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LONG-TERM UNEMPLOYMENT: CONSEQUENCES AND SOLUTIONS

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BEFORE THE

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CONGRESS OF THE UNITED STATES

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LONG-TERM UNEMPLOYMENT: CONSEQUENCES AND SOLUTIONS

WEDNESDAY, APRIL 24, 2013

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 10:31 a.m. in Room 106 of the Dirksen Senate Office Building, the Honorable Amy Klobuchar, Vice Chairman, presiding.

Representatives present: Cummings and Delaney.

Senators present: Klobuchar and S. Murphy.

Staff present: Gail Cohen, Sarah Elkins, Christina Forsberg, Connie Foster, Niles Godes, Colleen Healy, and Robert O'Quinn.

OPENING STATEMENT OF HON. AMY KLOBUCHAR, VICE CHAIR, A U.S. SENATOR FROM MINNESOTA

Vice Chair Klobuchar. Good morning. I would like to thank everyone for being here today for this important conversation about long-term unemployment. We have several Members that will be arriving.

I want to welcome, first of all, the many who are attending this hearing. Thank you for caring about this really important topic. I would especially like to thank our distinguished panel of witnesses who I will be introducing shortly.

My hope is that we can spend the bulk of our time this morning focusing on solutions for helping more of America's long-term unemployed get back to work.

There are a lot of good ideas out there to address this issue, including efforts currently underway in my home State of Minnesota in areas like skills training and continuing education. We will be hearing a little bit more about those efforts today.

The truth is that, for most workers, the job market is better today than it has been in years. And as this chart shows right here, private-sector employers have added more than 1.2 million jobs over the past six months alone in virtually every industry across the board.

At 7.6 percent, the national unemployment rate is the lowest point in more than four years. In Minnesota, I would note that our unemployment rate is 5.4 percent. But there is no question that we still have more work to do, especially for America's long-term unemployed. Maybe some in the audience associate long-term unemployed with regular unemployed, but in fact long-term unemployed means there are 4.6 million people who now fit this description,

meaning they have been out of a job and searching for work for more than 6 months. So they are a subset of the unemployed.

We must do more to address the ongoing challenges of long-term unemployment, because this problem impacts more than workers who cannot find jobs. It also has consequences for our economy and requires a national strategy and a national solution.

In preparation for today's hearing, the Joint Economic Committee prepared an in-depth report examining the full scope of long-term unemployment, including state-by-state data.

Among its findings, the report shows that long-term unemployment disproportionately affects workers at the times when they are most in need of stable employment. Younger workers who are just beginning their careers and may have student loans experience the highest rate of long-term unemployment.

Meanwhile, the unemployment rate for older workers is low; but those who do become unemployed are less likely to find new jobs quickly. Fewer than half of older unemployed workers find a new job within six months.

For workers of all ages, the report finds that the longer a person is unemployed the less likely they are to find a job, as skills atrophy and professional networks dry up.

In addition, as the map shows right here, the long-term unemployment rate varies by state and by region. I'm going to see if I have a copy of that so we can go through it. Thank you.

As you can see by this chart right here, many of the states, especially in the upper Midwest, the state long-term unemployment rate is 0.6 in North Dakota where we know they are doing a lot with energy there; 0.8 percent in South Dakota; 1.8 percent in Minnesota; 1.3 percent in Iowa. This region has a lower long-term unemployment rate.

We also have in the South, you see a higher long-term unemployment rate generally, with Florida at 4.1 percent; Georgia at 3.8 percent. The East Coast is somewhat mixed, depending on what state you are in, and California and Nevada are up on the higher end at 4.4 and 4.8 percent.

So you can see the difference in region in terms of long-term unemployment.

We also know that recent Veterans are experiencing higher rates of unemployment than the general population. Congress has taken steps to help them translate their experience in serving our country into skills required by employers.

Much more needs to be done to help our Nation's Veterans reenter the civilian workforce. One of the sad ironies of the situation is the fact that there are actually job openings out there, and that is one of the things that I am really focused on today. Because especially in these states—and you can see the increasing number of them with somewhat lower unemployment rates—there is still a long-term unemployment rate that is too high with some people that just simply do not fit the jobs that are open. And that is a problem—not with all unemployed, but with an increasingly significant number.

And that is because the overall unemployment rate has gone down, but there is still this long-term unemployed rate that concerns us. Because when we have openings, like I see all over our

State—the town of Benson, Minnesota, the last time I was there, 60 job openings for welders, for people in tool and die, with people running robotics equipment; especially in some of the rural areas that have manufacturing, we actually need people with those skills, and they tend to be jobs where you can't just go right out of high school and get the job. You have to actually have a year or two of training to take on using this technology.

In a recent poll in my State of manufacturing companies, 60 percent of respondents said it was difficult to attract candidates with the skills or experience for the jobs they had open. And believe me, they want them. I cannot tell you how many managers of plants have told me: We just need someone that wants to learn these skills, or that has these skills. We will take them in, because we are starting to turn away work.

In the exact same poll three years ago, only 40 percent of respondents reported having that problem. So you see in one state you go from 40 percent have openings that they cannot find the workers for to 60 percent. It is a good problem to have, in that we are seeing better employment rates, but it is a difficult problem to have because you want these jobs in America instead of having these employers start opening up plants in other countries.

So we need the skilled workers, and you certainly have workers that want to have those skills. We just need to match the skills they are getting in high school—this idea that they can get community college degrees while they are in high school, and ramp that up, as well as a direct path that involves them going into some kind of post-secondary school where you actually get the skills where the jobs are.

There is a gap between the skills employers want and the experience the workers have. That raises concerns about how much of our unemployment is cyclical, and how much is structural in nature.

If it is largely cyclical, unemployment will continue to drop as the economy continues to grow. Structural unemployment, on the other hand, can be a more challenging problem to address and requires more targeted and more creative workforce training efforts.

America's industry is changing. Take sectors like manufacturing. Sophisticated robots have to be run and maintained and invented. The wrench and hammer that workers used before are now replaced with skills of engineering and skills of math.

With smart investments in workforce training, we can help more workers adjust to the changing landscape. I also believe we can do more to elevate the role of hands-on real-world training that I mentioned before.

One of the ways to do this is to encourage partnerships between schools and employers in their communities. There are places in Minnesota where I have seen it work incredibly well. They are kind of mid-sized cities—places like Rochester, Minnesota, where the Mayo Clinic is. They can go to a community college and say: you know, we're going to need these many nurses with these skills. And the people in the community actually know, because they live there, that if they get those skills then they are going to be able to go and get a job.

And so you can have this synergy between the schools, the parents and the kids, or the workers, and the employers. Places like Thief River Falls, Minnesota, which most people may not have heard about except in Minnesota, the home of Arctic Cat which makes snowmobiles and ATVs, and also the home of DigiKey, a major employer of 2,500 people. They have a community college called Northland Community College. Those two major employers use it all the time for management skills, but kids that go there and their parents go to the high school, know if they get a degree there, or they go over to Moorehead or Fargo and get a degree, they are going to be able to come back and have a job.

So it is easy to see how the things match up. It is much harder to see in the inner cities where you might not have an employer right next door, or in really small towns where you might not have that ability. So much more has to be done to make it easier for kids in high school to gain those skills, and in the community college.

We also need to continue to work on policies that encourage job creation and strengthen our economy overall by promoting exports, by encouraging entrepreneurship and innovation, by investing in education, research, and development, and by finding balanced bipartisan solutions to bringing our debt down.

There is no silver bullet solution that will solve our long-term unemployment challenge, but I believe that there are a number of important steps we can take to address the problem effectively and proactively. That is why we are holding this hearing today.

So I want to thank our witnesses for coming. I know Chairman Brady will be joining us later, and he will make a statement when he arrives. But for now I think it would be good—and I want to thank Senator Murphy for joining us—to get started with our testimony from our witnesses.

I am going to introduce them all at once, and then have people give your testimony.

First we have Mr. Randy Johnson. He is the Executive Director of Workforce Development, or WDI, based in Rochester, Minnesota, that I just mentioned. Mr. Johnson has worked for WDI since 1985, and has served as the Executive Director for the past 16 years.

Under his leadership, WDI has won numerous awards, including being named the best rural workforce development system by the National Workforce Association. In 2012, the U.S. General Accountability Office recognized WDI's prevocational health care academics as one of the best practices for Workforce Development in the Nation.

Mr. Johnson has also led the efforts to have Workforce Centers co-located on the campuses of the local community colleges.

Dr. Keith Hall—welcome back, Dr. Hall—Dr. Keith Hall is the former Commissioner of the Bureau of Labor Statistics. He currently works as the Senior Research Fellow at the Mercatus Center at George Mason University. He has served in a variety of Government positions, including Chief Economist for the White House Council of Economic Advisers, and Chief Economist for the U.S. Department of Commerce.

Dr. Harry Holzer is also with us. He is the Professor of Public Policy at Georgetown University, and a founding director of the New Georgetown Center on Poverty and Equality in Public Policy.

He is currently a Senior Fellow at the Urban Institute, and a Senior Affiliate of the National Poverty Center at the University of Michigan, among his many other affiliations.

Prior to coming to Georgetown, Professor Holzer served as the Chief Economist for the U.S. Department of Labor.

Finally, Dr. Kevin Hassett is the Director of Economic Policy Studies and a Senior Fellow at the American Enterprise Institute. His research areas include the U.S economy, tax policy, and the stock market. Previously, Dr. Hassett was a senior economist at the Board of Governors of the Federal Reserve System, a Professor at the Graduate School of Business of Columbia University, and a policy consultant to the Treasury Department during the George H.W. Bush and Clinton Administrations. He also served as a top economic advisor to George W. Bush and the John McCain Presidential campaigns.

Thank you, gentlemen, for being here and we will start with my home town witness, Mr. Johnson.

STATEMENT OF MR. RANDY JOHNSON, EXECUTIVE DIRECTOR, WORKFORCE DEVELOPMENT, INC., ROCHESTER, MN

Mr. Johnson. Thank you Senator, Members of the Committee.

I would like to start by thanking Chairman Brady and Senator Klobuchar for calling this hearing on the long-term unemployed. This population represents a challenge, but in many ways reflect our local economies and ways we cope as society.

Thirty years ago I found myself unemployed, and my wife out of work while expecting our first child. That experience made an indelible impression on me, and I vowed to work toward building a better public system to help those in similar situations.

In many respects, I believe that we have succeeded. Back then, our electronic job matching resources were decades away, and the Internet and social media systems that now allow people to network were inconceivable.

We have One-Stop Job Centers with multiple partners present to provide coordinated services. Yet the economy continues to change rapidly and can be hard for the unemployed to keep up.

In Southeast Minnesota, we serve an average of 1,500 dislocated workers a year, and regularly post a return-on-investment of $3 for every $1 invested by getting them back to work. We have found that the most critical element in getting people re-employed is early intervention, and to meet people one-on-one up front for a career planning session to start the process of rebuilding the relationships.

A good example of this was witnessed recently in our area with the return of Minnesota's National Guard Unit from Iraq and Kuwait. Every soldier who had reported a need for employment was given a career assessment while they were still in theater, and when they returned they all were connected to a career counselor from the One-Stop.

We assembled 108 private sector employers, and 60 different partner agencies to be grounded in the challenges the Veterans face, and then provided sector-based job information at their 30- and 60-day re-integration events. As a result, Veterans' unemploy-

ment in our area is now lower than the civilian counterparts and one of the lowest in the Nation at just over 1 percent.

Older workers provide a special challenge. Half of all of our unemployed folks that we are serving aged 55 and older have been unemployed for over a year.

In addition, we have found that 25 percent of this group self-describes as having no real computer or social media skills. However, the convenient electronic tools that we now have to seek work can ensure even less human interaction during the day.

So one way that we have had success is bringing people together for "brown bag" meetings, where people can get together and share job leads and bolster each other's spirits.

We also use this time to build resumes in group, while identifying the experiences they have had for which colleges might grant a "Credit for Prior Learning." One man told us that if it weren't for these gatherings he wouldn't have any reason to get out of bed in the morning.

Short-term training also shows good results with older workers. Just yesterday I learned of a 55-year-old that we are serving that was an unemployed engineer that had been out of work for over two years who found work at $6 over his past age after providing a 6-Sigma quality control training. But I would note that we need to make sure that the Workforce Investment Act recognizes this kind of effort as attaining a "credential," which it currently does not.

Good jobs with a solid future are growing, but they often require the job seeker to take a risk and change careers. To lessen this risk, we have had great success in providing month-long prevocational "Career Academies" for adults who are looking to move into Health Care, Advanced Manufacturing, or Alternative Energy.

Our Academy graduates more than double their completion rate in subsequent education, and significantly reduce their turnover rate on the job. One woman shared that attending one of our Health Care Academies was "the best thing I have ever done for myself!" But note, despite our Academy successes that were chronicled, as you had mentioned, as a "Best Practice" by the General Accounting Office last year, the Workforce Investment Act does not recognize the expenditures as "credential training."

As the economy recovers, we find more employers eager to add full-time, good-paying jobs. But according to employers, the only good way to find out if the applicant has the skills they are looking for is to try them out in an internship, an apprenticeship, or some other kind of on-the-job training experience.

We need to make sure that we have the right tools to make it easier for employers to participate in work-based training and take a chance on the long-term unemployed. So here are some examples of work-based learning that I think could help reduce long-term unemployment:

Assist the States in developing an electronic "work-based learning clearinghouse" that would help employers connect with individuals across the region seeking an internship or another on-the-job training experience.

Incent employers to consider the long-term unemployed by providing "Adult Try-Out Employment" experiences in the private sector that would have the workforce serve provider act as the employer of record during the initial two months of work, and then cost-share the wages over the next two months. And there is a program that has been a pilot known as "Platform to Employment" that has accomplished that.

Consider offering a "wage replacement" differential between the job seeker's new starting wage and their past employment as they start out—especially in the case of long-term, older workers seeking employment with small employers.

Thank you once again for the opportunity to testify today on behalf of the public workforce system, and the long-term unemployed.

[The prepared statement of Mr. Randy Johnson appears in the Submissions for the Record on page 32.]

Vice Chair Klobuchar. Very good. Thank you, Mr. Johnson.

Dr. Hall.

STATEMENT OF THE HONORABLE KEITH HALL, Ph.D., SENIOR RESEARCH FELLOW, MERCATUS CENTER AT GEORGE MASON UNIVERSITY, AND FORMER COMMISSIONER OF THE BUREAU OF LABOR STATISTICS, ARLINGTON, VA

Dr. Hall. Good morning.

Vice Chair Klobuchar. Good morning.

Dr. Hall. Chairman Brady, Vice Chairwoman Klobuchar, and Members of the Committee:

Thank you for the chance to discuss the current employment situation and the problem of long-term unemployment. I appreciate the opportunity to testify today.

In my testimony, I want to make three points.

First, the U.S. labor market is still not strong, and a full, robust recovery is not yet underway.

Second, the problem of long-term jobless is actually worse than the long-term unemployment rate data indicates.

And third, as bad as this problem is, its main cause is the extremely weak economic recovery and not a skills' gap in the labor market.

We are now a full three years from the labor market trough of the Great Recession. Over the past two years, we have had modest job growth. We have averaged about 175,000 new jobs in 2011; 183,000 jobs per month in 2012; and have averaged 16,000 jobs per month so far this year.

While this job growth is welcome, it is far short of what we need to achieve a full labor market recovery. Two significant problems have become evident through this lengthy period of slow job growth.

First, there has been an unprecedented disengagement from the labor force with current participation at its lowest level in almost 35 years. This means there are currently 102 million jobless people in the United States, but less than 12 million are actively looking for work.

Second, there are over 4.6 million people that are long-term unemployed, and the long-term unemployment rate at 3 percent is well above historical levels.

One of the problems with this disengagement from the labor force is that the long-term unemployment rate underestimates the number of long-term jobless. To be counted as long-term unemployed, an individual needs to first have no work whatsoever for six months. Second, this individual must want to work and be nearly instantly available if offered work. And third, this individual must be actively looking for work.

