 60 percent of the petitions are certified. While between 100,000 and 400,000 workers are certified to receive TAA benefits each year, only half or less eventually receive income support. A smaller proportion—a third or less—actually receive training each year, in part because of limited funding.[14]

TAA has been reauthorized periodically, sometimes for periods of 5 to 10 years. The program has been an incentive to facilitate compromise on international trade policy. For example, TAA was reauthorized for five years in 2002 and expanded in a number of ways, including by initiating secondary or downstream worker eligibility, creating a health insurance tax credit program, and creating a limited wage insurance program. The 2002 TAA reauthorization was negotiated as part of a package that extended President Bush's expired "fast track" authority to negotiate trade agreements.

TAA expired on September 30, 2007, without being reauthorized. Congress, however, continued the program by incorporating funds for TAA in annual consolidated appropriations. In February 2009, TAA was extended for nearly two years as part of the ARRA: additional funding was provided for all programs, including longer durations of benefits and more funding for reemployment services and training. The Recovery Act expanded eligibility for service workers and firms, covered public workers for the first time, created a new communities program, and increased the tax credit for the dislocated workers' health insurance program from 65 to 80 percent.

Since ARRA expired in December 2010, TAA has been extended and revised three times. First, as the ARRA extension was about to expire, Congress reauthorized

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[14] TAA recipients receive reemployment services and training from an appropriation separate from the WIA program.

TAA for another two years, but the ARRA programs and funding levels were retained only through February 12, 2011. Second, the program continued at its reduced pre-ARRA levels for one year—through mid-February 2012—when it again was about to expire. Finally, it was reauthorized on October 21, 2011, through December 2013. This enhanced October 2011 reauthorization was negotiated as a condition for the simultaneous enactment of free-trade agreements with Columbia, Panama, and South Korea.

The 2011 reauthorization was a compromise. It continued the worker, employer, and farmer programs but dropped the communities program. It retained many of the enhanced ARRA program components, while providing higher funding. It renewed eligibility for service workers and firms, increased job training income support, and retained health insurance tax credits. At the same time, however, it reduced ARRA funding for job search assistance, relocation assistance, and wage insurance for older workers (Hornbeck and Rover 2011). Trade Readjustment Allowances (TRAs)—the benefits portion of the TAA program—are administered by the state UI program, while services are provided by the non-TRA portion and administered by the state workforce agencies.

Trade Adjustment Assistance is a small program relative to the number of workers dislocated each year; between 100,000 and 200,000 workers are certified each year, compared to the 2 to 3 million who were dislocated before the recession. These newly certified workers make up only a small percentage of the 7 to 10 million who receive UI benefits in nonrecessionary years. The ARRA TAA provisions increased the number of firms and workers eligible to participate; the recent peak of TAA activity occurred in 2010. TAA petitions reached a high of 4,040; 2,810 were approved, representing 287,061 certified workers. In 2011, with the reversion to the less generous pre-ARRA provisions, each of these measures declined to less than half of their level in the previous year (table 4).

Table 4. Trade Adjustment Assistance Program Data, Fiscal Years 2000–2011

Year	Petition submitted	Petitions certified	Workers certified	Workers denied
2000	1,473	845	98,007	53,433
2001	1,744	1,029	139,587	59,028
2002	2,807	1,648	237,083	92,553
2003	3,589	1,894	197,748	82,171
2004	3,221	1,813	149,710	56,439
2005	2,599	1,564	118,222	37,800
2006	2,484	1,448	119,636	49,196
2007	2,239	1,467	147,052	43,442
2008	2,205	1,437	126,633	35,954
2009	3,170	1,889	201,798	42,019
2010	4,040	2,810	287,062	77,199
2011	1,667	1,202	104,492	22,981

Source: U.S. Department of Labor, Trade Adjustment Assistance Participant Reports, http://www.doleta.gov/tradeact/taa_reports/petitionresults.cfm. (Accessed May 17, 2012.)

Thus, the contours of the TAA program have been inconsistent, and the flow of workers into the program and their receipt of income support and reemployment services have followed the ebbs and flows. Data show that the program expanded with the 2002 authorization and then settled to a lower level. The flow increased again in response to the ARRA legislation but appears to have settled back again in 2011. Finally, it remains to be seen how the October 2011 reauthorization has affected the flow of workers.

TAA policy during and after the Great Recession had less to do with economic stimulus than with maintaining support for trade liberalization. TAA is also a special interest program that has the support of unions, employees, and firms adversely affected by international trade. However, the program may have lost some support as indicated by the Obama administration's announcement of a proposed Universal Displaced Worker Program that would merge the TAA and WIA Dislocated Worker programs.[15]

Job Search Assistance and Reemployment Services

Permanently displaced workers often have been employed at one job for a long time, so they tend to be unfamiliar with how to effectively search for work. Displaced workers are also likely to suffer large wage losses when they become reemployed (Jacobson et al. 1993). Research has shown that comprehensive, staff-assisted job search assistance (JSA) hastens their return to work.

Job search assistance is an employment service that trains workers, providing them with the skills to seek and obtain jobs. The key components of JSA are assessment, counseling, job matching and referral to job openings, job development, provision of labor market information, and job search workshops. Workshops are effective if unemployed workers learn how to develop resumes, search for work using formal and informal search methods, and practice job interviews. One review of publicly funded training found that JSA is the most effective form of short-term training (LaLonde 1995).

Reemployment Services and Reemployment and Eligibility Assessments

During the Great Recession, federal policy expanded the use of the Reemployment Services Grants (RES) and Reemployment and Eligibility Assessments (REAs). Reemployment Services Grants originated with implementation of the Worker Profiling and Reemployment Services (WPRS) system enacted in 1993 as a comprehensive federal job search assistance policy. It involved identifying dislocated workers who needed reemployment services to return to work and referring these workers to services at their local workforce offices. The federal law was based on the evaluation of a large-scale New Jersey dislocated worker experiment, which used a treatment/control group methodology. The evaluation found that offering JSA helped dislocated workers return to work more quickly and reduced the time they collected UI benefits. The cost to the government of providing the JSA was more than offset by the reduction in UI payments and the increase in tax payments during the period of early reemployment. JSA participants were

[15] "White House Announces Details on President's Plan to Provide Americans with Job Training and Employment Services," press release, March 12, 2012.

also less likely to become unemployed in the year after they received these services (Corson and Haimson 1996; Corson et al. 1989).

These findings were supported by later U.S. Department of Labor–funded job search assistance experiments in Florida and the District of Columbia (Decker et al. 2000) and by state experiments conducted in Minnesota and Nevada. The body of completed research reviewed by the U.S. Department of Labor's chief economist convinced researchers and policymakers that a new national job search assistance program—what came to be the WPRS—is a cost-effective intervention (USDOL 1995). International studies of workforce programs also confirm that JSA is the most effective reemployment service (Auer, Efendioglu, and Lesche 2005; Martin and Grubb 2001).

Worker Profiling and Reemployment Services

An important component of WPRS is its early intervention approach. Claimants most likely to exhaust are required to report to their local workforce offices to receive comprehensive job search assistance in their first few weeks of being unemployed. Reemployment services include orientations, assessments, counseling, placement services, job search workshops, and referral to training. Because the targeted workers are likely to exhaust their entitlement to UI benefits, providing job search assistance services early greatly reduces their compensated unemployment.

Another key WPRS component is its narrow targeting to a specific group of dislocated workers, those likely to exhaust their unemployment insurance benefits. Worker profiling directs reemployment services to those unemployed workers who can make most effective use of the limited funding available.

Meyer (1995) recommends extending comprehensive JSA to a broader group of workers, rather than targeting the smaller group most likely to exhaust their UI entitlement. Even with expanded JSA funding, however, targeting would be employed as an allocation tool, because funding for job search assistance and other reemployment services would remain limited.

Federal statute requires all states to participate in WPRS, and all states have been operating WPRS programs since mid-1996. Today, some UI recipients are eligible to participate in a program of comprehensive JSA, subject to the availability of funding. The Wagner-Peyser Act programs offer most of the JSA provided by state employment service staff members.

As part of WPRS, the state UI system operates a worker-profiling statistical mechanism. UI staff members analyze data from all UI initial claims applications to determine the factors affecting the likelihood of individual claimants exhausting their entitlement to all UI benefits. Local workforce offices generally determine the number of UI recipients referred to them.

The WPRS system began operation in 1994 and gradually grew. Table 5 shows that by 1996, nearly all UI claimants who received a first benefit payment were profiled, and between 10 and 15 percent of those profiled were referred to reemployment services. The number of workers referred to and receiving reemployment services is highly cyclical—it peaked during the 2000–2001 recession and again during and immediately after the Great Recession, with funding supplementation by ARRA.

Table 5. Worker Profiling and Reemployment Services Data and Unemployment Insurance Program First Payments, 1994–2011

Year	First payments	Profiled	Referral	Reported	Orientation
1994	7,959,281	122,065	23,087	17,184	14,126
1995	8,035,229	4,061,731	456,533	453,005	283,508
1996	7,995,229	7,208,694	821,443	1,036,806	512,045
1997	7,325,093	6,985,048	745,870	990,041	474,891
1998	7,341,903	6,882,571	783,779	1,033,482	477,913
1999	6,967,840	6,483,514	803,401	990,737	447,032
2000	7,035,783	6,475,605	977,440	1,229,352	557,250
2001	9,868,193	8,952,312	1,154,743	1,499,365	666,610
2002	10,092,569	9,178,024	1,220,466	986,719	619,917
2003	9,935,108	8,238,485	1,147,448	919,450	595,564
2004	10,092,569	7,037,337	1,106,776	880,263	602,833
2005	9,935,108	6,441,561	1,128,710	845,789	607,905
2006	8,386,623	6,340,253	1,170,126	856,587	627,668
2007	7,917,301	6,586,553	1,230,093	911,055	644,797
2008	10,059,554	8,516,831	1,268,037	937,580	667,340
2009	14,172,822	12,252,030	1,906,088	1,200,553	1,075,837
2010	10,726,566	9,342,464	2,060,602	1,859,039	1,280,182
2011	7,953,101	6,141,720	1,356,580	1,396,787	834,556

Year	Assessment	Counseling	Placement	JSW	Training
1994	9,876	5,883	5,671	11,042	4,492
1995	246,655	140,301	267,281	213,512	74,292
1996	507,824	214,528	613,544	338,508	166,456
1997	455,914	194,818	336,959	336,959	160,741
1998	416,027	191,315	296,681	296,681	156,462
1999	403,195	198,571	253,451	253,451	141,398
2000	471,712	146,917	342,856	342,856	113,879
2001	531,020	129,136	506,172	452,439	120,093
2002	462,643	125,103	376,757	369,756	76,448
2003	423,977	114,142	378,180	400,245	70,295
2004	343,903	93,215	378,181	379,735	73,508
2005	350,443	109,697	376,342	355,843	77,915
2006	406,158	134,837	405,558	369,564	92,200
2007	425,711	149,101	437,744	390,454	100,780
2008	480,929	143,097	404,234	385,151	124,306
2009	658,200	214,673	537,908	557,746	199,230
2010	1,001,200	328,274	692,676	664,221	211,434
2011	560,403	221,437	648,977	424,977	113,833

Source: U.S. Department of Labor, monthly state reports to the Employment and Training Administration. UI first payment data from ETA report 5159. Other Worker Profiling and Reemployment Services data from ETA report 9048.

