

Labor Exchange Policy in the United States

David E. Balducchi
Randall W. Eberts
Christopher J. O'Leary
Editors

2004

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

1

Overview of Labor Exchange Policies and Services

Randall W. Eberts
Harry J. Holzer

THE ROLE AND FUNCTION OF LABOR EXCHANGE IN A MARKET ECONOMY

The proper matching of workers with job openings is essential for a well-functioning market economy. In recent years, more than 10 percent of the U.S. workforce search for jobs at any one time. Some people search because they have been recently displaced; others are currently employed but search in hopes of a better job that perhaps pays more, offers more benefits, has better career possibilities, or fits more closely with their personal preferences; while others are entering the labor market for the first time. Whoever is searching and for whatever reason, the process typically requires knowledge of job prospects, the qualifications sought by employers looking for workers, and the ability of workers to communicate to employers their qualifications and worthiness for successfully filling vacancies. Many workers and employers can acquire the appropriate information when needed and understand the steps required to undertake a successful interview. Yet, for some, accessing this information is more difficult. Obviously, it benefits all of society and the economy when everyone is afforded this information and assistance.

The federal and state governments have long recognized the importance of assisting in the job search process. In 1933, the Wagner-Peyser Act was established to provide federal funding to states to op-

erate a nationwide network of public employment offices. Since enactment, labor exchange (e.g., job finding and placement) services under the Wagner-Peyser Act have been available universally to employers and job seekers without charges or conditions. Today, this network includes more than 3,400 offices that are associated with state one-stop delivery systems. The Workforce Investment Act (WIA) of 1998 amended the Wagner-Peyser Act to be part of the one-stop delivery system, which provides universal access to core (i.e., labor exchange) services and Title I adult and dislocated worker programs. The one-stop centers provide services to both job seekers and employers. For the job seeker, services include assessment, counseling and testing, job search workshops, and job placement. For employers, services include job order taking, recruitment, screening, and referral of job seekers. The WIA also mandated the development and continuous improvement of a nationwide system of employment statistics and other information that could aid in the job search process.

This chapter provides an overview of the job search process and the role of local public employment offices in assisting people and employers make the proper match. First we offer a brief history of the functions and organizational structure of the Employment Service (ES). In reviewing its current structure, we focus specifically on how its present operations under WIA are designed to assist in the job search process. Next we focus on the job search process and describe the methods people use to search for jobs, and also the methods employers use to fill vacancies. This discussion includes recent trends in this process and explores various factors that may have prompted such changes. Greater employer demand for highly skilled workers, changes in occupational and industrial structure, and the rapid adoption of the Internet as a means of sharing information are but a few of the factors that may affect the job search process. We also present evidence of the effectiveness of the ES vis-à-vis other job search methods.

The following chapters provide detailed coverage of key issues regarding the public ES. Historically, state employment security agencies (lately referred to as state workforce agencies) in the United States are comprised of the ES agency and the unemployment insurance (UI) agency. When considered together, these agencies have administered three workforce development functions: 1) labor exchange (e.g., job brokering) services, 2) labor market information, and 3) administration

of labor adjustment programs and UI programs. The role of the state ES agency in providing labor exchange services has varied with changes in the economy, both cyclically and structurally, and with changes in the emphasis placed on finding jobs for different segments of the population.¹ Chapter 2, written by David Balducchi and Alison Pasternak, looks at the federal–state relations in labor exchange policy. Since its inception, the public employment service has been a partnership among the federal and state governments, and the authors follow the evolution of that relationship up through the partnerships forged under the Workforce Investment Act of 1998. In Chapter 3, Neil Ridley and William Tracy turn their attention to trends affecting the delivery of labor exchange services by state agencies, particularly their relationships with other public programs. Based on interviews with local ES administrators, they see the future of ES as creating paths for individuals and employers to gain access to emerging labor market intermediaries.

Chapters 4 and 5 address the issue of performance. First, David Smole examines the performance and accountability mechanisms under which ES offices operate, then Christopher O’Leary reviews the studies that have assessed the effectiveness of ES services in helping job seekers find jobs. Smole concludes that performance measurement is a valuable tool for effective service delivery and that federal and state agencies have made considerable progress in establishing such systems. O’Leary, based upon nearly a dozen evaluations of ES functions conducted over the past two decades, concludes that job search assistance programs are cost effective, more so than job training and public employment programs.

In Chapter 6, Jim Woods and Pam Frugoli examine the burgeoning number and assortment of tools and sources of information available on the Internet that can help people find jobs. One of the challenges this trend presents, they argue, is the ability to discern quality information and to use it effectively. Douglas Lippoldt and Melvin Brodsky, in Chapter 7, present an international perspective of job brokerage functions, highlighting the diverse approaches but underscoring significant, common features in the attempts by various countries to modernize and reform their labor exchange systems. Chapter 8, by David Balducchi, Randall Eberts, and Christopher O’Leary, provides an overview, as well as a discussion of the current and future role of labor exchange services.

THE ROLE OF THE PUBLIC EMPLOYMENT SERVICE²

What is the appropriate role for government in helping job seekers and employers make the proper match? Examining this question is one of the major objectives of this volume. Economic theory posits that government intervention is necessary if there are market failures or inequities in the access to resources. In the case of the job search process, the ultimate issues are information about the job seeker and the vacancy and equal and open access to employers. An efficient job-matching process requires that all job seekers and recruiters have sufficient information to make the proper match. This requires access to information about job openings and information about how to contact employers and how to present a job seeker's qualifications in a way that employers will take notice (Holzer 1998).

In other countries, the ES typically encompasses four functions—job brokering, labor market information, administration of labor market adjustment programs, and administration of unemployment compensation. While the employment service in the United States has focused primarily on labor exchange services, it has over its 70-year history partnered with other programs that have been responsible for the other functions listed above.

