

Testimony Before the Budget Committee of the United States Senate

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I would like to make the following points this morning about unemployment and the U.S. labor market situation over the next several years.

- 1. The Great Recession has created very high unemployment rates that will likely persist for several years to come and have lasting negative impacts on millions of workers.**

Over 40 percent of the unemployed suffer from lengthy spells of unemployment (i.e., longer than six months), which will make it harder for them to reenter the job market and find employment when job creation picks up. And low earnings will scar millions of young workers for years to come, even when the labor market fully recovers.¹

- 2. But, even before the recession began, most American workers suffered from stagnant earnings growth and very high earnings inequality.**

During the full economic cycle of 2000-2007, median earnings stagnated or declined for most groups of workers. Many of those hit hardest during the downturn (such as less-educated men) were faring quite badly even before it began.² Disadvantaged workers more broadly suffer not only from high unemployment rates but also from low wages and limited labor force activity, even when the economy is strong.³ Among many other problems, the education and skill levels of many of these workers have not kept pace with the rising demand for such skills in good-paying jobs.

- 3. Policy efforts to improve labor market outcomes for American workers should focus both on creating jobs and reducing unemployment caused by the recession in the near term, as well as on improving the skill levels and earnings of Americans over the longer term.**

To create more jobs and reduce unemployment, I support many of the provisions of the American Jobs Act, including reduced payroll taxes for workers, more targeted payroll tax cuts for employers who are expanding payrolls, and additional spending on infrastructure, school

¹ See, for instance, Kahn (2009) or von Wachter (2010).

² See Holzer and Hlavac (2010).

³ Labor force participation rates of high school dropouts in America typically are below 50 percent. Among other groups, like black teenagers, participation rates are generally below 30 percent, and many become “disconnected” from both school and the labor force at very early ages (Edelman et al., 2006).

construction, and layoff prevention of state and local government employees.⁴ But we should also take actions to improve the education levels and workforce preparation of American workers, and their ability to fill good-paying jobs.

4. To improve worker skills, we need to develop more effective education and workforce development systems that are better targeted towards growing and high-paying sectors of the U.S. economy. Earnings supplements for disadvantaged and dislocated workers could also be expanded, and be more closely tied to skill-building.

The current workforce development system, funded by the Workforce Investment Act, appears to generate employment services and job training quite cost-effectively, but it has been starved for funds for many years and should not be further reduced.⁵

But we also need to better integrate career services and occupational training in our high schools and colleges, and make both sets of institutions more responsive to the demand side of the labor market. For high schools, this means generating high-quality career and technical education – not as a substitute for higher education but as another possible means of preparing for it as well as the labor market. The Career Academies have demonstrated the value of such education, especially for at-risk young men.⁶

Most students who attend community colleges never complete an educational credential, defined as either a training certificate or an associate’s degree; and, when they do, the credentials too often are not in fields that are well-rewarded in the labor market. Career counseling services need to be improved at these schools, and remedial education needs to be better integrated with occupational training.⁷ The colleges themselves should also face stronger incentives, in the form of per-capita funding from their states, to expand their curricula and instructional capacity in areas of strong and growing labor market demand.⁸

Rigorous evaluation evidence shows that *sectoral* training, in which young or adult workers are prepared for specific sectors of the economy and in which employers are actively engaged, can

⁴ I personally would prefer payroll tax cuts for employers to be much more generous than those proposed by the Obama Administration, and much more exclusively targeted to employers whose payrolls are expanding. This would greatly increase employer incentives to expand hiring and limit the extent to which such tax credits are “windfalls” for employers who do not change their behavior.

⁵ See Heinrich et al. (2009) and Heinrich and King (2010). A recent report by the USGAO (2011) indicates that there are dozens of workforce programs and suggests some duplication of effort across programs; but, in reality, the vast majority of these programs are very small and targeted at very specific populations. In a labor market where such services and training are generally underfunded, and too low to meet potential demand for such services, the existence of multiple programs does not necessarily indicate wasteful duplication.

⁶ See Kemple (2008) and Symonds et al. (2011).

⁷ The Integrated Basic Education and Skill Training (I-BEST) program in the state of Washington is one example of an effort to better integrate remedial and occupational training.

⁸ See Jacobson and Mokher (2009), Soares (2010), and Holzer and Nightingale (2009).

provide strong earnings improvements for disadvantaged workers while also meeting employer needs for skilled workers.⁹ These programs can and should be especially supportive of employers who create good-paying jobs for less-educated workers.¹⁰ Dislocated workers can also derive substantial benefits from more technical training targeted towards growing fields.¹¹

I believe that a new competitive grants program should be provided to states that more actively integrate their education and workforce systems and make them more responsive to labor market demand, and especially the needs of good-paying employers, along the lines I describe above. This program should actively reward states for building on their efforts to date and leveraging other sources of funding.¹² But any such new funding should not become yet another excuse to reduce funding for WIA programs.

For disadvantaged or dislocated workers who might not benefit from such training, earnings supplements should be expanded. These can include the Earned Income Tax Credit (EITC), which currently benefits adults without (custody of) children very little, or wage insurance for the dislocated who have taken lower-wage jobs than they held before. A variety of reforms in the Unemployment Insurance (UI) system might also encourage more training or employment.¹³

5. **All of these measures could be undertaken with modest new federal expenditures over time. They are not inconsistent with sensible efforts to limit our budget deficits over the long-run, which should primarily focus on raising federal tax revenues and reducing spending on entitlement programs, especially for future retirees.**

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⁹ See Maguire et al. (2010) and Roder and Elliott (2011).

¹⁰ In other words, technical assistance or tax credits might specifically be provided to employers that take the “high road” in their human resources policies and provide career ladders and promotion opportunities for entry-level employees. Other efforts to improve job quality, such as collective bargaining and minimum wage laws, should also continue to play some role as well.

¹¹ See Jacobson et al. (2003).

¹² The details of my proposal will be available in a paper that will be published by the Hamilton Project at the Brookings Institution in October 2011.

¹³ See Edelman et al. (2009) for proposals to expand the EITC, particularly for childless adults. Reforms in the UI system might make it easier for workers to gain extensions of UI while they are training for jobs at accredited institutions, while wage insurance proposals would reward workers for accepting low-wage jobs after losing better-paying ones.

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