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Working Paper

Employment and training policy in the United States during the economic crisis

Upjohn Institute Working Paper, No. 10-161

Provided in Cooperation with:

W. E. Upjohn Institute for Employment Research, Kalamazoo, Mich.

Suggested Citation: O'Leary, Christopher J.; Eberts, Randall W. (2009) : Employment and training policy in the United States during the economic crisis, Upjohn Institute Working Paper, No. 10-161, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, <https://doi.org/10.17848/wp10-161>

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Employment and Training Policy in the United States during the Economic Crisis

Upjohn Institute Working Paper No. 10-161

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November 2009

ABSTRACT

This paper examines labor market conditions and public employment policies in the United States during what some are calling the Great Recession. We document the dramatic labor market changes that rapidly unfolded when the rate of gross domestic product growth turned negative, from the end of 2007 through early 2009. The paper reviews the resulting stress on labor market support programs and the broad federal response. That response came through modifications to existing programs and the introduction of new mechanisms to help Americans cope with job loss and protracted unemployment. The particular focus is on federally supported public programs for occupational job skills training and temporary income replacement. We also discuss procedures for evaluating the effectiveness of public reemployment efforts, and adjustments to these programs that were adopted during the crisis.

JEL Classification Codes: J65, J68

Key Words: job training, unemployment, unemployment insurance, employment policy, federal stimulus, American Recovery and Reinvestment Act, evaluation, performance measurement, net impacts, cream skimming, adjustment methodology

Acknowledgments:

Paper prepared for the Asia-Pacific Economic Cooperation (APEC) Forum on Human Resources Development (HRD) 2009, titled “Implementing Public TEVT Programmes in the Midst of the Financial Crisis: HRD Policies in Collaboration with Employment Security,” held at the offices of the Overseas Vocational Training Association (OVTA), November 18–20, 2009, Chiba City, Japan. We thank David Balducchi, Kevin Hollenbeck, Rob Pavosevich, Melinda Pitts, and Robert Straits for useful suggestions. Opinions expressed are ours and do not represent the positions of the W.E. Upjohn Institute for Employment Research or the U.S. Department of Labor. We are responsible for any errors or omissions.

Employment and Training Policy in the United States during the Economic Crisis

INTRODUCTION

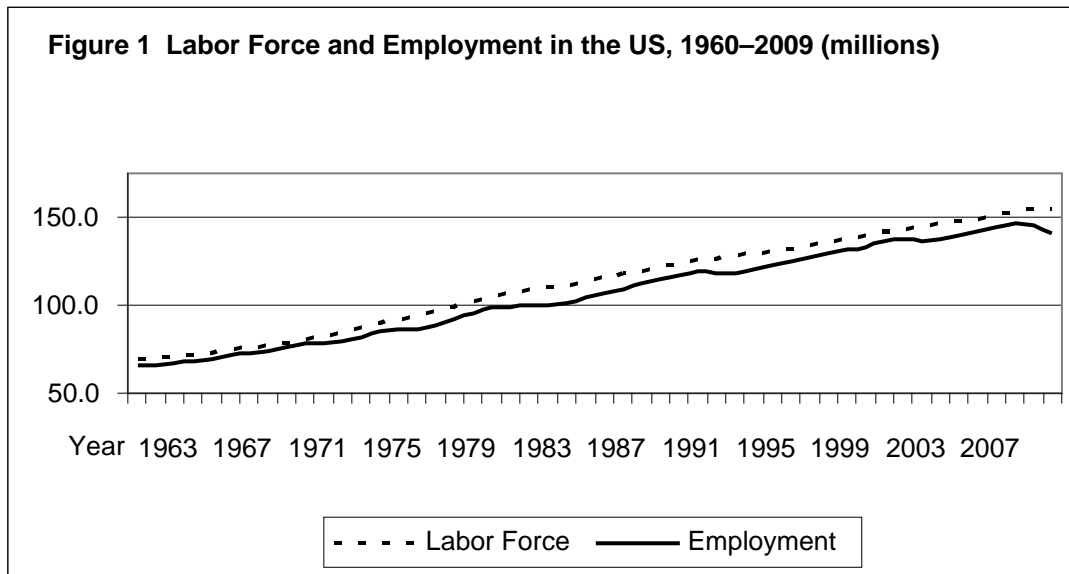
In the United States, government action to promote employment has usually been initiated in times of economic crisis. Historically states and localities have been reluctant to independently undertake public employment policy for fear of handicapping the competitiveness of resident industries by saddling them with added costs. Federal leadership in employment policy has permitted states to address important labor market problems with a reduced risk to those states of losing jobs to competing states.

This paper examines labor market conditions preceding the recent economic crisis and documents the dramatic changes that unfolded in a short period of time. It reviews the burden placed on existing labor-market support programs and the broad federal response to the problem through modifications of existing programs and the introduction of new mechanisms to help Americans cope with labor market adjustments. The particular focus of the paper is on federally supported public programs for occupational job skill training.

THE LABOR MARKET SITUATION IN THE ECONOMIC CRISIS

Trends in unemployment

Over the past 50 years, the U.S. labor force has grown at an average annual rate of 1.6 percent. From a level of 70 million in 1960, the labor force has more than doubled, to 154 million (Figure 1). Total employment has risen at the same annual average rate during this 50-year period; however, the composition of the labor force has changed in that time: participation

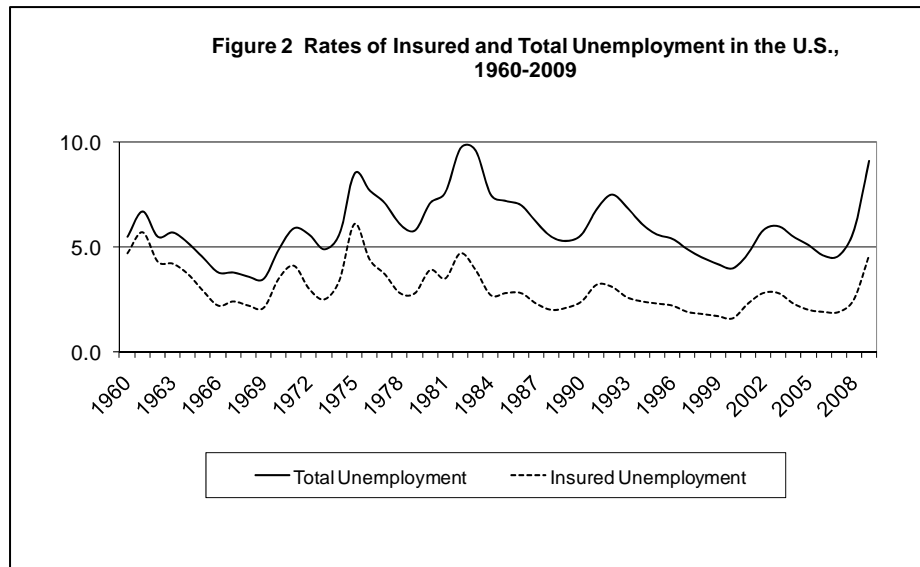


of women has risen steadily since 1970. In that year, the share of females in the labor force stood at 38 percent; today it is 47 percent. In contrast, the current labor force shares of other parts of the workforce—older, part-time, and self-employed workers—remain near their 1970 proportions despite some fluctuation in the intervening years (BLS 2010).