Table 1.1 offers a synopsis of the way in which key federal employment programs have addressed these four functions in the United States. The federal role in the employment service began during the Great Depression with the passage of the Wagner-Peyser Act in 1933, by providing funds to provide a national network of state ES offices. These offices acted primarily as a placement agency to refer applicants to public sector jobs. Although its mandate was broader in providing free services to everyone looking for gainful employment, the lack of private-sector jobs relegated the ES to placing workers in public works programs, such as the Works Projects Administration and Civilian Conservation Corps. This primary focus on job placement, however, did not last long. Title III of the Social Security Act of 1935 created the unemployment insurance program and directed that benefits be paid through the public employment offices or other agencies. This role brought the ES into partnership with the UI program. In order to receive UI benefits, a worker must be actively searching for work and willing to accept

a suitable job offer. Staff members were asked to help job seekers find jobs that met their preferences and offered the best match, but they were also required to report workers to the UI system who failed the work test by not accepting a job, even though it may not be the preferred match. This relationship between ES and UI has prevailed over its entire history. In recent years, however, it may be decoupled to some extent as more states are implementing phone and Internet UI claim taking. Research in this area is as yet only expositive.

The ES underwent another transformation after World War II. With war veterans returning to civilian life and the economy shifting from war production to civilian operations, the ES was asked to turn its priorities to finding jobs for veterans and for those workers who were displaced by the transition. Instead of focusing on universal access to ES services, the ES targeted veterans and civilian workers whose skills or age made it difficult for them to find work in the new economy. By the mid 1950s, preferential treatment was expanded to youth, older workers, and the disabled (Balducci, Johnson, and Gritz 1997). During this same period, the ES took on another compliance role by certifying foreign workers and showing that the admission of foreign workers would not harm the employment opportunities or wages of domestic workers.

During the decade of the 1960s, which ushered in sweeping programs for the economically disadvantaged under the Great Society legislation, the ES became involved through partnerships in two additional areas—job training and labor market information. Both initially came about with the enactment of the Area Redevelopment Act in 1961. This legislation required the ES to help establish training programs in depressed areas. Furthermore, in order to determine which areas qualified for the services, the legislation also mandated that the ES collect information on unemployment levels by labor market areas. The role of the ES in providing job training and an even broader array of human resource development services to the disadvantaged was reinforced with the passage of the Manpower Development and Training Act in 1962 and the Economic Opportunity Act in 1964.

Reliance on the ES to provide an integrated set of services to the economically disadvantaged was short lived, however. Within a decade, the institutional structure of providing services moved toward local design and delivery of employment and training programs. The Comprehensive Employment and Training Act, passed in 1973, established a

Table 1.1 Evolution of U.S. Programs Delivering the Four Functions of Labor Exchange Services

Federal programs	Functions of labor exchange services			
	Job brokering	Labor market information	Labor market adjustment programs	Unemployment compensation
Wagner-Peyser, 1933	Job placement in public and private jobs			
Social Security Act Title III, 1935				Determination of eligibility and payment of benefits
Post World War II Changes	Priority on placing veterans, dislocated workers, youth, older, and disabled			
Area Redevelopment Act, 1961		Expanded role in collecting labor market information	Training programs in depressed areas	
Manpower Development and Training Program, 1962	Redirected emphasis to disadvantaged workers		Increased role in job training and human resource development	

Comprehensive Employment and Training Act, 1973; and Job Training Partnership Act, 1982	Started to devolve activities to states			Worker Profiling and Reemployment Services system established in 1994
Workforce Investment Act, 1998	Universal access to core reemployment services	Enhanced the labor market information	Integrated reemployment and training programs	

nationwide network of local entities to design and administer training programs for the economically disadvantaged and for dislocated workers. The role of the ES was not well defined in this new system, and consequently, the ES returned to its primary function of referring applicants to job openings. A decade later, the Job Training and Partnership Act further decentralized responsibility for training. This time, the legislation was more explicit about the role and structure of the ES by amending the Wagner-Peyser Act to give states more authority in designing and administering ES services through federal special purpose block grants. The direction of the ES during this period of decentralization increasingly placed it in the hands of state governments. Some states implemented innovative approaches to the delivery of services and the integration of ES labor exchange services with other reemployment services. Other states deemphasized the labor exchange role of the ES in assisting job seekers to find reemployment, stressing work ready skills and self-initiated services instead of acting as mediators and advocates for workers in referring them to jobs.

As more responsibility was devolved to the states and local entities, the federal government became less involved with the labor exchange functions. For the most part, the U.S. Department of Labor (USDOL) assumed the limited role of providing technical assistance to states and monitoring compliance requirements for various programs. At the same time, overall funds for ES services were also reduced and some states experienced further reductions as ES funding to states was based on need. Smole (Chapter 4 in this volume) estimated that funding (measured in real terms) fell by 37.2 percent from 1984 to 2002. Some states during this time period tried to augment these funds through special assessments or by tapping UI funds (Balducci, Johnson, and Gritz 1997).

As funding fell, so did the delivery of key placement-related services. Two reports by the U.S. General Accounting Office (USGAO), both mandated by Congress, documented the deterioration in services. A 1989 report (USGAO 1989) noted a significant decline in the provision of one-on-one assistance, counseling, and testing throughout much of the 1980s. The report also revealed significant variation across local offices in placement rates, as a result of state and local discretion over the design and administration of ES services. Another USGAO report a year later (USGAO 1990) expressed further concern about the decline in system performance and the variation in performance across states. It

found that placement rates were better in states that focused on measurable goals and on-site evaluations.

These studies echoed the growing frustration among ES staff and customers regarding the lack of funds and attention given to labor exchange functions. Several key groups—including USDOL, organized labor, and local workforce agency associations—formed a working group to address these issues and try to refocus and revitalize the ES. The working group released a report entitled the Employment Service Revitalization Work Plan in 1994 that called for the ES to become the “nation’s recognized leader in providing efficient labor exchange services and a universal gateway to workforce development resources by professional, empowered employees” (p. vi). The report became the blueprint for revitalizing the ES.

The Employment and Training Administration (ETA) of USDOL played a key role in revamping the ES. During the mid 1990s, the ETA sponsored and guided the development of an Internet-based information system for labor exchange services. The CareerOneStop portal Web site (formerly known as America’s Career Kit) includes a nationwide electronic resume and vacancy databases, referred to as America’s Talent Bank and America’s Job Bank, respectively. Other job search services are available through this Web site. In addition, America’s Career InfoNet provides information about alternative occupations, including which occupations have the most job openings, the highest growth rate, the best wages, and the most employment. It also allows a job seeker to learn about the education and training requirements for an alternative occupation.

