DOES FATHER KNOW BEST?

The Case of State Employment Agencies

William Papier

UNCLE SAM HAS long assumed a paternal, rather than avuncular, role in his dealings with the fifty states. And no state institution feels the heavy hand of paternal control more than state employment security agencies, which run public employment offices and unemployment insurance programs.

Employment services have long been a state responsibility, and for good reason. Labor market problems vary widely from state to state and from area to area within the same state. During the 1980 recession, for example, Michigan had an average unemployment rate of 12.6, and Wyoming only 3.9 percent. Among California areas, Modesto's rate was 13 percent, while Anaheim's was only 4.3 percent. The nature of local labor market problems varies just as widely.

Except for a few programs like unemployment compensation for federal employees and for ex-servicemen, the programs the state employment security agencies run are creatures of state law. But because of strings attached to federal grants, the state agencies enjoy less autonomy than, say, local government sponsors under the Comprehensive Employment and Training Act (CETA). As federal controls have multiplied, the state agencies have run into problems, and the number of successful placements they make has declined. Federal officials perennially blame the states for the bad results, and federally funded researchers generally support the views of their patrons. The states have not, indeed, been completely blameless. But, as I see it, the biggest share of the blame belongs in Washington.

William Papier is director of research and statistics, Ohio Bureau of Employment Services. The views here are his.

THE EMPLOYMENT AND TRAINING ADMINISTRATION (ETA) in the U.S. Department of Labor was previously known as the Manpower Administration, and before that as the Bureau of Employment Security. Still earlier, its functions were carried out by the Social Security Board. Under Title III of the Social Security Act of 1935, the secretary of labor gives money to the state employment security agencies—based on ETA recommendations—for "proper and efficient administration." Because of this lever, the department is and long has been legally empowered to judge what is proper and efficient for the state agencies. Again and again it has used its financial power to mold the state agencies to its liking—and again and again it has been proved wrong by events.

Unemployment Insurance. Although job placement is the older of the two state functions—in Ohio it began in 1890—unemployment insurance is the more visible. When the Social Security Act of 1935 forced the states to adopt unemployment compensation laws, the Social Security Board proceeded to draft model bills for the state legislatures to enact. Among the

recommended provisions was one requiring that the claimant's base period—the span of prior employment considered in determining eligibility and the amount and duration of benefits—be set at two years. By March 1940 ten states had enacted laws requiring the two-year base period. This meant that each employer in those states had to submit wage records for each of its workers for each calendar quarter, so that the states could calculate the benefits payable to those workers who lost their jobs. As a result, many millions of wage records had to be processed each quarter, only a small fraction of which were ever used. By the end of 1951 every one of the states that had tried the two-year period had thrown in the towel and switched to a one-year base, which drastically reduced paperwork and improved the efficiency with which benefits were calculated.

While the shortened base period was clearly a change for the better, the fact remained that very few of the millions of quarterly wage records still being collected from employers were needed to process claims. Several states, therefore, decided to eliminate wage records entirely in favor of wage reporting "on request": employers would have to submit the necessary data only when workers filed claims. The idea proved so successful that eventually even the federal officials were converted: in January 1951 the Bureau of Employment Security urged all states to dispense with quarterly wage records in favor of on-request reporting systems. A dozen states, including such populous ones as Michigan, New York, and Ohio, now use that system.

The potential paperwork savings are huge. The original system, if in effect nationwide, would call for preparing, submitting, filing, and processing around one hundred million individual wage records each quarter, approximately 90 percent of which would never be used to process claims. On-request reporting does, to be sure, have its own costs: the need to obtain affidavits from some claimants whose employers have gone out of business, the probability that fresher wage data would translate into higher benefits, the absence of a comforting "paper trail," and the initial costs of switching. But by any reasonable standard, the paperwork savings are well worth it.

Now, however, the federal government appears to be changing its mind again. A 1980 study for the National Commission on Unemployment Compensation declared that "a wage record system serves the needs of the UI system best." That may well be so. But what about the needs of everyone else?

