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Responding to the Needs of Workers during the Great Recession

During the Great Recession of 2007–2009, the number of unemployed seeking assistance from the public workforce system more than doubled from prerecession levels. The unprecedented number of public workforce participants tested the capacity of the system to serve their needs. Before the recession, the federal workforce programs had been funded at fairly constant levels, and there appeared to be little excess capacity in the programs to accommodate a sizable influx of participants. This article examines the response of the three major public workforce programs and the Unemployment Insurance (UI) system in meeting the needs of workers during and immediately following the recent recession. It summarizes the findings of one chapter of a much larger study supported by and prepared for the U.S. Department of Labor (Eberts, Wandner, and Cai 2012).

The majority of ARRA funds were spent long before the number of workforce system participants peaked.

To help meet the challenges of a deepening recession, Congress passed the American Recovery and Reinvestment Act (ARRA) in the first quarter of 2009, a year after the recession began. The bill appropriated more than $800 billion to be used over a two-year period from 2009Q2 through 2011Q2 to help stimulate the economy and provide funding to support essential services. The U.S. Department of Labor received roughly $66 billion, of which $45 billion supported and expanded the UI system by extending benefits and modernizing the system. The three federal workforce programs that provide most of the job search assistance and training services—the Workforce Investment Act Adult and Dislocated Worker programs and the Wagner-Peyser Employment Service (ES)—received $2.1 billion, about 75 percent of the PY2009 appropriations for the three programs.

Even with these additional funds, the question facing the public workforce system was how fast and effectively could it use these funds, along with the regular annual appropriations, to respond to the needs of the influx of unemployed workers? A complicating factor was the partnership among the federal, state, and local entities in providing these services, since it is the local entities that actually spend the funds to provide job search assistance and training services. The U.S. Department of Labor issued several directives to states and local Workforce Investment Boards to encourage them to spend the money as quickly as possible and to focus on training services to

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the extent financially feasible (U.S. Department of Labor 2009).

The Need

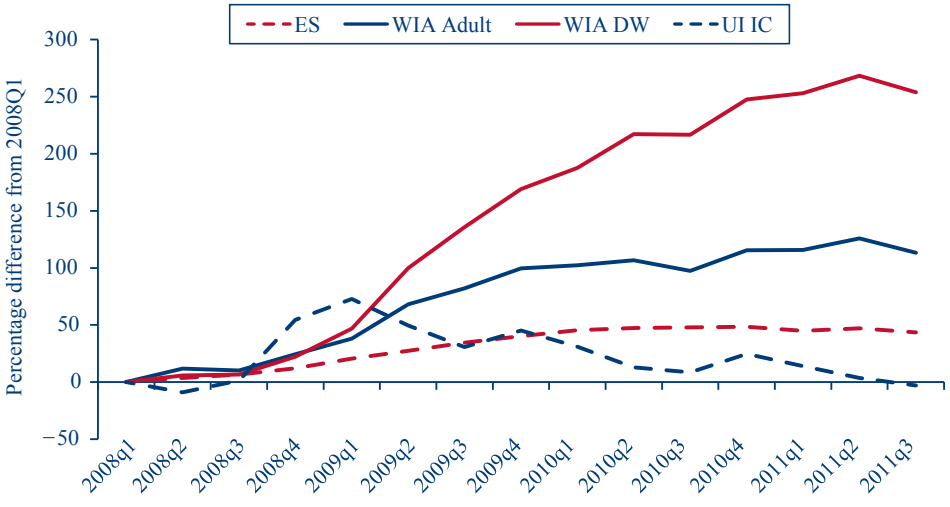
Soon after the economy began to slip into a recession at the end of 2007, the number of unemployed rose dramatically. Within four quarters, the number of workers who lost their jobs climbed 7.7 million in 2008Q1 to 12.8 million in 2009Q1—a 66 percent increase. By the end of 2009, unemployment peaked at 15.2 million, or 10.0 percent of the labor force, more than double the number before the recession began.