Notes: Data are from the UI database as of May 2012. For WPRS data, Puerto Rico, Virgin Islands, and New Mexico are missing in the 2004 and 2005 data; Puerto Rico and Virgin Islands are missing in the 2006 data; Puerto Rico is missing in the 2007 and 2008 data.

When enacted, however, WPRS was an unfunded mandate for state workforce agencies. Separate federal funding of the WPRS reemployment services component did not become available until almost a decade after the program was enacted. Congress appropriated approximately $35 million per year for Reemployment Services Grants that became available as Wagner-Peyser Act grants beginning in July 2001. These grants were terminated in June 2006. Because of job search assistance's strong track record of cost effectiveness, the ARRA reestablished one-time funding for Reemployment Services Grants and on a much larger scale than before— $250 million. This one-time funding has now expired.

Reemployment Services Grants

Federal guidance to the states indicated that the primary purpose of ARRA funding for Reemployment Services grants was to provide more reemployment services—"job search and other employment related assistance services to UI claimants." But these funds could also be used to make infrastructure improvements to the system, such as updating and reestimating worker-profiling models, improving communications and data sharing between the UI program and the state and local workforce system, and implementing occupational coding and labor market integration (USDOL 2009). Some of these system improvements stemmed from recognition that (1) there would be limitations on expending funds for reemployment services during a narrow window of availability, and (2) the reemployment system was never fully constructed, and prior recommendations for system improvements had not been implemented (Wandner and Messenger 1999).

The Employment Service through its basic grants to states has absorbed much of the cost of providing Reemployment Services. This was certainly true in 2007 and 2008 when no RES funds were appropriated. With $250 million in RES funds available in 2009 and 2010, referrals to and receipt of reemployment services saw an unprecedented increase. Between 2006 and 2010, referrals nearly doubled, and those reporting for services more than doubled. Receipt of orientations doubled, while assessments, counseling, and referrals to training more than doubled. Placement services and job search workshops less than doubled (see table 5).

Referrals to job openings depend on conditions in local labor markets, so placements would be expected to lag during a time of severe recession. The lag in job search workshops was likely due to their labor intensiveness, especially since Employment Service staff grew unevenly across states during the recession. WIA Adult and Dislocated Worker programs responded to increased funding by filling more training slots, in part with workers referred by Employment Service staff.

RES funds also affected the rates of referral and percentage of referrals receiving reemployment services. In percentage terms, UI beneficiaries reached an all-time high referral rate of nearly 20 percent in 2010. Similarly in 2010, the percentage of referred workers receiving reemployment services increased relative to pre-recession levels. Thus, participants received more reemployment services than they had before the recession—on average, 2.2 services per worker reporting to receive services.

States were generally able to obligate all of their RES funds by September 30, 2010. Many states found that the RES funds were not sufficient and supplemented them with funds from other sources: UI administration, REA state grants, and WIA rapid response funds, and Texas employed its Temporary Assistance for Needy Families Recovery Act emergency contingency funds. As a result, most states reported providing more Reemployment Services to UI recipients. However, a few states were slow to start their RES programs (e.g., Arizona, Louisiana, North Dakota) and had difficulty obligating all of their funds (Hobbie and Barnow 2011).

While UI recipients received more reemployment services during the ARRA period, the mix of services varied widely, especially in the extent of staff-assisted versus self-services, the intensity of the services, and the ability to receive additional services after attending an orientation. In general, reemployment services tended to be more face to face and more intensive, and resulted in more referrals to additional services. A survey of all state workforce agency administrators revealed that the funding was devoted to providing more assessment and counseling (56 percent), a greater number and variety of job search workshops (72 percent), and more referrals to training (54 percent) (Hobbie and Barnow 2011).

Most Reemployment Services are inherently staff intensive, so the expansion of RES during ARRA depended upon states' ability to increase their staffing. Despite hiring freezes, problems providing training to new staff, and difficulties hiring state workers through merit staffing procedures, most states were able to hire staff, although most of the new hires were temporary. Most of these staffers were assigned to existing local workforce offices, but Colorado, Virginia, and Texas set up temporary RES offices. By contrast, a few rural states (e.g., North Dakota) had difficulty deploying staff locally, either serving only more densely populated portions of the state or providing reemployment services primarily by telephone (Hobbie and Barnow 2011).

Reemployment and Eligibility Assessments

Reemployment and Eligibility Assessments (REAs) are a renewed and expanded version of the traditional Eligibility Review program conducted by UI staff to serve UI recipients still unemployed after two or three months. Before telephone and computer claims taking was implemented during the 1990s, UI recipients were called into local workforce offices to determine if they were searching for work and still eligible to collect UI benefits. They would also receive assistance in developing reemployment plans. After UI program staff left the local offices and moved to call centers and central offices, eligibility reviews were no longer practical. In response, starting in 2005, REAs were established as a new approach, with a stronger emphasis on reemployment services. UI staff members refer claimants who apply for UI benefits by telephone or computer to local workforce offices. Employment Service staff generally administer the REAs, providing one-on-one interviews, reviews of ongoing eligibility, current labor market information, reemployment plan development, and possible referrals to additional job search services.

Evaluation of Reemployment Services and Reemployment and Eligibility Assessments

A recent experimental evaluation of the RES/REA program (Michaelides et al. 2012) found that REAs, when combined with a significant amount of Reemployment Services, are far more effective than REAs alone—the provision of substantial reemployment services magnified the effects of eligibility reviews. The combined RES/REA treatment group reduced UI benefit durations by 3.13 weeks, resulting in $873 less in benefits paid compared to the REA-only group. The UI benefit saving exceeded the program cost more than four times. The treatment group members were also assisted in returning to work within two quarters after receiving Reemployment Services, and they experienced a positive employment impact that continued for six quarters. Thus, RES/REA continues to be cost effective, but, with the end of ARRA funding, is greatly underfunded.

Employment Service Grants

During the Great Depression and many recessions thereafter, huge lines of unemployed workers assembled outside local workforce offices, waiting to file for UI benefits. Those lines disappeared after the state UI programs converted to telephone and computer claims-taking during the late 1990s, but they returned during the Great Recession. High unemployment and unprecedented durations of unemployment meant that large numbers of unemployed workers were anxiously chasing after small numbers of jobs, and they came to the local workforce offices seeking job search assistance, referral to jobs, and income support. Articles began to appear in newspapers about the crowded parking lots surrounding workforce and human services offices.[16]

The Employment Service provides free labor exchange and other job search assistance services to workers and employers. Services for workers include job matching, job search assistance, labor market information, and job fairs. Services for employers include employee recruitment, assistance during layoffs and closings, labor market information, and job fairs. The Employment Service is staffed by merit-staffed state employees, and it is normally located in the local workforce office with WIA and other program staff. It serves a mix of UI recipients and other workers, but it increases its focus on serving UI recipients during recessions when rising unemployment makes UI recipients a larger segment of the workers looking for jobs.

UI recipients have always been required to register for work with the Employment Service, originally at local workforce centers, but today they most often register by telephone or computer. Funding for the Employment Service comes predominantly from federal appropriations raised by the Federal Unemployment Tax Act, since almost all wage

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[16] James Warren, "In Blue Island Office, Seeing Recession's Toll," *New York Times*, May 20, 2010. http://www.nytimes.com/2010/05/21/us/21cncwarren.html. (Accessed May 17, 2012.)

and salary workers served by the Employment Service are covered by the UI system. Unemployed workers seeking help from local offices wanted a referral to a job, if possible, but if not, they wanted help in searching for work on their own. They pursued jobs by either seeking help at their local workforce agencies or accessing job search services using telephones or computers. Workers visiting local offices early in the recession often found their job search efforts frustrated by crowded conditions.

The Employment Service has been the less favored workforce program compared to the WIA program and its predecessor, the Job Training Partnership Act program. Some policymakers have called for the Employment Service to be eliminated or consolidated with WIA.[17] Nominal ES funding has been stagnant for decades, resulting in a gradual decline in the number of ES staff in the local workforce offices. Funding reached its maximum in 1995 at $838 million and gradually declined to $700 million in 2012 when serving approximately 20 million participants (see table 6). Responding to the dramatic increase in demand for reemployment services during the recession, the federal government provided $150 million in ARRA funds to increase the capacity of the basic Wagner-Peyser Act programs.

ARRA funds temporarily improved ES funding, but the ES long-term crisis continues. Figure 1 shows quarterly participation rose quickly during the recession and remained high even after the recession ended. Expenditures from regular ES grants to states remained flat during the period, but ARRA funding temporarily boosted resources in late 2009 and the first three quarters of 2010, after which expenditures returned to their pre-recession levels. Figure 2 shows that the steady decline in Employment Service expenditures per participant was interrupted by ARRA funding that increased per participant expenditure temporarily before they returned to the prior pattern. Those funding levels, however, are inadequate to provide reasonably comprehensive services. Expenditures per participant have fallen to between $30 and $40, which means that local workforce offices can only provide participants with self-services or modest group-administered, staff-assisted services.

[17] H.R. 4297 was introduced in the House on March 29, 2012, and was reported out of the House Committee on Education and the Workforce on June 7, 2012. It would reauthorize the Workforce Investment Act and eliminate the Employment Service.

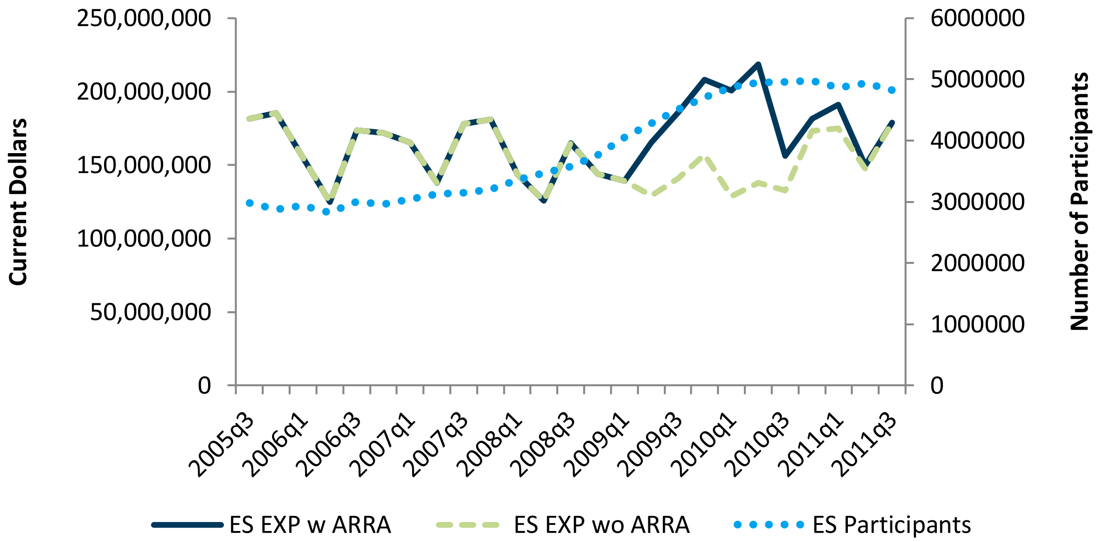
Table 6. Grants to States Available to One-Stop Centers, From Funding of Workforce Investment Act, Job Training Partnership Act, and Wagner-Peyser Act Programs, 1984–2013 ($ thousands)

