“BACK TO WORK: THE ADMINISTRATION’S PLAN FOR ECONOMIC RECOVERY AND THE WORKFORCE INVESTMENT ACT”

HEARING

BEFORE THE

COMMITTEE ON EDUCATION AND THE WORKFORCE

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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HEARING ON "BACK TO WORK: THE ADMINISTRATION'S PLAN FOR ECONOMIC RECOVERY AND THE WORKFORCE INVESTMENT ACT"

Wednesday, February 12, 2003

U.S. House of Representatives

Committee on Education and the Workforce

Washington, D.C.

The Committee met, pursuant to notice, at 10:30 a.m., in Room 2175, Rayburn House Office Building, Hon. John Boehner, Chairman of the Committee, presiding.

Present: Representatives Boehner, Ballenger, Hoekstra, McKeon, Johnson, Ehlers, DeMint, Isakson, Platts, Osborne, Wilson, Porter, Kline, Musgrave, Gingrey, Miller, Kildee, Owens, Payne, Andrews, Woolsey, Tierney, Sanchez, Kucinich, Holt, Davis, Case, Grijalva, Majette, Van Hollen, and Ryan.

Staff present: Stephanie Milburn, Professional Staff Member; Travis McCoy, Legislative Assistant; Sally Lovejoy, Director of Education and Human Resources Policy; Krisann Pearce, Deputy Director of Education and Human Resources Policy; Whitney Rhoades, Professional Staff Member; Ed Gilroy, Director of Workforce Policy; Molly Salmi, Deputy Director of Workforce Policy; Christine Roth, Workforce Policy Counsel; Jo-Marie St. Martin, General Counsel; Kevin Frank, Professional Staff Member; Dave Schnittger, Communications Director; Kevin Smith, Senior Communications Counselor; Brady Newby, Communications Specialist; Deborah L. Samantar, Committee Clerk/Intern Coordinator.

John Lawrence, Minority Staff Director; Mark Zuckerman, Minority General Counsel; Cheryl Johnson, Minority Counsel; Michele Varnhagen, Minority Labor Counsel/Coordinator; Peter Rutledge, Minority Senior Legislative Associate/Labor; Maria Cuprill, Minority Legislative

Associate/Labor; Alex Nock, Minority Legislative Associate/Education; Dan Rawlins, Minority Staff Assistant/Labor; Daniel Weiss, Special Assistant to the Ranking Member.

Chairman Boehner. The Committee on Education and the Workforce will come to order.

We're meeting today to hear testimony on “Back to Work: the Administration's Plan for Economic Recovery and the Workforce Investment Act.” Under Committee rule 12(b), opening statements are limited to the Chairman or Ranking Minority Member of the Committee. Therefore, if other Members have statements, they will be included in the hearing record.

And with that, I ask unanimous consent for the hearing record to remain open for 14 days to allow Members' statements and other extraneous material referenced during the hearing to be submitted for the official record. Without objection, so ordered.

OPENING STATEMENT OF CHAIRMAN JOHN BOEHNER, COMMITTEE ON EDUCATION AND THE WORKFORCE

Let me start this morning by welcoming our distinguished guest today, the Secretary of Labor, Elaine Chao, and I also would like to welcome my counterpart, the gentleman from California, Mr. Miller, and the other Members of our Committee.

During his State of the Union address, President Bush laid out a comprehensive plan to speed our economic recovery and promote long-term job growth and investment. His plan also provides specific assistance, in the form of personal re-employment accounts, to help unemployed Americans who are struggling to return to work.

At a time when the economy is struggling but also improving, it is important that we focus on giving the unemployed more flexibility and choices in their employment search. And even though the most recent Labor Department statistics reveal that unemployment is down to 5.7 percent this month, we still need to examine new ways to help working families across this country during the time when they need it most.

On January 29th, Congressmen Jon Porter, Buck McKeon, Todd Tiahrt, and others introduced the Back to Work Incentive Act, which reflects the President's plan to create these accounts, and aid unemployed workers who need the most help in getting back to work. I am pleased to be a co-sponsor of this important measure.

The Back to Work Incentive Act represents a new and innovative approach to helping the unemployed get back on their feet. As President Bush has said, one worker out of work is one too many, and his plan will help working families in times when they need it most.

Now, workers can use the Back to Work accounts for a variety of services to help them find a good job, including job training, child care, transportation, housing assistance, and other expenses in helping find a new job. Recipients will be able to keep the balance of their $3,000 back to work account as a cash re-employment bonus if they become re-employed within 13 weeks, creating an important incentive to return to work quickly. The more quickly a job is obtained, the larger the re-employment bonus will be.

States such as Iowa, Pennsylvania, and Washington have experimented with personal re-employment accounts, and the results have been very positive.

One of the exciting aspects of the new Back to Work accounts is that they empower individual recipients to make choices appropriate for their own circumstances. Recipients will be able to create re-employment plans that help them navigate all the options available -- such as career counseling or training for a new profession in which they can be employed. By providing choice and flexibility, we can get people back into a steady, good-paying job as quickly as possible.

This new benefit supplements and enhances the services that are already available for those who are most likely to face obstacles in finding and keeping new employment. These Back to Work accounts will not only provide the unemployed with another important benefit in helping them find a new job, but will be efficiently administered through the easily accessible One Stop Career Center system, established through the Federal Workforce Investment Act (WIA).

The Workforce Investment Act (WIA) and the one-stop delivery system it created represent the nation's primary investment in workforce development. WIA assistance is vital to helping workers find new or better jobs in this time of economic recovery. Through the one-stop delivery system, job seekers have access to labor market information, job counseling, and job training to help them get back on their feet. In addition, they have access to numerous other federal programs that provide services to job seekers. These Back to Work accounts will be an important new benefit that will be offered seamlessly and efficiently through the WIA delivery system.

The 21st Century Competitiveness Subcommittee, chaired by Congressman Buck McKeon, will lead this Committee's efforts to reauthorize the Workforce Investment Act this year, and will focus on improving the system to help achieve the original vision of the law when it was enacted in 1998, which was to create a seamless workforce development system for workers and employers.

While we expect to move the Back to Work Incentive Act as a stand-alone bill, we also expect to address the President's proposal as part of our efforts to reauthorize WIA. Particularly during a sluggish economy, WIA programs can play a role in helping Americans get back to work, or retain for new jobs.

I look forward to working with President Bush, Subcommittee Chairman McKeon, Congressman Porter, Secretary Chao, and my friends on the Democrat side of the aisle to move this proposal quickly and make this innovative plan a reality for working families who need the help the most, and certainly they need it quickly.

I now yield to my friend and Ranking Member of the Committee, George Miller.

WRITTEN OPENING STATEMENT OF CHAIRMAN JOHN BOEHNER, COMMITTEE ON EDUCATION AND THE WORKFORCE – SEE APPENDIX A

OPENING STATEMENT OF RANKING MEMBER GEORGE MILLER, COMMITTEE ON EDUCATION AND THE WORKFORCE

Thank you, Mr. Chairman. Madame Secretary, welcome back to the Committee. We look forward to hearing your comments today regarding the President's proposal for personal re-employment accounts. The question we will have, obviously, is whether or not this proposal meets the demands that are being placed on unemployed workers today in our current economy.

This proposal comes at a time when working families are facing a weak economy, wracked by job insecurity, unemployment, corporate malfeasance, and battered retirement savings. By almost any measure you can think of, for wages, job security, retirement security, middle-class Americans are worse off today than they were two years ago, or at any time in the past decade.

It's not a question of whether we have one unemployed worker in this country, which would be too many for the President; we have 8 million unemployed workers in this country. And minority and women workers have been particularly hard hit. More than 1 million workers, 1 million individuals, many heads of households, have exhausted their federal unemployment benefits and cannot find work. The number of workers unemployed for more than 15 weeks has increased almost 140 percent in the two years since you took office.

The paycheck for America's most vulnerable workers, those making the minimum wage, will soon be at its lowest value since the Eisenhower administration a half a century ago. And yet we have seen absolutely no leadership from the majority in this Congress or from the Bush Administration to provide these men and women with a decent increase in their earnings.

For some reason, this Administration and the Republican Congress can see fit to give $2 trillion in tax breaks to the wealthiest Americans during this recession, and during a time of impending war, but we can't give 75 cents an hour to the poorest workers in this nation this year.

The precipitous drop in the stock market over the past two years has cost employees over $175 billion in 401(k) investments and assets. Thousands of these employees who lost hundreds of millions of dollars of irreplaceable life savings and retirement benefits due to corporate fraud and abuse, are still awaiting help from the Department of Labor to recoup their losses more than a year later.

Corporate pension plans' under-funding have reached a staggering level of $300 billion. This requires that the Department of Labor immediately address the serious problem that threatens the retirement security of tens of millions of Americans. The public Pension Benefit Guaranty Corporation, the agency that 44 million Americans rely on to pay their pensions if their companies are bankrupt, has record deficits close to $10 billion when accounting for future liabilities, and huge corporations are lining up to dump their pension burdens into this corporation every month as part of their bankruptcy bail-out plans. Most recently we see Bethlehem National, and the question is how soon will the airlines off-load their employees' pensions into the Pension Benefit Guaranty Corporation? This threat to the employees' pensions does not even take into consideration the threat to their health insurance benefits that are also under attack.

Not only is the federal treasury facing $300 billion in red ink next year and $2 trillion over the next decade as a result of the administration's irresponsible fiscal policies, but now state and local governments are confronting $85 billion in deficits, forcing cuts in health care, child care, education, and training, and tomorrow this Congress will add $11 billion to the burden of those states with the passage of the Welfare Reform Bill.

The American public is starting to understand that this Administration and this Congress have turned a deaf ear to the worsening economic security of millions of Americans worried about their jobs, their families, and their retirement security. There is no additional help for more than 1 million workers who have exhausted their federal unemployment benefits and can't find work. There is no support for a modest increase in the minimum wage. There is vigorous opposition to the rights of working people to join unions, as demonstrated in the cases of the Department of Homeland Security and the baggage handlers and others at our airports.

Failures by the Department of Labor over the last 15 months, since the beginning of the investigation of Enron, to try and recover hundreds of millions of dollars in retirement investments lost due to corporate fraud and abuse, the promotion of unsound and unfair pension changes, like the cash balance conversions that could impoverish millions of middle-aged and older employees, and the investment advice proposal that former SEC Chairman Arthur Levitt says violates the one bedrock principle of investing.

Given this record, I am at a loss to see how the Bush Administration's proposal for re-employment accounts speaks to the deep underlying problems facing working men and women in this dreadful economy. How will these accounts help the 1 million workers who have already exhausted their federal extended benefits? How will they help workers find jobs in communities where no work is available? And how will this Department respond to the report by the previous Bush Administration that concluded that these accounts do very little for workers who are living in areas of moderate or high unemployment, of which there are now millions of Americans that share that burden.

I am eager to hear your testimony today, Madame Secretary, but I must say that I am very concerned about this Administration's lack of attention to the welfare and the well-being of millions of middle-class working families who still see their livelihoods and their retirements threatened by this economy and by the inability of this Administration to respond to their needs. Simply cutting off people's benefits and not giving them additional work is not going to provide the kind of economic recovery that this nation needs and this nation's families want so dearly. Thank you very much.

Chairman Boehner. Before I introduce the Secretary, let me take a moment to welcome the newest member of our Committee, Phil Gingrey, of Georgia.

Dr. Gingrey was elected to our Committee last night. He is an OB/GYN, a former Marietta school board member, and most recently served in the Georgia State Senate from 1998 until he was elected to Congress this November. He will serve on the Subcommittee on Select Education and the Subcommittee on 21st Century Competitiveness. I want to welcome Dr. Gingrey to the Committee.

It's now my pleasure to introduce the Secretary of Labor, Elaine Chao. Secretary Chao is the nation's 24th Secretary of Labor, and is a champion of the nation's contemporary workforce. She has worked to focus the Labor Department on the modern realities of workers' lives.

Prior to assuming the position of Secretary, she was a director of the Peace Corps, and later President and Chief Executive Officer of United Way of America. Secretary Chao's previous government experience includes Deputy Secretary at the U.S. Department of Transportation.

In addition, her business experience includes positions at Bank of America, Capital Markets Group, and Citicorp. And prior to her nomination as Secretary, she was a distinguished Fellow at the Heritage Foundation. Secretary Chao received her MBA from the Harvard Business School and her undergraduate degree in economics from Mount Holyoke College.

Before the Secretary begins her testimony, I want to remind all the Members that we will impose a five-minute limit on questions. The Secretary is only with us for a short time today, and she must excuse herself at noon. So I would ask Members to be mindful of the clock.

And with that, Madame Secretary, welcome and you may begin.

STATEMENT OF ELAINE L. CHAO, SECRETARY OF LABOR, U.S. DEPARTMENT OF LABOR, WASHINGTON, D.C.

Good morning, Mr. Chairman, Congressman Miller, and Members of the Committee. Thank you for the opportunity to testify on the provisions of the President's economic growth and jobs package that will help workers with immediate benefits and long-term opportunities.

I want to commend you and the Members of this Committee for your leadership in introducing the Back to Work Incentive Act, H.R. 444, which would establish personal re-employment accounts for an estimated 1.2 million workers.

I would also like to describe some of the innovative changes we proposed to the workforce investment system through reauthorization of the Workforce Investment Act of 1998. I will summarize my statement, Mr. Chairman, but ask that my prepared statement be included for the record.

Last month, President Bush announced a comprehensive growth and jobs package to stimulate spending, promote investment, create jobs, and deliver critical help to unemployed workers. If enacted, his plan will help create 1.4 million jobs by the end of 2004.

I think we all agree that current unemployment rates, while low by historical standards, are still too high. Our goal is to preserve the hard-won gains the economy has made, to speed up growth and create more jobs in both the short term and the long term.

One of the unique features of the President's economic recovery plan is its new approach to addressing current unemployment through personal re-employment accounts. These are worker-managed accounts of up to $3,000, and they can be used to purchase a variety of re-employment services, including training, counseling, childcare, and transportation.

Re-employment accounts will empower individuals by giving them more flexibility, personal choice, and control over their job search. These accounts also have a re-employment bonus. Workers who find a new job within 13 weeks will be able to keep the cash balance in their personal re-employment accounts to assist them in transitioning back to work.

These personal re-employment accounts will be administered by the states through the local One-Stop Career Centers. And the President's proposal would provide $3.6 billion in additional resources to the states to fund these personal re-employment accounts over two years so that there will be no duplicative infrastructure that will be needed.

As we entered the 21st century, our nation's workforce faced three major challenges: globalization, technological advances, and demographic changes. So we need long-term strategies, as well, to prepare workers for good-paying jobs in the labor market.

This Committee has already recognized the importance of these challenges through its hard work on the Workforce Investment Act of 1998. Our goal is to continue to develop the One-Stop Career Center delivery system into a cohesive workforce investment system that responds quickly and effectively to the changing needs of our population and our economy.

The Administration's proposal for the Workforce Investment Act reauthorization would be based on five key principles. We want to one, strengthen the governing structure of the workforce investment system by streamlining the membership and mission of state and local workforce investment boards. Two, we want to support a more comprehensive operation with available services through the One-Stop Career Centers. Three, we want to improve adult services by consolidating adult dislocated workers and employment services funding streams into one network. This will increase customer accessibility, as well as state flexibility in responding to local economic conditions. Fourth, we want to better serve at-risk youths by targeting resources to out-of-school youths in both urban and rural areas. And fifth, we want to ensure greater accountability by focusing on the most important outcomes, and eliminating burdensome and duplicative requirements at the state and the local levels. All federal job-training programs will be measured by the same performance standards.

The President's proposals recognize that investments in the workforce are a key part of economic growth. I believe that these proposals are key to ensuring that our nation's workforce remains the most highly skilled and competitive in the world. I look forward to working with you, Mr. Chairman, and this Committee as we move forward.

STATEMENT OF ELAINE L. CHAO, SECRETARY OF LABOR, U.S. DEPARTMENT OF LABOR, WASHINGTON, D.C. – SEE APPENDIX B

Chairman Boehner. Madame Secretary, thank you for your testimony, and thank you for your willingness to come and speak with all of us today.

Some are saying that the re-employment bonus that we're talking about in the Back to Work accounts encourages individuals to take the first available job, instead of waiting for the best job. In your testimony that you submitted, you refute this argument by citing evidence from pilot programs showing individuals generally found comparable jobs. Plus someone who chooses to take the job bonus funds obviously has that money and can use it for their own family needs.

Is it true that for some individuals labor market attachment can help them advance, suggesting that it's important to become re-employed quickly?

Secretary Chao. We believe so. Now, let me just refer to the pilot programs that you mention. Indeed, our results from the pilot program show that they are helpful in getting people back to work. We had five pilot programs in four states, and they worked out very well.

On the bonus issue, it's not as if a person can get a bonus right away. Basically, they will receive 60 percent of the bonus upon getting a job, then 40 percent if they stay on the job for six months.

We don't believe that workers would just take the first job that they find, and that's what the whole beauty of the personal re-employment account is. It will give them more choice to select the kind of training that is currently not available within the One-Stop Career Centers. So there is a great deal of investment by the individual in the kind of training they want in order to get the job that they want. So we feel that the re-employment account is actually an incentive to get better training.

Chairman Boehner. How would the states and the local One-Stops choose which employees would be eligible for these Back to Work accounts?

Secretary Chao. We want to help those who are most at-risk and who have been the harder to place. There will be an ongoing effort with the states to come up with certain criteria that will target at-risk and hard-to-place workers, those who are about to exhaust their extended unemployment benefits, and also those who are working in industries that are obviously impacted by trade, or have a difficult time.

Chairman Boehner. We have heard from businesses that incumbent or current worker training is critical for both lay-off aversion and for businesses to remain competitive. However, many small businesses do not have the capability to train their employees, or to retrain them.

Will the Administration's WIA reauthorization proposal increase opportunities to provide incumbent worker training?

Secretary Chao. We have a wonderful workforce investment system that the American taxpayers have invested approximately $12 billion a year in. It offers counseling, job placement services, skills assessment, resume writing, and workshops. For workers who are currently employed and are thinking about other opportunities, these services are available to them, as well. And for workers who are currently out of work, or who may have exhausted their unemployment insurance benefits, they too can avail themselves of core services at these One-Stop Career Centers.

Chairman Boehner. Consolidating the adult dislocated workers and the unemployment services funds could simplify what is now a complicated administrative structure and allow more flexibility to address local circumstances. How do you envision this combined funding system? How do you envision that this will improve services to workers and to businesses?

Secretary Chao. The combined funding is a plus-plus for the state and local entities. Our department receives a lot of requests for waivers because one stream of funding has expired and the needs still exist. That is a timely process.

We want the state and local entities to be able to have more discretion and flexibility with which to tap different funds to meet local conditions in order to help local people in their communities. This increased flexibility will enable them to do that.

Chairman Boehner. Mr. Miller?

Mr. Miller. Thank you. Madame Secretary, has the money for this program been identified yet in the budget?

Secretary Chao. Legislation has to be passed first, and then there will be appropriate monies and funding that will go along with it.

Mr. Miller. So that would be when?

Secretary Chao. Well, as soon as you are able to pass this bill.

Mr. Miller. Do you envision that in this budget year?

Secretary Chao. This will be fully funded. Yes, we certainly hope so, because there are people waiting for this money.

Mr. Miller. But the President's budget doesn't make any room for this.

Secretary Chao. It will have to be some kind of a supplemental.

Mr. Miller. Okay. So we can envision seeing that $3.6 billion in a supplemental at some point?

Secretary Chao. Yes, it will be discrete and above the $12 billion that we currently fund the workforce investment system with.

Mr. Miller. As I understand this, we will use the existing profiling system in all states to try and identify those people who are most likely to exhaust their benefits.

Secretary Chao. Yes.

Mr. Miller. And then they would be selected.

Secretary Chao. We will work in conjunction with the states on defining what these criteria will be. But the principle and the goal are to target these harder-to-place workers, and to help them.

Mr. Miller. Now, it's my understanding that there is no real correlation between the so-called profiling score and those individuals at risk for long-term unemployment. It really hasn't delivered a high level of reliability in terms of the people that it has identified. What actually happens to those individuals, and certainly not in high unemployment areas? Several evaluations have been done and it's not a one-to-one correlation.

Secretary Chao. We have a very good idea through the workforce investment system.

Mr. Miller. But that's not what the evaluations say.

Secretary Chao. Well, the evaluations will be looking at workers who are about to exhaust their unemployment insurance benefits. And again, we need to flesh this out more in conjunction with the states. It would be looking at workers who are about to exhaust their extended unemployment insurance benefits, because there have been two extensions of unemployment insurance benefits already.

Mr. Miller. I don't understand then. When is the worker selected and identified to take advantage of this program? They come in, they have lost their job, and they file for unemployment.

Secretary Chao. Right.

Mr. Miller. Are they identified at that stage?

Secretary Chao. No, this will be separate although there is the capability to do that. The U.S. Department of Labor would work with the state and local boards.

Mr. Miller. No, I understand that, but do I have to be in high likelihood of exhausting my benefits?

Secretary Chao. No, you can use the workforce investment system if you are.

Mr. Miller. I understand that. When does this $3,000 come into play? Is it the end of my term of unemployment?

Secretary Chao. No, it comes right at the beginning. If you are qualified you will be notified.

Mr. Miller. Pre-screened, profiled?

Secretary Chao. You will be notified. Then you come in and you can get the $3,000.

Mr. Miller. If I take the $3,000, and if I get a job, I can put the rest of the money into my account, and I can use that for whatever purposes I want, right?

Secretary Chao. There will, of course, be accountability measurements.

Mr. Miller. Right, I understand, I understand. We will assume everybody here is honest for a minute.

If I exhaust the $3,000, can I come back and take advantage of other unemployment programs?

Secretary Chao. If you exhaust the $3,000, you can come back and use core services, but not the intensive services. Core services that are available within the One-Stop Career Centers are for example; resume writing services, other workshops, or counseling.

Mr. Miller. So if the $3,000 doesn't work out then, I am precluded from the intensive training programs.

Secretary Chao. Yes, because the rationale there is that you would have bought other services elsewhere.

Mr. Miller. But if it doesn't work out, and I still don't have a job, and I'm trying to feed my family, then I'm done.

Secretary Chao. No, you can come back and use the workforce investment systems' core services. There are still core services available. You can use the counselors, workshops, resume-writing services, work with the computers, do all that. That is still available.

Mr. Miller. Alongside all the other people who still can't find work.

Secretary Chao. It's interesting, but in this economy, 40 percent of workers find a new job within six to seven weeks. Our economy is churning constantly.

Mr. Miller. Yes, except the number of people who are unemployed for longer periods of time continues to expand.

Secretary Chao. And we're concerned about them, which is why we want to offer this re-employment service.

Mr. Miller. Let me ask you this. Since the profiling really doesn't have that kind of correlation, or that kind of reliability, why aren't you helping people who we already know have exhausted their benefits?

Secretary Chao. People who have exhausted their current benefits have had two extensions so far, so they have had their normal unemployment insurance benefits of 26 weeks, an extension of 13 weeks, and an additional extension up to May.

Mr. Miller. Yes.

Secretary Chao. So that's more than a year of unemployment insurance benefits.

Mr. Miller. So what's your theory, that that's enough for them? Excuse me; these people are without a job, Madame Secretary. It's not whether they have 26 weeks or 13 weeks of unemployment.

Secretary Chao. What I'm saying is that we have a workforce investment system that they can access. There is still help available. And in fact, these services of finding a new job are still there. They are available to everyone and anyone who wants to find a new job.

Mr. Miller. But let me just finish here, Mr. Chairman. As I understand the presentation of this program, this is a belief that this option, which sounds in many ways very positive, is best for those people who are most likely to exhaust their unemployment benefits, and we have a pool of one million people who have already exhausted their unemployment benefits. Why aren't we offering this to those people who are desperately in need of what this program offers to try to get them back on their feet and able to provide for their families?

Secretary Chao. Well, within one of the provisions of this bill, which you are about to consider, it does go back and pick up people who have exhausted their unemployment insurance within the last three months, prior to enactment.

Mr. Miller. I understand that. But if this bill becomes law in September, anybody who has exhausted their benefits before June is out of the pool?

Secretary Chao. They can still access the $12 billion of workforce investment core services.

Mr. Miller. Yes, they have been doing that for 26 weeks, and they haven't found a job. I understand, you know.

Secretary Chao. Well, it's 26 weeks, plus 13 weeks, plus another five months.

Mr. Miller. Most people are very diligent about trying to get back into the workforce.

Chairman Boehner. The gentleman's time has expired. The Chair recognizes the gentleman from Texas, Mr. Johnson.

Mr. Johnson. Thank you, Mr. Chairman. Thank you, Secretary Chao. I would like you to continue to explain what you were just trying to explain when you were cut off; 26 weeks is not the end of the road. Would you like to comment on that more fully?

Secretary Chao. The President had an economic package in 2002. It was called the Job Security Program, and among its many provisions was an extension of an additional 13 weeks of unemployment insurance benefits. And on January 8th of this year, he asked for and received another extension to May of this year for unemployment insurance. So it's 26 weeks, plus 13 weeks, and then another segment from December 28th of 2002 to May of 2003.

Mr. Johnson. You got it. Nobody is left out in the cold. And in my visits with some of the local workforce boards, in Texas at least, they're doing a great job.

You state in your testimony that streamlined local boards would be able to focus more on strategic planning and policy development activities. Could you expand on what the Department's vision is for local boards, and how that planning will improve the delivery of services?