As the number of unemployed escalated, the major public workforce programs quickly became inundated with people seeking short-term income support, job search assistance, and training. The first line of support for the unemployed is typically the UI system. The number filing for UI benefits (initial claims) surged from 4.9 million a quarter in 2008Q1 to 8.5 million a quarter in 2009Q1—a 73 percent increase within the first year of the recession (Figure 1). All three workforce programs experienced large jumps in the number of participants, but the influx into these programs did not start until later. By 2010Q1, the number of ES participants increased 45 percent, WIA Adult participants jumped 102 percent, and WIA Dislocated Worker participants surged 188 percent. During that quarter, ES served 4.9 million participants, WIA Adult served 560,000, and WIA Dislocated Worker served 410,000. In total, the three programs were serving 2 million more customers during that quarter than they were two years prior to that time.

The Response

The three programs offering job search assistance and training made relatively quick use of the supplemental funds from ARRA. The ES spent the ARRA funds the fastest, with 85 percent of the available funds expended in the first five quarters. If the funds were spent evenly over the nine quarters, 55 percent of the funds would be expended during the first five quarters. The WIA Adult program spent 72 percent of its available supplemental funds the first five quarters, and the WIA Dislocated Worker program spent 60 percent.

Figure 1 Percentage Change in the Number of Participants of the ES, WIA Adult, WIA Dislocated Worker (DW) Programs, and the Number of UI Initial Claims (IC) from 2008Q1



However, the level of funding was not enough to match the influx of participants. For example, while total expenditures for the WIA Adult program grew 30 percent from the prerecession period to the ARRA funding period, that increase was eclipsed by the 157 percent increase in the number of participants during that same period (Table 1). Thus, expenditures per participant fell by 49 percent. The WIA Dislocated Worker program experienced the same percentage decline in expenditures per participant. The ES program saw a 30 percent decline in the funds available per participant. Furthermore, the timing of the expenditure of funds was out of sync with the increase in participants. As shown in Figure 1, the number of participants in the three programs did not peak until 2011Q2, even though a majority of the funds were spent before 2009Q3. Therefore, in addition to fewer funds per participants overall, the desire to spend the ARRA money as quickly as possible left even fewer resources for those who entered the programs at a later date.

The ability to expand capacity to provide the additional services speaks well of the responsiveness of the workforce system, as evidenced by the sheer numbers served.

The bunching of expenditures in the first half of the ARRA funding period is evident in the timing of the provision of services. Three types of WIA services are tracked over time:

Table 1 Percentage Changes in Number of Participants and Expenditures from the Prerecession Period to the Recovery Act Period, by Program

Percent change from prerecession period to Recovery Act period	Program		
	ES	WIA Adult	WIA DW
Participants	58.9	156.7	183.5
Expenditures with Recovery Act funds	11.2	30.3	40.7
Average expenditure/participant with Recovery Act funds	−30.0	−49.3	−50.3

NOTE: Percentage changes are calculated between the time periods 2005Q3–2007Q4 and 2009Q2–2011Q2, based on quarterly averages within each period.

1) Intensive services, which include staff-assisted job search assistance, such as comprehensive reemployment assessments, development of individual employment plans, and counseling and career planning.

2) Training services, such as occupational training and basic skills training.

3) Supportive services, which offer transportation, child care, housing, and needs-related payments to those who need assistance in order to participate in the programs.

Not tracked in this study are core services, which are typically self-assisted services with little staff intervention. For both the WIA Adult and WIA Dislocated Worker programs, a higher percentage of participants received the higher-cost intensive and training services once the ARRA funding became available than was the case before the recession. However, this increase was short lived. By 2010Q2, the percentages had returned to their prerecession levels and after that time fell even lower.