Program year	Wagner-Peyser Act programs	JTPA and WIA Programs		Youth	JTPA/WIA total	JTPA/WIA+ W-P ACT
		Adult program	Dislocated worker			
1984	740,398	1,886,151	167,250	724,549	2,777,950	3,518,348
1985	777,398	1,886,151	167,250	824,549	2,877,950	3,655,348
1986	758,135	1,783,085	71,777	635,976	2,490,838	3,248,973
1987	755,200	1,840,000	150,000	750,000	2,740,000	3,495,200
1988	738,029	1,809,486	215,415	718,050	2,742,223	3,480,980
1989	763,752	1,787,772	227,018	709,433	2,724,223	3,487,975
1990	779,039	1,744,808	370,882	699,777	2,815,467	3,594,506
1991	805,107	1,778,484	421,589	1,182,880	3,382,953	4,188,060
1992	821,608	1,773,484	423,788	661,712	2,858,984	3,680,592
1993	810,960	1,015,021	413,637	1,535,056	2,963,714	3,774,674
1994	832,856	988,021	894,400	1,496,964	3,379,385	4,212,241
1995	838,912	996,813	982,840	311,460	2,291,113	3,130,025
1996	761,735	850,000	878,000	776,672	2,504,672	3,266,407
1997	761,735	895,000	1,034,400	997,672	2,927,072	3,688,807
1998	761,735	955,000	1,080,408	1,000,965	3,036,373	3,798,108
1999	761,735	954,000	1,124,408	1,000,965	3,079,373	3,841,108
2000	761,735	950,000	1,271,200	1,000,965	3,222,185	3,983,920
2001	796,735	950,000	1,162,032	1,127,965	3,239,997	4,036,732
2002	796,735	945,272	1,233,688	1,127,965	3,306,925	4,103,660
2003	791,557	894,577	1,150,149	994,459	2,039,185	3,820,742
2004	786,887	893,195	1,171,408	994,459	3,059,062	3,845,949
2005	780,591	882,486	1,146,988	986,288	3,060,570	3,847,161
2006	715,883	840,588	1,123,577	940,500	2,994,510	3,710,393
2007	715,883	826,105	1,112,046	915,430	2,994,510	3,710,393
2008	703,377	861,540	1,183,840	924,069	2,888,247	3,591,624
2009	703,576	861,540	1,183,840	924,069	2,969,449	3,673,025
2010	703,576	860,116	1,182,120	924,069	2,966,305	3,669,881
2011	702,169	770,921	1,063,432	825,914	2,660,267	3,362,436
2012	700,842	770,811	1,008,151	824,353	2,603,315	3,304,157
2013	730,842	769,465	1,006,526	824,353	2,600,344	3,331,186

Source: U.S. Department of Labor budget documents.

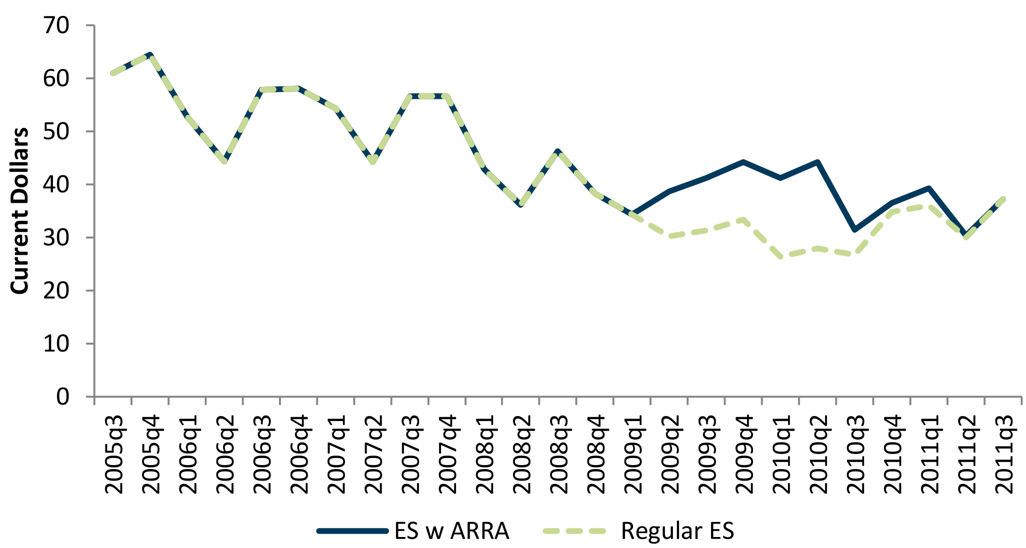
Notes: Data through fiscal years 1984–2012 are authorized funding levels. Data for FY 2013 is the President's budget request. All grants FY 1984 through 2009 are adjusted for rescissions. Wagner-Peyser Act programs include Reemployment Services Grants for FY 2001–2005 (in thousands): FY 2001, $35,000; FY 2002, $35,000; FY 2003, $34,773; FY 2004, $34,567; FY 2005, $34,290. Wagner-Peyser Programs data consist of the Employment Service, Allotments to States. JTPA/WIA Total consists of all funding for Adult, Dislocated Worker/EDWAA, and Youth programs. WIA Youth is Youth Activities, Allotments to States. WIA Adults is Adult Employment and Training Activities, Allotments to States. WIA Dislocated Workers consists of the JTPA-EDWAA Program for 1984–1999, and WIA Dislocated Worker Employment and Training Activities Formula Grants for 2000–2008. A variety of training programs has been in place since 1963. The Manpower Development and Training Act (MDTA) was operational 1963–1972. Both MDTA and the Comprehensive Employment and Training Act (CETA) were in effect in 1973; CETA, 1974–1983, CETA/Job Training Partnership Act (JTPA) for 1984, JTPA for 1985–1998, JTPA/Workforce Investment Act (WIA) for 1999, WIA 2000 to present.

Figure 1. Wagner-Peyser Act ES Expenditures and Participants, with and without ARRA Funding



Source: Eberts, Wandner, and Cai (forthcoming) from U.S. Department of Labor, Public Workforce System Data Set.

Figure 2. Wagner-Peyser Act ES Expenditures per Participant, with and without ARRA Funding



Source: Eberts, Wandner, and Cai (forthcoming) from U.S. Department of Labor, Public Workforce System Data Set.

In a study of ARRA workforce program implementation, 16 participating states said they did not change their policies on assessment and counseling. With additional staff hired using ARRA funds, more customers were encouraged to use staff-assisted services; nevertheless, several local offices reported being overwhelmed at the beginning of the recession, with lines extending out the doors. Local workforce offices even found it necessary to schedule times for customers to use the resource rooms to engage in self-service work search activities. Customers in several states had to wait to access computers in resource rooms, wait for appointments with counselors, and face crowded group orientation sessions. Several states streamlined the assessment and counseling process by buying proprietary software to assess customers' knowledge, skills, and abilities (Hobbie and Barnow 2011).

A survey of all state workforce agencies revealed that 75 percent experienced an increase in the number of customers being assessed or counseled. One constraint on providing more services was limits on the ability to hire new staff with ARRA funds. While states elected to use most of the ARRA Wagner-Peyser Act funds to hire local staff, some found that hiring took several months because of merit staffing rules. Other states faced hiring freezes (e.g., Arizona, Pennsylvania), and it took time to get state waivers to hire. Most states found staff recruitment easy because of high unemployment rates, but North Dakota found this process more difficult due to relatively full employment. Even after new staff were hired, training was a problem due to high workloads (Hobbie and Barnow 2011).

The number of active job seekers participating in Wagner-Peyser Act programs increased nationally by over 50 percent between PY 2006 and PY 2009—from 14.6 to 22.4 million (table 7). Similarly, the number of participants receiving staff-assisted services increased by half during this period, while the number of eligible UI claimants more than doubled. Clearly, the percentage increase in individuals being served and the percentage increase in services provided were much greater than the percentage increase in ES funding from the ARRA, as staff worked harder, more efficiently, and for longer hours.

While between 55 and 65 percent of participants received staff-assisted services, the workforce system was under strain, and participants were frequently directed to computer rooms in the workforce offices to search for work mostly on their own. Nonetheless, a considerable number of participants received some job search assistance or were referred to a job. However, with more workers to be served and fewer job openings, the percentage of workers who found jobs after being served declined from 64 percent in 2007 to 48 percent in 2009. The great majority of the increase in the number of participants was due to UI claimants who had permanently lost their jobs, representing 6.2 million of the 7.7 million participant increase between 2006 and 2009.

Labor exchange services also increased sharply during the Great Recession as the number of UI claimants increased (table 8). The number of eligible claimants receiving a reportable labor exchange service reached 5.7 million in PY 2009, an increase over the pre-recession level and higher than the level reached during the 2001 recession. For participants in job search activities, the number reached 3.2 million, more than double the level in 2006, but lower than the level reached in 2001.

Table 7. Active Job Seekers Participating in Wagner-Peyser Act Programs in Millions, PY 2006–2010

	2006	2007	2008	2009	2010
Total participants	14.7	17.8	19.6	22.4	21.8
Received staff-assisted services	9.4	9.7	11.9	14.2	13.4
Career guidance	1.9	1.8	2.8	3.3	3.4
Job search activities	4.4	4.8	5.8	7.7	6.2
Referred to employment	4.7	4.7	4.8	5.8	5.2
Entered employment rate (%)	60.0	64.0	59.0	48.0	48.0
Eligible UI claimants	4.5	5.6	8.3	10.7	10.0

Source: U.S. Department of Labor, ETA 9002 reports.

Table 8. Labor Exchange Activities of Eligible UI Claimants Registered for Work, PY 1990–2010

Program year	Eligible UI claimants (EUI)	Received Some Reportable Service (RRS)		Participated in Job Search Activities		Entered Employment	
		Number	Percent EUI	Number	Percent RRS	Number	Percent RRS
1990	7,096,457	NA		NA		644,070	NA
1991	8,973,942	NA		NA		835,251	NA
1992	10,436,910	4,681,358	44.9	NA		924,632	NA
1993	9,235,977	4,270,711	46.2	1,588,223	37.2	890,504	20.9
1994	7,662,050	4,012,523	52.4	1,740,209	43.4	885,721	22.1
1995	7,413,036	4,004,707	54.0	2,149,171	53.7	879,562	22.0
1996	7,254,009	3,985,194	54.9	2,306,738	57.9	924,322	23.2
1997	6,663,475	3,599,511	54.0	2,262,883	62.9	918,294	25.5
1998	6,406,794	3,343,018	52.2	2,287,296	68.4	959,248	28.7
1999	6,165,645	3,417,600	55.4	2,428,242	71.1	1,116,840	32.7
2000	6,600,708	3,788,435	57.4	2,867,806	75.7	1,300,663	34.3
2001	8,432,026	4,965,528	58.9	3,911,278	78.8	1,477,455	29.8
2002	6,187,161	4,799,028	77.6	3,731,966	77.8	NA	NA
2003	5,648,894	4,119,382	72.9	3,126,384	75.9	2,723,057	66.1
2004	5,655,186	3,969,739	70.2	2,958,718	74.5	2,881,304	72.6
2005	4,822,914	3,599,279	74.6	1,703,166	47.3	2,575,368	71.6
2006	4,552,614	3,198,429	70.3	1,544,704	48.3	2,049,253	64.1
2007	5,573,634	3,512,898	63.0	1,863,699	53.1	3,089,729	87.9
2008	8,348,443	5,174,664	62.0	2,734,280	52.8	2,390,729	46.2
2009	10,712,573	5,673,727	53.0	3,167,567	55.8	2,632,595	46.4
2010	10,038,045	5,145,131	51.3	2,889,468	56.2	3,130,795	60.8

Sources: 1990–1994: Employment Security Automated Reporting System; 1993–1995: U.S. Department of Labor (1996), *U.S. Employment Service Annual Report for Wagner-Peyser Act Funded Activities: PY 1995 Program Report Data*; 1996–1999: U.S. Department of Labor (2001), *U.S. Employment Service Annual Report: Program Year 2001*; 2000–2010: http://www.doleta.gov/performance/results/reports.cfm.

