WORKFORCE DEVELOPMENT REVISITED—HOW TO MORE EFFECTIVELY TARGET TIGHT RESOURCES
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Why revisit workforce development?

- Unemployment rate at 7.3%, compared to 4.6% in December 2007
- Labor force participation at a 35-year low (63.2%)
  - Various estimates put real unemployment rate > 11%
  - Labor force is aging, but LFP of men age 55 & over is up
  - Workers aged 16-24 experienced largest drop in employment since Great Recession start (–7.1 percentage points) and largest increase in those outside the labor force (+4.5 percentage points)
    - 2000-2013 percentage change in LFP for males aged 16-24: -12.8
- Over 2000-12, real hourly wages were flat or declining for bottom 60% of wage distribution
The financial crisis and its aftermath have taken a particularly heavy toll on younger workers. Americans under 25 make up a disproportionately large number of the unemployed relative to their share of the population. Many are staying in school to avoid the harsh job market. And those who are employed are working fewer hours and making less money than before the recession.

**Losing Ground**
Change in median weekly earnings, adjusted for inflation, 2007–2012

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Change (%)</th>
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</thead>
<tbody>
<tr>
<td>16–19 years old</td>
<td>-4.6%</td>
</tr>
<tr>
<td>20–24</td>
<td>-6.9%</td>
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<tr>
<td>25–34</td>
<td>-0.7%</td>
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<tr>
<td>35–44</td>
<td>0.8%</td>
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<tr>
<td>45–54</td>
<td>0.4%</td>
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<tr>
<td>55–64</td>
<td>0.9%</td>
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- Among the young who are working, part-time work is increasingly prevalent.
Overview of talk

- Brief look at theories/arguments that motivate public funding of workforce development programs
- Critical appraisal of current evidence base on effectiveness of workforce development programs
- Where should we be targeting our workforce investment resources and how

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“Skill begets skill”

- Latest research suggests brain does not lose its capacity for change over life course, but there are early “sensitive” periods when brain’s development may be particularly affected by environment.
  - Heckman argues for targeting investments to young children, suggesting returns to workforce development for adults are significantly lower.
  - Investments made early in human capital development more likely to yield sustained benefits if followed by later learning/training opportunities (Harvard Center on the Developing Child).
  - Working parents generate earnings that can be used to improve quality of children’s environments.
    - Two-generation programs—incl. early childhood education and postsecondary education and training for young parents—show potential to multiply returns on investments (Magnuson, 2007).
Figure 1: Returns to Human Capital Investments (from Heckman, 2000)

(a) Rates of return to human capital investment initially setting investment to be equal across all ages

- Preschool programs
- Schooling
- Job training

Rate of return to investment in human capital

Opportunity cost of funds

Preschool | School | Post-school

Rates of return to human capital investment initially setting investment to be equal across all ages
Narrowing access to training

- Private sector employers account for lion’s share of workforce development activity and spending
  - U.S. public spending averages less than 0.5 percent of GDP, well below most western European countries (that spend 6-7 times more)

- Employers more likely to offer firm-specific training
  - Underinvest in more general/portable types of training that research finds has positive effects on productivity growth; no comparable effects for firm-specific training
  - Narrowly target higher-skilled in more competitive markets; young labor market entrants residing in high-unemployment areas or with less education and post-high-school work experience less likely to receive employer training

- Unpersuasive case for public subsidization of employer training

- Globalization contributing to widespread decline in provision of general training and worsening inequality between higher- and less-skilled workers in access to private sector training
Weak youth/young adult responses to labor market incentives for skill investment

- Income increased 46% for college-educated in last four decades, compared to 7% for those with a high school degree; yet post-secondary education and training degree completion rates have stagnated (even as Pell grant funding increased)
  - Opportunities for career/technical education in high school (and career context for learning) lacking
    - US DOE recently cut funding for career/tech education by 20%
  - Low, per-trainee funding for developing high-quality training, career/technical education and apprenticeships and insufficient coordination between publicly-funded One-Stop centers and two-year educational institutions
  - Inadequate counseling, guidance and supports for community college students
Limited evidence base on workforce development effectiveness

- Estimates of program impacts are almost exclusively average employment and earnings or wages
  - Scant information on variance in returns to different types of training and idiosyncratic definitions of training
  - Few studies monetize other impacts, such as government savings or reductions in welfare and crime
  - Little measurement of skills, credentials or qualifications gained through training
  - Few attempt some accounting of costs and benefits; accurate data on direct program costs rare
  - Limited follow-up for measuring how program impacts change (grow or decay) over time
Consistent findings in evidence base