State and federal officials have clashed from the early days on the question of how to measure a claimant's "labor force attachment," a factor that determines eligibility for benefits. In the early years federal staffers wanted states to gear their "attachment" test to the claimant's earnings in the base period. Two states, Ohio and Wisconsin, preferred instead a test of "time worked"—the number of weeks a claimant worked in the base period. Time worked, unlike prior earnings, is unaffected by inflation; nearly a quarter of the states now use it. In 1978 a study by a Cambridge research group for the Labor Department confirmed those states' choice, finding time worked "the single best definition of labor force attachment."

Way back in early 1936, when the state of Wisconsin was preparing to issue the very first unemployment benefit check ever paid in this country, the Social Security Board urged it to hand the checks to claimants at local offices. The Wisconsin agency strongly disagreed, and decided instead to mail the checks to claimants at their home addresses. The state's successful experience with that practice subsequently led every one of the other states to follow suit.

For several decades federal officials pressed the states to undertake solvency studies of their unemployment trust funds. They did, some repeatedly. State legislatures were again and again urged to raise enough money to pay adequate benefits and maintain reasonable reserves. Some states, critics warned, were not behaving responsibly: they were eager to raise benefits and loath to raise taxes. (Not unlike the U.S. Congress, they might have added.) But not until relatively recently, mostly during the 1975 and 1980–81 recessions, did a score or so of the state unemployment trust funds go bankrupt. Were the critics' warnings right all along? And if so, why was there no rash of bankruptcies in earlier recessions?

The answer can be found on Capitol Hill, just a block or two away from the Labor Department.

Part of it was Congress's generosity with state money. The Federal-State Extended

Unemployment Compensation Act of 1970 provided that, during periods of presumed recession, workers who exhausted their unemployment benefits under the regular state laws could draw as many as thirteen more weeks of benefits. Congress agreed to pay half the costs, leaving states to cover the remaining half themselves.

The most important factor in the bankruptcy of state funds, however, was Title XII of the Social Security Act, passed in 1935, which created an interest-free federal loan fund for states whose own funds were depleted. (On April 1, 1982, the fund will begin charging interest of up to 10 percent on new loans.) So long as interest rates were low there was no strong incentive for states to borrow from this fund. But recently, with interest rates running for years at double-digit levels, some states found it highly attractive to deplete their own reserves and borrow federal dollars. Why raise taxes to rebuild their own funds, when they could borrow all they needed from Uncle Sam, for "free"—and pay him off later in cheaper dollars? Now, four states owe more than $1 billion each. The value of forgone interest alone to all borrowing states now exceeds $775 million a year. Taxpayers of the more responsible states are subsidizing those of the less responsible states.

Job Placement. Federal interference with the other major function of state employment agencies, job placement, has been just as disastrous. Although employment offices in smaller cities appear more successful than those in bigger cities, federal advisers have pressed the states to concentrate resources on the latter. Within the larger cities they first urged that local offices be moved from the central areas to the outlying suburban and shopping centers—where the number of jobs was increasing. Then, about two decades ago, they reversed themselves and began pressing local offices to move back to the central cities, because that was where the disadvantaged job-seekers were concentrated.

This approach did not recognize that public employment offices are only referral offices, and cannot make hiring decisions for employers. If they are not suitably located they may not attract either the best candidates or the best job openings.

In the mid-1960s came another major shift. The Labor Department virtually reversed—without authorization from Congress, the state legislatures, or anyone else—the historic policy of public employment offices of referring to employers the best-qualified candidates available. In a policy directive the department defined the experienced candidates, the kind employers wanted, as "job ready," which meant they needed little help from public employment offices and should find their own jobs; and the department told local offices to concentrate their efforts on placing disadvantaged workers. The department "helped" by launching a barrage of publicity on various federal programs that swelled the number of disadvantaged among job-seekers in local offices. A great many employers complained that local offices were referring candidates that were unqualified. Local offices developed a public image more like that of welfare centers than like that of employment offices.