Secretary Chao. Yes, thank you. Our goal is to make these services easily accessible and usable by the client. And so we hope to work with the workforce investment boards at both the state and local levels so that there would be greater clarification of the mission with the aim of streamlining the governing structure so that the clients will find it easier to use the many services that are available in the system.

Mr. Johnson. And do you get good cooperation with the local authorities around the country?

Secretary Chao. Some more so than others. But it's a great system, and it offers tremendous resources.

Mr. Johnson. No complaints from Texas, I hope.

Secretary Chao. No.

Mr. Johnson. You suggest improving upon individual training accounts by making them more flexible and responsive to individual needs. Could you elaborate on the changes necessary to accomplish that goal?

Secretary Chao. Right now, the workforce investment system offers an array of training programs through a list of pre-approved providers. It's kind of like an HMO. If you want training, you have to go to one of these pre-approved contractors for training. And if they do not offer a training program that you want, you have to settle for something less than what you had wanted.

The whole goal of the personal re-employment accounts is to allow the individual to find the training program that he or she wants. Because we find that a number of major entities in workforce training, for example the community colleges, do not participate in the Workforce Investment Act system because of overly burdensome requirements. For a whole host of reasons, the community colleges, and vocational education schools have opted out of the training system and therefore many training programs are not available.

The personal re-employment accounts empower the individual, and give them a choice so that if they find a course that they like, even if it's not from a pre-approved provider within the workforce investment system, they can go and purchase the training that they want with that $3,000 to get the job that they want.

Mr. Johnson. Yes, that's great. You have also proposed creating youth challenge grants that would be used, I guess, to support activities in a non-school setting that lead to high academic achievement.

Could you provide examples of such activities, and would the grants be available to address the needs of in-school youth?

Secretary Chao. Absolutely. We have a great deal of concern with giving young people hope and inspiration and a view for the future. And so these kinds of programs keep them on the right path, set them up with good counseling and people that they can consider mentors, and hopefully they will be on the path to getting better jobs and greater fulfillment.

Mr. Johnson. And become great Americans.

Secretary Chao. Yes.

Mr. Johnson. Thank you. Thank you, Mr. Chairman.

Chairman Boehner. Before I introduce the gentleman from Michigan, let me take a moment to congratulate our colleague from Texas, Sam Johnson, who, 30 years ago today, was released from prison camp in Vietnam. Sam served our country for 29 years in the Air Force, and it included some seven years as a prisoner of war. Thank you.

[Applause.]

Mr. Johnson. Thank you, Mr. Chairman, and all of you. You know, we have the greatest nation in the world, and I would go back and do it again tomorrow, if I needed to. Thanks again.

Chairman Boehner. Mr. Kildee you are recognized for five minutes.

Mr. Kildee. I yield to Ms. Sanchez.

Chairman Boehner. The gentlelady from California is recognized for five minutes.

Ms. Sanchez. Thank you, Mr. Chairman. Good morning, Madame Secretary. Thank you for coming over and talking to us, in particular, about a new concept with respect to these personal accounts. I have a question for you.

Mr. Miller was talking about the fact that we don't do a very good job of profiling who is really going to be on unemployment longer, or out of a job longer than we thought, or maybe people that we thought were going to be out of a job get it real fast. Do you know what the statistics are on our ability to really guess ahead of time what the opportunities are for people who are unemployed?

Secretary Chao. I don't have that information, but I can get it for you.

Ms. Sanchez. Okay. I would like to see that information, please.

Secretary Chao. Basically in the past year alone, we have invested $71 billion in unemployment insurance.

Ms. Sanchez. Yes. The reason I ask is because I have been here as we have been extending the unemployment benefits for families, including a very desperate situation many of my families found themselves in on December 28th, a couple of days after Christmas, when the leadership of this House failed to get an agreement on passing a new extension.

And so I was happy to see that we worked on that, and hopefully we will get another extension, because a lot of workers are out of work. And I think they are out of work not necessarily because they don't have the skills or training, but because we are not creating the jobs in this economy.

In fact, I was over the other day at my One-Stop, and I ran into a gentleman who has been unemployed for a year. He used to have a manufacturing job. That factory moved; the production is now done in China. He told me he has exhausted his unemployment benefits, he is using the core benefits, but he has no extension of benefits, and he has no financial stability in his family, because he has not been able to find a job.

Does this Administration plan on putting forward another extension if, in fact, we still have such high unemployment going on in our country in the next few months?

Secretary Chao. I think it's important to note that while we all want to help people who are having a hard time out of a job, the best thing for them is to help them find a job.

And you are absolutely right, job creation is important. And that's why this President has focused a great deal on economic issues and on job creation. That's why we had the economic job security program of 2002.

The President has fought corporate fraud and abuse by asking for the passage of the Corporate Accountability Act. The President has also signed off on the Terrorism Assurance Act, which will create about 360,000 jobs by the Teamsters' own account.

We have asked for passage of the energy bill, which will also provide for increased job creation. And the President's economic growth package, as announced last month, will spark an environment through which new jobs can be created, and that includes helping small businesses, which is the engine of growth in our economy.

Ms. Sanchez. Madame Secretary, just because I only have a limited amount of time, with all due respect, in 2001+ there were 1.7 million jobs lost in this economy. And just this past January, the month that we have just passed, we have had announcements from major employers that they plan to eliminate over 132,000 jobs. Just in this past month that's what we're hearing. So the economic stimulus package we know now is not working.

But aside from that, we've got people who are out of work. What you are proposing is that, ahead of time, when people come to unemployment they're going to be profiled, and all of a sudden it will be decided if they are going to get unemployment and get the special account.

Isn't it true that if we're profiling them to be the hardest to place, are you telling me that $3,000 is the maximum that we now spend on hard-to-place people, or people who have problems getting a job, or who need extra training, or who have language barrier skills? Is $3,000 the maximum we ever spent on somebody who is one of those profiled?

Secretary Chao. No, for TAA, in fact, it's a little bit higher than that.

Ms. Sanchez. So it costs more than that?

Secretary Chao. The $3,000 is on top of everything else that has been already invested in a worker.

Ms. Sanchez. What happens is some people get out earlier, they find a job faster, et cetera, and so you use the mean. And therefore, the people who are the hardest to place are actually the ones who are using more than $3,000 worth.

What you are doing to these people is saying ahead of time, “we don't think we are going to be able to help you find a job as fast as the mean of the group, or even the forward piece of the bell curve.” And so what would you say about the fact that you're only allowing $3,000 for the people who are actually the hardest to place?

Secretary Chao. This is $3,000 on top of all the other services that are available to these individuals. So this is again, if I can emphasize, on top of all the services that are available.

The other thing that is worthwhile to mention is that we want to get these people back to work as quickly as possible, because the workplace changes. So the goal should be to get these people back to work, by giving them the training to get back to work.

And going back to your economic issue, again, you're absolutely right. This nation lost 1.7 million jobs in 2001, and it was because of the attacks of September 11th. The stock market peaked in March of 2000. The manufacturing sector began to decline in August of 2000.

When this Administration entered office, we saw three quarters of negative growth. We were just coming out of it when the attacks of September 11th occurred, in which approximately 1.7 million jobs were lost. And the average unemployment rate in the last decade was 5.7 percent, which is the unemployment rate of the last month.

Chairman Boehner. Thank you.

Mr. DeMint?

Mr. DeMint. Thank you, Mr. Chairman.

Madame Secretary. I want to thank you, and congratulate the Administration on looking at this problem in a different way, by maintaining the safety net for unemployed workers, and recognizing that skill development, wealth creation, and well-directed incentives are what we need to develop our workforce and help workers in this country. I believe the plan creates more choices for workers in their training, as you have outlined, and more competition between the services, which, again, I think will provide better training for workers.

As you see this program being implemented, have you thought through how we're going to track it at the federal level to determine the success of making sure folks aren't falling through the cracks? How we will determine, six months out, whether or not this new program is really working?

Secretary Chao. We have. We have one of the best workforce investment systems in the world, and we will use the infrastructure of the One-Stop Career Centers to help us track, and also monitor success.

Our success is defined very simply. Number one, we want to place more people in good-paying jobs. And number two; we hope that more will be able to get off unemployment insurance, because they no longer need it, and that they will be able to get new jobs.

Mr. DeMint. Thank you, Mr. Chairman. I yield back.

Chairman Boehner. Thank you very much.

Mr. Case?

Mr. Case. Thank you, Mr. Chairman.

Madame Secretary, I'm happy to hear of your alma mater, having spent a fair bit of time there, although probably before your time there.

I'm just trying to understand the math here. You have three figures basically, \$3.6 billion proposed. You had a maximum of \$3,000 intended to serve at least 1.2 million unemployed workers. The \$3.6 billion, I think it says here, is in one year but intended to be spread over two years. Right?

Secretary Chao. Right.

Mr. Case. Okay. And I assume that since the states are, as I understand it, under no restrictions with the \$3,000, they're going to max out, if they can. So the \$3,000 is a given. Is that correct? The states can spend the \$3,000?

Secretary Chao. Yes, up to \$3,000.

Mr. Case. Right. But why wouldn't they spend the \$3,000?

Secretary Chao. We would not imagine that they would not.

Mr. Case. Right, exactly. So is that how you got the math to get the states serving at least 1.2 million people? Because I think that's the math, 1.2 million X \$3,000 = \$3.6 billion.

Secretary Chao. Right.

Mr. Case. Which came first, the \$3.6 billion or the 1.2 million workers, or the \$3,000?

Secretary Chao. We were trying to find a number that would seem reasonable, and would offer some impetus for people to look at this account in an attractive fashion. So it had to be a large enough number.

And yet we also wanted it to be a responsible number, to be sufficient to respond to the needs of the individual. So \$3,000 is approximately the amount that is spent for workers who access the workforce investment system, on average. There will be those who will, of course, use less; there will be others who will use more. But that's about, on average, how that came out.

Mr. Case. So you started with the \$3,000.

Secretary Chao. Yes.

Mr. Case. So you say the accounts are targeted at those newly unemployed workers, eligible for at least 20 weeks of UI. Do you estimate that figure at 1.2 million, or are there more than that amount that you're trying to serve?

Secretary Chao. I'm less certain about that answer. I think that was a number that we thought would be, again, a responsive number to try to respond to a more conservative estimate of the number of people who will be availing themselves of this funding.

Mr. Case. How many unemployed workers in our country right now?

Secretary Chao. We have approximately 4 million.

Mr. Case. Four million? What would be the reason the President wouldn't propose this for all 4 million?

Secretary Chao. I think for a number of reasons, primarily because all of them are currently able to access a $71 billion safety net program of unemployment insurance plus two extensions, plus the workforce investment system. So we, as a nation, invest about $71 billion in people who are out of work with unemployment insurance and with new training opportunities.

These personal re-employment accounts are given to those we think would access this program. We don't think all of those who are unemployed would necessarily access this program, because some of them are short-term unemployed. As I mentioned, 40 percent of workers in a very dynamic economy find new employment within about 6 or 7 weeks and become re-employed.

We had 52 million Americans last year, for example, who left their jobs either voluntarily or involuntarily. And we had 52 million Americans last year that found new jobs. So our economy is very vibrant, and it's churning all the time. The goal is to get people back to work at a job that they would like as quickly as possible, because otherwise, the workforce and the workplace just changes too rapidly.

Mr. Case. So you feel that the 2.8 million that you don't anticipate being covered by the proposal are not in need of this same attention, or there are other means to assist them.

Secretary Chao. They will have other resources available to them.

Mr. Case. And what would happen for the people that become unemployed from this point forward, because we've got 4 million today. You’re anticipating that you are going to serve 1.2 million of them through this program and we anticipate, don't we, that other Americans will become unemployed over the next two years.

Secretary Chao. Yes, but people will be going off the roles, as well. It's very dynamic. It's changing; it's churning all the time. So there will be people going off, people coming on. And for people who qualify, this is a two-year program, they will have a year with which to use that money.

Mr. Case. Thank you, Madame Secretary.

Chairman Boehner. Thank you.

Mr. Osborne?

Mr. Osborne. Thank you for being here today Madame Secretary.

I would just like to react briefly to a previous comment that the economic stimulus package was not working. As you pointed out, we have had what some have called “the perfect storm” with 9/11, a downturn in the economy, Middle Eastern crisis, corporate scandals, and so on. According to Alan Greenspan, who I believe is reported to be somewhat unbiased and non-partisan, that had we not had the previous economic stimulus package, we would probably have a worse situation than we have today.

Secretary Chao. Yes.

Mr. Osborne. I just thought I would like to comment on that, and I would like to commend you on the job that you have done to this point under difficult circumstances.

Also, I would like to mention that in the current proposed economic stimulus package that I believe the personal re-employment accounts are part of, we often hear it characterized as a tax break for the rich. These accounts, certainly, are not for the wealthy. This $3.6 billion goes directly to the states for people who most need it, and I think sometimes these types of arguments are overlooked in the whole process.

I think this is a good idea. It certainly streamlines, as you have mentioned, the delivery services through the states, there is no redundancy of delivery systems, and I think it provides a powerful incentive.

I would like to digress briefly and just ask you a quick question. I am not totally familiar with youth councils. I probably should be, but I am not, and I wondered if you could comment on what their function is, and how this relates to the overall package.

Secretary Chao. Youth councils are a wonderful concept. When I was president of the United Way of America, I had worked very hard to elicit more cooperation and participation of young people in United Way activities. We wanted young people to participate.

But under the Workforce Investment Act, which mandated the youth councils, it has not worked as well; they have been spotty. In some regions they have worked well, and in others they have not.

So, as we go forward with the reauthorization of the Workforce Investment Act, we would like to look at the youth councils and see whether they should be mandatory. If a local community wants to have a youth council, they certainly should have one. But if in other communities there is not the same interest, should the Federal Government direct and dictate that these local communities have youth councils? I think that's a valuable discussion that we want to have.

Mr. Osborne. Thank you. Mr. Chairman, I yield back.

Chairman Boehner. Thank you.

Mr. Payne?

Mr. Payne. Thank you very much.

Ms. Secretary, it's good to see you. Certainly this is a new concept. I wish I had more of an opportunity to read it. It kind of came at us suddenly. But I wonder, there was some talk about profiling the recipients, and I wonder what goes into profiling an individual to assess them, and what type of assessment?

And secondly, what kind of accountability system do we have to follow whether what is being prescribed is working? We know that currently there are actually 8-million unemployed. I think 4 million might have been mentioned, but the number is actually, from my statistics, about 8 million.

As we look at the profile of the accountability, and it's a $3,000 one-shot, it's good to have new money, but what about places where there is chronic unemployment, or the more difficult to place person, or an area that is really more economically devastated than another area; the level one shot, one amount, $3 million period per area. It seems that there is less emphasis on various regions of the country, and age groups of people, and problems that they may have.

So I just wonder how do we deal with those who will have a more difficult time, or a region that has a more difficult situation?

Secretary Chao. Well, first of all, I hate to use the word "profiling," but basically when new claimants come and file for unemployment insurance, they are assigned a counselor. They come into a One-Stop Career Center, or they call, or they go to the website. It's a very welcoming environment. It is not intimidating. We work very hard to make sure that that's the case.

They come and with assistance they fill out a kind of a profile of what they do and how long they have been out of work; we already have that information, but it's an update, as well. And our initial contact with the various experts in the unemployment insurance system indicate that this process works well, in terms of giving us a good idea as to who needs what services.

So, there is an extensive process by which people are received into the unemployment insurance and workforce investment system. And then based on where they're likely to live, where they are working, whether it's for a particular company that might be impacted by trade, or whatever, all of this is taken into account.

The issue about harder to place, long-term unemployed is an issue that we are all concerned about. But that's what the whole system of unemployment insurance benefits and the workforce investment system address as well.

We will, of course, want to help with transitional assistance, but the larger issue is how do we train them so that they can get back into the workforce, and then how do we make the economic conditions such that there will be new job creation.

So I think we are in agreement. We want to help these hard-to-place individuals. And I have confidence that the workforce investment system in which we have invested so much time and resources is up to the task of finding these individuals and helping them with their training and job opportunities. It will give them added flexibility, because right now, the One-Stop Career Centers may not offer training courses that are available to a long-term displaced person. But if they are able to purchase the training course that they want, which is not currently available in the one-stop career center, I believe that's a win-win for the individual, and for us who care about the person, as well.

Mr. Payne. Thank you very much. The accountability part is something that I am really concerned about.

Secretary Chao. We're concerned with accountability as well. I liked what Mr. Miller said, in that I think most people try to be honest, and we will go forward on that. But even so, if that is not the case, we do have the infrastructure. This is not a new program that is bereft of any infrastructure. We are distributing and deploying this new funding stream through the workforce investment system. So there are counselors, there are current and existing performance standards that can be tapped to watch over the disbursement and usage of funds, as well.

Mr. Payne. Thank you very much.

Chairman Boehner. Thank you.

Mr. Wilson?

Mr. Wilson. Thank you, Mr. Chairman.

Madame Secretary, I want to thank you for being here today. It's a great honor to be with you. I appreciate your public sector service and private sector service, particularly as President of United Way of America, and as a distinguished fellow with the Heritage Foundation. That means a lot to me, and I appreciate what you have done.

I also want to give you a first-hand report. In my service in Congress, I have had the opportunity to visit the One-Stop Career Centers in Columbia, South Carolina, which is an urban area, and also in Hampton County, South Carolina, which is very rural and disadvantaged. And it's just extraordinary, the opportunities that it provides to citizens. The equipment is just top-notch; people can come in and prepare resumes, and they can find jobs in their communities.

The directors have done a phenomenal job of recruiting career counselors. And they are just like cheerleaders. When the people come in, they are not victims. They are wonderfully treated like sports heroes, welcomed with enthusiasm, and given the respect they deserve. It has really worked in our state, particularly with welfare reform and has success in helping people get jobs and employment.

In line with that, in your statement, you suggest that the mandatory One-Stop partners should have a stronger role on the state boards to ensure their investment in and commitment to the integrated service delivery system. Could you please elaborate on how to provide the partner programs with additional incentives to participate in the system?

Secretary Chao. I think it's very important for the WIB boards to really encompass the full array of stakeholders within their community. And because we want these clients, dislocated workers, to come in and get new jobs, we have to envelope more participation of employers, many of whom are businesses.

In the past, there may have been some hesitation in fully addressing relevant training opportunities. We want people to get relevant training, so they can get real live jobs. That entails understanding what employers and businesses want in their workforce skills requirements, and working with them to make sure that when we ask people to invest a year or two years of their time in new training opportunities, that they will be rewarded with the job that they want. So that means working with the employers more closely.

Mr. Wilson. Well, that's successfully helped people to have fulfilling lifestyles in our state, and I appreciate it.

I have one final question. In your testimony, you state that the streamlined local boards would be able to focus more on strategic planning, and policy development activities. Could you please expand on the Department's visions for the local boards, and how the strategic planning by local business-led boards will improve the delivery systems at the local level?

Secretary Chao. Right now, the role of the state boards appears rather ambiguous. They are such a wonderful resource, and there is more work that can be done. So we need to clarify and work with the local workforce investment boards, and the state workforce investment boards, so that they work together and we leverage all of our collective strengths to make sure that the person that walks through the door in the One-Stop Career Center will get a job.

Mr. Wilson. Well, thank you for making a difference for the American worker. I yield the balance of my time.

Secretary Chao. Thank you.

Chairman Boehner. Thank you.

Ms. Woolsey?

Ms. Woolsey. Thank you very much, Mr. Chairman, and thank you, Madame Secretary. I feel like this is *deja vu*, because I remember the last time you were here. I believe the money we were talking about was for health care for the unemployed, and it felt like we were spending the same money over and over and over and it was not going to be spread.

Secretary Chao. That's not true.

Ms. Woolsey. Well, that's what I thought was happening. And I feel like the same thing is happening. We're talking about $3.6 billion that will be spent or be a bonus, and then it will be available for the people that come after.

I mean, there is going to be a limit to this, and I think we have to be realistic that it's going to take more than $3.6 billion. I think we have to look at the fact that $3,000 seems like a lot of money. My profession was human resources training, counseling, interviewing, and the whole nine yards. Three thousand dollars will not cover an individual who is in an industry where there will be no rehiring, where the worker has to leave.

For example, an engineer may decide, because there are no more jobs in that industry, to serve the community and, be better off for all of us, become an educator. Well, $3,000 isn't going to get that person there. If an autoworker needs to relocate, $3,000 is not going to relocate that family. And I just want to know if you really think $3,000 is going to go far, even though it's more than we have now, and it only starts with newly unemployed and we're leaving out those that are the real hard to employ, or else they would have jobs.

Secretary Chao. I guess it's only in Washington that we look at $3.6 billion as chump change. I had mentioned before that we have invested $71 billion in our unemployed dislocated workers, which also includes $12 billion that we have invested in the Workforce Investment Act.

The recently passed Trade Adjustment Assistant Program adds another $17 billion in health care. And for dislocated workers who are eligible for trade adjustment assistance, health care will be taken care of as well.

Ms. Woolsey. Well, Madame Secretary, if you could let me ask a question about chump change, a $2 billion tax break is for the wealthiest of the wealthy when we have all of these people that are unemployed. That is not chump change.

Secretary Chao. Well, I wanted to disabuse the idea that somehow $3,000 is insufficient. It is on top of the $71 billion that we already invest in people that we care about who are dislocated, as well as in the workforce investment system. So it's on top of what's already available, and on top of almost more than a year of benefits to those who are dislocated.

Ms. Woolsey. Well, let me ask you a question about speaking of "on top of." Will the states be allowed to supplant their existing programs, or will this be supplementary?

Secretary Chao. No, this will be on top of what the states receive.

Ms. Woolsey. And will we have it written, that they must use this as additional funding, and not use it for what they were going to do already?

Secretary Chao. I don't think that will be a problem.

Ms. Woolsey. Oh, it will be a problem. It must be clear.

Secretary Chao. Well, this is additional funding for them, and we will work with the states.

Ms. Woolsey. Well, yes, it's additional. But they can then not do what they were going to do already, and use that funding.

Secretary Chao. Workforce Investment Act monies are already much decentralized. Basically, they go to the states, and we will certainly work with them on that.

Ms. Woolsey. All right. Thank you very much.

Chairman Boehner. Thank you.

Mr. Porter, the author of the Personal Re-employment Accounts that we have before us.

Mr. Porter. Thank you, Mr. Chairman, and thank you for the opportunity to be a part of this legislation. To the Secretary, thank you for being here today.

I come from one of the fastest-growing states, if not the fastest-growing state in the country, Nevada. And after the 9/11 catastrophe, we experienced probably as large an impact on our workforce as anyone in the country. At one time we had close to 100,000 men, women and families out of work, so we are pleased to work with you on this legislation.

Currently in Nevada, we have about 36,000 of our neighbors and friends that have exhausted their benefits, and of that about 19,000 will soon be losing their extended temporary benefits. This is a great start. It's a great start; it's a jump-start.

If I could, just for a moment, I'd like to put a real face on this situation. I know we talked a lot about numbers today, and we talked about billions, and we talked about policy, and it's obvious that there are some opposed to this bill. But there is a young lady in Las Vegas that's a friend of mine that is a single mother with two children. She is currently unemployed, and she receives about $600 a month in unemployment benefits. So if we're to put a real face on this piece of legislation, this young woman now will have help with child and day care, so that she can get out and get a job. She will now have help with transportation, to make sure that she can get back to work.

She wants to get back to work; she cannot survive on $600. It helps but it certainly is not enough. But this bill is a great jump-start for single moms, and moms and dads that are having challenges across the country. And yes, we could say it's not enough. Certainly we could always do more. But what a great start for this young woman in Las Vegas, Nevada, with two little kids that needs help, and needs it now.

I expect of course, as a freshman, that there is going to be lots of discussion and lots of debate. But I would encourage my colleagues on both sides of the aisle to think about this single mom in Las Vegas with two little kids that could use help today. I would encourage fast passage, because certainly it can be adjusted in the future. But I am excited about this for our communities and for our state. And thank you for being here and for your presentation.

Secretary Chao. Mr. Chairman, thank you very much. I am really passionate about these Personal Re-employment Accounts. I think they are a good thing. They give people a lot of flexibility, a lot of choice. And we expand their array of choices.

So I want to make the offer to Members on both sides of the aisle, if I have not been great at explaining this, I apologize. I hope that if any of you want to learn more about it, I will be more than glad to have my staff come over and talk with you and assuage some of the concerns that people may have. It's a wonderful program. It will give people a great deal more choice and flexibility.

Chairman Boehner. Thank you.

Mr. Kildee?

Mr. Kildee. Thank you, Mr. Chairman. Will this be new money, or will it be money that will be reprogrammed?

Secretary Chao. No, it will be new money.

Mr. Kildee. It will be new money.

Secretary Chao. Yes.

Mr. Kildee. Well, if we're going to do this, I want to help you, and help the President to get that new money. I will start off by helping get that new money by voting against his tax cut, so we will have some flexibility on that. Because if we give away another $650 billion, it's going to be very difficult to find new money, there is no question.

Secretary Chao. Well, if it were not for the tax cut, I think the recession would have been even worse.

Mr. Kildee. Okay. Well, we will see. But I will give him about $650 billion that he can find this $3.6 billion out of. I voted against the last tax cut, and I feel morally comfortable in that.

Why is there no unemployment insurance extension in the Administration's budget?