Development of these tools and other efforts to improve the coverage and effectiveness of the ES were incorporated in the Workforce Investment Act (WIA) of 1998. The main philosophy behind the bill is the integration and coordination of employment services. Central to achieving this aim is the criterion of one-stop centers, where providers of various employment services, including ES, within a local labor market are assembled in one location. This arrangement is expected to coordinate and streamline the delivery of employment-based programs and to meet the needs of job seekers and employers more effectively than did the previous system.

In many respects, WIA may have brought the ES full circle by returning its function to the original intent of the Wagner-Peyser Act, passed nearly 70 years ago. Under WIA, the ES joins Title I service

providers to provide a consolidated array of workforce development services through one-stop centers. Services under Title I of WIA are offered in three tiers: core, intensive, and training. The core services include basic labor exchange and may be provided by the ES or Title I adult and dislocated worker service providers. These services are available to all and may be self-service or staff-assisted. Intensive services include activities that may require greater staff involvement, such as comprehensive assessment and case management. These services may be provided by Title I service providers and the ES, as appropriate. Training services comprise the third tier and require the most staff time, and are provided by Title I service providers. Job seekers access these services sequentially, moving from one tier to the next if they have not been successful in securing a job. While the first tier of core services is open to all job seekers and employers, only those who meet specific criteria, including lack of skills to qualify for a job, are eligible to receive Title I services in the next two tiers. Therefore, WIA may have restored the role of the ES to provide basic labor exchange services, while consolidating these activities into a broader array of workforce development services.

HOW PEOPLE SEARCH FOR JOBS

The purpose of this section is to describe the various methods by which people gather information about jobs and apply for work. As we shall see in this section, the public ES is but one of several ways in which job searchers gain information about job prospects and contact employers. We consider two broad groups of job searchers—each of which have different motivations for searching. The first group includes the unemployed who are actively searching for work; the second includes those currently employed who are actively searching for a different job.

One would expect that the motivation for searching is different for people in the two groups. The unemployed are trying to find a job to replace the one they lost and to restore their lost source of income. The employed are looking for jobs with higher salary, better benefits, more favorable working conditions, or better career prospects, to name a few

prominent reasons. In addition to these factors, the two groups are likely to vary by other characteristics—some of which (e.g., age and education) we can observe and control for in our statistical work, while others (e.g., quality of personal networks, ambitions, and cognitive or other labor market skills) we cannot. These other characteristics should affect not only the search methods that employed and unemployed individuals choose to use, but other dimensions of their search strategies as well.³

Since 1967, the Current Population Survey (CPS) has included specific questions about job search activities, but only of those who are currently unemployed and actively looking for work. Originally six methods were included:

- 1) checked with public employment agency,
- 2) checked with private employment agency,
- 3) checked with employer directly,
- 4) checked with friends or relatives,
- 5) placed or answered ads, and
- 6) used other search methods.

More recently, three other methods were added to the survey:

- 1) sent out resumes and filled out applications,
- 2) checked with university and school placement centers, and
- 3) checked union/professional registers.

To be counted as unemployed, individuals must answer affirmatively to one or more of these questions (respondents may report more than one method).

Some researchers have categorized these methods as being either formal or informal. Formal methods include the use of either public or private agencies, or other institutions (schools, unions, etc.). Informal methods include checking with friends and relatives and direct applications to firms.⁴ Formal and informal methods differ systematically from each other in that more informal search methods have fewer direct monetary costs but typically generate a smaller set of potential employers for the job seeker (Holzer 1998). In addition, informal networks of friends and relatives might generate more trustworthy information that leads to higher quality matches (Rees 1966). Formal methods, on the other hand, can be more expensive but might generate higher-quality

jobs that are difficult for the job seeker to locate informally. On the other hand, the public ES, while less expensive than other formal methods, has been widely perceived as generating potential jobs that offer lower wages and benefits and require fewer skills.

In the standard economic models of how search choices are made (e.g., Holzer 1988), individual job seekers choose one or more of these methods based on their expected benefits to the job search process relative to their costs, in terms of time and/or money.⁵ The expected benefit is the likelihood that using that method will generate a job offer that is acceptable to the job seeker (in terms of wages, benefits, working conditions, etc.). As the likelihood increases that an acceptable offer is generated, the duration of search (and therefore unemployment for some) shortens.

But the benefits accruing from the use of any particular method are also likely to vary across individuals. For instance, African Americans may encounter less hiring discrimination when using more formal methods, since informality might breed a kind of subjectivity that lends itself to greater discrimination (Bradshaw 1973; Holzer 1987; Moss and Tilly 2001). Furthermore, those whose social networks include fewer people or only those working at very low wages may find informal networks somewhat less useful than other methods, such as the use of the public employment agency.⁶

In fact, these arguments suggest more broadly why it is important for the government to offer assistance with the labor exchange process, despite the availability of several other methods of search among which individuals are free to make their optimal choices. For one thing, the privately available methods might generate some type of *market failure*, and therefore inefficiency, if information about the quantity and quality of jobs is very imperfect among private networks and organizations. Furthermore, even if the markets do not exhibit any failure, there may be some ability of the public employment agency to help *redistribute* job opportunities to those with fewer opportunities on their own, such as minorities or other disadvantaged groups.

Of course, whether or not the public employment agency successfully improves the efficiency of the market or redistributes its benefits depends on the cost-effectiveness of its activities, an issue to which we return below and one that will be considered in greater depth in Chapter 5.

Job Search by the Unemployed

The unemployed, those without jobs who are actively seeking employment, are comprised of at least three groups: 1) displaced workers, 2) those dismissed or who voluntarily quit, and 3) those entering the workforce for the first time or after a long hiatus.⁷ We distinguish among these three groups because their motivations for finding work, and thus their process for doing so, may differ.

