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## **The Solution to Long-Term Unemployment**

By Aaron J. Benjamin

WE FACE an unprecedented unemployment crisis. Now three years since the 2008 financial meltdown, over fourteen million Americans, nearly ten percent of the working population, are unemployed.<sup>1</sup> The average duration of unemployment stands at a record forty weeks.<sup>2</sup> Six million Americans, or forty-two percent of the unemployed, have been jobless for over six months.<sup>3</sup> This is not a problem, it is an emergency.

In response to this crisis, our policymakers have been calling for job creation. We need to create jobs, they say, for these millions of Americans to fill.

Unless the government extends employment offers to the unemployed, with money it does not have, only profit-generating employers can offer jobs. So the question we must ask is, *why* are these job-creators of the world not offering jobs?

It turns out that the answer to this question is critical in determining how to combat joblessness. And because our policymakers have failed thus far to grasp the correct answer, they have been proposing well-meaning schemes that just don't address the root of the unemployment problem.

Many believe it is because businesses are cash-strapped and cannot afford to hire more workers. Based on that assumption, the President has introduced tax incentives to make it more affordable for employers to hire.

But this is just plain incorrect. U.S. businesses are currently sitting on a record \$2 trillion of cash reserves.<sup>4</sup> They have so much excess cash that a House member recently proposed a tax on all retained corporate earnings in excess of the earnings of the past three years.<sup>5</sup>

Another prominent explanation is that because individual demand for goods and services is down, employers do not need to expand, and therefore their demand to hire is also down. It is this assumption that underlies the justification for perpetual extension of unemployment benefits. The argument goes, that putting money into the hands of the jobless who will immediately spend it on what they need to live directly creates demand for basic goods and services, thereby ultimately giving employers reason to expand and hopefully to hire.<sup>6</sup>

This premise is likewise mistaken. Total employer hiring demand is up 94 percent from 2010.<sup>7</sup> Hiring demand for engineering services jobs is up fifty-nine percent from the beginning of 2011, with nearly 15,000 new jobs advertised in August alone.<sup>8</sup> Over 36,000 new jobs were advertised online for web developers in August.<sup>9</sup> These are just samples of entire industries with robust demand for growth.

So if employer appetite for hiring is robust, and they have adequate resources for hiring, then why in the world are they not hiring? This forces us to approach the question from a new perspective.

### **The cause of the current unemployment crisis:**

The real reason employers are not hiring because they cannot find workers with the skills they need. According to a recent Department of Labor Study, in 1950, only 3 out of 10 jobs in America required a postsecondary degree compared with 7 out of 10 today. Our labor force is catastrophically mismatched with the needs of today's employers. In 2010, for example, construction workers suffered the highest rate of unemployment - over twenty percent by some accounts - while the unemployment rate for professional occupations was below five percent.<sup>10</sup> So, although there are fourteen million people ready to start working tomorrow, there are so few of those that have desirable skills, that *employers need to curb their growth because there are not enough skilled workers to meet their demand*. Policymakers often cite the statistic that for every job opening there are five job seekers. What the study does not discuss, however, is whether those job seekers are *qualified*. Actually, for every one job created, there is less than one qualified jobseeker. This is why currently, despite the vast number of unemployed, there remain millions of job openings that need to be filled.<sup>11</sup> We have millions of people willing to work, but only a fraction actually suited to the needs of twenty-first century American businesses.

This idea is reinforced by the September 23, 2011 Wall Street Journal report that based on recent census data, jobs and wealth no longer cluster around places like Detroit and Cleveland that had large concentrations of capital and industry. Today, the education level of city residents and overall supply of higher-skilled laborers are the drivers of economic growth.

This does not imply that the unemployed have done something wrong. It simply means that as the global economy develops, many lower-skilled jobs have moved overseas. In addition, within the U.S. itself, yesterday's growth industries are today's stallers, replaced with new growth industries that require workers with new skill sets and talents, leaving many workers unable to compete in today's job market.

The crisis we face is the tragedy of under education. It is a mistake to focus our efforts on incentivizing employers to hire. What we ought to be focused on is getting our prized workforce back in shape.

Now, before we get to the solution, it is important to recognize that not only is perpetual extension of Unemployment Insurance (UI) benefits a misguided attempt at boosting employment, it actually hurts recipients' chances of re-employment.

### **The problem with the UI approach:**

There is widespread agreement that the longer a person is unemployed, the harder it is for that individual to get a job.<sup>12</sup> After several months of being unemployed, skills atrophy, resumes become outdated, morale drops, and motivation dims. The worker becomes less and less qualified as time goes on. According to the DOL, a person in the first month of unemployment is more than three times as likely to find a job than someone unemployed for six months or more.<sup>13</sup>

By passing extension after extension of UI benefits, the government sends a message to the unemployed that they do not need to work anytime soon. If they don't find a job, we'll still support them. This leads the jobless straight into the mire of complacency, despair, and deterioration out of which many cannot climb. In short, our well-meaning UI spending is *contributing* to the pathetic decay of the vestiges of our once proud workforce, rather than restoring it.

Now that we have identified the cause of the unemployment crisis, as well as the problems with the current attempts at solving it, we are ready to introduce a design that will keep people from becoming long-term unemployed, while staying focused on the root cause of unemployment.

