EMPLOYMENT AND TRAINING POLICIES: NEW DIRECTIONS FOR LESS SKILLED ADULTS

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Americans of virtually all economic circumstances confront a more complicated and challenging job market than anytime in the postwar period. Frontline workers face insecurity due to outsourcing and reengineering and large numbers of working poor have not shared in America's prosperity. Even CEOs face a world in which their job security is suddenly at risk. While the problems of CEOs may not be an appropriate topic for public policy, the more widespread challenges certainly are. The goal of this paper is to think through what role the public Employment and Training (E&T) system can play in helping people succeed in today's job market.

More than a decade after President Clinton campaigned on the theme of "making work pay" a remarkably large number of adult Americans work yet are poor or near poor. In 2004 the poverty rate among people who work was 6.1 percent, an increase from the 5.8 percent rate of 2003. In fact, in 2004 2,896,000 adults worked full time and full year yet were in poverty. More strikingly, 5,062,000 families had a member who worked full-time/full year yet had a household income of below 150 percent of the poverty line and 9,230,000 families with full time/full year workers were below 200 percent of the poverty line. (U.S. Bureau of the Census, 2005).

The characteristics of jobs confirms this picture. In 2001 21.6 percent of all hours worked in the economy were in jobs that paid less than two thirds of the median wage (i.e. less than $8.67). If the cut-off is set at $8 an hour or less then 16.3% of all hours were in these jobs (Bernstein and Gittleman, 2003, p. 5).[1]

The economic straits of the working poor might seem more tolerable if today's difficulties were simply a prelude to tomorrow's upward mobility. That, however, seems not be true. Harry Holzer followed the economic mobility of low earners for six years beginning in 1993-1995. During this period of remarkable economic strength only 27 percent of his sample consistently raised their incomes enough to rise above the poverty line for a family of four (Holzer, 2004). Additional confirmation that economic mobility is difficult comes from a comparison of young male cohorts entering the job market in between 1980 and 1991 with cohorts who entered earlier between 1970 and

1979. Among the earlier entrants 60 percent of all men and 71 percent of college educated men attained earnings of at least twice the poverty line by the time they turned age 30. For the later entrants the rates had fallen to 42 percent and 56 percent (Duncan, Boisjoly, and Smeeding, 1996). Studies of family income mobility show a similar pattern. Bradbury and Katz (2002) found that among families who in 1969 started in the bottom quintile of income 49 percent remained in that quintile ten years later in1979. However, when the starting point was 1988 the proportion stuck at the bottom in 1998 increased to 53 percent.

In short, the numbers of working poor are high and their prospects for upward mobility are low and falling. However, what is striking about the current period is that it not just low wage workers who find themselves in difficulty. The increased volatility of the job market has taken its toll on more experienced and skilled employees as restructuring has increased the rate of layoffs. For two decades the Current Population Survey has tracked the experience of these dislocated workers. Henry Farber has shown that while the business cycle is the dominate driver of dislocation nonetheless, after taking the cycle into account, the rate is trending upward and this is impacting the better educated as well as those at the bottom of the skills distribution . In the most recent survey, covering the period 2001-2003, the dislocation rate for high school workers was 12 percent and for college workers 9 percent. Additional insight is gained by observing that the fraction of the unemployed who are long-term jobless, i.e. unemployed for six months or more, has risen to roughly 20 percent and held at this level for an unprecedented long period of time (Allegretto, Bernstein, and Shapiro, 2005).

The consequences of dislocation are severe. Among the high school workers only 54 percent reported themselves re-employed while for college workers the rate was still only 71 percent. Reemployment itself does not make employees whole. Thirteen percent of those losing full-time jobs were reemployed in part-time work and among those who did manage to find new full-time work the average wage loss was 11 percent for high school workers and 13 percent for those with college (Farber, 2005). The evidence is that these earning losses persist (Keltzer, 1998).