Recognizing such differences may be important in understanding the best role for the ES. People in the first two groups are obviously searching for a job to replace the one they recently lost. Those displaced from previous jobs may collect regular UI benefits for up to 26 weeks while they look for work. The income support, while not replacing their entire previous earnings, offers job searchers an opportunity to look for a good job match without forcing them to take the first job offer that comes along, which may be an inferior match. Studies show, however, that most displaced workers accept jobs that offer wages that are lower than they received in their previous job.⁸ The number of displaced workers actively looking for work, relative to other categories of unemployment, also depends on economic conditions.

Those dismissed or who quit voluntarily are also included in the group of unemployed but are typically not eligible for UI benefits, so they might face some greater urgency in finding new employment. On the other hand, those who quit and become unemployed choose this status voluntarily, and might therefore feel less constrained than those who lose their jobs involuntarily.⁹

Finally, individuals who are entering the labor force, such as recent high school or college graduates or older women who have never worked outside the home, may be unfamiliar with the job search process and the techniques necessary to find a job. These individuals may be more likely to ask advice from friends and relatives on how to proceed or to seek assistance from public and private employment agencies.

Of course, individuals across three categories of unemployment differ from one another not only in their access to UI benefits, but also in terms of skills, attitudes, and a variety of other personal characteristics, as we note below.

According to the CPS, the most widely used job search method is to contact employers directly. In 2001, 62 percent of job seekers listed

that method as one of their job search activities, as shown in Table 1.2.¹⁰ The second most popular method was filling out job applications and submitting resumes, with 51 percent of job seekers reporting the use of that method. The use of the public ES was ranked a distant third, with 19 percent of the respondents indicating that they checked with the public employment agency in the past four weeks for help in finding a job. Interestingly, slightly more than twice as many respondents indicated that they checked with the public employment agency than with a private employment agency. Since temporary help agencies are likely

Table 1.2 Percentage of Job Seekers Using Various Search Methods

Search method	All unemployed looking for work	Those using public employment agencies	Those not using public employment agencies
Contacted employer directly	62.0	59.5	62.6
Public employment agency	18.8	100.0	0
Private employment agency	8.4	18.9	6.0
Contacted friends and relatives	15.4	20.2	14.3
Contacted school/university employment ctr.	2.7	4.1	2.4
Sent out resumes/filled out applications	51.3	46.7	52.4
Checked union/professional registers	2.3	2.8	2.1
Placed or answered ads	15.4	20.3	14.2
Used other active methods	6.8	4.9	7.2

NOTE: Percentages in the columns do not add up to 100 because job seekers can use more than one search mode. Percentages in the first column are based on all unemployed 16 years or older looking for work and are not on layoff. Percentages in the second column are drawn from the same group as column one except that percentages in this column are also based on those who reported using the public employment agency. Percentages in the third column are constructed in the same way as in the second column except it includes all those who reported not using the public employment service.

SOURCE: Authors' calculations using the monthly files of the Current Population Survey, 2001.

included in the latter category, the role of temporary employment agencies among the unemployed overall thus remains fairly small.¹¹

Slightly more than half of the job seekers engaged in two or more methods during their job search. For those listing the public employment agency as one of their search activities, 87 percent of the job seekers used at least one other search mode. Public ES applicants have a tendency to contact employers directly a little less frequently and to send out resumes and fill out applications slightly less often than non-ES users (Table 1.2). On the other hand, they are more likely to contact friends and relatives, place or answer ads, check with university/school placement centers, and check union/professional registers. Interestingly, they are three times more likely to use private employment agencies than those not using public employment agencies. Therefore, it appears that the private employment agency is not necessarily a substitute for the public ES, at least not for the overall population of active job seekers.

The use of public ES services (and other search methods) varies by the reason for unemployment. As shown in Table 1.3, job losers who are not on layoff use the public employment agency more often than other types of unemployed. Twenty-seven percent of job seekers in this group used the public employment service, which is about 40 percent more often than for the entire group of job seekers. New entrants into the labor force, on the other hand, are the least likely to use the public ES.

These results might, at least in part, reflect the fact that the use of public employment agencies also differs by the personal characteristics of job seekers. Analysis of the CPS reveals that the public ES is used more often by job seekers who are African Americans or Native Americans, 25 years or older (but not after 65), have a high school education only, live in midsize cities, and are members of families with annual incomes of less than \$15,000. Conversely, the ES is least likely to be used by job seekers who are white or Asian, youth or over 65, have a BA or higher or are high school dropouts, live in large metropolitan areas, and are members of families with incomes over \$60,000.¹²

Differences in the use of the ES by education level, along with increases in the educational attainment of the labor force over time, also might help to account for the apparent decline in the use of public employment agencies in the search process. For instance, Ports (1993)

Table 1.3 Percentage Unemployed using Job Search Methods by Reason of Unemployment

Search method	Other job loser	Temp. job ended	Job leaver	Reentrant	New entrant
Contacted employer directly	65.7	61.4	65.2	59.0	57.3
Public employment agency	27.1	21.3	19.1	12.9	10.6
Private employment agency	12.2	10.3	9.2	5.4	4.0
Contacted friends and relatives	20.2	16.4	12.7	12.8	12.4
Contacted school/university emp. ctr.	2.4	2.2	2.4	3.4	2.3
Sent out resumes/filled out applications	54.5	43.6	51.0	50.9	52.2
Checked union/professional registers	3.6	4.3	1.8	1.1	0.6
Placed or answered ads	20.7	13.0	17.5	12.3	9.1
Used other active methods	8.4	7.3	7.5	5.7	3.7

NOTE: Percentages in the columns do not add up to 100 since job seekers can use more than one search mode. Percentages in each column are based on all unemployed 16 years or older looking for work, are not on layoff, and who reported their reason for being unemployed.

SOURCE: Authors' calculations using the monthly files of the Current Population Survey, 2001.

shows that more than 30 percent of unemployed job seekers used the public ES in 1970, compared to 23 percent in 1992 and 19 percent in 2001 (as discussed above).

In sum, the data suggest that public employment agencies are not among the most heavily used methods of search by the unemployed, but that they are still used by a significant fraction of unemployed job seekers, especially among those who lose their jobs involuntarily.