The economic recession in the United States officially began in December 2007.¹ By October 2009, some 22 months later, the number of unemployed Americans had more than doubled, from 7.5 to 15.7 million. During that time, the monthly unemployment rate increased from 4.9 to 10.2 percent of the labor force.² These dramatic changes happened in an extremely short period of time: only one other time since 1948 has the average monthly national unemployment rate been higher—during the deep recession of 1982, when the unemployment rate hit 10.8 percent—and that level was reached over a time span of nearly four years in duration (Figure 2).

¹ National Bureau of Economic Research (NBER) business cycle expansions and contractions, <http://www.nber.org/cycles/cyclesmain.html>.

² Labor force statistics from the Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor, <http://www.bls.gov/webapps/legacy/cpsatab1.htm>.



Peak unemployment over the past 50 years occurred in 1982, and Figure 2 illustrates a differing pattern of unemployment over time before the peak and after that date. The unemployment lows during economic expansions were successively higher in the years preceding 1982, and the unemployment lows during economic expansions were successively lower in the years following 1982. The year 1982 is also around the tipping point in terms of business interaction with the federal-state unemployment insurance (UI) system. Before that time, temporary furloughs were commonly followed by employer recalls. That changed as permanent industrial restructuring began in the early 1980s and accelerated in the following years. Manufacturing plant closings and mass layoffs mushroomed in the 1980s. In 1986, the Economic Dislocated Worker Adjustment Act (EDWAA) created a new federal funding stream for job retraining of dislocated workers. In 1993, federal UI reforms instituted the Worker Profiling and Reemployment Services (WPRS) system, which targeted early job search assistance to UI beneficiaries who were at risk of long-term joblessness. Despite the 1980s' cumulative layoffs, a business expansion enabled unemployment to reach a cyclical low in 1989

at 5.3 percent of the labor force; the next business expansion, in the mid-1990s, resulted in unemployment reaching an even lower 4.0 percent in the year 2000.

The macroeconomic stability after the 1980s has been attributed to a new era of steady monetarist economic management. Credit tightening by the Federal Reserve (Fed) central bank in 2001 led to a rise in unemployment followed by a gradual return to a low of 4.6 percent in 2006 and 2007. The previous economic recovery was supported by cuts in federal personal income tax rates as well as by lower interbank lending rate targets by the Fed. Unemployment remained at historical lows until the tremors of the recent financial crisis began to rock markets.

Unemployment resulting from the economic crisis

New claims for unemployment insurance (UI) benefits averaged 322,000 a week from 2005 through 2007. In the 52 weeks from the start of October 2008 to October 2009 UI claims averaged 577,000 a week. In the week ending ten days before Barack Obama was inaugurated president of the United States, a total of 956,791 Americans filed new claims for UI benefits (Figure 3). Upon taking office the new president seized the initiative to renew employment

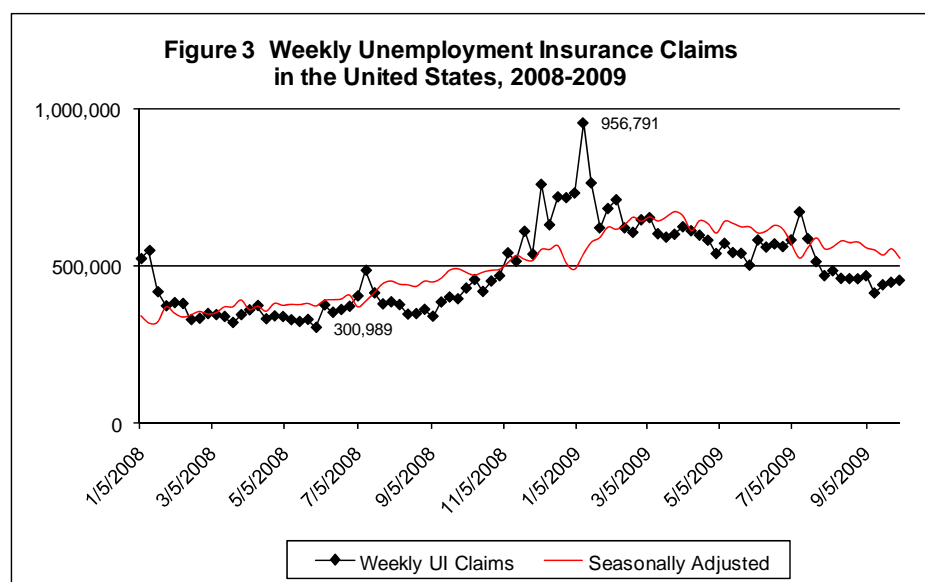


Table 1 Rates of Unemployment in the United States by Sex, Age, Full-Time or Part-Time Status, and the Distribution of Total Unemployment by Duration, September 2008 and September 2009

	September 2008	September 2009
Full-time	6.3	10.7
Men, 16+	6.7	11.6
Men, 20+	6.3	11.0
Women, 16+	5.7	9.5
Women, 20+	5.3	9.0
Both, 16 to 19	29.6	43.3
Part-time	5.9	6.4
Men, 16+	7.3	7.9
Men, 20+	5.0	5.4
Women, 16+	5.0	5.5
Women, 20+	3.7	4.2
Both, 16 to 19	14.4	17.2
Total unemployment	6.2	9.8
Distribution of unemployment by duration		
Less than 5 weeks	29.8	19.4
5 to 14 weeks	32.1	25.6
15 weeks and over	38.1	54.9
15 to 26 weeks	16.9	19.3
27 weeks and over	21.2	35.6

SOURCE: U.S. Bureau of Labor Statistics, Current Population Survey, monthly tables A-3, A-6, and A-12, <http://www.bls.gov/cps/tables.htm#monthly>.

policy. As a result, occupational skill training received prominent attention in the federal macroeconomic stimulus bill, called the American Recovery and Reinvestment Act (ARRA) of 2009.

From September 2008 to September 2009 the rate of unemployment rose dramatically, from 6.2 to 9.8 percent of the labor force, and the composition of the unemployed population changed substantially (Table 1). Full-time workers employed more than 33 hours per week were affected more than part-time workers, who often hold multiple jobs. Among full-time workers the unemployment rate rose from 6.3 to 10.7 percent, while for part-time workers unemployment rose from 5.9 to 6.4 percent during the 12-month period. However, this comparison, which seems to favor part-time workers, masks an increase in the rate of involuntary part-time work by those who would prefer full-time work (BLS 2008). In the 12 months starting September 2008, young workers experienced increases in unemployment proportionate to those for all full-time

workers. However, since young workers started from a rate that was already very high, the final unemployment levels are staggering. Among full-time workers aged 16 to 19, unemployment rose from 29.6 to 43.3 percent, and among youth working part-time, unemployment rose from 14.4 to 17.3 percent.

The wave of industrial restructuring that started in the 1980s continued through much of the remainder of the century. Compared to the precipitous rise in unemployment in 2008 and 2009, the previous several recessions occurred during a phase of steady decline in manufacturing employment and were followed by what came to be known as jobless economic recoveries. That is, unemployment was slow to fall, even as economic activity resumed. Economic restructuring involved employment shifts across employers and industries, requiring workers to change occupations and employers to retrain their workforces. The present recession has caused unemployment to rise both higher than previous ones did and also much more quickly. Unemployment has surged at a feverish pace.