Secretary Chao. Unemployment insurance benefits have already been extended twice. The first extension was for 13 weeks, the second extension occurred on January 8th of this year, and it will last through May. So there are two extensions on top of the normal 26 weeks of unemployment insurance.

The issue is not whether we want to extend unemployment insurance. We all want to help people with transitional assistance. But the issue is how do we get them back to work, because people want to go back to work, and it's much better for them to receive a paycheck rather than an unemployment check. That's why we want to talk about the Workforce Investment Act, and find ways to get people the training that they need to get the job that they want.

Mr. Kildee. Well, I am very much impressed with the Workforce Investment Act; we have a very good One-Stop Center in Flint, and it works very, very well. I just visited it last week, again.

But under the President's father, we did four extensions of unemployment. And the extension that we had in January did not provide any additional weeks of benefits to more than one million workers who had run out of benefits and were still unemployed. Those people are hanging out there still. And it seems to me that we should have some responsibility, if not concern, for those people.

Secretary Chao. Well, we do. One concern is we want to get them back to work. I think we all agree on that.

Mr. Kildee. Yes.

Secretary Chao. So the issue is not so much how many more extensions we can give, but how do we get these people back to work.

Secondly, we have this wonderful $12 billion workforce investment system, which is available for people's use, and we want to encourage them to go into the One-Stop Career Centers, which are re-employment centers, so that they can have other opportunities to get training, or to find new jobs.

Mr. Kildee. You know, I get the most questions about when we're going to extend unemployment compensation, particularly for those more than 1 million who had run out in January and were not reinstated with that extension. When I go out to Genesee Valley Mall, which is the biggest mall in my district, the entrepreneurs and managers keep asking, "When are you going to get this extension?" They were asking about it before January, now they're asking about it for those who did not get the extension. Because they know that the unemployment check, in itself, is a stimulus to the economy. If the workers of Flint don't have money, the mall can't sell. So that, in itself, is a great stimulus to the economy.

I like the idea of job training, and WIA does a good job. I like the idea of counseling and these various things, but in Flint, Michigan, we have almost completed the process of tearing down the Buick plant that my dad went to work for in 1916. He retired in 1950.

Many of the people who are laid off in Flint are skilled workers. You have millwrights, you have electricians, machine repair people. These are very skilled people. I was talking to an electrician the other day, and he is a very skilled electrician.

So you ask yourself what type of job training do you provide for these people who have gone through apprenticeship programs, and they are still laid off? And these are the type of people, in many parts of the country, that are laid off. How will the job training particularly help them?

They might get, I don't want to have to use McDonald's the entire time, some lesser-skilled job. How will it help them?

Secretary Chao. Well, this is a tough question. And it's a larger demographic and societal issue, because it basically speaks to the fact that our workforce and our workplace are changing. We are in a globalized economy. As much as we would want to hold on to a majority of these jobs, we may not be able to. Our economy has transformed from a manufacturing into a service industry into an information-based industry.

So this is of great concern. That's why we do want to place more emphasis on training. We also have to foster an environment in which job creation will occur, and that's why the President's economic growth package for helping small businesses could be one solution. All of these factors need to work together.

Mr. Kildee. Thank you, Madame Secretary. Thank you very much.

Chairman Boehner. Thank you.

Mrs. Musgrave, no questions?

Mr. Van Hollen.

Mr. Van Hollen. Thank you, Mr. Chairman. Madame Secretary, as a new Member, I appreciate your being here. It's good to be here.

I think we would all agree that the best way to address the job shortage in this country is to get the economy moving again. We have been talking a lot today as if the issue is a job-retraining problem, but in fact, the current problem is largely the gap between the lack of demand for jobs, and the many people who are unemployed. I mean, isn't that right?

Secretary Chao. I think retraining is a large part of that, because there is a skills gap in our country. And clearly, job creation is important.

Mr. Van Hollen. Right. Maybe you could update these figures for me. I understand that in November 2002, the Department of Labor statistics showed that there were 2.8 million job openings in the United States. In other words, 2.8 million employers were looking for 2.8 million employees. But at the same time, you had about 8 million people looking for work. Are those figures still approximately true today?

Secretary Chao. Not exactly.

Mr. Van Hollen. Can you give the figures?

Secretary Chao. I will give you the right figures. Basically, our economy is churning all the time. So any number taken in its static version is not indicative. Fifty two million Americans left their jobs last year, either voluntarily or involuntarily, and 52 million Americans found new jobs.

There is constant churning going on, and there is a skills gap, because there are employers today who are looking for workers, and they cannot find the workers with the requisite skills. So it's both parts, but I do agree with you, job creation is important. And that's why the President's economic growth program has gone into small businesses, and we have the Terrorism Insurance Bill.

Mr. Van Hollen. Right. What is the gap today? Do you have the figures for what the gap is today between the number of employers with jobs to fill, and how many people are looking for jobs?

Secretary Chao. I can get that for you. You might think it's easy to get, but it's not because, our economy is so vibrant. It's so dynamic; it's churning all the time.

Mr. Van Hollen. Right.

Secretary Chao. But I will certainly try to get those figures.

Mr. Van Hollen. With respect to the economic growth plan that the President has put forward, one of my colleagues from the other side of the aisle mentioned that Alan Greenspan was considered a non-partisan, neutral party. Could you respond to his comments yesterday, which indicated I think to most people, that he did not think that the President's economic plan would, in fact, spur growth in the short term, and in fact, also concluded that it would drive up interest rates in the long term? Could you respond to that?

Secretary Chao. Yes.

Mr. Van Hollen. Do you agree with Alan Greenspan?

Secretary Chao. I don't know what he said yesterday. I'm not aware of what he said. But he has said things in the past about the overall exuberance of the stock market, which led to the over-capacity that faces our economy now. And business investment is slow, because of over-capacity.

Mr. Van Hollen. Right.

Secretary Chao. And that was obviously a result of the over-indulgence of the stock market in the last decade.

Mr. Van Hollen. Right. But do you agree with him that the large deficits in the out years would result in increases in interest rates?

Secretary Chao. I don't know what he said.

Mr. Van Hollen. Do you agree with that statement, that large increases in deficits will increase the interest rates?

Secretary Chao. No, there is another point of view on that, as you well know.

Mr. Van Hollen. Well, I was just interested in your personal point of view.

Secretary Chao. Well, I don't think that's relevant.

Mr. Van Hollen. Okay. Can I ask you one local question, Secretary Chao?

Secretary Chao. Yes, of course.

Mr. Van Hollen. This relates to the transit subsidy provided by the Federal Government. I think everyone in the audience knows that we face a severe congestion issue in this region. As someone who represents an area in suburban Maryland, I wondered if the Department of Labor had considered increasing the transit subsidy to the $100 a month level that is allowed by the Federal Government.

Secretary Chao. We have. I'm glad you asked that question, because it's one that I have been trying to put to certain employees of the Department of Labor.

We, in fact, have increased the transit subsidy to everyone outside the one particular bargaining unit. And there seems to be the inability to come to any agreement with this very small bargaining unit. So we have given the transit subsidy to people outside the bargaining unit, and they have accepted. We have 17,500 employees, and the particular bargaining unit that we're talking about is less than 1,000 people. We're quite perplexed.

Mr. Van Hollen. Well, that's good to know. Is it $100 now? Have you gone to $100?

Secretary Chao. I believe so, yes, but I can confirm that for you.

Mr. Van Hollen. Okay, thank you.

Thank you, Mr. Chairman.

Chairman Boehner. Thank you. Madame Secretary, I know you need to leave at 12:00. It looks to me like it's one minute to 12:00.

Mr. Andrews, can you ask questions in 30 seconds?

Mr. Andrews. I'm sure of it.

Madame Secretary, welcome back. It's great to have you here.

Secretary Chao. Thank you.

Mr. Andrews. I hope that you would convey to Senator McConnell our best wishes for his speedy recovery.

Secretary Chao. Thank you.

Mr. Andrews. I wanted to ask you about the funding available under this new idea, which is up to $3,000 per person. We have had some discussion this morning as to whether that is adequate. I think it probably isn't, in a lot of cases, but the point I want to get to is whether the $3,000 is really there.

This program allocates $3.6 billion for two fiscal years; that's the plan if it makes it into the budget, which it hasn't yet. In the last two years, in 2001 and 2002, 7.3 million people exhausted their unemployment benefits. Now, if we had $3.6 billion for those 7.3 million people, each person would get a benefit of about $500, not $3,000. How much are people really going to get under this program?

Secretary Chao. I'm sorry, I didn't answer this question in the past, and I think it does lead to some confusion. Of the 8 million that are unemployed, from experience we only expect there to be about 50 percent who will access unemployment insurance. Not everyone does because, again, these numbers are very dynamic. So a person can be out of the workforce for a very short period of time.

Mr. Andrews. No, but the number I gave you are people who accessed unemployment benefits and exhausted their unemployment benefits. So these are people that were in the system.

Secretary Chao. Okay, what was the question? I'm sorry.

Mr. Andrews. There are 7.3 million people who exhausted their benefits in the last two years.

Secretary Chao. But this is not a stagnant pool. It's very dynamic.

Mr. Andrews. You think fewer people will exhaust their benefits in the next two years?

Secretary Chao. We hope so, sure.

Mr. Andrews. Well, if it were half as many, you would have, if my math is right, $1,000 available per person, not $3,000.

Secretary Chao. And the question is?

Mr. Andrews. My question is why should we conclude that there is $3,000 per person available when the numbers don't add up? $3.6 billion is wholly insufficient to cover the proposal that you're making.

Secretary Chao. Well, it's $3.6 billion.

Mr. Andrews. Over two years, right?

Secretary Chao. No, it's every year.

Mr. Andrews. Oh, every year.

Secretary Chao. Yes, yes.

Mr. Andrews. Well, if it were $3.6 billion, it's $7.2 billion over two years. I think that would still only offer $1,000 per person for people who exhausted their benefits.

Secretary Chao. But not everybody will access it.

Mr. Andrews. But doesn't that mean that to get $3,000, two-thirds of the people who exhausted their benefits wouldn't get this program at all, right?

Secretary Chao. Some of them may not access it; some of them will have other services that are available to them. We expect that probably 1.2 million will access the program, and $3,000 is about average.

Mr. Andrews. I would not question for one moment the intention of the Secretary or the program, but I think the Administration has its usual “loaves and fishes” problem here. It occurred when you came in and talked about unemployment benefit extensions and health benefits, and had insufficient dollars to cover the health benefits, which never really materialized, anyway, for anyone.

And then it happened again in welfare reform, when the Administration was talking about childcare money when there were too many recipients and not enough dollars. The Administration, with all due respect, has a penchant for spending the same money over and over and over again and making everyone the same promise.

There is no way that even a majority of people who exhaust their unemployment benefits would ever get anything close to a $3,000 allocation under this program. The money isn't there, unless I'm missing something.

Secretary Chao. Mr. Andrews, with all due respect, I disagree. We already have, as I mentioned, a $71 billion program to help dislocated workers.

Mr. Andrews. Which doesn’t include this, though? This is above and beyond that, right?

Secretary Chao. You're right. And on top of that, we're adding $3.6 billion.

Mr. Andrews. Right.

Secretary Chao. And on top of that, there is a TAA component that adds another $17 billion.

Mr. Andrews. I appreciate that.

Secretary Chao. There is a wide array of services available.

Mr. Andrews. My concern is that my constituents, when they hear this proposal, are going to think, “Great. I can get a $3,000 voucher where I can go out”, if we're allowed to use that word, “where I can go out and buy customized job training services, or get help with child care or transportation.” And the reality is the majority of them aren't. It's really a false premise.

The question I'm going to ask you and you can submit it for the record, what would it really cost to guarantee each person who exhausts his or her unemployment benefits a $3,000 voucher? What would that cost? And what's the difference between what you propose and what that number would be?

Secretary Chao. I'm not particularly partial to assigning it any one title. But you do bring up an important point, and that is there are some training programs that are not available to the One-Stop Career Centers. And if a person wanted to access some new training programs in a community college, they can use that $3,000 and access the training program that they want to get the job that they want.

I'm not quite sure I understand your question, but I will be more than glad to submit it for the record, as requested.

(NOTE: This item was not submitted prior to the official printing of the hearing transcript. However, the item will be maintained upon its submission and available for inspection in the Majority office of the Committee on Education and the Workforce.)

Mr. Andrews. Very succinctly, my question is I don't know how you can do $8 billion worth of good with $3.6 billion worth of money.

Secretary Chao. It can be done because not everyone will access the funding, according to our past experience and historical records.

Chairman Boehner. Thank you very much.

Mr. Andrews. Well, I would again say that you have a “loaves and fishes” problem here.

Chairman Boehner. Those 30 seconds became 6 minutes, and I guess that's why we don't have an opportunity for everybody to ask questions.

But thank you, again, Madame Secretary, we really appreciate you being here, and staying for a few extra minutes with us.

Secretary Chao. Thank you very much for the opportunity to be with you all. Thank you.

Chairman Boehner. Thank you.

We will ask the second panel to come forward. As soon as they are ready, we will begin the second panel.

Mr. McKeon. [Presiding]. We are happy to welcome our second panel here today. We have Mr. Mayfield, a constituent of one of our Members. We would like to have Mr. Johnson introduce you at this time.

Mr. Johnson. Thank you, Mr. Chairman.

I want to welcome Ken Mayfield, who has been a County Commissioner in Dallas County, which is, as you know, the center of the universe of course, being in Texas. He has recently become the President of the National Association of Counties. And in that prestigious job, I think, he is a welcome witness for this Committee. We welcome you, Ken, and thank you for being here.

Mr. McKeon. Thank you. Our second witness is Dr. Lawrence Mishel, President of the Economic Policy Institute. His areas of expertise include income distribution and poverty, labor markets, wages, unions, and collective bargaining. Dr. Mishel earned his doctorate degree in economics from the University of Wisconsin.

We appreciate both of you being here. You know the ground rules about five minutes and how the lights work.

We will hear first from Mr. Mayfield, and then Dr. Mishel. Commissioner?

STATEMENT OF KENNETH MAYFIELD, PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, WASHINGTON, D.C.

Thank you, Mr. McKeon and Mr. Miller, and of course, my good friend Sam Johnson from Texas, and other distinguished Members of this Committee. My name is Ken Mayfield; I am the President of the National Association of Counties and a County Commissioner from Dallas County, Texas.

I am deeply honored to have been asked to testify on H.R. 444 and to offer some comments on the reauthorization of the Workforce Investment Act. Mr. Chairman, I would ask that my written testimony, which was provided to you earlier this week, be made part of the record.

As you know, every county in America is involved in a local workforce program. We believe that these programs, as established under the Workforce Investment Act of 1998 have been responding to today's workforce crisis effectively and responsively.

NACO shares your concern for the ongoing workforce crisis. Quite simply put, too many people are unemployed, and we must help these people return to work as quickly as possible. The decision by this Committee to consider legislation that would enhance the existing workforce system is a vote of confidence in the system, and a vote of confidence that we share with you.

NACO believes that H.R. 444 is a very important and innovative approach for our unemployment problems, and will enable workforce programs to address the problems of long-term and structural unemployment. Therefore, we wish to offer our overall support for this bill, and we urge you to adopt it with some modification.

We support the efforts to make personal re-employment accounts as part of the workforce development system, limit substantially the amount of funds that may be used at the state and local levels for administrative purposes, institute sufficient flexibility so that individuals may step outside the parameters established through individual training accounts and utilize different types of services and make these funds directly available to recipients.

However, we believe that some modifications would be helpful, which include, number one, each individual who receives a personal re-employment account should be required to establish a personal re-employment plan at the local One-Stop system office to which they are referred.

Two, as a condition of receiving administrative dollars to operate this program, local workforce investment areas should be required to amend their plans to reflect the kinds of services they will provide to individuals receiving personal re-employment accounts.

And three, local workforce investment areas should be permitted to supplement PRA funds with Workforce Investment Act funds to ensure their participants can purchase the types of training and employment assistance they need to achieve the outcomes expressed in their personal re-employment plan.

Four, local One-Stop systems should be permitted to charge for any services that the local One-Stop provides, other than the personal re-employment plan, the cost of which should be covered by administrative funds.

Individuals who lose their jobs within the first year of employment, through no fault of their own, should be permitted to receive Workforce Investment Act intensive and training services. Funds appropriated for personal re-employment accounts should be in addition to those funds appropriated for other Workforce Investment Act activities.

The Back to Work Incentive Act of 2003 should not become a vehicle by which to reauthorize the Workforce Investment Act, except as is necessary to establish this program, or to reform the Wagner-Peyser Act, the employment service, or the unemployment insurance system.

We also urge you to clarify in your committee report that the term “local area” referenced in H.R. 444 is, in fact, a local workforce investment area, as designated under section 116 of the Workforce Investment Act, and that the One-Stop delivery system referenced in H.R. 444 is the same as the One-Stop delivery systems delineated in section 121 of the Act.

I would also like to take this opportunity to outline for you some of our most significant concerns regarding reauthorization of the Workforce Investment Act. We believe that the local public/private partnership, as established under the Workforce Investment Act, should be maintained. The federal/state/local relationship established by the Workforce Investment Act should be maintained.

Appointment authority for the local workforce investment boards must remain with chief local elected officials. Local One-Stop centers should remain under the guidance and jurisdiction of the local chief elected officials and local workforce investment boards as provided for in current law, and the percentage of private sector representatives of the local workforce investment boards should be increased in the number and percentage of public sector representatives, especially the mandatory partners, should be reduced substantially, or eliminated.

In conclusion, the National Association of Counties believes strongly that workforce development programs represent an important tool for federal, state, and local governments to respond to the continuing employment crisis.

While no workforce program can ensure that every American who wishes to work can work, that can only be ensured by a robust economy with substantial job creation capability, we do believe that the current system is well positioned to address the needs of America's unemployed workers and businesses.

We believe that the Back to Work Incentive Act, and the Workforce Investment Act, of which it will become a part, if enacted into law, represents important steps towards helping all Americans find work. We therefore welcome this proposal and endorse it, with the modifications recommended.

STATEMENT OF KENNETH MAYFIELD, PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, WASHINGTON, D.C. – SEE APPENDIX C

Mr. McKeon. Thank you very much.

Dr. Mishel?

STATEMENT OF DR. LAWRENCE MISHEL, PRESIDENT, ECONOMIC POLICY INSTITUTE, WASHINGTON, D.C.

Thank you very much, and I appreciate the Committee inviting me to testify on these very important issues.

I am going to make three points today. One is that our labor market is troubled. There is, essentially, a jobs and income crisis, in my view. Two, the plan that President Bush has proposed will not be very effective at short-term job creation, and will actually destroy jobs in the long run. Three, personal re-employment accounts are far from the answer that the unemployed workers in our country need at this point.

Let's turn to the labor market. As you know, the unemployment rate has risen almost two percentage points over the last two years, and we have lost more than 2 million jobs, 2 million private sector jobs, since unemployment started rising in October of 2000.

We also know that household incomes fell in 2001, nearly across the board, and that in 2002, when we have the numbers later this year, I'm sure we will see that household incomes have continued to fall, as I believe they probably are this month, as well.

I wanted to point out two things that you may not know about the current labor market situation. One is a reference to Graph 1 in the testimony, which shows what is the job loss in this recession compared to prior recessions, when you're 28 months into a recession. And you will note that this recession we have lost 1.8 percent of our private sector jobs after being in a recession 28 months. And this is a greater loss of jobs than even we had in the early 1990s, the early/mid-1980s recession, and the 1970s recession.

A second thing I want to point out about the current labor market troubles is that this does not only affect those who are unemployed, it also affects those who are employed, because we are now seeing that wages are falling behind inflation, which we now show on graph two.

Graph 2 has two bars for each type of worker: low wage, middle wage, and high wage workers. And you will see that in 2001, there is very strong wage growth, faster than inflation, across the board. But during 2002, we see that wages actually grew less than inflation for nearly every type of worker.

This is very problematic, in my view, and calls for attention to how to create jobs and lower unemployment quickly, which brings me to the President's plan, which is labeled a jobs and growth plan, especially for the long term.

I am also proud to share with you a statement that was signed this week by 10 Nobel Prize winners, many prominent economists, and 450 economists in total that was released on Monday. And that statement noted that the tax cut plan proposed by President Bush is not the answer. However one views the specifics of the plan, there is wide agreement that its purpose is a permanent change in the tax structure, and not the creation of jobs and growth in the near term. The permanent dividend tax cut, in particular, is not credible as a short-term stimulus.

But one need not listen to 10 Nobel Prize winners to know that one can actually look at the actual reports of the current Council of Economic Advisors to know that this is a failed plan. Their own analysis, which I show in Chart 3, shows that they claim that the plan will create 1.4 million jobs over the next two years, but that after five years, it only has created 700,000 jobs. That means, with simple mathematics, that over the last three years of this five-year period 233,000 jobs a year are lost. That means, in the long run, we're actually losing jobs.

If you look at the projections of a standard forecaster, Mark Zandi of Economy.com, who the Wall Street Journal just recently referred to as one of the smartest, brightest observers of the economic scene, he estimates that by the year 2013, we will have 750,000 fewer jobs than if the

Bush plan had never been legislated. There are many other forecasters who would agree.

In the short run, there are some jobs, but it's a lot of money to spend, $674 billion, to create some jobs in the next year or two, when all we need to do is to spend some money on some temporary tax and spending measures to create jobs. I might add that all of the plans offered by the Democrats in both the Senate and the House spend less money overall but spend more money up front and create a lot more jobs up front.

Let me turn to the PRAs. My fear is that the personal re-employment accounts are more about a sense that somehow the unemployed are not really looking hard enough for work and that we need to discipline them by giving them the motivation to get re-employment bonuses. All of the research that shows that they get re-employed shows that they get re-employed one week earlier. That's not really a magnificent achievement, in my view. What workers want most are jobs, then they would like income support if they don't have a job, and they would like training with income support if they are unemployed.

As I have said, the President's plan does not really create jobs. We have heard today that there is no offer of extended unemployment insurance benefits, and the training is actually worse under the personal re-employment accounts, than I think under the Workforce Investment Act.

If I just may conclude, it's my fear that this proposal is really about curtailing costs, because you're asking people to decide early in their unemployment, are they going to accept this personal re-employment account so they can get a bonus after 13 weeks. If you accept this, you get $3,000 to spend. But the Secretary earlier said that $3,000 is what, on average, people use. This is a maximum in this plan. Okay. Then if you accept this, and you fail to find work, you're not eligible for the intensive services available in the workforce development system. And then if you're unemployed after 26 weeks, of course, you're not going to get any extended benefits later this year, so you're just out of luck.

And so I fear that this is not really going to be that useful to the unemployed. And thank you very much.

STATEMENT OF DR. LAWRENCE MISHEL, PRESIDENT, ECONOMIC POLICY INSTITUTE, WASHINGTON, D.C. – SEE APPENDIX D

Mr. McKeon. Thank you.

Mr. Miller?

Mr. Miller. Thank you very much. If I might, Mr. Mayfield, let me ask you a question. On page four of your statement, item number three, you say, “When appropriate, local workforce investment areas should be permitted to add crucial Workforce Investment Act funds to an individual's personal re-employment account to ensure that they can purchase the types of training assistance they need to achieve the outcome expressed in their plan.”

If I read that correctly, you would augment this plan, maybe, with other services that are available through the Workforce Investment Act to try to sort of ensure that you get the results you want with the personal re-employment account. Is that a fair statement of what you're suggesting there?

Mr. Mayfield. Yes, that's a fair statement. We do think that the bill should be modified in some cases. If you're not under the PRA, as it is now, they may spend up to $5,000 or $6,000 on individuals to find them work and be successful.

We think it is reasonable to give the flexibility to the local boards and local individuals who will implement it, that if that $3,000 has been exhausted, and the individual is participating and doing everything and getting the training, that there could be other intensive training that would be available to them under the WIA part that they ought to be able to take advantage of if that board decides that's correct.

Mr. Miller. Well, from my point of view, that's a very encouraging statement, because I think it more properly reflects what's really happening with unemployed people, if you try to determine what is the best avenue to get them back to work, which may even be a new job career ladder in some other industry or place.

But that kind of flexibility, so you can gather those resources, and try to ensure a positive outcome, other than being limited by the $3,000, maybe for the want of another $500 in services or something else, the plan falls apart.

Mr. Mayfield. Yes, we think these will be very limited areas.

Mr. Miller. I understand.

Mr. Mayfield. Let me tell you, we think the $3,000 and the PRA is a great start. It's very innovative, and I think it's a good use of those additional funds to get targeted individuals, looking at the industry that they came from, their employment background, et cetera, get them back to work very quickly. But there will be some situations, I think, that you can anticipate, that there might be other resources that would be needed after the exhaustion of that $3,000 in that particular case.

Mr. Miller. I think that's an important suggestion for the plan. The other concern I have on that point is, as I understand it, the current negotiations in the end of the year appropriations bill here, the Workforce Investment Act is about to take a $600 million hit. And so I just have some concerns whether or not we are putting up this account at the front end, but at the other end on this program that got all the accolades today, the Workforce Investment, we're whacking the budget there fairly substantially at a time of high need.

Mr. Mayfield. Well, obviously, it's still a large increase, $1.2 billion if you subtract that $600 million from this fiscal year, if that, in fact, is done. And obviously, we think there can be some economies done and tinkering with the local boards, and getting rid of the public sector people and getting more input from private sector. Because really, the public sector, other than the chief local elected official, doesn't have much power, and doesn't offer as much as the private sector, who have been out there creating jobs, who employ people, and who can give real-world ideas to how to get these individuals back to work.