Job Search by Employed Workers

Employed workers also actively search for jobs. According to the CPS, 4.5 percent of the employed wage and salary workers, slightly

over 5 million people, actively searched for different jobs in 1999. This number is comparable in magnitude to the 5.6 million unemployed workers who searched during the same time period.

As stated earlier, employed workers may consider changing jobs in order to receive higher compensation, better benefits, more flexibility, better future job and career prospects, or simply a more enjoyable working environment. Meisenheimer and Ilg (2000), using a special supplement of the CPS, conducted research that supports these reasons. They found that younger workers under the age of 25 were much more likely to search for another job than older workers. Workers who were not covered by health insurance and who were without retirement benefits were also more likely to explore job options. In addition, salaried workers with higher levels of education were more likely to look for other jobs, while those with longer tenure were less likely to explore job options.

Unfortunately, the CPS supplement does not ask employed job seekers to list the methods of search that they used. If one can draw parallels between both employed and unemployed job seekers by demographic characteristics, it appears that the larger portion of employed job seekers may be less likely to use the public employment agency because employed job seekers are younger and have higher levels of education. Unemployed job seekers with these characteristics were less likely to use the public ES.

In fact, data pertaining to the use of different search methods by all recent job seekers—both employed and unemployed—are available from a variety of other sources, but only for specific age groups (such as youth) and/or in specific times and places.¹³ The general results on search methods in these data differ somewhat from those presented here for the unemployed (especially on the role of friends and relatives in the search process).¹⁴ But they confirm that the ES is used by significant fractions of job seekers—for example, roughly 10–20 percent among whites and 15–30 percent among minorities in the most recent and representative of these samples (Falcon and Melendez 2001).

Job Search and the Internet

Within the past few years, use of the Internet to conduct business, shop, and gather information has grown at an incredible pace. It has also changed the way many people search for jobs. Today, there are

more than 2,000 Internet job search sites in operation, offering job seekers more convenient ways to access information about job postings and to submit their resumes to prospective employers.

Analysis of a supplement of the Current Population Survey in September 2001 reveals that 31.9 percent of the unemployed (those actively looking for work) and 11.3 percent of employed workers used the Internet to search for a job. For the unemployed job seeker overall, the Internet was the third most popular job search method. Only two search methods—checking with employers directly and sending out resumes or filling out applications—were used more often. For unemployed job seekers with access to the Internet, 56 percent used the Internet to search for a job, which was the same frequency of use as reported for sending out resumes or filling out applications. About a third of the unemployed Internet users submitted resumes or applied on-line, three quarters researched potential employers, and nearly everyone searched on-line for job listings (Table 1.4). Unemployed job seekers who contact the public employment agency are more likely to search for a job on the Internet than those who do not use the public ES (69 percent versus 53 percent).

While the Internet has given job seekers more options for where and how they search for jobs, access to the Internet varies by race and ethnicity. For those in the workforce, a smaller proportion of blacks and Hispanics have access to the Internet than whites—51 percent for blacks and 38 percent for Hispanics compared with 68 percent for whites. The difference is slightly more pronounced for the unemployed, with only 40 percent of blacks and 31 percent of Hispanics able to access the Internet compared with 61 percent for whites. However, when Internet access is available, the gap between groups in using the Internet to search for jobs narrows markedly. Fifty-one percent of blacks and 46 percent of Hispanics search on the Internet, compared with 57 percent for whites. Interestingly, for those employed with Internet access, a higher percentage of blacks and Hispanics use the Internet to search for jobs than do whites.

Effectiveness of the Public ES

How effective are the various methods of finding a job, particularly the public ES? To provide a definitive answer to this question, one

Table 1.4 Use of the Internet for Job Search

A. Access to Internet				
	All persons	All workforce	All employed	All unemployed (looking)
All	120,000 56.5	94,121 66.3	90,417 66.9	3,402 56.7
Black	10,692 41.7	85,151 50.6	7,954 51.8	531 40.3
White	103,000 58.4	80,883 68.5	78,004 68.9	2,618 61.0
Hispanic	7,810 33.5	6,028 38.0	5,739 38.7	267 31.2

B. Job search on the Internet for those with Internet access		
	Employed	Unemployed (looking)
All	16.9	56.3
Black	21.8	51.2
White	16.2	56.8
Hispanic	17.5	45.6

C. Search methods for those who have searched on the Internet	
	Unemployed (looking)
Search on-line job listings	96.2
Research potential employers	72.6
Submit resume or application on-line	65.2
Post resume on a job listing site on-line	48.9
Post resume on own Web site	6.2
Other methods on-line	6.0

SOURCE: Estimates derived from authors' calculations of the September 2001 *Current Population Survey Computer and Internet Use Supplement*.

would need to specify the outcomes by which one is defining effectiveness—these might include higher rates of gaining employment (or shorter durations of search/unemployment), higher wages, and perhaps lower turnover rates. Of course, exactly how one quantifies these “benefits” of search, and especially how they might be compared to the “costs” of search in time and money, might be problematic.

Furthermore, to deal with the fact that individuals with different unobserved characteristics select search methods differently, one would also need to conduct a random assignment experiment to accurately gauge the effects of search method use on outcomes. Such an approach is difficult to administer, however, since the ES is mandated to provide services to all those who request it, and thus it is not possible to deny services to those who might be assigned to a control group. Short of that approach, most studies are based on comparison group methodologies that use statistical techniques to control for differences among those who use the ES and those who do not. Chapter 4 in this volume offers a detailed examination of the various studies that have assessed the effectiveness of the various functions of the ES. These studies in general provide evidence that the ES might be a cost-effective method of searching for jobs, particularly because of its relatively low cost and its ability to place some referrals into jobs.

