

POLICY BRIEF 2011-10

Raising Job Quality and Skills for American
Workers: Creating More-Effective Education and
Workforce Development Systems in the States

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Raising Job Quality and Skills for American Workers: Creating More-Effective Education and Workforce Development Systems in the States

The wage and employment opportunities of less-educated and less-skilled Americans have been declining for several decades, and the recent recession has exacerbated this trend. These workers have slipped through cracks in the formal education system and lack the skills to prosper in the increasingly global labor market. All too frequently, individuals in this group earn low wages and have extended stretches of unemployment. Federal and state governments will need to make a concerted effort to provide these workers with the skills they need to succeed in today's workforce and to be productive contributors to the economy.

In a discussion paper for The Hamilton Project, Harry Holzer of Georgetown University, the American Institutes for Research, and the Urban Institute proposes a set of competitive grants to fund training initiatives that improve job prospects for less-educated and less-skilled workers. The grants would fund programs that take advantage of convincing new evidence on successful approaches to training, and favor those programs that build strong relationships between training providers and employers.

The Challenge

Americans with the lowest levels of education have always been the most susceptible to becoming unemployed. The Great Recession of 2007–2009 and the subsequent slow recovery have exacerbated this problem. Employment and earnings are highly dependent on education, and earning a bachelor's degree has traditionally been one of the surest ways for workers to improve their chances of finding a good-paying job.

Sixty-nine percent of Americans aged twenty-five to thirty-four do not have a four-year college degree, however, and it may not be realistic or practical for all workers to attain that degree. Indeed, Holzer's previous research suggests that bachelor's degrees are not always necessary for finding jobs that pay well. Holzer finds that good-paying jobs are declining

in industries such as manufacturing, but appearing in other sectors including health care; sales; and science, technology, engineering, and math (STEM) fields. Furthermore, employers should be willing to create more good-paying jobs if it becomes easier for them to find workers with the appropriate skills.

Jobs in those fields may not require traditional college degrees, but may require some postsecondary education or training in skills specific to their sectors in addition to requiring cognitive and communication skills. These prerequisites suggest that two-year colleges and other training programs could provide alternative paths to good-paying jobs for workers who are unlikely to pursue the four-year college path. While the evidence strongly supports this approach, graduation rates at community colleges are disappointingly low—fewer than half of community college students complete a degree or certificate within five years of beginning a program.

In his discussion paper, Holzer also highlights weaknesses in existing programs that can serve as barriers to effective training. First, not all community colleges are sufficiently focused on offering targeted classes that will give students the skills to work in high-growth sectors or on directing their students to classes and credentials that will best prepare them for good-paying jobs. Second, community colleges often lack the capacity to provide career counseling to students that is based on private sector input or labor market demand.

On the other hand, there are more than 3,000 One-Stop Career Centers around the country funded by the Workforce Investment Act (WIA) that provide low-cost career guidance. One-Stops are often unconnected to the community college system, however. Furthermore, many community colleges and One-Stops are not integrated with state and local economic development programs aiming to support the growth of certain sectors or industries.

The decentralization of programs under the current system prevents much-needed coordination and hinders well-intended efforts to provide the best possible training and guidance to millions of people. For example, the benefits of attending a community college have been demonstrated to vary widely based on the specific credentials attained and classes completed. Because the system that provides education and training is often disconnected from the labor market, it fails to provide students with the best information about what types of training are likely to yield the highest returns. Even if students have that information, community colleges may have insufficient capacity to provide coursework in high-return areas because funding for community colleges is not linked to labor market demand, but rather is determined by state governments and by tuition fees, which are tied to enrollment.

A New Approach

Harry Holzer argues that the United States needs a more coherent education and workforce development system built on training models that have been proven to raise employment and earnings for the many Americans who will not graduate from a four-year college. Recent research provides these models and confirms that training programs that are informed by strong partnerships with employers and industries are most effective.

Holzer proposes that the U.S. Departments of Labor and Education jointly award \$2 billion in competitive grants so workers can gain skills they need to find good-paying jobs in high-demand sectors. These grants could directly fund short-term sectoral training for about 250,000 less-skilled workers. The grants also could leverage funding already in the system by funding partnerships between existing training programs and employers, and could thereby have an even broader impact.

While not a common practice, there is certainly precedent for this type of joint administration. For example, in 1994 Congress passed the School-to-Work Opportunities Act, which was jointly administered by the Departments of Education and Labor. The Act provided the secretaries of both agencies with the authority to issue jointly whatever procedures, guidelines, and regulations were deemed necessary and appropriate to administer and enforce the Act. Cooperation between these two agencies also now occurs in other grant-funding efforts, such as the Trade Adjustment Assistance Community College and Career Training (TAACCCT) program.

In Holzer's proposal, states would submit a single application for joint approval by the secretaries of the two agencies. Applications could be for either planning grants or implementation grants. *Planning grants* would provide states with the funding needed to identify appropriate training models and sectors. *Implementation grants* would fund a combination of training, support services for trainees, and policies and programs that would integrate training programs with employer demand.