The significance of these patterns is that the case for a more effective E & T and job-matching system has now gone beyond the traditional concerns with poverty and

welfare. The labor market is increasingly difficult to navigate for people higher up in the job queue and hence it is reasonable to believe that the substantive and political case for effective policy is becoming more compelling

THE ROLE OF THE EMPLOYMENT AND TRAINING SYSTEM

The classic function of the E&T system is to improve the skill levels of people in difficulty and there is good evidence that this is important. A significant segment of the American labor force lack the skills necessary to compete successfully for good jobs. This is a statement about the nature of both labor supply and demand. Turning first to the workforce, 42 percent of the total labor force 25 years and older have a only high school degree or less (Aspen Institute, 2002) . In fact, the problem may be getting worse: the rate of high school completion fell throughout the 1990s (Barton, 2005, p. 8).

More direct measurement of skill points in the same direction. A 2003 survey of adults in several OECD nations directly measured literacy skills (OECD, 2005). The survey in the United States was a random representative sample of 3,400 adults and directly tested the respondents on their achievements in three types of literacy: prose skills, document interpretation skills, and numeracy. Five levels were identified and level one score signifies very low level skills[2]. In the United States 20 percent of adults scored at level one in prose and document skills and 26 percent scored at level one in numeracy skills. In comparison, for Canada the fraction at these levels were 14 percent, 15 percent, and 19 percent. In Norway they were 7 percent, 8 percent, and 10 percent (OECD, 2005, p. 50).

When these results are combined with the high school drop-out data it seems apparent that there is a significant skill problem for a substantial segment of the workforce. The bad news is that the economy is demanding more, not less, skill in order to do well. Many commentators have pointed to new skill and technological demands of jobs and it is certainly the case that in many settings workers face new requirements. The spread of new work systems involving teams, job rotation, and quality programs

have contributed to this trend (Osterman, 1994, Osterman, 1995, Osterman, 2000). We also have good case study evidence that in industries as disparate as telecommunications, banking, and auto parts technology is making it harder for the less skilled to get by (Applebaum, Bernhardt, and Murnane, 2003, Chapters 4,6,8). Overall, occupational projections suggest that the skill requirements of jobs is trending up.

The Employment Exchange

If improving skills is a core function of the E&T system a second standard objective is job matching. In a volatile job market the role of intermediaries in helping to make matches between employees and employers becomes more important. Indeed, the increased volatility in the labor market had been met by a rise in private sector intermediaries. In part this is the result of technology, such as the rise of internet based job searching, but in part by the emergence of new institutions. Notable among these are temporary help firms which have grown explosively (although they still account to a relatively small fraction of total employment). These firms in particular have a clientele which is disproportionately weighted to the working poor. For example, in 1999 15 percent of those employed by temporary help firms were high school drop-outs and 21 percent were college graduates. The comparable figures for people in traditional employment arrangements were 11 percent and 31 percent. Blacks and Hispanics accounted for 34 percent of temporary workers versus 21 percent for people in traditional occupations (DiNatale, 2001, p. 34).

Although for-profit intermediaries such as temporary help agencies can play an important role in improving labor market efficiency it is not their responsibility to be concerned with distributional issues nor improving the economic circumstances of the working poor. The evidence is that in fact they do not play these roles. For example a recent examination of the role of temporary agencies in welfare to work job placement found that people who were randomly assigned to temporary help agencies for placement did no better in the long run, and in some cases worse, that others who navigated the labor market on their own (Autor and Houseman, 2005). Additional evidence on this point comes from a study of intermediaries in the Silicon Valley and Milwaukee. In a

random sample of interviews with employees in the two regions the workers reported that, beyond placements, they received relatively little assistance from for-profit temporary help firms compared to non-profit intermediaries. For example, 60 percent of people who worked with non-profit agencies received assistance in job hunting skills compared to 30 percent who worked with temporary help firms. Under 7 percent of those who worked with for-profit agencies received training in computer skills compared to a third who worked with non-profit placement agencies. Finally, less than 3 percent received mentoring from for profit temporary agencies compared to between 18 and 34 percent from non-profits (Pastor, Leete, and Dresser, p. 115).

It is therefore clear that a comprehensive and well-designed E&T system entails an important role for a public labor market intermediary. While private intermediaries have grown rapidly in the context of more volatile job market, their mission does not include any concern with helping people facing challenges or with accelerating the rate of upward mobility in the job market. These are the responsibilities of the public sector.