The results were immediate. Between 1968 and 1969, years at the top of the business cycle, when unemployment was dropping and placement potentials were at their highest, the nonagricultural jobs filled by public employment offices fell by 10 percent nationwide, and by more than that in such large states as California, New York, Texas, Ohio, and Michigan. Only a handful of small states, probably those that had taken the risk of ignoring the new federal policy, ran counter to the overall national pattern.

The federal solution to employer disenchantment was not to restore the old policy, but instead to force employers to list their openings with public employment offices. Executive Orders 11598 and 11701, effective in June 1971 and January 1973 respectively, required all employers with federal contracts amounting to $10,000 or more to file all job openings paying less than $25,000 a year with local offices. Employers were not required, of course, to hire the candidates referred. So the result was predictable—a great deal more paperwork for all concerned, without a commensurate rise in placements.

At the same time the federal government began loading local offices with new functions, many having to do with the enforcement of various social policies: checking migrant housing conditions, registering and reporting food

stamp applicants, and furnishing employers with data presumed pertinent to their affirmative action programs. This not only tended to damage their relations with employers further, but also, needless to say, consumed a great deal of state and local staff time, which detracted from placement efforts.

Presidents have long been calling for a reduction in the paperwork burden. But word has apparently not reached the Labor Department. On January 19, 1981, just before leaving office, Secretary of Labor Ray Marshall signed ambitious new regulations, further tightening the reins on state employment security agencies and putting the department's Employment and Training Administration into the business of data gathering, where it would compete with the Bureau of Labor Statistics and the Bureau of the Census. The "labor market information" that ETA now plans to gather is defined in the regulations as follows:

> Labor market information (LMI) means that body of knowledge pertaining to the socio-economic forces influencing the employment process in specific labor market areas. These forces, which affect labor demand-supply relationships and define the content of the LMI program, include population and growth characteristics, trends in industrial and occupational structure, technological developments, shifts in consumer demands, unionization, trade disputes, retirement practices, wage levels, conditions of employment, training opportunities, job vacancies, and job search information.

Who would have to create and move this prospective mountain of data? The state employment security agencies, naturally:

> State agencies, under the direction of ETA, with appropriate assistance from the Bureau of Labor Statistics . . . shall:
>
> (a) Develop and maintain an LMI program to collect, analyze, and issue information on current and anticipated labor market developments and opportunities for employment and training. . . .

Note the phrase "under the direction of ETA," and the word "shall." At a stroke this rule converts the state agencies into virtual arms of a massive federal data-collecting enterprise. Interestingly, the kind of information that is most pertinent to the primary functions of the state agencies is relegated to the bottom of the long list.

The statutory rationale for this enormous self-grant of power and authority is not impressive. The federal Wagner-Peyser Act of 1933 authorizes the Labor Department to assist the states in "furnishing and publishing information . . . of value in the operation of the [job placement] system." But surely the Congress intended some reasonable limit, short of infinity, on how much and what kinds of data would be "of value."

Most ironic is the fact that the department has not made a success of the massive data-collection system it already has in place. Its Employment Service Automated Reporting System (ESARS) was initiated about fifteen years ago. By 1975 its cost was conservatively estimated at $25 million per year. It produces monumental masses of minutiae, of questionable value, and it is much slower than the earlier, more useful, and far less costly system of manual reports. Many local offices, though not required to do so, prefer to maintain their own manual records.

THESE EXAMPLES, by no means all-inclusive, suffice to suggest that the federal father is as often wrong as right. And when he errs, all of his adopted children pay the price. If the states were given more leeway, through block grants, for example, they too might blunder from time to time. But the impact of a blunder would be limited to the state or states involved—while an experiment that turned out successfully could be taken up by other states, in the best tradition of our system of federalism.

Separation of control and responsibility violates the first principle of good administration. If the state employment security agencies are to succeed in their programs, they must regain authority commensurate with their statutory responsibilities. They need to have the latitude to experiment with new ideas in unemployment insurance. They need to be relieved of the welfare, enforcement, and other functions that detract from their placement efforts. They need to be free to attract employer job openings at all levels of skill, by recruiting and referring highly qualified candidates—without first checking for conformity with a five-foot shelf of federal regulations, manuals, guidelines, and directives. ■