Notes: Eligible UI claimants are Employment Service registrants who are monetarily eligible for UI benefits. The requirement that UI claimants register with the ES were relaxed in PY 2002. The immediate state response to the relaxing of this requirement can be seen in the decline in eligible UI claimants beginning 2002.

ARRA funding expired in 2011, so the additional Employment Service resources evaporated while unemployment remained high and the demand for ES services remained extremely high. In response, the Obama administration proposed the American Jobs Act bill in mid-2011. The Act would have funded the state workforce agencies to provide all EUC recipients with reemployment services and reemployment eligibility assessments during the one-year extension of EUC. States would have been required to participate in reemployment service programs as a condition of receiving EUC funding, and they would have received $200 for each worker to whom they provided these reemployment services. But the American Jobs Act was never enacted.

The effort to supplement Employment Service funding continued. On February 22, 2012, the Middle Class Tax Relief and Job Creation Act of 2012 was enacted. Like the American Jobs Act bill, it included a provision to fund Reemployment Services and Reemployment and Eligibility Assessments. Accordingly, states are now required to provide services to all EUC recipients through the end of 2012. States are required to participate in these programs as condition of receiving EUC funding, but the reimbursement was reduced to $85 for each worker for whom they provide these services. Given that a comprehensive set of services would cost $300 to $400 (Jacobson 2009, 25), claimants are likely to receive a weak set of services.

The United States' need for more employment services has been similar to that of many other industrial nations. For example, during the Great Recession, the demands on the public employment service in Organization for Economic Cooperation and Development member countries increased greatly. In 2008, the number of job seekers registering with the public employment service increased sharply in Mexico, Turkey, and the United States, then surged in most of the remaining OECD countries the following year. Most countries responded by increasing staff. Between 2008 and 2010, staff increased by 10 percent or more in Germany, Hungary, Japan, Mexico, Poland, and Turkey.[18] Nonetheless, the magnitude of the recession was such that average caseloads for public employment service staff increased in most OECD countries (OECD 2010, 38).

Workforce Investment Act Program Services

Under the Workforce Investment Act, workers are provided with a menu of employment and training services that vary by their duration, staff-intensiveness, and cost. The service types are Core Services, Intensive Services, and Training Services. Earlier sections showed that the Employment Service provides many Core and Intensive Services, but WIA provides a full range of services. While WIA programs frequently are looked upon as primarily training programs, in fact they provide mostly nontraining services. Local WIA programs do not receive enough funding to provide training to many of their participants. So it is not surprising that WIA is a small provider of training compared to the private sector. The United States depends heavily on employers to provide training,

[18] No data are available on average staffing of the U.S. public employment service.

meaning unemployed workers have difficulty improving skills that will help them get and keep new jobs. WIA programs, however, used supplemental funding from the ARRA to serve a substantially greater number of program participants compared to the pre-recession period and provide them with substantially increased amounts of services.

WIA Training Services versus Nontraining Services

The basic reason so few unemployed workers receive publicly provided training is that the public workforce system has been inadequately funded. Indeed, funding has declined over the past few decades both in real and nominal terms. While supplemental ARRA funding eased the shortfall somewhat, it was not nearly sufficient to fully deal with the need for training services. Another reason, however, is the misperception of what local workforce offices do.

The size of WIA programs greatly overstates their ability to provide education and training funds. WIA and Wagner-Peyser Act funds are frequently the sole support of the over 2,700 state workforce offices that provide public labor exchange and other reemployment services and offer training referrals to workers. The vast majority of funding from these two streams is used to provide reemployment services and to maintain local workforce offices. Without funding devoted to nontraining services, the state workforce offices would all shut down, and the tens of millions of workers they serve each year would have nowhere to go for help in returning to work.[19] Nationally, workforce programs expend a small portion of their funds on training. A study for the U.S. Department of Labor estimated that between 18 and 27 percent of its workforce funds were expended on training in 2002 (Mikelson and Nightingale 2006). Of the $6.5 billion appropriated to "training programs" in that year only between $1.1 and $1.7 billion was expended on training. This is not surprising in a universal access, one-stop environment in which most workers only need Core and Intensive Services. Moreover, workers participating in local workforce office programs go through a triage before they are referred to training.

Similar results can be seen for local public workforce systems. One local workforce investment board in Montgomery County, Maryland, is an example. In recent years, 13,000 to 14,000 individuals looked to the county service provider for help in finding jobs. Montgomery County, like most areas across the country, faces a severe budget constraint. For example, if the board were to provide training vouchers in the modest amount of, say, $4,000 to half the individuals coming to their offices, the cost would be at least $25 million. The county's actual current annual budget is only approximately $3.0 million, out of which its operating expenses must be paid—or about $200 per visitor. Clearly, these local offices cannot afford to provide many individuals with training.

[19] Career Advancement Accounts, proposed in 2006 as part of President Bush's American Competitiveness initiative, would have devoted 78 percent of WIA funding to training vouchers. The remaining 22 percent would not have been enough to keep the local workforce offices open (Wandner 2010, 282).

But the problem is much worse, because the Montgomery County workforce offices cannot turn individuals away. They have to serve everyone who walks through their doors. If they provided all individuals with comprehensive in-person job search assistance at a cost of, say, $300 per person, their cost would be nearly $4 million, *without* providing any training. The cost of training and reemployment services means that most individuals will receive limited services and many will be self-service instead of in-person services.

Montgomery County's planned $2.827 budget for July 2012 through June 2013 breaks out as illustrated in table 9:

Table 9. Summary of Montgomery County, Maryland, Workforce Offices Budget, FY 2012 ($ millions)

Cost category	Planned expenditures
Salaries and benefits	1.870
Contractors	0.223
Training	0.504
Computers	0.030
Telephone	0.026
Other	0.304

Source: Workforce Solutions of Montgomery County Inc. (2012).

The expected cost of providing basic reemployment services to 14,000 individuals in the county during the year takes the lion's share of its annual budget. The major costs are employee salaries and benefits, as well as contractor costs, most of which are used to provide reemployment services. Computers and telephone service are also critical to providing reemployment services.

Since the great majority of expenditures are made to provide basic reemployment services and run the office, training in Montgomery County—and in other local workforce offices around the country—has to be a residual. Similar to the national average results seen above, available training funds are expected to be less than 20 percent of the total budget. Thus, the preponderant cost of running a local workforce office is providing services other than training, and the image of the WIA system as a pure training system is a myth. That myth could be made closer to reality only if the WIA program were not starved for resources. With a much larger budget, the local workforce office training "residual" could be much larger.

Privately Provided Training

Training supports the United States economy by maintaining and developing the job skills needed by its workers. Overwhelmingly this training is provided by the private sector, but gaps in the distribution of training among American workers makes publicly provided training critical for productively employing needed workers throughout the economy.

Many American workers receive privately provided training each year, but the training is unevenly distributed. Receiving sufficient training in the United States is generally not a problem for high-wage workers. They have invested in their own education, and when they are working they often receive training from their employers. Lack of training is mostly a problem for low-wage workers and the unemployed.

Surveys of employer-provided training show that employers provide a significant amount of training to the great majority of their workers. For example, in the late 1990s, over 70 percent of employers provided training to their employees. While an estimated 35 to 65 percent of employees received formal training, nearly all employees received informal training. The cost of this training was at least $60 billion (Lerman et al. 2004). This was at least 50 times the amount of WIA Adult and Dislocated Worker funds that have been made available for training.

Because privately provided training is so highly concentrated among the more educated and higher-wage workers, low-wage and unemployed workers receive limited private sector training. Thus, the publicly funded training system targets these undertrained individuals. The limited availability of public training funds means that low-wage and unemployed workers find it difficult to find adequate training that they can afford.

Publicly Provided Training and Reemployment Services during the Recession

Workers who are unemployed have a particular need for training. Inexperienced unemployed workers may not have the skills needed to find jobs, and therefore they may go to the WIA Adult program in search of training. If they are experienced workers who have permanently lost their jobs, they are likely to be eligible for UI, and they may go to the WIA Dislocated Worker program seeking training. In neither case are there sufficient funds to provide them with all the training they need.

During the Great Recession, the enormous job losses and long durations of unemployment created an overwhelming demand for reemployment and training services. The public workforce system, however, was underfunded, even as supplemented by ARRA. The result has been that many unemployed workers have gone to local workforce offices that could only offer automated self-service assistance and limited job search assistance. Very few workers were able to receive publicly funded training services.

Many forms of training have been found to be cost effective, including on-the-job training, targeted sectorial training in high-demand occupations, and training targeted to high-return course work, such as training in technical vocational courses and academic math, science, and health services classes. An evaluation of training for experienced dislocated workers at Washington State community colleges found that the training could be cost effective. Training became more cost effective if trainees took high-return technical courses and completed more classes. The authors found, however, that experienced dislocated workers underinvested in training, with only approximately 15 percent taking courses at community colleges around the time they were displaced from their jobs (Jacobson et al. 2005). As a result, the authors recently proposed that public investments be made in a new dislocated worker training program that would invest $12,000 for a year of education at community colleges for 50,000 to 150,000 workers. They estimate that this program would cost between $0.7 and $2.1 billion per year, varying over the business cycle (Jacobson et al. 2011). The proposal is modest and would only serve a small percentage of the dislocated workers who might benefit from the program. It reveals the enormous amount of training funds that would have to be allocated to bring training to a reasonable scale.

Currently, the main funding source for training services for permanently displaced workers is the WIA Dislocated Worker (DW) program. Funding for the DW program peaked in FY 2000 at $1.3 billion and declined gradually to $1.0 in FY 2012. Temporary ARRA funding for WIA DW in the amount of $1.25 billion provided a temporary boost to dislocated worker training in 2009 and 2010, but by 2011 funding had declined to below its pre-recession level (see table 6). Today, with the ARRA funds gone, employers and employees are expressing concern about the sharp decline in the availability of publicly funded training for unemployed workers at a time of continued high levels of unemployment. Both employers and workers are coming to the WIA program and finding that requests for training funds are rejected (Rich 2012).

Since the beginning of the recession, the flow of participants into the WIA system overwhelmed the static funding levels of the WIA Adult and Dislocated Worker programs (figures 3 and 4). Quarterly data show that while participation in the WIA Adult program began a sharp ascent in 2006 with the coenrollment of many ES participants in the WIA Adult program, participation accelerated at the beginning of the recession. By contrast, participation in the WIA Dislocated Worker program only took off with the recession. Meanwhile, regular WIA program expenditures remained steady throughout the period, with substantial seasonal variation. The introduction of ARRA funds filled some of the gap in total funding from mid-2009 to mid-2010 but then the gap expanded again after the expenditure of ARRA funds.