Mr. Miller. Do you have an opinion or suggestion of what you anticipate when this current extension runs out in May, is that correct? What's your anticipation of whether or not there should be another extension for those people who are about to exhaust?

Mr. Mayfield. I'm not prepared to give an opinion on that.

Mr. Miller. Well, let me ask you this. What's the situation you have with people who have run out of unemployment, versus people who still have the financial underpinnings of unemployment insurance?

What's the difference in your caseload, and your success ratios? Is there a difference? I don't know, but is there a difference between people who have exhausted their unemployment benefits, as opposed to those who can go through the work investment programs while they have some financial underpinnings?

Mr. Mayfield. Well, those individuals who have exhausted their unemployment benefits can still take advantage of the training through the local One-Stop. So I don't know if there is what you're talking about, the experience or correlation on that. I'm not prepared to answer that.

Mr. Miller. Thank you.

Mr. McKeon. Thank you.

Mr. Wilson?

Mr. Wilson. Thank you, Mr. Chairman. Commissioner Mayfield, it's an honor to have you here with us. I never had the honor of being a county councilman, commissioner, or municipal official, but I have always respected the fact that you are on the front line. As an elected official, you are with the people daily, hourly, by the minute. So I appreciate your statement about real world experience.

I want to commend the county councils, because it's your jurisdiction for the One-Stop Career Centers that have been so successful in encouraging people to find employment, by really being so helpful and enthusiastic.

In particular, I also appreciate the suggestions you have for the modifications for the PRA, the personal re-employment accounts. And I think that, as you point out, there should be a plan adopted. I think that makes sense. That's just real world, again. This is not make-believe, it's just helpful, and I hope that that can be done.

Of course, the flexibility and latitude, I think, is so crucial. Every person, every community, is different, and we respect that. And that dreaded word “mandates.” We don't want mandates, we want you and then the people you work with to administer the program.

And I also think it works so well with the success of the welfare reform program that we will be voting on tomorrow. And there was prognostication that that plan would be disastrous, but it has had the opposite effect. And so I want to thank you for persisting.

In regard to the public/private partnerships, could you review the experience Dallas has had for us, and in particular, you said to add more on the private side. Could you tell us about that?

Mr. Mayfield. Yes, Dallas has been very successful, and it's because of the energy and the contributions that the private sector individuals have brought to the table. And that's what we want to encourage, and make sure that we have more of, because sometimes the public sector members of the committee want to delay certain things.

The private sector is used to implementing things, seeing things work, demanding accountability, et cetera, and so that's what we want to keep up. And we think it would be beneficial if we just reduced the committee by the public sector individuals that are on it, and perhaps added some more private sector individuals to replace them.

Mr. Wilson. Well, all of us were always impressed by the enthusiasm of Texans, particularly people from Dallas. And so we appreciate your service.

I have no further questions.

Mr. Mayfield. But let me just say that the National Association of Counties stands ready as a resource, particularly on how any of these programs play out in the counties across the United States. And we are very thankful to work with the Department of Labor, and the staff of this Committee and this Committee to, hopefully, bring you some good insight and some good recommendations to make a better bill to get a better result in the work place.

Mr. Wilson. Thank you.

Mr. McKeon. Thank you.

Mr. Kildee.

Mr. Kildee. Thank you, Mr. Chairman.

Dr. Mishel, it's always good to have you before our Committee.

Dr. Mishel. Thank you.

Mr. Kildee. Let me ask you this question. To what extent do you think the Administration underestimates the stimulus of that unemployment compensation?

Dr. Mishel. Well, apparently, they must underestimate it a lot, because they're not really very prone to providing much. So it turns out that the projections I mentioned earlier from Economy.com, a very mainstream forecasting firm, show that the most stimulating aspect of all the different plans that have been proposed is actually providing extended UI benefits.

And the reason is easy to understand. Money you give to someone in those circumstances, we know is going to be spent. And so that will help the economy, because the problem we have in the economy, I think as you understand, is 74 percent of our industrial capacity is used. We're not using the capacity we have now to produce goods and services. What we need are more customers. We don't need more supply-side; we need more demand, more customers.

You get more customers only a few ways. You give money to some people who are going to spend it, or the government actually spends money. The government can spend money in ways that have been suggested, such as giving fiscal relief to the states, or give money to renovate and repair schools, infrastructure, or you give money to people who are going to spend it, which means, necessarily, that you have to have the tax cuts targeted, distributionally, at low and middle-income families.

Now, of course, that's not what we see with the President's plan, but it is possible to have a one-time tax cut given to people who are going to spend it. Senator Daschle proposes giving $300 per adult and $300 for the first two children. On the House side, I think some are saying that we should give a certain percentage of wages earned last year, money that could be given to people in April.

So it's very possible to give money to people who spend, and I think that's what we really need to get some jobs created in this calendar year.

Mr. Kildee. When the Secretary was here, I mentioned Genesee Valley Mall, one of the big malls in my district. I can recall 10 or 12 years ago, when the auto industry was going through a great transition, for the first time I had had two meetings with the entrepreneurs and managers at Genesee Valley Mall within about eight months' time.

The individuals at one meeting were begging me to vote against the increase in minimum wage. We had breakfast, and I told them very politely, that I was going to vote for it. But they were telling me, “Please, it will hurt our business if you vote for the minimum wage.”

About eight months later, they called me out there for another breakfast meeting, saying, “When are you going to appropriate the money for the TAA or TRA?” Because they knew that the autoworkers needed that TAA and TRA. And once they got the money, they would be out there spending the money. And that is a stimulus there is no question.

It's a stimulus that keeps going. Because once their shelves became a little empty, they place orders at the various companies, and they in turn, keep people employed. So it keeps going on and on, and I really believe that the White House is, as you say, greatly underestimating, at least by their actions, the stimulus effect of unemployment compensation.

Dr. Mishel. In fact, it's almost as if they designed a plan that was to be ineffective. I was really surprised about it. I had a great day on Monday spending time with these Nobel laureates, talking about the Bush economic plan. And one of the ones from the University of California Berkeley, Daniel McFadden, said that it was an anti-stimulatory plan. It was like a weapon of mass destruction aimed at the middle class. Now, that's not the usual kind of language you get from academics. It's the students at Berkeley who are known to be radicals, not the faculty by the way.

Professor Franco Modigliani, who laid the foundation for modern economics, an 85-year-old man, flew down against doctor's orders because he said he wanted to protest the Bush tax cut, and said that the only reason to do this would be if you wanted to enrich the very rich.

I find policy people in Washington don't use language like that. But it's surprising; I have never seen any statement on economics signed by 10 Nobel laureates in economics. They are really unified that this is not going to increase investment in jobs in the long run. And Alan Greenspan, yesterday, agreed with them, saying that if you want to do a dividend tax cut, maybe that's a good idea, but it's got to be revenue-neutral. It shouldn't lead to chronic deficits far off into the future.

And so he's echoing, in a sense, what I think these very brilliant economists have already said. If you wanted to design something that wasn't going to have an effect in the long run, you would do the dividend tax cut without offsetting revenues. You can't have a long-run effect from the other part of the tax cut, which is basically advancing personal income tax cuts that are already scheduled. I mean, how can advancing something that's already scheduled have a big effect 10 years from now?

Thank you very much.

Mr. Kildee. Thank you.

Mr. McKeon. Thank you. I am sure when we get to the President's economic growth plan, we will have hearings, and we will spend a lot of time discussing it. Today we are talking about the personal responsibility plan that has been presented.

You know, it's interesting to me listening to this discussion today, I sometimes wonder if I'm on a different planet. We have unemployed people that need help. The President has proposed $3.6 billion worth of help, and we're beating it up. Maybe it's not enough. But why don't we move forward, and then maybe talk about more? Why don't we move forward on the plan to help, and get it to the people that need it the most?

Commissioner, the Department's budget proposes base re-allotment; we will talk about WIA now. They talk about this base re-allotment of the WIA funds among states on unexpended balances. However, we regularly hear from rural areas that these balances do not reflect the actual level of funds available to states and local areas, as many times these funds are often obligated to training and other uses. We are trying to figure out how we grapple with that.

One of the reasons they are saying they want to cut is because they haven't spent the money that we have already given them. And when we talk to them, they say, "Well, we have obligated the funds, but it's the accounting system." Do you have some suggestions for us as we move forward on the re-authorization of WIA?

Mr. Mayfield. Well, we would be happy to gather some statistics and information from counties around the United States regarding that issue, because there is a difference of opinion in looking at what monies are available, because they are obligated, in most instances. They are obligated to be spent; they just have not been formally spent yet, and still are on the books. But they are obligated.

So that is a problem, and we feel that our accounting and the amounts of funds that are available are more accurate than the Department of Labor's accounting.

Mr. McKeon. This is something I think we are really going to have to pull together and work on, because I think if we had done a better job of pleading our case, we wouldn't have had that $600 million cut. Because every time I talked to them, their rationale for it is that they don't need it, because the monies out there aren't spent.

We found one other thing. It just seems to me, in talking to people at the One-Stop, they tell me that it took them some time to get up to speed and get things going. We just passed the Act in 1998, and then got the regs written and forwarded to the local people to implement, and that's another reason why they haven't spent those funds.

Mr. Mayfield. Absolutely, absolutely. That is the delay that is unaccounted for in there. Had everything been up and running, and everybody ready to go the minute the law was passed, you wouldn't see that there. But because of those delays, you have those balances.

Mr. McKeon. Well, I think those two things are things we have to really work on, because we shouldn't have had that $600 million cut. And especially now when we do have an unemployment problem, and we have people out there that need these resources, we really need to be focused in on that. And that's something we need to look at when we do the re-authorization.

Mr. Mayfield. We would offer to work very closely with you to get some statistics and information on that, to help in that regard.

Mr. McKeon. I want to thank you both for being here today. Excuse me. Mr. Miller?

Mr. Miller. Thank you. I would like to have a chance to ask some questions of Dr. Mishel.

Mr. McKeon. I was using my time.

Mr. Miller. Oh, I'm sorry; I thought you were getting ready to close the hearing.

Mr. McKeon. I am.

Mr. Miller. I wanted to ask a second round of questions under the rules.

Mr. McKeon. Go ahead.

Mr. Miller. Thank you.

Dr. Mishel, first of all, the program on Monday was spectacular. It was really one of the best conversations on our economy that I think could have been put forth in front of the American people, and also incredibly understandable, given that they were all economists speaking there.

Dr. Mishel. I understand. Thank you very much.

Mr. Miller. The reason you're here is that the title of this hearing is "Back to Work: The Administration's Plan for Economic Recovery And The Workforce Investment Act."

If you go back to your testimony, on page six, talking about the forecasts of Economy.com, and by microeconomics advisors and others, the question is, will this $3,000 allowance work? Will this have an impact? Will it make a difference for these workers?

A lot of this, I think, makes sense in terms of making sure that people can pick up the options that might make sense to them, whether it's at a community college, other access to training, or what have you. But I go back to "where are the jobs"? I mean, if you read the combination of economic forecasts, and as you point out, from very mainstream economic forecasters, including even the President's, Mr. Hubbard, in the short term and the long term, there is no real job growth here. I mean, at one point you get the President's plan creating over several years maybe 100,000, 150,000 jobs.

Dr. Mishel. Right.

Mr. Miller. So where do we get this? I mean, you mentioned that it's a lack of the demand. Again, if you read the business journals, you have the CEO of almost every company saying, "We're concerned about the demand for our products," whether they're selling automobiles, semi-conductors, microchips, whatever they're selling, every company has said, "We're concerned about the softness of demand."

Dr. Mishel. Thank you for your question. In fact, that is exactly what the Business Roundtable said a few months ago, when they issued a call for a stimulus plan, that they needed customers, they needed demand.

Well, let's just look at the short run, what we can expect, in terms of jobs and unemployment. I was a little bit surprised by Secretary Chao saying that 5.7 percent is what the average was in the 1990s sort of indicating that it was somehow acceptable. It was just two years ago we had roughly 4 percent unemployment, and I think that needs to be our target.

Chairman Greenspan yesterday suggested that unemployment is going to remain as high as it is now, or higher, over the next year. If that's the case, we know that it's going to be very hard to get work. The numbers that were reflected earlier in a question from the JOLTS survey of the Bureau of Labor Statistics that there are less than 3 million vacancies, but more than 8 million people looking for work indicates that there are basically three unemployed workers for every job available.

Now, that doesn't mean that we shouldn't do things on the workforce training side. I think everybody here agrees that we need to give everybody help. But you know, in economics we learned that somehow there is a queue, and sometimes these things just jump people in the queue. What we really need to do is get rid of the number of unemployed. And the only way to do that is to really focus your money on how to create jobs right now, and stimulate demand. And I think that's what you're driving at, and I think that would be very important to do.

So a training strategy coupled with a job creation strategy makes sense. A training strategy that is not coupled with a job creation strategy is not so sensible, in my view.

Mr. Miller. Well, I guess it's just a problem for us. You know, we, the Democrats, put together an economic stimulus package. The President then said that they shouldn't view his package as economic stimulus; they should view it as growth. But when the econometrics people look at the growth, they say the growth isn't there over the long term, and short term, the help in the jobs isn't there.

I just see that we have a couple of ships; we've got the unemployed going in one direction in the middle of the night, and we've got the ship of state going in the other direction, and we're going to pass right by one another. And this is going to be millions of families where there isn't going to be the help.

When we're constructing these accounts, again, which I'm not hostile to, the question has got to be at the end of the day, is a person more likely to get a job? Is the person, in fact, going to get a job? And I don't see that.

And you know, you can even layer over the top of that that we now see more and more companies moving to Asia, not to sell into the Asian market, but for export. You just saw the largest semiconductor in Taiwan, which was a low-cost producer decide that they are moving to China of all things; Taiwanese companies moving to China for export. You see Honda moving to China for export. You see General Motors moving to Korea for export back to the American market. That suggests that some of these jobs that we have lost in this recession may not be coming back.

You know, that's another layer on top of this notion of whether we're creating long-term growth or short-term stimulus, and it appears that the Administration is creating neither, except deficit. I mean, you kind of get the deficit, but you don't get the benefit.

Mr. McKeon. Mr. Kildee, did you have a question?

Mr. Miller. I feel I just had the last word that I'm probably going to get here.

Mr. McKeon. I think the rules also say Mr. Kildee may question.

Mr. Kildee. No, I have no further questions.

Mr. McKeon. Thank you very much. We appreciate your being here today.

We have Mr. Kucinich's remarks to enter into the record.

Mr. Kucinich. Thank you.

Mr. McKeon. If there are any other statements, we will keep the record open.

We appreciate your working with us as we go through this process, and your input, as we go through the Workforce Investment Act.

Thank you very much. This hearing is adjourned.

Whereupon, at 12:45 p.m., the Committee was adjourned

APPENDIX A - WRITTEN OPENING STATEMENT OF CHAIRMAN JOHN BOEHNER, COMMITTEE ON EDUCATION AND THE WORKFORCE

Opening Statement Of The Honorable John Boehner
Chairman, Education & The Workforce Committee
"Back To Work: The Administration's Plan For Economic Recovery And The Workforce Investment Act"

February 12, 2003

Let me start this morning by welcoming our distinguished guest today, the Secretary of Labor Elaine Chao. I'd also like to welcome my counterpart, the gentleman from California, Mr. Miller, and the other members of our committee.

During his State of the Union Address, President Bush laid out a comprehensive plan to speed our economic recovery and promote long-term job growth and investment. His plan also provides specific assistance -- in the form of personal re-employment accounts -- to help unemployed Americans who are struggling to return to work.

At a time when the economy is struggling but also improving, it is important that we focus on giving the unemployed more flexibility and choices in their employment search. Even though the most recent Labor Department statistics reveal that unemployment is down to 5.7 percent this month, we still need to examine new ways to help working families across this country during the time when they need it the most.

On January 29, Congressmen Jon Porter, Buck McKeon, Todd Tiahrt and others introduced the Back to Work Incentive Act, which reflects the president's plan to create these accounts and aid unemployed workers who need the most help getting back to work. I am pleased to be a cosponsor of this important measure.

The Back to Work Incentive Act represents a new and innovative approach to helping the unemployed get back on their feet. As President Bush has said, one worker out of work is one too many, and his plan will help working families in times when they need it the most.

Workers can use their Back to Work accounts for a variety of different services to help them find a good job, including job training, child care, transportation, housing assistance, and other expenses to help in finding a new job. Recipients will be able to keep the balance of their $3,000 Back to Work account as a cash reemployment bonus if they become reemployed within 13 weeks, creating an important incentive to return to work quickly. The more quickly a job is obtained, the larger the reemployment bonus will be.

States such as Iowa, Pennsylvania, and Washington have experimented with personal re-employment accounts and the results have been very positive.

One of the exciting aspects of the new Back to Work accounts is that they empower individual recipients to make choices appropriate for their own circumstances. Recipients will be able to create re-employment plans that help them navigate all the options available -- such as career counseling or training for a new profession in which they can become employed. By providing choice and flexibility, we can get people back into steady, good-paying jobs.

This new benefit supplements and enhances the services that are already available for those who are most likely to face obstacles in finding and keeping new employment. These Back to Work accounts will not only provide the unemployed with another important benefit to help them find a new job, but will be efficiently administered through the easily accessible One Stop Career Center system, established through the federal Workforce Investment Act (WIA).

The Workforce Investment Act (WIA) and the one-stop delivery system it created represent the nation's primary investment in workforce development. WIA assistance is vital to helping workers find new or better jobs in this time of economic recovery. Through the one-stop delivery system, job seekers have access to labor market information, job counseling, and job training to help them get back on their feet. In addition, they have access to numerous other federal programs that provide services for job seekers. These Back to Work accounts will be an important new benefit that will be offered seamlessly and efficiently through the WIA delivery system.

The 21st Century Competitiveness Subcommittee, chaired by Congressman Buck McKeon (R-CA), will lead the Committee's efforts to reauthorize the Workforce Investment Act this year, and will focus on improving the system to help achieve the original vision of the law when it was enacted in 1998, which was to create a seamless workforce development system for workers and employers.

While we expect to move the Back to Work Incentive Act as a stand-alone bill, we also expect to address the President's proposal as part of our efforts to reauthorize WIA. Particularly during a sluggish economy, WIA programs can play a key role in helping Americans get back to work or retrain for new jobs.

I look forward to working with President Bush, Subcommittee Chairman McKeon, and Congressman Porter to move this proposal quickly and make this innovative plan a reality for working families who need the help the most.

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APPENDIX B - STATEMENT OF ELAINE L. CHAO, SECRETARY OF LABOR, U.S. DEPARTMENT OF LABOR, WASHINGTON, D.C.

TESTIMONYOF ELAINE L. CHAO
SECRETARY OF LABOR
BEFORE THE
COMMITTEE ON EDUCATION AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES

February 12, 2003

Good morning. Chairman Boehner and members of the Committee, I thank you for inviting me to testify on the President's Personal Reemployment Accounts Initiative designed to help unemployed Americans make a quick return to work so they can provide for their families and once again be productive members of society. I would like to take this opportunity to commend you and members of this committee for your leadership and prompt action in introducing the "Back to Work Incentive Act," H.R. 444, that once enacted, will make these Personal Reemployment Accounts available. The Personal Reemployment Accounts will be offered through the nation's strong workforce investment system and will be administered through the locally established One-Stop Career Centers. I will also describe some of the innovative changes we propose be made to the workforce investment system as Congress reauthorizes the Workforce Investment Act of 1998 (WIA).

The President's Growth and Jobs Package

Last month, President Bush announced a comprehensive growth and jobs package that places great emphasis on improved job growth to ensure the economy itself continues to grow. The main goals of this economic agenda are to encourage consumer spending that will continue to boost the economic recovery; promote investment by individuals and businesses that will lead to economic growth and job creation; and deliver critical help to unemployed citizens.

As Chairman Greenspan observed recently, we are clearly seeing a notable improvement in the resilience and flexibility of our nation's economy. In fact, we saw unemployment claims fall last month as U.S. businesses hired nearly 150,000 Americans to fill positions all across the country. Yet while our economy is sound in the fundamentals, it could be growing faster. Our job now is to preserve the hard-won gains the economy has made and to speed up growth, to add new jobs across the country, and to expand the reach of our prosperity in both the short and the long term.

Under the tax cuts already enacted, taxpayers are due to receive additional relief in 2004 and again in 2006. The President has asked Congress to accelerate all of those marginal rate cuts, making them effective January 1st of this year. By speeding up the income tax cuts, we believe we'll speed economic recovery and the pace of job creation. This will leave more money in the hands of the people who earned it and will do so now, when Americans need the money to buy, to save, to produce, to invest and to do all the things that create new jobs, add momentum to our recovery and help ensure long-term economic growth.

I want to emphasize that while the President's growth package will help the economy right now, it will also create 2.1 million jobs over the next three years, according to the Council of Economic Advisers. A private sector analysis predicts it will create an average of 941,000 jobs per year each year for the next five years.

Supporting Job Growth through Personal Reemployment Accounts

One of the proposals that would specifically help today's unemployed men and women who are struggling to get back to work are Personal Reemployment Accounts. These accounts will be worker-managed, contain up to $3,000, and will be used for the purchase of a variety of reemployment services or as a bonus for obtaining early reemployment. The proposed accounts will be administered through the established and easily accessible One-Stop Career Center System, where the unemployed already seek assistance in obtaining employment

The anticipated economic benefits of the proposed Personal Reemployment Accounts are numerous. These accounts represent a new and innovative approach to helping unemployed workers make a quick return to work and provide businesses with the skilled workforce that they need. They will empower individuals by giving them more flexibility, personal choice and control over their job search and career.

Since experience has shown that unemployed workers have a wide range of needs, the Personal Reemployment Accounts allow each worker to custom design a reemployment services package in accordance with his or her needs. For example, some individuals may determine they need extensive retraining in order to compete for jobs in a high-growth industry while others may only need to complete a short-term computer course in order to return to work quickly or purchase child care in order to search for work. The flexibility of Personal Reemployment Accounts will accommodate these and many other situations, thus making the delivery of government services more efficient.

By enabling unemployed workers to access the reemployment services they need most, there is an increased likelihood that they will return to work sooner and in a job for which they are more prepared and better skilled. The Reemployment Bonus available under the account also provides an incentive to return to work quickly.

Implementation of the Accounts -- Individual and State Flexibility

The President's proposal would provide $3.6 billion in additional resources to states to fund the Personal Reemployment Accounts in FY 2003. The Administration estimates that these resources will be spent over two years. States will determine the dollar level of the accounts, up to $3,000. It is anticipated that these funds will allow states to serve at least 1.2 million unemployed workers.

The receipt of account funds will not adversely affect an individual's ability to be eligible for and receive Unemployment Insurance benefits. The accounts are targeted at those newly unemployed workers eligible for at least 20 weeks of Unemployment Insurance who have been determined as likely to exhaust UI benefits before finding a new job. States will have the option of making accounts available to certain current UI claimants who were previously found likely to exhaust UI or to certain workers who have already exhausted their UI benefits.

Subject to broad State-established safeguards to prevent abuse, account holders can use the funds to purchase intensive reemployment services (such as counseling, case management), training, and supportive services (such as transportation and child care) available either through the One-Stop Career Center system, from other sources outside the One-Stop system, or in combination. This is a flexible way for unemployed workers to access services and benefits that they individually need to return to work faster.

There is a limitation that applies to the acceptance of the account. For the one-year period following the effective date of the account, individuals may not receive free intensive reemployment, training and supportive services through the One-Stop Career Center system. The reason for this limitation is that the funds in the account are available to pay for those services.

Another important aspect of the account is the Reemployment Bonus. To provide an added incentive to find and retain work, new UI claimants who become reemployed by the thirteenth UI benefit payment will receive any cash remaining unspent in their account as a Reemployment Bonus. Similarly, the groups added at State option -- certain UI claimants who were previously identified as likely to exhaust UI and certain UI exhaustees -- that become reemployed by the thirteenth week of the effective date of the account can also receive the Reemployment Bonus.

The bonus would be paid to the individual in two installments: 60% at employment and 40% after 6 months of job retention. Individuals who do not find employment within the thirteenth week rule would not be able to "cash out" their account but would continue to be able to purchase intensive reemployment, training and supportive services for up to one year from the effective date of the account.

Learning New Lessons through Innovative Service Strategies

The potential to receive a reemployment bonus would provide eligible workers an important incentive to find new employment. At various times from 1984 to 1989, four states—Illinois, New Jersey, Pennsylvania, and Washington—conducted controlled experiments to determine the effectiveness of providing reemployment bonuses to unemployed workers. In these experiments, a random sample of new UI claimants were told they would receive a cash bonus if they became reemployed quickly. The advantage of these experiments is that the effect of offering a reemployment bonus on the duration of unemployment and on earnings upon reemployment can be directly evaluated by comparing the experiences of UI claimants randomly chosen to be offered a reemployment bonus with those of UI claimants not chosen for the bonus (who received the regular state UI benefit).

An evaluation by the Department of the reemployment bonus experiments conducted in the states of Washington, New Jersey, and Pennsylvania showed that a reemployment bonus of $300 to $1,000 motivated the recipients to become reemployed, reduced the duration of UI by almost a week, and resulted in new jobs comparable in earnings to those obtained by workers who were not eligible for the bonus and remained unemployed longer. Similarly, a study of the experiment conducted in Illinois found that a reemployment bonus of $500 reduced the duration of unemployment by more than a week and did not lead to lower earnings at the worker's next job.