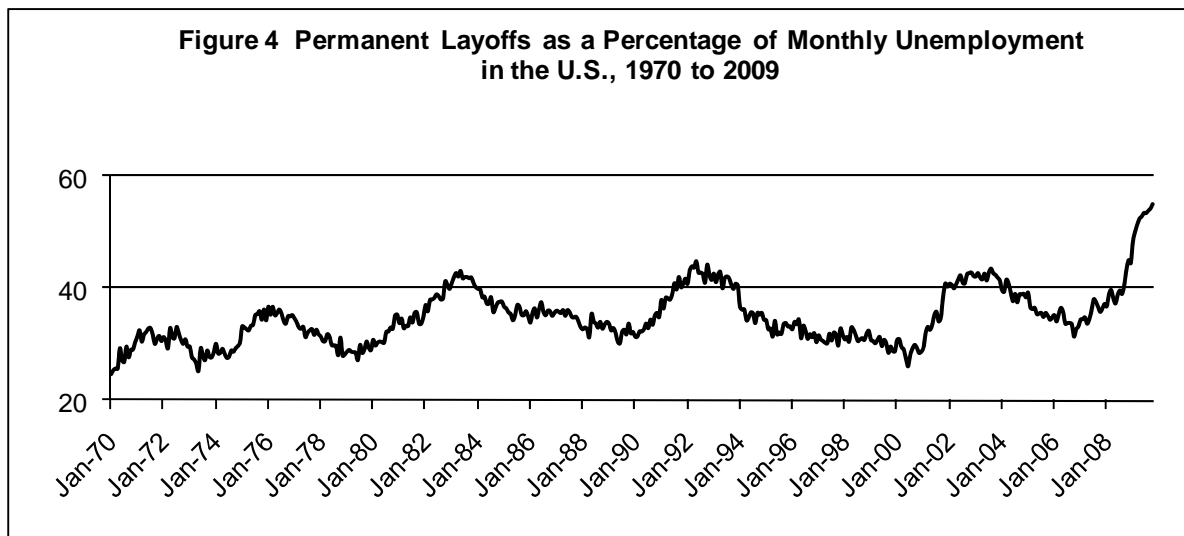
The stock of unemployment at any one time is the net result of inflows to the ranks of unemployed from those who have just lost their jobs as well as from those who have just joined or rejoined the labor market and are looking for work, minus outflows from the unemployment ranks from those who have found employment or have withdrawn from the labor force entirely. For the most recent recession, the rise in unemployment resulting from inflows among the jobless swamped outflows from unemployment to new jobs. In the three months from December 2008 through February 2009, a total of 9.8 million new claims for UI were filed.

This surge in unemployment has led some analysts to speculate that the current recession is different from the previous two. Groshen (2009), of the Federal Reserve Bank of New York, asserts that, in the past, “deeper recessions tended to be more cyclical,” so in such recessions a

larger share of job separations may be temporary rather than permanent layoffs. She contends that job losses in the current recession are more widely diffused across industries and posits that temporary and permanent layoffs may be more balanced in the latest recession than in its predecessors. The previous recessions were engineered by the Fed's gradually raising the target interbank lending rate 25 basis points every six weeks. However, the current tsunami of layoffs was largely driven by the complete unavailability of credit to businesses at any rate. Businesses that normally manage operating cash flows with bank lines of credit found that those sources had dried up overnight. Banks were hoarding cash to secure their own balance sheets as value in their loan portfolios evaporated.

Other analysts suggest that a jobless economic recovery might persist for longer than was seen in recent recessions. Writing on the Federal Reserve Bank of Atlanta's macroblog, Pitts (2009) cites evidence that very small businesses, employing 50 or fewer persons, suffered 45 percent of the nation's job losses during the first year of the current recession. That is significant, given that even though one-third of the job growth in the expansion that preceded the 2001 recession was attributed to very small firms, only 9 percent of job losses in the 2001 recession originated in such firms. Pitts quotes William Dudley, president of the New York Fed, as saying that the credit worthiness of small-business borrowers has deteriorated. Not only is their credit shaky, Dudley says, but "some sources of funding for small businesses—credit card borrowing and home equity loans—have dried up ... and, small businesses have few alternative sources of funds."

Recent data from the Bureau of Labor Statistics (BLS 2010) indicate that permanent layoffs as a share of total unemployment have reached an all-time high of over 55 percent (Figure 4). This rate had previously only topped 40 percent in 1983 (42 percent), 1992 (45



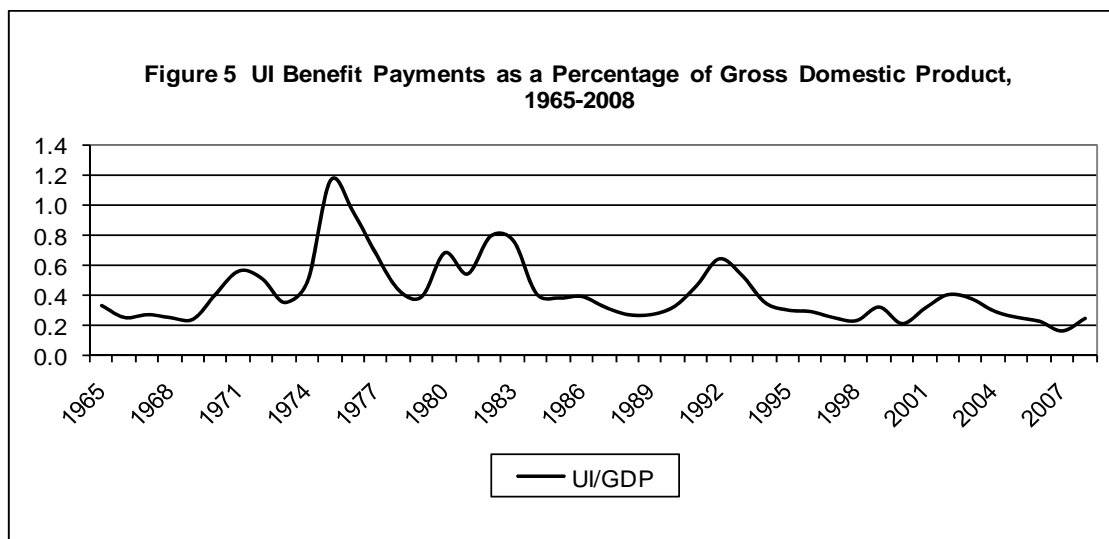
percent), and 2003 (44 percent). The current rate of permanent layoffs—a quantum leap over previous marks—suggests a protracted period of high joblessness in the coming months.

In terms of indicating workers’ exposure to hardship from job loss, the increase in the share of long-term unemployment is an informative measure. Long-term joblessness is defined as being more than six months out of work. The rate of long-term joblessness jumped from 21.2 percent of all unemployed in September 2008 to 35.6 percent of all unemployed in September 2009 (Table 1). The maximum duration of entitlement to regular unemployment insurance benefits in this country is 26 weeks in all but two states, where it is 30 weeks. In the current labor market, a sizable proportion of all UI beneficiaries are at risk of exhausting benefit entitlement.

Since 1960, the share of workers in the labor force who are covered by UI has trended upward. Today nearly all wage and salary employers are required to pay UI taxes on their payrolls and in 2008 employees covered by UI made up 86.8 percent of the labor force. The majority of workers not covered by UI work in self-employment; others work on family farms or

for churches. The dramatic rise in UI coverage in the past half-century—up from 57.7 percent of the labor force in 1960—resulted mainly from 1972 UI reforms that brought nonprofit and governmental agency employers under the system.