By "actively looking," I mean that every month this individual must send out a resume, contact an employer directly, engage an employment agency or engage in some other sort of activity that by itself could result in employment. Checking for new job openings on the Internet, or in the newspaper alone does not qualify as "active job search."

This sets a high bar for someone to remain unemployed for long enough to be considered "long-term unemployed" as opposed to just long-term jobless.

In 2011, the average unemployed person who eventually exited the labor force looked unsuccessfully for work for over 21 weeks. They would not have been classified as "long-term unemployed" and dropped out just six weeks short of being considered "long-term unemployed."

We have no measure of the number of long-term jobless that are not counted as unemployed. There are certainly millions of them.

There is a predictable business cycle pattern to long-term unemployment. The number of long-term unemployed rises months into a recession, and continues to rise months after the end of a recession. It continues to rise simply because the process of a full labor market recovery requires that GDP not just grow but grow faster than this long-run trend.

Since the end of this Recession, we have had the weakest economic recovery in at least 60 years. Although job growth has been slow, the labor market has in fact outperformed GDP growth. In 2010, we had GDP growth of 2.4 percent. In 2011, growth slowed to 2.0 percent. In 2012, growth slowed to just 1.7 percent.

Historically, this level of economic growth projects to just 134,000 new jobs per month in 2011; and 120,000 in 2012, well below the actual 175,000 and 183,000 jobs per month, respectively, that we experienced.

Household incomes and Government spending continued to be greatly affected by joblessness. Government spending on means' tested programs is now about $1 trillion a year. A remarkable 17.2 percent of total household income now comes from Government spending on social benefits to persons.

This is spending on the broad range of Government programs designed to provide for assistance under circumstances of unemployment, poverty, sickness, and retirement. Social benefits to persons simply moves with the jobless rate, the share of the working age population without unemployment.

Currently the jobless rate is a very high 41.5 percent, the same as it was in October of 2009 when the unemployment rate was 10 percent.

In closing, the recovery from the effects of the Great Recession on the labor market has been very slow. One of the results of this slow progress is the unprecedented growth in the number of long-

term unemployed. And, as bad as this official data appears, it underestimates the problem. There are almost certainly millions of people that are long-term jobless that are not considered "unemployed." Although other factors may have contributed to this, the main cause is slow economic growth.

The only real solution to this problem is a significant and sustained increase in economic growth. Unfortunately, just as slow as economic growth has created long-term joblessness, long-term joblessness is helping to hold back economic growth and has a significant impact on Government spending.

Thank you for inviting me today.

[The prepared statement of Hon. Keith Hall appears in the Submissions for the Record on page 33.]

Vice Chair Klobuchar. Thank you, very much.

Dr. Holzer.

STATEMENT OF DR. HARRY J. HOLZER, Ph.D., PROFESSOR, GEORGETOWN PUBLIC POLICY INSTITUTE, WASHINGTON, DC

Dr. Holzer. Thank you, and good morning, Senator Klobuchar and Senator Murphy.

I would like to make several points this morning about structural and long-term unemployment and what it means for different groups of American workers.

Point number one, structural unemployment in the United States has probably risen about one percentage point during the labor market downturn and slow recovery since 2007, though it is unclear how much of this one percentage point increase will actually last over time.

Most of the increase in unemployment since 2007 does reflect insufficient employer demand for workers. But the job vacancy rate at 2.8 percent nationally is somewhat higher than we might expect with so much unemployment.

Employers in some sectors like health care and advanced manufacturing do seem to have genuine difficulty filling jobs requiring specific skills while other employers in other sectors seem to be moving more slowly to fill jobs because demand for their products remains very limited and very uncertain.

Point number two, long-term unemployment should have negative effects on future employment prospects, at least for some groups. The long-term unemployed now are being rehired more slowly than those with short unemployment spells. How well they will fare when aggregate job creation picks up remains unclear, but some subgroups among that group, like older workers, will probably have more difficulty than others finding new jobs.

Point number three, the high levels of unemployment during the last five years will likely affect older and younger workers quite differently as the recovery continues, though both might be scarred to some extent—and Senator Klobuchar actually made this point earlier. Long-term unemployment has increased the most among older workers aged 55 and above—a definition which I hate because then I fall in that category—even though the unemployment rates remain quite low and their work activity has actually risen in the past five years.

Older workers lose and leave their jobs less frequently than other workers, but they then adapt less quickly to changing labor market needs—partly because employers are reluctant to hire them, and reluctant to invest in training them.

In contrast, younger workers are much more frequently unemployed for more short-term employment spells. They will gain jobs more quickly than older workers, but at lower wages than usual. And their earning levels will be relatively low for many years as a result. And other groups, less educated workers, African American workers, and the children of the dislocated will be scarred in their own ways, as well.

Point number four, besides their effects in the past five years, imbalances between the skills sought by employers and those held by workers have also led to growing earnings inequality over time, and to lower levels of good job creation in the United States.

While educational attainment among Americans has been slowly increasing, too many students leave high school with very few of the general or specific skills that employers seek. Also, many start college—either at two-year or a four-year institution—but fail to complete any program or gain any credential, especially that employers recognize and value.

So the gaps between those who have the skills that employers seek and those who do not have widened over time, and employers if they perceive difficulty in filling good-paying jobs with highly skilled workers will likely create fewer such jobs in the United States, relying instead on technological advances or on offshoring production activity to meet those needs.

So again, the effects of long-term and structural unemployment might fall well beyond what we see in the unemployment rates.

Point number five, a wide range of policy responses should be tried in order to address the problems of skill imbalances and to improve employment and earnings potential for American workers. The policies to improve these outcomes of workers hurt by structural imbalances should include the following:

Number one, strengthen re-employment services to help them find jobs appropriate to their skill level more quickly.

Category number two: Education and training programs to create worker skills that better match the jobs that are in fact available.

Point number three: Wage insurance, very similar to Mr. Johnson's replacement wage subsidies, for displaced workers whose earnings are permanently lower because of the loss of a good job.

And category number four: Carefully targeted job creation strategies while unemployment remains high.

The exactly appropriate package of benefits and services may well differ across these groups. Younger workers are more easily trainable for good jobs that require some technical skill, especially at community colleges, and especially when the colleges have links to workforce systems and to employers.

They might also benefit more from a variety of earn and learn strategies such as apprenticeships, and paid internships related to their areas of study.

In contrast, older workers when displaced might benefit the most from wage insurance where the Government provides a subsidy to

partly offset the permanent loss of earnings that has occurred when the displaced workers take lower-wage jobs.

And of course job creation strategies in the near-term would also help. Public spending on building infrastructure, tax credits or subsidies for private-sector employment growth, and public service jobs could all play some kind of a positive role in reducing unemployment over the next several years in different ways for these different groups.

Thank you, very much.

[The prepared statement of Dr. Harry J. Holzer appears in the Submissions for the Record on page 37.]

Vice Chair Klobuchar. Thank you very much, Dr. Holzer. Dr. Hassett.

STATEMENT OF DR. KEVIN HASSETT, SENIOR FELLOW AND DIRECTOR OF ECONOMIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. Hassett. Thank you, Vice Chair Klobuchar and Senator Murphy. It is an honor to be here today.

I think the headline of my testimony is that there really is a national emergency right now involving long-term unemployment. And to highlight the importance of this challenge for all of us, I go into some of the research that has been done on the impact of long-term unemployment on wellbeing.

A report by Johnson & Feng at the Urban Institute shows that of workers who were out of work for six months between 2008 and 2011, half experienced declines in per capita family income of 40 percent or more.

The financial hardships are felt especially by African Americans and Hispanics, along with workers who did not have more than a high school education, and unmarried workers who could not rely on a spouse's income.

In addition, once workers who were previously unemployed find jobs, their earnings are persistently lower than before their unemployment spell. Unemployed workers have also been shown to have an increased risk of death, and potentially shortened life expectancy, along with a heightened risk of suicide that increases with the length of unemployment.

Perhaps even unexpectedly there seems to be a link between long-term unemployment and mortality through cancer, especially lung cancer. There is also a really troubling literature on the impact of long-term unemployment on kids and on marriages. You are more likely to get divorced, and you see a very serious impact in academic performance of kids. And there is even one study that surveyed adults whose parents had a serious unemployment spell when they were kids and found a permanent negative impact on the wages of grown-ups who had to experience that in their family when they were growing up.

Now while some of these costs of unemployment are easy to pinpoint, the causes of the recent increase in the number of long-term unemployed are hard to disentangle. Understanding the causes is necessary, however, if we want to choose policies that we think will be effective in addressing this national emergency.

Now a few theories have been put forth for the persistence of the large amount of long-term unemployment in the United States, and these include skills mismatch; that there is policy uncertainty that is slowing hiring; and that there is a scarring of the long-term unemployed.

I go in my testimony into the detailed evidence on these different explanations. And although it is plausible that all three causes are influencing the current high rate of long-term unemployment, the best evidence seems to indicate that the largest factor is some form of scarring. In other words, it is something that does not seem to be particularly responsive to our policy actions.

Tepid growth has certainly kept unemployment high, and uncertainty certainly has contributed some to that, and the skills gap might explain a little bit of why it is that there are a lot of vacancies right now but we still have high unemployment, but I think the permanent negative effect on the employability of a worker once they are out of the workforce for awhile is the crucial challenge for us.

Now public policy discussions—I am listing the challenges, and then I will go quickly into solutions—public policy discussions in this area tend to focus on the individuals, as in fact they should because the individuals are the direct targets of this terrible problem, but there is also a large difference in unemployment between geographic regions that we also have to put on the table.

It may be necessary to seek more concentrated policies that do not target just people but also geographic areas. For example, the unemployment rate in the Detroit Metropolitan Area in February of this year was 10.2 percent, compared to a rate of 5.5 for the Minneapolis-St. Paul area. Outside of the largest metro regions, there's sometimes great and persistent disparities.

The unemployment rate in Yuma, Arizona, in February was 25.6 percent; and it has been near that high for a very long time. But it was only 6.7 percent in Tucson.

Now the impact of long-term unemployment on the lives of unemployed Americans and their families is about as negative as anything that economists study. It is clear that something terrible happens to individuals as they stay unemployed, but the negative effect does not seem responsive to the training programs that we have in place now, and other things that I mention in my written testimony.

Now I would say that we must act, and that we must recognize in this action that we need to know more, and that we need to be creative in thinking about what the appropriate solution to this terrible emergency is.

And so therefore my recommendation in my testimony is that we pursue a strategy in a difficult policy space that has been pursued by Congress before, and consider engaging in very well-thought-out experiments that try many different ideas in different parts of the country, and do so in a kind of a controlled laboratory setting where there are random assignments so that we can evaluate whether the experiments work, and try out bipartisan Democratic and Republican ideas to see what works, and then test them with the data.

I sketched some ideas that might be the kind of things that we would experiment with, including direct hiring, policies such as better designed Enterprise Zones that are directed at geographic mismatches; training programs that are more private. There have been a lot of positive "European experiences—for example, in Germany with—engaging" private firms more in the training process. Work subsidies that encourage employers to hire folks that have been long-term unemployed. And expanded work-share programs like the law that we just passed.

I think that, absent new knowledge, the fact is that we are not going to address this national emergency with policies that we are sure or are confident will succeed, and I think we all should agree that that is an unacceptable position.

Thank you.

[The prepared statement of Dr. Kevin Hassett appears in the Submissions for the Record on page 41.]

Vice Chair Klobuchar. All right. Well thank you very much for your testimony.

Dr. Hassett, I actually liked some of the ideas you brought up there and I thank you for the concrete ideas. And this scarring that maybe some of which Mr. Johnson is dealing with on the front line, you believe some of it is just they are out of work so long, and so they get to a point where it is hard to get back into a place where they are going to get hired either because of the employer's reaction to them, or their confidence, or their ability to do the job.

I think that is very possibly a piece of this. I also do know that, just from talking to so many employers in my State that some of the workers maybe got a degree in anthropology—I pick that out because my daughter is taking that class right now in high school—or something else that just does not translate into what have become really advanced skills in the workplace in terms of understanding how to run certain computers, and do certain web-based technology; and that it just takes them a year or two. They literally have to start over in their training to get those skills for what the employers need.

What do you think of that proposition, for a piece of it?

Dr. Hassett. Yes, I think that that's certainly people making bad choices when they are pursuing higher education is certainly part of the problem.

I think that the scarring question, that there are two sides to it that Dr. Holzer and I were discussing, a recent study that found that if you have been unemployed for say more than a year, that employers just will not interview you, even without talking to you, just looking at your CV, just adding that in an experiment to someone's CV makes the employer unattracted to you.

Now it could be that that is because there are so many candidates that are better right now because there is so much unemployment. But the other thing is that on the individual side that folks—you know, I have a friend who does pastoral care, and I was talking about it once, and he said that someone losing their job is actually often harder on a family than a death in the family. Because the death, it sort of gradually goes away, you gradually recover. But if somebody does not have a job, and a year later they do not have a job, then every morning they wake up and they are

reminded of their failure, and so you start to see lives fall apart. And that is why it affects kids when they are grown up even. It has a permanent effect.

And so I think that there is a lot of stuff that we have to address. But getting over the scarring, which is why, for example, one of the things that I think we really need to consider significantly is giving them jobs, is creating some kind of either Government jobs programs, or vouchers to get people into private firms. Because getting them reconnected—if you are over 60 and you have been unemployed for a couple of years, the odds of getting a job are getting pretty darn close to zero. And that is a national emergency.

Vice Chair Klobuchar. Okay. And the idea here, your idea of experimenting in different areas with different job programs, you say that was tried before. Was it controversial because some things worked and some did not?

Dr. Hassett. Well, I don't know if it is controversial, but——

Vice Chair Klobuchar. Okay.

Dr. Hassett [continuing]. It should not be. I mean, you could imagine something like, so, for example, if we were going to see does it help with the scarring problem if we just give someone a job, or have a private firm give someone a job, well what you could do is you could have 50,000 people sign up for the program, randomly assign people to receive maybe a private job, a Government job, or, you know, not be helped, sadly. And then see if it has an impact, a different impact on the three types of people. That kind of experiment has been funded by the Federal Government. In the 1970s they had experiments of the negative income tax.

And so there is precedent for this. But I think that when there is something that is an emergency and we know we do not understand it, but we can think of things that we can do to learn what we need to to have smart policies, then we should be willing to learn——

Vice Chair Klobuchar. Right.

Dr. Hassett [continuing]. And learn more and posture less.

Vice Chair Klobuchar. Right. I agree. And would you agree with this idea in the high school level of trying—you brought up Germany. They do a lot more of this. Trying to have these kids graduate with a skill, and working with maybe one- or two-year degree programs while they're there?

Dr. Hassett. Yes. There are different—there are more people in training programs in high school in Germany. They separate the kids earlier. And then folks who are really drawn to more physical activities, or technical activities like auto repair and things like that can get that training in high school.

Right now, we are kind of putting everyone on a track that targets them for an academic career. And it could be that for some people that is not the right choice.

Vice Chair Klobuchar. And I also think, just talking to superintendents in my areas, and employers, and parents, it's really hard for them to see this manufacturing as a career. I just did a Washington Post Panel yesterday on this, and it is such an issue because they do not see this. They see this as it is possibly a career that is going to go away, when in fact it is paying more than a lot

of other jobs. And we have to just put some light on the change, that it is not your grandpa's factory floor anymore.

Dr. Holzer, what do you think of some of the ideas that Dr. Hassett has put out here with trying some experiments with what works, and this scarring issue?

Dr. Holzer. I am sympathetic with most of those ideas. I think we have to go in with the right expectations.

I mean, first of all I think we should do some of this at some scale, given the magnitude of the emergency. If you do it at some scale, it is going to cost some real resources. I think we should spend those resources. I know resources in the federal budget right now are very, very tight. There are other sensible ways to deal with the resource issues, but I think we should be willing to spend them.

We would be in largely uncharted waters. And so we do not know a lot right now. And I think our expectations should not be too high. So let me give one example.

It is sensible to try to create subsidized employment in the private sector for a lot of these long-term unemployed. For instance, giving them public service jobs will not do much to lower the stigma in the eyes of employers. Private-sector employment would probably do more.