We set the stage for Chapter 4 by offering a broader perspective of the effectiveness of the ES relative to the other search methods. We update the study conducted by Bortnick and Ports (1992), which uses the CPS to follow job seekers over time. We record the employment status of job seekers one month after they reported searching for a job. We then relate the job search method that they used to their employment status in the following month.¹⁵

In 2001, 26.5 percent of the unemployed reported finding a job the next month. The success rate varied to some extent by method of search, as shown in Table 1.5. Those contacting employers directly had the greatest success in finding a job (28.9 percent), while those using the public ES had the least success (24.3 percent). The difference, however, was relatively small—4.6 percentage points. This difference could result from differences in demographic characteristics among those who use various search modes. For instance, white

job seekers have higher success rates than black job seekers (28.8 percent versus 19.6 percent), and men have slightly more success finding jobs than women (27.3 percent versus 25.9 percent). In addition, younger job seekers are more likely to find jobs than older workers. Since the employment service is more likely to serve those groups who are less successful finding a job, it is understandable that the employment rates for the employment service is lower than other modes.

When two search methods are considered in tandem, the ES fares better. For example, when the ES is combined with answering ads and filling out applications, it ranks second with a success rate of 31.5 percent. This is close behind the combination of direct employer contact and use of the private employment agency, which had a success rate of 32.6 percent (Table 1.6). It is also interesting that the success rate for those using a private employment agency and answering ads is in last place with a 5.6 percent success rate. The demographic composition of those using these search methods undoubtedly plays a significant role in the success rates.

Results from other studies clearly indicate that the public ES accounts for very small percentages of all jobs attained by job seekers—indeed, usually well under 10 percent. This reflects the fact that the ES is used less frequently than other methods, but also that it is less effective in generating employment when used.¹⁶

Furthermore, a wide range of studies shows that job seekers using the public ES experienced worse employment outcomes along many dimensions, including lower wages and higher subsequent turnover (Bishop and Abraham 1993; Holzer 1998). However, it is impossible to infer anything about the productivity or cost-effectiveness of the search method in these cases, because these results may be driven partially or completely by the relatively weaker skills and personal characteristics of those who choose to use this method.

Indeed, the relevant question for the public ES is whether those who use it have significantly better outcomes than they would have had the service not been available, and how any such gains compare to the public cost of providing the service. As we stated earlier, without a random assignment evaluation (or something close to it), it is very difficult to provide definitive answers to such questions.¹⁷

Table 1.5 Employment Status of Job Seeker in Month after Reported Searching for a Job, by Mode of Search

Method of search in first month	Total job seekers in first month	Labor force status in second month (percent distribution)				
		Total	Employed	Unemployed		Not in labor force
				Still searching	On layoff	
Employer directly	13,465	100.0	28.9	45.8	1.5	23.8
Men	7,209	100.0	29.4	47.6	1.9	21.1
Women	6,256	100.0	28.3	43.9	0.9	26.9
Private agency	1,878	100.0	26.8	54.0	1.4	17.8
Men	1,007	100.0	26.2	56.6	2.0	15.2
Women	871	100.0	27.4	51.0	0.7	20.9
Other methods	12,937	100.0	25.7	49.4	1.3	23.6
Men	6,548	100.0	25.8	51.5	1.9	20.8
Women	6,389	100.0	25.6	47.2	0.8	26.4
Placed or answered ads	3,322	100.0	25.7	51.7	1.1	21.6
Men	1,675	100.0	26.6	53.6	1.4	18.5
Women	1,647	100.0	24.8	49.8	0.7	24.7
Friends and relatives	3,268	100.0	25.6	48.8	1.2	24.4
Men	1,855	100.0	26.4	50.6	1.8	21.2
Women	1,413	100.0	24.6	46.4	0.5	28.6
Public agency	4,499	100.0	24.3	55.0	1.5	19.2
Men	2,381	100.0	24.4	57.0	1.9	16.7
Women	2,118	100.0	24.1	52.8	1.1	22.0

Total unemployed job seekers	22,055	100.0	26.6	46.0	1.4	26.0
Men	11,393	100.0	27.3	47.8	1.9	23.0
Women	10,662	100.0	25.9	44.2	0.9	29.1

NOTE: Calculations are based on all unemployed 16 years or older looking for work, and are not on layoff. Job seekers are counted once for every job search method they reported in the first month. Therefore, there is overlap among the different search modes.

SOURCE: Authors' calculations using the monthly files of the 2001 Current Population Survey.

Table 1.6 Employment Status of Job Seeker in Month after Reported Searching for a Job, by Combinations of Two Modes of Search

Two methods of search in first month	Total job seekers in first month	Labor force status in second month (percent distribution)					
		Employed			Unemployed		
		Total	Employed	Still searching	On layoff	Not in labor force	
Employer/private agency	144	100.0	32.6	41.0	1.4	25.0	
Ads/public agency	89	100.0	31.5	51.7	0.0	16.9	
Employer/friend, relative	449	100.0	29.8	40.8	1.8	27.6	
Employer/other	3,546	100.0	27.8	48.4	1.3	22.5	
Other/ads	448	100.0	25.5	49.1	0.9	24.6	
Employer/public agency	773	100.0	25.2	51.2	1.9	21.6	
Private agency/other	178	100.0	24.7	52.3	2.8	20.2	
Ads/friends, relative	68	100.0	23.5	47.1	1.5	27.9	
Employer/ads	467	100.0	23.1	43.3	1.9	31.7	
Private agency/public agency	94	100.0	21.3	55.3	1.1	22.3	
Friends, relatives/public agency	86	100.0	20.9	53.5	1.2	24.4	
Private agency/friends, relative	34	100.0	20.6	61.8	0.0	17.7	
Other/public agency	559	100.0	19.5	60.5	2.5	17.5	
Other/friends, relatives	373	100.0	19.3	50.7	1.3	28.7	
Private agency/ads	18	100.0	5.6	55.6	0.0	38.9	
Total unemployed job seekers	22,055	100.0	26.6	46.0	1.4	26.0	

SOURCE: Estimates derived from authors' calculations of the September 2001 *Current Population Survey Computer and Internet Use Supplement*.

HOW EMPLOYERS RECRUIT WORKERS

While employees consider the best methods to gain access to employers, employers must decide how best to locate and recruit qualified workers and to assess their qualifications. Their choices, in turn, heavily influence the effectiveness of different methods that are available to job-seeking individuals, and also where (i.e., in which sectors of the economy) any such effectiveness is likely to be found.