Meanwhile, the expenditure per participant for both WIA Adults and Dislocated Workers declined sharply during the recession, with program participation increasing as program funding held steady. (The decline in expenditure per participant began prior to the recession for WIA Adults because of new reporting procedures that encouraged massive WIA co-enrollment with non-WIA program participants.[20]) In both cases, ARRA funding temporarily raised the expenditure per participant, reaching $400 for WIA Adults and $800 for WIA Dislocated Workers. With the end of ARRA, however, expenditures per participant declined to approximately $200 for WIA Adults and $500 for Dislocated Workers. These funding levels are sufficient to provide Core and Intensive Services to WIA participants but not much in the way of Training Services (figures 5 and 6).

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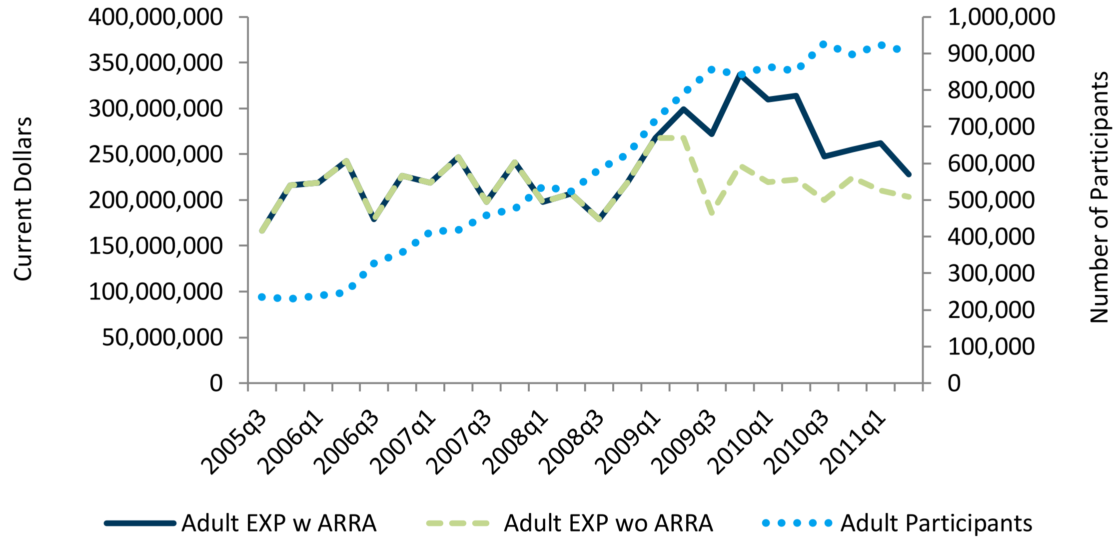
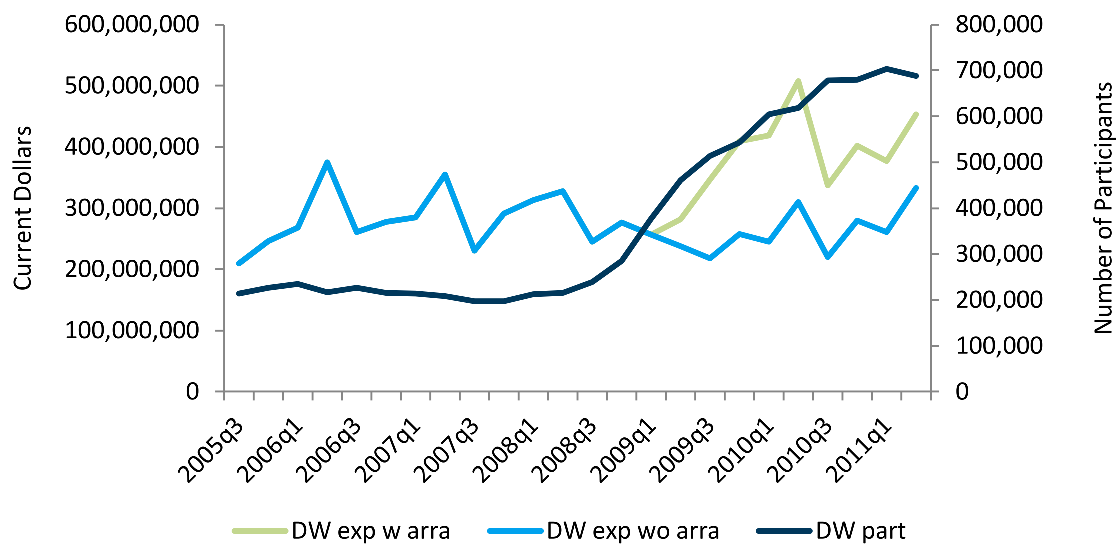
[20] Starting in 2006, some states began counting Employment Service participants as WIA Adult participants even if they did not receive WIA services as long as any amount of WIA funding was used to support Employment Service activity or infrastructure.

Figure 3: WIA Adult Participants and Expenditures, with and without ARRA Funding



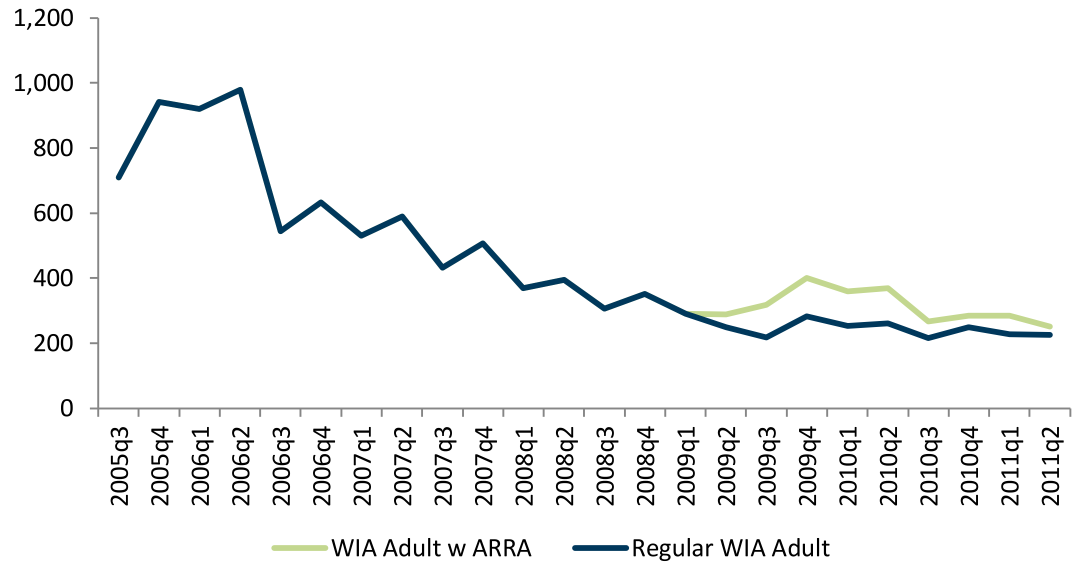
Source: Eberts, Wandner, and Cai (forthcoming) from U.S. Department of Labor, Public Workforce System Data Set.

Figure 4: WIA Dislocated Worker Participants and Expenditures, with and without ARRA Funding



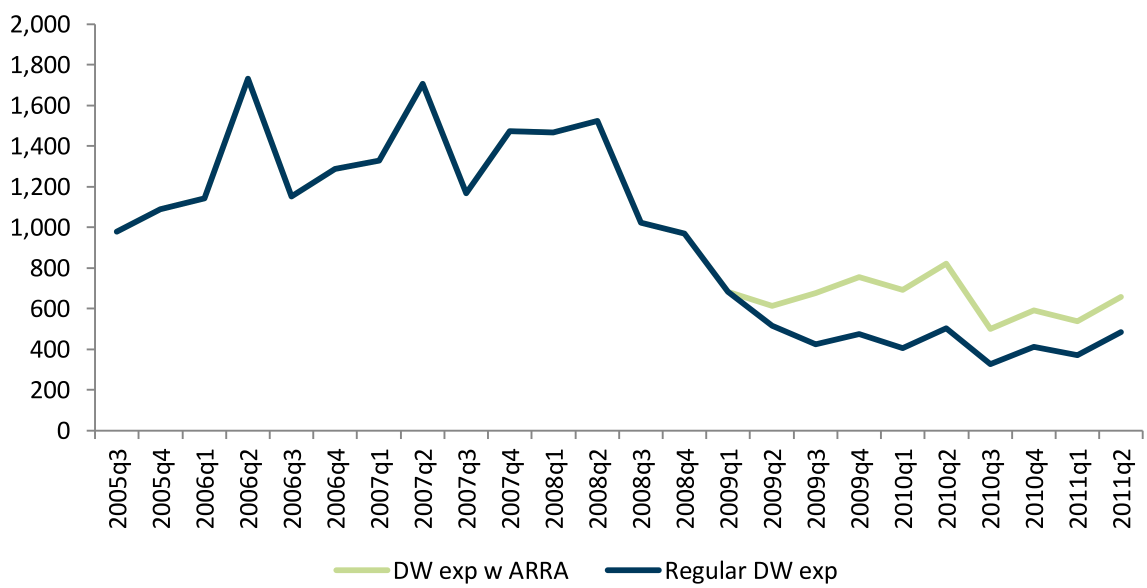
Source: Eberts, Wandner, and Cai (forthcoming) from U.S. Department of Labor, Public Workforce System Data Set.

Figure 5: WIA Adult Expenditure per Participant, with and without ARRA Funding



Source: Eberts, Wandner, and Cai (forthcoming) from U.S. Department of Labor, Public Workforce System Data Set.

Figure 6: WIA Dislocated Worker Expenditure per Participant, with and without ARRA Funding



Source: Eberts, Wandner, and Cai (forthcoming) from U.S. Department of Labor, Public Workforce System Data Set.

The combined funding for WIA Adult, Dislocated Worker, and Youth programs is now set at $2.6 billion. These funds for FY 2012 are allocated to the WIA Dislocated Worker ($1.0 billion), WIA Adult ($0.8 billion), and WIA Youth ($0.8 billion) programs. These programs have been declining in nominal terms for many years. WIA/JTPA Adult program funding peaked in 1987 at $1.8 billion but has declined since then to between $800 and $900 million. Dislocated worker programs are newer, and funding did not peak until 2000 at $1.3 billion. Youth programs had peak funding in 1993. A JTPA evaluation found that Youth training programs were ineffective and resulted in a sudden slashing of Youth program funding from which the program never fully recovered (see table 6). Given the decline in funding and the increase in costs of providing reemployment services and training, workforce programs have been in decline for a long time.

Limited WIA funding precludes the program from providing training to many of the workers who come to the local workforce centers each year. Even if *all* WIA funds were devoted to training, very few of the workers coming to the state workforce offices could receive adequate training. Without the ARRA funds, WIA Adult and Dislocated Worker programs generally provide training to less than 200,000 workers per year. WIA funding devoted solely to training would yield no more than 1 million training slots, leaving no funds for the 15 to 22 million workers who have been coming to the state workforce agencies in recent years for help in finding jobs.