Beyond A Pure Training Strategy

Not surprisingly, the E&T system has traditionally focused on improving the circumstances of people in difficulty by augmenting their skill levels and helping them find jobs. There are, however, other potential roles of the system. Most importantly the E&T system might move beyond a pure training strategy by working with firms to modify their human resource policies in ways that redound to the benefit of low wage employees and by also assisting firms to be more competitive in order to lessen the problems of dislocation. This is important because if all the E&T system does is enable some people to move into better jobs then what will ensue is a game of musical chairs in which others move into the bad jobs left vacant. The quantity of sub-standard employment will remain unchanged.

The case for improving the human resource practices of low wage firms is strengthened by the fact that in many of the industries that employ low wage adults--sectors such as hotels, restaurants, and nursing homes--conditions have stagnated or

deteriorated but technology and skill is not the culprit (Applebaum, Bernhardt, and Murnane, 2003, Chapters 2,3,7). What this implies is that there is what might be termed an HR syndrome or negative feedback loop in which the Human Resource practices of firms reinforces the difficulties of low-wage workers.

One element of this negative feedback loop is the low level of training that is provided to employees at the bottom. On the one hand it is true that American firms devote considerable resources to training their workforce. In 2004 the American Society for Training and Development (ASTD) estimated that firms spent 2.5 percent of their payroll on what it termed "learning expenditures." This represents an increase from 1.9 percent in 1999. We also know that private sector training leads to economic gains for employees who receive it (Lynch, 1992).

The problem, however, is that training in private firms is biased away from low-skilled front-line workers. There is a substantial labor economics literature documenting that people with higher levels of education receive disproportionately more training (Lerman, McKernan, and Riegg, 2004 review the literature). One representative finding is from the National Household Education Survey of 1995 in which 22 percent of workers in the bottom quintile of earnings reported receiving employer supported education compared to 40 percent in the top quintile (Ahlstrand, Armbruster, Bassi, McMurrer, and Van Buren, 2001, p. 329) International comparisons make the same point. In the International Adult Literacy Survey of the United States, Canada, Germany, Sweden, and the United Kingdom the relative participation in occupational training of those with a less than a high school degree compared to those with a university degree was far less in the United States than in the other nations (Kletzer and Koch, 2004, p. 255).

The failure to train lower wage workers makes it harder for them to advance in the firm. Other HR practices contribute to these difficulties. These include the growing tendency to outsource lower skilled work and hence to remove the jobs from the firms' internal labor market or job ladders as well as a more general deterioration of internal mobility paths.

As we will see later, the more innovative E&T programs are seeking to work with firms to alter their HR practices in directions more favorable to low-wage workers.

B operating on the demand, as well as the supply, side these efforts have the potential to widen not simply redistribute opportunities. Put differently, the E&T system has a role to play in making bad jobs good as well as it's more traditional function of improving access to jobs.

What the Employment and Training System Cannot Do

While the E&T system has an important role to play in addressing the challenges set forth above, it should also be clearly understood that the system can only address a portion of the underlying causes.

One clear contributor to the challenges facing low-wage adults is the long term decline in the real value of the minimum wage. The real value of the minimum wage in 2004 was 26 percent lower than it was in 1979 and all of the gains from the 1996 increase have been erased by inflation In fact, as a fraction of the average wage for private non-supervisory workers the minimum wage today, at 32 percent, is the lowest level since 1949. According to the Economic Policy Institute, 72 percent of the beneficiaries of an increase in the minimum wage to $7.25 would be adults.[3] More formal economic analysis also suggests that the falling value in the minimum wage has been an important contributor to growing wage inequality (Card and DiNardo, 2002).

