THE HAMILTON PROJECT

Advancing Opportunity, Prosperity and Growth

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Strengthening One-Stop Career Centers:
Helping More Unemployed Workers Find Jobs and Build Skills

WITH THE NATIONAL UNEMPLOYMENT RATE RISING RAPIDLY, a key question facing state and federal governments is how best to help workers who have lost their jobs. One-Stop Career Centers (One-Stops), first established in the 1980s, may prove critical in this effort. Serving nearly 15 million workers each year, One-Stops provide information to job seekers on employment and job training. Their programs consist of low-cost core services, which include computerized job listings and other forms of job search assistance, and higher-cost intensive services, which include counseling and training for workers facing more difficulty finding jobs. The effectiveness of One-Stops, however, has been hobbled by severe budget cuts over the past decade, as well as poor performance measures that waste limited resources.

In a new discussion paper for The Hamilton Project, Louis S. Jacobson of CNA presents several reforms to increase One-Stop effectiveness and help the centers serve more unemployed workers. He proposes revamping the accountability system to reflect the relative cost effectiveness of various core and intensive services. To help One-Stops place more workers in jobs, Jacobson would increase funding for core services, increase the number of job vacancies listed with One-Stops, and check in frequently with clients during their job searches. Jacobson would also boost funding for counseling of potential trainees to increase the chances that these workers complete the most appropriate type of training for their skills and goals. Improving the efficiency and effectiveness of One-Stops would be cost effective, Jacobson shows, because it would shorten jobless spells and increase earnings for workers, while promoting future economic growth through a more highly skilled workforce.

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THE CHALLENGE

With unemployment at its highest rate in nearly two decades, state and federal governments are facing pressure to help laid-off workers not only weather unemployment, but also return to work as quickly as possible. Tens of thousands of workers are losing their jobs each day, and economists predict that the national unemployment rate will exceed 9 percent in 2009.

Government assistance to out-of-work and disadvantaged workers, such as unemployment insurance, is an essential part of the social contract of our nation. While unemployment insurance benefits can help laid-off workers endure short-term income shocks, unemployed workers also need help finding new jobs and building new skills. Finding new employment has become increasingly difficult, as evidenced by the fact that the average duration of unemployment has more than doubled since 1970.

For nearly three decades, One-Stop Career Centers have played a critical role in helping unemployed workers find jobs, serving nearly 15 million workers in the average year and more workers in troubled economic times. One-Stops serve dislocated workers, who lose jobs as a result of economic change, as well as disadvantaged workers—the working poor who need help finding jobs with possibilities for advancement. Nearly all clients receive "core services," which include low-cost job search assistance in the form of group workshops and computerized public labor exchanges that connect employers with potential employees through searchable job listings. These services have proven highly cost effective, placing workers in jobs quickly and thus reducing unemployment insurance outlays. About 3 percent of clients also receive higher-cost "intensive services," usually only after core services have been deemed ineffective in these clients' job searches. Intensive services include customized career planning and counseling and, once these methods have been exhausted, vouchers for training programs.

According to Jacobson, several features of One-Stops contribute to their effectiveness in getting job seekers back to work. Most importantly, One-Stops assemble information about jobs and training programs to which many unemployed workers would otherwise lack access. Workers visit the more than 1,300 One-Stops across the country and access services remotely over the Internet to identify the best job openings available for their skills and to learn about training programs that may increase their earnings in the future. One-Stops can provide their services at low cost by employing a work-first strategy in which clients begin with low-cost job search assistance, then receive more expensive counseling services as necessary, and finally move to training if the other services prove ineffective.

By offering much-needed employment information, says Jacobson, One-Stops serve as honest brokers that present job seekers with the costs and benefits of various employment decisions. Workers may not understand the trade-offs of declining one job offer in hopes of receiving a better one, especially since the optimal decision varies with economic conditions and individual skill levels. Removing deficiencies in employment information is especially important for workers considering training programs. Without this knowledge, workers are more likely to enroll in low-return training programs or to drop courses without completing them.

Despite the great potential of One-Stops to help workers, especially in the current recession, One-Stops have been hampered by weak accountability systems and severe budget cuts. Evidence indicates that current performance measures are not correlated with the actual value-added of One-Stop services. Jacobson argues that the most wasteful performance measures are those that hold One-Stops accountable only for the outcomes of intensive services—counseling and training. The bias toward intensive services encourages One-Stops to offer intensive services to clients who would be equally well-served by core services, rather than to clients most in need of intensive services. In addition, the focus on intensive services takes resources away from the highly cost-effective core services, especially since intensive services cost about one hundred times more per client than do core services.

