

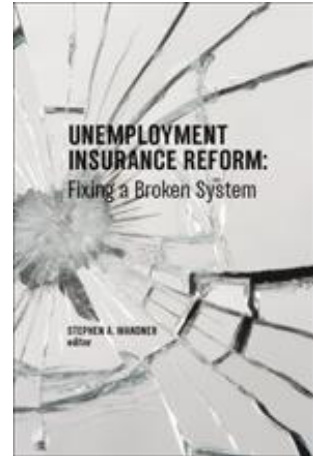
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# The Employment Service-Unemployment Insurance Partnership: Origin, Evolution, and Revitalization



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## Chapter 3

# The Employment Service—Unemployment Insurance Partnership

## Origin, Evolution, and Revitalization

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**T**his chapter traces the evolution of the partnership between the Employment Service (ES) and Unemployment Insurance (UI) programs in the United States from its origins. Using primary sources, we analyze the early actions of federal policymakers to facilitate cooperation between the two programs to meet economic exigencies, grapple with political cronyism, and surmount legal barriers. We also discuss factors that caused changes in the ES-UI partnership over time. We identify reasons that cooperation started eroding in the 1980s, and explain why there has been a continuous decline in service availability ever since. Reviewing evidence on the effectiveness of in-person employment services for UI beneficiaries, we suggest ways to revitalize the ES-UI partnership. We explore the source of Wagner-Peyser Act funding, how it was formalized, then eroded, and how it can be renewed.

The public ES and UI programs are essential to maintaining robust American labor markets. Established by the Wagner-Peyser Act of 1933 and the Social Security Act of 1935, respectively, these programs were the first permanent federal laws addressing the

problem of unemployment in an American industrial society where workers were separated from the sustenance provided by the land. Both programs were structured to expand economic security using an approach to federalism that instituted a federal-state cooperative system. The federal government provides grants-in-aid (referred to as “grants”) to states to administer the UI and ES programs under state laws. With these programs, workers who lose their jobs involuntarily are provided temporary partial wage replacement to help support themselves and their families while looking for new jobs, and employment services are provided to speed the return to work.<sup>1</sup> Employers benefit from the UI program by keeping skilled workers attached to their businesses during periods of slack product demand.<sup>2</sup> They also benefit from the ES program by having a reliable means of canvassing local registries for qualified new workers and ensuring that UI beneficiaries are actively seeking work. By emphasizing reemployment for beneficiaries, the social insurance character of UI is maintained and the moral hazard risk is reduced—that is, the risk that payment of cash benefits during periods of joblessness might unnecessarily prolong unemployment.

Four broad topics are explored in this chapter. First, we describe the origin and evolution of the ES-UI partnership and the decisive efforts undertaken to unify the two programs at the federal and state levels. Second, we explain how the partnership matured as policymakers sought to secure adequate funding to support the national system of public employment offices (now referred to as American Job Centers [AJCs]) through cycles of policy preferences. Third, focusing primarily on ES, we show how the partnership has acquired added service mandates over the past four decades despite chronic reductions in ES resources. These reductions in real funding have curtailed staff-assisted assessments (interviewing, testing, and counseling), job search assistance (JSA), and job finding and placement services, as well as diluted ES-UI coordination.<sup>3</sup> We explain that while technology has offered enormous job finding capabilities, it often has not worked for many long-term UI claimants, who are exhausting unemployment

benefits at higher rates before securing new work. We summarize several research studies providing evidence that offering employment services for UI claimants is highly cost effective. Finally, we suggest policy remedies to revitalize the ES-UI partnership based on the proposals of others and our own research, thoughts, and experience with the programs.

## **ORIGIN AND EVOLUTION OF THE ES-UI PARTNERSHIP**

The initial impetus for a social security program in the United States emerged in the Progressive Era of the early twentieth century. During the Great Depression of the 1930s, key elements of social insurance were enacted into federal law. A national network of public employment offices was established, along with a UI program for partial income replacement to the unemployed that provided a safety net for jobless workers (Reich 2010, p. 44). Curt Harding, an early policymaker of the Utah Employment Security Agency, summed up the economic security history of that period, saying it “was part of a reform that was needed in order that the free enterprise system might continue” (USDOL 1985, p. 1). While some European countries nationalized industries and others expanded public assistance to the needy, the United States took a different approach to establishing a social insurance system. Within the panoply of other New Deal reforms and programs, the introduction of ES and UI programs, dubbed “employment security” programs, helped sustain American capitalism.<sup>4</sup>

In the late 1930s, federal ES and UI policymakers sought to operate as partners out of necessity. A report from the Committee on Economic Security (CES), prepared by a White House working group, is the seminal document on social insurance policy in the United States.<sup>5</sup> Baldwin (1993, pp. 31–32) observes that the 1935 CES report recommended a program of employment assurance before suggesting a UI program. In Baldwin’s view, this was an attempt to emphasize reem-

ployment after job loss and resulted in ES offices being designated as the points of service for UI claimants.<sup>6</sup> Thus, the expectation of continued public support for reemployment efforts during periods of UI receipt gave birth to the ES-UI partnership.

## **BEGINNINGS OF THE ES AND FUNDING**

Ordered by President Franklin D. Roosevelt in 1933 to immediately revitalize the federal U.S. Employment Service (USES), which was originally set up in 1918 to staff the buildup of defense industries in the first world war (O'Leary and Eberts 2008, p. 2), U.S. Department of Labor (USDOL) Secretary Frances Perkins instructed staff members to begin helping states enact ES laws consistent with the Wagner-Peyser Act. State agencies were established and became affiliated with the USES system, using federal ES grants to support operations (Perkins 1946, p. 179).

Under the Wagner-Peyser Act, the network of ES offices was administered by states and funded by the federal and state governments on a 50-50 matching basis. During the initial stage of USES growth, recruitment of unemployed workers to fill job openings for public works projects<sup>7</sup> necessitated setting up temporary federal reemployment offices (called National Reemployment Service [NRS] offices). These offices were financed 100 percent by the federal government. To supervise the national buildup of NRS offices, a separate division of NRS was organized within USES (USDOL 1953, p. 12).

As states affiliated with USES and received Wagner-Peyser Act ES grants, NRS offices were either closed or transferred to state administration. In December 1933, there were 158 ES offices and 3,270 NRS offices nationwide. By June 1938, the balance was reversed, with 1,263 ES offices and only 188 NRS offices. From 1933 until the early part of fiscal year (FY) 1938, the ES system was financed by five different sources. The biggest source was NRS allotments from federal public works appropriations, but there were also

state and local government appropriations, Wagner-Peyser Act ES grants, and facilities or staffing contributions from local governments (USDOL 1953, p. 13).

