AMERICA'S JOBS CHALLENGES AND THE CONTINUING ROLE OF THE U.S. DEPARTMENT OF LABOR

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The Great Recession and its aftermath have been a particularly trying period for American workers and their families. In 2008 and 2009 employment collapsed in the wake of the financial crisis. From 2007 to 2009, the unemployment rate more than doubled and peaked at 10.0% in October 2009. More than four years into an economic recovery, the unemployment rate remains abnormally high and long-term joblessness a major problem. The employment crisis has exacerbated longer term U.S. labor market trends of rising inequality, tepid real wage growth for most workers, and a decline in middle-wage jobs.

In the adverse economic climate that has resulted America faces four major jobs challenges that highlight the continuing integral role of the U.S. Department of Labor (DOL) in supporting the American workforce on the one hundredth anniversary of DOL's establishment. The first jobs challenge is the need for stronger macroeconomic performance with more rapid economic growth and employment expansion to alleviate the high cyclical unemployment and long-term joblessness that continues as of 2013. The second is to combat the persistent social and economic costs of high rates of job loss and long-term unemployment for experienced workers (Davis and von Wachter 2011) and the potentially permanent adverse impacts on young workers of starting careers in a weak labor market with low-rates of "churn" and limited upward mobility options (Kahn 2010; Lazear and Spletzer 2012). This second challenge will be made easier but will still remain, even in the presence of a stronger macroeconomic recovery. The third challenge is to address longer term secular trends of rising labor market inequality, growing educational wage gaps, and labor market polarization in the face of

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ongoing technological change and globalization (Autor, Katz, and Kearney 2008; Goldin and Katz 2008). The fourth challenge is the continuing need, even in normal times with the labor market operating close to full employment, to help improve the skills, training, job search and matching, and employment opportunities for disadvantaged and dislocated workers.

The first jobs challenge, the continuing weak macroeconomy, underscores the DOL's important role in coordinating and improving the U.S. federal-state unemployment insurance (UI) program. UI continues to play an important role in sustaining the families of job losers in the presence of limited job opportunities, and UI increasingly helps provide economic support to facilitate further training and education. UI extensions in periods of high unemployment also serve to keep job losers in the labor force and connected to the labor market (Rothstein 2011), thereby facilitating their reemployment as the macroeconomy gradually recovers and reducing the likelihood of permanent labor force withdrawals.

Weak macroeconomic labor market conditions also make the DOL's training and employment programs more difficult to operate effectively. Firms appear to be more willing to take chances on disadvantaged, young, and dislocated workers in a rapidly expanding labor market, thereby facilitating upward mobility in a high-pressure economy (Okun 1973; Katz and Krueger 1999; Hoynes, Miller, and Schaller 2012). Active labor market programs in weak labor markets run the risk of workers receiving job search assistance and employment subsidies potentially displacing other job seekers. In contrast, the evidence increasingly suggests active labor market policies can both help the disadvantaged and expand overall labor market opportunities under the tighter labor market conditions of a sustained recovery (Crépon et al. 2013). Thus, it will be important to maintain the scale of DOL employment and training programs as the U.S. labor market continues to recover.

DOL employment and training programs and the Employment and Training Administration also are essential in addressing the three other jobs challenges. High-quality training and reemployment services can mitigate the earnings losses and facilitate the reemployment of displaced and long-term unemployed workers. DOL traditional training programs, as well as improved DOL and labor market links to successful high school school-to-work programs (such as career academies) and further post-secondary education opportunities, can play a role in expanding the growth of the U.S. supply of more-skilled workers helping to produce more balanced growth of skills and technology to combat rising inequality and generate more broadly shared prosperity. In addition, the DOL continues to have an important mission in innovating in its training and employment programs for disadvantaged youth and adults to improve their labor market prospects even after an eventual return to something resembling full employment.

The broader DOL operations also are essential in addressing America's job challenges. The DOL's regulatory agencies are needed to make low-road employment policies less desirable and highlight best practices that incentivize the spread of high-road policies, better utilize the skills of American workers, and improve productivity. Recent research documents substantial heterogeneity in management and workplace practices and suggests the possibility that improvements in such practices can increase productivity and raise the likelihood for shared prosperity (Bloom and Van Reenen 2007, 2010). The DOL similarly has an ongoing role in diffusing information on work practices to better accommodate work-family balance in an increasingly diverse workforce that serves large caregiving needs. Furthermore, the DOL needs to rethink ways to effectively provide workers greater voice and representation in a changing labor market, where traditional employment relationships have eroded in some parts of the labor market because of increasing use of freelancers and contractors.