But on the other hand, the take-up by employers might be limited. Interest might end as soon as the subsidy ends on the employer's part. That job might substitute for another job that the employer might otherwise create. It might not be net new employment.

So I think we have to anticipate some of those difficulties, and some of those things will come out when we do these evaluations.

Having said all that, I think we should still do it. And I think we should still commit the resources, because the human cost of not doing it is so enormous right now, and getting worse all the time, that we should take a real whack at this with some real resources and see what we learn, and then invest more in the more effective treatments.

Vice Chair Klobuchar. I think we can also look at other countries. We are competing in this global economy now, and if we have job openings for skilled jobs, and then we have people that do not have jobs, we are not going to be able to achieve what we want for our economy in the global economy.

Mr. Johnson, and then I will turn it over to my colleagues here, could you just comment on what you have seen on the front line with these workers in terms of the scarring issue that Dr. Hassett brought up? And any ideas that you would lend to this in a practical way of how to deal with this with long-term unemployed?

Mr. Johnson. Yes. The process of losing one's what we call "work-fit" sets in almost immediately. I think, modestly, we have gone through a process in the 1990s and the early part of the last decade where it seemed to be much easier to find a job that paid decent wages by just walking across the street. And I think people got the notion that that is normal.

That is not normal. Historically, that isn't. And so the very moment that you find yourself unemployed with a family trying to fig-

ure out how to recover sets a panic in. And how people deal with that is individual.

This is—if I can make one point in this whole deal, it is that we can put programs and policies in place to try to meet the need, and I definitely think we should, but we have to make sure we understand this is a people-to-people business. You know, trying to affect people's emotions as they move forward is critical.

I remember hearing a statistic that made me sit up straight 30 years ago when I was unemployed for all of 3 months, but the statistic then said that if you are unemployed over 6 months you are 6 times more likely to never find another job the rest of your life.

That sobers you up in a hurry saying, wow, something has to happen soon here.

Vice Chair Klobuchar. Okay. We have that 39 percent of the unemployed have been, in our country today coming out of this report, have been out of work for 6 months; 27 percent have been out of work for at least a year. So you can see the percentage of the unemployed is nothing to be trifled with. It is a pretty big percentage.

Okay, Senator Murphy.

Senator Murphy. Thank you very much, Senator Klobuchar. Thank you for convening this hearing, and thank you to the panel. You are all wonderful to be here with us.

Mr. Johnson, you mentioned a program that we are really proud of in Connecticut, and that is Platform To Employment, P2E, it's been called. It was featured in a pretty long and robust segment on 60 Minutes about a year or six months ago, and it is now being expanded and modeled across the country.

The concept is twofold. One, that these are different workers and they need a level of support service around them that is just distinct from what shorter term unemployed need, and that is expensive.

But second, that—and we talked about this across the panel—that you've got to do something different with employers; that you actually have to go out and find employers who are willing to take workers on a temporary basis, a trial basis, and allow the workers to prove that they can overcome the stigma that has been associated with the long-term unemployed.

And so I just sort of wanted to—you mentioned in your testimony, and I wanted to sort of ask you to sort of expand upon that model, which is a program both which recognizes the social necessity of dealing with the emotional issues that come with being unemployed for a long period of time, but specifically the project that they have underway in Connecticut and across the country to do trial periods of employment, subsidized by the program, with the hopes that at the end of that trial period the stigma is removed and the employment becomes permanent.

Mr. Johnson. In our area, a year ago we did an extensive survey to try to drill into what everyone was talking about as the skills gap, and contacted quite a number of employers representing actually about 25 percent of all the jobs in our area.

We really wanted to drill into the specific technical skills, and which credential are you looking for, et cetera. And actually what we got back, despite our best efforts, was something that we have

learned 20 some years ago. It still came back to the critical set of skills which often has been called "soft skills." And it really boiled down to how they fit within that organization and their willingness to continue to learn, and interact, and communicate.

And so, yes, there are specific skills. They were high on STEM skills. They needed those kinds of things as background. But how do I judge this person's effectiveness on my job? The only way they see that is to try them out firsthand, to witness their work and their relationships.

We have a number of tools currently to work with that: on-the-job training contracts where that employer becomes the employer of record; and then we cost-share some of the wages. We have been able to get some employers to be enticed with that. But others, they still feel that there is a buyer's market in terms of number of people that are applying for these jobs. And so they really just want to sort out before they make that commitment.

And we felt that—I know I connected to Tom Long, who was one of the proponents and original developers of Platform To Employment. This would be a better relationship where we could start out with that person on the provider's payroll for the first two months. If that is working, we've got the right person. Now let's build the skills and cost-share that for the next several months.

And the reports I have gotten is that that is an excellent way to build the relationship.

Senator Murphy. Dr. Hall, you are the dissenting voice on this panel in terms of the skills gap. It is driven for a lot of us by anecdotal feedback from employers, but there is certainly data there as well.

Just expand a little bit, if you could, on why you essentially come to this panel with the conclusion that this is really a much bigger issue about economic growth and not an issue about the skills gap?

Dr. Hall. Yes. In my view, the part that dominates the number of long-term unemployed is simply there just hasn't been enough economic growth, enough job growth. It does not mean that there won't be skills gaps that will become apparent once the economy gets stronger, once the labor market starts to grow quicker, but the sort of thing that I worry about—and it is somewhat shaded by my experience I guess at the Bureau of Labor Statistics—if you are going to spend money training people, you need to be sure that there are actually jobs there.

I am reminded of the old joke about the atheist at his funeral: all dressed up and no place to go.

If you are going to train people, you need to be realistic about the jobs. When I was there, there was a green jobs training program. They had a half a billion dollars to spend on green job training. It hit my radar screen because that is about the entire budget of the Bureau of Labor Statistics.

The Inspector General put out a report after they had spent about $170 million of that saying, hey, look, people aren't getting jobs. You should look to see if there really is a need for green skills, and maybe decide not to spend the rest of this money if the need is not there.

The BLS spent the rest of the money, and they placed about 30,000 people into jobs. So that is one of my big concerns right

now, that there just isn't a lot of job growth. You need to be sure that there are going to be jobs out there for people to get, and you train people for the right——

Senator Murphy. But I guess my—I mean, if I could ask just one additional question, it is one thing to address the wrong skills gap, right, and maybe that is the wrong skills gap. It is another thing to suggest that there is not a skills gap.

So I guess what I am asking is: What is the data that drives your conclusion that this is not a matter of a disconnect between skills and job openings?

Dr. Hall. Sure. Well when I look at the data on the number of long-term unemployed, it is really huge. And in fact it is actually worse than it appears. You know, there are about 4.6 million long-term unemployed. There are probably millions more who are long-term jobless, people who are not actively looking because they have been unemployed for a long time.

So this is a really big problem. But if you look at something just basic: Have we had enough economic growth to support enough job growth to really get us into recovery? And the answer is: No.

At this current rate of job creation, to get back to the same employment ratio that we had before the Recession, it is going to be a decade. That is a really long time, and that is really not strong enough job growth to start to get people back to work.

Vice Chair Klobuchar. Dr. Holzer.

Dr. Holzer. If I could just comment on this, I don't think there is a disagreement among us on this issue. Because I also said in my testimony, if I had to pick one factor that is the strongest factor, it is joblessness and the lack of GDP growth to support job creation.

I do think, having said that, there's some significant piece of the unemployment, maybe a percentage point in the aggregate, that does reflect the skill imbalance. And in fact I think the most effective training program, again as Senator Klobuchar said at the outset, the ones where you are actively working hand in hand with employers to meet needs, and where they indicate that the training is for specific jobs, those are not likely to suffer from the problem Dr. Hall is raising.

So I don't think those are inconsistent views. And I also think sort of the skills mismatch has so many other effects on inequality, on wage growth, and even on the willingness of employers to create jobs in America. If you take that famous Siemens plant that was built in North Carolina that President Obama has talked about in his State of the Union, Siemens would not build the plant until they went to North Carolina and made agreements with the UNC System and the community colleges to create a stream of well-trained engineers and technicians to fill those jobs. So in other words, the job creation may not happen if the skills won't be there to meet them. But it is a multi-pronged problem, I think we all agree on that.

Senator Murphy. Thank you, Senator.

Vice Chair Klobuchar. I appreciate that, because I don't think anyone has said it is not both things. It is both things. But I like, Dr. Holzer, your last point about sometimes it is so connected that the employers do not want to add jobs, or maybe they will go to

another place, like we are having right now happening with the immigration issue with Canada because it makes it easier for them to get in some technology workers than it is in America.

So some of our high-tech companies are actually opening up there simply because at this moment they do not have the people they can find. And I thought Dr. Hassett's point about the geographic differences was very true. Because in North Dakota right now—I know, it's next door—because of energy, it is different than the tech issue, we cannot get a truck driver in the Coca-Cola plant in St. Cloud because so many of them are going over to North Dakota because of the oil. And that is a good problem to have, for workers, and that is one of the reasons we have an unemployment rate that is so low in these states in the Upper Midwest.

But there are targeted areas where you have very high unemployment, and then there are ones where it just becomes much more down to the raw levels of the skills and having the workers in the right place. And I have just found that frustrating because I know there are people out there that want to work, who ever do not have the skills, or maybe are in the wrong place for where the jobs are. But it is clearly very state by state, which is one of the reasons that with this report we looked at it state by state. And it was no surprise what the numbers showed.

So, very good. Representative Delaney, always welcome to our Committee.

Representative Delaney. Thank you, Senator Klobuchar, for welcoming.

Vice Chair Klobuchar. And maybe you happen to know a little bit about creating jobs, yourself.

Representative Delaney. Thank you for welcoming me to the Committee, and thank you for organizing this terrific panel.

I have a couple of questions. But my first ties into some of the things Dr. Hall just said. And it is a little bit around how we think about the unemployment situation from a larger macro analytical framework.

Because it seems to me the unemployment challenges that we face as a country right now have probably been with us for some time. They were somewhat masked by the credit bubble, which created a fair amount of jobs and kept the headline unemployment number below what it would have organically been if we would have seen a more natural financial market.

And the cause of this seems to me to be effectively—again speaking very macro—globalization and technology, two very disruptive forces that are enormously positive but have been very disruptive on a generation of Americans. It happened too fast. We weren't quite prepared for it. And as a result, there has just been this enormous disruption, as I say, in a lot of people's jobs.

And so how much do you think this employment challenge really needs to be thought about as three distinct challenges? The first being the trends that have caused the disruption are continuing and accelerating. And there are very young Americans right now that we have to make sure are prepared for the world the way it is, and that ultimately the country has to become more competitive in terms of creating jobs that have a decent standard of living. And that is a discrete project and set of policy tasks that involve delay-

ing gratification. Because a lot of the things we do there will not have an immediate impact on unemployment, but we have to do them so that this does not become a persistent problem in our society.

And then the second issue being the people who have been disrupted and lost their jobs, but with good policies we could successfully reintegrate them into the workforce. In other words, through training and things like that. As a second set of problems.

And then the third, which Dr. Hassett touched on, and that Dr. Holzer I think when I came in at least, was this segment of our population that at this point is very, very difficult to really successfully integrate them into the workforce without significant subsidy and help, which for all the reasons that were identified I think we should be doing.

So how much of this problem really is a problem that has three dimensions to it, and they require different fixes? And that we are not really talking about it in those terms? That is something that I wrestle with when I think about unemployment, because there are so many different problems and they have very different solutions, and they affect different segments of the population.

So if you wouldn't mind, Dr. Hall, or any of the other panelists?

Dr. Holzer. I like your analysis. I tend to agree with it. I think there is a piece of this problem that is purely cyclical. And when you have a recession created by the bursting of a financial bubble, the recoveries are always slow. A lot of deleveraging has to occur in the private sector, and they are not going to pick up demand.

So part of it really is a cyclical problem with a very slow recovery. And it needs more stimulus and more job creation.

But I tend to agree with your other macro comment. If you look at the entire business cycle from 2000 to 2007, which was a peak—to trough to peak cycle—job creation was fairly tepid through the whole thing, even per-unit of GDP growth. Very different than the late 1990s when GDP growth was really translating into jobs.

I am almost certain it is because of technology and globalization. I don't think we fully understand how to deal with that problem, but my guess is that that is also slowing down the recovery.

And then the third piece of the prong you said is true. We have disadvantaged populations that bring very poor skills and work experience. They require one set of solutions. The dislocated, older workers require a different set.

Things in the high school that could be done differently. Things in community colleges. Building an effective education and workforce system for all these different groups. But I think you're right. There are many different pieces that fit into this puzzle and we will probably have to look at all of them at some level.

Representative Delaney. Dr. Hassett.

Dr. Hassett. Thank you, Mr. Delaney.

I think that your organization of the problem is a very competent one. It is really well done; that that is exactly the way to think about it.

The one thing I would add is that I think part of the biggest nut to crack is that your groups two and three are not labeled. And so that from the point of view of the employer, you know, say there a lot of people in the pool of the long-term unemployed that would

be great employees, but there are some people that have gone through the terrible changes that we have discussed that have made them actually bad employees. If you were to hire them, they would be very disruptive for your business.

When you look from outside, you can't tell which is which. And so part of our problem is to help people who are incorrectly being signalled and stained by this, to identify themselves as reliable, great employees. And then to provide help for the people that really, really need it. That is the way I like to think about it.

But I think the fact that we don't have separate groups two and three, in some part that's the biggest part of the problem; that there are people that really can be productive members right away, but they are in a group of people that employers are kind of pessimistic about.

Representative Delaney. Dr. Hall.

Dr. Hall. Yes. A lot of my point I think is that the private sector has got so much more potential, more ability to create jobs and help people than the Government ever can.

Representative Delaney. Um-hmm.

Dr. Hall. And to some degree, this is such a big problem you are going to need the private sector to turn around. You are going to need to see the economy turn around. And that is going to do more to encourage job growth than anything else.

It doesn't mean that we are not going to have issues, as you talk about, with people having a skills imbalance. I think we almost certainly are. But in terms of what is going to be most important, encouraging growth and getting some strong growth going I think is by far the most important thing.

Representative Delaney. Mr. Johnson.

Mr. Johnson. Yes. I would echo what is being said here. There are changes that have happened in the job market that are responsible—the global economy is responsible for, like Just-In-Time Inventory, where people do not just keep making things even though it is down. And so the whole entire process that an employer has become just-in-time, including I need people just in time.

And so they need to walk in the door with the skills, where that wasn't really always the case in the past. But also the process for looking for work has changed. And so if you are a person who has not looked for work for quite some time, and you do the traditional I put my application out at XYZ company and I sit back and wait for the phone to ring, you are going to find out that does not ring very often.

And if you listen to the word on the street, you will find that many of the jobs we are growing certainly are low-wage, part-time in the service sector. And you get that inundated, and you give up hope, saying that is what is really going on. That is not the whole picture. There are good jobs that they also need to be prepared for. But it is easy to get disillusioned.

Representative Delaney. So—if I could?

Vice Chair Klobuchar. Go ahead.

Representative Delaney. So if we stay with this notion of somewhat disaggregating these problems, and if we are to assume for a second something that is a little hard to assume but let's assume it for a second that we would do the things we need to do

to reverse some of the structural employment problems. So in other words let's assume we have immigration reform. Let's assume we had a national energy policy. Let's assume we had tax reform, a grand bargain budget deal, we improved educational outcomes, and we invested in our infrastructure. Let's assume we did all the things that we talk about——

Vice Chair Klobuchar. That's what you got elected to do.

Representative Delaney. Exactly.

Vice Chair Klobuchar. Okay.

Representative Delaney. Let's assume we do those things. And that will help, in my judgment, long term the competitiveness of the country and create a lot of jobs to allow the private sector to create jobs—because there is no question that the private sector creates the jobs; the Government puts in place policies to level the playing field, and create a competitive environment so that our country can create these jobs—but there will still be people left behind in that, it seems to me, because those things, while central to what we have to do as a country to reverse these employment trends over the long term, and are so worthy of our attention and our efforts, will in fact take some time to produce the results. Because this is a very big economy, and it takes a long time to turn the ship, to make our economy more competitive in sectors that we are not that competitive in is not a three- or a six- or a nine-month proposition. We have to change the timeframe that we analyze success on those things.

