Funding for the Workforce Investment Act in Fiscal Year 2012 and Beyond

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I would like to share my thoughts on the Workforce Investment Act (WIA), and particularly on the levels at which it should be funded, in Fiscal Year 2012 and beyond. These thoughts reflect my nearly 30 years of research and writing on these issues as a labor economist, including a stint as Chief Economist of the U.S. Department of Labor.

There is little doubt among most labor market analysts that the growth of education and skills among American workers has not kept up with growth in the labor market demand for these skills in the past three decades (Goldin and Katz, 2008). In order for productivity gains to be widely shared among Americans, and for employers to be able to fill vacant jobs with highly productive workers, the skill levels of our workers will need to increase. And the skills that will be demanded in the labor market are not only those represented by BA or more advanced degrees from four-year colleges and universities, but also the "middle skill" categories in many sectors that include a wide range of education and training credentials beyond high school (Holzer and Lerman 2007; Holzer, 2010).

In order for the skills of American workers to rise in ways that meet our labor market demands, we need an *effective workforce development system* that is well-coordinated with our systems of secondary and postsecondary education. On their own, and without effective workforce programs, our institutions of higher education are unlikely to generate workers with the skills needed to meet our labor market needs. For one thing, the dropout rates at many such institutions (especially community colleges) are extremely high; large percentages of students leave without earning any kind of credential at all (Bailey et al., 2005). And, among those who complete a degree or certificate program, many do not attain good-paying jobs (Jacobson and Mokher, 2009).

At least partly, these outcomes reflect the fact that many institutions of higher education provide little in the way of career counseling or labor market services for students that would effectively point them towards good-paying jobs and careers (Jacobson and Mokher, op. cit.; Soares, 2009). And, perhaps due to their previous levels of education or their family situations, not all workers are able to attend or succeed at institutions of higher education; instead, many need some kind of job training that is targeted towards specific jobs and sectors of the market that do not require as much in the way of academic skills.[1] Also, while employers could provide more on-the-job

[1] These alternatives include apprenticeship programs in construction or other fields as well as a variety of certificate programs in the health services and information technology. Programs that train machinists and precision welders for advanced manufacturing are also frequently offered in non-college settings.

training to meet their skill needs, there are many reasons for why they often choose not to do so, especially for their non-professional and non-managerial employees.[2]

For all these reasons, *a strong workforce system remains critical to maintaining a labor market in which skilled workers are well-matched to the jobs that require and reward such skills*. Jobseekers often need assistance locating the best local jobs for which they are qualified; they might need counseling about how best to upgrade their skills and for what kinds of jobs and careers; and they might need funding for such training. Training resources also need to be directed towards sectors with good-paying jobs that are in high demand. Indeed, the core, intensive and training services provided at One-Stop centers around the country that are funded by WIA, especially Title I, do all of these things.

Unfortunately, the overall resources that fund our workforce system have declined dramatically over time, both in an absolute sense (adjusted for inflation) and especially relative to the size of our economy and workforce. Indeed, since 1980 WIA expenditures (compared to its predecessor programs, CETA and JTPA) have fallen by as much as 90 percent, while our economy has doubled in size and our workforce has grown by nearly half (Holzer, 2009). We now lag behind almost all other industrial countries in the share of our GDP that we devote to such efforts (O'Leary et al., 2004).

At the same time, the scope of employment services funded by WIA has risen dramatically, as the services have become more universal and the number of individuals receiving training has diminished. In fact*, in a nearly $15T economy with over 153 million workers, the roughly $2.8B now available (in FY 2011) in Title I formula funds provides about $18 per American worker* – much too small a sum to greatly affect the skills and employment outcomes of American workers in the aggregate.

Our national unwillingness to sufficiently fund our workforce system reflects, to some extent, a widespread belief that such expenditures are wasteful or ineffective. But the literature based on rigorous research of WIA programs does not bear out this point of view. Indeed, the most rigorous studies of programs funded under WIA (summarized in Heinrich and King, 2010) suggest that these modest investments are quite *cost-effective* on an individual basis, generating significantly higher earnings for those who receive them. This is particularly true of "sectoral" programs that target growing industries providing high-paying jobs, and often actively involve employers in the process of training workers to fill their jobs (Maguire et al., 2010; Roder and Elliott, 2011).

And the concerns that have been recently expressed over duplication across federally-funded employment programs are quite overblown. Estimates by the U.S. Government Accountability

[2] Employers are often unwilling to invest in general training for workers who might soon leave their firm or whose basic skills are questionable. Also, imperfections in information and the capital markets further constrain their ability or willingness to do so (Lerman et al., 2004).

Office (GAO) show that, while there are many employment and training programs scattered through the federal budget, they generally target towards very small and specific populations and expend very few resources in the aggregate. Overall, the need for such services among American workers far outstrips overall available funding.

Not all estimated training impacts have been as positive as they can be, and therefore our workforce systems still need to evolve and incorporate our growing understanding of what constitute "best practices." This is especially true for some of our least-skilled workers and for out-of-school youth.[3] Some of the most promising models, like "career pathways," need further development and rigorous evaluation. Workforce development efforts also need to be better integrated with the higher education and economic development programs of states, though some have made considerable progress on this front in recent years.

However, these improvements will likely not occur in a system that is effectively starved of needed resources. Instead, appropriate incentives (through better and simpler performance measures on formula funds) and technical assistance should be provided, along with the resources, to make sure that such improvements occur. Workforce innovations should be competitively funded and rigorously evaluated; and this continuously growing body of knowledge should then inform our workforce legislation and its funding of "best practices" in the field.

An appropriately funded education and workforce system that generates more knowledge about effective practices and adapts to labor market changes over time is what we should aspire to build time – not with ill-informed budget cuts but with sensible program adjustments and an adequate base of funding.

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[3] For instance, the most recent evaluations of the Job Corps show positive and cost-effective impacts that tend to fade over time for teens, though not for older youth (Schochet et al., 2008). Estimates of the impacts of youth funding under the Job Training Partnership Act (JTPA), the predecessor of WIA, were not positive (Orr et al., 1997), though we know little about their impact under WIA. And recent evaluations of training impacts for the hardest-to-serve populations have generated mixed results (Bloom and Butler, 2007).

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