A second force driving the low wage labor market is the recent surge in immigration. The basic facts are well known: whereas in 1970 just under 5 percent of the U.S. population was foreign born by 2000 the figure stood at 11.1 percent. Immigration will account for 32 percent of the projected growth of the U.S. adult labor force by the year 2020 (Aspen Institute, 2002, p. 31). This demographic development has had a substantial impact on the bottom of the labor market. The wage disadvantage of immigrants relative to natives increased for men by a factor of four between 1960 and 2000 and whereas immigrants (men and women) accounted for about 10 percent of the workforce they accounted for about 25 percent of workers in the bottom twenty percent of the wage distribution (Borjas, 2003, p. 249). At least a portion of this pattern is due to a skills gap: 32 percent of immigrant population in 2000 were high school dropouts

compared to11 percent of natives (Borjas, 2003, p. 245). Of course, while immigration trends are determined by policy considerations outside the purview of E&T policy it is also the case that, to the extent that skill gaps lead to immigrants facing labor market difficulties, E&T policy is an important part of the solution.

A third factor outside the purview of E&T policy that has impacted the low wage labor market is the decline of unions. Substantial research shows that unions equalize the wage distribution and, in particular, push up wages at the bottom of the distribution. However, in 2004 only 8.6 percent of the private sector workforce was represented by unions and in two industry sectors that employ large numbers of low wage workers, Leisure/Hospitality and Wholesale/Retail trade, the figures were 3.6 percent and 5.9 percent respectively (U.S. Bureau of Labor Statistics).

In short, the minimum wage, immigration policy, and unionization rates are all important determinants of economic outcomes in the low wage labor market. Nonetheless, the E&T system's array of tools—training, intermediary services, and working with firms—have a significant role to play and I now turn to a description of the system's contours.

THE CONTOURS OF THE SYSTEM

A useful first step is to ask about the E & T resources currently devoted to problems facing relatively unskilled or dislocated adults. There are six main buckets of programs. The first are those funded by the Workforce Investment Act (WIA) that are aimed at poor adults. The second are programs funded by WIA and by the Trade Adjustment Assistance Act (TAA) aimed at dislocated workers. Third are programs funded by the Department of Education (and states) which fall under the broad rubric of Adult Basic Education (ABE). Forth, community colleges are a major source of occupational training for adults. Fifth, a number of states have funded training

programs aimed at incumbent workers. Finally, the Employment Service or one-stop system serves as a labor market intermediary for people in difficulty.

Turning first to WIA, the Government Accounting Office (GAO) estimates that in Program Year 2003 local Workforce Investment Boards (WIBs) trained 416,000 adults (GAO, 2005, p. 3) . Of these about 235,000 were poor adults while the remainder were dislocated workers (GAO, 2005, p. 17). Clearly these are numbers that far below any estimate of the universe of need. A crude estimate of the expenditures per trainee (arrived at by summing the GAO estimate of $929,000 as the funds expended on training by the number of trainees) is $2,233. This is not a sum that can buy very extended or intensive training although the resources are modestly increased when Trade Adjustment Assistance training is added in.[4]

WIA appropriations are larger than the figure cited above for training, indeed the GAO estimates that WIBs spent only 40 percent of their available funds on training (GAO, 2005, p. 3). In fact, the shift from JTPA to WIA led to a reduction in the relative proportion of resources spent on training. For example, under WIA 32.3 percent of adults and 39.6 percent of dislocated workers exiting in program year 2000 received training whereas the comparable figures for JTPA carry-over participants were 73.6 percent and 65.8 percent (King, 2004, p. 65). As might be expected, the average length of time adults spend in WIA has fallen relative to JTPA, a fact that also implies much less intensive services (D'Amico and Salzman, 2004, p. 110).

These data make it clear that the Federal commitment to training the working poor and dislocated via programs delivered through the Department of Labor is limited and shrinking. By any reasonable measure these efforts fall far short of the universe of need. However, to stop here would miss a crucial point. A large number of the working poor and dislocated adults receive public training via other channels.

One source of skills building for adults is the Adult Basic Education system, now funded at the Federal level by the Adult Education and Family Literacy Act and by the states through their own appropriations. In 2000 the Federal appropriation of $442 million accounted for about a quarter of total spending (U.S. Department of Education, 2003, p. 1). The system provides English for Speakers of Other Languages (ESOL) training, pre-GED (or ABE) training, and preparation for the GED. The Department of

Education reports that for 2000 about 2.6 million adults received some services of which about half were in ESOL programs (U.S. Department of Education, 2003, p. 13).