## **RECESSION OF 1937–1938 SPURS ES-UI PARTNERSHIP**

Unemployment declined in 1934, the year after President Roosevelt took office, but recovery from the Great Depression was not continuous.<sup>8</sup> A new economic downturn started in May 1937 and lasted until June 1938. Unemployment reached 20 percent, with 11 million unemployed in 1938 (Burns 1956, p. 324; Waiwood 2013). The economic recession of 1937–1938 had an enormous impact on the emerging federal-state ES and UI programs. The Social Security Board, which administered the nascent UI program, and USDOL, which administered the fledgling ES system, began discussions to gather resources to help states expand the network of ES offices.<sup>9</sup>

The CES report had advised states to pay unemployment benefits only through ES offices pursuant to provisions in the Wagner-Peyser Act (CES 1935, p. 19),<sup>10</sup> and immediately after the Social Security Board was organized, it accepted that advice (Blaustein 1993, p. 156). The Board believed that idled claimants should be offered publicly posted job openings. It also sought to bolster the public image of UI as an earned entitlement rather than a dole involving a means test and therefore opted not to pay benefits out of state welfare offices. That decision flowed from an overarching New Deal policy that sought to establish permanent federal-state programs to ameliorate unemployment, and findings from the CES report, which saw unemployment benefits as a temporary income support paid only when suitable jobs were not available. These are foundational elements of social insurance distinct from relief. Every state provided for ES offices to administer UI payments.

USDOL and the Social Security Board agreed in 1937 that an expanded system of ES offices was needed to meet the demands of

the UI program. Expansion came after intense discussion among policymakers involving valid misgivings. Some USDOL policymakers believed too rapid a buildup of state ES offices could lead to hiring incompetent ES staff, which could result in bias and a lack of professionalism in administration and have severe adverse public consequences. This perspective was not without merit, given the patronage systems operating in many local and state governments at that time.

After state ES laws<sup>11</sup> were enacted, Secretary Perkins's hand-picked director of USES, Frank Persons, proceeded cautiously to partner with some states.<sup>12</sup> There were nine states in 1937 where affiliation with USES was withheld and distribution of Wagner-Peyser Act ES grants and the closing of NRS offices were delayed, in most instances because of political issues surrounding the administration of ES agencies (USDOL 1937a).<sup>13</sup> For example, in Massachusetts, where the ES director was an appointee of Governor James Curley, Director Persons believed the Massachusetts appointee was too weak to resist patronage pressures (McKinley and Frase 1970, p. 295).<sup>14</sup> Most striking was that, of the 35 states affiliated with USES in 1936, only nine were attempting to provide services statewide.<sup>15</sup> The other 26 states had not yet set up ES offices outside large cities (USDOL 1953, p. 12).

Frank Persons and others argued against consolidated ES and UI activities because it might be harmful to placement activities and hinder participation by employers. Although there was sympathy for this view, it was ultimately not shared by Secretary Perkins and the Social Security Board (McKinley and Frase 1970, pp. 298, 305). The relationship between ES and UI raised a host of new policy issues in public administration. These issues necessitated an exchange of viewpoints among remarkably capable New Deal public officials.

Policymakers understood that the UI provisions of the Social Security Act would radically expand the mission and volume of ES operations. The policy dilemma facing USDOL and the Social Security Board in 1937 was that the Wagner-Peyser Act did not authorize money for UI activities or the carrying out of UI activities by the

state ES (USDOL 1937b, p. 5). However, the Social Security Act did permit the funding and conducting of UI activities by the state ES. The administrative challenges were to obtain agreement between the secretary and the Board on how to connect federal ES and UI funds, and then figure out how states were to coordinate ES and UI functions within ES offices. Meeting the challenges required a formal collaboration between two federal agencies, USDOL and the Social Security Board, to successfully enlarge the national network of ES offices and coordinate the UI and ES programs.

### **POLITICAL CONTEXT AND AGREEMENT OF 1937<sup>16</sup>**

Getting government executive agencies to collaborate is always a challenge. Perhaps more so in this instance because when Congress enacted the Social Security Act, it authorized the Board as an independent agency, outside USDOL. According to Perkins, legislators made the Board independent because they did not want USDOL to acquire additional responsibilities and resources (Perkins 1946, p. 300).

Therefore, the political context for the agreement included the following:

- The 1937–1938 recession was causing unemployment to rise again, and there were fears of another structural breakdown. Thirty-two states were to start paying unemployment benefits in 1938 (USDOL 1937b).<sup>17</sup> Payment of UI benefits in each state required establishing standard administrative procedures for determining eligibility, paying benefits, and certifying that claimants had conducted job searches.
- The recession produced rising political pressure to increase access to services for the jobless. There were large service gaps in helping the unemployed file UI claims and locate work, and Wagner-Peyser Act ES funds alone could not expand service



capacity for the burgeoning UI program (McKinley and Frase 1970, p. 306). The fledgling ES system required rapid establishment and expansion of ES offices statewide in each state.

- A novel financial relationship between two federal agencies, USDOL and the Board, was essential for the success of the untested federal-state ES and UI programs.

A policy agreement, dated March 30, 1937, between Secretary Perkins and Board Chair Arthur Altmeyer established coordination and integration of the functions between the two federal agencies. The agreement created a type of “unified service and financing pact,” but it did not govern state operations. According to the agreement, two federal agencies, the Bureau of Unemployment Compensation (within the Board) and USES (within USDOL), were to

- “act as if they were a single agency” with respect to all matters affecting state ES agencies, including state plans funded under the Wagner-Peyser Act and the Social Security Act (USDOL 1937c, 1953, p. 19);
- expand state ES offices and prepare for the payment of UI benefits (USDOL 1937b);
- regard the state agency ES and UI systems as a “unified service” (USDOL 1937d, e); and
- use UI grants under Title III of the Social Security Act to expand public ES offices, administer benefit payments, and maintain standards of USES (e.g., merit standards); such UI grants were in addition to ES grants (USDOL 1937d).