Holzer has conducted several studies that examine the methods employers use to recruit and hire. This section borrows heavily from a study that reports the results of the most recent survey, which was administered in 1992 and 1994 to workers in four large metropolitan areas (Holzer 1998). Holzer's survey asks employers to list the methods that they recently used to search, and which method generated their most recent hire. The search options included in the survey are similar to those included in the CPS for households, with a few exceptions.¹⁸

Not surprisingly, the results reveal several similarities in the way in which workers and employers search.¹⁹ As is the case with job seekers, direct contact is one of the most often used methods of recruiting and screening workers. Seventy-two percent of the establishments surveyed relied on direct walk-ins to find prospective workers. The most frequently used method of recruiting workers was informal referral. Almost 90 percent of employers considered informal referrals when looking to hire new workers. In contrast, only 30 percent of businesses responded that they used state ES agencies to find worker prospects. Adding community agencies raises the percentage to around 50 percent of those businesses using public agencies to recruit workers.

The use of public employment agencies by businesses varies by the size and type of business. Larger businesses (greater than 500 employees) are more likely than smaller businesses (1–20 employees) to recruit workers from state employment agencies, by a factor greater than two. Holzer's survey shows that 56 percent of large businesses use the state ES agency compared with 22 percent for small businesses. Industry also matters with respect to using the public employment agency to recruit workers. Interestingly, public-sector employers use state ES agencies more frequently than do employers from any other sector, but at the same time they also use informal referral methods more often

than anyone else. Businesses in the retail trade industry, on the other hand, are most likely to use informal referral to recruit workers.

When businesses were asked which method they actually used in recruiting their most recent hire, they reported that state ES agencies generated very few hires. Only 2.6 percent of businesses reported that state ES agencies generated their most recent hires. This percentage is quite small compared with the most frequently used methods—informal referrals (40 percent) and newspaper ads (28 percent). Even private employment agencies, which were not used as often in recruiting workers, generated more hires than state employment agencies (6.4 percent versus 2.6 percent). Among the different types of industries and jobs, the public employment agency was most successful in generating hires in white-collar jobs requiring no college education, for the largest establishments, and for the manufacturing sector. They were least effective for jobs requiring a college education, in small firms, and for public-sector employers.

The results of Holzer's study are thus consistent with others that have found that the public employment agency generates relatively few hires overall. Studies have also shown that the role of the public employment agency has declined in recent years. One explanation has been that employers perceive referrals from the employment service as consisting of relatively low-skill workers and for those job seekers with few options.²⁰ Therefore, as the ES has focused more over the years on providing labor exchange services for the economically disadvantaged, it is difficult to disentangle the effectiveness of this source of referrals and job search method from the customers that it seeks to serve.

CONCLUSION

During its 70-year history, the public ES has provided labor exchange services to a large and diverse number of people and to employers. Originally conceived as a provider of free services to anyone looking for a job, it has undergone significant changes over the years in response to economic and political demands. It has partnered in various ways with other federal programs to direct resources to various subgroups of the population and to support different types of employment

programs. Yet, despite these diversions, the public ES has not strayed far from its core purpose of promoting an efficient job-matching system. With the passage of the Workforce Investment Act, the public ES has been firmly established, once again, as providing universal access to labor exchange services.

Yet, the public ES faces several challenges. First, the use of the public employment agency has declined over the past few decades. Today, roughly 19 percent of the unemployed use the public employment agency compared with 30 percent three decades before. The public ES competes with private placement agencies and perhaps more importantly with the Internet and its countless number of job listing Web sites and direct links to employers. Second, the public ES is seen by many employers and workers as the labor exchange for minorities, less-educated workers, older workers, and displaced workers. This limits the extent to which many on both sides of the labor market are interested in using it, which could undermine its effectiveness. Third, fewer jobs are found through the public ES than through other search methods, such as private employment agencies and direct employer contacts. Also, wages earned among those using public agencies are lower and subsequent turnover rates higher than for those finding jobs through other methods. These lagging measures of effectiveness, while not conclusive evidence of the performance of the public ES, underscore how the three issues are related. Lower placement rates, lower wages, and higher turnover may be related to the average ability of those using the public ES to find and hold higher-paying jobs, which in turn may explain the declining reliance over time on the public ES by both workers and employers.

These findings raise questions about the future of the public ES and how well it is positioned to face the challenges generated by the Workforce Investment Act, the use of one-stop centers, the Internet technologies now available, and the implementation of remote UI claim processing. Obviously, it is impossible to foresee perfectly what lies ahead for the public ES. The following chapters in this book are intended to provide more detailed information about the history, institutional arrangements, and effectiveness of the public ES. By providing this information, it is our hope that practitioners and policymakers can more clearly understand the factors affecting the public ES and become better informed in their efforts to improve the reach and effectiveness of labor exchange services in the United States.

Notes

The authors gratefully acknowledge the helpful and insightful comments of David Balducchi and the excellent assistance of Wei-Jang Huang in analyzing the CPS files. Opinions expressed in this paper are those of the authors and not those of the Upjohn Institute or Georgetown University.

1. States must administer a basic labor exchange system that has the capacity to assist job seekers in finding employment, assist employers in filling jobs, facilitate the match between job seekers and employers, participate in a system of clearing labor markets between states, meet the work test requirements of the state UI program (20 CFR 652.3), and deliver services as part of the state one-stop delivery system (section 7(e), Wagner-Peyser Act).
2. This section relies on Balducchi, Johnson, and Gritz (1997) and Fay and Lippoldt (1999).
3. These other dimensions of job search include the intensity with which individuals seek new work (i.e., how many hours per week they spend searching) and their lowest acceptable wages (known among economists as “reservation wages”).
4. Use of newspapers can be categorized either way, though placing ads (as opposed to only checking and answering them) seems like a relatively more formal activity.
5. The costs of search among the unemployed can also be affected by the availability of other income from spouses or unemployment insurance.
6. Interestingly, Latinos use informal networks more heavily than other whites or blacks, despite the relatively low wages that these networks sometimes generate. See Falcon and Melendez (2001).
7. An additional group, those who are on temporary layoff awaiting recall to their previous jobs, are also considered unemployed but generally are not in the category of job seekers.
8. The loss of training that is somewhat specific to that job, as well as lost “tenure” (or seniority), account for much of the lost earnings that we observe. See, for example, Jacobson LaLonde, and Sullivan (1993).
9. Those who quit can do so either before or after they have already located another job. Afterward, they would fall into the category of employed rather than unemployed job seekers.
10. We include those who are unemployed and looking for work but who are not on layoff.
11. But the temporary agencies’ role for some groups of disadvantaged workers, such as welfare recipients, might be greater. See Autor and Houseman (2002).
12. Estimates (not shown) are by the authors using the 2001 monthly files of the CPS and are available from the authors by request.
13. For instance, the National Longitudinal Survey of Youth (1979 cohort) included questions on search methods used, as well as employment outcomes, in 1981 and 1982. Similar questions were used in the household surveys of the Multi-City