So the question is: For the people who are inevitably left behind by this, whom things happen too quickly and all the things we are doing to prepare ourselves in the future, that they are just not, for a variety of reasons, socioeconomic reasons, demographic reasons, whatever it is, they cannot fully benefit from these good policy changes we hope to do, what is the opportunity of using things like more direct Government assistance? Because it seems to me, if we can compartmentalize Government support to the area where there may be a role for Government—because long term we should not think of Government creating jobs; we should think of the private sector creating jobs—but in the short term, for those left behind, for those people who do not benefit immediately from all the good policy things we want to do, what is the opportunity for us in terms of, you know, just theoretical numbers if Government were more proactive in subsidizing or matching with employers?

Because I have seen examples at your university, Dr. Holzer, at the Law Center at Georgetown—I happen to be on the Board of the University so I know a little bit about the programs there—the Law Center has been facing these very high, very difficult environment for lawyers graduating. Now these are very well trained people. These are not the kind of people we are typically talking about in terms of this discussion.

But they put in place a program where, through philanthropy they would subsidize people's entry into jobs. So they would go to employers and they would basically say you can hire this trained person, but at a fraction for a period of time, and we will subsidize it. And they used philanthropy to do it.

And the results, in terms of the number of people who actually did receive full-time employment, were staggering. Because when

you get someone in your operation and you like them and they are doing a good job, you tend to work to try to find a place for them.

So what is the opportunity for getting people who are left behind with more direct Government intervention into the workforce in terms of numbers? Does anyone have a sense for that? I apologize for the long-winded question.

Dr. Holzer. I'll take a little stab at it. I think as more jobs become created slowly—it will probably take most of the rest of the decade—as that is happening, I think it is important for Government to create a more effective education and workforce system that is tailoring the skills creation to meet those job requirements.

That can include high quality career and technical education in high school. Better use of community colleges. All to make sure that they are—and there's a set of things we can do to make the skill creation more responsive to the demand side of the labor market. So that is one important thing for Government to do.

But you're right. Some people will not benefit from that. I think we have to be careful about this idea of subsidized jobs in the private sector. We have some of those programs now, like the Work Opportunity Tax Credit. The take-up rate is very low. The employer interest is often very low.

As soon as the subsidy ends, the employment ends. So it has a role, but I think we have to be careful not to oversell it.

Now in some cases, when the jobs start coming back, some of these older workers, the best they are going to do is a low-wage service sector job, a greeting job at Wal-Mart. We can make those jobs better and more attractive by supplementing them with wage insurance, where again the Government is offsetting some of the loss between the old job and the new job.

So for different groups of people in different parts of that recovery, I think there are positive roles that the Government can play to sort of enhance what happens in the private sector.

Representative Delaney. Mr. Johnson.

Mr. Johnson. Minnesota actually had a program that it enacted back in the early 1980s when we had one of our last severe recessions. It was an employment and economic development program where there was a direct subsidy to employers for six months. But the issue always came up: What about if they didn't keep the person on afterwards?

So there was actually a clawback provision for an extra 18—actually it was an 18-month contract; first 6 months subsidized, the next year that you monitored was unsubsidized and they had to pay it back. It got a little cumbersome to do, but it actually did grow jobs at a pretty steady rate. They had to prove they were new jobs, et cetera, and pay a decent wage.

So it has been done, and other states have replicated that.

Representative Delaney. If I could have one more quick question?

Vice Chair Klobuchar. Representative Cummings is here now——

Representative Delaney. Oh, sorry.

Vice Chair Klobuchar. All right, we are going to go to Representative Cummings.

Representative Cummings. Thank you.

Vice Chair Klobuchar. Thank you.

Representative Cummings. Thank you, Madam Chairlady.

While the overall unemployment rate has dropped to 7.6 percent as of March, the same is not true for the African American unemployment rate which hovers at 13.5 percent. I can tell you in the neighborhood where I live, the African American male unemployment rate is probably more like about 40 percent.

Further, although long-term and very long-term unemployment rates for African Americans have slowly decreased since the height of the economic downturn, African Americans are faring much worse than Caucasians, and are currently over represented among the long-term unemployed.

A study released in February by Brandeis University's Institute on Assets and Social Policy that followed a group of families over a 25-year time period from 1984 to 2009 found, and I quote:

"That while wealth grew for African-Americans as they achieve life advances, that growth is at a considerably lower rate than it is for Whites experiencing the same accomplishments." End of quote.

The study found a persistent widening of the wealth gap over that time frame. In planning long-term fiscal policy, what measures can we take to ensure that all Americans have access to equal opportunities for employment? And what additional measures should we take specific to communities of color to confront the over representation we are seeing in long-term unemployment among these communities?

And let me just add a note and say that one of the things that concerns me, among many things, is I watch folks who are unemployed for long periods of time, and I listen to the President talk about the chain CPI, and I am just wondering as they march toward a point of retirement, if they have a job, then you've got a large group that are say between 53 and 65 who lost jobs, who will probably never get those jobs back, need retraining. The employers are not that anxious to hire them because, as you well know, of age. And I would just like to have your comments.

Because I'm telling you, it is becoming quite a serious problem for many, many reasons. And I have had so many people living in the inner city of Baltimore, I have had many people come up to me, particularly men, and say: Cummings, I don't know what to do. They don't know where to go. They don't know how to get a job.

And then, sadly, there is a group that have a criminal record. And in the book, "The New Jim Crow," which is a very interesting book, it talks about how there are groups of African American men in particular who are basically being completely left out of everything—opportunities, voting, everything.

And so I am just trying to figure out, when we look at the policies of this country with regard to unemployment, I would just like to hear some of your comments on what I just said.

Mr. Holzer.

Dr. Holzer. Mr. Cummings, first of all you're right. So every time—the unemployment rate of African Americans is almost always twice the White rate. So if it is 4 percent among Whites, it is going to be 8 among African Americans. If the unemployment

rate among Whites goes up by 4 points, it will go up by about 8 points among African Americans.

So in a downturn, they get hit much harder. And subsequently when things recover, they benefit more from the recovery. But since the recovery so far in the market has been so weak, you are absolutely right that that group gets hit the hardest.

And then separately from that, even in the best of times we have groups that do not show up at all in the unemployment rates: less educated Black men more than anyone else. They have the problems of low education, low work experience, criminal records, often they're in arrears on child support so they get hit hard by that system. And a lot of these things actually drive them underground.

So I think all of the strategies that the four of us have talked about today, if they work, I think will disproportionately benefit the African American community. Some of the job creation, the subsidized hiring that Dr. Hassett talked about, some of Mr. Johnson's ideas, if they work at all they will work even more to help in the African American community.

So I think doing those things will disproportionately benefit. At the same time, we also need to keep our eye on the long-term ball. Because even in the best of times, you have these under-represented groups, and talk about making the criminal justice system less penalizing in terms of work experience, reforms in child support that doesn't drive these men out of the labor market. And major changes in the education system, certainly starting in high school, that prevent them from disconnecting in the first place.

So the one set of shorter term policies are very important, and so are the longer term policies that keep them connected and prevent them from disappearing and falling into those cracks.

Representative Cummings. Dr. Hassett.

Dr. Hassett. Thank you for your question, Mr. Cummings. It is an incredibly important one, and one that I have worked a lot on lately and thought a lot about, going back to the work sharing work that I did a couple of years ago.

One of the things that I find most clear in the data is that hire rates for African Americans are kind of about the same. It seems like if an African American and someone else applies for a job, that the hire rate will be about the same. But the reason we get into this boat where the unemployment rate is always higher is the job destruction rates for African Americans are much higher.

So it seems like when employers are laying people off, they tend to lay African Americans off with a higher rate. And so that was one reason why I was so optimistic with the work sharing bill that I know was passed about a year ago that it would help with this problem, because if we could slow job destruction then we should disproportionately benefit African Americans.

And I have been following the data since the law changed and have been very disappointed with the takeup rates of the states—except there are some exceptions like Rhode Island. In a work in progress right now we are sort of checking to see if the disproportionate benefit that we expected for the places that have taken the new federal monies to expand their work sharing programs are having the expected effect.

If they are, I think that it would light an extra fire under us to try to get states to take advantage of the new program that just became law.

Representative Cummings. Thank you.

Vice Chair Klobuchar. Thank you, very much.

Dr. Hassett, could you explain again the work sharing program? You probably did it earlier and I——

Dr. Hassett. Oh, yes. Sure. And the basic idea is that in many European countries you could say lay off a person, and then they would get unemployment insurance just like here in the United States. Or you could reduce five people's hours by 20 percent, and then each of them would get say 20 percent of their unemployment insurance. And so that you could spread the pain of labor cost adjustment out across the workforce.

As an employer you have an incentive to do that because then when times get good again you have got the workers right there so you can ramp up production right away. And from the point of view of the employee, you won't have that scarring effect of not having a job that has been one of the main focuses of this hearing.

And so I think that it was absolutely prudent to try to expand programs like this as kind of an unemployment insurance reform, as recently happened in the United States. But the problem is that the state Governments all have a lot of say in how they run, and nobody has really invested in getting this, we could think of it as kind of a fractional unemployment insurance program, or work sharing, to getting it off the ground except in a few places.

And the few places, especially Rhode Island, that have focused on this have seen a pretty large take-up; that employers are taking advantage of the fact that they can kind of hoard their valuable workers a little bit more because of the work-sharing program.

My guess, again, is that it would disproportionately benefit African Americans because of this layoff—they disproportionately bear layoffs—and it is something I think we need to really focus on as we think about policy actions that we can take.

The federal monies only last for a couple of years right now under the current law. And so it is something that we will definitely be having hearings about soon to talk about extending that, and thinking about what could be done to make more——

Vice Chair Klobuchar. And also where it works, it sounds like, which states are doing it in a way that has the most positive results.

Dr. Hassett. And whether it works. When I've testified about this in hearings on this topic, I've done a lot of work on the programs in Europe and how they work. And there is very strong evidence that they have the desired goals in Europe.

But we do not have enough data yet in the United States to be fully sure that they are working the way they do in Europe.

Vice Chair Klobuchar. Oh, Dr. Johnson, did you want to add something?

Mr. Johnson. A couple of things.

Vice Chair Klobuchar. "Mister" Johnson, I elevated your title.

Mr. Johnson. Pardon?

Vice Chair Klobuchar. I called you Dr. Johnson.

Mr. Johnson. You elevated my title. Call me what you want, but don't call me late for supper.

[Laughter.]

Vice Chair Klobuchar. That is a Minnesota saying.

Mr. Johnson. Some things we have done with special populations, because frankly every person has a challenge—and some populations of people have more—is to work with what we have noted here as "prevocational academies."

It is one thing to teach folks how to find a job that is generic for any industry, but if you are really, honestly going to get into an industry that is going to pay a living wage, you are going to have to get inside that industry and make sure that your interest and your abilities and your background is aligned with where you are headed so you do not have surprises down the road.

And we can link them with employers in mentoring kinds of relationships, bring them right in. And the whole idea of background checks, we actually do that up front for the purpose of having a conversation. Because too often we ask people, for example, going into health care, do you have any issues that would come to the attention of an employer because this is going to be difficult for you, and they'd say no. But we do the background check and sure enough they do.

So let's talk about this. This may not be the right career for you. But there are others that are. There are employers that are much more willing to work with that population than others, and bonding and things.

One last program, there are things we can do to reach out to employers, but we want employers to reach out to these populations as well. Tomorrow night I will have an awards ceremony that we do every year. We call it the Best Places to Work. It's an actual study that is done with applicants of employers who submit their data about how many people they have working there, their wages, their turnover rate, and how much money they are putting into their training and professional development.

And for those employers that do that, they are able to get a banner. And they are very proud of it and put it on the side of their building "They're one of the best places to work."

Vice Chair Klobuchar. And you do this in the Rochester, Minnesota——

Mr. Johnson. In Southeast Minnesota. And so I think we need to find those examples where things are working, and celebrate them, and try to get other people to follow. And that is very helpful, too.

Vice Chair Klobuchar. Very good.

Did you want to have any other questions, Representative Cummings?

Representative Cummings. I know that you all have already talked about this whole idea that there seems to be some stigma when you have been unemployed for a long time. I didn't believe that.

I didn't believe that people felt that way. But I talked to some of the employers in my District, and one of the things they said is that they believe that a person who is very, very, very, very valu-

able, and who is excellent, would not go without a job for a long period of time. I heard that over and over again.

And so they seem to have this assumption that because somebody has been out of work, even with all the circumstances that we have in our recessionary time that we are in, they still have that presumption. And it was just interesting.

I did not expect to hear that. I really didn't. Although I had read that. So I don't know whether you all have talked about this or not, but I can follow up.

Mr. Johnson. I just have a comment that of all the statistics we talk about, when we get caught in a recession there is the assumption we have this abundance of workers and, you know, a glut of folks out there.

Demographics, when you look at our birth rates and the projected retirement rates of those that should be retiring here very shortly, we actually have a shrinking growth rate of the population that is eligible for work. And that is one thing I have to keep telling employers, that this actually is a labor shortage being masked by a softening in the economy; that, don't fool yourself into thinking that you are in a buyer's market. You are going to need to pay attention.

We cannot afford to have anybody sitting on the sidelines. We never could, but we always had people on the sidelines. We are not going to get where we need to go if we do not get everyone in the workforce.

So once you get aware of that, you know, they need to help us figure out how to get that population worked with.

Representative Cummings. Thank you.

Vice Chair Klobuchar. Anyone?

[No response.]

Well I just want to thank everyone for coming. This has actually been something of a freewheeling discussion. I think we have found some common ground on some things, and I guess the few points I want to make is that we clearly have some challenges ahead.

We do want to remind ourselves that we have seen improvement, not anywhere near where we want to be but we have definitely seen improvement and we have not seen a worsening of the economy. The unemployment rate at 7.6 percent fell to its lowest levels since December of 2008, and over 1.2 million private-sector jobs have been added in the past 6 months.

But what we have focused on here is that the long-term unemployment rate remains high; 39 percent of the unemployed have been out of work for over 6 months, and 27 percent have been out of work for at least a year.

And as our study has shown, and as Representative Cummings was just discussing, certain groups of workers, including younger workers, and Black and Hispanic workers, have higher rates of long-term unemployment. More than 50 percent of older unemployed workers remain jobless for over 6 months.

While we see these positive signs, I think we showed the chart that showed that in 2009 there were nearly 7 unemployed workers for every job opening. Now there are about 3 unemployed workers for each job opening. That is good, but we also know that geographically there are issues throughout the country. And the things

that I have taken away from this are that, first of all, the jobs, as we all know, and I think everyone up here agreed, come out of the private sector. That is where our best bet is for increasing our employment, and our role in Congress, as Representative Delaney has pointed out, is really to put forward some policies that will encourage that growth, whether it is bringing down our debt in a balanced way so we do not cause a sharp contraction to the economy, whether it is making sure we are getting our part of the game when it comes to exports, and then of course making sure our policies work in the tax area that we do some simplification and, reduce the business tax rate but paying for it by closing some of the loopholes.

So we have things that we need to do here. At the same time, I think we have all acknowledged that there are two major problems going on here. The first is the skills gap, which affects certain areas more than others. You are right, Dr. Hall, about the private sector growth. But you just ask any of my private sector managers in Minnesota and they will tell you, okay, I have all this growth I want to do but I do not have the workers to do it.

They are not down on their workers. They just have job openings in everything from welding at Agco in Jackson, to people who are able to run the Medtronics equipment that makes these complicated medical devices that we manufacture in Minnesota.

So there is clearly an issue in some states that have a lot of high-tech manufacturing where we need help there. In terms of the solutions, I think a lot of that is we have bills to double the STEM schools, to put more research at that high school level to engage kids in being interested in science, technology, engineering, and math. And then making a much better use of our 1- and 2-year degree programs, which I know the President is devoted to, and having a lot of that occur at the high school level.

