

**UNEMPLOYMENT IN A VOLATILE ECONOMY: HOW
TO SECURE FAMILIES AND BUILD OPPORTUNITY**

HEARING

OF THE

**COMMITTEE ON HEALTH, EDUCATION,
LABOR, AND PENSIONS**

UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

**EXAMINING UNEMPLOYMENT IN THE ECONOMY, FOCUSING ON WAYS
TO SECURE FAMILIES AND BUILD OPPORTUNITIES**

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UNEMPLOYMENT IN A VOLATILE ECONOMY: HOW TO SECURE FAMILIES AND BUILD OP- PORTUNITY

THURSDAY, MARCH 6, 2008

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:01 a.m. in Room SD-430, Dirksen Senate Office Building, Hon. Edward M. Kennedy, chairman of the committee, presiding.

Present: Senators Kennedy [presiding], Brown, Enzi and Alexander.

OPENING STATEMENT OF SENATOR KENNEDY

The CHAIRMAN. We'll come to order. We, first of all want to thank all of our witnesses for being here this morning. We have a very distinguished group. We're very grateful to them for taking the time to join with us. I'll introduce them in just a moment.

I'll submit my full statement for the record.

Our committee cares very deeply about our human resources, our fellow human beings. One of the prime areas of concern, obviously, is the whole issue of employment and the lack of opportunity and the lack of jobs. And what happens to people when they lose their jobs.

We are facing serious economic conditions that I think all of us are familiar with. One of the very significant and important phenomena that's taken place in the employment situation is the fact that we have individuals who are unemployed for a longer period of time looking for jobs, than any time in recent economic downturns. If you look at the charts that we have over here you will see in 2001 we were facing a recession.

Congress acted there with the extension of the unemployment compensation. If you look at 2001 verses 2007 you'll find 18 percent more workers are exhausting the Federal unemployment benefits today than at the start of the 2001 recession. Now if you look at what the record has been of Congress.

There are seven times in recent years since 1991 where we've extended unemployment compensation. But if you look at the bottom three, we had President Bush in those last three, the bottom three. All during those times when the Congress acted, in a bipartisan way, we still had a lower number of people looking for jobs than we do at the present time.

So Congress acted when we didn't have as significant a problem with longer term unemployment. It's not only affecting the individuals, but we've also seen what its impact has been on newly discharged veterans who are collecting unemployment benefits. We have some 23,000 with all the implications that has.

We are concerned about this. We are facing in the Congress a lot of different options about how we're going to deal with either the recession or the economic slowdown. Whatever terms you want to apply to it. But one of the aspects is unemployment compensation. We know, finally, that the unemployment compensation safety net has been tattered in recent times.

So today we want to discuss unemployment compensation: its relevancy in terms of our economy, its relevancy in terms of its stability, how we can alter and change the system. We know some States like New York have made rather dramatic differences by changing their systems to reach out and cover people. We want to hear from our witnesses recommendations as to how we should proceed or whether we should proceed.

So I will include my full statement, that goes into this is in some greater detail, in the record. I'll recognize Senator Enzi.

[The prepared statement of Senator Kennedy follows:]

PREPARED STATEMENT OF SENATOR KENNEDY

I am pleased that all of you could join us here today. In recent weeks, we've seen numerous warning signs that our economy is headed in the wrong direction. Working families know better than anyone that times are tough. They worry about putting food on the table, heating their homes, paying their medical bills, and paying their mortgages. Perhaps more than anything, they're worried about their jobs.

In today's troubled economy, too many people are out of work, and too many others go to work each morning hoping they still have a job. The unemployment rate is rising, and experts predict that it will keep on rising for months to come. It's already 7.6 percent in Michigan and 6.8 percent in Mississippi. Ohio, Alaska, and South Carolina are all over 6 percent as well.

Workers who lose their jobs are having great difficulty finding new work. Eighteen percent of unemployed workers—1.2 million people—have been looking for a job for more than 26 weeks but can't find one. There just aren't enough jobs to go around.

There are now nearly two unemployed workers for every job opening in the country. That's a far tougher job market than we saw before the last recession, and if history is any indication, we'll see three or even four unemployed workers for every open job before things improve.

Unemployment doesn't just hurt workers, it devastates families. It means months of pounding the pavement, knocking on doors, struggling without a paycheck. It means choosing whether to pay your heating bill or pay the mortgage. It means worrying about how you'll pay for your son's asthma medication, or telling your daughter you can't afford to send her back to college.

It's not just individual families who are affected. Unemployment hurts the country as a whole. Unemployed workers have no money to spend. Even those who still have a job are worried and cut back

their spending. It drags the whole economy down, and forces still more people out of work.

Families lose faith in the American dream. As the economy falters and families fall, the very fabric of society crumbles.

We have to stop this crisis before it worsens, and that takes strong economic leadership. First, we have to strengthen the safety net for families struggling to find work. Our outdated unemployment insurance system doesn't provide enough support. More than a third of unemployed workers run out of benefits before they find a job. Two and a half million people ran out of benefits in fiscal year 2007—before the recession even began. We know this number will continue to rise as the recession deepens.

That's why I've introduced legislation to extend unemployment benefits for all Americans, and provide extra help for workers in high-unemployment States. Extending benefits is an obvious measure that helps families in crisis, and it also gives an immediate boost to the economy.

But it's not enough. Too many people are left out of the system and don't qualify for benefits, despite their hard work.

The current unemployment insurance system hasn't kept pace with the changing economy. Technology has changed, the workforce is more mobile, and temporary job losses have been replaced by long-term structural unemployment. But the rules of eligibility for our unemployment insurance haven't changed with the times. Federal law hasn't changed since the 1960s. In 2006, only a third of unemployed Americans received unemployment benefits. Workers who paid into the system for years were left out when they needed help the most.

These holes in the safety net affect low-wage workers the most. According to GAO, they're only half as likely to receive such benefits as other unemployed workers, even though they're twice as likely to lose their jobs when the economy goes south.

We need to modernize our unemployment insurance system by encouraging States to adopt reforms that will cover more workers, help families care for their children, and help workers in job training programs.

The Unemployment Insurance Modernization Act serves these important goals, and gives States the resources and flexibility they need to revitalize their programs and serve working families more effectively. The legislation has already passed the House, and has substantial bipartisan support in the Senate. We need to pass it immediately and fix our broken system.

Finally, we need to recognize the profound shifts in our economy. As the jobs in manufacturing and other industries continue to disappear, job training for displaced workers will become more critical than ever. Hard-working Americans are more than willing to change careers—but they need help to do it.

The Administration, however, has played a shell game on job training. In 2004, President Bush told America: "I believe we can double the number of workers who are going through the job training programs." But his budgets have consistently undermined this promise through drastic funding cuts. This year, he wants to cut the total well over a billion dollars. He even wants to eliminate the

Employment Service—a longstanding source of needed assistance and training.

The Administration would further undermine existing programs by replacing comprehensive training services with private accounts, requiring workers to pay for Federal training services they now get for free, and exposing workers to useless or even fraudulent programs.

The President also wants to eliminate programs that provide vital services to groups with special needs, such as unemployed youth and Native Americans, even though these proposals have been rejected time and again by Congress. That's exactly the wrong solution. Instead, we need to make a real commitment to help unemployed Americans learn new skills that fit the jobs our country needs.

We've obviously got to change direction, and in the new global economy, it's more critical than ever for each American worker to be able to contribute to the economy. That means giving them the genuine support they need to get back on their feet and back into the workforce.

So I look forward very much to hearing from our witnesses today, and to working with my colleagues on both sides of the aisle to build realistic new opportunities for the unemployed and for all our people.

OPENING STATEMENT OF SENATOR ENZI

Senator ENZI. Thank you, Mr. Chairman. Our committee, the HELP committee, has jurisdiction over many of the subjects that can bring Americans the greatest likelihood of economic security. That's a good education, a good job, sufficient retirement savings and good health. It's all under our committee jurisdiction.

Although many of the issues which are being discussed today are not matters that come before this committee, I'm glad we're taking the time to talk about those that will. Now I'm reminded that if you only have a hammer every problem appears to be a nail. I hope that unemployment compensation doesn't become a nail.

Security and advancement in life are most directly accomplished by security and advancement in employment. That can't simply be legislated. We do a disservice to all concerned, most especially the chronic low-wage worker, if we suggest that Federal entitlement programs and mandates are the only answer.

In challenging economic times, such as a recession, I believe it may be prudent for the Federal Government to enact some measures to stimulate the economy, and carefully tailor the degree of those measures to the degree of the downturn. Many of those options are being discussed right now, both on the floor and in committees of jurisdiction.

However, amid the discussion of short-term economic stimulus we shouldn't neglect to discuss or miss the opportunity to enact longer term solutions that are the only source of real and lasting economic security. I don't want to miss the opportunity to advance the best long term investment we can make in America's future. Americans want good, stable jobs to secure our futures.

But not all of us have access to the right tools to get us there. It's no longer just a matter of finishing high school or going to col-

lege. In 1950, 80 percent of the jobs people held were categorized as unskilled.

Today just the opposite is true. Over 80 percent of the jobs are categorized as skilled. The result is that in this decade 40 percent of the job growth will be in jobs requiring some post-secondary education.

If current trends continue we'll not have people with the talents and skills we need to fill the jobs that will be created over the next few years. By 2020 we will need 14 million more skilled workers in this country than we're currently able to provide.

Meanwhile our job training trains to jobs that no longer exist. I do remember that when I first came to Washington there was a lot of talk about how welfare reform had been enacted. How people were going to fall through the cracks and kids were going to be affected. There were a lot of articles in the paper. But there was never any follow up on that because it simply didn't happen.

I remember sitting in a restaurant and hearing one lady who had gone through some special job training and it had worked for her. For the first time she had had a job. She was talking to her sister and telling her that she had to get some job training. And that the one that had the job would be willing to watch her kids all night so that she could go to school so that she could get a good job too.

So there's some job training that's involved in this and some pride that goes with that. Today's job markets are seeking those with specialized skills. But the skilled individuals who are desperately needed in one part of the country might be in surplus in another.

Training must be in tune with the current and future needs of the local markets. Education and training is also no longer an undertaking for the young. Reliable estimates are that 75 percent of today's workforce needs to be retrained just to keep their current jobs.

There's a popular and bipartisan plan to address these needs. For several years now, one of my priorities have been improving and reauthorizing the Nation's job training system. That was created by the Workforce Investment Act.

This program helps American workers get the skills they need to better compete in the global economy and obtain secure futures. It will start an estimated 900,000 people a year on a better career path. The bipartisan bill that we negotiated along with many of my colleagues here has the input of all the stakeholders.

It will focus on training for high growth, high wage and high demand jobs and will better connect local training to local jobs. Otherwise the choice is to move. I would encourage people to do that, too.

Because we're really short a lot of people in Wyoming in some really high paying jobs, particularly in the coal fields out there. Driving a truck is \$60,000 to \$80,000 a year and no experience is needed. They do the training as long as you meet the drug requirements.

But the needs of incumbent workers also have to be considered. Workforce development also means knowing how to keep them current with their escalating skill requirements and advances in their occupation by helping low-wage workers advance in their jobs.

Entry level jobs will open up and more opportunities will be created.

Although it's twice passed the Senate and been unanimously approved by this committee, the bill is still waiting to go to the floor in this Congress. WIA is now 5 years overdue for reauthorization. I believe we all share the same goals. That's to help American workers find and keep secure, high paying jobs.

We know that education and training will lead to the kind of increased wages and better jobs we all want to create for our Nation's workers. Let's work together to get that Workforce Investment Act reauthorization bill done so that this will be the last Congress that we have to talk about the possibility of training people to the right kinds of jobs. We must ensure that workers and students of all ages will have the opportunity to gain knowledge and skills they'll need to be successful throughout their lives and make sure that our businesses have the workers they need to remain competitive. WIA reauthorization is integral to meeting that goal.

But it's not the only ingredient. We also have to upgrade our primary and secondary education systems. Every year in the United States, 7,000 students drop out of school.

If the high school students who dropped out of the class of 2006 had graduated instead, the Nation's economy would have benefited from an additional \$309 billion in income that they would have earned over their lifetimes. It's an incredible statistic. But because we couldn't reach those 7,000 people it will cost us \$309 billion in income that they don't earn. Not to mention some of the other things that we'll have to provide in order to pull them through life.

We simply cannot afford to lose those resources. We have to deal with the situation head on. We can't allow students to waste their senior year and graduate unprepared to enter secondary, post-secondary education and the workforce focused on skills and knowledge.

I'm really proud of a Tennessee principal, that we got to meet, that has figured out a way to encourage kids in high school by setting up institutes in high school. One of the institutes is a building institute which focuses the kids that are interested in building something on actually learning their education through concentrating on building something. She said that one of the delights of it was that a lot of times a kid who comes into the program thinking I could be a really good carpenter, says I could be a really good architect and design the building as well as build the building.

So it increases their potential. She goes down into the grade school and hands out prerequisites for the high school institutes. All the kids in high school are taught the same thing. They're just taught it with a focus on a future job.

For drop outs the future outlook is not good. Unless high schools are able to graduate their students at a higher rate than the 68 to 70 percent they currently do. More than 12 million students will drop out during the course of the next decade. The result long term will be a loss to the Nation of \$3 trillion and as you can imagine even more in the terms of quality of life of those drop outs.

In addition it's important to remember the fact that a high school diploma does not guarantee that a student has learned the basics. Nearly half of all college students are required to take remedial

courses after graduating from high school before they can take college level work. Each year more than 1 million first-time, full-time, degree seeking students begin their undergraduate careers at a 4-year college and university with every hope and expectation of earning a bachelor's degree. Of those students fewer than 4 in 10 will actually meet that goal within 4 years and only 6 out of 10 in 6 years.

Among minority students remediation rates are even higher and completion rates are even lower. To remain competitive in a global economy and allow Americans to build the secure futures we all desire, we can't afford to lose people because they don't have the education and training they need to be successful.

The United States was proud to claim 30 percent of the world's population of college students 30 years ago. Today that proportion has fallen to 14 percent and is continuing to fall. Of course demographics are responsible for a lot of that shift.