The Board interpreted the requirements of the Social Security Act to allow UI grants to support ES. This interpretation was based on the intent of the CES report and the Board’s subsequent selection of state ES offices to administer UI payments (Haber and Murray 1966, p. 104).<sup>18</sup> An opinion from the Comptroller General of the United States in July 1937 affirmed the Board’s decision (Atkinson, Odencrantz, and Deming 1938, p. 55). USDOL and the Board required states to

appropriate funds to match Wagner-Peyser Act ES grants before they could receive UI grants.<sup>19</sup>

The Secretary-Board Agreement formalized the ES-UI partnership. It was an improvised interdepartmental arrangement, which allowed UI grants to supplement ES grants and state resources to build and maintain a national ES system.<sup>20</sup> Under the Secretary-Board Agreement, both ES and UI services were provided jointly in ES offices. While ES and UI functions were unified at a single point of service, ES and UI grants were not comingled. Both USDOL and the Board made federal grants available during FYs 1936 to 1938 to establish and maintain ES offices and to coordinate ES and UI activities. During 1938, 9.2 million initial UI claims were filed, and ES made 2.7 million nonagricultural job placements (Haber and Kruger 1964, p. 29). By the end of FY 1939, the plan to expand ES offices was completed in the 48 states, District of Columbia, and territories of Alaska and Hawaii (USDOL 1953, p. 13).<sup>21</sup>

## **FINANCING AND ORGANIZING THE PARTNERSHIP**

The Wagner-Peyser Act provided ES grants to states, which they were required to match, to administer state ES systems. Title III of the Social Security Act provided nonmatching UI grants (and still does) to states to administer state UI laws and, as a result of the Secretary-Board Agreement, to finance the ES system.<sup>22</sup> Between 1938 and 1941 about 85 to 90 percent of the costs for administering ES offices were financed through UI grants. Overall, between 90 and 95 percent of the entire costs of maintaining all state ES office systems were financed by the federal government under the Wagner-Peyser Act and the Social Security Act. Between January 1942 and November 1946, war-time mobilization of civilian labor required federalization of the state ES systems, and the total cost of administering ES offices was paid from federal general revenues. When Congress returned the ES to federal-state administration after the war, it waived the state ES

matching requirement. The 1947 Labor-Federal Security Appropriation Act and subsequent laws (Friedman 1948, p. 17) provided 100 percent federal funding of ES administrative costs until 1950, when the Wagner-Peyser Act was amended to permanently eliminate the matching provision.<sup>23</sup>

Locating the ES and UI programs in USDOL to overcome federal and state structural barriers to fortify the two programs' partnership proved challenging during the Truman administration.<sup>24</sup> Ultimately, in August 1949, under Reorganization Plan No. 2, the Bureau of Employment Security that had responsibility for both programs was permanently transferred from the Federal Security Agency to USDOL (USDOL 1955, p. 53).

## **EARMARKING REVENUES FOR EMPLOYMENT SECURITY**

Struggles in obtaining adequate appropriations for ES and UI after World War II led to legislative proposals starting in 1949 to earmark the Federal Unemployment Tax Act (FUTA) receipts solely for the purpose of employment security—that is, ES and UI. Earmarked funds were thought to be less susceptible to budget manipulations. Not until the Employment Security Administrative Financing Act of 1954 (P.L. 83-567) was the proposal enacted into law to earmark FUTA receipts. However, FUTA receipts continued to be deposited in general revenues of the U.S. Treasury, and appropriations for ES and UI administration continued to be paid from general revenues. The 1954 law did provide, however, that excess tax receipts (revenues over expenditures) at the end of each FY were to be credited to the Unemployment Trust Fund (UTF) (Haber and Murray 1966, pp. 404-405).

Since the 1954 amendments, administrative grants for both ES and UI have been financed from FUTA revenues. In the ensuing

years, however, USDOL budget requests for ES and UI administrative grants continued to be cut by Congress. Thus, in 1959, the Eisenhower administration proposed yet another change in the law that would require Congress to finance employment security administration directly from the UTF. Amounts equal to FUTA revenues could then be placed in the UTF, from which the grants to states could be appropriated with an adequate balance maintained as a reserve. The president's budget message for FY 1961 argued that "employment security programs would be financed in essentially the same way as other major social insurance programs" (Federal Reserve Archive 1960).

During the Eisenhower presidency, many of the early architects of the federal and state ES and UI programs remained active in policy making. Based on their experiences, they sought to strengthen the ES-UI partnership into the future. Congress approved the proposed Eisenhower reform with overwhelming bipartisan support; the Social Security Amendments of 1960 were enacted on September 13, 1960.<sup>25</sup>

Title V of the 1960 amendments, the Employment Security Administrative Financing Amendments, established a new federal Employment Security Administration Account (ESAA) within the UTF.<sup>26</sup> Under the law, FUTA payroll taxes paid by employers to the U.S. Treasury are deposited in the ESAA, and about 20 percent of those receipts today are allotted to the Extended Unemployment Compensation Account (established in 1970). Funds to administer state ES and UI programs are expended directly from ESAA, rather than from the general revenue fund (Miller 1997, p. 359).

The 1960 amendments transformed the fiscal federalism of the ES and UI programs. Since then, FUTA revenues have not only been earmarked, but they go directly into the UTF and also come out of the UTF as ES and UI grants. Federal ES and UI laws, federal-state grant agreements, and state operating plans set forth conditions for administration of the grants. The 1954 and 1960 revisions to the UTF remain in place, and over time, have safeguarded the framework of the ES-UI partnership.

## CHANGES IN THE LABOR FORCE

The role of the ES expanded in the second half of the twentieth century to serve more of the economically disadvantaged, who had little or no previous work experience and difficulty entering the labor market. Because added funding for ES was needed to serve the disadvantaged, advocates began to consider new ES funding sources and arrangements. They argued for the use of monies from federal general revenues to augment ES appropriations and expand service capacity. During mid-century, the national effort to enact the first large-scale public job training program also emerged.<sup>27</sup> Ruttenberg and Gutchless (1970, p. 73) typified the sentiments of some job training advocates, observing: "Trust fund financing has provided a continuity and stability that was essential to the steady development of the employment service." They and others argued that grant funds from FUTA should be used to assist job seekers with prior attachment to the labor force, and that additional grant funds to serve the disadvantaged and other groups should be drawn from federal general revenues to finance some ES administration.

The 1970 Employment Security Amendments (P.L. 97-373) provided that the ES grants include a "mix" of monies from FUTA and general revenues. Based upon USDOL policies to meet statutory requirements, the percentage of FUTA monies in the mix is determined by the percentage of persons in UI-covered employment. In 1973, the source of funding for ES grants was 85 percent from FUTA and 15 percent from general revenues. A series of changes in this formula followed. In 1975, the grant mix was set at 86 percent from FUTA and 14 percent from general revenue. In 1976, the proportions were changed to 87 percent and 13 percent, respectively. In 1978, the proportions were adjusted to 92 percent from FUTA and 8 percent from general revenue. Before the summer of 1980, the proportions were again revised to 97 percent from FUTA and 3 percent from general revenues, and they have remained unchanged since then (Lubin 1980, p. 877).