Back when I went to high school, we had VoTech, and kids would get on a bus and go to VoTech. Now they are no longer just learning to change tires; it has become much more complicated. And it is even more of a reason to start at an early age.

The second thing that I think is difficult are these, what Dr. Hassett and many of you identified, the same issue that Congressman Cummings was talking about, is the scars, that develop with the long-term unemployed. That makes it very hard for them to get these jobs.

And so I think that is something that is going to be a harder problem to work on, but that we cannot let go. Because we look at the fact that we are competing against these countries that somehow are able to get some of their kids into jobs right away, and they are functioning and happy and have jobs that they like. We have got to be doing the same things here and helping with the long-term unemployed.

I hope that summarizes where people are. I would add one little sop for a policy that I am excited about. We just had 2 days of hearings in the Judiciary Committee on immigration. We had 23 witnesses on Monday, for the bill, including everyone from the head of the Migrant Workers to Grover Norquist, testifying in favor of moving forward with comprehensive immigration reform.

One of the things in there, which has attracted some attention, are the H1B visas and reasons to lift that cap somewhat, while at the same time making sure that we are not rewarding pure outsourcing and things like that.

One little nugget in that, which I am getting to, which goes to some of our training issues, is that Senator Hatch and I in our original bill, and the Chamber supported it, added $1,000 to every H1B visa. That money was going directly to STEM. It came to $3 to $5 billion directly to our schools for science, technology, engineering, and math.

The Gang of 8 proposal actually did not increase those visa fees, and out of the hearings the general counsel for Microsoft said they would actually agree to go more than $1,000 in increases, that they would double. And I think this is an acknowledgement that companies—there are companies that want to employ more people in the United States.

Some of this temporary problem can be bridged with some of the workers that can come in. But beyond that, we really need to train our own. And so that is a major problem, in addition to the long-term unemployment issues that we have been discussing.

And then of course at its core is economic growth, which we have seen some of but not enough. And I am still hopeful that we are going to be able to come to some kind of a compromise. There is so much interest in the Senate right now—you might not be able to tell on TV, but there is—in terms of trying to get a major deal, so that we can give companies that are holding onto money the incentive to invest, and that we can really have an even playing field going forward so we are not playing red light/green light with our tax codes and other things.

So that is our job. But I want to thank you for lending a lot of light, and doing so in a civil manner, which Congressman Brady and I have worked really hard to maintain in this committee, so that we actually use this as a way to get some ideas that people can use and make points and reach out in ways. And you have supported that.

I want to thank all of you for that. And with that, we will conclude the hearing. And I will put Congressman Brady's statement in the record.

[The prepared statement of Chairman Brady appears in the Submissions for the Record on page 52.]

Thank you, and the hearing is adjourned.

[Whereupon, at 11:58 a.m., Wednesday, April 24, 2013, the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF RANDY R. JOHNSON, EXECUTIVE DIRECTOR, WORKFORCE DEVELOPMENT, INC., ROCHESTER, MN

I would like to start by thanking Chairman Brady and Vice-Chair Klobuchar for calling this hearing on the Long-Term Unemployed. They represent a special challenge, but in many ways they reflect our local economies and ways we cope as society.

Thirty years ago I found myself unemployed, and my wife out of work while expecting our first child. That experience made an indelible impression on me, and I vowed to work toward building a better public system to help those in similar situations. In many respects I believe we have succeeded. Back then, our electronic job matching resources were decades away, and the internet and social media systems that now connect people to jobs were inconceivable. We now have One-Stop Job Centers with multiple partners present to provide coordinated services. Yet the economy continues to change rapidly and can be a challenge for the unemployed to keep up.

In SE MN we serve an average of 1,500 dislocated workers a year, and regularly post a return-on-investment of $3 for every $1 dollar invested by getting them back to work. We have found that the most critical element in getting people re-employed is early intervention, and to meet people one-on-one up front for a career planning session to start the process of rebuilding relationships. A good example of this was witnessed recently in our area with the return of Minnesota's National Guard unit from Iraq and Kuwait. Every soldier who had reported a need for employment was given a career assessment while they were still in theater, and when they returned they all were connected to a career counselor from the One-Stop Workforce Center. We assembled 108 private sector employers, and 60 different partner agencies to be grounded in the challenges veterans face, and then provided sector-based job information at their 30 and 60 day re-integration events. As a result, veteran's unemployment in our area is now lower than their civilian counterparts and one of the lowest in the nation at just over 1%.

Older workers provide a special challenge. Half of all our unemployed age 50 and older have been unemployed for over a year. In addition, we've found that 25% of this group self-describes as having no real computer or social media skills. However, the convenient electronic tools we now have to seek work can ensure even less human interaction during the day. One way we have had success is bringing people together for "brown bag" meetings, where people can get together and share job leads and bolster each others' spirits. We also use this time to build resumes in group, while identifying life experiences they've had for which colleges might grant a "Credit for prior Learning." One man told us that if it weren't for these gatherings, he wouldn't have any reason to get out of bed in the morning. Short term training also shows good results with older workers—just yesterday I learned of a 55 year old unemployed engineer that had been out of work for over 2 years who found work at $6/hr over his past wage after we provided 6-Sigma quality control training. Note: we need to make sure the Workforce Investment Act recognizes this kind of effort as attaining a "credential."

Good jobs with a solid future are growing, but they often require the jobseeker to take a risk and change careers. To lessen the risk, we have had great success in providing month-long pre-vocational "Career Academies" for adults who are looking to move into Health Care, Advanced Manufacturing or Alternative Energy. Our Academy graduates more than double their completion rate in subsequent education, and significantly reduce their turn-over rate on the job. One woman shared that attending one of our Health Care Academies was, "the best thing I have ever done for myself!" Note: despite our Academy successes that were chronicled as a national "Best Practice" by the GAO last year, the Workforce Investment Act does not recognize the expenditures as training.

As the economy recovers, we find more employers eager to add full-time, good paying jobs—but according to employers, the only good way to find out if the applicant has the skills they are looking for is to try them out in an internship, an apprenticeship or some other kind of on-the-job training experience. We need to make sure we have the right tools to make it easier for employers to participate in work-based training and take a chance on the long-term unemployed. Here are some examples of work-based learning services that could help reduce long-term unemployment:

- Assist the States in developing an electronic "work-based learning clearinghouse" that would help employers connect with individuals seeking an internship or another on-the-job learning experience.
- Incent employers to consider the long-term unemployed, by providing "Adult Try-Out Employment" experiences in the private sector that would have the workforce service provider act as the employer of record during the initial 2

months of work, and then cost shared in the next 2 months (reference—"Platform to Employment" pilot).
- Consider offering a "wage replacement" differential between a jobseeker's new starting wage and their past employment as they start out—especially in the case of long-term, older workers seeking employment with small employers.

Thank you, once again for the opportunity to testify today on behalf of the public workforce system and the long-term unemployed.

PREPARED STATEMENT OF HON. KEITH HALL, SENIOR RESEARCH FELLOW, MERCATUS CENTER AT GEORGE MASON UNIVERSITY[1]

Chairman Brady, Vice Chairwoman Klobuchar, and Members of the Committee: thank you for the chance to discuss the current employment situation and how long-term unemployment has affected and will continue to affect economic growth. I appreciate the opportunity to testify today.

We are now a full three years from the labor market trough of the Great Recession. Job creation has been relatively steady but modest since 2011. We averaged about 175,000 new jobs per month in 2011; 183,000 per month in 2012; and 168,000 jobs per month so far this year. While this job growth is welcome, it is far short of what we need to achieve a full labor market recovery. Two significant problems have become evident through this lengthy period of slow job growth. First, there has been an unprecedented disengagement from the labor force with current participation at its lowest level in almost 35 years. This means there are currently 102 million jobless people in the United States, but less than 12 million are still actively looking for work and therefore counted as unemployed. Second, the number of long-term unemployed is at a record high. They currently represent over 4.6 million people, and the long-term unemployment rate (the share of the labor force unemployed for over six months) remains well above historical levels at 3.0 percent.

Comparing the current situation with that of October 2009 helps put the effects of the disengagement from the labor market into perspective. In that October, the unemployment rate was at the recession high of 10.0 percent, and 41.5 percent of the working age population were without jobs. Today, the unemployment rate has fallen to 7.6 percent, but labor force participation has declined so much that the jobless rate remains the same 41.5 percent. By this latter measure, we've made little progress towards a full labor market recovery. I estimate that there are over 5 million people missing from the unemployment rate because of the disengagement from the labor force caused by the Great Recession and slow recovery.

The other significant problem is that we currently have 4.6 million long-term unemployed. Although the long-term unemployment rate of 3.0 percent is down from the record high of 4.3 percent from early 2010, it remains well above the previous record high. Furthermore, two-thirds of these people have been jobless for over a year and might be classified as very long-termed unemployed. Large as these numbers are, they dramatically underestimate the long-term jobless problem. The same disengagement from the labor force that has driven down the unemployment rate without reducing joblessness has led to a serious underestimation of the problem. To be counted as long-term unemployed (as opposed to long-term jobless), an individual needs to:

- Have no work whatsoever for at least six months
- Want to work and be nearly instantly available if offered work
- Be actively looking for work. By "actively" looking, I mean that every month this individual must send out a resume, contact an employer directly, engage an employment agency, or engage in some other sort of activity that, by itself, could result in employment. Checking for new job openings on the internet or in the newspaper alone does not qualify as active job search.

This sets a high bar for someone to remain "unemployed" for long enough to be considered as long-term unemployed. In 2007, the average unemployed person who eventually exited the labor force looked unsuccessfully for work for just under nine weeks. In 2011, this had risen to over 21 weeks. That means the average person that left the labor force did so before even being classified as long-term unemployed and almost certainly could eventually be called long-term jobless. Consequently, millions of people have dropped from the labor force over the past five years who perhaps should be counted as long-term unemployed but are not.

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[1] The ideas presented in this document do not represent official positions of the Mercatus Center or George Mason University.

We can make a simple calculation to get some idea of the actual number of long-term jobless. Every two years the Bureau of Labor Statistics (BLS) projects the size of the U.S. labor force. BLS first examines the future size and composition of the population as affected by the trends in births, deaths, and immigration. Then it analyzes the trends in labor force participation rates of different age, gender, race, and ethnic groups in a total of 136 separate categories and makes its projections.

In 2007, just prior to the Great Recession, BLS estimated that labor force participation would decline slowly (about 0.1 percent per year), due mainly to the aging of the U.S. population. Using this as an estimate of what would have happened in the U.S. labor market if the recession had not occurred, we can calculate the number of people that unexpectedly dropped out of the labor force, presumably due to the recession [see graph 1 below]. If these people had not stopped actively looking for work and dropped out of the labor force, they would be counted as unemployed. It is impossible to know how many have been jobless for over six months, but considering that the average time spent searching before becoming inactive is about 22 weeks, this number could be as high as 5 million. Since there were 5.1 million people counted as long-term unemployed in 2012, the long-term jobless rate could be as much as twice as high as its current 3.0 percent [see graph 2 below].

Over time, the incidence of long-term unemployment has likely been increased because of the aging population in the United States and because of the higher level of labor force participation by women. The former creates higher levels of long-term unemployment because older, longer-tenured workers who are less likely to move in and out of employment are declining as a share of the labor force. Also, during the current recession and its aftermath, the extension of unemployment insurance benefits has likely contributed to the number of long-term jobless. Designed to ameliorate the negative financial impact of unemployment, unemployment insurance makes workers more willing to reject job offers in the hope of receiving a better offer in the future. This delays the movement from unemployment back to employment and raises the number of long-term unemployed. Although the size of the estimated effect varies, virtually every study on the effects of unemployment insurance finds that it has a negative influence on reemployment.

Despite these other influences, the main reason for the current, unprecedented level of long-term joblessness is weak economic growth. Since the end of the recession over three years ago, we have not had sufficiently strong economic growth to strengthen the labor market and trigger the rehiring of the long-term unemployed.

There is a predictable business cycle pattern to long-term unemployment. The number of long-term unemployed rises well after a recession begins and continues to rise well after the official end of a recession. The latter is simply because the process of full labor market recovery requires that GDP grow faster than its long-term trend. After the 2001 recession, this did not happen until mid-year 2003. The economic expansion between the 2001 and 2007 recessions was too mild and too short to result in a full rehiring of the long-term unemployed from the previous recession. As a result, when the Great Recession began, we already had a historically high long-term unemployment rate for a recession onset. But the primary reason is that the current economic recovery appears to be the weakest in 60 years. The recession officially ended in 2009; economic growth has been weak since then, though consistently positive, and the trend is not encouraging. The recovery began in 2010 with GDP growth of 2.4 percent, but rather than strengthening, it has steadily slowed—with growth falling to 2.0 percent in 2011 and to just 1.7 percent last year. This is too slow to support strong job growth. In fact, this level of slow growth has historically resulted in much slower job growth than we've actually seen. Economic growth alone would have predicted just 134,000 jobs per month in 2011 and 120,000 jobs per month in 2012 [see chart 3 below]. This effect can also be seen in the very weak labor productivity growth that we've experienced over the past two years.

The challenges for the long-term unemployed and jobless are daunting. Joblessness is costly, particularly for high-tenure workers who have invested time and resources in job-specific knowledge and skills. Studies consistently show that the longer someone is unemployed, the less likely they are to find new work. They may have lost job skills over time, have less connection with informal job networks, or face potential employers more reluctant to hire the long-term jobless. And because those with job skills in shortest supply will be reemployed first, the ranks of the long-term jobless may accumulate those that worked in permanently declining industries and those that have job skills that don't translate well to new employers or industries.

Even after being reemployed, the permanent lost earnings for the jobless will likely be significant. Studies have shown that it can take as long as 20 years for reemployed workers to catch up on lost earnings, largely due to skill mismatches between the jobs lost and the new jobs created in the economy. These losses occur for work-

ers with different lengths of previous job tenure, in all major industries, and for workers of any age. Recent estimates of the permanent earning losses range from 1.4 years of earnings in good times to 2.8 years during times of high unemployment (above 8 percent). After such an unprecedentedly deep recession and extended period of weak job growth, the job mismatch both now and in the future is likely to be the cause of even larger permanent earnings losses.

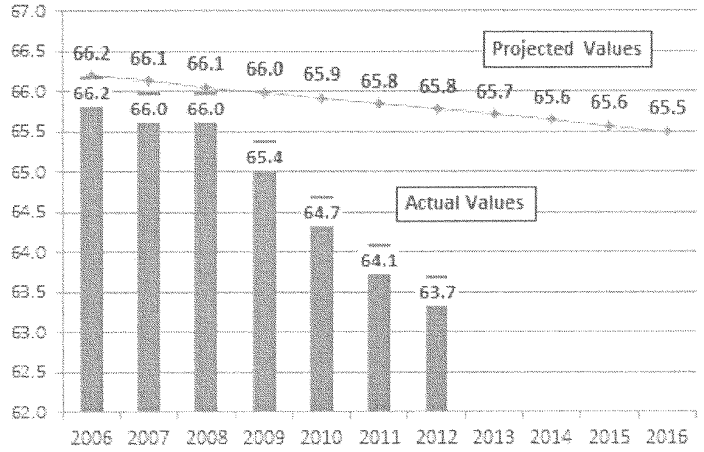
While the rate of economic growth affects the labor market, the high level of long-term unemployment also affects economic growth. For example, the Congressional Budget Office routinely estimates "potential" GDP as a measure of what level of national income could be generated if the economy were at full employment. The CBO's most recent estimate suggests we are still losing about a trillion dollars a year from the effects of the Great Recession, five years after it ended. There is also concern that we will have a permanently higher level of unemployment going forward. Although it is, in my opinion, far too early to have a good idea if this will happen, a permanently higher level of joblessness will result in lower income growth.

Finally, the number of long-term unemployed also has significant impact on the level of Government spending. Estimates place the annual expenditure on means-tested Government programs at a trillion dollars a year. More broadly, spending on the whole range of Government programs designed to provide for assistance under circumstances of unemployment, poverty, sickness, and retirement has surged in recent years. This spending, called Government Social Benefits to Persons, is estimated every quarter by the Bureau of Economic Analysis. Their data shows that American households now have an unprecedented dependence on these Government programs. A remarkable 17.2% of total household income now comes from Government social benefits, and such spending tracks pretty closely to the jobless rate (the share of the working age population without employment) [see Graph 4 below].