India alone educates just one-third of its population. It will have more educated people than the total population in the United States. But we do have control over whether we continue to let many students fall through the cracks and out of the education training flight plan.

We need to focus on the acquisition and improvement of job and job-related skills. In this context we should recognize that only 68 percent of the students entering the ninth grade 4 years ago are expected to graduate this year and that for minority students this number hovers around 50 percent. In addition we continue to experience a drop out rate of 11 percent a year. These non-completion and drop out rates and the poor earnings capacity that comes with them can't be fixed by increased Federal spending.

As a former small business owner I've seen many employees start in an entry level job and work their way up to management and even ownership of their own small business. To get there these individuals acquired training and skills along the way which allowed them to secure their own and their family's future. Not one of them got there because of a few more weeks of unemployment compensation benefits eligibility or a few more food stamps, although I'm sure both would have been appreciated.

If we want to address this issue seriously and with long-term success we have to equip our workers with the skills they need to compete in the technology driven, global economy. We need a system in place that can support a lifetime of education, training and re-training for our workers. The end result will be the attainment of skills that provide meaningful employment opportunities and secure economic futures.

Skills and experience will lead to a lasting wage security for American workers. I need to apologize because I'm going to have to go to the Budget Committee where we're doing our mark up. Senator Alexander will be doing an introduction if you permit for Senator Brock. I'd appreciate it.

The CHAIRMAN. Fine. Well thank you very much, Senator Enzi. I now recognize Senator Alexander for the purposes of making an introduction of a former colleague, old friend, whom we're delighted to have here before the committee. Then I'll introduce the other witnesses.

STATEMENT OF SENATOR ALEXANDER

Senator ALEXANDER. Thanks, Mr. Chairman. I will limit my remarks to that.

Bill Brock spent 25 years or so in government or as Chairman of the Republican National Committee including service as a U.S. Senator. But all that important work in trade, in politics, and in Congress, I would say is no more important than what he's been doing the last 20 years. He's become one of our country's leading spokesmen for meeting the challenge of having a skilled workforce and the connection of having that skilled workforce in maintaining our standard of living.

We overlook the fact as Americans sometimes, Mr. Chairman, how fortunate we are. We produce about 30 percent of all the money in the world each year for about 5 percent of the people, which is the number of people who live in this country. Most people agree that that's because of our brain power and skill power particularly since World War II.

So I'm here to welcome one of Tennessee's most distinguished citizens, a former member of this body and look forward to what he and other members of the panel have to say. Thank you for the time.

The CHAIRMAN. Well, thank you very much, Senator Alexander. Very nice and well deserved tribute, former Secretary of Labor, too, so he is familiar with this.

Well, I'll introduce the other panel members. Patricia Smith, the Commissioner of Labor for the State of New York. She's focused on vigorously protecting workers, ensuring employers compete on a level playing field.

Before coming to the Labor Department, Commissioner Smith was Chief of the Labor Bureau in the State Attorney General's Office. She also worked for a variety of legal service organizations representing unemployment claimants, workers in the Federal job training programs and job seekers. She's a graduate of Trinity College in Washington and New York University School of Law.

Alan Krueger is a professor of economics and public affairs at Princeton. A former Chief Economist for the U.S. Department of Labor, he is published widely on labor economics income distribution, social and service education, terrorism, and environmental economics. He received his bachelor's degree from Cornell, and his Master's degree and Ph.D. in economics from Harvard. I've quoted him frequently in the great battles on increasing the minimum wage. He's a great authority on that issue as well.

Ronica Jackson currently resides in Cambridge, MA. She is the daughter of the late Ellen Jackson, who was a prominent civil rights activist in the Boston area and a dear, dear friend of mine. Ronica has a Bachelor's degree from the University of Massachusetts, and has decades of work experience in human resources, hotel management and as a corporate auditor. She has an impressive and very important story to tell about what it's really like out there.

I see Senator Brown is here. He's a member of the subcommittee that is focused on workers and workers' interest. If he wanted to say a brief word, we'd welcome it.

OPENING STATEMENT OF SENATOR BROWN

Senator BROWN. Thank you, Senator Kennedy. I appreciate the distinguished panel and all that they bring to this issue and all they've brought to all kinds of issues in the years foregone.

Just a couple of real quick stories I wanted to mention. In the last year I convened about 85 roundtables around Ohio. I've gone into about 55 counties and invited 20 or 25 people, a cross section of communities and small town and medium-sized cities and large cities in the State and just ask them questions for an hour and a half.

Many issues have come out of the roundtables, but two I particularly want to mention. About a couple of months ago I was in Tiffin, OH, a town of about 20,000, an hour from Toledo. Tiffin was an industrial powerhouse through most of the 20th century.

It's the home of a company called American Standard that makes plumbing fixtures that we've all seen in restrooms and other places. Bain Capital came to Tiffin last October, bought the company, then sold it to Sun Capital in early December. Then they notified their employees that come December 22 the plant would close with no more notice than that right before Christmas.

Almost 200 people lost their jobs. They honored the union contract for those that had 30 years and qualified for a pension. But those that fell short of 30 years didn't have an opportunity and lost much of what should have been due them.

American Standard is the story of company after company in small town, medium-sized city and large city America. We've got to figure out what to do about those situations. We make it too attractive for companies to come in and for investors to come in, make millions of dollars and take it out of the hides of those workers. Not to mention what happens to a community of 20,000 when they lose a major plant.

A second thought that's come out of these roundtables with some consistency is the disconnect between companies, employers that need workers and the fact that so many people in Ohio don't have jobs and/or are very underemployed. We know that wages in this country for the great majority of people have stagnated. That the middle class is anxious or worse and that we as a nation do not seem to be doing much about it.

As the income gap grows, I heard Senator Lugar, the other day mention, compare the 20 percent highest income, the 20 percent lowest. That ratio was 6 to 1 as recently as 20 years ago and now it's 10 to 1. It will continue to grow and that's why workforce investment is so important. It's why so much of what you're going to talk about today is so important that employment opportunities be expanded that we do something about wages, we do something about the huge chasm between the wealthy and the rest of society.

Some minor things that are not so minor like the WARN Act need to be updated. That would help the people in Tiffin to some degree, but it's obviously a lot more than that too. So, I'm thrilled that you're having this hearing, Chairman Kennedy and I appreciate all that the four of you on the panel do. Thanks.

The CHAIRMAN. Patricia Smith, would you be good enough to speak? You'll also comment about the changes in the unemploy-

ment compensation and how you've addressed some of that fragmentation, if you would, please?

STATEMENT OF M. PATRICIA SMITH, COMMISSIONER, NEW YORK DEPARTMENT OF LABOR, ALBANY, NY

Ms. SMITH. Good morning, Mr. Chairman and distinguished members of the committee. On behalf of Governor Eliot Spitzer and as New York State's Commissioner of Labor, I thank you for the opportunity to provide New York's perspective on unemployment in this volatile economy and its effects on families and workforce opportunities.

These issues are critically important to workers and businesses across the Nation. First, I want to express the support of Governor Spitzer and myself for Senate bill 2544, your bill, Mr. Chairman, to provide emergency-extended unemployment compensation. Although New York is not facing as high unemployment rates as some other States, our rates have jumped significantly in the last year.

In New York City which is the engine of New York State's growth, there's been a 16 percent increase in unemployment and across the State a 12 percent increase. In New York State we saw a 10 percent increase in the number of new UI beneficiaries in the last 12 months. More significantly, in 2007, more than 35 percent of the beneficiaries exhausted their benefits but had not yet found work.

I think this speaks to the comments you made, Mr. Chairman and the chart that you showed because the percentage in New York of the long term unemployed is considerably higher than at the beginning of the last recession. We expect it to continue to rise. Therefore we believe in the extension of UI benefits during a downturn is a particularly effective economic stimulus because the benefits are both well targeted to areas, individuals and industries that are most at need and because they're temporary.

It puts money into the hands of those who need assistance the most. They're most likely to spend it immediately on basic needs and with local businesses. Therefore the money has a double economic stimulus.

The 20 weeks of emergency economic benefits that are proposed in Senate bill 2544 would infuse more than \$900 million directly into New York's economy in the first year. Studies reveal and the Congressional Budget Office agrees that each dollar which is invested in benefits to out-of-work Americans leads to investment in their local economies well beyond the initial cost. But Congress needs to act now.

The last time the economy reached a recessionary level, Congress did enact additional UI benefits. But it was 4 months after the recession was officially over. By that time there were 3 million workers who had already exhausted their benefits and were not entitled to these additional benefits.

This vital extension of unemployment benefits can be paid for without additional taxes. We can tap into the existing Federal unemployment trust fund which has a hefty \$38 billion balance.

I'd also like to commend, Senator Murray and support her proposal for a summer youth job program as part of an economic stim-

ulus passage. Historically, youth have the highest unemployment rates. I think it's clear that putting money into youth unemployment and summer jobs, these will be high growth dollars.

In addition to extending benefits, we urge Congress to modernize the unemployment system by closing the gaps. Right now an estimated 36 percent of unemployed workers actually collect benefits. This has actually weakened the unemployment insurance program's ability to act as an economic stabilizer and to help low wage workers. For this reason we strongly support Senate bill 1817 which would make an estimated half million more low wage and part-time workers eligible for unemployment benefits.

As you've mentioned, Mr. Chairman, in New York some of these modernizations we've already made. They have really expanded the reach of our unemployment system to out of work New Yorkers and needy New Yorkers. As you know the Unemployment Administration Appropriation is provided from employer tax revenues collected in the Federal Unemployment Tax Act.

Despite the \$38 billion balance, there's been a historic disinvestment in Federal UI Administration funding. Since 2003 all States have been required to submit detailed justifications supporting increases in UI Administration funding but to no avail. In fiscal year 2008, States submitted documentation showing a need of \$2.9 billion for basic workload needs. But the enacted appropriation was less than \$2.5 billion. With an economic downturn we expect an even greater workload and therefore need even greater need for Unemployment Insurance Administration funding.

The impact in New York has been devastating. Since 2003 we've lost 27 percent of our UI Administrative personnel. As I go around the State one of the biggest complaints I hear about is the long time it takes workers to actually access their unemployment insurance benefits due to these decreases in administrative funding.

Finally, there is a serious need to provide substantial training and education services to our Nation's workforce, particularly to the unemployed. As we face intensifying global competition, a serious if not baffling disconnect is growing. As we are witnessing a systematic disinvestment in workforce training which was discussed earlier.

Adjusted for inflation we would have to spend \$30 billion today to provide the level of funding for workforce training the Federal Government provided in 1978. Instead we provide about \$3.3 billion. The President's 2009 budget calls for an additional \$1.2 billion in cuts including the entire elimination of the Wagner-Peyser Act Employment Services.

Since the WIA programs were enacted in 2000 New York's funding has been cut by more than half. It's gone from over \$300 million to a projected \$1.36 million in 2009. The employment services that the President is eliminating continues to be a vital link between the unemployed and our one-stop centers.

At a time when the economy is facing an economic downswing it is up to us to reverse the disturbing and current trend that ignores the needs of the unemployed and the vital training services we need to compete globally. We need to reinstate funding for employment services. We need to reauthorize WIA. We need to adequately fund workforce programs to ensure positive outcomes for the unem-

ployed and for those incumbent workers that need to upgrade their skill.

Once again I thank you for the opportunity and welcome any questions.

[The prepared statement of Ms. Smith follows:]

PREPARED STATEMENT OF M. PATRICIA SMITH

Good morning Mr. Chairman and distinguished members of the committee. Thank you for the opportunity to speak today. On behalf of Governor Eliot Spitzer, as New York State's Commissioner of Labor, I am pleased to give our State's perspective on unemployment in this volatile economy and its effects on families and workforce opportunities.

These issues are critically important not just to our State, but to workers and businesses throughout our country. Although New York is not facing unemployment rates as high as some States, such as Michigan and Mississippi, our rates have jumped significantly in the last year. For example, New York City, which has been the growth engine in our State, saw its unemployment rate increase 16 percent—from 4.9 percent a year ago to 5.7 percent in January 2008. The State rate as a whole rose to 5.0 percent compared to 4.4 percent a year earlier.

Mr. Chairman, I want to immediately express the support of Governor Spitzer and our State for Senate bill 2544, your bill to provide emergency extended unemployment compensation; as well as for Senate bill 1871, the Unemployment Insurance Modernization Act.

NEED FOR EXTENSION OF UNEMPLOYMENT INSURANCE BENEFITS

I would also like to note that there is growing concern and evidence nationally that the economic climate is deteriorating and there is an increased risk of a recession—some economists contend our country is already in one. So we need to act now.

An extension of UI benefits during a downturn is a particularly effective economic stimulus because the benefits are both well-targeted—to areas and industries most affected by economic slowdowns—and are temporary. It puts money into the hands of those who need assistance the most and are most likely to spend it immediately on basic essentials. Money invested in extended benefits flows immediately to local businesses, which in turn provides a further economic boost.

Although extended UI benefits have been provided in every recession in recent decades, the case for them is especially strong now, before economic conditions deteriorate to that level.

As job growth sputters, it is likely that the percentage of “long-term unemployed” workers who exhaust benefits (26 weeks, the maximum number of weeks regular UI benefits are available in most States) and continue to search for work will continue to rise. In fact, the percentage of the long-term unemployed is considerably higher now than it was at the start of the last recession (18.3 percent in January 2008, compared with 11.1 percent in March 2001).

In 2007, more than 35 percent of UI beneficiaries exhausted their benefits. This year, an estimated *3 million workers* will go without any additional Federal Unemployment Insurance when their 26 weeks of jobless benefits expire. (NELP, 2/12/08).

In New York State, we saw a 10 percent increase in the number of new UI beneficiaries during the last 12 months. This rising number of laid-off workers is one of the many ways we are currently feeling the effects of a worsening economy.

Our manufacturing sector has been hardest hit, with a loss of 17,000 jobs over the last 12 months. The credit crisis that spread throughout the country has also impacted our State with the loss of 5,400 jobs during the last year. Thousands more jobs have also been lost as the effects of the nationwide housing slump have rippled through many industries.