The services provided by the ABE system are very varied and are delivered in a wide range of settings: libraries, community colleges, schools, prisons, social service agencies, and churches. The intensity of service is very low: only 21 percent of participants received more than 150 hours of instruction (Comings, Sum, Uvin, 2000, p. xi). Indeed, 50 percent of those in adult education classes drop out before 35 hours or 10 weeks (Jobs For the Future, 2004, p.9) .

The real center of gravity for the adult training system is America's roughly 1,200 community colleges. The numbers are quite striking: In 2000, among all college students 29.6 percent were in community college occupational training programs (and another 28.7 percent were in other community college tracks). Of the students enrolled in occupational training 64 percent were in Associate Degree programs with the remainder in certificate programs. (Bailey et. al., 2004)

The profile of the students suggest that community colleges touch the working poor population to a non-trivial extent. Fifty-five percent of students in occupational programs are 24 or older, 39 percent are minority, and two-thirds attend part-time. (Bailey et. al., 2004). Eighty percent of community college students work full or part time while in school (Brock and LeBlanc, 2005, p. 2) Another indication is that among first-time community college students between the ages of 25 and 64 in 1995-96 71 percent were in the lower two income quintiles compared to 50 percent of younger students (Prince and Jenkins, 2005, p. 2).

The final significant source of support for training adults comes from a disparate set of state programs. These are typically programs that are aimed at helping firms compete more effectively, and as such are driven by job retention or attraction concerns. Although not aimed at dislocated workers per se they are in an important sense an "anti-dislocation" set of programs and they also can be construed as improving the skills of employees so that they can fare better were dislocation to occur. With this in mind, most of these programs are run through companies, sometimes with the assistance of an intermediary organization or a labor union The programs typically are aimed at improving the skills of incumbent workers although some also assist in training new

hires. Some states fund these programs with general tax revenue but the most common source of funds are employer taxes, often a small fraction of the unemployment insurance tax and sometimes another revenue stream. The General Accounting Office reported that in 2002 twenty-three states used employer taxes to fund training programs and that total expenditures were $278 million (GAO, 2004, p. 4). In some states, e.g. California's Employment and Training Panel, the programs were quite large while in others they are small and mainly symbolic.

In summary, if we set community colleges aside, the total training resources devoted to adults in difficulty due to low skills or to dislocation are quite small relative to the universe of need and have been shrinking. Adding community colleges to the mix leads to a somewhat more optimistic view. However, as we will see, community colleges have multiple (legitimate) missions which limit their effectiveness in this particular arena.

The Employment Exchange

The Employment Service is a federal-state program and at the Federal level is funded by Wagner-Peyser monies. These have declined sharply and between the beginning of JTPA in 1984 and 2003 fell in real terms by 40 percent (Smole, 2004, p. 83). However, with the advent of WIA labor exchange services are provided in one-stops (of which there are about 3,400) and WIA funds may also underwrite these services and WIA staff may join with ES staff in providing the services. The fact that a non-trivial fraction of WIA funding is directed to the one-stops has been rationalized by the "jobs-first" philosophy in many states (i.e. an emphasis on placement and not on training) and is evidenced by the fact noted above that less than half of WIA funding goes for training. In addition, a few states have used their own funds to partially compensate for the decline in Wagner-Peyser funding (Ridley and Tracy, 2004, p. 106). The bulk of recipients of labor exchange services receive only a job referral and many of the rest get simple job search assistance. Hence the cost per recipient is very low.

In 1999-2000 about 17 million people came to ES offices for service. Of these a bit over a third were unemployment insurance recipients who were required to register at

ES offices but this still leaves a substantial number of job seekers who turn to the ES for help (O'Leary, 2004, pp 137-138).

EFFECTIVENESS OF THE SYSTEM

As is apparent from the description above, there are multiple elements of the E&T system broadly construed. Our knowledge about their effectiveness is uneven, with some components having been extensively evaluated while for others little is known. This section begins with a review of what we know about the effectiveness of training programs and next turns to the employment exchange and then to community colleges. The section concludes with an assessment of the system as a whole in terms of the evaluation evidence. The subsequent section of the paper asks some broader questions about the effectiveness of the E&T system.