Most workers coming to the state workforce agencies do not receive training services (see table 10). Since 2001, approximately 150,000 to 200,000 workers have received training services from the WIA Adult and DW programs. During 2009 and 2010, training increased substantially to between 250,000 and 300,000. The increase in training was driven by the availability of additional training funds and the brief window to spend them, so training levels are likely to decline to their prior levels in future years with WIA funding falling below its pre-recession levels. Table 10 also reveals that the percentage of WIA program exiters receiving training has been declining into the 10 to 15 percent range and only increased slightly in PY 2009. Finally, it is worthwhile noting that during the ARRA period the greatest growth in WIA services was concentrated in providing only Core services (“Core Only”) or only Core and Intensive Services (“Core and Intensive Only”) rather than in Training Services. Between 2006 and 2010, Training Services increased by nearly 60 percent, but WIA exiters receiving Core Only doubled and those receiving Core and Intensive Services Only more than tripled.

Finally, it is worthwhile noting that during the ARRA period the greatest growth in WIA services was concentrated in only Core Services or only Core and Intensive Services, rather than in Training Services. Between 2006 and 2010, Training Services increased by nearly 60 percent, but WIA exiters receiving Core Only doubled and those receiving Core and Intensive Services Only more than tripled.

Looking at the WIA data from 2005 to 2010, we can estimate how much training was conducted with WIA funding, making it clear that during the Great Recession, much of the WIA Adult and Dislocated Worker ARRA funds were used to provide reemployment services rather than training. For example, looking at WIA Dislocated Worker funding, an average 68,000 recipients received training between 2005 and 2008. Training increased by about 98,000 workers during 2009 and 2010, when the ARRA WIA Dislocated Worker funds were available. If we assume that training cost averaged $4,000 per worker, the total increment in training cost between the two periods approximated $400 million—about 30 percent of the ARRA funding for the WIA Dislocated Worker program. Thus, the great majority of the ARRA funds must have been used for nontraining purposes.

Table 10. WIA Program Adult and Dislocated Worker Exiters, Program Years 2005–2010

Year	Program	All exiters	Core services only	Core and intensive services only	Training	Training/exiters
	Adult	243,030	60,524	74,671	107,834	
2005	DW	229,832	60,652	90,141	79,038	
	Total	474,862	121,176	164,812	186,872	0.40
	Adult	616,973	413,388	94,314	104,271	
2006	DW	267,152	125,161	67,853	74,138	
	Total	884,125	543,549	162,167	178,409	0.20
	Adult	831,322	595,251	124,507	111,564	
2007	DW	239,022	114,425	62,955	61,642	
	Total	1,070,344	709,676	187,462	173,206	0.16
	Adult	1,026,729	657,268	260,139	109,322	
2008	DW	358,233	195,649	106,412	56,172	
	Total	1,384,962	852,917	366,551	165,494	0.12
	Adult	1,186,621	687,833	346,503	152,285	
2009	DW	581,967	273,039	203,383	105,555	
	Total	1,768,588	960,862	549,886	257,840	0.15
	Adult	1,243,907	763,787	327,307	152,813	
2010	DW	719,846	370,577	221,712	127,557	
	Total	1,963,753	1,134,364	549,019	280,370	0.14

Source: U.S. Department of Labor, Workforce Investment Act Standard Record Data reporting information, various years.

Of the funds used for training, a considerable portion was spent on workers referred from the WPRS system. Table 5 shows that referrals of UI recipients to training increased substantially during the recession. From 2007 to 2010, referrals more than doubled, from 100,780 to 211,434. Clearly, Employment Service staff knew that more training funds were available, and they were encouraged to refer substantially more workers to training in 2008, 2009, and 2010. With the end of ARRA funding, training referrals declined precipitously in 2011.

The ARRA was designed to preserve and create jobs while promoting recovery from the recession. With respect to the increase in WIA funding, states were encouraged to provide training and support services to WIA Adults and Dislocated Workers. Federal rules for the ongoing WIA program were relaxed, allowing states and localities to contract directly for training services instead of relying entirely on vouchers, which had been the preferred method of offering training to WIA participants (USDOL 2009).

ARRA funds for WIA Dislocated Worker and Adult programs were intended to increase reemployment services and training for eligible participants, particularly assessment and counseling. While most states did not change their policies regarding assessment and counseling, they generally increased the number of WIA and Employment Service customers who received these services. Most state agency administrators, however, said that they did not increase the percentage of customers who received assessments and counseling because the local workforce offices were so deluged with customers that they were constrained in providing in-person services. The states believed that the percentage of customers receiving these services may, in fact, have declined (Hobbie and Barnow 2011).

Increases in training during the ARRA period resulted from state policies that encouraged or mandated local workforce areas to spend more on training. A Department of Labor–funded ARRA implementation study revealed that all states reported encouraging or requiring localities to increase their expenditures on training. About half the states required a mandated percentage of their ARRA funds to be set aside for training. For example, Texas required that 67 percent of ARRA funds be used for training, while Wisconsin required 70 percent. Pennsylvania recommended a 60 percent set aside, while Michigan had no policy requiring a fixed percentage, only encouraging a high percentage use. As a result, three-quarters of the states reported at least a 10 percent increase in the number of customers enrolled in training through the WIA Adult and Dislocated Worker programs (Hobbie and Barnow 2011).

A three-state study of the workforce system's response to the ARRA revealed how states encouraged or required localities to provide more training and reemployment services and to use more federal funding for training services. In New York, local areas were required to increase the share of ARRA WIA funds expended on training services to at least 50 percent. To facilitate this increase, the process for providing training vouchers was streamlined and the approval process was expedited.

Increased training services were provided in two ways. First, the maximum amount for a training voucher amounts was increased. For example, in Pennsylvania, the Lehigh Workforce Investment Board increased the maximum voucher amount from $6,000 to $10,000. Second, the number of adults and dislocated workers receiving training vouchers was increased, more than doubling in New York City and in Chicago. ARRA funding, however, was only one-time money, and as the funds were exhausted, local areas found that they could not maintain WIA training and support services at the ARRA level. These areas experienced a "cliff effect"—a sharp drop in the number of vouchers available—creating long waiting lists for training services (Ridley and Ganzglass 2011).

Nationally, WIA Dislocated Worker training more than doubled between 2008 and 2010. With ARRA funding ending PY 2010, reporting data are likely to show that training experienced a similar cliff effect nationwide in PY 2011.

Work Sharing

Since early in the Great Recession, there has been a great deal of policy interest in the Work Sharing program, also known as Short-Time Compensation (STC). This interest was generated by the perceived success of the STC program in Germany and other industrial nations. The result has been a call for expansion of the program in the United States, and policy proposals have been developed by members of Congress and by the White House. Support for STC has been widespread and bipartisan, with legislation enacted in February 2012 to improve, encourage, and support the program. Looking toward the future, two supporters of the program from divergent political camps recently wrote: "From now on, the first line of defense during a recession should be to expand work sharing rather than simply extend unemployment insurance."[21]

Work Sharing provides an alternative approach for employers who face declining demand for their products or services. It enables them to reduce the work week for a larger group of workers instead of terminating a smaller number of workers. For example, as an alternative to laying off 10 workers in a company employing 50 workers, the employer can make an equivalent reduction in work hours by reducing all employees' work weeks of by one day. In states with work-sharing programs, participating workers receive a pro rata share of the UI weekly benefits they would have received if they had become fully unemployed. If the work week is reduced by one day, workers receive 80 percent of their wages and STC benefits for the fifth day, up to 10 percent of their weekly wages.

Employers submit work sharing plans to state UI agencies, and workers must agree to participate. Under work sharing, no one loses his or her job, and if demand for the firm's goods or services increases, all workers return to full-time work without the economic and social consequences of long-term unemployment. Employers retain their skilled workers, and they do not incur the costs of hiring and training new workers.

California conducted an early evaluation of its work-sharing program (Employment Development Department 1982). The U.S. Department of Labor has conducted two national evaluations, one in the 1980s and another in the 1990s (Kerachsky et al. 1986; Walsh et al. 1997). Other industrial countries have analyzed work-sharing program operation as well as effectiveness and efficiency. For example, Canada has conducted several evaluations (Ekos 1993; HRSDC 2005), as have Germany (Crimmann, Wiessner,

[21] Dean Baker and Kevin Hassett, "The Human Disaster of Unemployment," *New York Times*, May 13, 2012. http://www.nytimes.com/2012/05/13/opinion/sunday/the-human-disaster-of-unemployment.html?pagewanted=all. (Accessed May 18, 2012.)

and Bell 2010) and other European countries (Vroman and Brusentsev 2009). While none of these studies has been as rigorous as the experimental evaluations of other reemployment services, a consensus has developed among researchers and policy analysts that work sharing helps prevent unemployment and does so at a modest cost, since in the absence of the program an equivalent expenditure would be made to pay UI benefits to workers who become totally unemployed.

Work sharing has a long history in industrial nations. The program began in Germany in the 1920s. After World War II, it spread to over a dozen industrial nations including the United States. California was the first state to enact work sharing in 1978, and the program gradually expanded to other states. Temporary federal legislation permitting state work-sharing programs was enacted in 1982. Permanent federal legislation was enacted in 1992, making work sharing an optional program all states can adopt as part of their state UI laws. Before the Great Recession, 17 states had work sharing programs. The adoption of 7 state programs during the past two years has brought the number of work-sharing programs to 25 today.[22]

Broad interest in expanding American use of work sharing stemmed, in part, from positive media coverage about the European programs, especially the German program. Bipartisan support derived from a growing belief that work sharing played a critical role during the recession of holding down unemployment in Germany compared to the United States. Support for a new work-sharing proposal was widespread.[23] However, legislative action to improve the U.S. work-sharing programs took several years.

In 2009, Senator Jack Reed (D-RI) first proposed expanded work-sharing legislation. The Obama administration proposed a similar work sharing bill as part of its FY 2012 budget request. On July 6, 2011, Senator Reed again reintroduced a work-sharing bill, the Layoff Prevention Act of 2011, as S. 1333; Rep. Rosa DeLauro (D-CT) sponsored the same bill as H.R. 2421. In September 2011, the Obama administration announced its proposal, the American Jobs Act bill, with work sharing provisions that followed the Reed/DeLauro bills. The ultimately unsuccessful proposal would have provided federal funds for work-sharing benefits during the current period of high unemployment and included a technical amendment necessary to improve federal administration and oversight of the permanent work-sharing program.

While neither the Reed/DeLauro nor the American Jobs Act bills became law, the Layoff Prevention Act of 2012 was enacted as part of the MCTRJCA (H.R. 3630) on February 22, 2012. The provisions revised STC for the first time in nearly 20 years, with

[22] The states with work-sharing programs are Arizona, Arkansas, California, Colorado, Connecticut, the District of Columbia, Florida, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, Texas, Vermont, and Washington.

[23] Advocates for the program have included Dean Baker, codirector of the Center for Economic and Policy Research; Kevin Hassett, director of Economic Policy Studies at the American Enterprise Institute; and Mark Zandi, chief economist of Moody's Analytics.

the expectation that the federal government would respond by encouraging states to adopt and expand state STC programs. One of the technical amendments is a provision that the U.S. Department of Labor determined necessary to allow full federal oversight of the permanent federal STC program enacted in 1992. The amendment enumerates the STC requirements for all state STC programs and—crucially—gives the Secretary of Labor explicit authority to develop additional rules as circumstances warrant.[24]

The MCTRJCA also established temporary work-sharing provisions, providing federal funds for work-sharing benefits during the current period of high unemployment. The temporary work-sharing provisions of the AJA have separate components, one for states with existing permanent work-sharing programs and another for states which adopt temporary programs after enactment of the act. For all participating states, STC is paid out of the state UI trust fund accounts with partial or complete reimbursement for up to three years from federal general revenues. Nearly $500 million in temporary funding is available to states with existing or new STC programs. To encourage states to adopt STC programs, the Department of Labor is producing model state legislative language, providing states with technical assistance, and establishing a more robust reporting requirement.