An extension of benefits will put high-velocity dollars into the hands of families that will spend them quickly, providing an immediate boost to consumer spending. The 20 weeks of emergency benefits proposed in Senate bill 2544 would infuse more than \$900 million directly into New York State's economy in the first year.

Studies reveal that for each dollar in cost, an extension of unemployment benefits generates \$1.64 to \$1.73 in increased activity. So, each dollar invested in benefits to out-of-work Americans leads to an investment in their local economies well beyond the initial cost. The Congressional Budget Office agrees: its report on short-term economic stimuli found that extending unemployment benefits is among *the most cost-effective, potent, yet temporary steps that Congress can take to jump-start our economy.*

In each recession since the late 1950s, Congress has provided extended unemployment benefits. But as I stated before, although we are presently only dealing with *concerns* of a possible recession, it is critical that Congress act now.

The last time the economy reached a recessionary level, national unemployment grew by 2.7 million from December 2000 to March 2002, yet failed to trigger the Federal/State-extended benefit program authorized by current law. Congress finally enacted a special program of additional benefits—Temporary Extended Unemployment Compensation—in March 2002, 4 months after the recession officially ended. The belated response compromised the effect of the program, and 3 million workers ran out of benefits before the Federal program was enacted. As a result, the economy took longer to improve. Given the potential for a prolonged economic decline, we urge you to provide this economic stimulus immediately.

This vital extension of UI benefits can be paid for without imposing new taxes, by tapping into the existing Federal unemployment trust fund, which is now at the sizable balance of \$38 billion.

I would also like to commend Senator Murray and support her proposal to include a Summer Jobs component in the economic stimulus package. Summer jobs funding could be used immediately this summer by cities and counties to hire thousands of youth in a variety of jobs, which will directly benefit their neighborhoods. Historically, youth have among the highest unemployment rates, and we know that with youth these will certainly be “high velocity” dollars.

UNEMPLOYMENT INSURANCE MODERNIZATION ACT

In addition to extending benefits, we urge Congress to close the gaps in the UI system, which leave only an *estimated 36 percent of unemployed workers* actually collecting these benefits. The decrease in the share of unemployed workers receiving benefits, from a 50 percent share in the 1950s, has weakened the program’s ability to act as an economic stabilizer and to help unemployed workers from all income levels. In fact, a 2007 GAO report noted that *low-wage workers are twice as likely to be out of work as higher-wage workers, but only one-third as likely to get benefits*. The GAO found this inequity was at least partly due to UI eligibility rules, particularly rules in many States that prevent jobless workers from accessing needed benefits.

Again, Mr. Chairman, we support Senate bill 1871, the Unemployment Insurance Modernization Act. Your bill, similar to the one already passed in the House as a part of the Trade Adjustment Assistance Act Reauthorization, would help close this gap by making an estimated half-million more low-wage and part-time workers eligible for unemployment benefits. We encourage you to link your bill to TAA Reauthorization, or pursue other rapidly moving legislation.

The UI modernization proposal ties distribution of funds to various changes in State law to broaden eligibility for unemployment insurance benefits. This is of critical importance.

The dramatic structural change in our economy is transforming the application of unemployment benefits from what was once a temporary support system during a brief disruption between similar jobs, into a financial bridge for workers facing a dramatic break from one industry or career—often blue collar—to an entirely new industry or career. This is especially apparent in the manufacturing industry.

The UI system is woefully inadequate to provide that financial bridge, when so many workers need income and retraining assistance for new careers. Unemployed individuals who may otherwise be ineligible for assistance would benefit from UI modernization, directly affecting single parents, females and low-wage workers, among others.

Your proposed UI Modernization bill uses incentive payments to encourage States to update their UI systems, providing rewards to States for: (1) removing barriers that block coverage for low-wage and part-time workers; (2) ensuring a more family-friendly UI system; and (3) helping dislocated workers increase their skills. It also provides funding to States to upgrade the administration of their UI systems.

This act would give States the resources and flexibility they need to pass important reforms. Each State would have a chance to receive a share of the set-aside for incentive payments. To receive *one-third* of its allotted funds, a State must adopt an “alternative base period,” allowing workers to meet eligibility requirements by counting their most recent wages. States will receive the additional *two-thirds* of their share of funds by adopting two of five reforms that benefit workers.

While New York’s law currently conforms to most of the “modernized” UI program elements in the draft legislation, we cannot ignore the increased workload that has accrued to the States in delivering unemployment insurance in a modern, seamless manner while UI administrative appropriations have continued to decline.

NEED FOR SUFFICIENT UNEMPLOYMENT INSURANCE ADMINISTRATION FUNDING

The UI administration appropriation is provided from employer tax revenues collected under the Federal Unemployment Tax Act (FUTA). These Federal FUTA accounts remain high, with an estimated \$38 billion currently available to support UI program operations. Despite this balance, there has been a historic disinvestment in Federal UI Administration funding. Since 2003, all States have submitted detailed justifications supporting increases in UI administration funding, to no avail. For fiscal year 2008, States submitted documented fiscal needs of \$2.9 billion for base workload needs, while the enacted appropriation for UI administration was only \$2.45 billion—representing a shortfall of \$450 million. For fiscal year 2009, the President proposed an increase from \$2.4 billion to \$2.5 billion for UI State Administration. However, this level will not be sufficient to address current shortfalls, or to reverse the trend of raising State appropriations to fund Federal UI administration shortfalls.

The impact of this continued disinvestment on New York State has been a 27 percent decline in the number of UI administration employees since 2003. We are not alone. As a result of insufficient appropriations, three quarters of the States, including New York, have had to appropriate State resources to fill the Federal void. They cannot continue to do this in the face of weak State budgets. For instance, New York State faces a \$4 billion budget gap for the next fiscal year.

For the current Federal Year 2008, the U.S. Department of Labor has already advised States that there is insufficient funding to reimburse them for UI administration spending. The current shortfall is projected to be \$110 million (and this does not include the shortfalls currently addressed with State resources). While a funding gap of \$110 million seems small in a multi-billion dollar program, this unfunded gap translates into an estimated 400,000 average weekly payments for which States will not receive any administrative monies. (*Source: NASWA Appropriations Letter, 2/27/08.*)

Despite a legal obligation to reimburse States for costs incurred to administer the UI system, all States were recently advised that, as a result of the \$110 million shortfall, only 32 percent (or \$.32 on the dollar) would be available to address administrative needs resulting from the workload escalating beyond original estimates. While there is a trigger mechanism in the appropriation bill to release additional funds when claims exceed a certain base level, that trigger, as calculated by the Congressional Budget Office, was set too high in relation to the funding that was appropriated.

We urge you to immediately address the insufficient 2008 appropriation, either by the issuance of additional UI State Administration funds, or by lowering the trigger in the appropriation law. Congressional actions will provide much-needed, immediate fiscal relief to States while ensuring the continuity of quality services to our UI customers.

INADEQUATE FUNDING FOR A GLOBALLY COMPETITIVE WORKFORCE

In addition, there is a serious need to provide substantial training and education services to our Nation's workforce—particularly to the unemployed.

As you know, a secondary education was adequate for attaining a good-paying job in the 20th Century, but it is simply not sufficient today, when 67 percent of all new jobs require some form of post-secondary training. The skills of America's workers must increase to compete in an increasingly global marketplace if our high standard of living is to be maintained. Unfortunately, however, our Nation is investing a mere fraction of what other countries are spending, particularly on part-time and adult students, as well as on current workers.

To see how investment in an educated workforce pays off, we only have to look "across the pond" to Ireland. Ireland has gone from being one of the poorest European nations to one of the richest, largely because of its workforce. It has paid Irish workers for up to 2 years of college tuition since 1996. I just returned from there yesterday, and I have seen how the transformation in Ireland's workforce, and consequently in its economy, has been nothing short of remarkable. England has a similar postsecondary program. When we look at China and India, we see that their investments in education and training have transformed their economies.

As we face this intensifying global competition, a serious, if not baffling, disconnect is growing. We are witnessing a systematic disinvestment in workforce training.

We simply cannot continue to talk about America remaining as a leading world economic power in the 21st Century when you contrast our disinvestment in our workers with the extraordinary investment our key competitors around the world are making in their workers. Again, it is the investments in our human capital that

have made this Nation a success in the past, and it is necessary to make those investments again.

Consider that 30 years ago, in 1978, the Federal Government spent \$9.5 billion on job training. Adjusting for inflation, we would have to spend \$30 billion today to provide the same level of funding. Instead, national funding for the Workforce Investment Act programs is now only \$3.3 billion. The President's 2009 budget calls for yet another \$1.2 billion in cuts, including the complete elimination of Wagner-Peyser Act employment services and almost a half a billion dollars more in cuts to WIA Title I programs.

In New York, the impact of these dwindling funds is taking a serious toll on our ability to provide quality employment and training services at a time when demand is increasing due to rising unemployment.

The Workforce Investment Act and the Employment Service programs serve as the foundation for New York's workforce development system. Since the WIA programs were created in 2000, New York's share of funding has been cut by more than half—from over \$300 million to a projected \$136 million in fiscal year 2009. In contrast, if New York's share of nationwide funding in 2000 had held steady and kept pace with inflation, the State would receive almost *triple* this projected amount, or approximately \$381 million in 2009. We could serve or train another 122,000 workers.

Further, the President's proposal to eliminate the Employment Service would disrupt critical job search and career counseling services for the unemployed.

In New York, the Employment Service continues to be the critical link between the UI customer base and the One-Stop Career Center system. Unemployment insurance claimants represent more than 60 percent of the One-Stop system customers. This ready talent pool provides the system's greatest asset to employers in need of workers. While the U.S. Department of Labor downplays the value of the Employment Service, their own performance reports show that Employment Service programs continue to bring the largest number of customers into the One-Stop system. Nationally, the Employment Service has served nearly 12.4 million workers, with New York accounting for 15 percent of that total.

In addition, as I testified last July before the House Committee on the Budget, the Re-employment Eligibility Act (REA) grant is an example of a program that maintains a strong linkage between the Employment Service and the Unemployment Insurance program.

Our REA grant focuses on scheduling UI customers early and often with an employment counselor throughout their UI claims. This personal service ensures that customers continue to meet UI eligibility and work search requirements, and have access to the vast array of services available through the One-Stop system.

The results of our pilot program exceeded our expectations. We achieved a 2-week reduction in the average duration of UI benefits, when compared to a control group. Based on an average of 3,000 annual participants, a 2-week duration reduction at an average weekly benefit rate of \$278 would result in New York UI Trust Fund savings of approximately \$1.67 million. That's a gross return on investment of over 250 percent.

It has been our desire to move REA to a systemic approach throughout our 33 local areas. However, the lack of Federal support has prevented us from implementing it statewide.

We are proud of our success with REA. However, it is important to note that the key to the success of the REA model is built on the relationship with the WIA One-Stop Career system. Therefore, the success of REA is contingent upon there being sufficient re-employment services available through the local workforce system—WIA *and* Employment Services—to serve the UI population.

One way to ensure this is to reinstate funding for Employment Services, reauthorize WIA, and adequately fund workforce programs at a level that will ensure consistent and positive outcomes for the unemployed and for incumbent workers who need to upgrade their skills. It is also important to support the reauthorization of Trade Act Assistance in the Finance Committee.

The bottom line is that the United States, and New York State, need a world-class workforce to be successful in today's global economy, and we cannot succeed without adequate investment.

Other countries—our global competitors—understand this dynamic and are making workforce investments that we simply are not. The consequences of not doing so will begin to seriously compromise America's competitive position in the international marketplace.

At a time when our economy is facing a downward swing, it is up to all of us to reverse the current and disturbing trend that ignores the needs of our unemployed and slashes the vital training funds necessary for our workers to compete

globally. We need to learn from the last time our economy faced an economic downturn, and how our delayed response resulted in millions of workers without extended benefits. We need to look at the success of global economies and how their investment in workers has paid dividends in reducing unemployment and increasing their global competitiveness.

Those in need are looking to us to act now—and I hope that the State of New York's support of these bills and funding needs will assist your efforts as you continue your deliberations.

One vote does make a difference. Governor Spitzer and I urge the Senate to try again to help unemployed workers and help stimulate the economy.

Once again, I thank you for the opportunity to provide a State perspective on these important issues, and I welcome your questions.

The CHAIRMAN. Ok. Professor Krueger.

STATEMENT OF ALAN B. KRUEGER, PROFESSOR OF ECONOMICS AND PUBLIC AFFAIRS, PRINCETON UNIVERSITY, PRINCETON, NJ

Mr. KRUEGER. Good morning, Senator Kennedy and distinguished members of the HELP committee. What I'd like to do is describe some trends in unemployment then discuss some new research I've been doing on the job search activities of the unemployed and then briefly comment on some recommendations for reforming UI.

As has been mentioned the labor market has clearly taken a turn for the worst. The unemployment rate is up a half a percentage point from March 2007 to January 2008. There has been a long term trend towards longer spells of unemployment as has been mentioned. I have a chart at the back of my testimony—

The CHAIRMAN. That's 500,000 people—

Mr. KRUEGER. I think it's a little bit over a half a point, more like 600,000.

The CHAIRMAN. Six-hundred thousand—I mean half a point doesn't sound like much, but 600,000 does—is a lot. Thank you.

Mr. KRUEGER. I think one also has to think of that number in context in that, as has been mentioned, the experience of unemployment has changed. Unemployment is more concentrated and tends to last longer. The number of people who stay unemployed for at least 26 weeks has increased and has been increasing for the last 40 years once you look at the stage we are in, in the business cycle.

Of the ongoing spells of unemployment currently nearly one in five last for more than half a year. About 35 percent of unemployment insurance recipients are exhausting their benefits. A poll by the Gallup Organization found that increasingly workers say this is a bad time to find a quality job. Even higher income workers, those making more than \$75,000 a year have had a large increase in recent months in the fashion saying this is a bad time to find a job.

The unemployed are not a very satisfied group. I did a survey in 2006. We found that 27 percent of unemployed workers said that they were very satisfied with their life compared to about half of employed workers. Other studies have found that after workers become unemployed it seems to have a scarring effect on them even after they regain employment.