Despite the broadened coverage, the ratio of insured to total unemployed has fallen to one-half of what it was—from 86 percent in 1960 to 43 percent in 2008 (Figure 2). The declines were sharpest in the 1960s and fell again in the 1970s. The reduced share of jobless workers receiving UI benefits saps the strength of the UI system to inject spending during economic downturns, thus hampering its ability to act as an automatic macroeconomic stabilizer. As a share of aggregate economic activity, measured by gross domestic product (GDP), total UI benefits have been declining in importance (Figure 5). Since 1965, UI benefits as a share of GDP have ranged between 0.16 and 1.16 percent. The highest rates have occurred during recessions, when GDP has been depressed and UI benefit payments have increased. Since the peak of 1.16 percent in 1975, the subsequent recessions have seen UI-GDP ratios at successively lower cyclical peaks: the ratio reached 0.79 percent in 1982, 0.64 percent in 1992, and 0.40 in 2002. After the 1982 recession, when many states were forced to borrow from the federal



government to pay UI benefits, several states increased their UI eligibility requirements. This lowered UI recipiency rates and reduced the countercyclical effectiveness of the UI system to inject significant amounts of UI benefits automatically during economic recessions.³

Unemployment insurance benefit payments constitute a larger share of GDP during the current recession. This is both because GDP has declined and because there have been huge increases in the number of beneficiaries and their average duration of benefit receipt. Additionally, there have been a series of federally financed UI benefit extensions for exhaustees of the regular 26-week entitlement. These can amount to two extensions of up to 20 weeks each and a third of up to 13 weeks, depending on the level of unemployment in a state, so the maximum potential duration of benefits in many states with high unemployment rose to 79 weeks—about a year and a half. As unemployment has continued to rise, Congress recently passed yet another extension of UI benefits, adding 20 weeks of benefits in states with unemployment of over 8.5 percent and 14 weeks of benefits in other states. President Obama signed this benefit extension into law on November 7, 2009, raising maximum durations to 99 weeks. The total amount of UI paid out in the 12 months ending June 30, 2009, was \$75.0 billion in regular UI benefits plus more than \$34.7 in federally funded extended benefits.⁴ That total is 0.77 percent of GDP at the \$14.3 billion annual rate estimated in October 2009 (BEA 2009).

³ Recent estimates based on five post–World War II recessions suggest the spending multiplier of UI benefits to be 2.15 during periods of high unemployment. That means each \$1.00 of UI benefits received by the unemployed acts to increase gross domestic product (GDP) by \$2.15 through respending in the economy.

⁴ In addition to fully paying for benefits under the permanent extended benefits program, the federal government has also fully paid for a series of extended UI benefits programs. As of September 16, 2009, the funding levels are as follows: Tier 1, \$21.6 billion; Tier 2, \$6.5 billion; ARRA April, \$0.4 billion; ARRA May, \$1.1 billion; ARRA June, \$1.9 billion; and ARRA July, \$3.3 billion; for a total of \$34.7 billion (ETA 2009).

Regarding UI for jobless workers, the main elements of the American Recovery and Reinvestment Act of 2009, signed by President Obama last February, include provisions to do the following:

- Continue federally funded extended UI benefits for up to 33 weeks, after exhaustion of 26 weeks of regular UI benefits, through December 31, 2009, at a cost of \$27 billion.
- Increase UI benefit amounts by \$25 per week through June 30, 2010, at a cost of \$9 billion.
- Make a \$7 billion distribution from the Unemployment Trust Fund, as permitted by the Reed Act, to states having legal provisions for items listed in Rep. Jim McDermott's (D-WA) UI Modernization Act. The money will be allocated to states based on their share of the nation's unemployment. States will receive one-third of their allocation for having an alternate base period (ABP) for monetary determination of UI eligibility.⁵ The remaining two-thirds will be granted for having two of the following four provisions: 1) permitting claimants who normally work part-time jobs to seek only part-time work as reemployment, 2) permitting eligibility for job separations due to employer harassment or compelling family reasons, 3) having allowances of at least \$15 per dependent up to at least \$50 total per week, and 4) giving job search waivers for 26 weeks to beneficiaries involved in commissioner-approved job training.
- Pay COBRA costs to extend health insurance coverage to the unemployed. Extend the period of COBRA coverage for older and tenured workers beyond the 18 months provided under current law.⁶ Specifically, workers 55 and older, and workers who have worked for an employer for 10 or more years, will be able to retain their COBRA coverage until they become Medicare-eligible or secure coverage through a subsequent employer. In addition, ARRA will subsidize the first 12 months of COBRA coverage for eligible persons who lost their jobs on or after September 1, 2008, at a 65 percent subsidy, the same rate provided by the Health Care Tax Credit

⁵ The UI base period is the time frame over which prior earnings are examined to determine an individual's UI eligibility and benefit entitlement. The standard base period (SBP) is the first 4 of the 5 most recently completed calendar quarters. The alternate base period (ABP) would be the 4 most recently completed calendar quarters. For example, if the SBP was July 2008 to June 2009, the ABP would be October 2008 to September 2009.

⁶ The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986 gave workers and their families who lose their health benefits because of a job separation the right to continue to receive health benefits provided by the group health plans of their former employers for limited periods of time. The separating employees who choose to continue coverage must pay the health insurance premiums themselves.

for unemployed workers under the Trade Adjustment Assistance program. The estimated cost is \$30.3 billion.

- Provide 100 percent federal funding through 2010 for optional state Medicaid coverage of individuals (and their dependents) who are involuntarily unemployed and whose family income does not exceed a state-determined level, but is no higher than 200 percent of poverty, or who are receiving food stamps.

EXPECTATIONS OF EMPLOYMENT AND TRAINING PROGRAMS IN THE ECONOMIC CRISIS

ARRA brought significant additional federal funding to employment policy programs. For program year 2009, the ARRA money for occupational skill training doubled the levels authorized before the recession was recognized. Until then, delivery of services for ARRA-funded employment and training efforts had relied largely on existing institutional arrangements. The ARRA money renewed some programs that had withered in recent years. Innovations came mainly in the form of income replacement and supportive services during retraining and job search, as well as new mechanisms for assuring effective use of funds for public employment programs.

EXISTING INSTITUTIONAL FRAMEWORK

The Great Depression spawned a triad of public employment policy programs: First, the Wagner-Peyser Act of 1933 established the U.S. Employment Service. Second, the Social Security Act of 1935 established the federal-state UI program. Third, federal training policy had

its origins in Depression-era *New Deal* programs for public works. This occupational skill training lapsed during postwar recessions but was reborn in different guise in following years.⁷

In the wake of World War II, at a time when returning soldiers swelled the civilian labor force and there were expectations that prewar unemployment levels would return, the Employment Act of 1946 (P.L. 79-304) declared it to be a responsibility of the federal government to use all practical means “to promote maximum employment, production, and purchasing power” (Samuelson (1973, p. 354). Following economic stagnation in the 1950s, public job training programs for dislocated workers began with the 1962 Manpower Development Training Act (MDTA). Under MDTA, training was viewed as an antipoverty program, and the federal government took a centralized and categorical approach to eradicating poverty. The federal government targeted funding toward specific groups and made funds available to communities according to a formula based on population and estimates of the proportion of residents living below the poverty income level. Rudimentary systems for monitoring the use of training funds were established in the final years of MDTA.