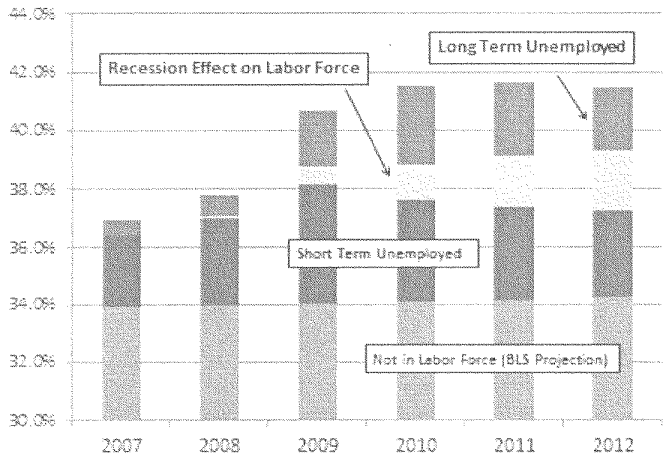
In closing, the recovery from the effects of the Great Recession on the labor market has been very slow. One of the results of this slow progress has been the unprecedented growth in the number of long-term unemployed and, as bad as this official data appears, it underestimates the problem. There are almost certainly millions of people that are long-term jobless that are not considered unemployed. Although other factors may have contributed to this, the main cause is slow economic growth. The only real solution to this problem is a significant and sustained increase in economic growth. Unfortunately, just as slow economic growth has created long-term joblessness, long-term joblessness is helping to hold back economic growth and has had a significant impact on Government spending.

I thank you again for inviting me here today and I would be happy to take any questions.

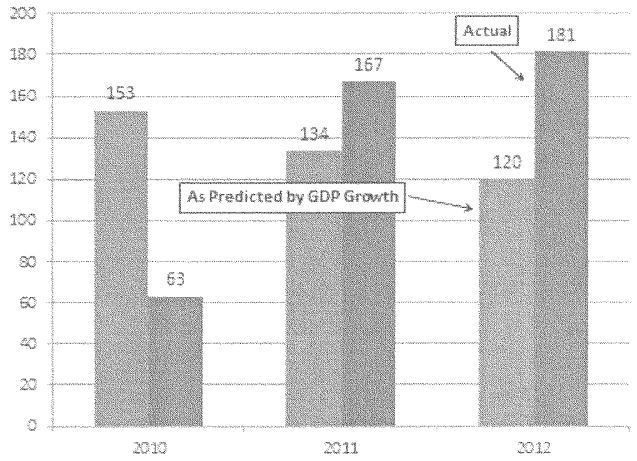
Graph 1: Labor Force Participation: BLS Projections In 2006 versus Actual Values (percent)



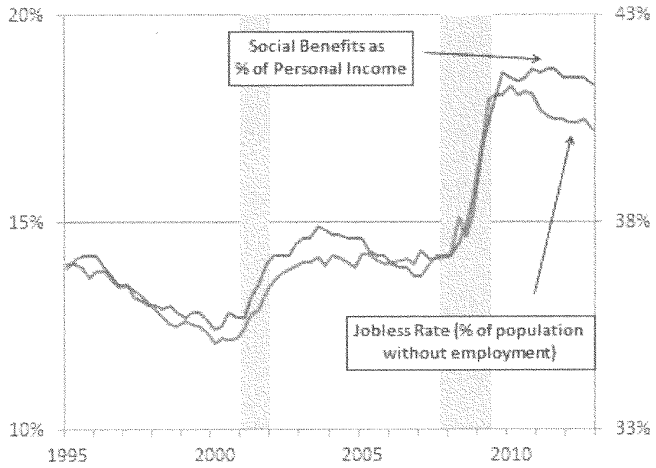
Graph 2: The Jobless Rate (share of population)



Graph 3: Monthly Job Growth. Actual versus Predicted



Graph 4: Spending on Social Benefits



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PREPARED STATEMENT OF DR. HARRY J. HOLZER, PROFESSOR OF PUBLIC POLICY AT GEORGETOWN UNIVERSITY

Good morning. I would like to make the following points about structural and long-term unemployment, as well as the future earnings prospects of various groups of U.S. workers.

1. Structural unemployment in the United States has probably risen by about 1 percentage point during the labor market downturn and slow recovery since 2007, though it is unclear how much of this increase will persist over time.

Most of the increase in unemployment since 2007 reflects insufficient employer demand for workers. But the job vacancy rate (now at 2.8%) is higher than we might expect with so much unemployment. Employers in some sectors (like health care and advanced manufacturing) seem to have genuine difficulty filling jobs requiring specific skills, while others are moving more slowly to fill jobs when demand for their products remains limited and uncertain.[1]

[1] Job vacancy rates are available every month from the Bureau of Labor Statistics' Jobs Opening and Labor Turnover Survey (JOLTS) news release. Vacancy rates in manufacturing and health care are routinely higher than the new hire rates observed in those sectors, where the opposite is true in most others. This indicates relatively longer vacancy durations in these two sectors, consistent with other descriptions of employers who have difficulty filling jobs there

Continued

2. Long-term unemployment should have somewhat negative effects on future employment prospects, at least for some groups.

The long-term unemployed are being rehired more slowly than those with short unemployment spells, though not by as much as some might expect.[2] How well they will fare when aggregate job creation picks up remains unclear, and some subgroups among the long-term unemployed (like older workers) should have more difficulty finding new jobs than others.

3. The high levels of unemployment during the past 5 years will likely affect younger and older workers quite differently as the recovery continues, though both might be "scarred" to some extent. Other groups—such as African-Americans and also the children of the dislocated—may be scarred as well.

Long-term unemployment has increased the most among older workers (ages 55 and above), even though their overall unemployment rates remain low and their work activity has risen during the past 5 years. Older workers lose and leave their jobs less frequently than other workers; but they also adapt less quickly to changing skill needs in the labor market, partly because employers are reluctant to hire them and invest in their training on the job. In contrast, younger workers (ages 24 and below) are more frequently unemployed but for much shorter spells.[3] They will gain jobs more quickly than older workers but at lower wages than usual, and they will have more difficulty achieving wage growth by changing jobs. As a result, their earnings levels will be relatively lower for many years.[4] Black workers also have fairly lengthy unemployment spells which could impede their progress during the recovery.[5] The children of less-educated workers who suffer job loss and extended spells of unemployment bear some costs as well, since their own educational attainment suffers (presumably because of the stress experienced at home).[6]

4. Besides their effects in the past 5 years, imbalances between the skills sought by employers and those held by workers have also led to growing earnings inequality over time and to lower levels of "good job" creation in the United States.

While educational attainment among Americans has been slowly increasing, too many leave high school with very few of the general or sector-specific skills that employers seek. Also, many start college (either 2-year or 4-year) but fail to complete any program or gain any credential. Thus the gaps between those who do and do not have the skills employers seek has widened over time.[7] And employers who perceive difficulty in filling good-paying jobs with highly-skilled workers will likely cre-

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(such as Barnow et al., 2013 for health care and Fletcher, 2011 for manufacturing). Elsby et al. (2012) show that job vacancy rates have grown relative to unemployment rates in the past few years, suggesting an outward shift of the "Beveridge Curve" over time. But Peter Cappelli (2012) and Catherine Rampell (2013) describe lengthy vacancy durations among some employers who do not seem too eager to fill these jobs. Regarding "structural" unemployment, Estevao and Tsounta (2011) show evidence of growing skill mismatches generating such unemployment differences across states, while Elsby et al. (op. cit.) and Daly et al. (2012) attribute growing structural unemployment to temporary factors, such as longer periods covered by Unemployment Insurance and also employer uncertainty.

[2] See Elsby et al. (2012) and Valletta (2013) for evidence that those with longer unemployment spells tend to find new jobs more slowly than those with shorter spells. Both studies show that reemployment rates stop declining with longer unemployment spells at some point; in the latter (more recent) paper, this occurs after about 20 months of unemployment. Also, see Ghayad and Dickens (2012) for evidence that only long-term unemployment drives the shifting out of the Beveridge Curve noted above.

[3] In the first quarter of 2013, the unemployment rate (not seasonally adjusted) was 8.1% nationwide but 24.2% for teens, 14.1% for youth aged 20–24, and only 6.1% for those 55 and older. But median durations of unemployment (in weeks) throughout 2012 were 19.3 for all, and 9.5, 14.2 and 30.5 for the three age subgroups, respectively.

[4] See Kahn (2010) and von Wachter (2010) for evidence on the relatively lower wages for many years of young workers who enter the job market during a recession.

[5] Median durations of unemployment are 17.6 and 24.7 weeks for whites and blacks, respectively.

[6] See Von Wachter (2010).

[7] Goldin and Katz (2008) provide an overview of how educational attainment among American workers has failed to keep pace with growing skill demands among employers in the past three decades. Symonds et al. (2011) show that American high school graduates are much less prepared for the labor market than those in many OECD countries. Holzer and Dunlop (2013) provide evidence of low completion rates at 2-year and 4-year colleges, especially among minorities and low-income students at the latter. Holzer and Lerman (2007) show that employer demand in the United States over the past few decades has been fairly strong in "middle-skill" jobs (i.e., those requiring some postsecondary education or training below the B.A. level) as well as in higher-skill jobs (requiring a B.A. or higher).

ate fewer such jobs in the United States, relying instead on technological advances or offshoring production activity to meet their needs.[8]

5. A range of policy responses should be used to address the problems of skill imbalances and to improve employment and earnings potential for American workers.

Policies to improve employment outcomes of workers hurt by these structural imbalances might include:

- Reemployment services, to help them find jobs appropriate to their skill level more quickly;
- Education and training programs, to create worker skills that better match newly available jobs;
- Wage insurance, for displaced workers whose earnings are permanently reduced by their loss of a good job; and
- Carefully targeted job creation strategies while unemployment remains high.

The appropriate package of benefits and services may differ across groups. Younger workers are more easily trainable for good jobs that require some technical skill, especially at community colleges. They might also benefit from a variety of "earn and learn" strategies, such as apprenticeships and paid internships related to their areas of study. In contrast, older displaced workers might benefit the most from "wage insurance," where the Government provides a subsidy to partly offset the permanent loss of earnings that occurs when displaced workers take low-wage jobs.

And, of course, job creation strategies in the near-term would also help. Public spending on the building of infrastructure, tax credits or subsidies for private sector employment growth, and public service jobs could all play a positive role in reducing unemployment over the next several years.

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[8] See Holzer et al. (2011) for evidence that employers providing "good jobs"—i.e., those paying wage and salary premia above market levels in their industry—have sought workers with growing skill levels over time. Holzer (2013) also discusses employer job creation patterns and their sensitivity to the availability of skilled workers.

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American Enterprise Institute for Public Policy Research

Testimony before the Joint Economic Committee

Long-Term Unemployment: Consequences and Solutions

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American Enterprise Institute
April 24, 2013

The views expressed in this testimony are those of the author alone and do not necessarily represent the views of the American Enterprise Institute.

Chairman Brady, Vice Chairman Klobuchar, and Members of the Committee, thank you for inviting me to appear today to discuss the problem of long-term unemployment. In the testimony that follows, I will discuss the current status of the long-term unemployment crisis, review recent attempts to explain it, and then turn to possible policy options.

I. Long-term unemployment today

In December 2007, at the start of the Great Recession, the number of the long-term unemployed stood at 1.3 million, or 17.3 percent of all unemployed workers. Over the course of the recession the U.S. experienced an increase in the number of individuals unemployed for 27 weeks or more, a trend which continued after the recession's close in June 2009. The number of the long-term unemployed peaked in April 2010 at 6.7 million, making up 43.9 percent of all unemployed workers. Currently, there are 4.6 million workers who are considered long-term unemployed, which comprises 39.3 percent of all unemployed workers.

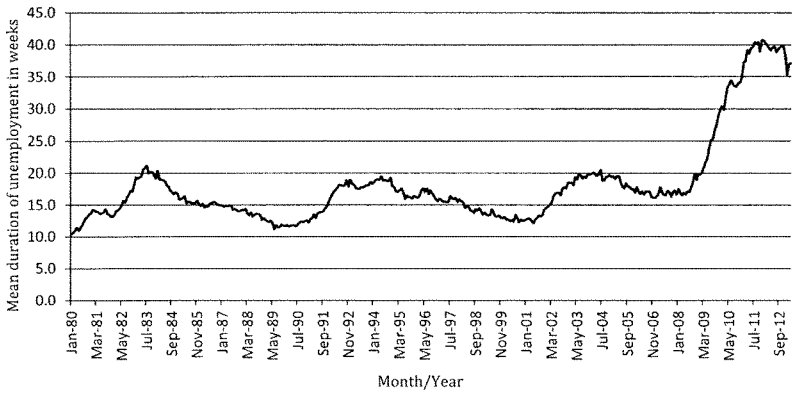
Figure 1 shows the number of unemployed persons (in millions) by different durations of unemployment. Prior to the recession, the number of individuals unemployed for 27 weeks and over is relatively low and surpasses only those unemployed for 15 to 26 weeks. During and after the recession, there is an especially sharp increase in long term unemployment and by June 2009, the number of persons experiencing long-term unemployment exceeds numbers in every other category. Today, persons unemployed for 27 weeks and over continue to significantly outnumber their counterparts in each category.

Given the figure above, it is not surprising that average unemployment durations have also been increasing. In December 2007, the mean duration of unemployment stood at 16.6 weeks. By December 2011, this number had increased to 40.7 weeks, the longest duration documented since

World War II. Today, the average duration of unemployment is around 37.7 weeks, still above the 27 week threshold.

Figure 2 shows the average length of unemployment from 1980 to 2013. The average unemployment duration rose between the mid- 1980s and the mid- 2000s, but this is largely attributed to changing demographics in the labor force – specifically, surges in female labor force participation and the aging of the U.S. population. Aaronson, Mazumder, and Schechter (2010) point out that these demographic factors only partially account for the dramatic increases since the Great Recession.[1] They focus on weak labor demand and, to a smaller extent, extensions in unemployment insurance benefits as possible explanations for the rise in unemployment durations.

Figure 2: Average (mean) duration of unemployment 1980-2013



Source: FRED: U.S. Department of Labor, Bureau of Labor Statistics, Employment Situation, Seasonally adjusted

They conclude that while average length of unemployment had been rising for two decades before the beginning of the recession in 2007, this was largely due to changing demographics in the labor force – specifically, the greater participation of women in the labor force and the aging of the overall population in the U.S. However, the increase since the great recession can only partly be attributed to these demographic factors.

II. The high cost of unemployment

Unemployment undoubtedly has many costs, and while its financial impacts may be more obvious, research has shown that it has many subtle negative effects on wellbeing as well. A report by Johnson and Feng at the Urban Institute details the financial losses to workers who experienced long-term unemployment between 2008 and the end of 2011; for workers who were out of work

[1] Aaronson, Daniel, Bhashkar Mazumder, and Shani Schechter, 2010. "What is behind the rise in long-term unemployment?" *Economic Perspectives,* Federal Reserve Bank of Chicago: 28-51. <http://qa.chicagofed.org/digital_assets/publications/economic_perspectives/2010/2qtr2010_part1_aaronson_mazumder_schechter.pdf>

for six months, half experienced declines in per-capita family income by 40 percent or more. The financial hardships were felt especially by African Americans and Hispanics, along with workers who did not have more than a high school education and unmarried workers who could not rely on a spouse's income[2]. In addition, once workers who were previously unemployed find jobs, their earnings are persistently lower than before their unemployment spell[3]. In addition to these financial burdens, unemployed workers have been shown to have an increased risk of death and a potentially shortened life expectancy[4], along with a heightened risk of suicide that increases with the length of unemployment.[5] Perhaps unexpectedly, unemployment also seems to increase the mortality of men from cancer, especially lung cancer.[6]

In addition to the negative effects that unemployment can have on an unemployed worker's wellbeing, it can also be detrimental to his or her family. Stevens and Schaller demonstrated that parental unemployment can increase the probability that a child will have to repeat a grade in school, an effect that was especially important for children of parents with lower educational attainment.[7] One spouse's job loss also increases the probability of divorce.[8] While not all of these studies examine the effects of long-term unemployment specifically, it's clear that experiencing a long period of unemployment can have significant negative impacts on a worker's financial stability and overall wellbeing, along with those of his or her family. As further evidence of this, a 2010 report from the Pew Research center showed differences in how workers who had been unemployed for six months or longer reported family strain and other measures of personal wellbeing, compared to employed workers and those who had been unemployed for shorter durations.[9] Long-term unemployed workers were more likely to report that they had lost some self-respect, that the recession would have a big impact on their career goals, and that the recession brought "major changes" in the way they live.