### **The Solution:**

After an initial six months of receiving UI benefits, benefits should stop completely *unless* the unemployed individual enrolls in a government-sponsored, industry-driven training center. If the individual *does* enroll in a training center, the benefits will continue, but at half their prior amount. The other half will be used by the government to fund the individual's training.

This sends a message to jobseekers that they have six months to devote to finding a job. The impending drop-off in benefits will galvanize jobseekers to do their utmost during that period to obtain gainful employment.

This sends another message to those seeking employment: If you do not find a job, we will not forsake you. Your benefits will continue. What is more, we will take that money that would have come to you in the form of a check and use it to invest in you and your future. Rather than funding your continued decay, we will help you transform yourself from a worker with outdated 20<sup>th</sup> century skills to one with the competitive skills industries need today.

What exactly do I mean by 'industry-driven training centers'? Is there such a thing? How much does it cost to run?

Actually, the framework for this kind of arrangement already exists. The National Fund for Workforce Solutions (NFWS) is the national umbrella organization for many regional industry-driven training programs.

Here's how NFWS programs currently operate. Employers are brought together to identify mid-level talent gaps. Government and philanthropic funding support training centers that train these workers with targeted, focused set of skills to be directly placed in particular areas of the industry.<sup>14</sup> As the National Journal reports, the key to the success of the training centers is to teach skills that are in demand.<sup>15</sup>

This is extraordinarily efficient education in direct response to industry needs.

Instead of letting these workers sitting at home and atrophying, they will be using their minds and practicing the work ethic they have honed through years of faithful labor and transforming themselves into effective 21<sup>st</sup> century workers in the process.

NFWS has met with great success. Of the 18,000 unemployed individuals who enrolled in a NFWS training center last year, about twenty-five percent got jobs that paid an average of \$4 an hour more than their previous job.<sup>16</sup> Imagine, reducing unemployment and spurring growth at the same time. A comparable success rate at the national level would mean that a whopping 4 million people would get jobs next year. And twenty-five percent is only the average. One local program, SkillWorks in Boston, boasted a seventy percent re-employment rate just last year.<sup>17</sup> Can we ignore these results?

Not only does it work, but the cost of running such a program can be fully offset by the drop-off in UI payments. NFWS in 2010 raised \$100 million and was able to train 18,000 workers, at a cost of about \$5,000 per person.<sup>18</sup> By today's measure of federal unemployment outlay, unemployment insurance cost over \$10,000 per person (based on \$160 billion total outlay for 14 million unemployed) in 2010.<sup>19</sup> So by cutting the federal portion of UI in half, over \$5,000 per person will be freed up to cover the cost of training.

So the deficit will *not* be increased as a result of this proposal.

True, this proposal comes at the cost of lower payments to long-term unemployed. The money they do not receive will fund their training. But while it may be a loss in purely cash terms, their long-term human capital is increased far more than the extra cash would ever have accomplished. Maintaining a strong work ethic, preventing the slide into atrophy, transforming and developing new skills, and overall well-being, morale, and marketability are well worth the lower payments.

Something else to keep in mind is that the cost to the government will go down every year following implementation of this program, as total unemployment should fall dramatically with each passing year. If this were launched in January of 2012, by the end of 2015 unemployment would be at 5.15 percent, just above the five percent line considered by economists to be 'full employment.' Compare that with current economist predictions that barring any unforeseen changes to the system,

unemployment will hover around eight percent through 2015. How can we not take this seriously?

Now, this may sound bold and I understand many people may not be happy about the prospect of having the weekly UI checks they have grown accustomed to getting cut in half. But now is the time for bold action that will take us out of this crisis and transform us into a competitive 21<sup>st</sup> century economy. This proposal serves the multi-faceted function of putting the unemployed back to work, stemming the tide of long-term unemployment, and providing employers with the quality workers they need to grow.

Let us recognize this opportunity to save our future and to prove to the world and to ourselves that we have what it takes to overcome overwhelming adversity. By following our convictions even when that means making tough choices, we will reemerge with greater strength than ever before.

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<sup>1</sup> Bureau of Labor Statistics, September 2011.

<sup>2</sup> Id.

<sup>3</sup> Id.

<sup>4</sup> Based on Federal Reserve Statistical Release, September 16, 2011.

<sup>5</sup> H.R. 3018, the CASH Act.

<sup>6</sup> Center on Budget and Policy Priorities (CBPP).

<sup>7</sup> WANTED Analytics.

<sup>8</sup> Id.

<sup>9</sup> Id.

<sup>10</sup> U.S. Census Bureau 2012 Statistical Abstract.

<sup>11</sup> Bureau of Labor Statistics, September 7, 2011.

<sup>12</sup> *Addressing Long-term Unemployment after the Great Recession: The Crucial Role of Workforce Training*, U.S. Congress Joint Economic Committee, August 2011; Hirsh and Johnson, *Desperately Seeking Skills*, National Journal July 28, 2011.

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<sup>13</sup> Rampell, Catherine, *Unemployed, and Likely to Stay That Way*, New York Times, December 2, 2010.

<sup>14</sup> Baran, Michon, Teegarden, Giordonno, Lodewick, *Second Annual National Evaluation Report*, National Fund for Workforce Solutions (NFWS), May 2010.

<sup>15</sup> National Journal, id.

<sup>16</sup> NFWS, id.

<sup>17</sup> Id.

<sup>18</sup> Id.

<sup>19</sup> CRS figure from Department of Labor, *UI Outlook*, January 2001 – February 2010, and updates.