The Comprehensive Employment and Training Act (CETA) of 1973 brought a new approach to raising the job skill levels of the economically disadvantaged. In an effort to decategorize and decentralize program administration and service delivery, CETA introduced the concept of local advisory boards that would guide program planning and the monitoring of participant outcomes for performance measurement. CETA offered both classroom job skill training and on-the-job training through work experience at public and nonprofit employers.

⁷ See O’Leary and Straits (2004) for a more extensive exposition of these ideas.

The 1980s, says Palmer (1983), brought a “conservative challenge on the principles, policies, and programs of the liberal tradition of federal activism in economic and social affairs as it evolved in the half of the century starting with the New Deal” (p. 9). The aim of policy became that of increasing earnings and employment while decreasing dependency on public cash-assistance welfare payments. Policymakers identified classroom skill training as a major weakness of existing programs and placed an emphasis on customized training to serve the specific needs of local employers who had jobs waiting to be filled.

The Job Training Partnership Act (JTPA) of 1982 limited training choices to skills in occupations for which there was job demand locally. JTPA increased private sector membership on local advisory committees to ensure that business interests were served. By the time JTPA was enacted in 1982, CETA-type public service employment programs had become taboo: the public regarded such direct job-creation efforts as expensive, and research had detected significant deadweight. There was evidence of fiscal substitution by public agencies replacing local government employees with CETA-funded staff, and the popular media had documented instances of fraud and abuse (Johnson and Tomola 1977).

The JTPA emerged in a time of crisis as a truly bipartisan effort; its prime sponsors were the liberal Senator Ted Kennedy of Massachusetts and the conservative Senator Dan Quayle of Indiana. The JTPA included two key features that may now be regarded as hallmarks of bipartisan compromise employment policy legislation: program evaluation requirements and a sunset date. The legislation instituted an ongoing system of performance measurement and required a comparison-group-design net-impact evaluation to be performed before JTPA reached sunset, five years after authorization. Under JTPA, participant employment and earnings rates were monitored, and an adjustment methodology was implemented to defeat cream-skimming by

program administrators tempted to enroll more able program participants to yield higher measured levels of program performance.

In the 1990s, President Clinton signed into law two pieces of legislation that changed welfare and employment policy in America. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) established Temporary Assistance for Needy Families (TANF) in 1996 as the main federally funded program for cash assistance to needy families. The fundamental requirement for states under PRWORA is to have most TANF recipients working within two years of first receiving benefits. The Workforce Investment Act (WIA) of 1998 included many of the political characteristics in PRWORA. WIA reoriented the employment and training system to be customer-focused, with an emphasis on return to work. It created One-Stop Career Centers across the country to provide all employment services under one roof, established individual training accounts to promote customer choice, and extended performance measurement to support a system of consumer reports on training providers.

Funds under WIA are allocated to states, and governors enjoy much more discretion than they had under prior job training legislation. This represents devolution of the federal role. The specific components of programs vary across states, and even within states, but the desired outcome is clear: WIA instituted the principle of “work first.” The practical implication was that the best training is a job. Getting people into jobs quickly was the theme; there was a reduced emphasis on formal education leading to university degrees. The WIA program introduced Individual Training Accounts (ITAs), which were essentially vouchers, and permitted a variety of types of training: classroom training or less-than-classroom training, customized training, occupational-skill training, on-the-job training (OJT), incumbent-worker training, and work-plus training (Table 2).

Michigan data since the start of WIA on July 1, 2000, helps one get a sense of the proportion of program participants in each of the various types of training (Table 3). In Michigan, 32.7 percent of skill training took place in classrooms where every seat was occupied by a WIA-funded participant, and where the class had been scheduled by a local Workforce Investment Board (WIB). An additional 42.5 percent of participants engaged in individual training chosen in consultation with a staff person at a WIA One-Stop center known as a Michigan Works! office; this individual training was paid for with an ITA voucher issued by the local WIA administrative unit for the exact cost of the training. Some 14.1 percent of trainees received on-the-job training, and 4.9 percent of participants were incumbent workers receiving skill upgrades to avoid job loss.

Table 2 Types of Training Permitted with Workforce Investment Act Funding

CLASSROOM TRAINING

Academic or occupational training conducted in an institutional setting or through distance learning using technology. Effective classroom training will provide linkages between academic and occupational learning.

CUSTOMIZED TRAINING

Training that 1) is designed to meet the special requirements of an employer (or a group of employers), 2) is conducted with a commitment by the employer to employ an individual upon successful completion of the training, and 3) is open to employers who pay for not less than 50 percent of the cost of the training.

OCCUPATIONAL SKILL TRAINING

Consists of training and education for job skills required by an employer. This training seeks to provide individuals with the abilities to obtain or advance in employment or to adapt to changing workplace demands. Job skill training focuses on educational or technical training designed specifically to help individuals move into employment. Placement into this activity requires the appropriate basic skill education for individuals who have been assessed as having math or reading skills below the ninth-grade level.

ON-THE-JOB TRAINING

Training by an employer that is provided to a paid participant while that person is engaged in productive work in a job that 1) provides knowledge or skills essential to the full and adequate performance of the job, 2) provides reimbursement to the employer of up to 50 percent of the wage rate of the participant for the extraordinary costs of providing the training and additional supervision related to the training, and 3) is limited to the period of time required for a participant to become proficient in the occupation for which the training is being provided.

REMEDIAL TRAINING

Training that is necessary to raise a participant's job skill level so the participant can qualify for certain vocational skill training or achieve employment. There are various types of remedial training, which may be required or taken in conjunction with some types of occupational training. Types of remedial training may include GED, developmental math, reading and English, and English as a Second Language.

SOURCE: Workforce Investment Act regulations.

Table 3 Michigan WIA Participants in Different Types of Training, by Number and Percentage, July 1, 2000 - November 30, 2008

Training type	Participants	Percentage
Adult education	198	0.3
Classroom training	25,538	32.7
Customized training	1,987	2.5
Entrepreneurial training	18	0.0
Job readiness	279	0.4
Literacy	96	0.1
Occupational skill	33,118	42.5
On-the-job	10,968	14.1
Skills upgrade	3,860	4.9
Workplace training	1,926	2.5
Total	77,988	100.0

SOURCE: Michigan tabulations of WIA participants.

About 2.5 percent of participants received employer-designed, customized training provided in classrooms away from the employer location to prospective employees, and another 2.5 percent (under the heading “workplace training”) received soft skills training in proper behavior when on a job. In the summer of 2009, the 100,000th participant entered WIA training through a Michigan Works! one-stop center.

Changes adopted in the economic crisis

In response to the economic crisis, the biggest change in job-training policy by the federal government was to increase funding for existing programs across the board. Table 4 presents a summary of program funding of training for program year 2008 compared to 2009, along with supplemental funding provided by ARRA in February 2009. As the table shows, ARRA funding more than doubled the federal support for job training that had been planned in the 2009 budget. ARRA provided stimulus over a two year period, and the table shows program funding levels for 2010.