Therefore it is likely that giving unemployed workers the option of receiving the unspent balance in their Personal Reemployment Accounts will provide them an incentive to find a new job quickly, reducing the time spent unemployed, but will not result in workers taking lower paying jobs than they would get if they searched longer.

These Personal Reemployment Accounts will build on our nation's strong workforce investment services, the cornerstone of which are the state and local One-Stop Career Center systems. I will now turn to the Administration's proposal to reauthorize the Workforce Investment Act.

WIA Reauthorization

As we enter the 21st century, three key factors of the economy challenge America's workforce – globalization, technological advances, and demographic changes. Global competition is beneficial for the economic stability of the United States. Our ability to compete in the global marketplace will depend on the competitiveness of our workforce. We must anticipate the changes resulting from globalization to ensure that the workforce investment system addresses contemporary workforce issues and contributes to economic growth.

Technological advances lead to increases in worker productivity, thereby keeping inflation low and often leading to higher wages. At the same time, the pervasiveness of technology will require our businesses to demand greater skills from our workers. The demand for skilled workers is outpacing supply, resulting in attractive, high-paying jobs going unfilled.

When businesses do not find the talent they need within our borders, they seek it abroad. Global competition will reinforce the economic premium on knowledge workers, leaving low-skilled or unskilled American workers increasingly vulnerable.

The change in the country's demographics is another important factor. In the coming years, America's workforce is going to become much older. For example, over the next 30 years, for the first time in modern history, the older, retirement-age population (age 65 and older) will surpass the younger working-age population (ages 35-44). Many aging baby boomers will reach retirement age just when increased technological advances demand a workforce that is even more highly skilled.

The shift in demographics, driven by below replacement birthrates and longer life expectancies, has significant implications for our economic prosperity. With a workforce that is growing at a slower pace, it will become ever more critical that the workforce investment system find a way to integrate every available worker, including individuals with disabilities, into the workforce to enable the continued competitiveness of American businesses and to ensure that no worker is left behind. Our future prosperity will depend on the world's most skilled and productive workforce. The Administration's proposal to reauthorize the Workforce Investment Act will strengthen the workforce investment system and enable it to better respond to current economic conditions and future trends.

The five-year authorization for WIA expires on September 30, 2003. Over the past year, the Department of Labor has gone to considerable effort to gather input from stakeholders on how they believe the workforce investment system can be strengthened to help us address the challenges of globalization, technological advances, and demographic change that I discussed earlier. We heard from over 240 individuals at fifteen forums, and 370 individuals provided comments in writing.

The input from our stakeholders, our experience at the federal level, and recent research findings has informed the Administration's proposal for WIA reauthorization. The Administration's proposal is designed, first, to continue to transform and further integrate the One-Stop Career Center delivery system into a cohesive workforce investment system that can respond quickly and effectively to the changing needs of business and the new economy. Secondly, it builds on and improves "what works." Thirdly, it identifies barriers to successful implementation and fixes what doesn't work. Finally, the proposal seeks to partner and better connect with the private sector and with post-secondary education and training, social services, and economic development systems to prepare the 21st century workforce for career opportunities and skills in high growth sectors. Many of these reforms are outlined in the President's fiscal year 2004 budget.

The Administration's proposal addresses five key areas, on which I would like to elaborate. Those areas are: advancing a more effective governance system; strengthening the One-Stop Career Center System; delivering comprehensive services for adults; creating a targeted approach to serving youth; and improving performance accountability.

Advancing a More Effective Governance System

The Workforce Investment Act's vision for implementing a comprehensive workforce preparation and employment system hinged largely on the creation of an effective WIA governance system. Under the Act, State and Local Workforce Investment Boards (State and Local Boards) are responsible for overseeing WIA at the state and local levels, while youth councils coordinate local youth programs and initiatives.

The Administration proposes strengthening the role of the State and Local Boards in part by streamlining the membership requirements. Under the Administration's proposal, One-Stop partner programs would have a stronger role on the State Board to ensure their investment in and commitment to the integrated service delivery system. The State Board will still be chaired and directed by business.

With regard to Local Boards, membership would be streamlined to provide an increased voice for business representatives, community groups and worker advocates. These changes would make the Boards more responsive to local needs. Local Boards would focus on strategic planning and policy development activities.

Numerous stakeholders at the WIA reauthorization forums indicated that Youth Councils across the country have not always added value to local system efforts as envisioned under WIA. Because the effectiveness of Youth Councils varies across local areas, the reauthorized legislation will eliminate the statutory mandate for local Youth Councils. Under the reauthorization proposal, Youth Councils would no longer be required; however, Governors and chief elected officials would retain the authority to create or continue Youth Councils if they are valuable in their state or local area.

Strengthening the One-Stop Career Center System

The cornerstone of WIA's workforce investment vision was the institution of the "One-Stop" delivery system, designed to integrate workforce programs, services and governance structures under a single, comprehensive, customer-focused workforce investment system. The Act stipulates that the costs of those centers are to be shared by the One-Stop partners. In practice, however, stakeholders overwhelmingly indicate that local One-Stop systems are compromised by the lack of stable funding for local One-Stop Career centers.

We believe that WIA reauthorization should create a new way to fund the cost of the One-Stop system. One-Stop infrastructure funding would alleviate a great deal of the current local negotiation issues around operations and allow local areas to focus on what is most important—meeting the service needs of businesses and workers. The Department of Labor is considering different methods of funding the WIA infrastructure, in consultation with other involved agencies.

In addition, we want to ensure that all One-Stop Career Centers make a broad array of employment, training and supportive services available to both job seekers and employers. We particularly want to strengthen connections between the One-Stop delivery system and programs such as Adult Education and Temporary Assistance for Needy Families (TANF).

Delivering Comprehensive Services for Adults

WIA currently provides adults and dislocated workers with an array of workforce services and labor market information that can be accessed through local One-Stop delivery systems. However, the current system faces several barriers to preparing a truly competitive labor force capable of meeting the needs of the nation's employers. Two such barriers are separate and unstable funding resources, and a limited capacity to respond effectively to individual needs.

The Administration's proposal would address the first issue by combining the WIA Adult, WIA Dislocated Worker and Wagner-Peyser funding streams into a single formula program. This change would result in streamlined program administration at the state and local level and reduce the current complexities of management across 3 separate "programs." Our proposal builds upon both current law and our recent budget requests that allow up to 20 percent and 40 percent respectively to be transferred between the Adult and Dislocated Worker funding streams by giving complete flexibility within the one, new comprehensive program.

With respect to the second barrier, WIA reauthorization also should include more flexibility in the delivery of services. This would allow for greater collaboration and integration of programs in the one-stop setting.

As you are well aware, the current eligible training provider requirements have often had the effect of reducing customer choice due to the limited number of eligible training providers in a particular local area. Many of them consider the system created under WIA burdensome and have opted out. The Administration's proposal would provide Governors with greater authority to determine what standards, information and data would be required for the eligible training providers in their state. This change would result in an improved eligible training provider system and ensure the continuation of such key principles as customer choice and provider accountability while also making it easier for training providers to participate in the system.

We also propose to improve upon Individual Training Accounts by making them more flexible and responsive to individual needs. In addition, we want to incorporate the Personal Reemployment Account concept featured in the President's growth package by authorizing the use of such accounts as part of WIA.

Creating A Targeted Approach to Serving Youth

Currently, funds for the WIA Youth program are spread too thinly across the country due to the statutory formula and lack of strategic focus. The Administration's proposal would reform current programs by focusing resources on out-of-school youth through a Targeted State Formula program and Challenge Grants to cities and rural areas.

The Targeted State Formula program would be used at the local level to serve out-of-school youth. Challenge Grants to cities and rural areas would be awarded on a competitive basis, with funds going to programs proven effective at serving out-of-school youth. Under our reform proposal, the Department would also award grants on a discretionary basis to high-quality programs that provide activities in a non-school setting that lead to high academic achievement.

Improving Performance Accountability

Finally, we propose to address the concerns many states and local areas have raised about the performance accountability provisions in WIA. The seventeen statutory performance indicators under WIA title I are perceived as too numerous and overly burdensome. Through reauthorization, the number of WIA title I indicators would be reduced from seventeen to eight (4 for youth and 4 for adults). As part of the Administration's new common performance measures initiative for employment and job training programs, these indicators would cut across federal job training programs and would have a common set of definitions and data sets. This would help to integrate service delivery through the One-Stop Career Centers at the local level. Governors would have the authority to add measures for use within their states.

Conclusion

Workforce investment is an integral part of economic development, and a better-trained workforce promotes greater economic growth. I believe the Administration's proposal for Personal Reemployment Accounts and reforms to the Workforce Investment Act respond effectively to both current economic conditions and future trends. I look forward to working with this Committee as we move ahead.

This concludes my remarks. I will be glad to respond to any questions you may have. Thank you.

APPENDIX C - STATEMENT OF KENNETH MAYFIELD, PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, WASHINGTON, D.C.

NACo National Association of Counties

TESTIMONY OF THE HONORABLE KEN MAYFIELD, PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, BEFORE THE HOUSE COMMITTEE ON EDUCATION AND THE WORKFORCE ON HR 444, THE BACK TO WORK INCENTIVE ACT OF 2003 AND REAUTHORIZATION OF THE WORKFORCE INVESTMENT ACT OF 1998

FEBRUARY 12, 2003

Introduction

Chairman Boehner, Mr. McKeon, Mr. Porter and the other distinguished members of this Committee, my name is Ken Mayfield and I am the president of the National Association of Counties (NACo) and a county commissioner from Dallas County, Texas.

I would like to thank Mr. Porter for introducing the legislation that is the principle focus of this hearing. It is an important step toward increasing services to unemployed and dislocated workers.

I would also like to thank the chairman for inviting me to testify. I am deeply honored to have been asked to testify on HR 444, the Back to Work Incentive Act of 2003 and to offer some comments on the reauthorization of the Workforce Investment Act.

The National Association of Counties is the only organization representing America's counties in Washington, DC. As you know, every county in America is involved in a local workforce program. We believe that these programs – as established under the Workforce Investment Act of 1998 – have been responding to today's workforce crisis effectively and responsibly.

The decision by this committee to consider legislation that would enhance the existing workforce system is a vote of confidence in the system, and a vote of confidence that we share with you.

HR 444: The Back to Work Incentive Act of 2003

America's counties share your concern for the on-going workforce crisis. As you know, long-term unemployment stands at a 50 year high and a recent article in the *New York Times* noted that the United States economy is in the worst hiring slump in 20 years. While all of us were pleased that the percentage of unemployed workers dipped by three-tenths of one percent last month, we are not out of the woods yet, and the numbers of unemployed Americans who are running out of unemployment insurance wil continue to rise if current trends continue. All of us, regardless of party or political interests, share an unyielding desire to ensure that every American who wants to work, is able to work.

HR 444 – an appropriate response to the on-going employment crisis:

NACo believes that the HR 444 would help us achieve that goal. Like you we seek to:

- Accelerate the re-employment of unemployed persons;
- Enhance their ability to remain on the job; and
- Provide these individuals with greater flexibility and choice when obtaining re-employment assistance.

And like many of you on this distinguished committee, we support, in general, this legislative proposal and urge you to adopt it with modifications.

We support your efforts to:

1. Make personal re-employment accounts a part of the workforce development system established through the Workforce Investment Act of 1998 by requiring that funds and activities be channeled through the local workforce investment areas and the local one stop systems;
2. Limit substantially the amount of funds that may be used at the state and local levels for administrative purposes to ensure that the bulk of resources are used to obtain training and employment assistance and to return to work;
3. Institute sufficient flexibility so that individuals may step outside of the parameters established through individual training accounts or ITAs and utilize different types of services; and
4. Make these funds directly available to recipients either through vouchers or direct reimbursements to clients.

Recommended modifications to the current proposal:

We also believe that some modifications to your proposal would strengthen it and ensure that individuals obtain the kinds of assistance they need to return to work. I would, therefore, like to take a moment to outline some of our concerns and provide you with a number of recommendations.

County elected officials involved in Workforce Investment Act programs take their roles and responsibilities very seriously. We welcome the authority and responsibilities given to us under the Act and have attempted to carry out those activities in a way that is accountable to you the Congress, the Administration, the states, but most importantly, local businesses and individuals receiving employment and training services.

We seek the same levels of authority, responsibility and accountability in this proposal. However, as written this proposal would make us accountable for the resources used, but would give us very little authority to ensure that the resources are used properly.

We share your view that individuals should be given as much flexibility and latitude to use the resources as they wish; we also believe that the local one stop system can provide these individuals with substantial guidance and assistance. We have spent the last five years building this system and we believe that local one stop systems have developed the kinds of skills and craft necessary to guide unemployed individuals through the maze of intensive, supportive and training services available.

We, therefore, would urge this committee to modify the proposal so that:

1. Each individual receiving a personal re-employment account is required to establish a personal re-employment plan at the local one stop system office to which they are referred. We believe that the flexibility and latitude that you have built into this act must be maintained; however, we also believe that these individuals would benefit from the guidance, direction and support the local one stop system can provide.
2. As a condition of receiving administrative dollars to operate this program, local workforce investment areas should be required to amend their plans to reflect the kinds of services they will provide to individual's receiving personal re-employment accounts so that governors are certain that a minimum standard of services is provided state-wide.
3. When appropriate, local workforce investment areas should be permitted to add crucial Workforce Investment Act funds to an individual's personal re-employment account to ensure that they can purchase the types of training and assistance they need to achieve the outcomes expressed in their personal re-employment plan. Reports from local workforce areas indicate

that ITAs often can cost in excess of $3,000, the likely limit for personal re-employment accounts.

4. Local one-stop systems should be permitted to charge for services other than those needed to develop the personal re-employment plan (which should be covered by the 5 percent administrative allowance provided by formula to local areas.)
5. Bonuses should be available to individuals who obtain employment after following and completing their individual re-employment plan if the plan requires that they participate in employment and training activities beyond 13 weeks.
6. Bonuses should not exceed $500 to ensure that individuals not view personal re-employment accounts and bonuses as an incentive to take any job that might come along regardless of its merit or long-term value.
7. Individuals who lose their jobs within the first year of employment through no fault of their own should be permitted to receive Workforce Investment Act intensive and training services. Such examples might include a plant or business closing or a reduction in force due to changing economic circumstances.
8. Funds appropriated for personal re-employment accounts should be in addition to those funds appropriated for other Workforce Investment Act programs and that the funds for personal re-employment accounts not be permitted to supplant other funding.
9. The Back to Work Incentive Act of 2003 should not become a vehicle by which to reauthorize the Workforce Investment Act (except as is necessary to establish this program) or to reform the Wagner-Peyser Act, the Employment Service or the unemployment insurance system.

We also urge you to clarify in your committee report that the term local area referenced in HR 444 is, in fact, a local workforce investment area as designated under section 116 of the Workforce Investment Act. We also urge you to clarify that the one-stop delivery system referenced in HR 444 is the same as the one-stop delivery systems delineated in section 121 of the Act.

The Workforce Investment Act of 1998

I would also like to take this opportunity to outline our most significant concerns regarding reauthorization of the Workforce Investment Act or WIA. As you know, the National Association of Counties has been a long-standing supporter of a federally sponsored and locally operated workforce development system. NACo also believes that the Workforce Investment Act represents a major improvement over its predecessor, the Job Training Partnership Act or JTPA.

Maintain its current effectiveness:

NACo will urge Congress to modify the Workforce Investment to ensure its continued effectiveness in addressing the needs of all of America's workers. NACo believes that modifications to WIA should be minimal and efforts to reform the act should be limited to those issues likely to enhance the program for both employers and workers.

Principles for reauthorization:

I would like to take this opportunity to outline 15 principles that NACo hopes will be adhered to during the reauthorization process:

1. NACo believes that the local public-private partnership as established under the Workforce Investment Act should be maintained. Decisions about how the partnership should be implemented at the local level should be left to local elected officials and local workforce boards in consultation with states.

2. NACo believes that the federal-state-local relationship established by the Workforce Investment Act should be maintained to ensure that appropriate planning authority and accountability is maintained.
3. NACo believes that appointment authority for the local workforce investme boards must remain with chief local elected officials. Local elected officials should work with local business organizations to identify appropriate business leaders within the local workforce investment area to serve on local boards and governors should continue to have the authority to certify local workforce investment boards. The states have no first hand knowledge of or experience
4. NACo believes that local one-stop centers should remain under the guidance and jurisdiction of local chief elected officials and local workforce investment boards, as provided for in current law. These one-stop centers should be accountable to the local chief elected official for all monies spent to prevent the misuse of public funds.
5. NACo believes that the vast majority of funds allotted to states should be allocated by formula to local workforce investment areas. Where appropriate, the Congress should make adjustments to the formulae in order to achieve a more balanced and equitable distribution of funds. The reallocation authority currently given to governors should be retained.
6. NACo also believes that emphasis should be placed on incumbent worker training so that individuals whose skills are becoming antiquated may obtain the appropriate training to remain competitive in the job market.
7. NACo believes that the percentage of private sector representatives on the local workforce investment boards should be increased and the number and percentage of public sector representatives, especially the mandatory

partners, should be reduced substantially or eliminated. Representatives from these public agencies may be asked to participate in meetings when issues relevant to them arise; however, the decision-making authority on the local workforce investment boards should rest with the private sector. NACo believes that the public-private partnership is represented by the partnership that is forged between the local chief elected official and his or hers local workforce investment board. Decisions made by these two entities represent the public-private partnership at work.

8. NACo believes that local workforce investment area plans should be developed jointly by the local chief elected official and the local workforce investment board within broad policy and programmatic guidelines developed by the governor and the state workforce investment boards. Local workforce investment areas and states should be granted broad waiver authority to creatively respond to the employment, economic development and welfare issues confronting states and localities. Requests for waivers should be developed jointly by local elected officials and workforce investment boards, should be limited to the delivery of program services and the allocation of funds to different activities and must receive the approval of governors before they can be enacted.

9. NACo continues to believe that local one-stop centers should be funded either through a separate congressional appropriation in addition to funds for workforce development core, intensive and training services or through contributions from each of the mandatory partners. These funds should be allotted to or collected by the states and distributed to local areas based upon the formulae used to distribute program funds.

10. NACo believes that individuals should have immediate access to core, intensive or training services, and that requirements which mandate that individuals shall receive anyone service prior to another defeat the overall purpose and goal of the Workforce Investment Act. Therefore, NACo supports granting local one stop centers greater flexibility with regard to the provision of services and utilization of training funds.
11. NACo believes that youth programs for in- and out-of school youth should continue to be developed and funded by local workforce investment boards acting in consort with their local chief elected officials. Funds for these programs should continue to be allocated to local areas. They should be used in part to address the needs of students making the transition from school to work and to assist those students no longer in school develop the skills they need to enter the world of work.
12. NACo supports Personal Re-Employment Accounts but believes that they should be part of the WIA system and should come under the guidance and oversight of local chief elected officials and WIA local WIB board members
13. NACo supports efforts to align resources for greater flexibility. Funds for adult, youth and dislocated workers should be consolidated into a single block grant so that local areas may determine the kinds of populations to serve based upon need.
14. NACo believes that the performance standards and measures should be modified substantially and should focus on program outcomes and customer satisfaction.
15. NACo also recognizes the need for management information and NACo recommends that Congress delineate the differences between those data

collected to determine performance and those that are used to manage information.

Conclusion

The National Association of Counties believes strongly that workforce development programs represent an important tool for the federal, state and local governments to respond to the continuing employment crisis. While no workforce program can ensure that every American who wishes to work can work – that can only be ensured by a robust economy with substantial job creation capability – we do believe that the current system is well positioned to address the needs of America's unemployed workers and businesses. We believe that the Back to Work Incentive Act and the Workforce Investment Act, of which it will become a part if enacted into law, represent important steps toward helping all Americans find work. We, therefore, welcome this proposal and endorse it with the modifications recommended. We also urge you to reauthorize the Workforce Investment Act keeping in mind that modifying the governance structure or the current methods for allocating funds will have no effect on the quality of the services provided.

Chairman Boehner, that concludes my remarks. I want to thank you again for this opportunity to testify before the committee and welcome any questions that you may have.

APPENDIX D - STATEMENT OF DR. LAWRENCE MISHEL, PRESIDENT, ECONOMIC POLICY INSTITUTE, WASHINGTON, D.C.

Economic Policy Institute

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Testimony
Of
Dr. Lawrence Mishel
President
Economic Policy Institute
Before
The Committee on Education
And The Workforce
U.S. House of Representatives

February 12, 2003

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I. Introduction

The U.S. economy is growing too weakly to create enough jobs to reduce unemployment and sustain real wage growth. Despite the loss of two million private sector jobs in less than two years, the Bush Administration has refused to propose an effective stimulus program to jump start the economy and strengthen the labor market. Instead, the President has proposed a massive program of tax cuts for the rich that will damage the economy and lead to more job loss in the long term than if no change were made in current policy.

While numerous stimulus packages have been proposed that would lead to economic growth and substantial job creation, at a reasonable cost to the federal budget, the Bush plan would *destroy* 750,000 jobs, at a cost of $670 billion, while increasing inequality and wasting resources needed to address critical needs, such as education and health care.

II. The Jobs and Income Challenge

The U.S. economy today is weak. The economy's growth in the last quarter of 2002 was so anemic, in fact, that mainstream forecasters have recently downgraded their predictions for the coming year. The blue chip forecast is for 2.7% growth in Gross Domestic Product, a level too low to create jobs, lower unemployment, and sustain consumer buying power. Without a quick stimulus to boost economic growth, the labor market throughout 2003 will be characterized by high unemployment, including high long-term unemployment, no job creation, and wage growth that lags behind inflation.

The full extent of the damage done by the last two years of recession and economic malaise are only now becoming clear. In 2001, the rise in unemployment caused household incomes to fall for the bottom 95% of households. It is almost surely the case that the even higher unemployment in 2002 led to further widespread losses of income as wages eroded and employment and hours deteriorated. Further damage to living standards will likely occur in 2003 because unemployment is projected to remain high.

The economy's weakness is seen most clearly in the labor market. Recent labor market conditions have been analyzed by EPI economist Jared Bernstein (Bernstein, 2003), attached as Appendix A. Bernstein's conclusion is that:

> "The jobs picture is so serious that steps to stimulate the economy and generate job growth are urgently needed. Any stimulus proposal should be evaluated primarily on its impact on job creation and its ability to reverse the current trend of weakening wage growth."

- Despite the fact that the recession is widely believed to have ended last year, unemployment rose throughout 2002, ending the year at 6.0% in December. Since the most recent economic peak, the jobless rolls have expanded by 2.8 million.

- Compared with March 2001, there are now 2.2 million fewer private sector jobs. Payrolls contracted not only over the recessionary year of 2001, but also over the alleged recovery year of 2002.

- The decline in private sector jobs at this point in the recovery is greater than in any of the past three recessions/recoveries.

- The lack of job creation has led to long spells of unemployment. The average unemployment spell has increased by more than five weeks compared with its level in the fourth quarter of 2000. In January, there were 1.7 million people who had been jobless for more than half a year, a million more than in January 2001.

- The lack of employment growth has led to slower growth of the labor force, as fewer people choose to compete for scarce jobs. The labor force is now growing half as fast as it was two years ago, a sure sign of a weak labor market.

- The rise in unemployment has led to slower wage growth, real income losses, and higher poverty rates.

- In 2001, when the unemployment rate climbed to 4.8% from 4.0% in 2000, real household income fell by 3% for the poorest households and 2% for middle-income households, while poverty increased by 0.4 percentage points. Although income and poverty data for 2002 are not yet available, given that unemployment was another point higher in 2002 (5.8%), the incomes of low- and middle-income households very likely fell even more last year.

- According to a new report from the Bureau of Labor Statistics, median weekly earnings fell 0.5% in real terms over the past year (from fourth quarter 2001 to fourth quarter 2002).

Last week there was an additional report on the labor market, from the Bureau of Labor Statistics detailing jobs and wages as of January, 2003. Changes in the survey questions and new information on net migration make it difficult to discern some unemployment trends. The reported unemployment was 5.7%, a drop from the reported December level but in the range of unemployment seen over the last six months.

There was no change in the payroll survey so conclusions about recent trends are more reliable. The 143,000 increase in payroll employment in January is a potentially hopeful sign. Unfortunately, this job growth primarily reflects the quirkiness of seasonal adjustments to retail trade jobs: the weak hiring in December reflected in a 100,000 decline in retail jobs led to a comparable increase in such jobs in January as those never hired were not laid off! The bottom line is that in January there were 13,000 fewer jobs than in November, and there is no reason to believe that the 'jobless' nature of the current recovery has changed.

Moreover, there was no growth in hourly wages, suggesting that the weakening wage growth at the end of 2002 continues in 2003.

No one should take comfort in an unemployment rate of 5.7%, which seems low relative to the bottom of other recessions. The enormous loss of jobs over the last two years and the decline in real wages are a truer measure of the problem. Besides the fact that unemployment is likely to rise again in the coming months, today's unemployment rate can be misleading because we have also had a slowdown in labor force growth (the number of people coming into the labor market hoping to find work). The stark fact is that we have lost 2.2 million private sector jobs since March 2001 (the official start of the recession). Even more worrisome is that the job losses in this recession exceed those of the prior three recessions, all of which generated unemployment significantly higher than we have now. Graph 1 shows the percentage loss in private jobs in 28 months into the current recession- a loss of 1.8%. This is a greater loss in jobs than in the earlier recessions at the same point in the business cycle. A jobless recovery means hardship for millions of Americans.

