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PUBLIC POLICY

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Mr. Chairman and members of the committee, thanks you for inviting me to testify on this important topic.

My name is Douglas Besharov, and I am a professor at the University of Maryland School of Public Policy, where I teach courses on poverty alleviation and program evaluation and also direct our Welfare Reform Academy. Of particular relevance to this hearing, I am the coeditor of a forthcoming volume from the W. E. Upjohn Institute for Employment Research, *The Workforce Investment Act: Implementation Experiences and Evaluation Findings*.

This volume stems from a full-day conference that the University of Maryland Center for International Policy Exchanges, which I also direct, held in 2009. Contributors are a Who's Who in WIA research and evaluations, and include two fine researchers whose work the committee has reviewed: Kevin Hollenbeck and Carolyn Heinrich (as well as their associates).

To begin, I want to emphasize the importance of job training and education in these difficult economic times, but, as I will argue in a moment, it must be *job training and education that works*.

**Unemployment and the skills mismatch**

This hearing is being held at a time when the U.S. is in the midst of historically high unemployment. From a low of about 4 percent in 2000, unemployment rose during the 2001–2003 downturn to about 6 percent, after which it fell to a disappointingly high 4.5 to 5.0

percent. With the coming of the latest recession, unemployment rose from 4.9 percent in April 2008 to a high of 10.1 percent in October 2009. It remained between 9.5 and 9.9 percent through 2010, and has only recently declined to below 9 percent.<sup>1</sup>

To put these figures in a more human perspective: In January 2011, five people were unemployed for every available job.

No wonder another million or so Americans are discouraged and are no longer looking for work. Add them with to the unemployed and the over eight million underemployed (those involuntarily working part-time), and about 10 percent of Americans sixteen and older are suffering in this economy.

Moreover, unemployment spells are longer than at any time since we started measuring them in 1948. The median number of weeks unemployed has ranged between twenty and twenty-one since November 2009, almost twice the previous highs in 1983 and 2003. The same is true for the average number of weeks unemployed which climbed as high as thirty-nine in March 2011, about twice the previous high of twenty-one weeks in July 1983.

And yet, there are many jobs available that are not being filled. According to the Bureau of Labor Statistics, there were 2.8 million jobs available in 2011. Of those available jobs, only about 9 percent were in the hardest hit industries of construction (2 percent) and manufacturing.(7 percent). In contrast, the majority of available jobs were in the service industry, whether health or education (18 percent); business or professional services (18 percent); trade, transportation, and utilities (17.7 percent); and government (11 percent).

The job sectors that are experiencing growth demand different skills than the sectors that have been shedding jobs, creating a skills mismatch between the unemployed and the available jobs. In *Where are All the Good Jobs Going?: What National and Local Job Quality and Dynamics Mean for U.S. Workers*, Harry Holzer, a professor of public policy at Georgetown University, and his coauthors write:

Relatively high-quality jobs continue to be generated in the U.S., but not in the same sectors as before, and they require higher levels of education and skill than those of more traditional industries in the past . . . . Since good jobs increasingly require good skills, and since good jobs are important for the prospects of displaced workers as well as others, improving the skills of the disadvantaged and the displaced should be done with an eye towards improving their access to good jobs.<sup>2</sup>

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<sup>1</sup>European unemployment has also increased. According to the OECD, from 2008 to 2010, the unemployment rate for the twenty-seven countries in the EU increased from 7.0 to 9.6. Germany is the lone exception, having seen a decline in their unemployment rate, from 7.3 percent in 2008 to 6.9 percent in 2010, partly because as it has been able to maintain its exports.

<sup>2</sup>Harry P. Holzer, Julia I. Lane, David B. Rosenblum, and Frederik Andersson, *Where are All the Good Jobs Going?: What National and Local Job Quality and Dynamics Mean for U.S. Workers* (New York: Russell Sage Foundation, 2011), 207.

Many economists believe that this skills mismatch reflects permanent changes in the U.S. economy and that, if we are to return to the low unemployment rates of the 1990s, we will have to retool major segments of our labor force—through job training and education.

Done right, I have seen job training programs make a real difference in the lives of the unemployed or dislocated. But done wrong, they can actually harm participants.

That makes today’s hearing and the future of WIA even more important.

### **WIA impact studies**

WIA provides three levels of services: core, intensive, and training. All WIA recipients initially receive core services. If they are not able to find employment, they then receive intensive services, and, if necessary, training. Core services consist of assistance that can be provided with only limited staff involvement such as job listings, computer access, and workshops on resume writing. Intensive services consist of skill assessments, individual employment plans, counseling, and, in some instances, work experience placements. Training is the most intensive level of services. Recipients may be provided either with vouchers that can be used to choose their own training or with direct placement into a training program.