In Michigan about two-thirds of the additional training money added to WIA by ARRA was actually spent to give work experience to youth aged 14 to 24 during the peak rate of job

Table 4 Federal Spending on Employment and Training, 2008–2010 (\$ 000s)

	2008	2009	ARRA-2009	2010
WIA Adult Employment and Training Activities	849,101	861,540	500,000	861,540
WIA Dislocated Workers Employment and Training Activities	1,323,373	1,341,891	1,450,000	1,413,000
WIA Youth Activities	924,069	924,069	1,200,000	924,069
Green Jobs Innovation Fund	0	0	0	50,000
Workforce Data Quality Initiative	0	0	0	15,000
Reintegration of Ex-Offenders	73,493	108,493	0	115,000
Career Pathways Innovation Fund	122,816	125,000	0	135,000
Pilots, Demonstrations and Research Evaluations	48,508	48,781	0	57,500
Women in Apprenticeship	4,835	6,918	0	11,600
Denali Commission	983	1,000	0	1,000
Indian and Native American Programs	6,755	3,378	0	0
Migrant and Seasonal Farm workers	52,758	52,758	0	52,758
Youthbuild	79,668	82,620	0	82,620
Job Training for Employment in High Growth Industries	58,952	70,000	50,000	114,476
Total Budget Authority	3,545,311	3,626,448	3,950,000	3,833,563

SOURCE: ETA (2009). http://www.doleta.gov/budget/docs/10ETA_BIB.pdf.

loss, in the second and third quarters of 2009. The program, called the Summer Youth Employment Program, had been largely dormant the previous few summers, but the ARRA injection resulted in hundreds of thousands of work placements for youth nationwide; it paid the federal minimum wage of \$7.25 per hour for about 30 hours per week. The volume of employment may have temporarily lowered unemployment in some communities by about three-quarters of a percentage point, and it provided valuable work experience to youth from low-income families. In Kalamazoo, Michigan, during previous summers, many youth quit the summer program before it was finished, but in 2009 nearly all summer youth participants worked for the full number of weeks available, usually 6 to 10 weeks.

The summer work experience of these youth not only contributed to household income, but could have positive and lasting effects for them.

ARRA aimed to preserve and create jobs and to assist those most affected by the recession. The legislation recognized the importance for workers of possessing the appropriate skills—i.e., those demanded by employers. Therefore, ARRA more than doubled the appropriations for additional training and instruction for dislocated workers and disadvantaged adults from the amounts in the 2009 budget. In total, ARRA made an additional \$3 billion available to train and upgrade the skills of displaced or economically disadvantaged workers.

While these funds support training for eligible workers from all sectors hit hard by the recession, autoworkers have received particular attention because of the huge job losses the automobile manufacturing sector has incurred over the past year. During the 12-month period ending January 31, 2010, national employment in the production of motor vehicles plunged by 41.3 percent, a loss of 84,400 jobs. During the same period, the nation's tier one auto parts manufacturers cut 21.8 percent of their workforce, a reduction of 125,600 jobs. Significant cuts are expected to continue, as Chrysler and General Motors have entered into bankruptcy in order to restructure their troubled organizations. To help lessen the hardship, the government has set aside dedicated funds to assist laid-off autoworkers.

The ARRA funding for worker training is channeled through the existing workforce development programs funded and administered by the U.S. Department of Labor (USDOL). Consequently, the type of training remains the same, while the capacity to serve additional workers has been expanded under the ARRA program. Five programs receive most of the ARRA training funds: 1) the Dislocated Worker Program, 2) the Adult Program (for economically disadvantaged adults), 3) Trade Adjustment Assistance, 4) National Emergency

Grants, and 5) Worker Training and Placement in High Growth and Emerging Industries. The first two programs are under the Workforce Investment Act, which since 1998 has governed most of the federal workforce development programs. Together, the Dislocated Worker and Adult programs received \$1.750 billion in stimulus funds. The Trade Adjustment Assistance program received \$353 million more for training and other support activities, and an additional \$750 million was appropriated for the High Growth and Emerging Industries initiative. ARRA gave the National Emergency Grant program, which responds to plant closing and mass layoffs, an added \$200 million.

The WIA programs for disadvantaged adults and dislocated workers received the largest share of the stimulus dollars for training.⁸ WIA program funds flow from the federal government through the states to the local Workforce Investment Boards (WIBs). Each of the more than 500 local WIBs is responsible for administering the WIA programs in its jurisdiction and for contracting with local organizations to provide the services. The WIBs typically contract with local community colleges, secondary school districts, and private companies to provide the training. Additionally, states themselves can enter into contracts with institutions of higher education, such as community colleges, or other eligible training providers to facilitate the training of a group of individuals in high-demand occupations.

Training under WIA takes place in various venues and encompasses instruction for different levels of skills. Occupational skill training refers to training for a particular skill or for a set of skills necessary to qualify for an occupation. Community colleges and private training

⁸ WIA includes a third program—Disadvantaged Youth—but most of the stimulus dollars for this group were spent on the Summer Youth Program providing work experience to economically disadvantaged youth during the summer months when school is not in session.

providers typically provide this type of training, which takes place outside the workplace and in a classroom setting. On-the-job training (OJT) takes place in the workplace and provides job seekers with work experience and skill training that will help them qualify for and retain employment. The OJT program pays the workers' employer half the costs of training. Apprenticeship training combines education and work experience and results in a portable credential that is recognized by employers nationwide. Customized training is designed to upgrade the skills of incumbent workers in specific businesses. Businesses apply for the grants, and, once they are approved, the training is tailored to their needs, and the services are provided either at the company or at community college training centers. Under this program, the employer pays for at least half of the cost of the training. The High Growth and Emerging Industries initiative provides specific training for workers to enable them to qualify for energy-efficiency and renewable-energy jobs and for careers in the health care sector.

WIA also provides general remedial instruction to economically disadvantaged workers, many of whom have received welfare assistance for some time and find that they do not have the work experience or the basic skills to qualify for even the most remedial jobs. Job readiness and adult education and literacy training provide the basics needed to enter the workforce.

Entrepreneurship training focuses on helping employees own their own businesses. It offers the basics of starting and running a small business, including instruction on how to write a business plan and obtain financing. The program also provides technical assistance and counseling.

Like WIA, The Trade Adjustment Assistance Act provides training to dislocated workers. The Trade Adjustment Assistance (TAA) program is similar to WIA's Dislocated Worker Program with respect to the type of training provided, but it provides more intensive training and a broader scope of supportive services. There are two major differences between TAA and the

WIA Dislocated Worker Program. First, the TAA program is intended to assist workers whose companies have been adversely affected by foreign competition, which is more of a structural issue than a cyclical one. Consequently, the number of workers who qualify for the TAA program is limited by this requirement, whereas the WIA Dislocated Worker Program includes workers displaced for a variety of reasons. Second, TAA provides cash assistance for workers while they are in training; WIA's Dislocated Worker Program does not. TAA also has more comprehensive support services than WIA's Dislocated Worker Program: TAA offers up to 130 weeks of cash payments, provides subsidized health insurance, and covers costs associated with job search and relocation.

In addition to these established programs, the Obama administration recently announced a program that is specifically targeted to helping workers and communities affected by the fallout in the auto industry—particularly those hurt by the bankruptcies of Chrysler and General Motors. The program provides training and job search assistance to workers, as well as economic development assistance to the communities in which they live. At this time, the administration has committed around \$50 million to this effort, and it is anticipated that more may be allocated.