Over the next 30 years, national policy shifted about whether UI and ES services should be delivered jointly or separately at local offices. In 1980, a report by the National Commission on Unemployment Compensation (NCUC) made recommendations to revitalize the ES–UI partnership by enhancing the ES program. The report specified that for ES to serve as the prime federal and state labor exchange and provide job search and work test services to UI claimants, the Wagner-Peyser Act ES grants to states had to be increased. To accomplish essential ES objectives, the report proposed that annual federal grants be sufficient to fund at least four ES staff positions for each 10,000 local members of the civilian labor force (NCUC 1980, pp. 137, 141). No action by the president or Congress was ever taken on these NCUC policy recommendations.<sup>28</sup>

## ES AND UI AS INTERDEPENDENT PROGRAMS

From FY 1994 through FY 2000, under the “One-Stop” initiative, states received supplemental USDOL grants totaling \$825 million to consolidate fragmented workforce development delivery systems. Interestingly, one of the federal principles for the states’ receipt of the new funding was *integrated services* (Balducchi, Johnson, and Gritz 1997, p. 476; Balducchi and Pasternak 2001, p. 145),<sup>29</sup> and the meaning of *integrated services* became a source of policy differences within USDOL because it concerned how local offices would be funded. Unlike the position held by federal UI policymakers in 1937, this time federal UI policymakers did not want state UI agencies to assume large costs for the upkeep of the consolidated One-Stop centers that housed multiple program partners. USDOL UI policymakers who previously had been reluctant to sponsor new telephone and Internet claims processes, changed position to avert a potential UI resource grab by One-Stop operators. USDOL began distributing supplemental UI grants to states for new telephone and Internet technologies, which resulted in relocating the vast majority of state UI staff

out of local offices and into detached call centers. Currently, most UI staff members are not located in physical AJCs, although states are required to provide access to claims services at these centers (Wandner 2010, pp. 198–199).

With implementation of the One-Stop grant initiative, the Clinton administration next sought to enshrine in law the One-Stop approach in the delivery of workforce development programs. Codified in the Workforce Investment Act (WIA) of 1998, this reform brought together the ES, UI, and job training systems into a single One-Stop delivery system, without reapportioning state control of ES and UI programs and local control of job training programs (Balducchi and Pasternak 2001, p. 156).

The ES-UI partnership weakened during the WIA era (1998–2014), mostly because of inadequate funding for the ES program under the Wagner-Peyser Act. This happened despite the introduction of new federal programs requiring ES-UI cooperation to assist the increasing numbers of dislocated UI beneficiaries. These included the Worker Profiling and Reemployment Services<sup>30</sup> (WPRS) program (1994), and the Reemployment and Eligibility Assessment initiative (2005), which was replaced in 2015 by the Reemployment Services and Eligibility Assessment (RESEA)<sup>31</sup> program. Over the past four decades, the president's annual budget requests have been insufficient to provide adequate Wagner-Peyser Act ES grants to states,<sup>32</sup> and subsequent underfunding by Congress has widened the fissure between ES and UI program activities.

Despite these challenges, the union of ES and UI remains intact in federal statutes, and the operating procedures of the ES-UI partnership are still faithful to its founding principles (USDOL 1955, p. 12), which

- guarantee that impartial services will be delivered by competent state government professionals who are free of patronage or private interests;

- pledge that the prospect of suitable jobs will be found for UI claimants as soon as possible, so that in many cases the payment of benefits will be unnecessary;
- assure cooperation between staff members performing job finding and placement, and those performing claims activities to satisfy state laws requiring that UI beneficiaries must be able and available to work or they may be disqualified if they refuse suitable work without good cause;
- state that when a claimant has refused a referral or a job based upon a referral, ES must report the facts to the UI claims staff to determine whether a benefit disqualification should be imposed; and
- assure employers that claimants who are required to do so fulfill their responsibility to seek work and that employers have a reliable means to obtain qualified workers.

The Workforce Innovation and Opportunity Act (WIOA) of 2014 retained the WIA's One-Stop concept along with the distribution of authority for ES and job training between state and local entities. However, WIOA did collapse the WIA categories of core and intensive services into the single category of "career services." Career services are typically the same as Wagner-Peyser Act ES services. The key differences between the structure of ES and WIOA are that ES is under the administrative control of state workforce agencies, where resources can be reassigned within states, and services are mostly delivered by merit-based government employees, retaining the assurance of impartiality sought by the founders of the ES and UI programs. Grants (derived largely from FUTA) are awarded for administering ES services throughout each state, with distinct responsibilities for UI claimants. Thus, ES funds enable governors to align statewide economic development with recruitment and job placement services without destabilizing local WIOA resources in any area. In contrast, grants (derived from general revenue) for administering WIOA career services and job training are mostly under the control of local work-



force development boards, and WIOA services are delivered by private and public employees.

## **EVIDENCE OF COST-EFFECTIVENESS**

In this section, we examine selected studies evaluating the cost-effectiveness of ES programs. Syntheses of the best evidence about the cost-effectiveness of ES for UI beneficiaries may be found in O'Leary (2006) and Wandner (2010). Studies since the 1980s have shown that many dislocated, experienced workers actually only require adequate unemployment benefits and JSA to return to employment (Corson et al. 1989; Jacobson et al. 2004; Johnson et al. 1983). In addition, random trials testing strategies to renew linkages between ES and UI have estimated that closer cooperation results in shorter unemployment durations and lower UI benefit payment costs (Corson, Long, and Nicholson 1985).

These results mean that conservation of UTF reserves through reduced joblessness can be achieved by providing job finding and placement services and exposing UI claimants to suitable jobs. This is particularly true for younger and dislocated UI claimants. Analyzing data from Washington State, Lachowska, Meral, and Woodbury (2016) find that for dislocated UI claimants the work test reduced time to reemployment by one to two quarters and increased post-UI job tenure by about two quarters.<sup>33</sup>

Other evidence can be found in several USDOL-sponsored studies. A demonstration in Wisconsin (Almandsmith, Adams, and Bos 2006) tested a services regimen that included joint ES-UI staff interviews with UI claimants, JSA, UI eligibility reviews, and staff-assisted job referrals. Using a quasi-experimental methodology, the researchers found that UI durations were shortened by 0.9 week, relative to the comparison group of other UI claimants. More evidence of effective ES activities comes from three evaluations of reemployment and eligibility assessments (REA) involving random trials (Benus et

al. 2008). In Nevada, REA led to significantly shorter UI durations and lower benefit amounts where treatment group UI claimants collected 3.13 fewer weeks and \$873 lower total benefit amounts than their non-treatment peers (Michaelides et al. 2012; Poe-Yamagata et al. 2011).<sup>34</sup>

## **INADEQUATE ES FUNDING AND ITS CONSEQUENCES**

Because of chronic underfunding of the Wagner-Peyser Act ES grants to states, the types of effective, staff-assisted ES services needed to return the unemployed or underemployed to work are not always available at the AJCs.<sup>35</sup> These grants have been underfunded in spite of research showing that assessment, JSA, and job finding and placement services can be highly cost-effective ways of reducing joblessness.