The fact that wage growth has deteriorated during 2002 indicates that the weak job market is not only affecting those who have lost a job or fear job loss - it is adversely affecting the wages and incomes of those who are employed. This is clearly shown in Graph 2. Real weekly wage growth, inflation-adjusted, was strong and positive over the four quarters of 2001. As unemployment continued to rise in 2002, it is not surprising that wage growth faltered (the impact of unemployment on wages occurs with a lag). Over the most recent four quarters, wages have fallen behind inflation nearly across the board. Real weekly wages fell 0.3% for low wage workers, a sharp drop from the 2.8% gain in the prior year. Similarly, middle wage workers saw their weekly wages fall by 0.2%, a big turnaround from the 2.2% growth in the prior year. A similar reversal of wage fortunes is evident among upper-middle and higher wage workers. Few families are escaping the jaws of this recession.

II. Job Impact: Weak in the Short Term, Negative in the Long Term

Given the job losses, high unemployment and the declines in real wages and family income during the current recession, it is appropriate to consider policies to stimulate the economy.

Unfortunately, the Bush Administration "Jobs and Growth" proposal is not effective at creating jobs and growth in either the short-term or the long-run. This can be seen by examining the Administration's own analysis as well as projections of mainstream forecasters.

This view is widely shared in the economic profession. In a joint statement (Attachment B) released this week, ten Nobel Laureates in economics and 450 other economists said that:

> "The tax cut plan proposed by President Bush is not the answer to these problems. There is wide agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near-term. The permanent dividend tax cut, in particular, is not credible as "short-term stimulus."

The Administration claims that their proposal "would provide near-term support for the recovery and have a significant effect on the rate of long-term economic growth."(CEA, 2/4/03; p.4) The Administration has chosen to emphasize the importance of raising long-term growth rather than short-term stimulus, so we should examine those claims first.

It is remarkable that the Administration's own analysis (Hubbard, 2/4/03/ CEA, 2/4/03) shows that the Administration's plan is not effective at creating jobs or growth in the long-term. As Graph 3 shows, the Administration claims its plan will generate more growth in GDP and in jobs in the first two years than over the first five years. This implies that GDP growth and jobs actually decline in 2005, 2006 and 2007 relative to what we would expect with no plan. In fact, growth in the 2005-07 period declines 0.8% and there are 701,000 fewer jobs created as a result of the plan. CEA chair Hubbard's testimony (his Chart 3) shows that the plan has no effect over the four quarters of 2005, suggesting that the Bush plan causes growth to be lower by 0.4% in both 2006 and 2007.

It is not surprising that the CEA analysis shows their plan having a negative long-term impact since other forecasters have reached similar conclusions. Consider the projections of Mark Zandi, president of Economy.com, who was recently referred to in the *Wall Street Journal* as "one of the smartest analysts of today's economic scene." Zandi's analysis of the Bush plan (Economy.com, February 2003) shows a positive impact over the first two years (0.8% higher GDP over two years) but an annual GDP decline of 0.25% thereafter. Consequently, GDP is lower by 1.0% in 2013 than it would be with no Bush package. The result is a loss of 750,000 jobs by 2013.

Similarly, a special analysis of the Bush plan by Macroeconomics Advisers, LLC, also shows negative long-term consequences (Macroeconomic Advisers, January 10, 2003). Please note that Macroeconomic Advisers is a highly regarded firm that is one of only two Blue-Chip forecasters to twice win the annual Blue Chip Economic Forecasting Award. They conclude (p.6) that "the long run impact of the tax cut is to induce a decline in potential GDP and hence revenues." The forecast shows the Bush plan lowers productivity by 0.6% in 2010 and raises unemployment higher than would otherwise be the case over the 2003-07 period. This reflects the fact, according to Macroeconomic Advisers, that although the Bush plan has a positive short-term impact on growth and jobs in 2003 and 2004, the cumulative impact over the next five years is to have no impact on GDP and a cumulative employment gain of 105,000 jobs. The implied impact over the 2005-07 period is a 0.5% annual decline in GDP and the loss of 343, 000 jobs per year. The fact that productivity declines and employment begins to decline in 2005 directly contradicts the Administration's claim that their plan produces jobs and growth in the long run.

There are negative long-term job and growth impacts of the Bush plan for two reasons. One is that the tax cuts lead to sustained budget deficits into the foreseeable future. These deficits, in turn, raise long-term interest rates, thereby suppressing investment and productivity growth. The second reason is that the items included in the Administration's proposal are rather ineffective at raising long-term growth. Much of the package involves items already scheduled to be implemented. Therefore, these items do not have a long-term effect. Plus, the dividend tax cut has little stimulative impact in either the short or long run. Many economists believe that the dividend exclusion will actually depress investment

One can see how ineffective the elements of the Bush plan are by examining Graph 4, which lists Economy.com's evaluation of how stimulative a proposal is per dollar spent – the higher the number, the greater the stimulative impact. The least stimulative proposal is the dividend tax exclusion, which generates just twenty cents of stimulus in ten years per dollar spent. (The short-term impact is even less). The Bush income tax proposals have little effect because, as noted above, they would have occurred anyway. As short-term stimulus, the most effective items in the Bush plan are those which benefit low and middle-income taxpayers. As should be well known, accelerating the income tax rate cuts benefits the best-off families exclusively, with 94% of the benefits accruing to the upper 20% and 54% of the benefits accruing to the top 1% of taxpayers. It should thus not be surprising that accelerating the tax rate reductions is less effective at stimulating spending.

In contrast, Economy.com identifies extending unemployment benefits, providing state fiscal relief and providing a broad-based one-time tax cut (the wage bonus-type relief in the House Democratic plan or the Senate proposal) as very effective short-term stimulus.

As mentioned earlier, there is reason to believe the Administration's proposal will have a short-term effect on jobs, although very few would be created in 2003 In fact, the

Administration's claim is that 510,000 extra jobs will be created in the second half of 2003.

It is clear that the Administration's proposal is poorly designed to produce near-term stimulus.

One can certainly create many more jobs with a $674 billion expenditure. In fact, the competing plans offered by Democrats in the House and Senate create more jobs over the next year than the Bush plan, yet do not create long-term chronic deficits. This is because these plans rely on immediate, temporary and effective measures.

It is easy to understand why the Bush proposal is so ineffective at creating jobs in the near-term. First, very little of the package actually stimulates the economy in 2003 when jobs are most needed – just $31 billion, or 4.6% of the $674 billion tax cut. In contrast, all of the Democratic proposals call for much larger stimulus in 2003. Second, the Administration's tax cuts are ineffective at stimulating consumption because they are so heavily targeted at high-income groups. Third, there is little reason for making permanent tax cuts in order to generate jobs in 2003 and 2004 – the tax code in 2010 has little to do with the spending habits of consumers this year. Thus, large permanent tax cuts are unnecessarily expensive and the wrong tool for generating a stronger recovery and creating jobs this year.

This is affirmed in the statement by the ten Nobel Laureates and 450 economists which states, (Attachment B)

> "To be effective, a stimulus plan should rely on immediate but temporary spending and tax measures to expand demand, and it should also rely on immediate but temporary incentives for investment. Such a stimulus would spur growth and jobs in the short –term without exacerbating the long-term budget outlook."

Let me turn now to the Department of Labor's budget and its major legislative proposals.

Having presided over the loss of more than two million private sector jobs since the recession began in March 2001, the Bush administration should be very sensitive to the needs of the unemployed. Surprisingly, however, the President's budget virtually ignores the long-term unemployed, proposes an ill-timed experiment in delivering reemployment services to the rest of the unemployed, and shifts the costs of administering the unemployment insurance program to the states during a time of fiscal crisis.

As we have seen, the long-term unemployed – those who have been unemployed for more than six months– have grown in total numbers and as a share of all the unemployed over the past two years. In March 2001, 690,000 people had searched for work for at least 27 weeks; last month there were 1, 683,000 – nearly a million more. Those searching for work for more than 6 months make up 20% of all the unemployed.

Despite all the talk of job creation, the Department of Labor's statistics reveal that as of November 2002, there were only 2.826 million job openings in the US. That is, firms were looking to hire 2.8 million workers. Meanwhile during the same month there were 8.637 million people searching for work. These labor market conditions leave 5.8 million workers with no way to find a job – no matter how diligently they search.

The most urgent problem for the Labor Department today is *protecting* the millions of workers who cannot find a job. This is especially true for the one million workers who lost their jobs last year, exhausted all of their unemployment benefits, both state and federal, and remain unemployed. They are facing economic disaster for themselves and their families, since even while receiving unemployment compensation, about 40% of the long-term unemployed fall into poverty. Congressman Rangel introduced legislation to make those exhaustees eligible for the federal extended benefits (TEUC) program, but Congress left them out when it extended the program in January.

In the recession of the early 1990's Congress provided 26 weeks of federal unemployment benefits to all workers who exhausted their state benefits, and an additional seven weeks of benefits in high unemployment states. The TEUC program that was extended in January provides only 13 weeks of federal benefits to most exhaustees. The first priority of the Congress, therefore, should be to correct this gaping hole in the safety net.

Instead, the President has proposed an experimental program targeted on a selected group of workers whom the states identify as likely to exhaust unemployment benefits in the future. The proposed funding, over a two-year period, would allow 1.2 million workers ton take part in the experiment and would provide *"up to"* $3,000 for workers in individual accounts. (The actual amount would be subject to appropriations, would be reduced by the administrative costs of the program, and could be further reduced by state and law policy.)

Apart from the inadequate funding and lack of coverage, there are many potential problems with the Personal Reemployment Account experiment. In the best of times it is unclear that this program is cost-effective, but in bad times, like the current labor market, the program is particularly ill-conceived. As discussed previously the US job market is characterized by too few jobs, for too many workers. In November 2002, when last measured, there were three workers looking to fill each job vacancy. To give a reemployment bonus to a few for finding a job more quickly does nothing for overall economic growth or employment – it simply plays musical chairs with the unemployed -- rewarding the luckier job seekers, who need help the least. This is an unaffordable waste of scarce resources.

The Personal Re-employment Account experiment may also be a bad deal for many of the workers who would receive them. Under the Workforce Investment Act, unemployed workers are eligible for Individual Training Accounts (ITAs) worth as much as $10,000 in some states. The maximum Personal Re-employment Account amount would be only $3,000, too little in many areas to purchase worthwhile training for a new job. (Some states cap ITAs at a much lower amount, but they would be permitted to cap the PRA below $3,000, too.) Workers who receive a Personal Re-employment Accounts would be prohibited from using WIA services for a year, so some would be trading $10,000 worth of services for $3,000. Many workers would be tempted to make the trade in order to obtain a reemployment bonus, but if they are correctly profiled, they are unlikely to find a job by the 26th week, let alone the 13th, and will end up with no reemployment bonus and a further diminished chance of finding a job.

Rather than experiment on the unemployed during a period of economic hardship, it would make more sense (after dealing with the needs of the long-term unemployed) to increase funding for ITAs. The U.S. General Accounting Office has found that the states are stretched thin, spending nearly 100% of the money allotted to them under the WIA. Increasing WIA funding would leave states the choice of providing more money for ITAs to upgrade the skills of the unemployed, providing reemployment bonuses if they were appropriate, or increasing the intensive reemployment services provided by one-stop centers.

The Administration's proposals put all of the additional administrative costs of these experimental accounts on to the states. Compounding this problem, the President's budget has proposed eliminating the federal role in funding the administration of the unemployment insurance system by shifting this burden onto the states. This "devolution" proposal will make the states responsible for raising taxes to fund the administration of the unemployment insurance system. The competitive business climate between the states is likely to mean that there will be a race to the bottom – further eroding the protections of the unemployed.

As I said at the outset, the economy has stagnated and needs an immediate stimulus. Compared to the stimulative effect of extending unemployment benefits, which generates more than $2.00 of new GDP for every dollar spent, PRAs would be grossly ineffective. First, they will take months to implement, both because the states and the Department of Labor will have to issue regulations and implementation guidelines, following legislative enactment, and because an appropriation will have to be passed by both Houses and signed by the President before allotments to the states can be determined. And then, before the first dollar can be spent, the states will have to devise and submit implementation plans to the Labor Department for review. The state plans, must be developed "in consultation with local boards and chief elected officials" and must include, among other things, "safeguards, developed in consultation with such boards and officials, to ensure that funds from the personal reemployment accounts are used for purposes authorized under this chapter and are not used for services or providers that are wholly unreasonable or egregious." Second, the effect of this experimental program is unknown, given the current labor market of scarce jobs; this experiment is unlikely to result in anyone finding work faster as a result of the bonus. Those lucky enough to find work will get a bonus while those out of work for long periods of time will exhaust their regular UI benefits. Third, this experiment is poorly timed. Finally, the programs are woefully under-funded at the proposed level and do not in any way address the real problem, a lack of jobs.

There is also no certainty that the money from Personal Re-employment Accounts would be spent quickly after it is received, making the PRAs even less effective as stimulus. They seem designed, in fact, to work primarily as a reemployment bonus and to be paid in full only six months *after* the worker is reemployed. At that point, paid as a lump sum to a worker with a salary, the bonus might be saved, rather than spent on pressing needs.

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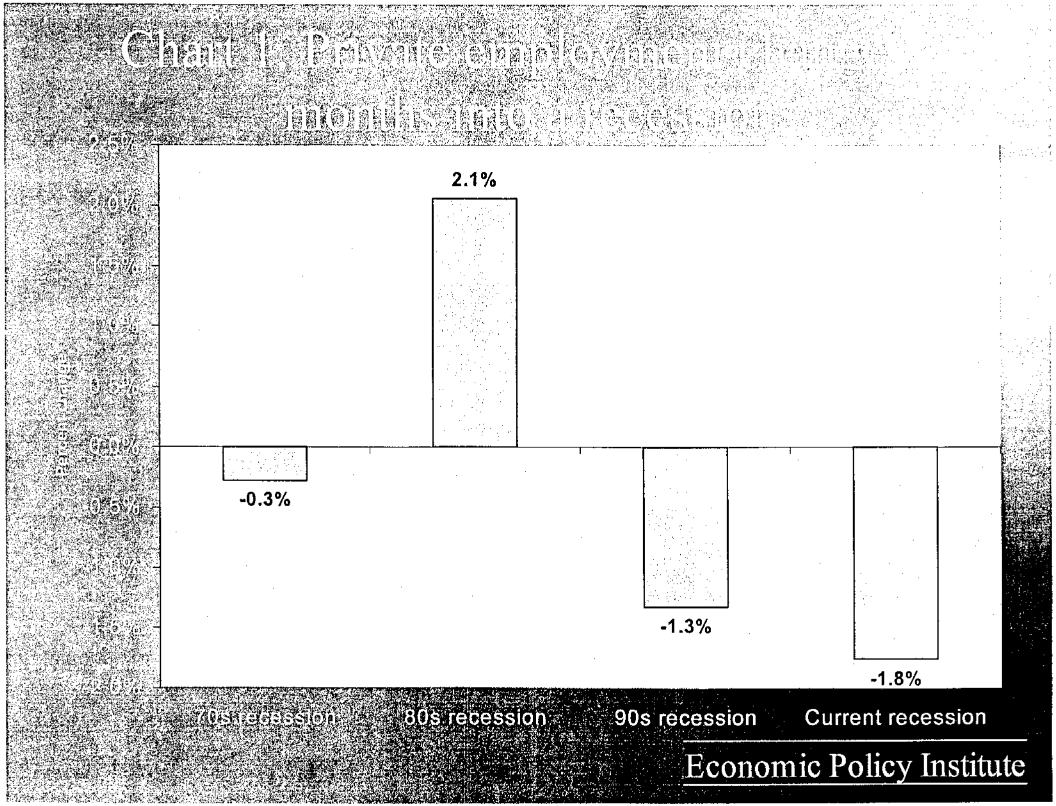
Chart 1: Private employment
2.1%
-0.3%
-1.3%
-1.8%
70s recession
80s recession
90s recession
Current recession
Economic Policy Institute

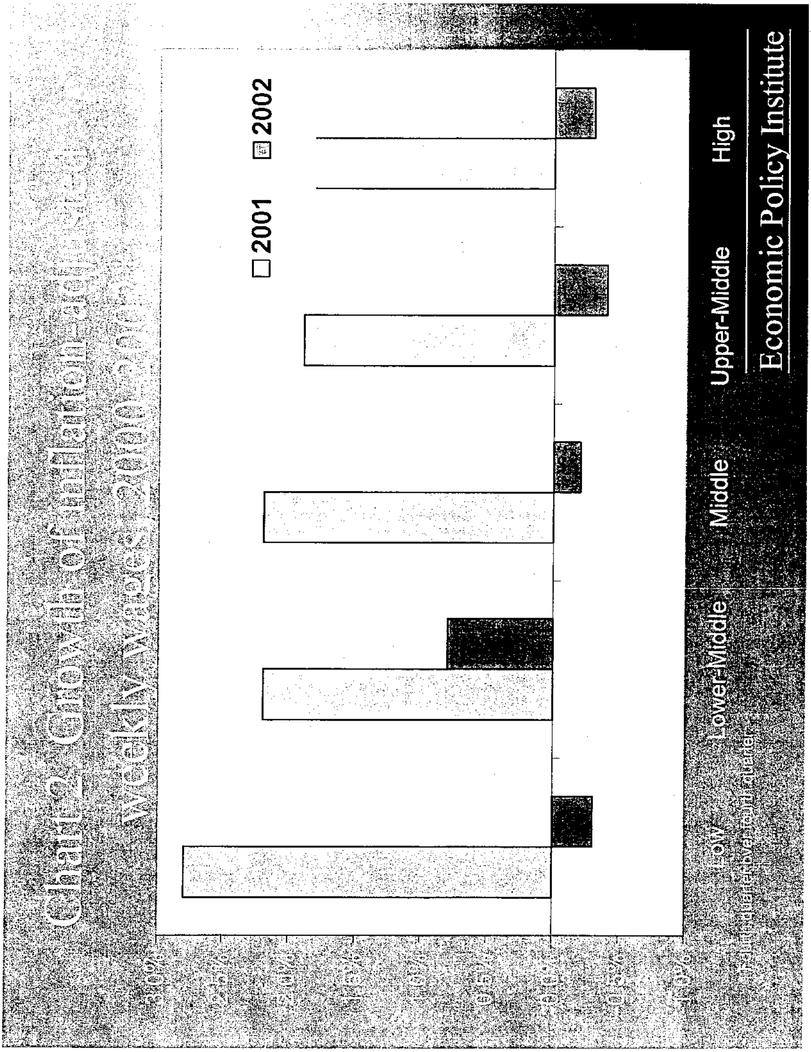
Chart 2. Growth of inflation-adjusted
weekly wages, 2000-2002
2001
2002
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
Low
Lower-Middle
Middle
Upper-Middle
High
Economic Policy Institute

Chart 3. Impact of Bush Plan on Jobs and Growth, 2003-07

Impact of Bush Tax Plan
As Reported by the CEA*

				2003-07		Implied 2005-07	
Indicator	2003	2004	2005-2007	Annual	Total	Annual	Total
GDP (percentage points)							
Q4/Q4	1.0%	0.8%	?	0.2%	1.0%	-0.3%	-0.8%
Yr/Yr	0.4%	1.1%	?	0.2%	1.0%	-0.2%	-0.5%
Employment							
Q4/Q4	510,000	891,000	?	140,000	700,000	-233,667	-701,000
Yr/Yr	192,000	900,000	?	170,000	850,000	-80,667	-242,000

* Impact relative to the baseline

Source: Analysis of Council of Economic Advisers (2/4/03)

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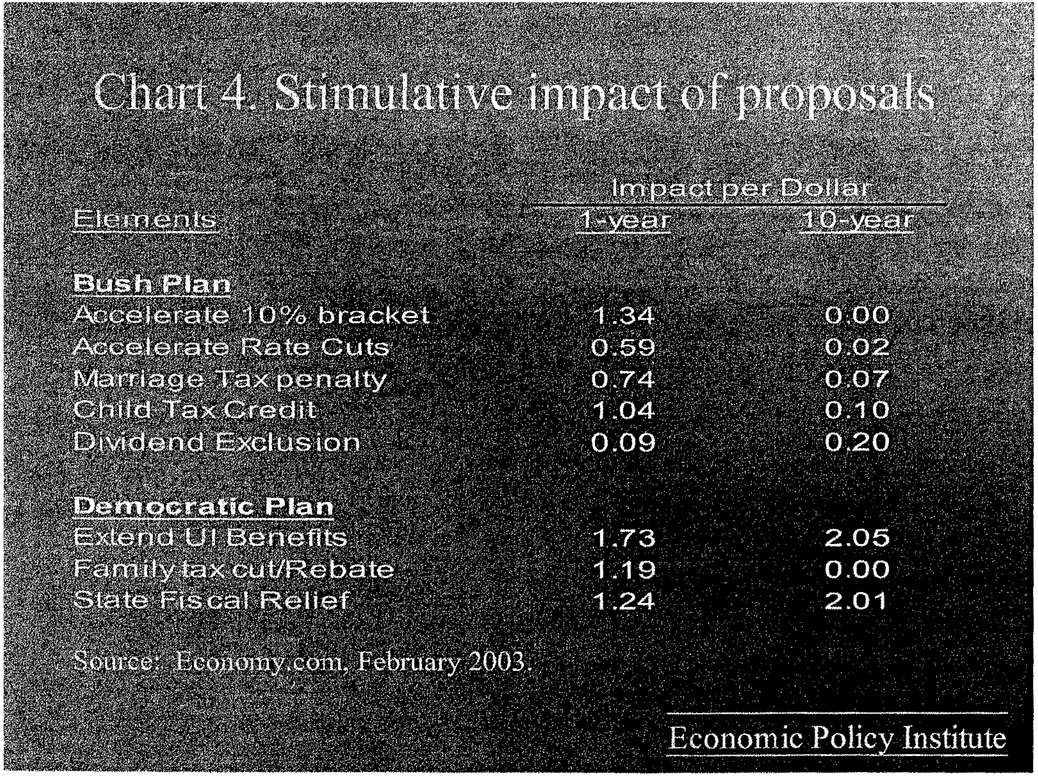


Chart 4. Stimulative impact of proposals

Elements	Impact per Dollar 1-year	Impact per Dollar 10-year
Bush Plan		
Accelerate 10% bracket	1.34	0.00
Accelerate Rate Cuts	0.59	0.02
Marriage Tax penalty	0.74	0.07
Child Tax Credit	1.04	0.10
Dividend Exclusion	0.09	0.20
Democratic Plan		
Extend UI Benefits	1.73	2.05
Family tax cut/Rebate	1.19	0.00
State Fiscal Relief	1.24	2.01

Source: Economy.com, February 2003.

Economic Policy Institute

ATTACHMENT A

EPI Issue Brief

Issue Brief #186 Economic Policy Institute January 24, 2003

THE JOBLESS RECOVERY

Suffering from the recession's aftershocks, labor market conditions continue to worsen

by Jared Bernstein

Though the recession that began in March 2001 has not yet been declared officially over, most economists believe it ended early in 2002. However, the labor market downturn is far from behind us. Today's labor market is much weaker than it was one or even two years ago, and the "jobless recovery" grinds on.

The jobs picture is so serious that steps to stimulate the economy and generate job growth are urgently needed. Any stimulus proposal should be evaluated primarily on its impact on job creation and its ability to reverse the current trend of weakening wage growth.

An examination of the trends in key labor market indicators between the end of 2000 and the end of 2002 shows widespread and persistent weakening in the labor market. Key findings are:

- Despite the fact that the recession is widely believed to have ended last year, unemployment rose throughout 2002, ending the year at 6.0% in December. Since the most recent economic peak, the jobless rolls have expanded by 2.8 million.
- Compared with the end of 2000, there are now 2.1 million fewer private sector jobs. Payrolls contracted not only over the recessionary year of 2001, but also over the alleged recovery year of 2002.
- The decline in private sector jobs at this point in the recovery is greater than in any of the past three recessions/recoveries.
- The lack of job creation also has led to long spells of unemployment. The average unemployment spell has increased by more than five weeks compared with its level in the fourth quarter of 2000. There are now 1.7 million people who have been jobless for more than half a year.
- The lack of employment growth has led to slower growth of the labor force, as fewer people choose to

compete for scarce jobs. The labor force is now growing half as fast as it was two years ago, a sure sign of a weak labor market.

- The rise in unemployment has led to slower wage growth, real income losses, and higher poverty rates.
- In 2001, when the unemployment rate climbed to 4.8% from 4.0% in 2000, real household income fell by 3% for the poorest households and 2% for middle-income households, while poverty increased by 0.4 percentage points. Although income and poverty data for 2002 are not yet available, given that unemployment was another point higher in 2002 (5.8%), the incomes of low- and middle-income households very likely fell even more last year.
- According to a new report from the Bureau of Labor Statistics, median weekly earnings fell 0.5% in real terms over the past year (from fourth quarter 2001 to fourth quarter 2002).

The jobless recovery

The tables below compare the recent trends in key labor market indicators over three time periods: the last quarters of 2000, 2001, and 2002. These periods span the time from the labor market peak of the last business cycle through the most recently completed quarter. If the alleged recovery had reached the labor market, we would expect to see trends worsening during 2001 but then improving in 2002. Instead, we see a steady worsening. Some negative trends, such as long-term unemployment, even accelerated.