The Department of Labor issued guidance for the STC program in June 2012 (Employment and Training Administration 2012b). The guidance explains the new permanent definition of STC; explains the temporary STC reimbursement provisions; describes how states without STC programs can enter into an agreement with the Department to implement temporary STC programs, explains how states may apply for grants totaling $100 million for implementation and administrative improvement, and describes the report to Congress due in February 2016. The guidance does not include model STC legislation but indicates DOL is drafting the legislative language.

Thus, while there was interest in expanding STC during the Great Recession with hopes that it could reduce unemployment as in other OECD countries, the legislation facilitating this expansion was enacted late—nearly three years after the recession ended. Nonetheless, the new legislation has become effective during a period of continued high unemployment, and it may help to ameliorate post-recession unemployment.

The U.S. STC program, however, is very different from that of the other industrial nations. In the rest of the world, STC is not a component of the UI program, and there is no disincentive to employers or workers to participate. In the United States, however, being part of the UI program imposes participation disincentives for both employers and employees. First, STC benefits are eventually a cost to employers, being charged to their UI accounts through the UI experience rating system, and result in higher UI taxes.[25] At the same time, STC benefits are less generous than in other countries, and they count

[24] The technical issue relating to the 1992 STC federal legislation is discussed in Balducchi and Wandner (2008).

[25] Baker (2011) suggests making STC more attractive to employers by providing them with a credit of 25–30 percent, but employers would still end up paying at least 70 percent of STC costs.

against workers' potential eligibility for UI benefits. Thus, if workers are laid off after receiving STC, their entitlement to Regular UI benefits is reduced. STC is also more costly to administer in the United States, except in a few states that have fully automated the employer application and benefit payment processes (Wandner 2010, 344).

Work sharing is a much smaller program in the United States than in many other industrial nations. For 2009, 17 OECD nations reported making use of STC. Of these, Belgium was the only country in which over 5 percent of all employees participated in an STC program. Six countries reported employee participation between 2 and 4 percent, three between 1 and 2 percent, and seven below 1 percent. The United States was near the bottom of this last group, with about one-fifth of 1 percent of employees participating in STC programs. In addition, since STC is highly cyclical, all 17 countries reported large increases in participation since 2007 (see table 11).

Table 11. Employees Participating in STC Programs as a Percentage of All Employees in OECD Countries, 2009

% of employees	Country
Over 5 percent	Belgium
2 to 4 percent	France, Germany, Hungary, Japan, Slovak Republic, Turkey
1 to 2 percent	Austria, Czech Republic, Switzerland
Less than 1 percent	Canada, Netherlands, New Zealand, Norway, Poland, Portugal, United States

Source: OECD (2010, 37).

Many OECD countries with work-sharing programs expanded them temporarily during the Great Recession to improve their countercyclical effect. In 2009, further extensions were implemented: replacement rates were increased (Finland), durations extended (France, Switzerland, Turkey), eligibility criteria relaxed (Japan), and additional types of firms given access (Belgium, Korea). While in 2010 many countries were ending their STC recession measures, in 2009 only Germany and Hungary had already contracted their programs (OECD 2010, 37). Germany enhanced its program early in the recession and went back to its normal program as soon as its export-driven economy began its early recovery. By contrast, U.S. federal STC policy lagged, and legislation was not enacted until well after the recession was over. Instead, the U.S. STC public policy response came from the states, with eight states[26] enacting legislation for new STC programs during 2010–2012.

[26] The eight states enacting STC legislation during 2010–2012 were Colorado, the District of Columbia, Maine, Michigan, New Hampshire, New Jersey, Oklahoma, and Pennsylvania.

The OECD sponsored a comprehensive assessment of the impact of STC programs in 16 countries (Hijzen and Venn 2011). The assessment finds that STC did preserve jobs during the economic downturn, with the biggest impact on employment in Germany and Japan.

The STC program in the United States has remained relatively small throughout its history. Nonetheless, the STC program is highly cyclical, even more so than the Regular UI program. Employers have less need for the program when the economy is strong, but they turn to it when the economy weakens. During the Great Recession, employers turned to the STC in greater numbers than ever before: the number of workers participating increased more than sevenfold from 2006 to 2009, but the total number of participants in 2009 was still only 288,618, only 2 percent of the workers who became UI beneficiaries that year (table 12). The increase in STC participation during and after the Great Recession was due to the severity of the economic situation in the 17 states that had established programs, since the states with new STC laws had not yet fully implemented them.

Table 12. Work Sharing and Regular UI First Payments, 1995–2011

Year	STC first payments	Regular UI first payments	STC/Regular UI first payments (%)
1995	45,942	8,035,239	0.57
1996	41,567	7,995,135	0.52
1997	32,498	7,325,093	0.44
1998	47,728	7,341,903	0.65
1999	36,666	6,967,840	0.53
2000	32,916	7,035,783	0.47
2001	111,202	9,868,202	1.13
2002	93,797	10,092,569	0.93
2003	83,783	9,935,108	0.84
2004	42,209	8,368,623	0.50
2005	40,238	7,917,301	0.51
2006	39,854	7,350,734	0.54
2007	48,924	7,652,634	0.64
2008	96,388	10,059,554	0.96
2009	288,618	14,172,822	2.04
2010	147,591	10,726,566	1.38
2011	106,173	7,953,101	1.33

Source: USDOL, ETA 5159 reports for Regular UI program and for work sharing.

Note: Work-sharing data for Puerto Rico and Virgin Islands have been removed from the national totals, since they have no work-sharing programs.

STC is not only a small program, but it is also concentrated in a small number of states. While 25 states currently have STC legislation, only 18 had active programs during the recession. Some states are enthusiastic about the program and promote its use. Others have lost interest or let their programs go inactive. Still others were first implementing their new STC programs. Employers and employees have to receive program information before they can apply, and in some states that information has not been provided. State administration of the program and employer and worker participation has been uneven.

Thus, STC was active in only about a dozen states during the recession (see table 13). Even half a dozen new states adding programs at the end of and following the recession, the program can only be expected to be modest in the future.

Table 13. STC First Payments as a Percentage of Regular UI First Payments, 2009

Degree of activity	Percent	States
Most active states	>10	Kansas, Rhode Island
Active state	5–10	California, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Vermont, Washington
Modestly active states	2–5	Arizona, Iowa, Texas
Barely active state	<2	Arkansas, Florida
Inactive states	0	Connecticut, Louisiana

Source: U.S. Department of Labor ETA 5159 Report.

Self-Employment Assistance

Small business development is a source of new jobs and strength to the economy. During the Great Recession, small business policy became a more important part of a bipartisan federal effort to create jobs and stimulate the economy. For example, the Small Business Jobs Act of 2010 provided $1.5 billion to create the State Small Business Credit Initiative to strengthen state programs that support lending to small businesses.

Within the public workforce system, self-employment policy has transformed the UI program, which ordinarily provides partial wage replacement only to unemployed workers searching for wage and salary employment. Since 1993, the Self-Employment Assistance (SEA) program has given states the option to permit some workers to set up their own small businesses. UI recipients may be eligible to participate in the program if they are found likely to exhaust all entitlement to their Regular UI benefits. In states with SEA programs, UI beneficiaries are not required to search for work as long as they work full time to establish their own small businesses.

SEA participants receive self-employment allowances in lieu of UI, in the same amount and for the same duration as Regular UI benefits. They must participate in entrepreneurial training to learn about small business development and improve their likelihood of success. Most SEA participants establish microenterprises—very small businesses that usually consist only of a single owner-operator. Thus, SEA removes an impediment to small business development that had been inherent in the UI program.

Since 1998, SEA has been a permanent program authorized under federal UI law. Before enacting a federal SEA statute, the U.S. Department of Labor conducted two self-employment allowance experiments in the 1980s. The first, conducted in the state of Washington, paid a self-employment allowance as a lump sum after unemployed workers completed a series of five tasks to establish their own small businesses. The program was found to increase participation in self-employment and to raise participants' earnings, but the cost of the lump-sum payments exceeded the benefits to the government sector.

By contrast, the second experiment, in Massachusetts, provided weekly payments, similar to the current self-employment assistance program. Evaluation results found that the program reduced participants' spells of unemployment and increased their total time in employment. Participation also had a positive impact on participants' earnings. When placed in a benefit-cost framework, the Massachusetts demonstration provided net benefits to participants, to society, and to the government sector. For the government, the program produced net benefits more than fully offsetting program costs, especially in increased tax payments, since participants were found to earn a great deal more than unemployed workers who were nonparticipants. As a result, the Massachusetts experiment's design became the basis of the U.S. SEA program. Prompted by an interim evaluation report (Benus et al. 1992), Congress enacted a temporary program in late 1993. The final evaluation (Benus et al. 1995) found strong cost effectiveness and was the basis for making the federal Self-Employment Assistance program permanent in 1998.

Self-Employment Assistance is a small but effective program operates in only seven states.[27] Although similar programs in other major industrial nations serve considerably more workers, it is not clear that SEA can expand in the United States—at least in its present form. The program will remain small unless it can provide participants a reliable source of entrepreneurial counseling and training. States with SEA programs frequently have no steady source of funding for such training.

Policymakers did not promote adoption of the SEA program until after the Great Recession was over. In a letter dated August 4, 2011, to Assistant Secretary of Employment and Training Jane Oates, Senators Ron Wyden and Jeffrey Merkley recommended that the U.S. Department of Labor change the WIA performance measurement system such that states can report their SEA program outcomes using surveys or other alternative methods. This reporting change would provide an incentive to states to conduct both WIA entrepreneurial training and the SEA program.

An SEA reform bill was developed and introduced by Senator Ron Wyden, and then incorporated into the American Jobs Act bill in the summer of 2011. When AJA was not enacted, the MCTRJCA incorporated the Wyden version of the SEA provisions. Under the MCTRJCA, all states may participate in SEA during a period of Extended Benefits or EUC extension, and SEA payments may be made from workers' EB or EUC08

[27] Self-Employment Assistance operates in Delaware, Maryland, Maine, New Jersey, New York, Oregon, and Pennsylvania.

accounts. State participation in SEA is voluntary, with each state able to establish a program under the federal MCTRJCA provisions, while states with permanent state SEA provisions can participate under their own state rules. The program provides eligibility for up to 26 weeks of SEA benefits during the period of EUC/EB receipt. Participating states are not required to select participants into the EB/EUC program using the Worker Profiling mechanism. Nor are they required to provide training, counseling, and technical assistance, but the Department of Labor is encouraged to provide this support using the workforce system in conjunction with the Small Business Administration and other potential training providers. SBA support can provide some of the entrepreneurial training needed for program success.

Participating workers can return from SEA to EB/EUC if they have remaining entitlement and if they leave self-employment and again actively search for wage and salary employment. States initiating SEA programs under MCTRJCA are eligible for administrative funds to start up or improve their SEA programs.