Since program year (PY) 1984, Wagner-Peyser Act ES grants to states have remained stagnant or decreased in nominal terms.<sup>36</sup> Additionally, the Tax Equity and Fiscal Responsibility Act of 1982 capped a shift in federal policy that tightened rather than expanded access to UI benefits. This was manifested in tougher initial and continuing eligibility conditions at the state level (Blaustein 1993, pp. 262–263).<sup>37</sup> This shift was the result of federal fiscal policies that promoted reduction in the size of government, opposition to tax increases, and devolvement of social programs to states. Resistance by some states to tax hikes in recent years also has resulted in unprecedented reductions in unemployment benefit durations. The potential federal funding of ES-UI programs was further squeezed with the drop in 2011 of the FUTA tax rate from 0.8 percent to 0.6 percent. Likewise, the federal UI wage base, the wage cap per employee used to calculate employers' tax contributions to support the ES-UI programs, has remained at \$7,000 since January 1, 1983. After enactment of the Social Security Amendments of 1939, laws to increase the federal UI wage base to support these vital programs have been enacted only three times, all

under Republican administrations, in 1970 (P.L. 91-373), 1976 (P.L. 94-566), and 1982 (P. L. 97-248).<sup>38</sup>

The tightening of state UI eligibility conditions and reduction in funds for ES services occurred in a period of enormous technological advancements. This leap in technology enabled states to move to high volume mainframe and distributed computer processing and Internet services without workload disruptions. Sometimes, particularly in rural areas, this gave a false impression that access through computer-assisted services always resulted in effective service interventions (Dunham et al. 2005). With federal budget constraints and the rampant use of technology-based self-services, there has been precipitous erosion in staff-assisted ES job finding and placement services. Moreover, utilization of technology-based services appears to have expanded during the Great Recession. According to state workforce agency administrators, more than 80 percent of the 45 respondents to a 2012 National Association of State Workforce Agencies (NASWA) survey funded by the Urban Institute (Wandner 2015, pp. 156, 163) reported that they had increased rather than cut computer-assisted services. Throughout this period, regular UI average durations and exhaustion rates have been trending upward, suggesting a possible cause and effect.

From 1993 until the first decade of the twenty-first century, the WPRS program required states, as an unfunded mandate, to provide additional reemployment services to UI claimants likely to exhaust benefits. As a consequence, ES services in states were widely underfunded and WPRS claimants underserved.<sup>39</sup>

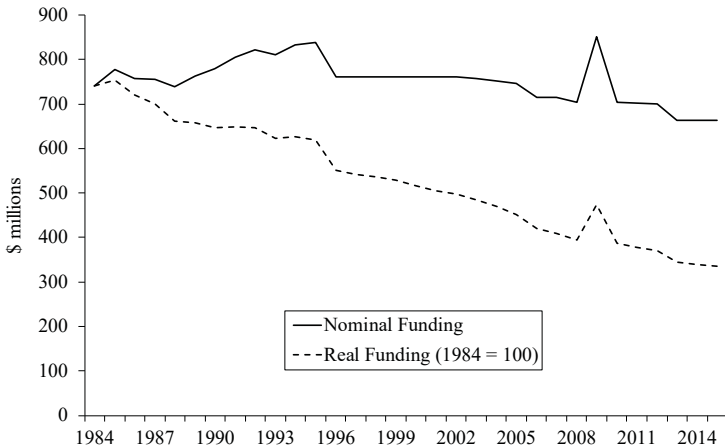
Both the executive and legislative branches of the federal government have contributed to the underfunding of the ES program in recent decades. Neither the president's annual budget requests to Congress, nor separate Congressional appropriation actions have provided adequate funding. FUTA provides a statutory mechanism to fully fund ES services, and funds are contained in the UTF for this purpose, but it has not been adequately used to support the program. On the other hand, since 1962, there have been five major federal job training laws

enacted, including WIOA most recently, and each incarnation has included changes to state and local delivery arrangements.<sup>40</sup> Every one of the five public job training programs has been funded from general revenues with discretionary Congressional appropriations. Public job training has received policy attention and funding; but it is not an entitlement, nor does it have a statutory funding mechanism. In contrast, the Wagner-Peyser Act ES program, which has an existing institutional structure for funding, has regularly lacked sufficient funds despite the fact that they have already been paid for by employers through FUTA taxes.

Most industrialized nations provide a free public employment service as a right to all citizens. Indeed, these developed nations and many middle-income nations are signatories to the 1948 International Labor Organization (ILO) Convention 88 on public employment services (ILO 1948). Convention 88 asserts that all labor force members should have the right to free labor market information and job matching services as a means to social participation. Although the United States is not a signatory to ILO Convention 88, it has respected the principle of the convention that all nations “shall maintain or ensure the maintenance of a free public employment service” (ILO 1948, article 1). President Eisenhower asserted, “[S]tate employment security offices are important for a smoothly operating free labor market in a growing economy” (Federal Reserve Archive 1960). Through the ES, the United States provides a public exchange at no cost to job seekers. Furthermore, the ES has a statutory funding mechanism to ensure Americans have access to a free public employment service. However, the mechanism has not worked well in recent years. Policy action should be taken to ensure adequate funding under FUTA. Additional factors for ES budget formulation might be established by USDOL to improve justifications to the Office of Management and Budget and Congress for increases in annual appropriations.<sup>41</sup> In an American society where work is the avenue to self-sufficiency, a free and effective public labor exchange should be available to all job seekers.

Because Wagner-Peyser Act ES grant funds to states have declined in nominal terms since PY 1984, their real value through PY 2015 has dropped by more than half (Figure 3.1). For 2015, it would have taken funding of \$1.47 billion to have maintained the 1984 real level of spending.<sup>42</sup> Workers and employers need to be more aware of the role ES contributes to the smooth functioning of the labor market and to the integrity of the UI program. Some states have taken limited measures to make up for portions of these ES grant shortfalls by augmenting federal funding through special assessments or by tapping UI funds. As of 2015, 30 states have provided supplementary ES funding (USDOL 2016a, Table 2-17, pp. 2-31 to 2-32). In addition, based on the annual NASWA survey of state workforce agencies, state supplementary spending on ES totaled more than \$150 million (NASWA 2016). This is compelling evidence that state workforce agency administrators value ES programs for their customers.

**Figure 3.1 Wagner-Peyser Funding for Employment Services in Millions of Nominal and Real Dollars, 1984 to 2015 (1984 = 100)**



SOURCE: BEA (2015), USDOL (2014, 2015a,b).

## **OPPORTUNITY FOR ES-UI PARTNERSHIP REVITALIZATION**

Over the years, the ES-UI partnership has ebbed and flowed. Historically about 40 percent of the ES registrants for services have been UI claimants. In the Great Recession, the highest number of ES registrants in any year was 22,447,124 in PY 2009, and of those, 10,712,573 were UI claimants, totaling 47.7 percent of all registered ES job seekers (USDOL 2009).