I think having safety nets are extremely important in the dynamic economy like the United States. It enables people to support

policies like trade, like technological improvement, if they know that they will be able to have some assistance when they search for a new job.

I have been studying most recently data from the American Time Use Survey which is a survey the Bureau of Labor Statistics started collecting in 2003. The use of time by the unemployed and I wanted to share some of these findings with you which previously we could not look at. One of the things I find is that on any given day 20 percent of unemployed Americans devote some time to searching for a new job. That's higher than in any of the other countries we were able to look at.

When we look across countries, we don't find that unemployment benefit generosity has much of a relationship with the amount of time that the unemployed spends searching for work. On the average day, if we look at unemployed workers who look like they're eligible for unemployment 3 hours searching for work.

Those who are not eligible for benefits, about 23 percent search for work. Those who are expecting recall have a very low rate of searching for work.

The last chart in my testimony looks at the amount of time that people spend searching for work based on how long they spent unemployed or how long they've been unemployed up until that point. You can see that the unemployed greatly increased the amount of time that they spent searching for work as they approached the end of their benefit period, as they approach the end of 26 weeks. But they continue searching at a fairly high rate afterwards although it starts to taper down perhaps because they become discouraged.

We could also look at what these data—what fraction of the unemployed spent some of their day training, in education or training. That's only about 7 percent. The unemployed spent substantially more time searching for a new job than they do engaged in job training or education.

So last, let me make some comments about unemployment insurance reforms. Though before I do that I want to mention that I think it's unfortunate that the President's budget for 2009 eliminates funding for the American Time Use Survey. This is a critical source of information on how Americans spend their time.

Who takes care of the children? Who's reading to children? Who's taking care of elderly adults and so on?

So for unemployment insurance reforms, I suggest four things in my testimony. First, the triggers that automatically extend benefits have become beyond reach. This has happened for a couple of reasons: one having to do with past legislation, the other having to do with changes in the economy. The insured unemployment rate is a fraction of the overall unemployment rate and has been trending downward which makes it harder for the extended benefits to automatically trigger.

I think when it comes to stabilizing the economy, setting the triggers at a more realistic level will have a more stabilizing effect for the economy. One of the reasons why I should mention that extending benefits is helpful is that it will probably lead more people to stay in the labor market instead of going to programs like dis-

ability insurance which can be extremely expensive. Also, once people go on disability insurance they're very unlikely to get off of it.

I also suggest in my testimony improving the experience rating in unemployment insurance. We've let experience rating lapse. Experience rating is the practice of charging employers, who have a worse record of laying off workers, a higher tax in the future.

It's widely believed that experience rating helps to reduce the number of layoffs. David Card and Phil Levine of Berkley and Wellesley have a study which finds that if we fully experienced unemployment insurance the unemployment rate would decline by .6 of a percentage point, which again, is a substantial number of people.

Third, I have proposed in the past extending unemployment benefits to those that are seeking part-time work.

Last, a temporary increase in benefits. It seems to me that at a current economic crisis which is brought on mainly by problems in the mortgage market, housing market, where people are having difficulty reaching, meeting the mortgage payments which are resetting, that a temporary increase in benefits for those who are in an initial period of unemployment could help to forestall foreclosures on their homes.

Thank you.

[The prepared statement of Mr. Krueger follows:]

PREPARED STATEMENT OF ALAN B. KRUEGER

Good morning, Mr. Chairman and distinguished members of the Senate Health, Education, Labor, and Pensions Committee. My name is Alan Krueger and I hold the Bendheim professorship in economics and public affairs at Princeton University. I appreciate the opportunity to share my views on unemployment and unemployment insurance with you.

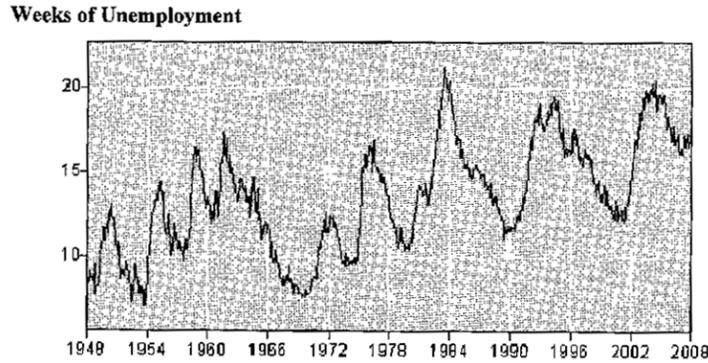
In the testimony below I describe some important trends and findings regarding unemployment and job search, and then turn to Unemployment Insurance (UI).

I. UNEMPLOYMENT

According to the Bureau of Labor Statistics' (BLS) definition, "Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work."¹ The unemployment rate has been creeping up in recent months, rising from 4.4 percent in March 2007 to 4.9 percent in January 2008 (both seasonally adjusted). It is also worrisome that the average duration of ongoing unemployment spells has been rising for some time, as shown in Figure 1. In January 2001, the average duration of unemployment for an unemployed worker was 12.7 weeks; in January 2008 it was 17.5 weeks. Nearly one in five of those currently unemployed have been unemployed for more than 6 months.

¹Active job search requires that the activity has the potential to result in a job offer without further action on the part of the unemployed. Thus, activities like reading help wanted ads or taking a course are not classified as active job search.

Figure 1. Average Duration of Ongoing Unemployment Spells, 1948-2008 (seasonally adjusted). (Source: BLS.)

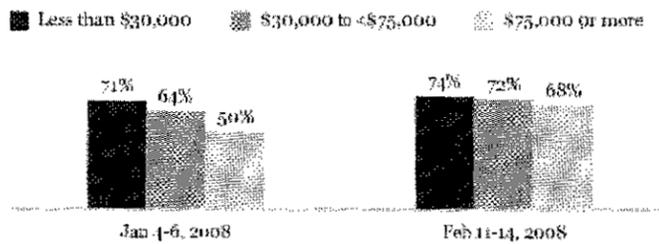


Data from the Gallup Poll indicate that Americans, especially those in middle and higher income groups, are increasingly concerned that it has become more difficult to find a quality job. This trend is displayed in Figure 2. Workers are anxious about the job market, and they are reining in consumption.

Figure 2. People increasingly believe it is a bad time to search for a good job. (Source: Gallup Poll.)

Thinking about the job situation in America today, would you say that it is now a good time or a bad time to find a quality job?

Percentage saying "bad time," by annual household income



Economists have long debated why people are unemployed. Some argue that unemployment is mainly a voluntary affair; people could find work but they choose not to. Others argue that unemployment is involuntary, that there are insufficient jobs available that match the skills of the unemployed. Regardless of the outcome of this debate—and my view is that the truth probably lies somewhere in between—it is clear that the unemployed are not a happy lot. In a survey of 4,000 Americans that I conducted together with the Gallup Organization in May–August 2006, I found that only 27 percent of the unemployed said they were very satisfied with their life while 46 percent of employed people said they were very satisfied with their life. Unemployment also seems to have a lasting effect on people’s psychological well-being. A longitudinal study of German workers, for example, found that individuals’

life satisfaction dropped in the year they became unemployed and stayed low for at least 3 years afterwards, even after they found new employment.²

In addition to psychological scars, unemployment has serious economic consequences for the unemployed and the broader population. Jonathan Gruber of MIT, for example, has found that consumption of food, a basic necessity, falls for the unemployed.³ He further finds that the provision of UI benefits reduces the drop in food consumption of the unemployed. And the very existence of unemployment implies that we are not getting the most of our resources, which costs the economy output and tax revenue.

The last two recoveries from recessions could be described as “jobless recoveries.” Unemployment lingered and job growth was painfully slow for months after the recessions officially ended. Although no one has a crystal ball—and it is unclear how long the current slowdown will last, or whether it will be declared a recession by the NBER’s Business Cycle Dating Committee—there are reasons to expect unemployment to linger after the current slowdown ends. In this environment, and in light of available research findings, I think it is particularly appropriate to consider reforms to the UI program, both temporary and permanent.

II. JOB SEARCH INTENSITY

To transition from unemployment into work, the unemployed must search for a job. Economic theory suggests that the unemployed should devote effort searching for a job up to the point that the cost of additional effort is just offset by the expected benefit from that extra effort.⁴ Until recently, job search has been a black box in research on unemployment. How much time and effort do the unemployed devote to job search? How does their search intensity vary with local economic conditions, UI benefits, and personal characteristics? We are now in a position to begin to answer these questions thanks to the availability of the American Time Use Survey (ATUS). The ATUS is a monthly survey conducted by BLS that asks selected individuals who participated in the Current Population Survey (CPS) to report on their activities for a randomly selected day.

For the past several months I have been analyzing data from ATUS on the activities of the unemployed, as part of a study with Andreas Mueller, a visiting graduate student at Princeton University. Specifically, we have pooled together data from all 4 years of the ATUS, from 2003 to 2006, to assemble a sample of 1,824 unemployed individuals.

This sample provides unique information on the activities that unemployed Americans engage in, including job search. Job search activities include preparing and sending out a resume, interviewing for a job, traveling to an interview, and submitting a job application.⁵ We can also compare the time devoted to job search by unemployed Americans to that of unemployed individuals in 13 other countries, using time-use data originally collected by those countries’ government statistical agencies. Our results shed new light on the nature of unemployment. Let me summarize seven of our main findings.

First, unemployed Americans devote much more time to searching for a new job than do the unemployed in each of the other countries that we have studied. On the average day (including weekends), 20 percent of unemployed American workers devoted part of their day to searching for a job. For the 13 other countries for which we have comparable data, 10 percent of the unemployed made an effort to look for work on any given day, on average. (The 13 countries are: Austria, Belgium, Bulgaria, Canada, Finland, France, Germany, Italy, Poland, Slovenia, Spain, Sweden and the U.K.) Furthermore, the average unemployed American who spent some time looking for work devoted 2 hours and 40 minutes to job search activities, compared with 1 hour and 40 minutes in the average of the other countries. Of the 13 countries, Canada comes closest to the United States in terms of the amount of time the unemployed spend searching for work.

Second, we have found little relationship between UI benefit generosity and time spent searching for a job across countries. One reason why the unemployed spend more time searching for work in the United States than in other countries is that the variability in wages, fringe benefits and working conditions across jobs is greater in the United States than in other countries. When all jobs are alike, there is

²See Andrew Clark, Yannis Georgellis and Peter Sanfey, “Scarring: The Psychological Impact of Past Unemployment,” *Economica*, May 2001.

³See Jonathan Gruber, “The Consumption Smoothing Benefits of Unemployment Insurance,” *The American Economics Review*, March 1997.

⁴This observation was first made by George Stigler in “Information in the Labor Market,” *Journal of Political Economy*, Supplement, October 1962.

⁵Job training and education are classified separately in ATUS and not included in job search.

little to be gained from devoting more effort to try to find a better job. But when there is wide dispersion in wages and working conditions, the payoff from additional job search is likely to be greater. Another reason why the United States (and Canada) has high job search intensity is that average education is relatively high in the United States, and higher educated individuals devote more time to job search.

Third, within the United States, those who appear eligible for UI benefits tend to search more than those who are not eligible (because they are new entrants, re-entrants or part-time workers). On the average weekday, 33 percent of those who appear eligible for UI and are not on temporary layoff made an effort to search for work, and the average amount of time spent looking for work by those who searched was 170 minutes. For those who are not eligible for benefits, 23 percent searched for work, for an average of 156 minutes. Given that the BLS definition of unemployment only requires active job search at sometime in a 4-week period, these figures are notably high.

Fourth, those classified as unemployed by the BLS definition spend considerably more time searching for work than do those who are classified as out-of-the-labor force. Even if we compare those currently unemployed to those who were categorized as unemployed when last interviewed in the CPS but as out-of-the-labor force in ATUS, those currently classified as unemployed are much more likely to search for work on any given day. These findings suggest that the BLS categories of unemployed and out-of-the-labor force represent distinctly different labor market states.⁶

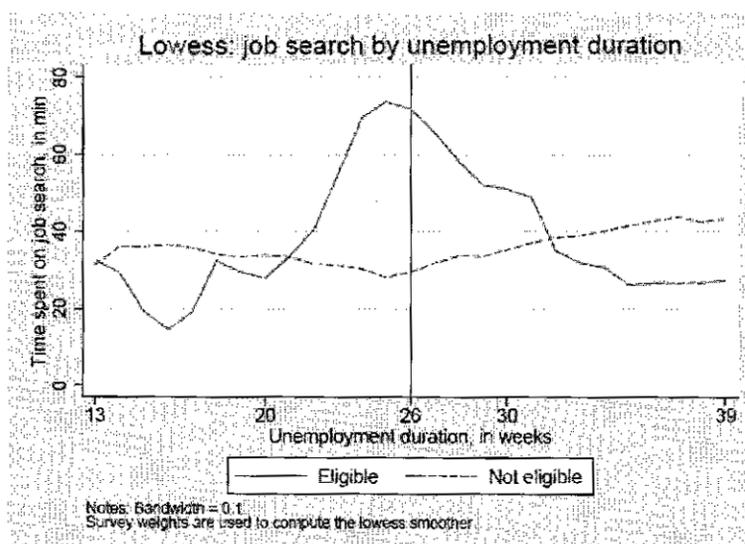
Fifth, for the period that they are eligible for UI benefits, job search intensity tends to rise the longer that workers are unemployed. Figure 3 summarizes some of our findings in this regard.⁷ The horizontal axis indicates the number of weeks that a worker has been unemployed as of the ATUS survey. (Unfortunately, we can only identify the duration of unemployment for those who are unemployed at least 13 weeks.) The vertical axis shows the average amount of time devoted to searching for a job in minutes per day, counting those who spent no time searching as zero (0). The solid line refers to those unemployed who are eligible for UI and the dashed line to the ineligible. Search intensity tends to rise for the eligible unemployed as benefits are closer to running out, probably because they are desperate to find any job offer.

⁶Corroborating evidence from job finding rates is in Christopher Flinn and James Heckman, "Are unemployment and out-of-the-labor force behaviorally distinct states?" *Journal of Labor Economics*, 1983.