The Effectiveness of Training

A challenge that the E & T system faces is that it is widely perceived as ineffective. Some observers believe that it is not possible to improve the economic situation of working adults through job training programs. This perspective is not, however, correct. A number of careful evaluations have demonstrated that E&T programs can pay off for adults.

One important study, the national JTPA evaluation, showed a statistically significant gain for adult women and men who were enrolled in JTPA (Bloom et. al, 2000).[5] These gains were modest (under $2,000 a year) but two facts are important in assessing these magnitudes. First, these were gains relative to the control group but in fact a large fraction of the controls received training services from other sources. Second, the JTPA intervention itself was modest, with the average enrollee receiving just under 270 hours of service, i.e. about seven full weeks. Given this modest investment a modest return is not surprising.

A sense of the potential gains from a longer term investment in people can be gained from an evaluation of Project QUEST in San Antonio Texas. This program, which has won a number of national awards, trains working adults for 18 months and cooperates closely with the employer community to identify job needs and to design the training curriculum. Two independent pre-post evaluations found very substantial wage gains. One study (Osterman and Lautsch, 1996) reported an increase of between about $5,000 and $7,500 a year and this was confirmed by another independent evaluation (Grote and Roder, 2005).

Another example is a Portland, Oregon program aimed at low wage adults and evaluated as part of the National Evaluation of Welfare to Work Strategies . The program randomly assigned over 5,000 people into treatment and control groups. The program was distinctive in that it placed relatively more emphasis on training and education services than the typical welfare to work intervention and involved a high level of cooperation between the welfare, JTPA, and community college systems. Based on a two year follow-up the evaluation concluded that the program raised employment rates by 11 percentage points over that of the control group and increased earnings by 35 percent (Farrell et. al, 1998).

The foregoing discussion of impact described what we know about programs which are typically aimed at the poor or working poor. Our knowledge of the effectiveness of training for dislocated workers is thinner. However, what data we do have suggests that short-term training leads to small or non-existent gains. On the other hand, more substantial long-term training does seem to improve the earnings of dislocated workers to an important degree. In this sense, the story is optimistic.

The weak results regarding short term training come from evaluations in a diverse set of locations (Texas, Michigan, New York, and New Jersey) that were conducted in the 1980s. The benefits of short-term classroom training were very modest (Leigh, 2000, pp. 235-245). By contrast, an evaluation of TAA in the late 1980s that studied long-term training found gains of between $1,400 and $3,100 per year while an early 1990s study of vouchers (valued at $4,000) found training gains in the $2,000 to $3,600 range (Leigh, 2000, 247-248). One reviewer of this evidence concluded that with respect to training “there is room for cautious optimism (Leigh, 2000, p. 254).”

Additional insight comes from a study using Washington State data to track outcomes for dislocated workers who were placed into community college training programs. They were compared to a matched sample who were not similarly placed (Jacobson, LaLonde, and Sullivan, 2001). The average gain for the person who attended community colleges was 5 percent higher earnings. While statistically significant this is not a large gain and is far below the average loss than the participants had suffered as a result of their layoff. However, the research also found that people who took technical courses did much better and experienced an average gain of more than 14 percent.

Effectiveness of The Employment Exchange

We have seen that the demand for a working employment exchange is substantial but unfortunately the response of the system is very uneven. Today about 19 percent of the unemployed turn to the ES compared to about 30 percent three decades ago (Eberts and Holzer, 2004, p. 27). Part of this is no doubt due to the emergence of alternative intermediaries. However, the performance of the ES itself is an issue. Only about ten percent of people who seek jobs through the ES are placed into jobs via an ES referral (O'Leary, 2004, p. 137). More to the point, very few employers use the ES to fill openings. In one study only 2.6 percent of employers reported that they had used the ES to fill their last job opening (Eberts and Holzer, p. 26). A similar pattern emerged from a survey tracking the usage of labor market intermediaries in the Silicon Valley and Milwaukee. Of all jobs that were obtained in the three years prior to the survey (conducted in 2001 and 2002) only between 2.7 and 4.4 percent were obtained via a non-profit or government agency. Since this category is broader than just the ES/one-stop system their share is even smaller than the figures indicate (Pastor, Lette, and Dresser, 2003, p. 113).