Workforce changes over several decades and new work arrangements, including in today's so-called gig labor market, have resulted in more workers being at risk for joblessness. Currently, fewer than one in three unemployed workers receive unemployment benefits, and a record high 38 percent of workers exhaust benefits. After the Great Recession, nine states (Arkansas, Florida, Georgia, Illinois, Kansas, Michigan, Missouri, North Carolina, and South Carolina)—mostly as a result of debt due to inadequate benefit financing—reduced their maximum unemployment benefit durations to less than 26 weeks, ranging from 12 to 25 weeks.<sup>43</sup> The number of weeks available in four of those states (Georgia, Florida, Kansas, and North Carolina) is based on a sliding scale governed by the states' unemployment rates (The White House 2016).

The decisions by some states to reduce UI benefit durations have adverse effects on both claimants and job seekers who have exhausted unemployment benefits. Reductions in UI receipt by unemployed workers will not reduce the number of job seekers who need ES services. Business downturns or dislocations will cause many claimants in states with reduced durations of benefits to exhaust benefits, but many will continue to be job seekers who need an array of job finding and placement services. Shortened maximum durations of UI make provision of early ES services even more important. For example, in PY 2014, UI claimants accounted for 37.3 percent of all job seekers registered with ES—a 10 percentage point decline from PY 2009 (USDOL 2014). Although much of this decline may be attributed

to improved economic conditions, if additional states reduce their maximum duration of benefits, the percentage gap between UI claimants and ES job seekers may widen, but the necessity of providing employment services to UI exhaustees will remain.

## **POLICIES TO REVITALIZE THE ES-UI PARTNERSHIP**

In June 2016, the Center for American Progress (CAP), the National Employment Law Project (NELP), and the Center on Poverty and Inequality (CPI) of the Georgetown University Law Center proposed improvements in unemployment protections for workers and enhancements of the ES-UI partnership. They called for a \$1 billion increase in Wagner-Peyser Act ES grants and a \$535 million increase in RESEA above the 2017 presidential budget request (West et al. 2016, pp. 20–21).

If the current administration is successful in stimulating aggregate demand through tax reform or other measures, then domestic labor demand also is likely to increase. Many businesses with job openings will require some staff-assisted ES recruitment services. This possible surge in labor demand is an ideal time for policymakers to revitalize the ES-UI partnership. We offer four policies for consideration.

### **Increase Annual Wagner-Peyser Act ES Grants to States**

In FY 1981, regular Wagner-Peyser Act ES grants totaled \$781.4 million. That year ES grants served 16.5 million job seekers (USDOL 1982, pp. 48–49). Had ES received only increases in annual funding that maintained the real level of funding over the years, the amount would have been \$1.47 billion in FY 2015 instead of the \$664 million appropriated by Congress. We therefore support the funding increases proposed by CAP, NELP, and CPI.

In a report issued by the Brookings Institution, Jacobson (2009, p. 25) estimates a cost of \$383 per UI claimant to institute call-in

notifications and provide JSA services. Adjusting for annual inflation, the cost rises to \$430 per UI claimant in 2016. Based on historic usage, \$430 seems to be a reliable estimate for the average cost per UI claimant to receive staff-assisted assessment and job search services.<sup>44</sup> Using the \$430 amount, the proposed \$1 billion in added Wagner-Peyser Act ES grants could provide job search activities to an added 2.3 million UI claimants (or the long-term jobless who have exhausted their unemployment benefits). In FY 2015, for example, only 16 percent of UI claimants were scheduled for RES or RESEA eligibility and job search services (USDOL 2016b, p. 37). Using PY 2014 national ES data, 5,411,656 UI claimants were registered with ES, and of those, 1,845,036 received job search activities (USDOL 2014). An additional \$1 billion could have increased the receipt of job search activities for UI claimants from 34.1 percent to 77 percent.<sup>45</sup>

Furthermore, amendments to the Wagner-Peyser Act in WIOA in 2014 expanded ES assistance to UI claimants, added work test responsibilities to include making eligibility assessments, and broadened ES referrals and assistance to training and employment opportunities.<sup>46</sup> Logically, additional ES responsibilities should give rise to increases in annual Wagner-Peyser Act ES grants to states, but no increases in ES grants to states have thus far been proposed.

### **Raise and Index the FUTA Taxable Wage Base and Make the ES Grants Budget Mandatory**

Americans should have a right to a vibrant and free public employment service. We propose restoring the funding capacity of the Wagner-Peyser Act ES program by raising and indexing the FUTA taxable wage base as well as moving the Congressional allocation derived from funds in the ESAA for state ES grants from the discretionary to the mandatory side of the federal budget.

To secure additional Wagner-Peyser Act ES financing, the FUTA wage base could be tied to one-third of the Social Security taxable wage base or set equal to the average weekly wage in UI covered



employment. Either rule would secure the foundation for Wagner-Peyser Act ES grant financing and help insulate it from the politics of the budgetary request and appropriation processes.

### **Create a Contingency Fund for the Wagner-Peyser Act ES Program**

Starting in FY 1950, the federal budget for state UI grants has included a contingency fund to cover state workload expenditures above the expected level. Supplementary grants to states from this fund are based on the number of UI claims filed, claims paid, and state salary increases above the expected level (USDOL 1957, p. 6). USDOL should create a companion ES contingency fund so that as UI workloads climb, so does ES funding under the Wagner-Peyser Act in order to serve the additional ES workload.

Establishing an ES contingency fund would ensure that as state UI workloads go up, funds above budgetary levels for Wagner-Peyser Act ES services would also rise proportionally. These additional ES funds would be provided to serve added UI claimants and provide to them cost-effective, staff-assisted ES job finding and placement services. Also, such funds could be used to administer increased work test activities and referrals to appropriate training. A federal-state work group should be formed to design and test an ES contingency model to determine its effectiveness and exportability.

### **Increase Uniformity of State UI Provisions**

Reforms of the Social Security Act and FUTA and state UI financing rules will be more successful if UI eligibility provisions that are truly national in scope become federal conformity requirements where states are compelled to enact companion laws.<sup>47</sup> Examples include not disqualifying individuals for benefits who leave work to care for immediate family members who are ill or disabled, or to accompany spouses who are relocating, and program alternatives such as short-time compensation and self-employment assistance.

This will ensure that conditions for receipt of benefits are uniform and lessen the advantage of one state over another as a cost of doing business. Likewise, such federal policy mandates will advance national economic security outcomes, increase reciprocity, strengthen the ES and UI partnership as an economic stabilizer, and expand labor mobility and the equal treatment of workers.

## **SUMMING UP**

The ES-UI partnership is rooted in permanent authorizing statutes, an identical fund source, common rules for state administration, and interdependent practices to guard against improper payments and to expose claimants to suitable job openings. This partnership is central to the success of the public workforce system. Over the past several decades, the ES has been consistently underfunded, thereby weakening the ES-UI partnership, despite research evidence that demonstrates its value to reducing unemployment durations. During recent recessions, federal policies have increased emergency unemployment benefits and job training, but they have by and large ignored long-term underfunding of Wagner-Peyser Act ES grants, and Congress has been inattentive to the adequacy of ES finances. Similarly, state governors and interest groups have not advocated for ES funding sufficiently to revitalize the ES-UI partnership.