As requested, in my testimony, I am addressing the job training and educational aspects of WIA, and especially two studies of them by Kevin Hollenbeck of W.E. Upjohn Institute for Employment Research<sup>3</sup> and Carolyn Heinrich of University of Wisconsin-Madison.<sup>4</sup> I am not addressing not the approximately 57 percent of the program devoted to job search and job readiness services.

Although both the Hollenbeck and Heinrich studies are widely respected as first-rate work, neither are randomized experiments, considered the gold standard in program evaluation. Instead, both are based on statistical analysis of often incomplete and inaccurate administrative data, and their results should be taken as suggestive, at best. In general, when compared to the more causally valid randomized experiments, statistical matching procedures in job training programs often overstate impacts as they often cannot control for unobserved variables that might also have an effect on the findings. For example, in creating comparison groups, Heinrich

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<sup>3</sup> Kevin Hollenbeck, Daniel Schroeder, Christopher T. King, and Weo-Janh Huang, *Net Impact Estimates for Services Provided Through the Workforce Investment Act* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, October 2005); and Kevin Hollenbeck, “Workforce Investment Act (WIA) Net Impact Estimates and Rates of Return” in *The Workforce Investment Act: Implementation Experiences and Evaluation Findings* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, forthcoming).

<sup>4</sup> Carolyn Heinrich, Peter R. Mueser, Kenneth R. Troske, Kyung-Seong Jeon, and Daver C. Kahvecioglu, “Net Impact Estimates for the Workforce Investment Act Program” in *The Workforce Investment Act: Implementation Experiences and Evaluation Findings* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, forthcoming).

did not have information about the educational status of participants and nonparticipants, raising additional questions about the comparability of the groups.

Moreover, Hollenbeck's 2005 study is based on only seven states, and Heinrich's on only twelve states—raising substantial questions about their applicability to the program as a whole.

*Dislocated workers:* For dislocated workers, Heinrich finds that when compared to a comparison group consisting of unemployment insurance recipients or other employment service recipients, recipients of any WIA services have slightly higher employment rates (between about 5 and 7 percentage points) and slightly higher average quarterly earnings (between about \$200 to \$400 higher). Hollenbeck, in contrast, finds much higher employment rates (13.5 percent) and higher average quarterly earnings (about \$930 higher).

Heinrich and Hollenbeck's findings also differ for WIA training recipients compared to other WIA service recipients who are dislocated workers. Heinrich finds no difference in employment rates or average quarterly earnings for WIA training recipients. Hollenbeck, on the other hand, finds a slightly higher employment rate (about 5.9 percentage points) and slightly higher average quarterly earnings (about \$390 higher).

Hollenbeck did not include the opportunity cost of forgone earnings for dislocated workers, which has the effect of inflating the average findings for earnings. In additional WIA studies for individual states, Hollenbeck calculated the return on investment for dislocated workers of the first ten quarters after exit from the program and found that the return to investment *turned negative*, ranging between -10 and -17 percent.

*Adults:* Both Hollenbeck and Heinrich find that, when compared to a comparison group consisting of unemployment insurance recipients or other employment service recipients, recipients of any WIA service had higher employment rates (between about 6 and 13 percentage points, depending on the state) and higher average quarterly earnings (between about \$400 to \$800 higher) in the four years after leaving WIA.

For WIA recipients who received training services from WIA, both Hollenbeck and Heinrich find that, compared to WIA recipients of only core or intensive services, WIA training recipients had slightly higher employment rates (between about 4 and 5 percentage points) and higher average quarterly earnings (between about \$400 to \$800 higher).

*Youth:* Neither Hollenbeck or Heinrich report on youth findings, but few analysts seem to think the results are very good for this difficult to serve group. Most analysts cite the findings of a 2002 Mathematica Policy Research study of the Job Corps, which found that, although the program increased earnings and reduced criminal behavior after leaving the program, the benefits of the program were less than \$4,000 per participant compared to a cost of about \$16,000.

### **Cost-benefit analysis**

As mentioned, in his 2005 study, Hollenbeck did not include the opportunity cost of participating in training. When he did so in subsequent studies in 2006 and 2009, he found that ten quarters after exit, WIA participants in the Adult Program had a positive benefit-cost ratio if measured from the individual or society's perspective, and a negative cost-benefit ratio from the taxpayer perspective. WIA participants in the Dislocated Workers Program had a negative cost-benefit ratio from all three perspectives.