⁷Be aware that a statistical artifact known as "length-based sampling" affects the trends in the graph. Individuals are only included in the sample if they are unemployed. The less people search for work, the longer they are likely to remain unemployed. Thus, the composition of the sample changes with the duration of unemployment. Those who have a proclivity to search very little are likely to be over represented among the long-term unemployed, which will depress the average search time.

Figure 3: Smoothed graphs of amount of time spent searching for work per day by duration of unemployment for eligible and ineligible unemployed job seekers

(Source: Krueger and Mueller, based on ATUS)



Note: The sample includes weekends as well as weekdays. Time spent searching for a job is measured in minutes per day.

Sixth, those on temporary layoff devote very little time to searching for a job, just 12 minutes on the average day. Evidently, workers who are on temporary layoff and expecting to be recalled to their job have little to gain by searching for a new job and consequently spend little time engaged in job searching. This finding is not surprising and adds to the face validity of the data.

Seventh, about 7 percent of the unemployed spend some time engaged in job training or education-related activities on the average day. This is almost double the percentage for employed workers. As a group, unemployed workers spend about one third more time in job search-related activities than in training or education-related activities. The relatively low participation in job training is not surprising given the sharp decline in Federal funding of training programs since the early 1980s.

This evidence provides a new window on the activities of the unemployed. It is only possible because of the accumulation of data from the ATUS. The ATUS can and has been used to study many other questions as well, such as how much time is spent caring for children, how much housework do men and women do at home, who cares for elderly adults and how much time do they spend. Given the varied uses of the ATUS and the fact that no other survey collects comparable information, it is most unfortunate in my view that the President's FY 2009 Budget eliminates funding for ATUS. The value of the information yielded by the survey for policymakers, researchers, businesses and families vastly outweighs its \$4.3 million cost.

III. REFORMS TO UNEMPLOYMENT INSURANCE

The main goal of UI is to provide insured unemployed individuals with cash assistance to tide them and their families over until they can find an appropriate job. As such, the UI program helps recipients stay out of poverty. Another role that UI serves is as an automatic stabilizer. When the economy turns down in a region, UI benefits are automatically paid out, which stimulates the economy.

As with all insurance programs, tradeoffs are involved. Paying benefits to the unemployed could induce some people to stay unemployed longer than they otherwise

would.⁸ Economists have long noted that reducing the burden of unemployment increases the opportunity cost of work, leading some unemployed workers to delay their return to work.⁹ Such an incentive effect, however, is not a sign of failure. It simply means that the unintended consequences must be weighed against the desired effects of the program, and an appropriate balance struck. In addition, recent research by Raj Chetty of the University of California, Berkeley, argues that it is desirable from society's perspective to provide job seekers who have inadequate savings sufficiently generous UI benefits to enable them to stay out of work longer and search for an appropriate job.¹⁰ Longer spells of unemployment, to the extent they occur, are not necessarily undesirable if they enable workers to find jobs that fully utilize their skills. Thus, longer unemployment spells are not always an unintended consequence of UI. In a downturn when good jobs are harder to find and spells of unemployment are longer, I would also argue that the balance of intended and unintended consequences shifts, and we should worry more about cushioning the blow of unemployment.

Reforms could make UI a more efficient and more effective program. Here I highlight four reforms that I would recommend considering.

First, the automatic triggers that temporarily turn on extended benefits without congressional action are not set at realistic levels. The State triggers are connected to the insured unemployment rate; that is, the fraction of covered workers who receive benefits. The insured unemployment rate must exceed 5 percent for extended benefits to be provided, and must be 120 percent above the rate in the corresponding period in each of the prior 2 calendar years. Because insured unemployment has drifted down relative to the BLS's unemployment rate (which includes all unemployed workers, insured and ineligible), and because the natural rate of unemployment has declined, it is very unlikely that a State will automatically trigger extended benefits. In practice, the automatic triggers have become irrelevant.

In March 2002 I testified before the Senate Banking Committee and recommended reforming the automatic triggers for extended benefits. The triggers have not been modernized. If more reasonable automatic triggers are not put in place, I would encourage the passage of a temporary measure to extend the maximum duration of benefits in the current economic slowdown, especially in those areas with higher unemployment. Extended benefits are well targeted to a population that is very much in need of assistance, and that population is growing.

Second, the financing of UI could do more to stabilize the economy and discourage layoffs. The Federal Government sets minimum standards for State unemployment insurance programs and has a history of encouraging experience rating. Experience rating is the practice of charging a higher UI contribution rate from employers with a worse history of laying off workers. This is a unique feature of the American system of UI, and may in part help to account for the relatively low unemployment in the United States compared with other economically advanced countries.

Unfortunately, the degree of experience rating has severely lapsed. Better experience rating could be accomplished by increasing the 5.4 percent maximum tax rate on high-layoff employers, and by requiring the States to have at least five different rates and to spread employers among the rates. Some States have only two rates. In addition, I would recommend that the per employee taxable earnings cap—which range from \$7,000 to \$10,000 in half of the States—be raised, which would allow better experience rating at lower tax rates and make the financing of the program less regressive. Raising the caps and lowering the rates would also increase demand for less skilled workers. Improved experience rating would discourage employers from laying off workers, and help to internalize the externalities layoffs impose on society. These changes could be made in a way that is revenue neutral, so the tax on employers as a group would not change.

A study by Phillip B. Levine of Wellesley and David Card of U.C. Berkeley estimates that the unemployment rate would decline by .6 of a percentage point if industries were fully experience rated—that is, if employers in an industry were re-

⁸It should also be noted that those unemployed who are not eligible for UI have a stronger incentive to search for and accept a job if UI benefits are more generous because, in the event that they find a job and are subsequently laid off from it, they will qualify for more generous benefits. For some evidence on this effect, see Phillip Levine, "Spillover Effects Between the Insured and Uninsured Unemployment," *Industrial and Labor Relations Review*, October 1993, pp. 73–86.

⁹See Alan Krueger and Bruce Meyer, "Labor Supply Effects of Social Insurance," *Handbook of Public Economics*, A.J. Auerbach & M. Feldstein (eds.), 2002, for a survey.

¹⁰See Raj Chetty, "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance," unpublished working paper, University of California, Berkeley, February 2008. Recognizing the competing effects of UI benefits, Chetty provides evidence suggesting that the optimal benefit level exceeds 50 percent of a worker's pre-layoff wage.

quired to pay the full additional costs of unemployment benefits for layoffs in that industry.¹¹

Third, unemployed workers who are otherwise eligible for UI but are searching for a part-time job (e.g., because of family obligations) are ineligible for benefits in most States. These workers pay into the system, but are prevented from receiving benefits when they and their families need them. States could be required to expand eligibility. Workers who would be made eligible for UI benefits as a result of this reform would be primarily single-parent, female, and low-income workers.

Last, but not least, it seems to me that the credit crunch that the economy is currently experiencing presents a unique situation in which a temporary increase in the level of UI benefits may be particularly timely. Unemployment benefits help the unemployed maintain a level of consumption when their income drops. Benefits replace 50 percent of lost earnings, but the replacement rate is often less than that because benefits are capped, often at less than \$400 a week. The average weekly UI benefit as a percent of the average weekly wage of covered workers was only 34.5 percent in the third quarter of 2007 according to Labor Department data. Even with UI benefits, many of the unemployed are forced to borrow to pay their bills. Borrowing is difficult in the current credit crisis. In addition, many adjustable rate mortgages are resetting, requiring higher monthly payments. It seems to me that even the short-term unemployed will face pressure meeting mortgage payments. A temporary increase in UI benefits can help to forestall mortgage foreclosures for a vulnerable population. Reforming UI more generally, as well as temporarily boosting benefits and extending benefits, would help stabilize the economy and dampen the economic slowdown.

Thank you for your attention and I am happy to answer any questions you might have.

The CHAIRMAN. That's good. Ms. Jackson, we welcome you. We thank you very much.

STATEMENT OF RONICA JACKSON, WORKER, BOSTON, MA.

Ms. JACKSON. Yes, good morning. Sorry.

The CHAIRMAN. We want you to just relax and feel right at home. You're among friends.

Ms. JACKSON. Ok. Thank you. I'm going to have to refer to my notes because I'm not typically a public speaker, but the words that I'm speaking nonetheless are very sincere in affecting people like me and others in America. I hope my words can be heard.

Mr. Chairman and members of the committee, my name is Ronica Jackson. I truly thank you for the opportunity to testify about why extending unemployment benefits will help me and many Americans in truly dire straits. I was born in Boston and live in Cambridge, MA right now. I grew up in a family that valued education and maintained a very strong work ethic.

My late mother, Dr. Ellen Swepson Jackson was a civil rights leader in Boston. I can still hear my mother's strong voice, telling me with much emphasis and conviction, you must get your education. At the age of 16 I graduated from high school and went on to the University of Massachusetts where I received a Bachelor's Degree of Psychology. I worked full-time while attending the University.

I have always worked: first as a group leader for the Children of the New England Home for Little Wanderers, then 5 years in social services with at-risk youth, 5 years in health care as a human resource generalist and practice manager and 15 years in hospitality management. I have worked as a general manager, a trainer, an auditor, and a human resource manager. Everywhere I have

¹¹See David Card and Phillip B. Levine. "Unemployment Insurance Taxes and the Cyclical and Seasonal Properties of Unemployment." *Journal of Public Economics*, January 1994.

worked I have been appreciated, promoted and earned great recommendations when I moved onto new opportunities. That's not to say that I, we all have problems here and there in our careers.

In the fall of 2003, after working on the Cape as a general manager for 3 years, I relocated back to Boston to help care for my mother. I worked for a year as a manager of a clinical practice in a major Boston hospital. As a result my mother's health continued to fail. I mean, I'm sorry, my mother's health continued to fail.

I stopped working knowing that a person with my experience, references and skills would not have trouble getting another job. Unfortunately, my mother passed in 2005. I returned to a world that really has changed and where jobs are very, very scarce.

I became a temp and a contract employee. This past fall I started a temp job and became ill and I was in the hospital for 6 weeks. Once I was discharged from the hospital I then applied for another temp job with the same agency as they were unable to obviously hold that particular position for me for that length of time.

But even temp jobs and contract jobs seem to have disappeared. Finally I was told by the temp agency to apply for unemployment. Since that time I have done everything that I can think of to find work.

I have networked with friends, past associates, former employers. My resume is on every Internet site that makes sense. I call and check in almost on a daily basis with all the agencies. Now I no longer can afford the Internet access at home so I go to the library to search for jobs.

Even when employers post jobs they seem sometimes not to fill them. They either pull them, they sit on them or postpone them. As you can imagine this has been very frustrating and at times infuriating.

Recently a recruiter informed me that there was a position that had been on hold for almost a year, but the employer was now ready to go forward and hire someone. I interviewed well and the Department Head ended the interview asking me if I could start the job that following Monday at 9 a.m. I said I could. I waited for the formal offer through the temp agency which was the protocol and that never came. As far as I know the position was never filled.

I have taken and will take any viable job. I have purposely played down and been asked to play down my skills and experiences on my resume to try to secure entry level temp jobs and that's to no avail actually. Despite my best efforts, help from my friends and family, I am in a very, very bleak financial position.

I've had to ask friends and family for money. They have been incredibly understanding and helpful when possible. But there's no denying that this is a very, very embarrassing position.

My unemployment insurance ended in the second week in September. I'm sorry, the second week of February. My rent has been paid only through the end of this month.

In fact, my landlord took me to court to evict me. I have lived there for 10 years and have been 1 or 2 weeks late with my rent several times over the last year. My landlord has always liked me as a tenant and, but he has bills to pay as well. It takes 5 weekly

unemployment checks to accumulate enough money for me to pay my monthly rent.

My other bills including utilities have not been paid. I have even been disconnected or shut off notices have been sent to me. Now if I can't pay my April's rent I could very, very well be homeless as of the first of April. This is very real.

Sometimes I look back at my life and I'm astounded at the breadth and richness of my life as well as my personal accomplishments and the accomplishments and the sacrifices and hard work of my parents and family members. I shake my head in disbelief and it brings me to tears to think that or see the insurmountable and impossible situation that I, and many Americans are in. I have worked all my life and never imagined that I could be in this situation.

I have come here to Washington to testify before you with \$4 dollars to my name and that's the truth. I, like so many Americans that are now out of work have always worked, always paid my taxes and never dreamed that I could ever be dependent on an unemployment insurance program.

Seriously, please consider and do whatever you can to extend unemployment benefits quickly so that we have a chance of finding work and surviving these very, very hard times. Thank you.

[The prepared statement of Ms. Jackson follows:]

PREPARED STATEMENT OF RONICA JACKSON

Mr. Chairman and members of the committee. My name is Ronica Jackson and I want to thank you for the opportunity to testify about why extending unemployment benefits will help me and many Americans in similar dire straights.

My name is Ronica Jackson and I was born in Boston and presently live in Cambridge, MA. I grew up in a family that valued education, and maintained a strong work ethic. My late mother, Dr. Ellen Swepson Jackson, was a civil rights leader in Boston. I can still hear my mother's strong voice telling me with much emphasis and conviction "you must get your education."

At the age of 16 I graduated from high school and went on to the University of Massachusetts where I received a Bachelor's Degree in Psychology. I worked full-time while attending the University full-time.

I have always worked—first as a group leader for children at the New England Home for Little Wanderers, then 5 years in social services with at-risk youth, 5 years in health care as a Human Resource Generalist and practice manager, and 15 years in hospitality management. I have worked as a general manager, trainer, auditor, and human resources manager. Everywhere I have worked, I have been appreciated, promoted and earned great recommendations when I moved on to new opportunities.

In the fall of 2003 I relocated back to Boston to help care for my mother. I worked for a year as a manager of a clinical practice in a Boston hospital. As my mother's health continued to fail, I stopped working, knowing that a person with my experience, references and skills I would never have trouble getting a good job. Unfortunately, in 2005, my mother passed. I returned to a world that seemed to have changed, where jobs were scarce.

I became a temp and contract employee. This past fall I started a temp job, became ill, and was in the hospital for 6 weeks. Once I was discharged from the hospital, I then applied for other temp jobs with the same agency and others. But even temp jobs and contract jobs seemed to have disappeared. Finally, I was told by the agency to apply for unemployment.