Another major problem is the severe decline in funding for One-Stops over the past decade, even as demand for their services has increased. Funding for core services has declined from $1.4 billion (current dollars) in 1990 to about $700 million today, forcing One-Stops to make major cuts in the number of staff and the number of offices. Similarly, funding for intensive services was about $3.3 billion in 2004 (the latest year with reliable figures), down from $4.2 billion in 1990. Over this period of funding cuts, the workforce has increased by 23 percent while chances of job displacement have risen by one-third. Combined with inadequate performance measures, these funding cuts have hindered the ability of One-Stops to serve unemployed workers effectively.

A NEW APPROACH

The problems facing One-Stops would hinder their ability to help workers in any economic climate, but their effects are felt even more acutely during times of recession. One-Stops may be forced to turn away clients because of inadequate resources, or they may prove ineffective in serving clients in need of help because of their inadequate accountability systems. Clients may enter training programs in hopes of changing careers or developing new skills, only to find that those programs have low returns or are unsuited to the changing economy or to their abilities.

Jacobson proposes improving the efficiency and funding of current One-Stops, arguing that these institutions are the best equipped to serve millions of jobless workers at low cost, especially during the current prolonged downturn. His goal is to increase the number of workers served annually by 5.6 million people in the next few years to meet rising demand.

> While unemployment insurance benefits can help laid-off workers endure short-term income losses, unemployed workers also need help finding new jobs and building skills.

To achieve this goal, Jacobson outlines two central reforms: revamping the accountability systems of One-Stops and increasing the effectiveness of One-Stop services through more funding and better allocation of resources.

Improving One-Stop Accountability Systems

Poorly conceived federal accountability standards have created huge variability in One-Stop performance. Proponents of One-Stops can point to extremely successful and efficient One-Stops around the country, while detractors can point to wasteful and poorly managed centers. Jacobson notes that the best One-Stops are those with rigorous accountability standards and reliable funding, and that these examples represent the potential of One-Stops.

Jacobson estimates that current performance measures waste around $1 billion each year on tasks and programs that fail to help workers. For example, since One-Stops must record the outcomes of clients who receive intensive services, staff members spend nearly 20 percent of their time tracking these clients long after they have received services, reducing resources available to aid current clients. A large part of the problem, Jacobson argues, is that policymakers simply do not have reliable data on the returns to various One-Stop services and thus cannot effectively allocate resources. Jacobson believes that implementing a high-quality performance measurement system will require

Key Highlights

The Challenge

Each year One-Stop Career Centers help millions of unemployed and disadvantaged workers find new jobs and opportunities for advancement. With the unemployment rate expected to rise to 9 percent in the next year, demand for One-Stop services is soaring. Yet the effectiveness of One-Stops has been hobbled by two major challenges:

- Poor accountability standards create perverse incentives to concentrate One-Stop resources on less-effective services.
- Cuts in funding—down by one-third since 1990—leave One-Stops unable to meet the needs of the increasing numbers of unemployed workers searching for jobs.

A New Approach

To help unemployed workers, especially in the current downturn, Jacobson proposes improving the measurement of One-Stop outcomes and increasing funding for One-Stops. He argues that more accurate measures of the value-added of One-Stop services would allow for the design of improved performance measures, shifting resources to their highest-value uses. According to Jacobson, increasing the effectiveness of One-Stop services through better accountability and increased funding would accomplish the following:

- Place more clients in jobs by increasing the number of job vacancies listed at One-Stops
- Improve the outcomes of training programs through better counseling for potential trainees
- Guide 5.6 million additional workers to new jobs each year at an annual cost of $4 billion and annual benefits of $15 billion in the form of higher wages and reduced unemployment payments
- Provide policymakers with the infrastructure to help more workers in the current recession

accurate measurement of the costs and benefits of both core and intensive services.

One-Stops already collect data on clients receiving intensive services and could use these data to measure returns to training. Returns to core services like public labor exchange referrals, however, are more difficult to measure since millions of people access these services each year, many from remote locations, without official registration or tracking. To work around these problems, Jacobson proposes that the federal government mandate data collection on core clients, including those who access services remotely, and use these data to develop the proper metrics. Oregon, Washington, and other states have already developed systems to register core clients and track their receipt of services.

These data could help researchers compare the actual duration of joblessness and earnings of One-Stop clients to the counterfactual—that is, what outcomes would have been without One-Stop services. Equipped with this evidence, policymakers could create performance measures that direct resources toward services proven to be the most cost effective. Jacobson reckons that this evidence would level the playing field between core and intensive services, allowing One-Stops to take credit for the positive outcomes of their core clients and thus devote more resources to low-cost job search assistance.