As the DOL enters its second century, I see several important changes that could help it make progress in its mission and tackle our jobs challenges. The first is the possibility of creating a DOL "nudge" unit along the lines of the Behavioral Insights Team that has been set up in the Cabinet Office of the U.K. government. Such a unit could help in the development of a culture of constant experimentation and program improvement in wage and hours, health and safety, training and employment programs, and the provision of labor force information. The DOL could gain from taking greater advantage of recent advances in behavioral sciences and the ability to do true randomized field experiments to more quickly learn better ways to deliver and increase access to programs and labor market information. Such an approach is increasingly essential in age of tight (and likely declining) discretionary budgets to improve program operations and regulatory enforcement activities with existing (or declining) resources.

In the same spirit, I believe DOL needs a greater emphasis on program evaluation of existing and pilot programs in its employment and training activities and other areas of operations. Further valuable program evaluations could be facilitated by increasing the access of external researchers to administrative databases on program operations and participant outcomes. The DOL should then periodically rethink program design and resource allocation in response to credible program evaluation evidence. Performance management systems in employment and training programs also need to focus on longer term employment and earnings outcomes, especially given growing evidence of potential conflicts between short-run job placement outcomes (e.g., using temporary help agencies) and more persistent labor market gains (Autor and Houseman 2010). A promising strategy would be to use multiple competing intermediaries to deliver program services, randomly assign clients to responsible intermediaries, and then eventually compensate and hold accountable the intermediaries for longer term outcomes (earnings and employment gains over at least several years). There has been some positive experience with such approaches in U.S. mandatory welfare-to-work programs and some European active labor market programs.

The DOL also needs to further consider issues related to the role of individual choice in employment and training programs. The old DOL model under the Comprehensive Employment and Training Act and the Job Training Partnership Act was one of directed services (often with one-size-fits-all offerings at the local level) and limited worker choice. The current model under Workforce Investment Act involves more individual choice with its Individual Training Accounts and training vouchers. Individual choice can lead to efficient outcomes when it works well, but it can fail when individuals choose poorly. The U.S. employment and training system is fragmented and has different entry points and eligibility rules that can make participation and choice difficult. Improving the choice architecture for our training and employment system will require further work. The department needs to make efforts to provide more accessible and meaningful information about labor market conditions and occupational projections, to simplify program take-up, navigation, and completion, and to provide user-friendly information on the quality of training providers. A supplementary approach to ensuring that individuals qualifying for job training services receive effective guidance and assistance would be to experiment with creating a structured market for providers of counseling and advice in which the providers are rewarded based on meaningful performance measures of medium-term worker outcomes rather than just on the use of services (Babcock, Congdon, Katz, and Mullainathan 2012).

Sector-focused training programs (also known as sectoral employment programs) have emerged over the last 15 years as a promising approach to workforce development, and these merit further development and encouragement from DOL. Sectoral employment programs work closely with local employers to create industry-specific programs that prepare and connect unemployed and under-skilled workers to employers seeking to fill skilled vacancies in such sectors as allied health professions, information technology, and skilled manufacturing jobs. Examples of these programs include Project Quest in San Antonio, the Wisconsin Regional Training Partnership in Milwaukee, Per Scholas in New York City, and the Jewish Vocational Service in Boston. Sectoral employment programs, originally initiated by nonprofit, community-based organizations, have developed strong connections to employers and to the broader community. The early evaluations suggest that well-run versions of these programs can be quite successful in placing workers in high-quality jobs and in improving hourly and annual earnings (Maguire et al. 2010). Investments to expand access to and the development of high-quality sectoral employment programs appear to be warranted as a crucial additional tool for DOL to improve the labor market prospects of the long-term unemployed and of disadvantaged workers.

Permanent job losers often are reluctant to accept new job offers below their pre-separation wage and often take a long time searching for jobs like their previous one even when prospects are much brighter in other sectors and for other types of jobs. This leads to a form of long-term "retrospective wait unemployment," particularly for high-tenure workers displaced from declining sectors, and can produce large financial and health costs of such persistent unemployment on these workers and their families. A promising policy to address these issues and supplement unemployment benefits for likely permanent job losers is wage-loss insurance (also called wage insurance), which, at least temporarily, subsidizes worker earnings upon reemployment when the wage job losers receive on their new job is less than that of their old job. Wage-loss insurance offers a way of assisting individuals with the psychological adjustment to changing labor market conditions and addresses likely biases in wage expectations that impede job search incentives. It also helps buffer the financial adjustments of moving into an initially lower-paying position. Wage insurance could be designed to provide nearly full insurance immediately upon reemployment and to decline over time, possibly in a manner linked to typical wage growth patterns on new jobs. Wage insurance in the wake of high long-term joblessness caused by the Great Recession should be considered in the next round of crucial UI reforms, and the DOL should play a central role in designing and evaluating a new wage insurance system.

The DOL has contributed enormously to the well-being of American workers over the last century. The U.S. labor market faces many ongoing challenges for which a nimble and modernized DOL has the potential to continue to assist disadvantaged and displaced workers and to help facilitate beneficial innovations in U.S. workplaces and employment relationships.

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