In this chapter, we explored the origin and objectives of the ES-UI partnership. We reviewed the early actions by ES and UI framers to forge an interdependent relationship between the two programs. At the outset, creative financing and strict rules for professionalism were required to properly launch and maintain employment security programs. A statutory system for cooperation and financing was set by 1960, but it has atrophied—along with the ES and UI partnership—mostly because of inattention and underfunding of the ES program. We also reviewed research that demonstrates the effectiveness of ES and the reliance of the ES and UI programs on each other to

satisfy social insurance principles. We described how amendments to the Wagner-Peyser Act in WIOA broadened ES activities, and we proposed a path to revitalizing the long-standing ES-UI partnership.

### Notes

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1. The ES provides employment services without cost to job seekers—both UI beneficiaries and other individuals.
2. Preventing unemployment was one of the original objectives of the UI policymakers, and maintaining employer–employee attachments by preventing dispersal of an employer’s workforce was the practical policy enunciated by USDOL (Blaustein 1993, pp. 43–64).
3. On average, just over half of UI claimants each year obtain at least one staff-assisted ES service (West et al. 2016, p. 15).
4. The term *employment security* was the invention of Arthur Altmeyer, chairman of the Social Security Board. President Roosevelt’s Reorganization Plan No. 1 of 1939 created the Federal Security Agency. Within the agency, a new bureau was formed containing the Social Security Board and the U.S. Employment Service. Altmeyer named it the Bureau of Employment Security to unite the ES and UI programs (Blaustein 1993, pp. 175–176). *Employment security* is likely a derivative of *social security* and *economic security* (the original term used by Roosevelt to introduce social insurance).
5. The president initiated CES to study social insurance at the suggestion of the Secretary of Labor (Perkins 1946, p. 279). The membership included the Secretaries of Labor, Agriculture, and Treasury, the Attorney General, and Federal Relief Administrator.
6. See also Balducchi (2011) for an analysis of CES’s recommendations.
7. These projects were launched under the National Industrial Recovery

Act, Public Works Administration, Civil Works Administration, and in 1935, Works Progress Administration.

8. This section draws from Friedman (1948).
9. Of the over 30 states in March 1936 that had affiliated with USES, only 11 had matched funds to the upper limit of federal Wagner-Peyser Act ES grants available to them (McKinley and Frase 1970, p. 302).
10. The Social Security Act requires that benefits must “be paid through public employment offices or such other agencies as the Social Security Board may approve.” There was little early resistance to the Board’s mandate. In one instance, the South Dakota legislature adjourned in early 1939 without appropriating funds to match the Wagner-Peyser Act ES grant. The state proposed to pay unemployment benefits through the state welfare offices instead of state ES offices. The Board withheld South Dakota’s UI administrative grant until the state came into compliance. By September, the legislature provided matching funds for the Wagner-Peyser Act, state ES offices were reopened, and the UI grant resumed (Rubin 1983, p. 175).
11. State ES laws included authorization for or appropriation of matching funds. Legislative acceptance of the Wagner-Peyser Act was included in the UI laws of Kansas, Maine, Maryland, Michigan, Mississippi, Montana, South Carolina, Utah, Washington, and Wyoming (USDOL 1937a).
12. Incrementalism is a trait of federalism. Stepwise adoption of ES by states and USDOL validation was a harbinger for later ES-UI policy initiatives. For example, the national WPRS system was enacted into federal law in 1993 and required concomitant state compliance. Not until June 1996 did all states implement WPRS systems (Robinson 1996, p. 11).
13. The states were Massachusetts, Pennsylvania, Ohio, Virginia, Illinois, Missouri, Oklahoma, Minnesota, and Colorado.
14. From the outset, a professional cadre of employees of state government was indispensable to avert favoritism or corruption by private interests in classifying and referring job seekers. After state ES laws were enacted, USDOL continued to uphold standards of professionalism. The Iowa ES agency in March 1935 was warned that not adhering to merit standards would jeopardize its Wagner-Peyser Act ES grant. In August 1935, USDOL suspended Missouri’s Wagner-Peyser Act ES grant for violation of merit staffing standards. It wasn’t until 1998 in Michigan that another state’s Wagner-Peyser Act ES grant was suspended for violating federal standards (Balducchi and Pasternak 2004; *Michigan v. Herman* 1998).
15. By May 1937, 44 states had adopted UI laws.
16. We refer to this agreement as the Secretary-Board Agreement.

17. Thirty-two was the number of states used in memoranda prepared by the Social Security Board. In fact, benefits became payable in 22 states in January, with an additional eight states by the end of 1938 (USDOL 2017). The Social Security Act delayed initial UI payments in each state for two years to build reserves. In August 1936, Wisconsin became the first state to pay unemployment benefits.
18. The Board also cited testimony of January 21, 1935, of Edwin Witte, executive director of CES, before the House Ways and Means Committee (McKinley and Frase 1970, p. 302).
19. A technical resolution adopted in May 1937 governed the operating mechanics of the Secretary-Board Agreement (USDOL 1937d).
20. A UI grant for the ES was first made to Wisconsin in 1936 and to other states in mid-1937 (Atkinson, Odencrantz, and Deming 1938, p. 197).
21. For the two FYs, 1938 and 1939, the Board increased its share of the total costs of the ES from 60 percent (\$14.3 million) in FY 1938 to 80 percent (\$25 million) in FY 1939 (Haber and Joseph 1939, p. 29).
22. Parts of this section are drawn from U.S. Congress (1950).
23. The cost to states for administering ES offices from 1933 through 1950 in the years when matching was required never exceeded 10 percent (U.S. Congress 1950). Federal law has never prohibited supplementation of funds by states to support the ES system.
24. In July 1946, the Social Security Board was abolished. Its functions, including UI administration, were transferred to the new Social Security Administration in the Federal Security Agency (FSA). During the presidential campaign of 1948, over President Truman's veto, Congress transferred the ES program from USDOL to FSA. Thus, the USES and UI programs were combined in the Bureau of Employment Security, but not in USDOL.
25. In contrast to recent partisanship in tax policy, HR 12580 (P.L. 86-778) also raised the federal payroll tax from 3.0 to 3.1 percent without a change to the allowable 2.7 percent offset (USDOL 1985, p. 48). The bill sponsored by a Republican administration received 369 House votes to approve, with 236 Democrats voting for it. In the Senate, the bill received 74 votes to approve, including 43 Democrat votes (Social Security Administration 2016). In 2017, a tax under FUTA was levied on employers at a rate of 6.0 percent on wages up to \$7,000 a year paid to an employee. The law provides a credit against federal tax liability of up to 5.4 percent to employers who pay state UI taxes. Thus, employers pay an effective federal tax rate of 0.6 percent, or a maximum of \$42 per covered employee per year.
26. Sections 901(a) and (c) and 903 (c), Social Security Act (42 U.S.C. 1103).
27. The rise of automation as a means of production began to trigger dis-