The ability to expand capacity to provide the additional services speaks well of the responsiveness of the workforce system, as illustrated by the sheer numbers served. The number of WIA Dislocated Worker customers receiving intensive services increased from 46,000 in 2008Q3 to 114,000 in 2009Q3. During that same time period, the number receiving training increased from 21,000 to 56,000, and those receiving supportive services grew from 12,500 to 26,000. However, the heightened service receipt lasted only one quarter before starting to decline. By the following quarter, service receipt among the three types of services fell by as much as 30 percent and continued to decline throughout the remainder of the ARRA funding period. For example, the percentage of entrants receiving high-cost training services reached 30 percent as ARRA funding became available in the middle of 2009, but within a year the percentage fell back to 10 percent. Furthermore, as the influx of participants taxed the system's capacity to provide services, customers had to wait longer before they received services. For example, the number of days between the time a person registered for the WIA Dislocated Worker program and the time he or she first received training services increased dramatically, from 54 days in 2007Q3 to 95 days in 2008Q3.

The WIA Adult program exhibited a similar pattern. From 2008Q3 through 2009Q3, the number receiving intensive services grew from 103,000 to 156,000, those receiving training jumped from 37,000 to 60,000, and those receiving supportive services increased from 23,000 to 33,000. Similar to the availability of WIA Dislocated Worker services, the surge in WIA Adult services lasted only a few quarters. The increase in waiting time for services was also similar, increasing by 35 days between 2007Q3 and 2008Q3.

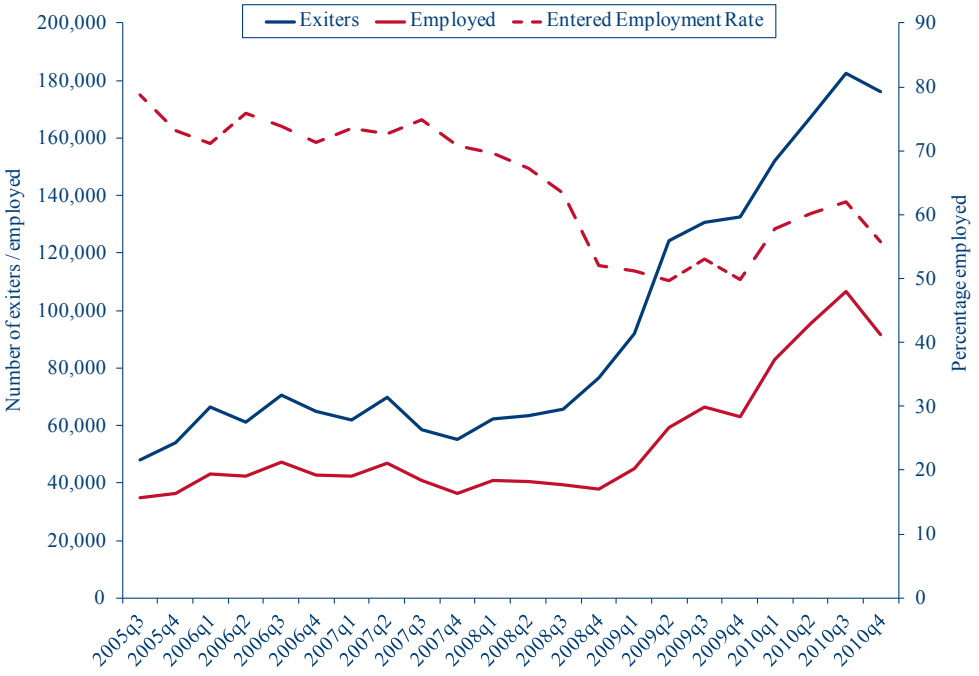
The Effect

The number of WIA program participants who found employment immediately after exiting the programs steadily increased throughout the ARRA funding period. From 2009Q1 through 2010Q3, the number of WIA Adult exiters who found employment increased from 107,000 in 2008Q3 to 159,000 in 2010Q3, an increase of 50 percent. The WIA Dislocated Worker program registered even larger percentage gains: exiters who found employment grew from 45,000 to 106,000, an increase of 135 percent. These increases stand in sharp contrast to the national trends in hiring and job creation. Nationwide, the number of hires declined by 2.8 percent and the number of private sector jobs fell by 2.2 percent during that period. However, much of the increase in job placement can be attributed to the greater number of people in the program. When looking at the rate of employment (exiters finding work divided by the total number of exiters), the rate for WIA Adult exiters stayed roughly the same, as the number of exiters rose at about the same rate as those employed. However, the employment rate for WIA Dislocated Worker customers fell, as the number of exiters outpaced those finding work (Figure 2).