ROLES OF RELATED PROGRAMS

Financial support during training program participation

One of the ARRA options for UI modernization is a broadening of “commissioner-approved training.” That is, UI beneficiaries can participate in job training approved by the state employment security agency and continue to receive regular weekly UI benefits as a type of training stipend. ARRA offered an incentive payment to states, which amounted to one-third of

the states' share of the \$7 billion available (based on the states' share of all UI-covered payrolls) if they extended the concept of commissioner-approved training. The requirement was for the states to add 26 additional weeks of UI benefits, at the claimants' usual beneficiary rate, for participants in approved job training after the participants had exhausted their first 26 weeks of regular UI benefits. To date, 19 states have qualified for their full UI modernization incentive payment, and only three states have chosen the enhanced job training stipend as an option for modernization. The cost to states of adopting this option is potentially high compared to other UI modernization options. Furthermore, it could be more cost-effective for states to offer wider access to work-search waivers for UI beneficiaries participating in job training during their first 26 weeks of UI eligibility. Under such arrangements, many training participants could return to work even before exhausting their initial 26-week UI entitlement.

During on-the-job training and work experience, the training participants are paid as employees; however, sometimes the training wage is somewhat lower than the earnings rate for regular employees. Wages may be paid to incumbent workers during participation in retraining.

Efforts to promote participation in training programs

The training waiver for UI modernization has been buttressed by the U.S. Department of Labor: the USDOL provides guidance to states on how to seek funding through other existing federal programs to pay for higher education, such as Pell Grants. While the type of training funded through ARRA may be the same as provided under existing workforce development programs, ARRA encourages states and local WIBs to incorporate innovative approaches in delivering these services. As well, ARRA provides additional funds to agencies that commit to implementing new strategies. One major area of emphasis is in meeting the skill needs of

existing and emerging regional employers and high-growth occupations. To achieve this goal, the USDOL encourages states and WIBs to integrate assessment and data-driven career counseling into their service strategies in order to align training with areas of anticipated economic and job growth. To help with this effort, ARRA funds can be used to upgrade information technology to better target unemployment insurance recipients so that WIB staff can refer them to services—including training services—that best meet their needs. A specific proposal is to integrate labor market data, such as job demand projections and career requirements, directly into a strategic decision-making system that can be used by staff who work directly with displaced workers. This would give front-line staff more comprehensive and current information about job prospects and skill requirements.

Another area of emphasis is the strengthening of partnerships among WIBs, businesses, economic development agencies, and educational institutions. Such partnerships can enhance communication between the entities so that needs and concerns of the various partners can be quickly identified and acted upon. Partnerships also provide more seamless service integration within the workforce development system as well as between workforce development programs and educational programs. Bringing educational institutions into closer interaction with workforce development programs creates the opportunity to align education and training at every level, so that workers can easily gain the instruction they need to move along their career paths. This alignment would include assessments and certifications articulated to the requirements at each level of education and employment.

Reemployment services after completion of training programs

All U.S. residents and all training participants have free access to job-matching services available through the Wagner-Peyser-funded public employment service. Beyond that, job skill training participants have additional advantages in securing a job:

- On-the-job training participants have an opportunity to develop an extended relationship with an employer and to demonstrate capacities and aptitudes.
- Customized training participants are trained with the express purpose of satisfying specific employer demands, and the employer helps screen the training participants, so a job opportunity is implicit following completion of training.
- Incumbent worker training is WIA-funded job training that can take place either at the employer's location or off-site. Federal funding is provided to save jobs that are at risk. Once training is completed, the employer has an obligation to retain the newly retrained employees.

Performance Monitoring and Accountability

The USDOL has long recognized the importance of accountability and transparency by establishing performance measures as an integral part of the federal workforce system. Under WIA, the Employment and Training Administration (ETA)—the entity within the Department of Labor responsible for WIA—established three basic performance measures: 1) entered employment, 2) job retention, and 3) earnings levels. Each state negotiates with the USDOL to set standards, and the states in turn negotiate with each of their local Workforce Investment Boards to determine their performance targets.

The current system of performance measurement for disadvantaged and dislocated adults has the three common measures mentioned above, computed as follows:

1) Entered employment. Of those not employed at the date of participation:

Number of adult participants employed in the first quarter after the exit quarter
(divided by)
Number of adult participants who exit during the quarter.

2) Employment retention. Of those employed in the first quarter after the exit quarter:

Number of adult participants who are employed in both the second and third quarters after the exit quarter
(divided by)
Number of adult participants who exit during the quarter.

3) Average earnings. Of those adult participants who are employed in the first, second, and third quarters after the exit quarter:

Total earnings in the second plus total earnings in the third quarter after the exit quarter
(divided by)
Number of adult participants who exit during the quarter.

For disadvantaged and dislocated adults the negotiated and actual performance results for program year 2007 are as shown below

(<http://www.doleta.gov/Performance/results/AnnualReports/annual-report-07.cfm>):

Disadvantaged adults	Negotiated 2007	Actual 2007
Entered employment rate	79.9%	69.6%
Employment retention rate	83.9%	83.8%
Average earnings, Q2+Q3	\$11,011	\$13,575

Dislocated workers	Negotiated 2007	Actual 2007
Entered employment rate	85.3%	72.5%
Employment retention rate	89.6%	87.2%
Average earnings Q2+Q3	\$14,149	\$15,188

The current system of performance measurement for disadvantaged youth also has three common measures. They are computed as follows:

1) Placement in employment or education. Of those who are not in postsecondary education or employment (including the military) at the date of participation:

Number of youth participants who are in employment (including the military) or enrolled in postsecondary education and/or advanced training/occupational skill training in the first quarter after the exit quarter
(divided by)

Number of youth participants who exit during the quarter.

- 2) Attainment of a degree or certificate. Of those enrolled in education (at the date of participation or at any point during the program):

Number of youth participants who attain a diploma, GED, or certificate by the end of the third quarter after the exit quarter

(divided by)

Number of youth participants who exit during the quarter.

- 3) Literacy and numeracy gains. Of those out-of-school youth who are deficient in basic skills:

Number of youth participants who increase one or more educational functioning levels
(divided by)

Number of youth participants who have completed a year in the program (i.e., one year from the date of first youth program service) plus the number of youth participants who exit before completing a year in the youth program.

For disadvantaged youth the negotiated and actual performance results for program year 2007 are shown below:

Disadvantaged youth	Negotiated 2007	Actual 2007
Placement in employment or education rate	61.6%	62.3%
Attainment of degree or certificate rate	47.8%	56.8%
Literacy and numeracy gains	36.9%	30.4%

As the practice of setting performance standards evolved, states and WIBs increasingly found that negotiations were not taking into account factors that affected their performance but were beyond their control and not related to the services they provided. These factors include the conditions of the local labor market and the personal characteristics and work history of participants in their programs. Without accounting for differences in these factors across states and across WIBs, those entities with more favorable labor market conditions or more capable participants are likely to have higher outcomes, and those for whom these factors are unfavorable can expect lower outcomes. Consequently, differences in these outcomes are not the result of

how well service providers have met the needs of their customers, but reflect factors outside their control and extraneous to the effectiveness of their service delivery.

Therefore, a concern that quickly surfaced in implementing ARRA was whether the targets, if set unrealistically high, would discourage states and WIBs from enrolling those individuals who needed the services the most. Recently the ETA has responded to this concern by adjusting the targets at the national level to take into account the effect of higher unemployment rates on the performance measures. Since WIA was implemented in 1998, targets have been set progressively higher each successive program year, raising the bar for performance without adjusting the targets for changes in national or local economic conditions. However, the depth of this recession has prompted the ETA to establish a target-setting procedure that is objective, transparent, and reflective of current conditions. It does this by estimating the effect of changes in unemployment rates on the three performance measures and then using that estimate to adjust performance standards according to the assumptions for next year's unemployment rates as presented in the President's 2010 Budget Request to Congress. These adjusted performance targets in turn affect the targets at the state and local levels, but still do so through negotiations.