Since that time, I have done everything I can think of to find work. I have networked through friends, past associates and former employers. My resume is on every Internet site that made sense. I call and check in with the agencies almost daily. Now, I no longer can afford Internet access at home so I go to library to search for jobs.

Even when employers post jobs they seem to not be filling them. They either pull them, sit on them, or postpone them.

As you can imagine this has been frustrating and at times infuriating. Recently a recruiter informed me that a position had been on hold for almost a year but the employer was now ready to go forward and hire someone. The interview went well and ended with the department head asking me if I could start the following Monday at 9 a.m. I waited for a formal offer through the agency but the employer never followed through with the position and the position was never filled. I have taken and will take any viable job. I have purposely played down my skills and experience to secure temp jobs.

Despite my best efforts, help from friends and family, I am in a very bleak financial position. I have had to ask friends and family for money and they have been incredibly understanding and helpful when possible. But there is no denying that this is very embarrassing to be in this position.

My unemployment insurance ended the second week of February and my rent is paid only through the end of this month. In fact, my landlord took me to court to evict me. I have lived there for 10 years and have been 1 or 2 weeks late with my rent several times over the last year. My landlord has always liked me as a tenant but he has bills to pay too. It takes 5 weekly Unemployment Insurance checks to accumulate just enough for my monthly rent, given the weekly unemployment rate I was at. My other bills, including utilities, have not been paid, and have either been disconnected or shut-off notices have been sent to me.

Now if I can't pay April rent, I could very well be homeless as of April first. Sometimes I look back at my life and am astounded by the breadth and the richness of my life as well as my personal accomplishments and the accomplishments, sacrifices, and hard work of my parents and family.

Then, I shake my head in disbelief; it often brings me to tears that I am in what feels like an insurmountable, impossible situation. I have worked all my life and never imagined I would be in a situation like this.

I have come here to Washington to testify before you with \$4 to my name.

On behalf of so many Americans who share my story, who through no fault of their own are dependent on unemployment insurance, I ask that you extend unemployment so we have a chance of finding work and surviving these hard times.

The CHAIRMAN. Well thank you very much. Ronica, that's very powerful, a powerful testimony. I know it's not easy to give. It's always difficult to talk personally about, you know, the challenges of one's life. But you've made a very powerful presentation here.

Ms. JACKSON. Thank you.

The CHAIRMAN. We value it. And we thank you very much for it.

Ms. JACKSON. Thank you.

The CHAIRMAN. Senator Brock, be glad to hear from you.

STATEMENT OF HON. WILLIAM BROCK, FORMER SECRETARY OF LABOR AND U.S. SENATOR, ANNAPOLIS, MD

Senator BROCK. I'm honored to be back, Mr. Chairman. I have learned much from a number of the members of the committee over the years including the Chairman and my friend from Tennessee. I thank you very much for the introduction.

I have to begin by admitting that I was very moved by Mrs. Jackson. I can't imagine what it's like to be in that situation. I just can't. I'm not sure many of us could. But I treasured listening to you and I commend you. I wish you well. God bless.

Ms. JACKSON. Thank you very much.

Senator BROCK. If I may I'm going to draw back from the urgency of individual situations, the urgency of unemployment as it may be affecting different States and ask if I can just spend a few minutes. If I may I'll just submit my testimony for the record. But I'd like to talk about what I think we have not done in this country in the last 25 or 30 years.

Next month we're celebrating the anniversary of a very powerful report called *A Nation at Risk*. In which the distinguished people on that commission came to the conclusion that if a foreign nation

had done to our children what we were doing, we would consider it an act of war. Not too long after that I testified before this committee, your committee, Chairman, as Secretary of Labor and talked about the work that we were doing on Workforce 2000. A couple of years after that I co-chaired the first Skills Commission in which we discussed, again, the urgent need to do a better job of education and training in this country.

Over the next decade we've had countless studies talking about the urgency of change. In the first Skills Commission our worry was the low-skill base of this country, not people with education and real skills. We were worried about international competition affecting people at the low end.

Well, that was before the Internet. The Internet has changed the world because you now can hire somebody and you don't have to move the body. If you can—if your work is routine, it can be digitized. If it can be digitized, it can be automated. If it can be automated, you can source that work anywhere in the world.

So what we've got now and this is particularly true in the last decade, is a coalescent, global labor market at all skill levels. What's happened is that the rest of the world has decided they want what we've got. My friend from Tennessee noted the incredible fact that we're producing much of the world's goods and services with 5 percent of its people.

We've done it because we've been unduly blessed with a free society, a vibrant free enterprise system and an educated workforce. For most of the last century, we had by far the highest percentage of high school graduates in our workforce of any country in the world. We also had an incredible advantage in that we were taking advantage of our most important asset, our women. They didn't have choices, so they taught or they were nurses. That was about it.

We had the best and the brightest in our schools. We could afford to treat them like dirt and not pay them very much because that was their choice. They had no other.

It was a fabulous thing when opportunities opened up for women in this country. But the effect of it is that they did have choices all of a sudden and they took them.

In the last 10, 15, 20 years we've been recruiting our teachers from the bottom 30 percent of the people who go to college, the bottom 30 percent. The question is: why is it that after all of these studies—commissions, Workforce 2000, Nation at Risk—why is it that we keep doing the same thing expecting different results?

One of the things that really just blew me away, is that at the Brookings Institute, the Brown Center, a report on American education looked at how well American students are learning. They talked about the fact that our reading skills were not improving. Math looked like they were doing a little bit better. They looked more precisely at the math test that we were giving of the NAEP, the National Assessment of Education Progress.

Do you know what they found out? They found out that the eighth grade math questions asked on the NAEP were measuring what teachers were teaching or are supposed to be teaching in the third grade. So we were saying it's an eighth grade test and we

were measuring what they were supposed to be taught in the third grade. We're kidding ourselves.

We have been trying. We've increased spending on real dollars, per child, 240 percent with virtually no change in results. Nation after nation has now passed us in the percentage of high school graduates in the workforce. The only thing we're exceeding the world in is the percentage of drop outs.

We have the highest percentage of drop outs of any major industrial country in the world, 32 percent of our kids. One million children drop out of school every year. A large number of those drop out by the tenth grade, not seniors or juniors, but tenth grade.

More importantly, the ones that graduate, their quality is mediocre. In the math and science studies that were done internationally, the TIMMS study, we beat one country, one country in eighth grade math, Cyprus. And we keep doing the same thing.

If we're going to have a vibrant economy we've got to have the highest level of education and training in the world, if we're going to be globally competitive. If we're going to source our workers here where they live, instead of in some other country. If we're going to deal with the unemployment that comes from automation and that's 9 out of 10 jobs by the way. Most of it's automation and digitization, not international competition.

We've got to give our workers and our students the best education and training in the world. There can be no higher priority for this Nation than the transformation of American education and training. It is a different world.

So if you look at the most recent proposals that have been made. You can sort of summarize them pretty quickly. Millions of children are coming into our schools unprepared to learn.

They're coming out of impoverished communities and impoverished homes where there's virtually no stimulation, no reading material. Too often the parents don't speak English, if there are both parents there. We expect them to keep up with the other 15 to 20 kids in that class and learn, and they don't. By third or fourth grade they've dropped out emotionally.

The bottom one-third of our students go to college. The bottom one-third take educational Phys Ed as a major. Why? It's the easiest course in school? If you like kids, not a bad career. But that's not the best and the brightest. If we're going to upgrade our schools we've got to begin by recruiting our teachers from the top one-third. That means we've got to pay them and we've got to treat them differently, much better.

Most of the countries in the world have their kids college ready by the age of 16. What's wrong with our kids? Are they less? No. We're just not giving the tools by age 16.

So, first step in educational terms is that we've got to take well intended bills like No Child Left Behind and be sure that they're not a barrier to those States that want to do a better job. They can be, unless there's some changes in that rule, in that law.

Second, most of the people who are going to be working in the year 2020 are already in the workforce. What are we doing about that? Why not have a GI bill for workers that says that if we want our kids to be college ready by age 16, let's give our workers the

ability to access education so that they can have that same opportunity.

Thirty-million adults do not have a high school credential in this country. Twenty percent of all adults and one-third of them are foreign born. If we had a GI bill for or the equivalent for them we could have them ready for college without remediation.

I'm not suggesting what I'm talking about is going to answer Mrs. Jackson's problem. What I am saying is that if we don't do something about preparing our workers for the training and the education with the training education that they've got to have to be competitive in a global economy but there's going to be a lot more people like Mrs. Jackson, who are not able to find jobs because this economy is going to be stressed. We're going to constantly put pressure on the wages of middle income Americans because we're competing on the basis of wages rather than education and training.

The last point I'd like to make is that we've got to change the way we think about education and training. Give people the different tools that they've got to have to compete in a global economy. I saw, Mr. Chairman, a speech you made back in the primaries 6 or 8 weeks ago. You were talking about in this case, the election. You quoted a young President of 45 or 46 years ago who said, "The world is changing. The old ways will not do."

I think, Mr. Chairman, that in this committee and those of your colleagues we really do need to back off from trying to just—we do need to address the urgent needs of those who are pressed at the moment. But we need to take this opportunity to back up and take a look at the entire employment and training system of this country. If somebody's out of work they don't care whether it's caused by international competition or automation or bad management.

We need to think about what we do to give them the tools to be personally productive in a new and a better way. The old world is changing. The old ways will not do. They're not adequate for the present systems in this country. We really do need to look at them in a very different way. I thank you for the chance to be with you today.

[The prepared statement of Senator Brock follows:]

PREPARED STATEMENT OF HON. WILLIAM E. BROCK III

Some of America's most thoughtful leaders published a report entitled *A Nation at Risk* 25 years ago. In that evaluation, they stated that if a foreign nation had done to our children in our schools what we have done, we would consider it an act of war. Less than a decade later, I had the privilege of serving on the first Commission on the Skills of the American Workforce. The Commission's report, *America's Choice: High Skills or Low Wages!*, echoed those who had written *A Nation at Risk*. That report stated that the jobs of Americans with low skills were threatened by low-skilled workers in poor countries who were willing to work for much less. That turned out to be true. But now, with the advent of China and India and other countries, very large numbers of highly educated people are joining the global workforce willing to work for half or less than Americans, while at the same time they are available to employers worldwide at the click of a mouse.

In 2004, the Brookings Institution published the *Brown Center Report on American Education*, which explored the question of how well American students were learning. After first noting in an earlier study that reading skills had not improved, the study then turned to mathematics and noted that math performance was improving slightly. However, in a stunning and stinging critique, they analyzed a sample of NAEP (National Assessment of Education Progress) items and discovered that the mathematics required to solve many of the problems was extraordinarily easy.

The report stated that, "most of the arithmetic one would need to know how to solve the average item on the eighth grade NAEP is taught by the end of third grade." In other words, we told our kids that their scores were improving, when in fact we were testing eighth grade students on what they were taught in the third grade.

I am sick of the big lie. I am sick of a system, which leads 300 million Americans to believe that we continue to give our children a world-class education. We do not.

The truth is that we continue to do the same things in our classrooms and expect different results. It is not as if we were not trying. Over the past 30 years almost every one of those years has seen us, as a people, devote more of our resources to the education of our children. In terms of constant dollar expenditures per pupil, between 1971 and 2002, they have grown from \$3,400 per pupil to \$9,000 per pupil. This means that the cost per pupil over this period has risen by 240 percent, after correcting for inflation, at the same time that the scores of our children on the fourth grade NAEP literacy assessment have been virtually flat (although our performance on math is better). The problem is we keep getting very small gains at an ever-higher cost. More importantly, and this is what is being ignored today, the rest of the world has decided that they want what we have and they are determined to get it by providing their kids the best education in the world.

For most of the 20th century, the United States led the world in the percent of working age adults who had completed high school. That lead is being overtaken by nation after nation, some of them developing countries. In just a few decades, the United States share of the global college-educated workforce has fallen from 30 percent to 14 percent, even as the numbers of Americans entering college has increased. But worse still, the United States leads the developed world in the proportion of students who drop out of school.

Equally, if not more importantly, the quality of those who do graduate is, in international terms, mediocre. In a series of international comparisons of math and science performance that began in the 1960s, U.S. students scored in the lower half of the distribution. The 1995 results of the Third International Mathematics and Science Study (TIMSS) placed U.S. students far down in the world rankings. Among all the industrialized nations in the world, we were next to last! We beat only one country, Cyprus. But student performance is not the only issue. The International Adult Literacy Survey (IALS), measuring the literacy of our workers compared to the literacy of workers in other countries with which we compete, characterizes the literacy levels of American workers compared to the levels of the workers in the other countries as "mediocre."

Here is a portrait of a failing system: for every 100 ninth graders, 68 graduate on time; of those, 40 enroll directly in college; of those, 27 are still enrolled the following year; of those, 18 earn an associates degree within 3 years or a B.A. within 6 years. Eighty-two don't make it!

When I was asked to address this committee it was my hope that we might take this opportunity to look not just at our current circumstance as a people, but to look more broadly at the economic and educational challenges we face. The timing is good. If nothing else, this might be a particularly good moment to reflect on our Nation's progress in human development over the course of the last 25 years.

Within 2 years after *A Nation at Risk* was published, I appeared before this distinguished committee in my capacity as our Secretary of Labor, and I remember to this moment the intensity of interest each and every member of this committee had in the subject of workforce development. That meant much to me.

In 1990 I was privileged to chair what is known as the Skills Commission. Our report was titled, *America's Choice: High Skills or Low Wages!* In the report, we expressed deep concern that the United States was going to face a very real problem from international competition, and that the problem would be of primary effect among our low-skilled workers. I underestimated the challenge. Now the world's supply of highly skilled and relatively low-paid workers is rapidly increasing. Because of the Internet, those employees are available to the world's employers without moving. Thus, a coalescing global labor market is now beginning to push wages down at all skill levels, and the people who do routine work, are those most at risk, because that is the easiest work to automate or send offshore. Let me try to emphasize one point very clearly: for every job that is going offshore, 10 are being automated.