When Hollenbeck estimated benefits and costs over workers' lifetime earnings, he found positive cost-benefit ratios for both the Adult Program and the Dislocated Worker Program from the three perspectives, with consistently higher cost-benefit ratios for the Adult Program. However, these estimates are based on the rather heroic assumption that the differences in earnings between WIA recipients and the comparison group endure over the course of a lifetime.

Hence, Heinrich's conclusions about WIA's cost-benefit ratio seem applicable to both studies:

the Adult program clearly satisfies a benefit-cost standard for both men and women if the earnings impacts continue for a period of just two or three years, which *seems plausible* (emphasis added). In contrast, using our best estimate of the impact on earnings for the Dislocated Worker program, in order for benefits for women to exceed costs, the improvement would need to be long lived, and estimated benefits for men could never cumulate to exceed costs at any reasonable interest rate."<sup>5</sup>

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In my opinion, Hollenbeck and Heinrich find that WIA has severely limited success, at best. Even if one accepts the findings of their nonexperimental studies, *average earnings after participating in the program are only about \$16,000 per year, not nearly enough to be self-sufficient.*

Barnow and Smith (2008) provide what I think is a reasonable summary of job training programs in general:

. . . most employment and training programs have either no impact or modest positive impacts. Many do not pass careful social cost-benefit tests, though some that fail may be worth doing on equity grounds. Existing evaluations have important analytic

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<sup>5</sup> Carolyn Heinrich, Peter R. Mueser, Kenneth R. Troske, Kyung-Seong Jeon, and Daver C. Kahvecioglu, "Net Impact Estimates for the Workforce Investment Act Program" in *The Workforce Investment Act: Implementation Experiences and Evaluation Findings* (Kalmazoo, MI: W.E. Upjohn Institute for Employment Research, forthcoming).

limitations that bias them in favor of programs with short-term impacts and large spillover effects on non-participants via displacement or price changes.<sup>6</sup>

We need to be able to do better—and should be able to do so

### **Conclusions and recommendations**

So, what does it all mean?

1. Based on the full job training literature, as well as the Heinrich and Hollenbeck studies, I conclude that it is unlikely that either WIA's Displaced Worker or its Youth Programs now pass a cost-benefit test *for taxpayers*. Worse, they seem to do little for participants, and may even lower their earnings.

2. On the same basis, I also conclude that, if WIA's Adult Program does actually pass a cost-benefit test for taxpayers, it barely does so—although many other analysts might disagree. While the Adult Program may improve earnings, it does not have sufficient impact to meet the needs of today's unemployed.

3. Why are WIA's impacts so disappointing? Some will blame the trainees, saying that WIA and other federal job training programs do not work because the trainees have such deep-seated problems that they are difficult to help. Especially for the youth in the program, that is surely part of the problem.

5. But after reviewing almost two decades' worth of GAO reports, one comes away with the inescapable conclusion that we have not created and monitored the kind of job training program that the unemployed and disadvantaged so severely need. The fact that so little effort has been made to understand WIA's operations, let alone its impact, speaks volumes about our lack of national commitment to provide quality job training.

I believe that this justifies major rethinking of the program, and would recommend the following:

1. Combine at least some of the forty-seven or so federal job training programs. (Also re-think the relationship with Pell Grants, student loans, etc., as well as to Unemployment Insurance and Temporary Assistance for Needy Families.)

2. Give states greater flexibility in the WIA services that they provide, and how they do so.

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<sup>6</sup>Burt S. Barnow and Jeffrey A. Smith, "What We Know About the Impacts of Workforce Investment Programs," (paper prepared for Strategies for Improving Economic Mobility of Workers, Chicago, November 15–16, 2008), 13.

3. Require cost-sharing on the part of states and communities to encourage responsible planning of services. (Given the financial situation of the states, this might have to be phased in in some way.)
4. Allow trainees more say in how they are trained (through greater use of ITAs) and means-test the benefit (on a sliding scale) so that trainees become more responsible consumers.
5. Most important, initiate a true search for approaches to training and training management that work: Impose true performance measures and use the results, not to penalize states, but as a means of discovering approaches that seem to work better than others. Then, encourage other states (or local programs) to try them under conditions where they can be rigorously evaluated.

WIA's performance measures, and those of JTPA before it, have been widely criticized, and I recognize how difficult it will be to develop a system that accurately monitors program activities. But that does not make them any less indispensable to a building a better program.

Thank you.