Summary

The analysis suggests that the U.S. workforce system responded to the needs

Figure 2 Number of Employed and Entered Employment Rate of Those Leaving the WIA Dislocated Worker Program



of workers during the recent recession, but the resources available, even with the ARRA funding, were insufficient to provide the same level of services throughout the two-year ARRA funding period that the system provided before the recession. Calculations, described in the larger study, estimate that an additional $8.5 billion, on top of the $2.03 billion appropriated under ARRA, would have been needed to provide prerecession-level services to the influx of participants into the three programs. A conscious decision was made to spend money on passive policies, such as extending UI benefits, instead of providing additional dollars for more active policies, such as job search assistance and training. Furthermore, the desire to spend the ARRA funds as quickly as possible left fewer resources available later on when the largest numbers of participants were still in the programs. Nonetheless, the system exhibited a capacity to expand services, albeit for a short period of time, and to help people get back to work.

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Burt S. Barnow, John Trutko, and Jaclyn Schede Piatak

How Do We Know Occupational Labor Shortages Exist?

The term *labor shortage* has no universally agreed upon definition. It sometimes refers to a shortfall in the total number of individuals in the labor force, and sometimes denotes the possible mismatch between workers and jobs in the economy. In our recently published book, *Occupational Labor Shortages: Concepts, Causes, Consequences, and Cures*, we define an occupational labor shortage as a sustained market disequilibrium between supply and demand in which the quantity of workers demanded exceeds the supply available and willing to work at the prevailing wage and working conditions at a particular place and point in time. (Please see www.upjohn.org/Publications/Titles/OccupationalLaborShortages for more information about the book.) In general, the quantity of labor that workers are willing to provide is an increasing function of the wages (i.e., price) they can obtain, and the relationship between wages and the amount that workers are willing to provide at various prices, with other factors held constant, is referred to as the labor supply curve.

Figure 1 shows a typical upward-sloping supply curve for labor. As the wage rate is increased, more workers are willing to enter a particular occupation, and current workers are generally willing to provide more labor. In Figure 1, the amount of labor that employers wish to hire at alternative prices is indicated by the downward-sloping demand curve. The point labeled E in Figure 1 is the market equilibrium point. If the wage is equal to W_E, then the quantity of labor that workers are willing to supply at that wage (Q_E) is exactly equal to the quantity of labor that employers will wish to hire. The market is in equilibrium because the quantity supplied is equal to the quantity demanded. If, for some reason, the prevailing wage rate in the market is W_0 rather than W_E, then the quantity of labor that workers are willing to supply is equal to Q_S—the point on the supply curve corresponding to W_0. Employers, however, would like to hire Q_D at that wage rate. The difference between the amount of labor that employers wish to hire and the amount that workers are willing to provide ($Q_D - Q_S$) is the amount of the shortage.

Unfortunately, identifying a shortage is not easy. Just as the concept of "full employment" does not mean zero unemployment, a labor market is likely to have some vacancies in equilibrium; thus, the question is: When are there excess vacancies that signify a shortage? Likewise, markets do not adjust instantaneously to shocks, so how long must a market have excess vacancies before it is considered to have a shortage? Drawing the line between a shortage and a tight labor market is not easy. The Bureau of Labor Statistics does not publish data on vacancies by occupation, so even if there was agreement on what constitutes a shortage, the data needed to identify shortages do not exist.

How long must a market have excess vacancies before it is considered to have a shortage?

Economists and other analysts have proposed alternative definitions of occupational shortages. Early studies by Arrow and Capron (1959) and Blank and Stigler (1957) defined shortages as situations where demand for labor increases faster than supply can grow—a condition sometimes observed in the market for engineers during economic booms. Although rapid increases in