The strength of the programs and thus the quality of the grant applications would be judged by the following criteria:

- **Industry and employer partnerships.** The requirement of strong employer links is based on recent evidence on effective training models for less-skilled workers from randomized control trials. Arguably, the most compelling evidence comes from the Sectoral Employment Impact Study, which demonstrated that training programs in which the curriculum was based on the needs of employers raised earnings by \$4,000 in the second year of the study,

once training had been completed. The study evaluated training programs run by community-based organizations in Boston and New York City, and a training program run by a regional partnership of employers and unions in Milwaukee. The organizations provided training in sectors such as health care, manufacturing, and information technology, and shared certain elements that were key to their success: all programs had strong relationships with employers that allowed them to understand what skills would be most valuable in the labor market and offered training targeted toward a specific occupation or sector.

Career Academies have been proven to raise earnings for young men who are at risk of dropping out of high school. These high school programs feature small learning communities within schools that combine academic and technical education with a career theme. Importantly, they also provide students with critical work skills, and feature partnerships with local employers.

Applicants primarily would be states, although some applicants may be larger partnerships in key sectors or smaller regions. States would apply for funding on behalf of high schools, postsecondary institutions, and nonprofit organizations that provide career training and that have or will form strong ties with either particular employers or industries in sectors that are expected to provide good jobs in the future.

- **Targeting trainees and sectors.** The applicants must identify a group of underemployed workers who would benefit from the training and must provide evidence that there is local demand in the sectors that the training targets. Because predicting demand is difficult, the training should also provide general academic training or skills that are transferable to other sectors. The process of finding target populations and sectors could take place with the help of planning grants. Planning grants help states fund salaries for additional employees, data collection, or both, so that states can make plans for full-fledged grant applications.
- **Broader measures to support employer-based training.** The best plans can include either direct funding for new training programs or other policies that support existing training at community colleges or elsewhere, or both. On the community college side, states could be rewarded for policies that make community colleges more responsive to job creation, such as tying state subsidies to completion of in-demand certificates and credentials. On the employer side, states could propose tax credits or technical assistance for employers participating in partnerships with training providers.

- **Funding direct services for trainees.** Grant programs should also recognize that the barriers workers face to obtain training include the costs of training and education, and the need for supportive services such as child care. Pell Grants may provide some with funding support for classes, but grant programs could provide assistance for a broader range of programs that adopt evidence-based models for training. Alternatively, grants could offer supplemental stipends for paid work experiences such as apprenticeships, internships, or on-the-job training.
- **Promoting sustainability by leveraging existing funding sources.** States applying for funding would be required to explain how the grants would be used to create lasting systemic changes so eligible workers can find good-paying jobs over time. The grants could build on rather than duplicate other efforts and encourage states to consolidate currently uncoordinated programs into a more effective system.

There are a number of private and public funding sources that states could leverage. The most closely related public initiative is the TAACCCT grant program, which provides funding for career training programs; these grants are intended to develop training programs suitable for people who have lost their job due to negative impacts of trade, and who thus are eligible for the Trade Adjustment Assistance program. Naturally, similar programs could benefit other types of students, and Holzer's proposed grant program would encourage states to build on these efforts while encouraging a greater degree of employer links and rigor.

Holzer suggests that this model of implementation could generate lasting benefits through systemic changes similar to those encouraged by other recent federal grant programs such as the U.S. Department of Education's Race to the Top competition for K-12 education.

- **Evidence base and evaluation.** The criteria above are designed to make sure that grant applications are consistent with randomized control trial evidence that shows that the training programs that are most effective are career oriented and based in strong partnerships with employers and industries. Applications also should explicitly create cost-benefit analyses from the available research, and provide a plan for evaluation of their programs, using experimental methods for pilot programs and other rigorous methods for proven programs that are being expanded.

Roadmap

- The U.S. Departments of Labor and Education would jointly administer a competitive grant program based on evidence from randomized control trials to fund education and training initiatives with strong links to either particular employers or high-growth industries.
- The grant program would award \$2 billion annually. Funding for the grants could come from H-1B visa fees and from consolidating existing programs. Alternatively, the grants could start with a smaller appropriation and scale up when more money is available.
- States would apply for funding on behalf of high schools, postsecondary institutions, and nonprofit organizations that provide career training.
- Training programs would identify sectors that are likely to provide a growing number of good-paying jobs, and target classes and training toward relevant skills. Participants should also receive some general skills that are portable across sectors.
- Grants would encourage training providers and community colleges to guide students toward classes and certification for jobs in high-growth sectors and to expand capacity in these areas.
- Funds could be used for planning or implementing training programs. Grants also could be awarded for broader efforts to promote employer-based training or for providing direct services to training participants.
- Grant applications would indicate how new funds would be used to leverage other public and private funding and to make existing programs more effective.

Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, *Raising Job Quality and Skills for American Workers: Creating More-Effective Education and Workforce Development Systems in the States*, which was authored by:

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Additional Hamilton Project Proposal

Policies to Reduce High-Tenured Displaced Workers' Earnings Losses Through Retraining

After being displaced from long-tenured jobs, workers often experience significant earnings losses that persist for the rest of their working lives. Research suggests that retraining in certain “high-return” fields can substantially reduce these losses. However, neither current educational assistance nor existing training programs provide adequate resources to address the earnings losses of this population. This paper proposes the establishment of a Displaced Worker Training (DWT) Program to distribute grants to displaced workers so they can obtain longer-term training to substantially increase their earnings. The DWT Program would also leverage the nation’s One-Stop Career Centers to assess and counsel grantees. Features of the DWT Program include incentives and performance standards for participants and institutions, evaluation of retraining programs, and measures to shore up community colleges’ capacity to provide high-quality retraining during tough economic times.

Costs and Benefits

Holzer proposes a \$2 billion grant program and estimates that \$1.5 billion of this money could be used in direct funding for training programs. Some portion of the funding for the grants could come from consolidating overlapping programs and carefully reallocating money from other training programs. H-1B visa fees are currently earmarked for training American workers, and could be used for the grants that Holzer proposes. Finally, if the full amount proposed cannot be found, the program could be piloted with a smaller amount and scaled up in later years.

To estimate benefits, Holzer draws on evidence from randomized control trials. Perhaps the best models for the grant program are the sectoral training programs evaluated by the Sectoral Employment Impact Study. In those programs, average costs per participant were \$6,000. Thus \$1.5 billion in direct funding for training programs could serve 250,000 participants in any given year. Using the effects of training from this study, Holzer estimates that the increase in earnings from the program outweighs the cost of the program even under conservative assumptions, and that the increased wages generated by the grants will likely be 3.8 times the cost. The grants also could enable and encourage existing training programs to adopt models based on this new evidence and thereby make those programs more effective.

Conclusion

Today, many less-educated workers are separated from the high-growth industries that promise good-paying jobs by their lack of relevant skills. Rigorous evaluations of training programs have demonstrated that training programs with strong links to employers and with vocationally focused classes can raise employment and wages for this population. Holzer builds on the lessons of this research to propose a new set of grants designed to connect less-skilled workers with high-quality jobs.

Questions and Concerns

1. Will the benefits of this program exceed the costs?

There is always some uncertainty about the costs and benefits of a new program. Results from randomized controlled trials provide a solid foundation for cost-benefit analysis, so programs based on models that have been tested and proven effective are highly likely to provide a net benefit to society. Holzer examines a variety of assumptions for the drop-out rate and the fade-out (the rate at which the earnings impact of training dissipates), and finds that even under conservative assumptions the benefits outweigh the costs. Furthermore, the requirement that grant applications contain plans for continued rigorous evaluation guarantees that programs will have to prove that they are cost-effective for them to continue receiving funding.

2. How is the proposal different from TAACCCT grants?

Trade Adjustment Assistance Community College and Career Training (TAACCCT) grants require at least one employer partner for each community college for which funding is requested and thus emphasize industry links. Unlike the grants described in Holzer's proposal, TAACCCT grants do not require a sectoral strategy—although links with multiple employers are encouraged. Furthermore, TAACCCT grants can only be awarded to communities that have been negatively impacted by trade, whereas the grants in Holzer's proposal can be used more generally for other communities. TAACCCT requires that grants go through community colleges and other institutions of higher education, whereas Holzer proposes funding for a broader range of training providers, including nonprofit training organizations and other educational institutions. Finally, not all TAACCCT grants are competitive; each state was allotted \$2.5 million and the remaining \$375 million is left for competitive grants to either individual states or consortia of states.

Highlights

Harry Holzer of Georgetown University, the American Institutes for Research, and the Urban Institute proposes a new set of competitive grants to fund education, training, and career counseling initiatives that feature private sector partnerships in order to match less-skilled workers to good-paying jobs that do not require four-year degrees.

The Proposal

Encourage training providers and participants to invest in the most valuable classes and credentials. Students in training programs and community colleges have limited time and money to use on training, and community colleges must choose a limited set of classes to offer. Since training in different subject areas offers varying benefits, it is important for funders, participants, and providers to focus training in the areas with the highest rewards.

Leverage existing funds to create a more coherent workforce training system. In the current system, community colleges are too infrequently linked with agencies that provide career guidance, and neither community colleges nor employment service providers are necessarily tied to the employers demanding skilled workers. Grants to promote partnerships between these groups could encourage more efficient use of existing funds.

Base training programs on models that have been proven effective. Evaluations based on randomized control trials of training programs have shown that programs are most effective when they include partnerships with employers in high-growth sectors and when they target their training toward relevant skills.

Benefits

Direct funding for training programs can increase employment and earnings for less-skilled workers. The increased earnings for participants exceed the cost of training even under conservative assumptions, and the benefits may be two to four times the cost. Furthermore, the grants could enable and encourage existing training programs to adopt more-effective practices and ultimately make them more successful.



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