Program participation is limited to 1 percent of Regular UI program beneficiaries, instead of the 5 percent previously allowed in permanent federal SEA legislation, but this restriction should not adversely affect the program because of expected low participation rates. Funding of $35 million was appropriated to implement, administer, and promote SEA participation. The U.S. Department of Labor is required to evaluate SEA and report to Congress within five years of enactment (Issacs 2012).

To implement the new SEA program, the U.S. Department of Labor provided guidance and model legislation to the state workforce agencies on May 24, 2012 (Employment and Training Administration 2012a). Forthcoming guidance will provide information about how to establish SEA programs and apply for the administrative funds and request technical assistance. Model state legislation is included for both the permanent regular SEA programs and the temporary SEA program. Participating states must agree to take part in the program evaluation.

The MDTRJCA provisions could make a small but important contribution to reemployment in the United States. The promise of SEA is that participants can create their own jobs at a time when many U.S. firms are not hiring. Expansion of the program, however, depends on the active support and encouragement of the U.S. Department of Labor and the Small Business Administration. In the near term, the provisions are most likely to benefit the seven states with existing programs, because starting up a new SEA program takes some time and few workers in the new SEA states are likely to benefit.

While Self-Employment Assistance has been open to adoption to all states since 1993, few have chosen to participate. Even in the seven states with SEA programs, participation is limited because only a small percentage of the unemployed want to set up their own businesses and few of the workers who are ready to participate are given a chance, largely because of difficulty in securing funds for entrepreneurial training. Participation was low before the Great Recession. In response to the onset of the recession, programs were expanded in Maine, New Jersey, New York, and Oregon. In the other three states with legislation (Delaware, Maryland, Pennsylvania), the program is small or has fallen into disuse. Program use peaked in 2009 in Oregon and in 2010 in New Jersey, but continued to increase in New York through 2011 (table 14).

Table 14. Self-Employment Assistance, Number of Individuals Entering Program by State and Total and by Total Weeks Compensated and Benefits Paid, 1995–2011

Year	Individuals Entering Programs								Total entrants	Total weeks compensated	Total benefits paid
	DE	MD	ME	MN	NJ	NY	OR	PA			
1995			44	-		608			652	5,591	1,364,676
1996	17		127	-		2,041	32		2,217	26,603	6,507,709
1997	5		120	-		2,839	49	786	3,799	42,111	10,968,804
1998	-		90	-	321	1,270	66	541	2,288	37,740	9,587,764
1999	-		59		569	1,837	18	416	2,899	32,726	9,718,240
2000	1	26	98		491	1,654	18	229	2,517	38,913	13,209,451
2001	-	125	109		834	1,480	278	301	3,127	37,787	12,501,211
2002	17	22	118		424	1,634	305	550	3,170	50,057	17,159,098
2003	43	11	202	45	486	70	338	147	1,242	25,228	8,966,567
2004	56	10	481	235	557	475	166	9	1,989	41,978	14,603,948
2005	31	21	351	102	626	309	204	0	1,644	38,983	13,928,325
2006	21	21	252		632	177	226	0	1,329	32,370	14,599,974
2007	22	21	201		496	369	295	152	1,556	35,139	13,645,131
2008	35	15	130		477	219	597	86	1,469	67,360	10,307,763
2009	13	6	158		429	461	1,011	46	2,124	29,309	11,694,675
2010	7	0	159		604	599	919	0	1,988	20,940	8,300,970
2011	8	0	97		30	615	305	0	1,055	15,871	6,003,070

Sources: U.S. Department of Labor Unemployment Insurance Report ETA 5-159 and interviews with SEA managers.

Notes: Data are for the nine states that have enacted SEA legislation and implemented state programs. California enacted an SEA program but never implemented it. Minnesota did not implement its original SEA program; it became effective on April 19, 1995, and was repealed effective January 1, 1999. Minnesota then implemented a temporary SEA law allowing the state to participate in the federal self-employment demonstration project, Project GATE, that operated between 2003 and 2005. A Louisiana SEA law became effective on January 1, 2005, but the state has not reported on its inactive program. Maryland SEA data are in error; the Maryland SEA program had 571 participants in the past five years, but the reported data show fewer than 100 participants; since the number of Maryland SEA participants has varied between 100 and 200 per year since the program began, the number of participants for 2001 has been reduced from a reported 4.227 to an estimated 125. SEA data for Puerto Rico for 2001 appeared in the ETA 5159 report; they have been removed since Puerto Rico has not enacted an SEA program. In sum, Self-Employment Assistance is a program that has promise as a small tool in the public workforce policy toolbox. It has not been used much since it was first enacted in 1993. It expanded somewhat during the recession, but it could now spread to new states with increased participation under the SEA provisions of the Middle Class Tax Relief and Job Creation Act of 2012.

Workforce Program Performance during the Great Recession

The workforce system provided substantially more income support, reemployment services, and training to unemployed workers during the Great Recession than it had prior. Many unemployed workers benefited from income support and services, but workforce system outcomes were adversely affected by the lack of available jobs. Workers received income support for much longer than they had in the past, but the services provided were less likely to lead to jobs. As a result, the public workforce system's performance, as measured by the traditional measures, declined.

The decline in performance outcomes is not unexpected. For workforce programs, performance outcomes are highly cyclical: finding employment depends on the availability of job openings in the labor market. In the Great Recession, the ratio of unemployed workers to job openings reached record highs and has only slowly declined, greatly affecting performance for WIA, Wagner-Peyser Act, and TAA programs. Two main measures of performance are the entered employment rate (the percent of participants who are employed in the quarter after they exit each program) and the retention rate (the percent of participants employed in the first quarter after exit who are still employed in the second and third quarter after exit). Both declined from their PY 2007 pre-recession levels to reach a cyclical low in PY 2009.

Table 15. Performance Measures for Workforce Programs, 2007–2011 (percent)

	2007	2008	2009	2010	2011
Wagner-Peyser Act					
Entered employment	64.0	59.7	47.8	48.0	
Retention	81.0	79.0	75.0	78.0	
WIA Adult					
Entered employment	70.0	68.1	54.0	55.2	
Retention	83.8	83.5	77.7	80.0	
WIA Dislocated Worker					
Entered employment	73.0	67.6	51.0	57.3	
Retention	87.0	86.0	79.7	81.9	
TAA					
Entered employment	N.A.	N.A.	69.0	57.0	66.0
Retention	88.0	90.0	88.0	86.2	89.9

Sources: U.S. Department of Labor, FY 2011 Annual Performance Report, http://www.dol.gov/dol/budget/2013/pdf/CBJ-20130V1-01.pdf, Employment and Training Administration performance reports, http://doleta.gov/Performance/results.pdf, and Trade Adjustment Assistance for Workers: Report to the Committee on Finance of the Senate and Committee on Ways and Means of the House of Representative, December 2009, http://www.doleta.gov/tradeact/docs/AnnualReport09.pdf.

Note: Data are by program year for the WIA and Wagner-Peyser Act programs and by fiscal year for the TAA program.

Though UI and TAA provided needed financial support and the WIA and Employment Service programs provided valuable reemployment and training services, unemployed workers were much less likely to find and retain jobs than would have been the case before the Great Recession. These weakened performance results were a natural outcome of the economy in which the programs were operating, and outcomes are likely to recover as the economy improves.

Conclusions

Public workforce programs performed unevenly during the Great Recession. The income support system continued to be responsive to the increase in benefit claims. The Regular Unemployment Insurance program responded immediately as an automatic stabilizer. Congress created emergency programs that raised the potential duration of UI receipt nearly fourfold and funding fivefold, compared to the pre-recessionary period.

The UI program expanded the duration of benefits paid as the federal government encouraged states to make more workers eligible for UI in the first place. While the UI Modernization initiative successfully encouraged many states to increase eligibility, state UI trust fund accounts fell far into debt, and some states began to reduce the scope of their UI programs. In the past two years, seven states have reduced their state Regular UI potential duration below 26 weeks—a floor that had been a state consensus for nearly 40 years. As states try to return their UI accounts to solvency, other benefit reductions are likely.

By contrast, funding and staffing for the Wagner-Peyser Act and WIA programs declined in the decades before the recession, and these diminished programs had more difficulty responding to the severe economic downturn. Across the country, most state workforce agencies were inadequately staffed, and some states had difficulty hiring primarily temporary staff. States also had to make due with aging computer systems and call centers that had difficulty expanding capacity. Programs such as Worker Profiling and Reemployment Services had to be resurrected in states that had let them wither without federal funding.

The public policy response to the severe downturn in labor market conditions was modest. ARRA temporarily increased funding for the WIA Dislocated Worker and Wagner-Peyser Act programs by approximately 50 and 30 percent, respectively. While these funding increases were substantial and allowed more services to be provided, they started from low base levels and the supplemental funding was eliminated at the end of the ARRA period. In the years since enactment of the ARRA, states have received little additional federal help to return unemployed workers to jobs.

After the expiration of ARRA funding, the U.S. workforce system largely returned to its pre-recession funding levels. Services sharply declined, despite continued high unemployment. A preoccupation with the federal budget deficit prevented action to extend ARRA supplemental funding. The American Jobs Act bill was proposed by the Obama administration but did not pass. A more modest program was enacted in February 2012 as an attempt to restore some recessionary funding and to encourage the provision of reemployment services.

Use of the ARRA funds varied sharply among the states. Nearly all were able to expend the ARRA funds. Some states lagged in hiring new staff to deliver additional reemployment services, but in general they were able to greatly increase services. Many states used the ARRA funding efficiently by increasing service provision in greater proportion than their increase in workforce funding. Many states were able to use ARRA funding to improve their workforce infrastructure. States generally continued to operate their programs using the same procedures they had before the recession but serving more individuals.

At the end of ARRA period, a modest workforce initiative—the Middle Class Tax Relief and Job Creation Act—was enacted almost three years after the end of the Great Recession. MCTRJCA provides for somewhat improved reemployment services, through Reemployment Services Grants for the long-term unemployed, basic Employment Service services, Work Sharing, and Self-Employment Assistance.

During recessions, countries make decisions about the labor market response they will make to alleviate unemployment. One way to categorize these choices is between "active" and "passive" policies. Unemployment Insurance is considered a passive program, while programs that provide labor exchange, job search assistance, and training services are considered active in helping workers return to productive employment. The Organization for Economic Cooperation and Development advocates that member nations emphasize active labor market policies to the greatest extent possible during recessionary times.

The U.S. public workforce strategy during the Great Recession, however, was to expend the most funds and place the most emphasis on passive labor market policy with a greatly expanded UI program. Thus, Congress enacted two new temporary entitlement programs: Emergency Unemployment Compensation and a revised and enhanced Extended Benefits program. UI program funding was supplemented by additional funding for the UI Modernization initiative.

By contrast, funding for WIA and the Wagner-Peyser Act Employment Service programs had been in decline for many years, and ARRA attempted to revive these programs. ARRA funding for WIA and Wagner-Peyser Act programs, however, was very small compared to the increased funding for the UI program.

Finally, U.S. workforce policy dealt only with the supply side of the labor market. No workforce programs were established to deal directly with the demand for labor, such as by funding major public service employment or transitional jobs as a temporary response.[28]

[28] ARRA provisions did provide aid to states to place applicants to Temporary Assistance to Needy Families in temporary subsidized jobs. With most states participating, the $1.6 billion in aid created short-term jobs divided between summer jobs for youth and temporary jobs for adults (Pavetti, Schott, and Lower-Basch 2011).

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