Table 1 shows one of the primary indicators of labor market weakness: the unemployment rate, which is the share of the workforce unsuccessfully looking for work. At the end of 2000, the unemployment rate stood at 4.0%. With the onset of recession in early 2001, the rate began to climb, reaching 5.6% by the last quarter of that year. Since then, joblessness has continued to rise, reaching 5.9% in the most recent quarter. As the second panel shows, the ranks of the unemployed grew over this two-year period from 5.6 million to 8.4 million, an increase of 2.8 million unemployed people.

Table 1 also shows unemployment rates by gender and race. Note that the African American rate has risen the most, reaching double digits by the last quarter of 2002, at 10.8%. This represents an increase of 582,000 in the number of black unemployed persons.

Table 2 shows one reason why unemployment keeps rising: the absence of job growth. After growing by 1.6% in 2000, the nation's payrolls contracted by 0.8% in 2001 (1.4% in the private sector), and continued to decline, though less quickly, through 2002. Job losses over this period amounted to 1.4 million overall and 2.1 million in the private sector (since government hiring is less sensitive to the business cycle, private sector employment growth is more indicative of economic conditions).

The manufacturing sector has been particularly damaged, falling by 6.7% (1.2 million jobs) in 2001 and 3.7% (another 642,000) last year. Job losses in retail trade actually accelerated in 2002, driven partly by particularly weak holiday hiring.

Figure A compares private sector employment losses over four different recessionary periods. In each case, we measure employment growth from the low point of unemployment through the subsequent 27 months (since we are now 27 months beyond the unemployment low of 3.9% in October 2000). Even though other recessions were deeper and lasted longer than the most recent one, payrolls have fallen persistently throughout

TABLE 1
Unemployment rates and levels

	All	Men	Women	African Americans	Hispanics
Rates					
2000:q4	4.0%	4.0%	4.0%	7.4%	5.4%
2001:q4	5.6%	5.7%	5.5%	9.9%	7.3%
2002:q4	5.9%	6.1%	5.7%	10.8%	7.7%
Change *(in percentage points)*	1.9	2.1	1.7	3.4	2.3
Levels (in thousands)					
2000:q4	5,609	3,010	2,599	1,239	869
2001:q4	7,983	4,336	3,647	1,654	1,191
2002:q4	8,436	4,624	3,812	1,821	1,273
Change	2,827	1,614	1,213	582	404

Source: U.S. Bureau of the Census.

TABLE 2
Employment growth/losses (percent changes, year-over-year)

	All	Private sector	Manufacturing	Retail trade	Services
2000:q4	1.6%	1.6%	-0.6%	1.7%	3.0%
2001:q4	-0.8	-1.4	-6.7	-0.1	0.1
2002:q4	-0.2	-0.5	-3.7	-0.8	1.3
Change in employment, 2000:q4-2002:q4 *(in thousands)*	-1,379	-2,109	-1,867	-216	577

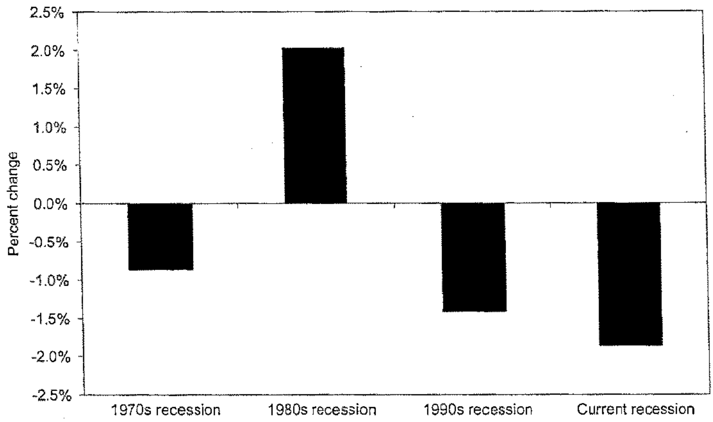
Source: U.S. Bureau of the Census.

this 27-month period. Thus, as shown in the figure, employment losses in the most recent recession and subsequent jobless recovery have been greater than in any of the other three recessions and recoveries. Other recessions may have led to greater losses initially, but by this point in those recoveries, the economy had bounced back and payrolls were again expanding.

Table 3, meanwhile, shows that the decline in employment has meant not only more unemployment, but also much longer spells of joblessness. The table shows the trend both in average weeks spent unemployed and in the share of the unemployed who have been out of work for at least half a year. Both series show that the problem of long-term joblessness worsened in 2002, as the jobless recovery took hold. Since the final quarter of 2000, the average time spent unemployed has grown from about three months (12.4 weeks) to about four and a

FIGURE A

Private sector employment change 27 months from the peak



Source: U.S. Bureau of the Census.

TABLE 3
Uneployment durations

	Average weeks	Share unemployed at least half a year
2000:q4	12.4	11.1%
2001:q4	14.0	13.1%
2002:q4	17.9	20.9%
Change	5.5	9.8 percentage points

Source: U.S. Bureau of the Census.

half months (17.9 weeks), an increase of well over a month. At the same time, the share of the unemployed who have been without work for at least 27 weeks has almost doubled, from 11.1% to 20.9%. Thus, by the last quarter of 2002, 1.7 million job seekers had been without work for at least half a year.

Some commentators have argued that, since unemployment has yet to surpass 6%, this period of recession and slow recovery has been more benign than previous ones. Such analysis overlooks two countervailing factors,

TABLE 4
Labor force growth

	Civilian labor force*	Growth in levels (thusands)
2000:q4	0.9%	1,221
2001:q4	0.7%	1,034
2002:q4	0.4%	508

* Percent change, fourth quarter over fourth quarter.

Source: U.S. Bureau of the Census.

TABLE 5
Overall nominal wage growth and inflation

	Low wages	Median wages	High wages	Inflation
2000:q3	5.3%	3.8%	7.1%	3.5%
2001:q3	3.8%	4.4%	3.7%	2.7%
2002:q3	1.4%	1.8%	2.7%	1.6%
Change *(percentage points)*	-3.9	-2.0	-4.4	-1.9

Source: U.S. Bureau of the Census.

however. First, the pain of recession is experienced not only in the *level* of unemployment but in its *trend.* In this regard, the two percentage-point increase in unemployment over this downturn is not far behind the increase over a comparable time period in the last recession (which was 2.3 points). Second, in the current recession, the lack of job creation has led to a marked decline in the growth of the labor force. Since fewer workers are competing for scarce jobs, this has the effect of preventing the unemployment rate from rising more quickly, masking the full extent of the underlying hardship.

Table 4 presents the percentage changes in the labor force over the fourth quarters of the past three years, showing a clear deceleration from 0.9% in 2000 to 0.4% in 2002. The second column of the table shows the net growth in the number of persons in the labor force over the past few years. Between the fourth quarters of 1999 and 2000, the labor force grew by 1.2 million. It grew slightly less in 2001. Then, in 2002, growth dropped dramatically, with only 508,000 people joining the labor force that year: a clear symptom of weak job creation.

Table 5 shows that the loosening of what had been a very tight labor market has meant slower growth in wages. It shows the annual changes in hourly wages over three years (comparing data from the third quarters of each year, since data are not yet available for the most recent fourth quarter). Wage changes are shown by gender for low-, middle-, and high-wage workers, and are based on nominal wages – not adjusted for inflation – with the rate of inflation shown in the last column.

Nominal wage growth has slowed considerably. By the third quarter of 2002, nominal hourly wages for low-wage workers grew 1.4%, compared to 5.3% in 2000. Middle and high wages have similarly decelerated.

TABLE 6
Changes in household income, 2000-01, when unemployment rose from 4.0% to 4.8%

	Lowest fifth	2nd fifth	Middle fifth	4th fifth	Top 80-95%	Top 5%
Percent	-2.9%	-2.3%	-1.8%	-1.0%	-0.6%	0.4%
2001 dollars	-$304	-$601	-$783	-$646	-$700	$1,019

Source: U.S. Bureau of the Census.

Inflation also slowed over this period, so these smaller nominal wage increases do yield more buying power than they would have a few years ago. However, a new report by the Bureau of Labor Statistics with data through the end of last year finds that the nominal median weekly earnings of full-time workers grew 1.7% between the fourth quarters of 2001 and 2002, which is below the rate of inflation for that period (2.2%).[1]

Even if the labor market were to improve soon, nominal wage growth would likely be slow to revive. This is because there is a considerable lag time between rising unemployment and its negative impact on wage growth (wage growth this year may be just beginning to suffer from last year's rise in unemployment).

Table 6 shows the resulting impact on living standards as reflected in the Census Bureau's annual income data. Although such data only go up to 2001, the impact of the recession is quite clear. The contracting economy, particularly the weakening labor market, helped drive real household incomes lower, with the largest losses occurring at the bottom of the income scale. Income fell 2.9% in real terms for the poorest households, and 1.8% for middle-income households. It grew slightly only for those at the top of the income scale. (Poverty also rose by 0.4 percentage points in 2001.)

It is important to note that these losses occurred simultaneously with the rise in the average annual unemployment rate from 4.0% in 2000 to 4.8% in 2001. Unemployment rose another point in 2002, on average, to 5.8%, and it is highly likely that the incomes of middle- and low-income households contracted further last year.

These wage and income trends reveal that the weak economy is not simply a problem for the unemployed. Many of those who have kept their jobs are facing less job security and are considerably less likely to see the type of wage increases that prevailed a few years ago. In 2000, when unemployment was hovering around 4.0%, the tight labor market ensured that the gains of economic growth were broadly shared and that wages and incomes rose for most working families. These conditions are now unlikely to return until growth accelerates and unemployment falls below 5%.

In short, these tables help reveal the current weakness in the labor market, and its consequences. High unemployment rates relative to a few years ago are beginning to lower the living standards of many working families. The persistent lack of job growth is leading to lengthening spells of unemployment and slower wage and income growth. The primary goal of domestic economic policy at this point should be to target and reverse these negative trends.

Endnote

1. See "Usual Weekly Earnings of Wage and Salary Workers: Fourth Quarter 2002," U.S. Bureau of Labor Statistics. < http://stats.bls.gov/news.release/wkyeng.nr0.htm. >

ATTACHMENT B

ECONOMISTS' STATEMENT OPPOSING THE BUSH TAX CUTS

Economic growth, though positive, has not been sufficient to generate jobs and prevent unemployment from rising. In fact, there are now more than two million fewer private sector jobs than at the start of the current recession. Overcapacity, corporate scandals, and uncertainty have and will continue to weigh down the economy.

The tax cut plan proposed by President Bush is not the answer to these problems. Regardless of how one views the specifics of the Bush plan, there is wide agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near-term. The permanent dividend tax cut, in particular, is not credible as a short-term stimulus. As tax reform, the dividend tax cut is misdirected in that it targets individuals rather than corporations, is overly complex, and could be, but is not, part of a revenue-neutral tax reform effort.

Passing these tax cuts will worsen the long-term budget outlook, adding to the nation's projected chronic deficits. This fiscal deterioration will reduce the capacity of the government to finance Social Security and Medicare benefits as well as investments in schools, health, infrastructure, and basic research. Moreover, the proposed tax cuts will generate further inequalities in after-tax income.

To be effective, a stimulus plan should rely on immediate but temporary spending and tax measures to expand demand, and it should also rely on immediate but temporary incentives for investment. Such a stimulus plan would spur growth and jobs in the short term without exacerbating the long-term budget outlook.

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* Nobel laureate

Committee on Education and the Workforce

Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name: Lawrence Mishel		
1. Will you be representing a federal, State, or local government entity? (If the answer is yes please contact the Committee).	Yes	No X
2. Please list any federal grants or contracts (including subgrants or subcontracts) which you have received since October 1, 1998: N/A		
3. Will you be representing an entity other than a government entity?	Yes X	No
4. Other than yourself, please list what entity or entities you will be representing: Economic Policy Institute		
5. Please list any offices or elected positions held and/or briefly describe your representational capacity with each of the entities you listed in response to question 4: President		
6. Please list any federal grants or contracts (including subgrants or subcontracts) received by the entities you listed in response to question 4 since October 1, 1998, including the source and amount of each grant or contract: 1998: Environmental Protection Agency, $51,476; Department of Education, $13,183.1999: Department of Labor, $58,664; Environmental Protection Agency, $8,524; Department of Education, $8,034. 2000:Department of Education, $43,764; U.S. Trade Deficit Review Commission, $32,082.84. 2001: Department of Education, $37,135; IRS, $111.68.		
7. Are there parent organizations, subsidiaries, or partnerships to the entities you disclosed in response to question number 4 that you will not be representing? If so, please list:	Yes	No X

Signature: Lawrence Mishel Date: 2/11/03

Please attach this sheet to your written testimony.

APPENDIX E – SUBMITTED FOR THE RECORD, STATEMENT OF CONGRESSMAN DENNIS KUCINICH, COMMITTEE ON EDUCATION AND THE WORKFORCE

Dennis Kucinich

Rep. Dennis J. Kucinich
Opening Statement
"Back to Work: the Administration's Plan for Economic Recovery and the Workforce Investment Act."
February 12, 2003

- I am pleased to have the opportunity today to listen to Secretary Chao, Kenneth Mayfield of the National Association of Counties, and Lawrence Mishel of the Economic Policy Institute discuss the current state of the US economy and how we can work towards a much needed recovery.

- For there will be no relief for millions of Americans if the economy continues down the path some economists have predicted: a so-called jobless recovery, which I don't believe is a recovery at all.

- In the State of the Union the President demanded "an economy that grows fast enough to employ every man and woman who seeks a job". He made the same pledge during last year's State of the Union. Since then, a round of tax cuts have gone into effect. The result – the private sector economy has been at a standstill. The most recent Department of Labor report shows total employment at 130.8 million, the exact same level reported a year ago.

- This lack of job creation has been coupled with staggering levels of long-term unemployment. The average period of unemployment has increased by more than five weeks compared with its level in the fourth quarter of 2000. The Labor Department reported that the 8.3 million unemployed workers have been jobless for an average of 18.4 weeks, the highest level in the current downturn. There are now 1.7 million people who have been jobless for more than six months.

- And yet, the Administration's most recent unemployment extension package turned its back on the long term unemployed -- one million Americans have exhausted all their state and federal unemployment benefits and did not get an unemployment extension. These people have no job and no hope of unemployment benefits!

- And make no mistake, there are thousands of others across the country -- also unemployed or underemployed, also receiving no benefits -- who either aren't eligible for unemployment or have been forced to take low wage, part time jobs to make ends meet. In many cases the financial plight of these Americans is no better than others we can point to in the unemployment numbers.

- In January there was an increase of 370,000 in the number of workers working part-time involuntarily. The number of discouraged workers, who have given up looking for jobs, last month stood 121,000 above its level a year ago. The rise was [illegible],000 among women. These Americans are in danger of being forgotten, and they must not be.

- But the Department of Labor budget contains no proposal for providing federal unemployment benefits to the long term unemployed. Instead it under funds training and employment programs, cuts employer taxes, and calls for the creation of Personal Reemployment Accounts.

- I am concerned these accounts will continue a dangerous pattern of leaving workers behind. In 2001 and 2002 about 7.3 million unemployed workers exhausted their regular state benefits. To serve all of those workers in a $3.6 billion budget as proposed by the Administration, each worker could have received only about $500, not the $3000 promised in the proposal. To provide the full $3,000 to each recipient would have meant assisting fewer than one in every six workers who actually exhausted their benefits.

- The accounts also seem to be premised on the idea that workers need an extra incentive to look for jobs. But the current market crisis is NOT spurred by a lack of jobless worker motivation, training or education -- but by a lack of jobs. This $3.6 billion could be better served by expanding unemployment coverage to the long term jobless so that they can support their families while looking for work.

- Finally, yesterday Federal Reserve Chairman Alan Greenspan testified to the Senate Banking Committee that the threat of war with Iraq was the biggest impediment to economic growth in the near future. Consistent with that view, The Economic Policy Institute has reported that every major US war since WWII has propelled the economy into recession after the fighting ended, with unemployment rising by one percent and growth falling by 4.5 percent.

- I think it's time the Administration focused on the real immediate threat: the American economy and its effect on families. I hope Secretary Chao will prove to us that the Administration is taking this threat seriously. I hope the Administration will not continue to leave Americans behind.

APPENDIX F – SUBMITTED FOR THE RECORD, STATEMENT OF CONGRESSWOMAN DENISE MAJETTE, 4TH DISTRICT OF GEORGIA, U.S. HOUSE OF REPRESENTATIVES

Statement of Congresswoman Denise Majette (GA-4)
Addressed to Elaine L. Chao, Secretary of Labor

Madame Secretary,

Our world is changing. The industrial revolution is far behind us, and we have moved into the *Information Age*. We don't have to look very far to see how apt this description is. Right now I am carrying two cell phones, a pager, and a blackberry. Everywhere I go, I see computers. The dramatic advances in technology that have made it possible to have a computer in every classroom are shaping our workplaces. They manage our money, our machinery, and our medication. And these are all good things.

In the past, the average worker displaced from a job could be retrained in just a few months. Often, jobs were physically demanding, but few required formal education. And so, skills were highly transferable from one type of job to another.

Today, the labor market looks very different. With more white-collar and fewer blue-collar jobs, the new workplace often requires more education; a college degree is necessary to find steady work.

The disparity between workers fluent in computers and those who are not is greater than ever before, and that gap is steadily widening. While in the past, someone who fell by the wayside could pick himself up and decide to better his lot through perseverance and sweat, today when someone misses the first train, that's often the last one leaving the station – there are no second chances. Workers without such knowledge are finding their job options fewer and fewer by the day. This is the unfortunate by-product of our age, but it doesn't have to stay that way.

The displaced worker today does not have the resources to go through the many months of education required to learn the computer skills that are necessary to secure a new job. Education costs are higher, and there is so much more to be educated about.

The only solution is education. Job training is a larger challenge than ever before. As a nation, we must find a way to train a more educated workforce to do the increasingly technical work that drives our twenty-first century economy. We must ensure that all workers have those skills that are becoming so necessary across all fields, including basic computer skills and typing. We must also ensure that workers have access to every educational opportunity they might need to become active participants in the information age. We must not allow the computer screen to become a glass barrier.

Secretary Chao, I see some positive aspects in your department's budget proposal, including increased flexibility of workers to use the department's limited resources for child care and transportation. However, I do not see the focus on education and job training so critical for removing the disparities in our workforce. Education needs to become a higher priority for your department as you take on the challenges of this new information age.

APPENDIX G – SUBMITTED FOR THE RECORD, STATEMENT OF JOSEPH R. LARSON, CHAIRMAN, RESTORING AMERICA, LLC, IBERIA, MO

Testimony on the Workforce Investment Act (H.R. 1385)
Restoring America, a national organization

Joseph R. Larson, Chairman
Restoring America, LLC
Iberia, MO
www.restoringamerica.org

February 25, 2003

INTRODUCTION: We have a very simple and direct question to ask the sub-committee on the implementation of the Workforce Investment Act: Why, if this Act is so good, was it passed late on a Friday night when over 75% of the members of both the House and Senate had already gone home? We do not believe this is how our representative government should function. History has proven that unpopular bills are often passed by a select few taking advantage of weaknesses in legislative operation and opportunities at the close of a session.

Friend and associate, Steve C. Boody, a member of The Missouri Round Table organization, wrote this article that shows the WIA as part of a larger picture. It will serve as part of our input:

An Open Letter to the Citizens of Missouri
RE: Missouri's Workforce Development Transition Plan

June 25, 1999

Exploring the Truth about America's
New Education/Economic System

We hear a lot about school improvements, education reforms, School-to-Work, School-to-Careers, the A-Plus Program, Workforce Development, Workforce Investment, and Health Care reform. These terms appear in newspaper articles and we hear them discussed on the radio and sometimes on TV. But do you know what these reforms really mean? The stories and articles nearly always present them in a positive light, but rarely in terms that are easily understood by the average citizen. This letter presents another point of view. Its intent is to provide the reader with a better analysis of what some of the terms really mean and what the impact of these reforms will be on America.

The Key word in this letter is "System." Webster's Encyclopedic Dictionary defines "System" as an orderly, interconnected, complex arrangement of parts ... a set of principles linked to form a coherent doctrine ... The "system" we are referring to here is a new "Economic System" that will impact education, health care, and our workforce. With it will come not only a staggering financial cost, but also a new system of "Governance" (Government). Missouri's "System" consultant, Marc Tucker (who was paid at least $625,000.00 for his input) describes this restructuring, or reform, as a "new human resources system." Tucker states that, "This (System) is interwoven with a new approach to (Governance) ..." and, "What is essential is that we create a seamless web of opportunities to develop one's skills, that literally extends from cradle to grave and is the same system for everyone." [***This is not what Restoring America considers freedom.***] Mr. Tucker further states that, "Creating such a system means sweeping aside countless programs, building new ones, combining funding authorities, changing deeply embedded institutional structures, and so on."

Two relatively new terms you may have heard are Workforce Development and Workforce Investment, but do you know how they connect to School-to-Work (STW)? Missouri's Workforce Development Plan was recently sold to legislators and the public as a minor undertaking to "streamline" state government, and to make government more "efficient" and "effective". The fact is, Workforce Development is nothing more then a wholesale restructuring of the Executive branch of state government to conform to the new economic "System", which includes School-to-Work. State documents confirm that it is a "restructuring" effort, not a "streamlining", or mere reform effort. To "restructure" as we are using the term here, means that the old system is being thrown out and replaced with an entirely new one.

If the Workforce Development component is an innocent plan of little significance, why did Governor Mel Carnahan issue Executive Order No. 99-3 to implement this minor bill? He controls the General Assembly, so why did he find it necessary to bypass the legitimate legislative process? He used the same tactics to install the STW system with Executive Order No. 95-11 on the last day of the legislative session of 1995. [*Restoring America sees a pattern of deceptive legislation.*]

Missouri's Workforce Development Plan executes Mr. Tucker's plan. To illustrate, Mr. Tucker's report entitled "Schools and Systems for the 21st Century" states on pages 16 and 17, "To provoke and sustain this change will require a measure of public support and understanding that does not now exist." On page 21 he states that we must " ... mobilize public support for the new system, and get rid of all current laws, rules and regulations not required to serve these ends." He claims that, "Trying to ram it (the System) down everyone's throat would engender overwhelming opposition." By redefining words with reassuring definitions, by disguising the true intent of legislation to implement this restructuring and its impact, and by concealing the new "Governance" created by the "System", its supporters are manipulating citizens and legislators in order to gain support for their "plan".

Perhaps a debate on the floor of the Missouri House or Senate, or even a public debate with "System's" proponents would be enlightening. The magnitude of this radical restructuring effort certainly requires a thorough debate. Ironically however, these initiatives are often enacted by Governors' Executive Orders or by a handful of legislators "under the cover of night". When the "System's" proponents are invited to engage in public debate, as they were in St. Charles County in the fall of 1997, they often fail to show up, citing "illness" or some such excuse.

Before discussing Missouri's plan further, it is important to understand that the push to establish Workforce Investment began at the federal level with the passage of the Goals 2000 Educate America Act (H.R. 1804), the School-to-Work Opportunities Act (H.R. 2884), and the Improving America's Schools Act (H.R. 6) in 1994. The Careers Act, which was to be the final piece of this gigantic federal boondoggle, failed to pass Congress during succeeding sessions. In 1998, however, Congress passed the Workforce Investment Act (H.R. 1385). This bill passed the Senate [***We believe***] with only six Senators present. In the House, [***We believe***] only a handful of members were present when the voice vote was called at the end of the day and session when most of the legislators had already departed for home. Congressman Jim Talent, for example, was on an airplane in route home and was not aware that the vote had taken place until "We" notified him and he confirmed the vote by logging on to the Internet. Many Congressmen from other states have told the same story. [***Truth does not need to be manipulated.***]

We are told that Missouri's WIP will return decision making to the local level, but the fact is that each community must prepare a plan that complies with the state plan, which in turn must comply with the federal plan. Supporters fail to mention that the locally appointed Workforce Board is subordinate to the state-appointed Workforce Board, which is subordinate to the National (federally-appointed) Workforce Board. These new central planning committees have only a token number of elected officials as board members to avoid criticism. Supporters have neglected to tell people that these new committees will essentially bypass and eventually replace elected officials in state, county, and city governments, along with school boards, as we now know them. The new "Governance" will be an "Appointed Oligarchy" with the power to control the disbursement of public funds, and therefore the power to control the lives of all Missourians. [***This is not government, as we know it. Who could honestly confuse such a top down system with genuine local control? Are we being deceived?***]

Missouri's Workforce Development Plan is essentially a rehash of last year's Senate Bill (S.B. 869), which would have restructured Missouri State government and in effect, created the new "System" of Governance. The bills and state plans are written in deceptive language. The details of last year's bill have been obfuscated in order to build support for this year's plans. Words were redefined, and the educational programs were purportedly removed to appease the grassroots activists who oppose School-to-Work. Missouri's Workforce Plan is not a state effort in the traditional, internally collaborative sense of the word, but rather as a product of the Council of State Legislators and the National Governors' Association, both national groups that include representatives from all the states.

It is also a product of the Carnegie Foundation, which sponsors Marc Tucker and his organization, the National Council for Education and the Economy (NCEE). Perhaps the Missouri legislature [***and the Federal government***] should consider holding hearings to investigate the role of the big foundations, such as Rockefeller, Ford, Pew, Robert Wood Johnson, etc. and their connection to the restructuring of America.