III. Causes of the current long-term unemployment crisis

While some of the costs of unemployment have been thoroughly described and are somewhat easy to pinpoint, the causes of the recent increase in the number of long-term unemployed workers is harder to disentangle. This, however, is necessary to figure out in order to analyze policies crafted in response to the current employment crisis and their potential effects. A few theories have been

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[2]Johnson, Richard W. and Feng, Alice G. "Financial Consequences of Long-term Unemployment during the Great Recession and Recovery." Urban Institute Brief #13. April 2013. <http://www.urban.org/UploadedPDF/412800-Financial-Consequences-of-Long-Term-Unemployment-during-the-Great-Recession-and-Recovery.pdf>

[3]Jacobson, Louis S., Lalonde, Robert J., and Sullivan, Daniel G. "Earnings Losses of Displaced Workers." *The American Economic Review* Vol. 83(4), pg. 685-709. Sept. 1993

[4] Sullivan, Daniel and von Wachter, Till. "Job Displacement and Mortality: An Analysis Using Administrative Data." *Quarterly Journal of Economics*, Vol. 124(3), pg. 1265-1306. August 2009.

[5] Classen, Timothy J., and Dunn, Richard A. "The Effect of Job Loss and Unemployment Duration on Suicide Risk in the United States." *Health Economics*, Vol. 21(3), pg. 338-350. March 2012.

[6] Lynge, E. "Unemployment and Cancer: A Literature Review." In *Social Inequalities and Cancer*. Kogevinas, M., Pearce, N. Susser, M., and Boffetta, P., eds. IARC Scientific Publications No. 138. 1997.

[7] Stevens, Ann Huff, and Schaller, Jessamyn. "Short-run Effects of Parental Job Loss on Children's Academic Achievement." *Economics of Education Review*, Vol. 30(2), pg. 289-299. April 2011.

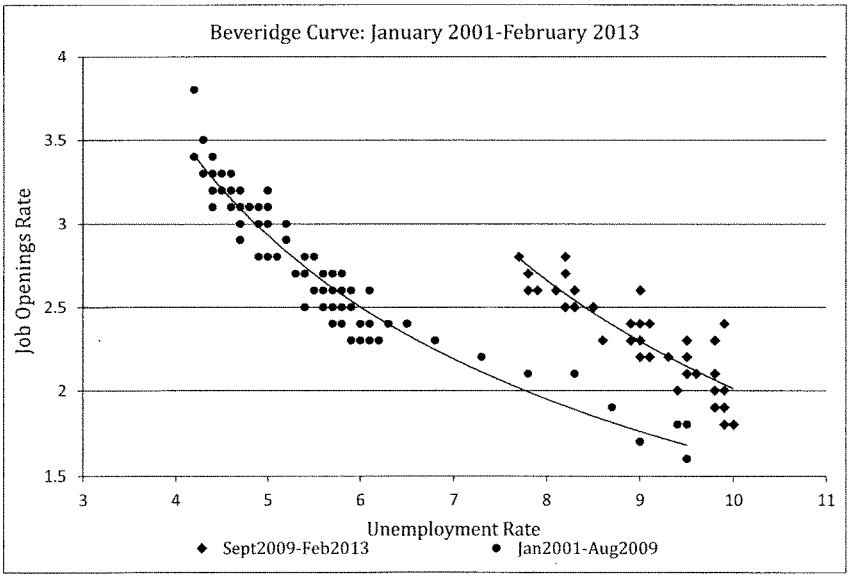
[8] Charles, Kerwin Kofi, and Stephens, Melvin. "Job Displacement, Disability, and Divorce." *Journal of Labor Economics*, Vol. 22(2), pg. 489-522. April 2004.

[9] Morin, Rich, and Kochhar, Rakesh. "The Impact of Long-term Unemployment: Lost Income, Lost friends – and Loss of Self-respect." Pew Research center Report, July 2010. <http://pewsocialtrends.org/files/2010/11/760-recession.pdf>

put forth for the persistence of the large amount of long-term unemployment in the U.S. following the recent recession, including skills mismatch, "scarring" of the long-term unemployed that makes them less employable, and economic and policy uncertainty.

One reason to believe that some of these factors may be causing an increase in the amount and duration of unemployment and, specifically, long-term unemployment, is a shift in the relationship between the number of unemployed workers and the amount of job vacancies in the years since the recession. This relationship is called the Beveridge curve, and it is used by economists to understand the state of the labor market. In an idealized perfectly functioning economy, there is no unemployment because market prices adjust to set labor supply equal to labor demand. If a job listing occurs, prices and workers adjust to instantly fill it. In a more realistic economy, filling a position can take time, and the Beveridge curve is an indicator of how smoothly the matching process occurs. If a high level of vacancies is visible in the data for a given level of unemployment, it is a sign that the market is not matching unemployed persons to vacancies well. Causes of market frictions may include long term unemployment, skill mismatches, and geographic mismatches, to name a few.

Normally, when job vacancies are higher, unemployment is lower, and vice versa. As can be seen in the graph below, however, in the years following the recession, towards the end of 2009, there has been a shift outward in the curve, implying that there is a higher level of unemployment at a given level of vacancies. This shift suggests the labor market is becoming less efficient at matching available jobs and unemployed workers.



This change in the relationship between job vacancies and the unemployment rate may have different causes than the original increase in long-term unemployment directly following the recession. Most research has pinned the increase in unemployment and unemployment duration during and directly following the recession on weak aggregate demand[10], with a small influence of extended unemployment insurance benefits.[11] While these may still be factors in the current labor market, the increase in job vacancies combined with smaller declines in unemployment points to an inefficiency in the labor market that may have a cause outside of the weak recovery.

There are many possibly stories for the degradation of the job matching function of the economy. Policy and economic uncertainty may be making employers more cautious in hiring, leading them to leave jobs vacant for a longer period of time while they wait for an ideal hire or to be sure of the policy atmosphere before committing to employ a worker. Or, it could be that employers find the large stock of long-term unemployed workers less desirable for employment, so these individuals are not filling the new vacancies as unemployed workers in the past would have. The change could also be caused by a "skill gap", where large numbers of the unemployed do not have the skills that employers with openings are looking for, and therefore the vacancies continue even as there are more candidates to choose from.

Although it is plausible that all three causes are influencing the current high rate of long-term unemployment and inefficiency in the labor market, the best evidence seems to indicate that the largest factor is some form of scarring of the long-term unemployed, with policy uncertainty contributing some to the tepid growth that has kept unemployment still higher than usual. On top of that, a skills gap contributing some, but not much, to the numbers of long-term unemployed.

IV. "Scarring" vs. the "skills gap" and long-term unemployment

There has long been evidence that unemployment has an influence on the risk of future unemployment and earnings of a worker, effects that may partially be attributable to both employers' perceptions of workers and to workers' loss of general and specific skills during a period of unemployment.[12] Although it is not fully understood whether this phenomenon is more attributable to a stigma that employers attach to unemployed job-seekers or a decline in skills by the unemployed, many observers and analyses have shown that it is an important factor in the employability of workers. It is thought by many to be a contributing factor to today's high long-term unemployment rate.

A very recent analysis by Rand Ghayad, cited in multiple news outlets, shows just how much this factor can affect workers searching for jobs. Ghayad ran an experiment where he sent out 4800 fake resumes to 600 job openings, varying different resumes for the same positions on whether an applicant was unemployed and for how long he had been unemployed. He reported that the length

[10] Elsby, Michael E.L., Hobijn, Bart, Sahin, Aysegul, and Valletta, Robert G. "The Labor Market in the Great Recession – An Update to September 2011." *Brookings Papers on Economic Activity*, pg. 353-384. Fall 2011.
[11] Aaronson, Daniel, Mazumder, Bhashkar, and Schechter, Shani. "What is Behind the Rise in Long-term Unemployment?" *Economic Perspectives*, Federal Reserve Bank of Chicago. Secon Quarter, 2010. <http://qa.chicagofed.org/digital_assets/publications/economic_perspectives/2010/2qtr2010_part1_aaronson_mazumder_schechter.pdf>
[12] Arulampalam, Wiji, Gregg, Paul, and Gregory, Mary. "Unemployment Scarring." *The Economic Journal*, Vol. 111(475), pg. 577-584. November 2011.

of time a candidate had been unemployed was even more important than whether a candidate had experience in the industry he was applying for; candidates who had only recently lost their jobs but who had no industry experience were more likely to be called back than candidates with relevant experience who had been employed for six months or longer.[13]

Focusing on a different potential explanation, Ghayad and William Dickens performed a separate analysis of the U.S. labor market to examine whether a skill gap was to blame for the current high rate of long-term unemployment, and concluded that a skills gap was largely not to blame for the recent inefficiencies in the U.S. labor market as seen in the Beveridge curve since 2009.[14] Their analysis looked at the differences between the Beveridge curves for different types of workers in order to determine if it was likely that a skills gap was causing the shift seen in the Beveridge curve for all workers. A similar shift happened in the 1970s, and this, it is believed, was a result of a gap between the skills of workers and the ones being sought by employers. In the case of the 1970s, the shift happened for both long and short term employed workers, and mostly affected blue-collar workers. The Beveridge curve today, though, is similar for blue and white collar workers, across several industries, and across different age groups. However, while there is an evident shift in the curve for workers who have been unemployed for 27 weeks or more, unemployed workers of shorter durations have experienced no outward shift in the Beveridge curve. They conclude that there is an effect that being unemployed for a longer amount of time has on the chances that a worker will become employed, suggesting that the state of belonging to the group of long-term unemployed workers is in itself a cause of the persistence in unemployment of these workers, instead of a mismatch between the skills that employers seek and that prospective workers possess.

Although the largest problem for the long-term unemployed appears to be scarring as opposed to a skills-gap, that is not to say that some form of training may not help the employment prospects of the long-term unemployed. One cause of scarring may be the loss of soft skills that comes with a longer period of unemployment, something that may be addressed in job training programs. Additionally, if employers view job training as beneficial for prospective employees and view the long-term unemployed more favorably if they are engaged in training instead of sitting idle, then job training programs may be useful for helping the long-term unemployed return to work.

V. Job Training

Job training programs in the U.S. have sought to increase employment and improve displaced workers' earning losses through various forms of schooling, classroom vocational training, facilitated job searches, and subsidized on-the-job training programs. However, the job training system in the U.S. is run by state and local government, fragmented, and difficult for many workers to navigate. A 2011 GAO report found 47 employment and training programs administered across

[13] O'Brien, Matthew. "The Terrifying Reality of Long-Term Unemployment." *The Atlantic*, April 13, 2013. <http://www.theatlantic.com/business/archive/2013/04/the-terrifying-reality-of-long-term-unemployment/274957/>

[14] Ghayad, Rand and Dickens, William. "What can we Learn by Disaggregating the Unemployment-Vacancy Relationship?" Federal Reserve Bank of Boston Public Policy Brief No. 12-3. 2012. <http://www.bostonfed.org/economic/ppb/2012/ppb123.pdf>

nine different government agencies spending approximately $18 billion in 2009.[15] The individual programs target different populations and use different metrics to evaluate program success.

The effectiveness of U.S. employment and training programs is difficult to identify because of inadequate program evaluation systems and poorly organized data collection techniques.[16] To properly evaluate an intervention program, an impact study would compare participants' outcomes with and without the program, using a randomly assigned comparison group, to isolate program impact from other factors such as participant background or independent job search efforts. Without controlling for these factors, evaluations could overstate the impact of the programs. The 2011 GAO report found that only 5 of the 47 employment and training programs had conducted studies demonstrating whether outcomes could be attributed to the program since 2004. The results of the 5 studies show that the effects of participation were not consistent across programs, and positive impacts tended to be small or inconclusive.

The Workforce Investment Act (WIA) Dislocated Worker program, which assists workers who have been laid-off, conducted an impact study in 12 states in 2008 and found mixed effects on participants.[17] In five of the states for at least one gender, the effect of the program on the first five quarters of earnings after program participation was negative and significant, indicating that these workers experienced lower earnings than their non-participating counterparts. From 11 to 16 months after program participation, the program had a positive impact on participant earnings except in two states where the impact of the program remained negative. The results imply that program participants have earnings below nonparticipants for an extended period but overtake nonparticipants two to three years after the program. These results demonstrate the ambiguity of job training effectiveness and the need for better data on both long- and short-term program effects in order to pinpoint how the system should be structured to best help the unemployed.

There are several reasons why job training programs may not effectively help displaced workers. Relatively few participants enroll in these programs for long enough to acquire some kind of credential and those that participate in a subsidized job often receive little or no training other than the employment experience.[18] Additionally, government investments in training are modest compared to the magnitude of the skill deficiencies that policy makers are trying to address, resulting in equally modest gains.[19] Employers therefore may not value the time a candidate spent in the program when making employment decisions. A thorough analysis on the best way to target the unemployed should be pursued before allocating more government funds into equivocally useful programs.

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[15] U.S. Government Accountability Office. "Multiple Employment and Training Programs." January 2011. <http://www.gao.gov/new.items/d1192.pdf>

[16] Heckman, James J., LaLonde, Robert J., and Smith, Jeffrey A. "The Economics and Econometrics of Active Labor Market Programs" In *Handbook of Labor Economics*, eds. Ashenfelter, O. and Card, D. Ed. 1 Vol. 3, N. 3. 1999.

[17] Heinrich, Carolyn, Mueser, Peter R., Troske, Kenneth, and Benus, Jacob M. "Workforce Investment Act Non-Experimental Net Impact Evaluation." IMPAQ International. December 2008. <http://www.nawdp.org/Content/NavigationMenu/ResearchReports/2009-10-WIANon-ExperimentalNetImpact.pdf>

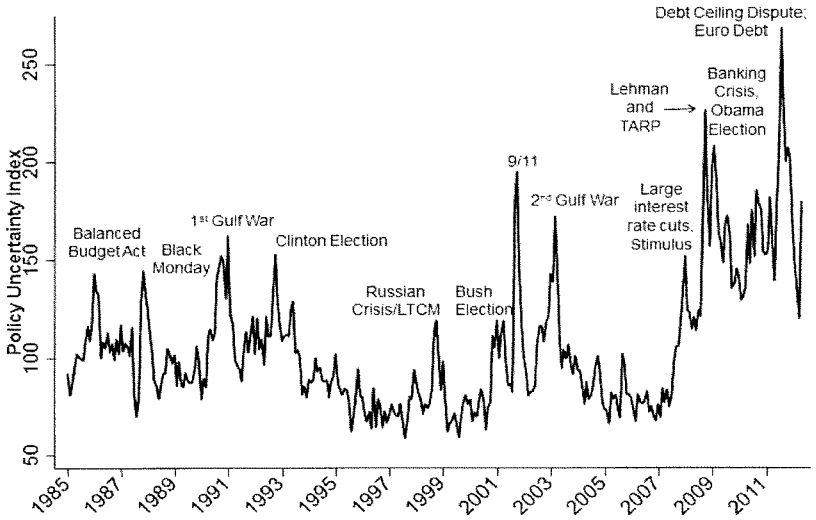
[18] Heckman, James J., LaLonde, Robert J., and Smith, Jeffrey A. "The Economics and Econometrics of Active Labor Market Programs" In *Handbook of Labor Economics*, eds. Ashenfelter, O. and Card, D. Ed. 1 Vol. 3, N. 3. 1999.