In 2006, I joined a number of very distinguished and thoughtful individuals to take another look at these problems, and we published one more of these seemingly endless studies. Our report was titled, *Tough Choices or Tough Times*. Let me take a moment to sketch out our central concern.

First, as I said, global employers have their choice of the world's workers and it is a fact that the world's supply of highly skilled, relatively low-paid workers is rapidly increasing. If, as I noted earlier, those employees are available to any firm with-

out moving because of the Internet, it's fair to ask, why should employers take our workers? The truth is that they won't unless we can match and exceed their skill levels. But, we are not going to compete in a highly technologically networked global economy with the kind of numbers I mentioned earlier.

In a nutshell, our kids and our workers are going to have to be much better educated, matching the top nations' performances in language, math and science. They have to be very differently educated. There are major changes needed in standards, assessments, curriculum and pedagogy.

Let me be very specific. We've had it too easy. Much of the last century, because we were taking advantage of American women, giving them virtually no choice other than to teach, we got the very best and the brightest to teach our kids and they were wonderful. We ate everybody's lunch. Then things changed. Women now have choices, and that is a wonderful, fantastic thing, not just for them, but for all of us.

Here's the challenge. We've got to get the best and the brightest among our college students today to consider teaching. We must recruit new teachers from the top one-third of entering college students, and that means we must pay them as professionals. Today we call our teachers professionals and treat them like raw recruits.

We can spend a lot of time on how to do that and how important it is. What I want is to back off and ask you a more fundamental question.

Why is it that a quarter of a century after *A Nation at Risk* told us that we were in peril as a people and as a country if we did not dramatically change our ways and give our kids and our workers the best education and training in the world, why is it then after that report and the countless studies from some of our best minds in this entire Nation, that we keep doing the same things and expecting different results? Why is it that we think we're supposed to look at these problems as Republicans or Democrats and liberals or conservatives, instead of as Americans? Why is it that we refuse to tell the American people the truth about what we are doing or not doing for our kids? Why do we keep kidding ourselves?

Last year, the Educational Testing Service (ETS) published a report entitled *America's Perfect Storm—Three Forces Changing our Nation's Future*. The three forces they describe are divergent skill distributions, the changing economy, and demographic trends. They note that the United States now ranks 16th out of 21 OECD countries with respect to high school graduation rates. Between 1984 and 2004 reading scores among 13- and 17-year-olds remained flat, and the achievement gaps were large and relatively stable. The report adds that manufacturing as a share of total employment had fallen from 33 percent in 1950 to just over 10 percent today. It noted further that college labor market clusters, including professional, management, technical and high-level sales, were expected to generate 46 percent of all job growths in the next 10 years. And, that given these present trends over the next 25 years or so, as better-educated individuals leave the workforce, they will be replaced by those who, on average, have lower levels of education and skill. Over the same period, nearly half of the projected job growth will be concentrated in occupations associated with higher education and skill levels. This means that tens of millions more of our students and adults will be less able to qualify for higher paying jobs. Is anyone paying attention?

Are they really ready to work? That's the question asked by the Conference Board, Corporate Voices for Working Families, The Partnership for 21st Century Skills, and the Society for Human Resource Management. These four outstanding organizations did an in-depth survey last year of business, HR, and other senior executives. I want to read you the first sentence of the executive summary, and I quote, "the future U.S. workforce is here—and it is woefully ill-prepared for the demands of today's and tomorrow's workplace." Let me be specific. Eighty percent of the employer respondents rate new job applicants with a high school diploma as deficient in written communications. Fifty-five percent report high school graduate applicants as deficient in math, and both skills are rated as very important for successful job performance.

There can be no higher priority for this Nation than the positive and effective transformation of American education and training, in other words, the human development of our people.

Certainly from the publication of *A Nation at Risk* in 1983, I have felt that America's primary challenge lay in the critical need to better prepare our youth for a rapidly changing world. When I led the U.S. Department of Labor, we published *Workforce 2000* calling for major educational changes. In subsequent years, I led three commissions, each of which called, with increasing urgency, for dramatic improvements in our education and training systems.

Today I co-lead a fourth: the *New Commission on the Skills of the American Workforce*. Our report, *Tough Choices or Tough Times*, suggests that the great majority of U.S. schools as presently led, financed, and composed, are simply incapable of preparing our youth to meet the demands of a knowledge-based, technologically networked, truly competitive global economy. We make the case, factually and clearly, that many countries have already passed us, and that many other nations are rapidly gaining on us in the quality of their graduates. Unless soon reversed, this situation will inevitably lead to a steady decline in the U.S. standard of living. The simple fact is that the Internet—a word none of us had even heard the last time I appeared before this committee—the Internet has changed the way we communicate, the way we compete, the way we work. Here is the problem our employees, our employers, and our educators have.

Any routine task can be automated, and/or digitized and/or outsourced, and thus the world of work in this day and time increasingly rewards innovation, creativity, and problem solving skills. It requires an ability to source and evaluate the worth of information, work with others, and understand and communicate with those from other cultures. These skills will be compensated well, the firms such individuals work within will prosper, and the Nation which has an abundance of individuals and firms with these assets will prosper competitively and economically.

This is, in truth, a different world. Have we changed the way we prepare our students and ourselves for that world? No. Rather we keep doing the same things, perhaps even more of those same things, and expect different results. As the *New Skills Commission* notes, the problem with our present reform efforts is the absence of an over-arching reform, because the present system simply does not work—as a system. The gaps are across the board:

(1) Children come to school, in the millions, unprepared to learn. Simply throwing them into elementary school without addressing this fact will inevitably lead to frustration, a sense of inadequacy, and a fear of education. Many hit a wall by the third grade, and drop out emotionally, if not physically. Early childhood cognitive development for—at a minimum—economically disadvantaged kids and minority kids, if not all children (I believe the latter), is essential.

(2) The new skills mentioned above require a far different pedagogical approach. This will take a rethinking of what knowledge and skills are taught and how they are measured in our schools. Other nations that outperform us on international tests of student performance already set high standards and use high quality exam systems that incorporate the kinds of knowledge and skills necessary to succeed in the 21st century economy. We need to look carefully at these instructional systems and ask ourselves why we are not using similar high quality systems.

(3) The bottom one-third of entering college students takes education as a major. The reasons are legion, but the result is a steady decline in the quality of those entering the profession. To make matters worse, they are then treated as anything but “professionals” and paid truly substandard compensation. It is no wonder that half leave in the first 5 years—and those who do are more often than not the best. It is not logical to ask teachers to teach skills they have not themselves been taught. Teacher preparation in the United States is a disgrace.

(4) The way we organize most school districts leads to a stifling, top-down, bureaucratic, expensive, and non-productive result. Innovation, individual IEPs for all students, creative classroom techniques/approaches, entrepreneurial principals should be the norm, not the exception. They are not.

(5) If we were to prepare our students to leave school when ready to go to community college or technical college without the need for remediation, we could give them new and exciting choices—before they are bored to death by classes which, to them, have no relevance. The operative phrase above is “without remediation.” States that are able to do this could save an enormous amount of money—money which could go a long way to pay for some of the changes mentioned in 1 through 4 above.

(6) All the above changes will require that our Federal statutes be modified to address those States ready, willing, and able to move on these ideas. The No Child Left Behind law was a serious effort on behalf of Congress and the President to give new emphasis and support to reform efforts across America. Those good intentions must not result in barriers to innovate and make fundamental changes in our State education systems.

(7) Mr. Chairman, while these K–12 reforms are urgent, they would not directly affect the skills, productivity, and earnings of the year 2020 workforce. Unless we boost the competitiveness of the active adult workforce *now*, we may lose too much ground to the rest of the world before the full effects of K–12 reforms take hold.

The U.S. labor force in the year 2020 will include 165 million people, 100 million of whom are out of school and at work today. Two-thirds of these workers will remain part of the active workforce at least through the next decade as well. So what do we know about these workers?

We know that about 30 million adults do not have a high school credential—about 20 percent of all adults and one-third of the foreign-born. Their access to further education and skill development is blocked without this gateway credential. We need a new Federal commitment to adult education: All members of the workforce 16-year-old and older will have access to a free education up to the new high school standard—ready for college without remediation.

But that is not enough. The U.S. labor market is very turbulent. More than 4 million jobs are gained and 4 million lost every month in this country. Knowledge becomes outmoded and new technologies demand higher skills and new competencies. How are workers to ensure that their knowledge and skills remain current and up to date?

In this environment, it is increasingly critical that workers across the country are able to get the training they need to quickly move to new jobs, often in new industries requiring different knowledge and skills. I encourage you to support the creation of Personal Competitiveness Accounts that will enable Americans to get the continuing education and training they need throughout their working lives. By creating a tax-protected account at birth that parents, grandparents, aunts and uncles can contribute to and then later, employers and the employee—along with government for low-wage workers—can add too, adults would have the capital they need to pay for education and training as work requirements change. I think of this as a new GI bill for our times.

Soon we will need to re-examine our complex of employment, unemployment, training, and trade adjustment laws and programs, to cover *all* workers who suffer permanent job loss whether from trade, technological change, or domestic competition so our experienced, tenured workforce can have real opportunities for retraining and skill upgrading. If we want America's workers to be agile and to support our full engagement in the global economy, we must substantially upgrade our adjustment assistance and training support for them—commensurate with the large potential gains from trade that America expects.

Senators, I urge you to think hard about providing support to States who are committed to making the tough choices outlined above to revamp their education systems. From investing in early childhood education for low-income children, to professionalizing teaching, to holding school leaders accountable for increased student performance while at the same time freeing them to organize their schools to do just that, to providing early college options to high school students ready for college without remediation, to providing those most in need with the comprehensive help they need to meet new standards. These are the kinds of changes that our States must make for this country to continue to prosper.

A few weeks ago, the Chairman of this committee reminded me of the words of a very young President more than 45 years ago. This is what he said, "The world is changing—the old ways will not do." Those words are just as true today.

The CHAIRMAN. Well, thank you very much, Senator Brock for bringing us down that old pathway. I remember very well the Nation at Risk. It was Ernie Boyer.

Senator BROCK. Right.

The CHAIRMAN. He was one of the great, thoughtful architects of that report. I still remember it, I guess, a couple parts.

I'll just take a minute of time. I had a good briefing the other day from Andreas Schleicher, one of the leaders in the OECD, the European system that we're looking at for comparative education systems. It was really quite interesting.

We're looking at the impact. You could look at all kinds of flow lines in terms of our public school system and there's some very ominous kinds of trend lines. But what he was pointing out is that many of the OECD countries that have as many immigrants as us are doing better at educating their children.

What they do is an evaluation of the child when they come into the country and find out what additional resources are necessary to bring those children up to speed. They spend significantly more

than they spend on other children in order to ensure they have what they need to catch up on and equip them for language, cultural and educational development. They said it's extraordinary in terms of comparison with the United States, because they save money on services later in life.

They don't get the kind of high school drop out rates that we have. They're performing better on international assessments. They basically find out it takes around 7 years to have them at a similar, kind of level of performance as native-born children.

This is all happening at a time when we're trying to do things too often on the cheap in this country and failing to recognize the overall, overarching theme that it's going to take an investment to succeed.

Senator BROCK. But the money would come back to us.

The CHAIRMAN. It would come back.

Senator BROCK. Absolutely.

The CHAIRMAN. We need to have the new thinking on these issues and that's certainly something that they are trying. Let alone what they do in terms of training programs, you know. The Europeans have the funding for various training programs.

Not that they do everything right, but nonetheless there are some things that we can listen to from others and learn from them.

Senator BROCK. May I just—

The CHAIRMAN. Yes.

Senator BROCK [continuing]. Add one point. The new commission on Skills in the American Workforce funded by Gates, Pugh, Lumina and others did 2½ years of studying the best practices of the best countries around the world, our best competitors. They came with a report that said if we would do some of the things that you're talking about, if we would actually assess the needs of the individual child, the cognitive development, early childhood development of a child, opens the door for the system to work on that child as well as the system. You save so much money.

What we're doing today is spending money on remediation on correcting the failures that we didn't do right the first time. Do it right the first time. We think we can save \$60 billion a year by early childhood, by recruiting better teachers, by having a graduation facility by 16. That's a lot of money that could be plowed into so much better recruitment and compensation of teachers, early childhood programs, things like that.

The CHAIRMAN. Right.

Senator BROCK. You can really pay for this. You have to do something different though. The way we're doing it—is by keep doing the same thing and expecting different results.

The CHAIRMAN. Jack Shonkoff, who wrote that marvelous book, *Neurons to Neighborhoods*.

Senator BROCK. Right.

The CHAIRMAN. He felt that we need to focus much more on what happens in terms of early childhood development, makes that case very strongly.

Senator BROCK. Right.

The CHAIRMAN. Well, we have a number of aspects to our economic challenges. One of them is, as we have heard in the earlier

panel, is that we're finding millions of people who are facing terms of unemployment through no fault of their own.

When I first went to the Senate if you worked at the Four Rivers Shipyard, down in Quincy, your grandfather worked there. Your father worked there. You worked there. You, out of high school, you still had 3 or 4 weeks off in the summer. You still went down to the Cape. You had a terrific life, a wonderful community and you hoped for better for your children and you knew they were going to do better.

Now you have nine different jobs over the course of your lifetime and are moving constantly. It's a whole dramatic alteration and change. This is taking place across the country. The question is how is this Nation going to treat its people.

One of the factors we're going to have to address is people who are going to be, because of the change in technology and opportunity, left behind. Unless we invest in them, in continuing education and life-long training, as far as I'm concerned, you're going to have a lot of very serious kinds of economic disruptions that are going to fall, I think, on people unfairly.

So the situation we're facing is serious. We're going to have some figures—the new job numbers—out tomorrow. I don't know what they're going to be, or whether you have some idea of where they're going to go. But we're facing the immediate kinds of circumstances and we have to try to deal with the very short term. Obviously this issue on the unemployment insurance has enormous implications, not only as a life line to these individuals, but also in terms of the stimulation of the economy.

We're going to recess for just a few minutes while I vote and then I'm coming back.

But I'm interested, Ms. Smith, you're talking about the gaps in the unemployment benefits. One gap, as I understand it, is that there's a 6-month gap or so in terms of the payroll information and that goes back to the times where we had paper kinds of collections necessary. Therefore we find out, with the way that the market is working, a number of people that are working hard are being left out for that reason.

