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Policy Brief

PROPOSAL TO ACCELERATE SOCIAL MOBILITY:
INCENTIVIZING GREATER PRIVATE INVESTMENT IN THE SKILL DEVELOPMENT OF 21ST CENTURY WORKERS

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The political challenge of the new global context

The central political issue now is declining public confidence in the market economy to generate social outcomes for middle-income workers, which is undermining effective governance and trust in national leadership in many countries.

Workers pay in the U.S. as a share of economic output dropped from 64 percent in the early 2000s to 58.4 percent in the third quarter of 2016 (New York Times, March 9, 2017). Unemployment in France is 10 percent, compared to 4 percent in Germany. And youth unemployment in France is 25 percent. Eighty percent of new jobs in France are on short-term, one-month contracts (The Economist, 4-10 March 2017).

G-20 countries are the largest economies in the world. The recent political backlash against globalization is of grave concern to the leaders of these systemically important countries, both as leaders of the global economy and as national leaders of key countries with more intense challenges in managing the interface between domestic concerns and global engagement.

The German G-20 Summit presents a political moment for leaders to forge a response to rising public concerns about economic insecurity, income disparities, technological changes, and disruptions in job markets.

The problem

How to develop a program in which private companies and corporations would be motivated to scale up their investment in skill training for their workforce that would have the effect of increasing their economic competitiveness while also increasing workers' real incomes, so that technological change does not displace more workers than it employs.

A *key element* is that such proposals be sufficiently attractive to firms, industries, and corporations by adding enough additional incentives to generate significantly greater investment in skill development of their employees to have an economy-wide impact on competitiveness and social mobility. Scaling up is a major imperative.

Business leaders are looking for opportunities for the private sector to take responsibility for its own competitiveness, while at the same time making a visible contribution to the social mobility and rising income streams of the labor force. It is both good business and in the larger public interest to forge inclusive societies in which middle-income workers are rewarded for their value. It would be extremely important in the current context to create an initiative, which would benefit business *and* labor together.

A proposal: Tax credits for accelerating increased investment in skill development

The basic proposal is to provide tax credits to companies that make increased investments in skill development training for their workers, which would compensate firms for the training costs and the time off from work for significant technical skill upgrading. The idea is to provide significant incentives to accelerate private-sector investment in skill development training of their workforce, which will increase the value of the workers' contribution to the value added by the company and increase the income of the worker proportionately overtime as his or her technical skills develop.

Current Government programs that directly fund vocationally oriented training lack a connection to the labor market, which leads to a mismatch of supply and demand. For example, funding niche areas such as theatrical lighting or forensic science has led to wasted expenditures. By contrast, incentivizing investments by companies that are committed to employ the workers being trained ensures that market forces focus on candidates equipped to do the job and drive training investments that meet real employer demands.

The core proposal is to provide a corporate tax credit to companies in proportion to their investment in technical training and skill development of their workforce.

For example, the new U.S. administration is proposing to reduce the current corporate profits tax rate from 35 percent to 20 percent to encourage investment. This is an unconditional tax reduction of 15 percentage points. The skill development tax credit would be conditional upon and proportionate to the amount of investment made by the company in workforce training and the cost to the firm of time off from work needed for the training. It would provide a tangible incentive for the firm to increase its commitment to skill development and technical training, according to some business executives.

One could imagine that unconditional tax credit relief in the U.S. might be unconditional for 10 of the 15 percentage points in corporate tax reductions, and that the additional 5 percentage points would be available only to firms making incremental commitments to investment in skill development.

Additional features could be added to this basic proposal, forging several levels or stages:

> *Level 1*: All firms (in the U.S. example) would be eligible to up to 5 additional percentage points in corporate tax reduction in proportion to their investment in labor training (the basic proposal).
>
> *Level 2*: There could be an additional tax credit "write off" for training equity lost to a *poaching firm* that would address the free rider problem of companies poaching skilled workers from companies that invest in training.
>
> *Level 3*: There could be a tax credit enhancement factor, of say 200 percent, in defined *areas of severe economic dislocation*, in rust belts from de-industrialization, or in coal mining communities, for example.
>
> *Level 4*: Other policies to address dislocated communities could provide a wage top-up for a defined period during which *re-training* takes place. Or if alternative employment in these communities is not available, *relocation packages* could be developed for families to move to where there is work. Both the income supplement and relocation assistance could be government provided or financed by loans with repayment through the tax system using a graduated and progressive repayment mechanism much like student loans.

An example of a skill-training program in the U.K.

The U.K. "levy-grant" program is run by the *Construction Industry Training Board*, known at CITB, which states on its website: "The CITB levy and grants system ensures the construction industry has a trained and skilled workforce so it can continue to grow. CITB collects levy funds from construction employers and reinvests the money in the industry to help training and skills development."

The number of current new trainees totals 15,003 at a total cost of 129 million British pounds, with almost 14,000 trainees of those being in firms with 14 employees or less. In each of four categories of firm size, the amounts of the grants is less than the levy paid by the firms in that category.

While this is an interesting example worth further study, it does carry the disadvantage of requiring an institution to manage grant applications, evaluate claims for grants and design and run its own training and skill development programs. CITB has been in existence for 50 years. It also seems to help smaller firms, which is indeed important. But to generate the scale effects necessary for social impact, the tax credit for accelerated investment in skill development would have to include, and even favor, larger firms and corporations

Conclusion

The tax credit for accelerated private investment in skill development of workers is the core proposal from which other ideas may spring. The fundamental idea is to create a policy innovation that is simple, lean and clearly focused on scaling-up effects of compelling interest to private firms, so as to accelerate investment in the human capital of the nation's work force to enable greater solidarity, inclusiveness, and rewards to workers and firms for value-added skill development.

Whereas the example given here builds off the proposed corporate tax reduction in the U.S., this proposal is being developed and discussed within the context and work streams of the German G-20 presidency. It is hoped that the proposal benefits from the considerable experience of Germany itself in labor training, as well as that of other G-20 countries, and that in turn the proposal may become relevant to the concerns and priorities of G-20 leaders at the German G-20 Summit in Hamburg in July, as part of a broad policy response to the public interest in better social outcomes from national and global economic growth. "Training our workforce for the 21st century" was given significant priority by U.S. President Donald Trump and German Chancellor Angela Merkel in their White House meeting on Friday March 17, 2017.

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