Those jobs that do get filled by the ES tend to be low level. Fully one-third of these jobs are temporary, lasting less than 150 days (Jacobson, 1995). What success the ES has is in a very limited range of the labor market. In one data-set from the mid-1980s the average male job placement was in a job which paid $10,700 per year and the average female pay was $8,700 (Jacobson, 1995, p. 20). As one researcher noted, "What is clear

is that certain types of employers rely heavily on the ES. Those firms generally employ workers of few specialized skills, are willing to accept high turnover, and therefore pay low wages (Jacobson, 1995, p. 6)."

Because of the low cost per client the ES passes a cost-benefit test. However, as it stands now the ES (and by extension the one-stop system) is very far from being an effective labor exchange capable to assisting people surmount the challenges of today's job market.

Effectiveness of Community Colleges

As noted above, community colleges are a key source of training for working adults. There is a strong interest in the policy community in making these institutions even more central than they are now to a national training effort. This is apparent both in the efforts of several national foundations and also in the fact that the Bush Administration has worked to transfer training resources to the community college system.

Given this considerable interest, what do we know about the returns to a community college education? The patterns are surprisingly mixed. For students who enroll for a substantial amount of credits (e.g. a full year's worth) or who receive an Associates degree the payoff is clear. Research for both the 1980's and the late 1990s find (after controls for test scores, family background, and a range of demographic characteristics) that an FTE year of study returns about a 6 percent annual income gain and the AA degree returns about a 14 percent gain, i.e. what one would expect from two years of study (Kane and Rouse, 1999; Marcotte, Bailey, Borkoski, and Kienzl, 2005).

There are, however, non-trivial flies in this ointment. A strikingly low fraction of students who enter community colleges attain even an FTE year of credits much less an Associate's degree. Despite the fact that a majority of post-secondary entrants went into community colleges among students who graduated from high school in 1992 28 percent had earned a bachelors degree by 2000 but only 5 percent had an AA degree and only 6 percent had a community college certificate (Marcotte et. al., 2005, p. 162). Among students who entered community colleges and who did not receive the AA degree

the average schooling in the community college was .16 of an FTE year (Marcotte et. al., p. 162) Among people who completed only a semester of community college courses there is no economic benefit for men but some gain for women (Martcotte et. al., 2005 p. 170) and it is reasonable to believe that the .16 FTE year leads to no gain for anyone.

The bottom line with respect to community colleges is that when students attend for a year or more, regardless of whether they receive a degree, there is substantial benefit. This is as true, and perhaps more so, for occupational programs as for academic ones. However, most people who attend community colleges do not manage to stay in long enough to reap these benefits and for these people the rate of return appears to be close to zero.

Effectiveness of the System As A Whole

We have see that there are examples demonstrate that effective programs can be designed for working adults. The purely pessimistic view of the possibilities of training efforts seems misguided. However, it is one thing to argue that effective programs can be designed and delivered. It is quite another to claim that these models can be successfully implemented on a national scale with consistent quality. In this respect there is more reason to worry. Consider, for example, that replications of CET, another effective program that did very well in a random assignment evaluation at its original site, have not gone smoothly. The Portland program is the most successful of those that were part of the National Evaluation and other efforts have not gone as well. What this suggests is that it is one thing to design and implement an effective program, it is quite another to go to scale with that design.

If we step back from specific program models and ask about what we know about the effectiveness of the E&T system as a whole the picture becomes much murkier. Consider the following comments drawn from several General Accounting Office reports on the E&T system:

On state programs "None have used sufficiently rigorous research designs to allow them to make conclusive statements about the impact of their programs." (GAO, 2004b, p. 4)

On One-Stops: "While [The Department of] Labor currently tracks outcome data—such as job placement, job seeker satisfaction, and employer satisfaction…little is known about the impact of various one-stop delivery approaches on these and other outcomes." (GAO, 2003a, p. 28)

On TAA: "No information is currently available to accurately measure program effectiveness." (GAO, 2004a, p.45)

On WIA adult training: "Substantial Funds Are used for Training, but little is known nationally about training outcomes (title, GAO, 2005)" and "Labor's Office of the Inspector General has said that there little assurance that the States' performance data for WIA programs are either accurate or complete." (GAO, 2005, p. 4)

STRUCTURAL CHALLENGES FACING THE E & T SYSTEM

The foregoing discussion assesses the E&T system using fairly traditional criteria: the impact upon individuals. It is, however, also worthwhile to step back and ask about the overall structure of the system. By and large the system is not well connected to the core concerns of the economy nor are its many parts well articulated.