Jacobson expects that many parts of the new accountability system could be implemented with relative ease. The U.S. Department of Labor (DOL) could use well-defined procedures to revise accountability measures for core services, though revamping the intensive measures would require modifying the Workforce Investment Act. Meanwhile, the DOL could issue wavers permitting states to test new accountability measures as part of demonstration projects. In designing an improved national accountability system, the DOL could use evidence from Washington and other states that have already implemented new performance measures.

> Revamping the accountability system and increasing funding for One-Stops would direct more resources to cost effective services and allow One-Stops to serve more unemployed workers, especially in the current recession.

Increasing the Effectiveness of One-Stop Services

Jacobson argues that improving the accountability system is essential to directing resources to high-value uses. But to make the best use of an accountability system, he argues, One-Stops must have the resources to serve more workers in need of adjustment assistance, especially during times of economic distress. To improve returns to core services, Jacobson proposes substantially increasing funding for job search assistance programs like call-ins, in which unemployment insurance recipients report their progress applying to jobs and therefore are more motivated to continue searching. Evidence indicates that these services help workers return to work more quickly with little, if any, negative effect on future earnings. More resources for staff-intensive job search assistance could also benefit taxpayers by reducing unemployment insurance payments and possibly scaling back spending on other transfers.

In particular, he proposes putting more resources toward "job development," in which staff members reach out to employers to increase the number of job vacancies listed with the computerized public labor exchanges. Studies suggest that placement through job listings reduces joblessness by three to eight weeks, although Jacobson argues that the actual effects may be twice as large. North Carolina, for example, increased the number of computerized job listings and now places triple the number of core clients as other states. To free up staff time, Jacobson would also improve the automation of computers for registering clients and identifying suitable job openings.

Despite the lower returns to intensive services, Jacobson believes that proper allocation of resources can make these services more effective. Short-term classroom training programs have proven much less cost effective than core services because claimants often fail to complete these programs. One study of Washington State community colleges, for example, finds that of the 15 percent of unemployment insurance recipients who registered for training courses, 40 percent failed to complete a single course. On average, even students who completed a course finished fewer than two courses in a high-return field such as health or information technology.

Jacobson attributes these poor results to uninformed decisions about whether training is the appropriate course of action and which programs are best suited to the trainee's skills. To improve training outcomes, he proposes significantly increasing funding for counseling of potential trainees at One-Stops. He cites evidence that requiring intensive counseling of trainees increases their annual earnings by more than $1,300 relative to trainees with no counseling. Improving counseling, he argues, would lower the number of clients who enroll in training programs that delay job placement without increasing future earnings.

Although much can be done to improve the efficiency of short-term training, Jacobson recognizes that long-term economic changes will force some jobless workers to change careers entirely. Such dramatic changes will require long-term training beyond the capacity of One-Stops. To help these workers, Jacobson recommends that the federal government make long-term training more accessible by increasing funding through Pell Grants and Stafford Loans. Award amounts that take into account not only direct expenses, but also opportunity costs of training, can make long-term training more affordable to adult students.

Cost-Benefit Analysis

Although the benefits and costs of reform are difficult to measure, especially in the absence of solid data, Jacobson tries to estimate the cost effectiveness of his proposal. His goal is to increase the number of clients served by a total of 5.6 million workers each year. He would do so through two equal expansions of 2.8 million clients to allow time to hire and train additional staff. Jacobson begins with the costs of reform, noting that revamping the accountability system would be a low-cost endeavor because it mainly involves reallocating funds in the current system. He would allocate $12 million per year to analysis of existing data, collection of data on core clients, and demonstration projects to measure the cost effectiveness of various services.

Expanding job search assistance and other core services would require significantly more funding, mostly for additional staff. Using estimates of staff time required for various services, Jacobson calculates that serving 2.6 million more clients each year with core services would require about $1 billion in new funding. Increasing the number of clients receiving training would be more expensive, but Jacobson argues that proper counseling could create better training outcomes. He estimates that counseling an additional 1 million potential trainees would cost about $540 million. Jacobson would also increase funding for training vouchers by $400 million to train an additional 200,000 workers, since One-Stops often run out of vouchers even in good economic times. Overall, the cost of serving 2.8 million new clients at One-Stops would amount to $2 billion per year.