- Majority of studies across countries find vocational training to be effective in increasing adult earnings
  - Initial “lock-in” effects contribute to early negative impacts that turn positive and increase over time
  - Empirical estimates mainly come from U.S. studies—earnings increases ranging from $320-$887 per quarter for participants (5-26% of earnings); employment increases from 5-29 percentage points (monthly or quarterly)

- On-the-job training/wages subsidies to regular employment identified as most effective
  - Greatest returns from combining classroom and workplace training

- Job search assistance more likely to generate short-run positive impacts that fade with time

- Subsidized public jobs least likely to yield positive impacts
Subgroup impacts of training

- Smaller impacts on employment and little or no impacts on earnings of programs for dislocated workers
- Most studies find smaller impacts of youth training programs than those for adults, but they are more diverse in design and service mix
  - Dual (apprenticeship) system that combines school-based education and firm-based training most effective
  - Considerable ongoing innovation in youth programs
    - E.g.: Career Academies—11% increase in average annual earnings ($2,203 per year) that was sustained over an 8-year follow-up period, but no effects on postsecondary credentials
    - Job Corps increased receipt of GED and vocational certificates by more than 20 percentage points each, but earnings impacts were sustained through 10 years only for 20- to 24-year-olds
Policy guidance from evidence base

- Limited availability and quality of data challenge ongoing efforts to comprehensively measure costs and benefits of workforce development programs.
- Resource constraints and demands for timely information limit timeframes over which program impacts are measured.
- Generally positive findings on employment and earnings for most sub-groups is based on fairly narrow approach to measuring program benefits.
- Should we more narrowly target training resources? How much heterogeneity in effects across different subgroups and training types exists to be exploited to improve program effectiveness?
Current policy weaknesses

- Under WIA (vs. JTPA), share of low-income persons receiving services declined by one-third; training length and expenditures per trainee also declined significantly
  - Access of disadvantaged to public and private sector training diminishing; in contrast to European employers, U.S. employers do not see training as their responsibility

- More currently spent on WIA and trade adjustment assistance programs for dislocated workers that perform less well than on training for disadvantaged adults

- Outside Jobs Corps, federally-funded efforts to train youth primarily focus on summer employment
  - Youth summer employment at record low of 32% in 2013 (vs. 52% in 1999); 19% for blacks (9% for low-income blacks)
New policy directions for a resource-constrained public sector

- Fold dislocated workers funding into training programs that more explicitly target disadvantaged workers, with dislocated workers as a subgroup
  - Tie aid for vocational/community college course-taking to completion rates for individuals and institutions
  - More actively use workforce development data to identify higher-value training programs and counsel training recipients

- Increase funding of sectoral training programs that combine basic and occupational skills training in sectors with expanding labor market opportunities and evaluate them
  - European countries use public funds to mobilize and encourage public-private sharing of costs/responsibilities of sectoral training
  - WIA One-Stop Centers could play an elevated coordinating and information dissemination role in support of sectoral partnership-building (akin to sector skills councils in the UK)
New policy directions: youth and young adults

- Begin blending vocational and on-the-job training at much earlier ages in partnership with secondary schools
  - High-quality, career-focused and leading to a certification that youth can take directly to labor market or to additional post-secondary education

- Find balance in shifting toward more systemic and formalized training, as in German dual apprenticeships, while preserving flexibility for locally innovative and adaptive strategies for youth (while still in school)
  - Germany has a separate preparatory system for youth with lowest educational attainment, and it takes these youth more time to move from subsidized work experience into employment

- Once youth are disconnected, no cheap and effective way to re-engage them in education, training and the workforce
Parting wisdom (from colleagues)

- Chris King: we lack evidence and measures showing whether sectoral training strategies increase worker and firm productivity, increase efficiency, or affect firms’ bottom line (profits); evaluations rarely go beyond the worker (as unit of analysis) or individual returns in terms of employment and earnings; basic data on service costs are hard to come by, making any type of “bottom-line” calculation for public or private investors difficult.

- Jeff Smith: we have become too focused on methods, to the neglect of data quality; U.S. is more likely to undertake RCTs, but we take too long to get them underway.

- In this regard, highly decentralized, state and local administration may stand in the way of more effective workforce development policies.