It's always interesting to me that these workers have paid into the fund. The fund is in surplus. It was designed to be available for people who have paid into the fund to be able to get something back from it. Now that they've paid in, they can't get it back. They need it. They're in desperate circumstances. But it's fragmented.

Could you just outline quickly what the three or four major issues are. We've included them in our legislation. But I think it's important, as someone who's a practitioner, to get your perspective. Tell us which are the ones that are most dramatic and what you did in New York. And what the implications are.

Ms. SMITH. Well one of the ones that we're talking about is what you're talking about. Right now the unemployment insurance system—usually you look at the first four or the last five quarters. So what happens is you don't capture your last quarter of wages.

What we've done in New York is that that can exclude a lot of workers, especially low-income workers. So what we've done is we have now an alternative system where if you don't qualify under the normal system there's an alternative way to calculate your

wages. What we found is that we have far more low-wage workers or workers who work, have been working in the last few months but were working sporadically able to collect unemployment insurance system. We call that the alternative minimum base period. We think that that's important for expanding the unemployment insurance system.

One of the other things that we've done in New York that I think is very important is that we've tried to make it more "family friendly," so that for instance, if you have to quit your job because of domestic violence you now will qualify for unemployment insurance where in most States you wouldn't qualify. If you leave your job to follow your spouse, again we have a new world here where we have families where both spouses are working and that wasn't true traditionally. That that would be good cause.

So that there are individuals that, you know, if you are quitting your job, you're leaving your job for family reasons, that you would qualify for unemployment insurance. We think that that is another very important one, the alternative minimum one.

The last one that I'd like to touch on is part-time workers. Because what happens is that in most States if you're not looking for full-time work then you won't qualify for unemployment insurance. In New York if you're looking for part-time work, you will qualify for unemployment insurance.

The benefits might not be as great as if you were looking for full-time work. But again what we've done is try to bridge that gap. The gap I talked about earlier.

Why is it that only 36 percent of unemployed people are actually collecting unemployment insurance, are eligible for unemployment insurance? Those are some of the main reasons why we have tried to bridge those gaps in New York. I think we've been pretty successful in expanding the base, the numbers of people who are actually able to collect the benefits.

The CHAIRMAN. Professor Krueger, we had a hearing in the Joint Economic Committee recently where we listened to both Mr. Bernanke and Larry Summers, and others talking about the Goldman Sachs report that said even if we're going to get a handle on the mortgage crisis—even if we're able to flatten out this kind of, whatever word you want to use, slow down, recession—that unemployment is still going to go up for next year. They estimated that it's going to go up to 6.5 percent, Goldman Sachs said.

I don't know whether you agree with that, but the point being that even if we begin to get a handle on the economy, which I'm not sure that we have, that we're going to be facing an increasing pressure on unemployment. The problem we're hearing about today is going to be around for a while. That's my sense.

But I'm going to recess. But I'd like you to address that when we come back. Whether you think the unemployment, looking down from an economist's point of view, is going to come on down. How you think just about how we're dealing with the problem. If you could talk just briefly about the three or four things you think might be the most useful in dealing with that.

We're going to recess and then I'll be right back. And we'll commence. I want to thank our witnesses.

[Recessed.]

The CHAIRMAN. We'll come back to order. Professor Krueger.

Mr. KRUEGER. What do I think about the Goldman Sachs estimate that the unemployment rate could reach 6.5 percent? I'm too smart to give a precise estimate, but it seems plausible. It does seem plausible to me.

Regardless of the precise numbers, I would say the pattern has been after the economy has had a recession for job growth to linger afterwards. For unemployment to stay painfully high for a longer period than it used to when the economy turned around. I don't think it would be any different this time, which is why I think it is particularly important to address issues of the safety net now.

So you asked in terms of policy what can be done given the economic slow down and the problems in the labor market. I would say that this turndown has really struck me as quite different. There's been a sea change in the way that economists are thinking about it. So what I had been taught, what I teach my students is that the Federal Reserve Board should handle short-term downturns. Congress is not well suited for fiscal policy and to stimulate the economy.

I think that view has gone out the window in this downturn. It's really striking to see Martin Feldstein, Larry Summers argue that it's necessary to stimulate the economy given that when they were my teachers that was not the view that they expressed. I think what makes this situation different is the tools that the Federal Reserve Board has are limited given the financial crisis and given the fear that has taken over in credit markets.

So, what can be done? Well, first obviously the Congress has already passed this stimulus package. It's not the package I would have designed. It's not clear to me why so much emphasis was put on business investment at a time when there's a problem with lending. I don't think the demand for credit is the problem. I think it's more the markets not functioning normally.

But anyway the stimulus package passed. I think that the tax rebates will stimulate the economy in the second half of 2008. I think the risk the Fed is going to face is going to be heating up inflation as well. My former colleague, Ben Bernanke I think is in a difficult, very difficult position.

I would suggest trying to address the lending crisis more directly. I understand that Senator Dodd has a bill to try to fund or to purchase, to set up an entity that would purchase loans, mortgages and refinance them because that market doesn't seem to be functioning properly. I think that's something worth a close look at.

I would also mention something a little bit longer term which is infrastructure. The construction industry is going to, I think, suffer in this downturn. A lot of real estate projects are coming to a halt. This Nation, as you know, faces a tremendous problem with infrastructure, not just the bridge in Minneapolis, but all throughout the country.

So it would seem to me that this is a good time to focus on restoring the infrastructure. I think those kinds of investments could also have longer term effects for the economy. And put a sector which tends to have less-skilled people and high unemployment back to work.

The problem with the infrastructure side is that it takes a bit of—it takes some time to get the projects up and running. But given that I, as I mentioned, think that the jobless recovery when we come to the recovery stage will linger, it seems to me that that's worth considering as well.

The CHAIRMAN. Could you comment as well about the fact that there are an inadequate number of jobs? As I understand it there are about 84,000 vacant jobs even in using as an example, my State of Massachusetts, but approximately 160,000 people are unemployed. We've got 24 applicants for every job training slot that's opened. We heard earlier about the Administration cutting back on their job training which makes no sense.

But if you're going to have more people and less jobs that are available out there, what does this mean to people like Ms. Jackson? I mean, what are we facing on that? Has that been the case in these past recessions, or not?

Mr. KRUEGER. Well I think one thing that makes this turndown, it probably is a recession, but I wouldn't—

The CHAIRMAN. Or slow down, whatever.

Mr. KRUEGER. Slow down. I usually wait until the NBR calls it a recession. But in this undoubtedly, slow down, I think what makes it a bit different is the job growth was sluggish even in the recovery. If you compare the recovery in the 2000s to the job growth in the 90s, the 90s were much stronger job growth.

Some of that I think is—and also I would add, Senator, if you look at the private sector. The private sector has been especially sluggish in terms of job growth. It's been a State, local and Federal Government growth in the 2000s. I think that that adds to the problem of insufficient jobs available for people like Ms. Jackson and others.

The CHAIRMAN. Ms. Jackson, your story is so compelling. You worked hard. You got through school at an early age. You worked hard through college got the training, had a wonderful variety of different employments and now, sort of roof caves in.

Do you find that there are other people that you run into with similar kinds of life experience? People that have had some training, have some skills?

Ms. JACKSON. Most definitely.

The CHAIRMAN. And are faced with the fact that there's just not the opportunity there, the jobs, I mean. Do you find that this is common? We've been seeing it obviously in recent times. Generally it's been the people that are the unskilled in the past and we've found different ways of dealing with it.

But now we're finding people that have the skills and are being put in the position where jobs are increasingly difficult to find. Do you find that when you're talking to your friends and your neighbors that this is something that's more common than you might have even thought of before?

Ms. JACKSON. Most definitely. I have friends that, actually some of them who've relocated to different parts of the country that were among mid- to senior-level management and in hospitality or in some of the other places that I've worked at and they simply cannot find comparable jobs. I have a friend that moved from New Jersey, worked in New York, and moved to Florida. And sells Triple

A, yeah, sells Triple A right now in one of the strip malls. She has a very strong background in rooms operation management in hotels. So it's not isolated.

One of my neighbors is very good with software and has done some contract jobs with MIT. But that's all he can get is contract jobs or temp jobs. They often last a month or sometimes 6 months. But then they stop. He's really in, you know, a very bad position financially because it's hard to find a job that's going to be stable and pay at a rate that's going to be helpful.

The CHAIRMAN. Well, I think you make this case in an extraordinary, compelling way that reminds us of our responsibility. I'd like to ask Dr. Krueger, really, finally, I think Ms. Jackson's answered it, but some people say it's too early to extend the unemployment benefits. As I said earlier, the long-term unemployment is already higher than when we first extended unemployment benefits in past recessions.

So could you talk just about the sense of urgency about it? What we ought to do and in what period of time?

We made the judgment to do the mortgage help and the unemployment has been sort of deferred. But I'm interested in hearing from you about your own sense of urgency about this type of help and assistance, then maybe Commissioner Smith can make a comment on it.

Mr. KRUEGER. Well, I think the extended benefits are particularly well targeted. I think they're targeted to people who are in tremendous financial stress. I think that that's a great feature of the program. So you could think about the amount of distress that you relieve per dollar compared to the average dollar in the rest of the stimulus package. I think you get much, much more value for the dollar from extended benefits.

My own personal view would be, it would be better that the Senate doesn't have to convene to decide when and to trigger extended benefits and that it would be better if the unemployment insurance legislation automatically extended. You know if the insured rate were lowered that's necessary for the extended benefits to turn on or if it was more targeted to geographic areas. So as was mentioned earlier, there are some parts of the country which are not in as much difficulty as others.

So my own preference would be to pass a bill that makes extended benefits easier to trigger on automatically. I think that that would help to stabilize the economy. It would help to bring the economy to bounce back in those sections of the country which are having difficulty.

If that's not feasible then I do think there's some urgency to extend benefits at this point. As I mentioned earlier, I think that the job growth is going to be sluggish for the next year, 2 years. I also think that given the trend that we've seen towards longer term unemployment is certainly not healthy for the economy.

A lot of people have been moving onto disability insurance I think because they're having difficulty in the labor market. Then they just stay there which is very expensive. So to the extent that we could keep them attached to the labor force, I think extended benefits would help to do that. I think that's another consideration.

The CHAIRMAN. Let me ask you what's your sense about the accuracy of these figures? You know, there's a lot of sense that they're not nearly as accurate as they were in the past and not really reflecting, you know, where people are at in terms of the employment. They have given up and you know, in terms of looking for jobs and all the rest doesn't really reflect what is happening out there in the real world.

Mr. KRUEGER. That's an excellent question. I think the figures are accurate but they have to be kept in context. So I think the unemployment rate does effectively describe the proportion of the workforce that's actively seeking work and without work.

What it misses is those who've given up. That's a separate category and particularly for prime-aged men. I wrote a piece 3 or 4 years ago in the New York Times which I called the Kramer Effect. You know, middle-aged men who are out of the labor force who are not seeking employment. Many of them are going on disability insurance.

So I think that, and this gets to your question, I think the job market is weaker than the unemployment rate might indicate when you compare it to historical levels because the nature of the job market has changed. I think that's also connected to the increase in unemployment spells. The fact that unemployment is more concentrated in a smaller group and also members of that group, that demographic group, are also leaving the labor force and that's certainly a loss to the economy.

The CHAIRMAN. Commissioner Smith, the sense of urgency on this, I want to be able to quote you.

Ms. SMITH. My sense is that last year in New York State, 37 percent of the unemployment insurance beneficiaries exhausted their benefits and hadn't found new unemployment. It's 35 percent. That's now at "the beginning" of the economic downturn or whatever you want to call it. That's 167,000 people in New York State.

Interestingly enough when I looked at the statistics, those individuals were over represented in—and this goes to support Professor Krueger's point—in the white male category and the over 40 category. So I think that's what you're seeing, especially in New York State, where you're seeing a lot of continuing downturn in the manufacturing sector. You're finding individuals for whom unemployment is not just a temporary bridge from one job to a similar job.

But when they become unemployed they're actually going to have to find a job in a totally new industry or totally new occupation. For that reason you're going to have longer spells of unemployment. Now if that's happening without an economic downturn, with an economic downturn with even more sluggish job growth which we're seeing in New York, more sluggish job growth. You're going to have even longer and longer spells of unemployment I think.

So I think that now and not later is the time. Now we have people who are exhausting their benefits and still looking for work so now's the time to try to fix that problem.

The CHAIRMAN. Let me ask you, Professor about the infrastructure bank—your reaction to it. It would open up, you know, the job opportunities surrounding the infrastructure. But also you could use it in terms of rebuilding schools. Now we've got \$40 billion

worth of needs to maintain our schools and build new schools in the country.

Have you looked at the concept? Is it something that we ought to be moving ahead on?

Mr. KRUEGER. Well I have to confess I haven't looked at the details of that.

The CHAIRMAN. Ok.

Mr. KRUEGER. But I would say at this point of the economy it strikes me as a particularly good time to consider infrastructure projects. The construction industry, which did hold up pretty well in the recession in the early 2000s is not holding up well now. So I think, you know, from the government's perspective this is a good time to invest in infrastructure, certainly.

The CHAIRMAN. There's a lot that's out there on line. Just in terms of schools for example, there's enormous need for rehabilitation of schools, let alone rebuilding. That's something that we can take a look at.

Well this has been very helpful. I have every intention of pressing along my good friends and colleagues on the Finance Committee on this issue. We know that the Finance committee has an interest in unemployment compensation, but we do too. Our committee is the committee that looks at the worker and what's happening to workers. We have talked with Senator Baucus about it and he's very keen.

So we want to try and move ahead. I think the kind of urgency that Ms. Jackson has given to us in human terms tells the stories very, very clearly about what's really happening out there. So we are very grateful to the witnesses. We've got your testimony and we might have a few select questions.

The CHAIRMAN. But I think we've made a good record over the course of the morning. We're very grateful to all of you. The committee will stand in recess.

[Whereupon, at 11:46 a.m. the hearing was adjourned.]

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