Jacobson acknowledges that $2 billion is a large investment, but he argues that the returns would be even higher. Returns to expanding services include benefits to workers in the form of higher wages and benefits to taxpayers in the form of reduced unemployment insurance payments and higher tax revenues from workers' earnings. To calculate private benefits to the 2.8 million additional workers served, Jacobson uses several studies to estimate the effect of One-Stop services on weeks worked. Job search assistance, for example, is estimated to increase work time by 2.8 weeks

Comparison of Costs and Benefits of Serving 2.8 Million Additional Workers at One-Stops

	Total benefits to workers and taxpayers (millions)	Total costs (millions)	Net benefits (millions)	Ratio of benefits to costs	Net benefits to taxpayers per worker served	Per person benefits to workers served
Claimant call-ins	$270	$35	$235	8.0	$270	–$113
Job search assistance	$2,520	$540	$1,980	4.7	$690	$630
Job development	$1,890	$473	$1,418	4.0	$855	$1,170
JSA-related total	**$4,680**	**$1,048**	**$3,632**	**4.5**	**$784**	**$614**
Counseling potential trainees	$720	$540	$180	1.3	–$180	$360
Training	$2,320	$400	$1,920	5.8	–$1,125	$10,725
Training-related total	**$3,040**	**$940**	**$2,100**	**3.2**	**–$405**	**$2,505**
All services	**$7,720**	**$1,988**	**$5,732**	**3.9**	**$583**	**$1,464**

Note: This table outlines the annual costs and benefits of serving 2.8 million additional workers each year with One-Stop Services. Jacobson proposes scaling up to a total of 5.6 million additional workers each year in two increments of 2.8 million workers.

per worker, while job development programs increase work time by 4.5 weeks. The resulting increase in earnings, net of taxes and reduction in unemployment insurance benefits, is estimated at $4 billion.

Taxpayers also benefit from clients' faster return to work. Using an approach similar to the private benefits, Jacobson estimates the value of reduced unemployment insurance payments plus higher tax revenues at $3.6 billion. Total benefits to society, which include benefits to both workers and taxpayers, would amount to $7.7 billion per year.

Based on these estimates, improving accountability and increasing funding to serve 2.8 million more clients, especially with core services, would yield a net benefit of $5.7 billion per year. The largest benefits come from expansion of job search assistance and other core services, which yield $4.50 in benefits for every $1 spent. Even for counseling and training, however, benefits significantly exceed costs, in large part because improved counseling can target training resources to workers who would benefit the most. Jacobson argues that few services for unemployed workers can match the benefit-cost ratio of One-Stop services, as shown in the table. Making evidence on cost effectiveness available, Jacobson hopes, will drive better decisions about One-Stop funding.

CONCLUSION

One-Stop Career Centers have many features to recommend them, particularly in the current recession. The biggest advantage of One-Stops may be their well-established infrastructure, which policymakers can build on to quickly scale up reemployment services. Despite some failures in accountability, One-Stops have proven effective in helping jobless and disadvantaged workers. With additional resources, One-Stops could help even more workers facing unemployment in the current downturn. Investing further in One-Stops by improving accountability and increasing funding, Jacobson argues, would help meet the soaring need for employment services quickly and effectively.

Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, *Strengthening One-Stop Career Centers: Helping More Unemployed Workers Find Jobs and Build Skills*, which was authored by:

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The primary focus of Dr. Louis Jacobson's research has been estimating the cost of job loss and the ability of One-Stop and community college services to offset those losses.

Additional Hamilton Project Proposals

Additional Hamilton Project discussion papers and policy briefs on economic security can be found at www.hamiltonproject.org, including:

Reforming Unemployment Insurance for the Twenty-First Century Workforce (Kletzer and Rosen)
This discussion paper proposes three broad reforms to improve the unemployment insurance system. First, the federal government would require states to harmonize their UI eligibility criteria and benefit levels, increasing average benefit levels and recipiency rates. Second, wage-loss insurance would provide a wage supplement to those workers who are laid off and then reemployed at a lower wage. Finally, self-employed workers could make contributions to personal unemployment accounts that would be matched by government grants and could be withdrawn in difficult economic times.

Fundamental Restructuring of Unemployment Insurance: Wage-Loss Insurance and Temporary Earnings Replacement Accounts (Kling)
As proposed in this discussion paper, wage-loss insurance would provide long-term assistance to workers who are laid off and then reemployed at a lower wage. In addition, a borrowing mechanism and system of self-funded accounts would assist workers during periods of unemployment. The paper argues that this system would better protect workers against the long-term effects of involuntary unemployment, target benefits toward those who most need assistance, and encourage reemployment.

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The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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