S.B. 869 and Executive Order 99-3 contain two primary principles. The First consolidates similar programs within the Departments of Education, Higher Education, Labor and Industrial Relations, Economic Development, Social Services and Mental Health etc., to develop strategic plans and budget billions of dollars for implementation. A free market or capitalist society does not permit its government to merge or consolidate programs across departmental lines, to develop multi-year plans, and then allocate billions of dollars to implement those plans. That is the approach of a Marxist government. In fact, if you remove the words "strategic planning", and replace them with "five year plans", which are being used to describe the state plans, you have just described the system that was used in the old Soviet Union.

The second principle in S.B. 869 includes the following: "Joint strategic plans for workforce developments shall, at a minimum, include common systems for assessing worker's level of skill, identify minimum skills required to adequately staff employment vacancies and develop methods to match trained workers and job opportunities."

To accomplish the above, the state will: 1. Create a computerized inventory of ALL the jobs in the state, both private and public, 2. Break down each job into individual tasks, 3. Break those tasks down into the individual skills needed to complete the tasks (SCANS Report), and 4. Develop a Performance Assessment System to determine each individual's level of skills (MAP 2000).

Missouri's new Performance Based Assessments, or High Stakes Assessments, including Exit Examinations, were established by S.B. 380 (a component of the new "System"). These assessments will be used to ensure that every Missourian earns a "Certified Diploma" or "Skills Certificate" to prove that they are capable of being "matched" with the right "job opportunities".

The "Certified Diploma" and "Exit Examinations" are two of the final stages for the education component of the Federal Government's new School-to-Work/Workforce Investment System, and they are the control mechanisms for regulating ALL education in America. Architects of the new STW system advocate using education reformer B. F. Skinner's philosophy of "rewards and punishments", which will be introduced incrementally into the curricula. Government officials selected Hegel's Dialectic Materialism and the Delphi Technique to develop a consensus (create support) for the new system. The state will reward schools and students who participate with access to colleges, scholarships and job preferences. What "punishments" await schools that manage to keep government intrusion at bay? What "punishments await students who want to pursue their own dreams as opposed to the state's plan for them? What about the new diplomas described by some as "smart cards"? Will they be used to store personal information (including shot and health records) that could be used against our citizens, or track them through their educational career and perhaps through their lifetime in the job market? [***Remember the workbooks of Nazi Germany?***]

Missouri's new "Certified Diploma" and its derivatives, the "Certificate of Initial Mastery" the "Certificate of Advanced Mastery" or "Skills Certificates" all mean essentially the same thing: GOVERNMENT CONTROL. The names change repeatedly because as soon as their true meanings are discovered and publicized, they become too controversial. The new state diploma will supersede traditional local or district diplomas, or be required in addition to. In either case, the result is state control over ALL schools and ALL students, including ALL private schools and ALL home schools. If the state can mandate an exit exam, it can control the curriculum and the student's access to college, scholarships and the job market. [***If the states follow federal guidelines – then, the federal government CONTROLS.***]

The STW system is not an educational system. It is not voluntary, and it is not an American solution. It is an economic System with a workforce component, an education component, and a health care component. Our schools are the <u>vehicles</u> that have been chosen for installing the "<u>System</u>" and will be tied to the "One-Stop Shops", or "One-Stop Community Centers" that will include school-based health clinics and job training centers. Some will be open 24 hours a day. This <u>new</u> "System" is not new at all; it is in fact, a hybrid of the systems used during the 1920's in the Soviet Union and Prussia (Germany).

The STW system is a consolidation or centralization of power by our FEDERAL GOVERNMENT. It is the merger of education, labor, and health services. This "System" will create a command economy and the new "Governance" will resemble a Fascist state. The "System" is disguised as an education reform movement and is being sold under the auspices of saving the taxpayer money.

Even John Dewey, who was America's preeminent "progressive" (Marxist) educator – called the 'Father of Modern Education' – is credited with saying; "Vocational training, training for particular jobs, is not the education of free men and women."

APPENDIX H – SUBMITTED FOR THE RECORD, STATEMENT OF MINNESOTA STATE SENATOR, MICHELE BACHMAN, DISTRICT 52, ST. PAUL, MN

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Senate
State of Minnesota

Reauthorization of the Workforce Investment Act
by Michele Bachmann, Minnesota State Senator

Many voters, businesses, and legislators, are unaware of the establishment of the Workforce Investment Act (WIA) and the radical ways this new system is impacting America's free market economy. Most never voted for it, never consented to it, do not know what it is, yet are persuaded to participate through the 'carrot and stick' of subsidies, taxation, and "leverage" initiated from the federal level. This pervasive lack of informed consent contributes to concerns regarding reauthorizing the WIA.

WIA is one leg of a three-legged stool – a federally induced tripartite "partnership" between government, education, and business. WIA covers the government/business "partnership." WIA operates hand-in-hand with the School to Work Act (covering the education/business partnership), and Goals 2000 and "No Child Left Behind" Act (covering the government/education partnership). Together, these three federal initiatives form a radical "restructuring" of American society, moving our nation away from a free market economy, and toward a system of centralized control.

The new system, in all its fundamental respects, is controlled from the *federal* level through a network of *appointed "representatives"* immune to accountability by voters. While local control over local workforce delivery is allowed, this merely creates a veneer of local control, as all local workforce decisions must be made within parameters set by the federal and state appointed workforce boards. Workforce funding streams are consolidated such that only the employee/employer "winners" chosen by the local workforce boards will benefit Bestowing government benefits outside our traditional form of governance could likely create new economic problems due to the heavy hand of government interventionism.

The new system aspires to service the training of *all* employees for *all* businesses, a truly breathtaking task. Training is based on government projections of our future economic needs, where individuals are shepherded into training for government-favored jobs. Those projections are inherently no better than the government generated statistics. But the system is susceptible to exaggeration or distortion by those nearest to benefiting from government training subsidies. By giving inflated estimates of future growth, a business can acquire a larger supply (and hence lower cost) of workers trained via government subsidy. These types of distortions inevitably propagate once you separate the 'payer' from the 'receiver' of goods and services – as the new system does.

The fundamental goals, values, and definitions of "success" are set at the federal level – and do *not* correspond to those of individuals and businesses. While "efficiency" is important, individuals and businesses view "efficiency" *differently* than government does. They balance their resources and choose their path more efficiently than any bureaucrat possibly can on their behalf. The new system pretends to possess sufficient information about the needs and goals of individuals and businesses, and makes decisions on their behalf. But bureaucrats *can never* possess that information as accurately and efficiently as individuals and businesses already do. The new system is increasingly *deciding* winners and losers among businesses, rather than letting the free-market decide. For example, the new system intends to sometimes support a failing business, "retraining" its workforce in a preemptive effort to prevent layoffs. The new system intends to lavish subsidies and training upon government-chosen businesses, and punish other businesses with higher taxes – again deciding the winners and losers.

Moreover, in a centrally controlled system, there is a strong motive for individuals, businesses, and agencies, to provide *inaccurate or erroneous information* to those above them in control. The motive is to obtain more favor (such as subsidies), or avoid more dis-favor (such as taxes). Put simply: Tell the boss what the boss wants to hear. But in this case the 'boss' has little means to discern its accuracy. To put it bluntly, centralized control fosters misinformation and chokes on its own lack of accurate, timely information. That is why controlling the economy – such as framed by the WIA – fails. Controlled economies never have, and never will, match the productivity provided by free market economies.

WIA is costly, and like the earlier 1965 federal incursions into schools, its costs will vividly increase if it is allowed to assume greater control over our infrastructure. Of further concern is the role of WIA in pressuring "unwilling partners" – a contradiction in terms, if ever there was. In testimony before this committee, a key proponent of the new system requested "Stronger statutory and regulatory" measures to deal with "**unwilling partners**." While another acknowledged that discretionary WIA revenues are being used to "**drive systemic change**".

> "Stronger statutory and regulatory encouragement and guidance in this area would most welcome, particularly in those states and localities that continue to struggle with **unwilling partners**. Such encouragement may take the form of amendments to partner program statutes, requiring or at least providing incentives for such participation and resource contributions; …." (Tim Barnicle, Co-director, Workforce Development Program, National Center on Education and the Economy, in testimony before the before the Subcommittee on 21st Century Competitiveness, Committee on Education and the Workforce,
> U.S. House Of Representatives, September 12, 2002)

> "Discretionary WIA revenues are serving not only to fund the training of workers, but to **drive systemic change** resulting in our community's

improved capacity to respond to this need." (Bruce Stenslie, Director of the Ventura County, California, Workforce Investment Board and Deputy Director of the Ventura County Human Services Agency, in testimony before the before the Subcommittee on 21st Century Competitiveness, Committee on Education and the Workforce, U.S. House Of Representatives, September 12, 2002)

APPENDIX I – SUBMITTED FOR THE RECORD, STATEMENT OF KIMBLE AINSLIE, ON BEHALF OF THE MACKINAC CENTER FOR PUBLIC POLICY, MIDLAND, MI

Mackinac Center for Public Policy

Posted: Wednesday, September 18, 2002

Staffing Services Industry Under Fire

By Kimble Ainslie

The Clinton-era Workforce Investment Act of 1998 (WIA) has done more to harm the staffing (employment) services industry in Michigan and the United States than anything since FDR's New Deal. And yet, this federal statute is due to be reauthorized next year by Congress and shortly thereafter by the Michigan Legislature and Governor.

In fact, since 1998, the state has facilitated this federal intrusion into state labor markets by accepting $62.5 million in annual WIA money. WIA funding enables Michigan to operate 104 local labor exchange and training centers, called "one-stops," or "Michigan Works" in this state. In addition, the state encourages the use of federal tax credits and state grant programs to entice and subsidize large companies to engage in Michigan Works recruiting on behalf of large companies.

How did the state get into this predicament? Why is this traditionally private business activity being threatened? The short answer is: Congress invented a new labor entitlement when it passed WIA in 1998. All adult workers in America became entitled to use WIA-financed, one-stop career centers. (The U.S. Department of Labor actually handed out grants to states as far back as 1994 to establish the one-stop "infrastructure" nation-wide.) This is an entirely new governmental role where government one-stops are used to recruit ordinary, working adults seeking job upgrades and advancement in their careers. Michigan Works one-stops are now directly competing with the private sector for the state labor market and their role in this is growing.

The states of Florida, Kentucky, and Washington have equivalent or worse intrusions, and Massachusetts, Utah, Pennsylvania, Wisconsin, Minnesota, New York and California are gearing up for comparable market interventions. Michigan just happens to be one of the more sophisticated state workforce regime-builders.

The staffing services industry in the United States is a $66 billion annual business, employing 2.2 million people daily, through thousands of service outlets. Although many people think staffing services as simply a placement service for temporary workers, 72 percent of temporary employees actually move into permanent positions, according to the American Staffing Association.

Currently, about 500-600 private staffing services companies are responsible for 2000-2500 branch offices across Michigan, and most are at risk. Indeed, the foregoing high and low estimates are offered because it is evident that the recent recession and the federally financed Michigan Works state system is severely damaging the industry. Many companies have been put out of business. The Michigan Association of Staffing Services reports that the association lost half its membership in the last year due to the economic downturn and state competition by Michigan Works.

Last January 2002, Douglas Stites, CEO of Capital Area Michigan Works in Lansing, met with owners and managers of staffing services. He informed them that in their three-county capital area, Michigan Works would be engaging in a “direct outreach” strategy to the customers of staffing companies, and potential customers. The local one-stops would offer “free” recruiting and training services. In addition, targeted companies could apply for the federal Work Opportunity Tax Credit, the Welfare to Work Tax Credit, and various other state grants and subsidies. In effect, the federal and state government would pay companies to accept state-sponsored recruits.

Staffing services owners and managers are in a real bind because if they complain loudly about the negative effects of WIA and Michigan Works, they run the risk of alienating current and potential clients.

Staffing services owners and managers were astonished to learn in January that the Capital Area board would double its $400,000 marketing budget in 2001-2002 to $800,000 in 2002-2003. This budget finances the rental of local billboards, the distribution of tens of thousands of brochures, and the purchase of radio and television advertising—to promote this rather costly "free service."

In the age of privatization, it is more than a little curious that a state agency would seek to socialize an industry sector. Quite obviously, it is time to take another hard look at Michigan's participation in this destructive federal "workforce" program. In the end, Michigan ought to "just say no" to federal workforce financing, as well as any back-door takeover of the staffing services industry.

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(Dr. Kimble Ainslie is the President of Nordex Research International, with offices in London, Ontario, and Tallahassee, Florida. Nordex is a public policy analysis and survey research company. He is currently associated with the Mackinac Center for Public Policy in Midland MI and The Fraser Institute in Vancouver B.C.. Dr. Ainslie previously worked at the Cato Institute in Washington D.C. and the James Madison Institute in Tallahassee.)

APPENDIX J – SUBMITTED FOR THE RECORD, STATEMENT OF MAPLE RIVER EDUCATION COALITION, MICHAEL J. CHAPMAN, BOARD OF DIRECTORS, ST. PAUL, MN

Maple River Education Coalition
Michael J. Chapman,
Board of Directors

Reauthorization of the Workforce Investment Act

Opposition Report, Submitted:
September 26, 2002

Opposition to Reauthorization of the Workforce Investment Act

Michael J. Chapman; Maple River Education Coalition

Objection to the Overall Workforce Restructuring Scheme:

We oppose the reauthorization of the 1998 Workforce Investment Act (WIA) because it represents a "radical" and "revolutionary" departure away from America's successful free-market economic system. Instead it embraces and helps establish a government-planned and managed economy. In order to understand how this could be, one must realize that the WIA is simply one piece of a larger federal reform agenda broken apart and passed piece-meal under the Clinton Administration. The 1998 WIA, along with the 1994 Goals 2000 Educate America Act, and the School-to-Work Opportunities Act, built the framework for this federal system.

These three laws effectively merged education and businesses under a government-appointed bureaucracy, which will oversee a "seamless system" of human resource development to meet the government-perceived needs of the future economy. These planners will determine future workforce need and approve specific "career-clusters" that regional schools may offer to students. Under the No Child Left Behind Act of 2001, the term "career cluster" was replaced with the term "smaller-learning communities."

In Minneapolis, ALL students are required to apply for a specific career cluster by 9th grade. Eventually, however, the Workforce Investment System is meant to include everyone in this scheme – whether one is a young student, unemployed, or an "incumbent" worker seeking a job change.

Building the Federal Workforce Investment Puzzle:

On November 11, 1992, Marc Tucker, president of the National Center on Education and the Economy, wrote a letter to Hillary Clinton explaining how best to implement the design they had worked on together, now that Bill Clinton was president. (See Congressional Record, Sept. 25, 1998) In that letter, Tucker explained how that design would manage and control all people throughout their lives: *"We think the great opportunity you have is to remold the entire American system for human resources development... What is essential is that we create a* ***seamless web****...that literally extends from* ***cradle to grave*** *and is the same system for everyone."*

His plan was to align and coordinate *ALL* **EDUCATION, WORKFORCE PREPARATION**, and **ECONOMIC DEVELOPMENT** into a single, comprehensive, *"seamless system"* under a government-appointed planning board that would encompass every child, worker, school, and business.

On September 12, 2002, the Committee on Education and the Workforce heard testimony in favor of reauthorizing (and strengthening) the Workforce Investment Act, which confirmed that WIA represents the culmination of Marc Tucker and Hillary Clinton's radical restructuring plan to ensnare ALL people:

Mr. Tim Barnicle, Co-Director of the Workforce Development Program at the NCEE, and a former official with the US Department of Labor during the development of the Workforce Investment Act, testified in favor of reauthorizing WIA for the purpose of completing the "comprehensive workforce investment system for the United States." He explained that WIA would require an "EVER INCREASING investment" to meet its ultimate goal to ***"leave no child, no worker, no contributing member of our society behind."***

Echoing the Tucker/Clinton plan for a "seamless system" was Mr. Bruce Stenslie, Director of the Ventura County, California Workforce Investment Board, who explained that the goal of WIA is to "integrate **workforce**, **education** and **economic development** strategies."

Managing the "K-80 Knowledge-Supply Chain."

Robert Jones, the Undersecretary of Labor during the Carter years, helped create the Secretaries Commission on Achieving Necessary Skills – where the preliminary work for WIA was begun. Jones is now the president of the National Alliance of Business and will be Minnesota's keynote speaker in the upcoming Workforce Development Seminar put on by the state this October 10th. Jones explains that WIA is about "**Managing the K-80 Knowledge Supply Chain**" in a newsletter:

"To stay competitive, US companies are making a science of pulling together the right supplies at the right time in the right place. What would happen if companies could apply this process, known as supply chain management, to people?"

Jones goes on to explain that schools are to become the "suppliers" and businesses the "customers" under this new "seamless system." The Workforce Investment Act echoes this idea explaining: *"The state's Education system...must be more closely attuned to the needs of the employer community...including more...just-in-time training."*

Keep in mind; the system is designed for all learners - "K-80," not just those who "choose" to enter two-year technical college. The proponents of the system call this concept "Life-Long Learning," because eventually EVERYONE will be part of the system.

"New Economic Governance"

Jones' term "Knowledge supply chain" is not really a good name, however. Marc Tucker, of the NCEE, more accurately called the system "A LABOR-Market System for the 21st Century." He explained, in his book by that title, that the labor needs of a new economy would require a ***"New Governance Structure"*** to manage it. He wrote, *"The labor-market system [will be] overseen by a state-level council charged with policy development, strategic planning, coordination, oversight and evaluation."* He also explained *"States should...serve students in School-to-Career Programs through **One-Stop Career Centers**."*

In order to accomplish theTucker/Clinton vision, WIA mandates the establishment of a nation-wide network of workforce boards made up of "government-appointed representatives" of business, education, labor, and others, who's duty is to match human resources to "customers" through local "one-stop" centers. By law, the boards must be at least 51% business representatives, stacking the deck in favor of the ultimate "customer." Unfortunately for freedom's sake, none of these groups get to elect their own representation. All are appointed by the state and held accountable to those who appoint them.

In Minnesota, an appointed oversight board called, the "Workforce and Economic Development Transition Team", is conducting the final assembly of our federal system.

According to their final report, released January 23, 2002: *"The structural reforms include a new role for state government"* which is to, *"coordinate policy and planning between workforce development, education and training, and economic development."* This "comprehensive strategy," according to the Transition Team, includes the creation of the ***"Minnesota Economic Leadership Team (MELT), as the statewide policy board for economic and workforce development."***

MELT will be given supra-authority to choose business winners and losers and direct the state's total economic development goals and system. They will also carry out the increasing requirements spelled out under WIA. According to the Transition Team report, MELT's specific duties include:

- "Develop and continually update a strategic vision for the state economy."
- "Review regional plans in *context of state economic priorities*."
- "Define and *monitor strategic economic indicators*."
- "Establish *performance targets*."
- "Provide *direction to the Governor*, agency commissioners, and other boards regarding *their role* in implementation of *MELT's strategic vision*."
- Advise *private and non-profit organizations* on how they may contribute toward achieving MELT's vision…."

This is completely contrary to our "free market" system that has served America so well!

The Federal WIA also mandates the creation of the one-stop career center, through which "learners" will be matched with targeted industries.

According to the Minnesota Governor's Workforce Development Council's Workforce Center Strategic Plan, *"…the funding supporting Minnesota's Workforce Centers comes with much regulation and prescription from the federal government."* Despite that regulation, on April 5, 1994, the US Secretary of Labor named the South Minneapolis Career Center, "The National Model for the Workforce Investment Act." WIA now mandates replication of these one-stop centers throughout ALL 50 states.

The goal of Minnesota's national model "one-stop" is to *"establish a* ***comprehensive K-life education and employment transition system*** *which prepares all Minneapolis learners to* ***assume their rightful place*** *at the center of the economic and social fabric of the community."*

Government bureaucrats, not individuals will determine "th[e] rightful place" of each person. According to the "Governor's Workforce Development Plan", the goal of WIA is to, *"Increase the alignment of public schools with the marketplace, including the needs of* ***critical occupations and industries****."* One-stop career centers act as job brokers matching students with specific government-approved jobs for which children have applied, beginning in 9th grade.

According to St. Paul's Education "Blueprint," *"Based on federal and state research on where job growth is anticipated, St. Paul secondary schools will consider six career clusters as a focus of their small learning environments."* Students are given a narrow choice depending on where government researchers have determined the need will be.

To help steer children in the right direction, the plan calls for *"Aligning tuition levels to correspond with demand for training in priority industries and occupations."* The plan even calls for *"capping enrollment in programs for which there is a low demand for employees relative to supply."*

Under the old (free-market) system, students were free to choose a major, and eventually a career, based on personal interest alone. Now, if government bureaucrats have determined that there are already enough "human resources" in a particular area of interest, that career or major would not be available. Where does the information come from to determine demand in "priority industries"? The Governor's Workforce Development Plan answers: *"State government must constantly monitor occupation and industry trends and remain flexible to respond to them."* Apparently, free-market forces are no longer good enough for the "new economy," only government can save the economy!

A Track-Record of Failure:

How is this new system working so far? Since Minnesota is one of the 10 pilot states for this system, we've seen ample evidence that government-planned economies don't work.

For example, according to a Minnesota Department of Economic Security report, five industries have been targeted as "high growth." One of them was determined to be "taconite production," a mining product necessary for the production of steel. As a result, the state school system produced brochures to lure children into the field of Taconite Production. The flyers produced with taxpayer dollars proclaim: "GO PLACES in TACONITE" and promises paychecks of $65,000 per year.

Unfortunately, during the same year that brochure was produced, 30,000 Iron-Range workers were laid off due to the decline of the taconite industry. (Each of those unemployed workers would LOVE to be earning $65,000 a year!)

The point is, if government planners cannot accurately predict market trends in the same year, why would we trust them to accurately predict the future four or ten years down the road and tailor shape our children's training accordingly? The government is training our children to be unemployed! Unfortunately, the system is designed to respond to LOCAL INDUSTRY NEED, not the needs of children. Since the Iron Range is assigned taconite production, schools in the area will slot children into that career regardless of true need!

Another example illustrates the inefficiency of regional bureaucratic planning. Recently, we met a man who had been laid off after a 35-year career in computer programming. He decided to visit his "one-stop career workforce center." He explained that programming was his life's work and all he really needed was a few classes to update his computer skills. Unfortunately the one-stop center in his home district was not approved for any more computer programmers, but they did need more hotel workers. They approved a training schedule for him to learn hotel maintenance. Meanwhile, the workforce center for the county just north of his district had a top-priority listing to find and train computer programmers. Both centers knew of this man, but because he lived in a different region, the bureaucracy wouldn't allow the obvious solution of training him in the field where he was highly qualified. He ran into a red-tape nightmare and ended up staying on the welfare roles.

Government bureaucracies are terribly inefficient compared to free-market forces!

All 50 States Implementing the Same Plan:

The Federal Departments of Education and Labor co-developed the templates that States were required to follow in order to gain approval for their Workforce Development Plans. All 50 states have adopted the federal guidelines and are in various stages of building the same system. Minnesota's plan may be compared with that of any other state, and one will find a nearly identical workforce development plan.

For example, like Minnesota, the Texas Workforce Development Plan divided the state into regions and developed career clusters to meet labor needs of the local businesses. According to their report, *"The Dallas metropolitan area with its telecom corridor demands different skill sets in the workforce than those needed in the shipbuilding industry in Corpus Christi or oil production in the Permian Basin."*

The report continues: *"This will require continued innovation led by <u>those who understand best the challenges of business</u> – those who represent that community on <u>local workforce boards</u>. It will also require the system to...increase the involvement of the <u>economic</u> development and <u>education</u> communities."*

Yes; the proponents of this system honestly believe GOVERNMENT alone knows the future and is best suited to shape human resource development under its narrow vision. As Mr. Stenslie, Director of the Ventura County California Workforce Investment Board said in testimony: government, under WIA, will "**<u>BE ALL THINGS TO ALL PEOPLE</u>**." (Emphasis added).

The free market system that has made the United States the freest and most prosperous in the history of the world will be destroyed if WIA is reauthorized.

Summary of Reasons to Oppose Reauthorization of WIA:

1) The Workforce Investment Act (WIA) is one of three federal bills that combine to create an aligned and unified "Labor Supply Chain," in effect, re-inventing government, education, and the economy in all 50 states.
2) WIA interferes with local free-market forces by controlling workforce and economic development through government-appointed planning boards. Furthermore, it usurps and damages the private job-matching industry.
3) WIA waters down existing programs for the truly needy, disabled, and unemployed by spending limited funds for ANY and ALL citizens.
4) WIA has a proven track record of failure in its pilot states. More funding WILL NOT SOLVE the fundamental problems inherent within a government-planned economy!
5) WIA usurps states' (and the peoples') right to self-determination guaranteed by the constitution and the 10th amendment.

Michael J. Chapman and the Maple River Education Coalition

Michael J. Chapman is a volunteer researcher for the Maple River Education Coalition, and the founder of American Heritage Research. He has conducted thousands of hours of research from original-source state and federal documents on the new federal education, workforce preparation, and economic development system. Mr. Chapman has traveled the nation explaining the system to thousands of parents, educators, and government officials in a wide variety of forums and conferences. He has also provided testimony on various education issues at the state level, and has provided research and training materials to federal representatives and staff at their request.

The Maple River Education Coalition is a grass-roots volunteer network of parents, educators, business leaders, and students based in St. Paul, Minnesota. It is committed to educating the public about the unprecedented transformation of the US workforce, the US economy, and American education toward a centrally planned and controlled federal system. The organization has grown to 30,000 strong across the state of Minnesota.

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