[19] LaLonde, Robert J. "The Promise of Public Sector-Sponsored Training Programs." *The Journal of Economic Perspectives*, Vol. 9(2), pg. 149-168. 1995.

VI. Uncertainty and unemployment

Policy uncertainty may influence the higher rate of unemployment through two channels: by decreasing the rate of overall growth in the economy as individuals and businesses lower their investments and purchases, and by making employers less willing to hire new employees.

There has been increasing interest in policy uncertainty in the economic and political spheres since the recession, and multiple analyses have shown that uncertainty by individuals and businesses was a contributing factor to the slow recovery following the recession in 2007-2008. Recently, Baker, Bloom, and Davis have developed a measurement of economic policy uncertainty, which they have used to show the increase following the recession.[20] They tie this increase to lowered economic activity, and other economists have extended their analysis to show that increased uncertainty following the recession led to a decrease in investment by firms and at the industry level in the U.S.[21]



Source: Baker, Bloom, Davis 2013. http://www.policyuncertainty.com/media/BakerBloomDavis.pdf

This decrease in economic activity and investment due to higher levels of uncertainty was a factor in the tepid growth following the recession, and may still be having an effect on economic growth in the U.S. Because of this lowered growth, firms may be reluctant to increase employment, and they may also be more reluctant to hire workers who are perceived as riskier (such as those who have

[20] Baker, Scott, Bloom, Nicholas, and Davis, Steven. "Measuring Economic Policy Uncertainty." Chicago Booth Research Paper No. 13-02. 2013. <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2198490>

[21] Gulen, Huseyin and Ion, Mihai. "Policy Uncertainty and Corporate Investment." Working Paper. 2013. <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2188090>

been unemployed for longer durations). This may be one factor behind firms' maintaining more vacancies over the past three years than they previously did when unemployment was as high as it is today.

VII. Geographic Disparities in Unemployment

One possible cause of persistent long-term unemployment that Ghayad and Dickens do not investigate in their disaggregation of the Beveridge curve is possible geographic differences in employment. A large focus of public policy discussions concerning unemployment focus on individuals, but there is also a large difference in unemployment between geographic areas, so it may be necessary to make more concentrated policies that target areas with high unemployment and higher long-term unemployment. For example, the unemployment rate in the Detroit metropolitan area in February of this year was 10.2, compared to a rate of 5.5 for the Minneapolis-St. Paul area, according to the Bureau of Economic Analysis. A different approach may need to be taken towards areas with persistent and high unemployment instead of a broad-based effort.

The US has used targeted measures before to try and encourage growth in distressed areas with high rates of unemployment and poverty, with mixed results. Although previous Enterprise Zone programs, such as the federal Empowerment Zone, Enterprise Community, and Renewal Community programs may have been beneficial[22], it is difficult to entangle the causes of economic growth in those areas, especially when government data is sparse.[23] However, there may be other ways to target communities with high unemployment with incentives that are better targeted for investment by individuals and businesses, such as creating a new form of corporation that would receive tax preferences if it invested within a distressed community. In work in progress, I am exploring this option.

VIII. Conclusion

The impact of long term unemployment on the lives of unemployed Americans and their families is about as negative as anything economists study. It is clear that something terrible happens to individuals as they stay unemployed longer, but that this negative effect is not responsive to normal policy interventions. Accordingly, it is clear that it is imperative that we think outside the box and explore policies that reconnect individuals to the workforce. As our knowledge of what works is so spotty, this is an area that is crying out for policy experiments that can be rigorously evaluated. A list of policy ideas that may be helpful in this space would include

1) Direct hiring into government jobs. The stigma of long term unemployment may be ameliorated by a short run jobs program that recruits the long term unemployed to assist with the normal functions of government. This may allow individuals to look for a new job while employed, a change that may have a large impact on placement.

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[22] Ham, J. C., C. Swenson, A. Imrohoroglu & H. Song. "Government Programs can improve local labor markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Community." *Journal of Public Economics* Vol. 95.7-8 (August 2011) p.779-797

[23] U.S. Government Accountability Office. "Empowerment Zone and Enterprise community Program: Improvements Occurred in communities, but the effect of the program is unclear." GAO 06-727. (Sept 2006).

2) Policies directed at geographic mismatches. These might include improved empowerment zones, and possibly programs to assist workers as they move from areas with weak labor markets to areas with strong labor markets.

3) Privatized training. Our government training programs are a national embarrassment, and the unemployed would be better off if the monies were available to individuals who themselves chose the skills they wish to acquire.

4) Work subsidies. Programs that provide employers with tax incentives to employ the long term unemployed may encourage them to hire them.

5) Work Share programs. The U.S. currently has some programs that allow employers to cut hours of workers in downturns and let them receive some unemployment insurance, but they are very little used. There was also a program tried in Georgia[24] that allowed workers to train and try out employees for a period of eight weeks while they continued to receive unemployment insurance, with the goal of the workers being hired at the end. We need to expand programs like this and experiment with others that may nudge employers towards hiring the long-term unemployed.

[24] Lohr, Kathy. "Georgia Jobs Program, Luaded by Obama, Has Critics." NPR, Sept. 2, 2011. <http://www.npr.org/2011/09/02/140125260/georgia-jobs-program-lauded-by-obama-has-critics>

PREPARED STATEMENT OF HON. KEVIN BRADY, CHAIRMAN, JOINT ECONOMIC COMMITTEE

The Joint Economic Committee is operating during this Congress with both the Chairman and Vice Chair selecting hearing topics. I congratulate Vice Chair Klobuchar for selecting today's topic: Long-Term Unemployment. This is an acute problem for our country, and I'm confident that today's hearing will be a bi-cameral, bi-partisan search for solutions.

The United States suffers from a growth gap. This recovery is the weakest since World War II. Compared with an average post-war recovery, our economy is missing 4.2 million private sector jobs and $1.3 trillion in real GDP. Every American is short nearly $3,000 in real disposable income and since the recession bottomed out, more Americans have been forced onto food stamps than have found a job.

Moreover, many economists fear that our anemic recovery has created a "new normal"—a reduced potential for economic growth in the future. The Congressional Budget Office (CBO) recently lowered its estimate for potential real GDP in the future by one percentage point to 2.3 percent.

One percent may not seem like much, but its consequences are huge over time. Our economy would be $31 trillion smaller in 2062, and the Treasury would collect $97 trillion less in tax revenues over the next half-century.

The growth gap is a major contributor to the significant problem of long-term unemployment. While the official unemployment rate has fallen from a cyclical high of 10.0 percent in October 2009 to 7.6 percent in March of this year, this improvement is deceiving.

Much of this improvement is due to workers leaving the labor force. The labor force participation rate has fallen from 66.0 percent at the start of the recession in December 2007 to 63.3 percent last month—a low not seen since Jimmy Carter was president. Without the decline in the labor force participation rate since President Obama took office, the unemployment rate would have actually increased to 11.0 percent.

The CBO expects the official unemployment rate to remain above 7.5 percent through 2014, which would be the sixth consecutive year with the unemployment rate exceeding 7.5 percent, and the longest period of high unemployment in the past 70 years.

According to the President's recently released budget, the unemployment rate will not return to its pre-recession levels before 2023. Let me repeat that: according to the White House it will take at least a decade before America's unemployment rate returns to its level before the recession. That's more than disheartening.

One of the characteristics of our weak labor market is a very long average period of unemployment for workers who lose their jobs.

The average number of weeks for unemployment is currently 37.1—very close to the all-time peak of 40.7 weeks in November and December of 2011. In contrast, the previous peaks in the average number of weeks of unemployment were much shorter: 16.9 weeks in June 1976 after the severe 1973–75 recession, and 21.2 weeks in July 1983 after the equally severe 1981–82 recession.

According to Dr. Janet Yellen, vice chairman of the Board of Governors of the Federal Reserve System, three million Americans have been looking for work for one year or longer, comprising one quarter of all unemployed workers. Long-term unemployment not only causes economic distress but may cause deterioration in workers' skills and the prospects for future jobs and earnings.

Worse still, those categorized as long-term unemployed mask a larger problem because the category excludes discouraged workers, marginally attached workers, and those working part-time for economic reasons.

Policymakers should address the problem of long-term unemployment in two ways. First, this Committee has shown the close relationship between new jobs along Main Street and business investment in buildings, equipment and software. Washington must resolve the policy uncertainty that has deterred job-creating business investment during this recovery.

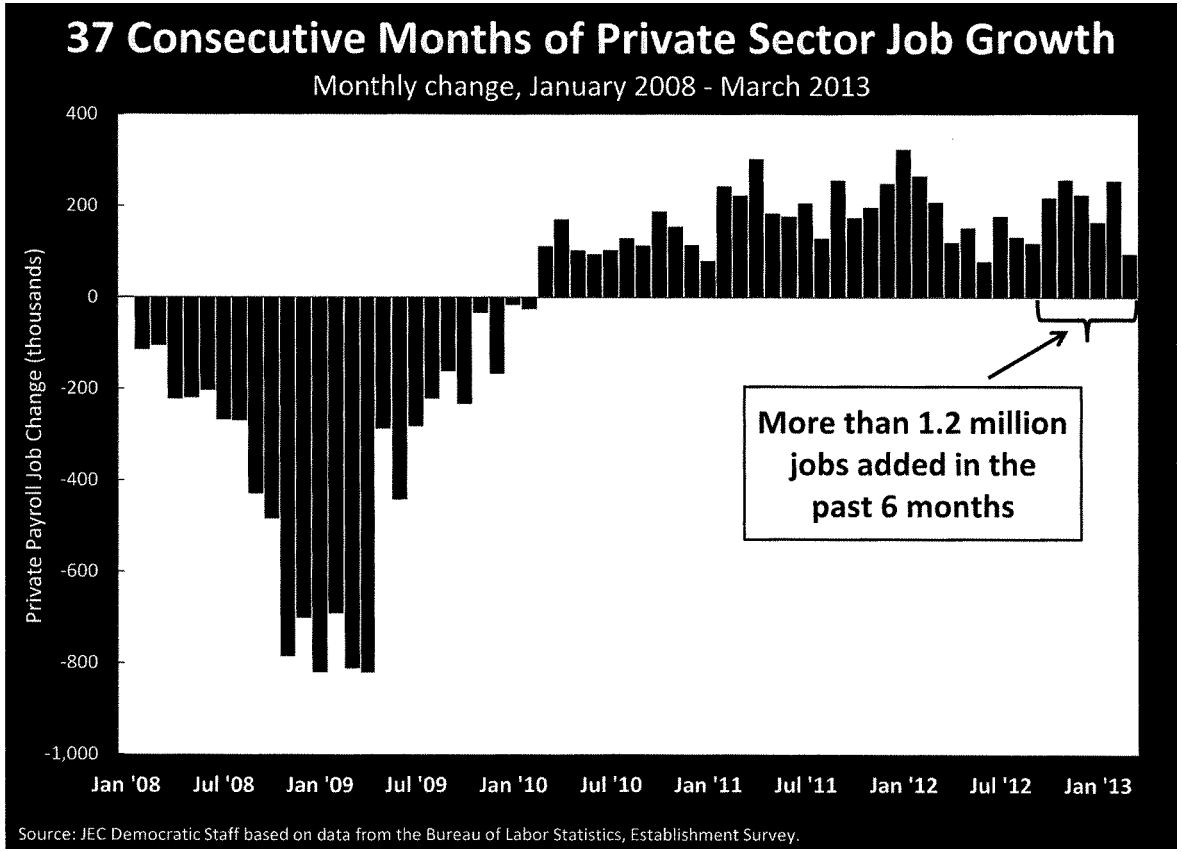
This means enacting pro-growth tax reform; giving the Federal Reserve a single mandate for price stability; gradually bringing our federal budget into balance by reforming our unsustainable entitlement programs; returning common sense and balance to our regulatory process; and opening new markets around the world for American exports.

Second, we must identify structural problems with our labor market that make some unemployed workers difficult to re-employ—even if our economy were booming. In particular, we must identify whether a significant gap has emerged between the skills that some of the long-term unemployed possess and the skills that employers are seeking.

Congress funds numerous job training programs. Some appear to be working more successfully than others. Let's identify the programs that succeed, fund them, and then save taxpayer dollars by eliminating the inefficient and wasteful programs.

Our witnesses include three noted economists: Dr. Harry Holzer, Professor of Public Policy at Georgetown University; the Honorable Keith Hall, former Commissioner of the Bureau of Labor Statistics; and Dr. Kevin Hassett, Senior Fellow and Director of Economic Policy Studies at the American Enterprise Institute. Our other witness in the field is Mr. Randy Johnson, Executive Director of Workforce Development, Inc.

With that, I look forward to their testimony.

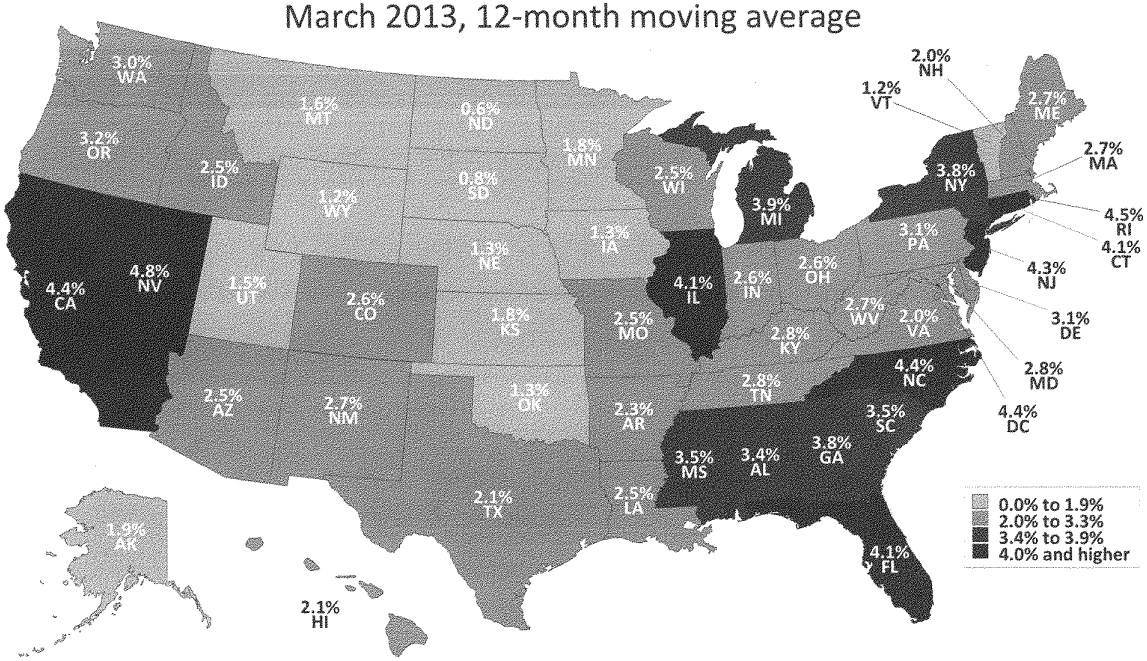

37 Consecutive Months of Private Sector Job Growth
Monthly change, January 2008 - March 2013
Private Payroll Job Change (thousands)
400
200
0
-200
-400
-600
-800
-1,000
Jan '08
Jul '08
Jan '09
Jul '09
Jan '10
Jul '10
Jan '11
Jul '11
Jan '12
Jul '12
Jan '13
More than 1.2 million jobs added in the past 6 months
Source: JEC Democratic Staff based on data from the Bureau of Labor Statistics, Establishment Survey.

Solutions to Address Long-Term Unemployment

- Enact policies that encourage job creation and strengthen our economy by promoting exports, encouraging entrepreneurship and innovation, and investing in education and R&D
- Invest in effective workforce training programs to help workers who cannot find jobs
- Elevate the role of hands-on, real-world training at community and technical colleges, and encourage stronger partnerships between these schools and employers in their communities

State Long-Term Unemployment Rates

March 2013, 12-month moving average



Source: JEC Democratic Staff based on data from the Bureau of Labor Statistics.