- Study of Urban Inequality (MCSUI) during the mid 1990s in Atlanta, Boston, Detroit, and Los Angeles. Data from a survey of methods used by all job seekers can also be found in the U.S. Department of Labor (1976).
14. The papers by Holzer (1987, 1988) using the National Longitudinal Survey of Youth document much larger percentages of workers using friends and relatives in the search process and also finding their jobs that way than does the CPS sample, as does an early analysis from the Panel Survey of Income Dynamics (Datcher 1983) and also one from the Multi-City Study of Urban Inequality sample (Fallcon and Melendez 2001).
 15. We recognize that this method has several obvious drawbacks. First, as we have demonstrated in the previous sections, the use of different search methods differ by demographic characteristics and income, which are related to the likelihood of finding employment. Therefore, it is difficult to compare employment outcomes across different search modes. Second, job seekers use more than one mode during their search efforts, as we also showed. Following Bortnick and Ports, we counted job seekers once for every job search method they cited using in the first month. However, the search methods overlap and the employment outcomes cannot be attributed to only one specific outcome.
 16. For instance, the data collected by the U.S. Department of Labor (1976) indicated that, while 27 percent of job seekers used the ES, only 6 percent of workers found their jobs that way. Though no such data have been recently reported for job seekers, the data discussed below from employers confirm that use of the employment service generates fewer new employees per method used than do other search methods.
 17. An alternative, if the data were available, might be to use panel data on individuals who have been through at least two episodes of job search, and compare the results obtained from using the employment service with those obtained from other methods. Of course, such an analysis would control for fixed personal characteristics, but not those that might vary over time.
 18. For instance, in addition to the state ES, the survey also asks whether businesses used community agencies to recruit workers.
 19. In fact, for complete samples of jobs and job seekers, the results should be identical by definition.
 20. This is also consistent with the evidence of lower wages paid in and higher turnover out of jobs filled by the ES compared to other methods, e.g., Bishop and Abraham (1993).

References

- Autor, David, and Susan Houseman. 2002. "The Role of Temporary Employment Agencies in Welfare-to-Work: Part of the Problem or Part of the Solution?" *Focus*, Special Issue, 22(1): 63–70.
- Balducchi, David, Terry Johnson, and R. Mark Gritz. 1997. "The Role of the Employment Service." In *Unemployment Insurance in the United States*, Christopher O'Leary and Stephen Wandner, eds. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, pp. 457–503.
- Bishop, John, and Katherine D. Abraham. 1993. "Improving Job Matches in the U.S. Labor Market." *Brookings Papers on Economic Activity—Microeconomics* 1: 335–400.
- Bortnick, Steven M., and Michelle Harrison Ports. 1992. "Job Search Methods and Results: Tracking the Unemployed." *Monthly Labor Review* 115(12): 29–35.
- Bradshaw, Thomas. 1973. "Job Seeking Methods Used by Unemployed Workers." *Monthly Labor Review* 96(2): 35–40.
- Datcher, Linda. 1983. "The Impact of Informal Networks on Quit Behavior." *Review of Economics and Statistics* 65(3): 491–495.
- Falcon, Luis, and Edwin Melendez. 2001. "Racial and Ethnic Differences in Job Searching in Urban Areas." In *Urban Inequality: Evidence from Four Cities*, A. O'Connor, L. Bobo, and C. Tilly, eds. New York: Russell Sage Foundation, pp. 341–371.
- Fay, Robert, and Douglas Lippoldt. 1999. *The Public Employment Service in the United States*. Paris: Organisation for Economic Co-operation and Development.
- Holzer, Harry J. 1987. "Informal Job Search and Black Youth Unemployment." *American Economic Review* 77(3): 446–452.
- . 1988. "Search Method Use by Unemployed Youth." *Journal of Labor Economics* 6(1): 1–20.
- . 1998. "Search Methods used by Employers and Employees: A Survey." Prepared for Employment and Training Administration, U.S. Department of Labor.
- Jacobson, Louis, Robert LaLonde, and Daniel Sullivan. 1993. "Earnings Losses of Displaced Workers." *American Economic Review* 83(4): 685–709.
- Meisenheimer, Joseph R. II, and Randy E. Ilg. 2000. "Looking for a 'Better' Job: Job-Search Activity of the Employed." *Monthly Labor Review* 123(9): 3–14.
- Moss, Philip, and Chris Tilly. 2001. *Stories Employers Tell*. New York: Russell Sage Foundation.

- Ports, Michelle. 1993. "Trends in Job Search Methods, 1970–1992." *Monthly Labor Review* 116(10): 63–66.
- Rees, Albert. 1966. "Information Networks in Labor Markets." *American Economic Review Proceedings* 56(12): 559–566.
- U.S. Department of Labor (USDOL). 1976. *Recruitment, Job Search and the U.S. Employment Service*. R&D Monograph 43, Employment and Training Administration. Washington, DC: U.S. Department of Labor.
- U.S. General Accounting Office (USGAO). 1989. *Employment Service: Variations in Local Office Performance*. Report number HRD-89-116BR, August 3.
- . 1990. *Employment Service: Leadership Needed to Improve Performance*. Report number T-HRD-91-4, October 16.