- location of workers. The needs of the dislocated and disadvantaged prompted the birth of public job training. Under the Manpower Development and Training Act (MDTA) of 1962, ES and UI played vital roles. The state ES screened and referred job seekers to training institutions, and UI administered MDTA allowance payments (Wandner, Balducchi, and O’Leary 2015).
28. In 1982, James Rosbrow, executive director of NCUC, told an author of this chapter that the report’s recommendations were not acted upon because of the publication’s timing. It was issued during the 1980 presidential election, and the outcome of that election resulted in a rollback of federal policy making (Rosbrow 1982).
  29. Supplemental USDOL grants for the development of state One-Stop delivery systems were authorized under the Wagner-Peyser Act, but the source of funds was general revenue. The other One-Stop principles were universality, customer choice, and performance-driven/outcomes based.
  30. *Reemployment services* is defined as employment services for individuals who have work experience and seek new work.
  31. The RESEA program requires UI claimants to report in person to AJCs and receive one-on-one reviews of eligibility for UI, assessing their ability and availability for work, and referrals to reemployment services or training. When the WPRS program was launched in March 1994, the inclusion of UI eligibility reviews was considered, but obtaining funding and setting up the framework would have delayed state implementation. Eligibility reviews, thus, were not included in the original WPRS process (USDOL 1994). Later efforts to introduce such reviews lacked policy support, until the launch of the REA initiative. However, the ultimate aims of WPRS and RESEA are similar—reduced duration and faster job placement. In FY 2015, USDOL merged aspects of the two efforts. Claimants determined most likely to exhaust benefits under state WPRS systems and veterans receiving unemployment benefits are the primary groups directed to RESEA. For a discussion of other aspects of the WPRS and RESEA, see Wandner (2010) and USDOL (2015a).
  32. Grants for the ES refer to annual formula grants, which support staffing and infrastructure of state labor exchange operations. They are distinct from episodic federal grants for reemployment services under the RESEA program.
  33. The work test is an ES responsibility under the Wagner-Peyser Act, section 7(a)(3)(F). Provision of the work test is not in WIOA. The Middle Class Tax Relief and Job Creation Act of 2012 amended the Social Security Act at section 303(a)(12) to require that UI claimants be able to work, available for work, and actively seeking work.

34. Material in this section was derived from Wandner, Balducchi, and O'Leary (2015). Some research suggests that shorter unemployment durations result from the threat of requiring participation in services rather than due to the value of the services. For example, Johnson and Klepinger (1994) asserted that responses to enhanced work search supports in a Tacoma experiment happened after assignment but before service participation; Black et al. (2003) found a similar response after Kentucky UI beneficiaries were assigned to WPRS. However, the cited Nevada experiment provided persuasive evidence that the reemployment services in REA had strong positive effects separate from any threat effect of the eligibility assessment.
35. One result of underfunding has been cutbacks by some states of physical local offices and staff-assisted ES services. For example, since 2011 the governor of Iowa has closed 36 offices and reduced state workforce agency staff by 27 percent, which makes it hard "to provide employment services to individual job seekers" (*Des Moines Register* 2017).
36. Appropriations for ES and UI had been funded on the basis of FYs, and they jointly developed annual state plans of service. Amendments to the Wagner-Peyser Act in 1982 (P.L. 97-300) required appropriations for ES in FY 1985 and thereafter to be made available for obligation on a PY basis, and the joint development of state ES plans of service with agencies of the Job Training and Partnership Act. The PY begins July 1 of the calendar year and ends June 30 of the following year. Beginning in 1976, the FY begins October 1 of the calendar year and ends September 30. <https://www.gpo.gov/fdsys/pkg/STATUTE-96/pdf/STATUTE-96-Pg1322.pdf> (accessed May 23, 2017).
37. See <https://history.nih.gov/research/downloads/PL97-248.pdf> (accessed February 15, 2017).
38. In 1939, two federal laws were enacted that affect the ES-UI partnership. P.L. 76-1, untitled, transferred Title IX of the Social Security Act to the Internal Revenue Code, Chapter 23, FUTA. The Social Security Amendments (P.L. 76-379) limited the tax base under FUTA to the first \$3,000 of a covered worker's earnings (USDOL 1986, p. 43).
39. In 1997, USDOL staff began drafting internal papers arguing for increases in Wagner-Peyser Act ES funds to serve dislocated UI claimants. Separate approvals were required from Employment and Training Administration, other offices in USDOL, the Office of Management and Budget (for inclusion in the President's annual budget request), and Congress. It took three years to gain concurrences. For PYs 2001–2005, Congress added \$35 million to the Wagner-Peyser Act ES appropriation to serve WPRS UI claimants, but these funds were inadequate. Subsequently, the George W. Bush administration abandoned supplementation

and cut Wagner-Peyser Act ES grants. In 2009, the Obama administration, under the American Recovery and Reinvestment Act, achieved a one-time increase in Wagner-Peyser Act ES grants of \$400 million, available through PY 2010, which included \$250 million targeted for reemployment services to UI claimants.

40. O’Leary, Straits, and Wandner (2004) review the first four federal job training laws.
41. Section 901(d) (4) of the Social Security Act establishes the factors for requesting funds for Wagner-Peyser Act ES grants. These factors include “the relationship between employment subject to state laws and the total labor force in the United States, the number of claimants and the number of job applicants, and such other factors as he finds relevant.” Thus, federal law permits development of modernized factors to strengthen the case for increased ES grants.
42. The implicit price deflator value for 2015 was 197.97, with the base year 1984 equal to 100.00. The nominal 1984 level of funding for Wagner-Peyser Act programs was \$740 million.
43. In 2013, Illinois resumed a 26-week maximum UI duration.
44. The ES provides job finding and placement services to all job seekers who ask for them. In PY 2014, the cost per individual for ES was \$45.74. This rate included individuals receiving self-service through virtual tools and those receiving staff-assisted ES services (USDOL 2016b, p. 53).
45. The actual 1,845,036 UI claimants in receipt of job search activities added to an estimated 2,325,000 UI claimants in receipt of job search activities totals 4,107,036 UI claimants.
46. Sections 7(a)(3)(F) and (G) of the Wagner-Peyser Act.
47. The National Governors Association’s principles of state-federal relations endorse federal action for problems that are truly national in scope (National Governors Association 2017).

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# **Unemployment Insurance Reform**

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Stephen A. Wandner  
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