The next step is to extend this objective procedure of setting national targets to setting targets for states and WIBs. This requires adding the effect of differences in personal characteristics to the effect of differences in unemployment rates in order to calculate the adjustments. A similar procedure was used under the JTPA, the immediate predecessor to WIA. Implementing such a target-setting procedure moves the performance measures closer to reflecting the value-added of the services provided by workforce development programs rather than simply recording the effects of all factors (most of which are extraneous to the value-added

of the services) on a worker's employment outcomes. Such a performance system helps to lessen adverse incentives to "cream-skim" the registration of customers for the best applicants and encourages the delivery of services to those who need them most in these difficult economic times. The performance measurement methodology adopted by the USDOL for gauging valued-added while counteracting cream-skimming was developed at the Upjohn Institute by Eberts, Bartik, and Huang (2009).

In addition to adhering to the existing performance system as adjusted to account for economic conditions, ARRA stresses transparency and accountability in the use of funding provided by the act. One innovative addition is a Web site that tracks the money spent under ARRA. The website, Recovery.gov, follows the disbursement of all ARRA funding, not just the money going to training and other workforce development programs. The Office of the Vice President is charged with the responsibility of ensuring that all recovery funds are spent as the legislation intended and in the most effective way to promote a quick and sustained recovery.

Effectiveness of Training

Although WIA has been in place for more than a decade, there has never been a rigorous evaluation of its effectiveness using a field experiment involving random assignment.

Conversely, Congress required that WIA's predecessor, the JTPA, be evaluated using the random assignment approach.⁹ Therefore, most of what we know about the effects of job

⁹ The field experiment methodology creates a comparison group by randomly assigning individuals to either a treatment group or a control group. Individuals in the treatment group receive training, and those in the control group do not. As the assignment is random and with a large enough sample, the average characteristics of persons in the two groups should be similar in terms of observable factors such as demographics as well as unobservable attributes such as motivation for employment. In principle this approach eliminates selection bias. Therefore, examining differences across treatment and control groups in the means of worker outcomes, such as employment and retention rates, yields net impacts of training.

training programs comes from that evaluation. However, Upjohn Institute staff and others have conducted evaluations of WIA for a few states using a nonexperimental econometric approach, which yielded results that are consistent with the JTPA field experiment estimates. Here we summarize results from both studies to offer a perspective on the effectiveness of job training.

In general, results from the JTPA field experiment found positive but modest effects of job skill training on employment and earnings. The effects varied by gender, economic and labor market status, and the way in which training services were delivered. As shown in Table 5, women appeared to respond more favorably to training than men. Earnings gains 30 months after leaving the training program were nearly 7 percentage points higher for women than for men. Adult women on welfare benefited even more. The same advantage was found for young women, although the results are not statistically significant.

Table 5 Subgroup Net Impact Estimates of the JTPA National Evaluation

	Earnings (30 months)	% chg. from control group	Net benefits to enrollees	Net benefits to society
Adult men	\$1,599*	8.0%	1,822	524
OJT	2,109	9.8	2,232	648
CT	1,287	7.1	-1,694	323
Adult women	1,837***	14.8	1,422	512
OJT	2,292**	15.3%	1,695	1,091
CT	630	5.5	287	-1,027
Adult welfare women	2,387***			
OJT	4,833***			
CT	1,077			
Youth male	-868	-5.0	-530	-2,923
OJT	-3,012	-3.9	-2,481	-6,766
CT	251	8.9	815	-1,608
Youth female	210	2.0	-121	-1,180
OJT	-579	-12.5	-1,003	-2,670
CT	839	1.6	1,100	-1,028

SOURCE: Orr et al. (1996).

Curiously, adult men and women fared better in on-the-job training under JTPA, whereas young men and women responded more favorably to classroom training, although the results for

youth were not statistically significant. Finally, even though adult women had higher earnings gains than adult men, the net benefits to society for men and women were about the same. Programs with only classroom training did not generally have statistically significant results. The exception was for women, and then only when classroom training was strongly linked to employers.

The quasiexperimental econometric evaluations of WIA training have been done in a few states using program administrative and wage record data. The results from these studies as presented in Table 6 have been standardized by Hollenbeck (2009) to constant 2008 dollars. To create comparison groups for training participants, all of these studies used the nonexperimental approach of statistical matching on scores of the propensity to participate in training. Net impacts of training were then determined by comparing outcomes for individuals who participated in the training programs to those of their matched counterparts who enrolled in the employment service but never participated in any specific programs. With the exception of reemployment rates in Indiana, the results are consistent across the studies and across the states.

Table 6 Summary of Estimates of Training Effects from Nonexperimental Evaluations of WIA Job Training

Authors of studies (year)	States	Employment rate (%)	Quarterly earnings (\$)
Hollenbeck and Huang (2003)	Washington	7.9	767
Hollenbeck et al. (2005)	7 states	4.4	836
Hollenbeck and Huang (2006)	Washington	8.1	709
Heinrich, Mueser, and Troske (2008)	12 states	5.5	782
Hollenbeck (2008)	Indiana	18.2	692

NOTE: Quarterly earnings are in 2008 dollars. All entries, unless denoted with a †, are significant at the 0.05 level. na = not available. Hollenbeck and Huang (2003). Area: WA. Treatment: exit in 1997/1998. Follow-up period: 8 to 11 quarters after exit. Hollenbeck, Schroeder, King, and Huang (2005). Area: 7 states. Treatment: exit in 2000/2002. Follow-up period: 2 to 7 quarters after exit. Hollenbeck and Huang (2006). Area: WA. Treatment: exit in 2001/2002. Follow-up period: 9 to 12 quarters after exit. Heinrich, Mueser, and Troske (2008). Area: 12 states. Treatment: entry in 2003/2005. Follow-up period: 11 to 14 quarters after entry. Hollenbeck (2009a). Area: IN. Treatment: exit in 2005/2006. Follow-up period: 7 quarters after exit.

SOURCE: Hollenbeck (2009b).

The evidence suggests that job training under WIA is effective, especially in increasing employment rates, but also in generating higher earnings.

SUMMARY

The American Recovery and Reinvestment Act (ARRA) doubled the amount of money available to train and retrain workers. This injection of funds into the existing workforce training system increases the capacity of the system, both to help displaced workers adjust to the restructuring taking place in the economy and to help marginally attached workers acquire the skills necessary to gain a foothold in the job market. Studies of the effectiveness of training programs suggest that training helps. It increases both employment rates and earnings, but training appears to help displaced workers less than the economically disadvantaged. Of course, skills alone are not enough to help the millions of unemployed find jobs. Additional jobs must be created. The training component of ARRA is one of many facets of the stimulus effort.¹⁰ By equipping workers with the skills demanded by businesses now and in the future, the training initiative is intended to help speed up the recovery and provide the talent that businesses need as investments to sustain a productive economic expansion.

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¹⁰ The Congressional Budget Office (CBO 2009) estimates that in the third quarter of calendar year 2009, an additional 600,000 to 1.6 million people were employed in the United States, and real (inflation-adjusted) gross domestic product (GDP) was 1.2 to 3.2 percent higher than would have been the case in the absence of ARRA.

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