Connection to the Economy

The E&T system does not effectively connect to firms. Most employers view the system as an extension of the welfare system and do not turn to it for assistance with their human resource needs.

The disconnect between the E&T system and the private economy is longstanding. A study in the 1980s found that people who applied for jobs and had subsidies from Federal programs did worse than comparable people without the subsidies because employers did not wish to work with the programs (Burtless, 1985). This pattern does not seem to have changed. A recent survey of manufactures found that only 4.6

percent of responding firms reported using WIB or one-stops to meet their human resource needs whereas 30.8 percent used Community Colleges, 46 percent used industry associations, and 40 percent used temp firms (PEERS, 2003, p. 14) . In a survey of intermediary usage in Silicon Valley and Milwaukee, among people who found jobs via intermediaries the use of non-profits and government agencies was a distant third behind temporary help firms and community colleges (Leete et.al, 2004, p. 268). Finally, in a recent series of focus groups of employers in three industry clusters (fabricated metals and industrial machinery, transportation/distribution/logistics, and healthcare) the participants were generally positive about the role of community colleges in meeting their workforce needs but perceived community based E&T organizations as unstable, slow, and lacking in professionalism. They also characterized state and Federal programs as non-service organizations with little screening or training capacity (Laufer and Winship, 2004, p. 231). The researchers summarized their findings as a "complete disconnect between employer perceptions of preferences for workforce programs and the programs themselves (Laufer and Winship, 2004, p. 216).

This disconnect between the E&T system and firms is not only substantive but also seems to occur at the level of governance. Although the Workforce Boards are intended to provide a key role for firms (as were the Private Industry Councils that proceeded them) this has not generally happened. A recent assessment of implementation of WIA found that "Business role was strong in only a few of the sample states (Barnow and King, 2003, p. 11)." and at the local level "employer involvement in the governance of WIA and related workforce programs was generally limited to moderate (Barnow and King, 2003, p. 14)."

Absence of Effective Ladders

A standard charge against the E&T system is that it consists of many programs that do not work well together. For example, in 2001 the GAO identified 44 programs that provided some training This, however, is not really a fair complaint. Although there are a large number of individual programs, 73 percent of total Federal spending on

employment and training is accounted for by four programs: Vocational Rehabilitation, TANF, the Job Corp, and WIA (Government Accounting Office, 2003b, p. 12). For purposes of the present paper only WIA is relevant and hence the system does not appear scattershot in terms of funding steams.

Where the system does fail, however, is that the main building blocks are not well articulated on the ground, in states and in communities. If the system worked well it would function as a ladder which adults could use to move from basic education to credentialed education or job training and then into good jobs. The rungs of the ladder—the ABE system, the community college system, and the job training system—would work together to provide support to people and to smooth hand-offs. However, this ladder does not typically exist.

Starting at the bottom of the ladder the ABE system has historically been distinct from the Employment and Training System. At the Federal level a major effort at integration was the incorporation of the Adult Education and Family Literacy Act as Title II of WIA. This has led to improvements in the performance standards of the ABE system and in the overall quality of data collection. However, there is still consideration national variation in the linkages between the systems and in many states the ABE system is managed by the state Department of Education and not by the agency that manages the E&T system.

The Workforce Alliance, an organization representing community based organizations that engage in training, recently observed that "Many…community-based organizations cite concerns about local workforce development systems in which basic education and occupational skills training services operate independently of each other (Workforce Alliance, 2002)." The evidence suggests that this is true.

A sense of the disconnect between the systems, and the failure to build effective ladders can be gained from a careful study of the Massachusetts system. In 1999 in the entire state the one-stop system made only 314 referrals to the ABE system and only 557 ABE participants reported that after completing their program they were referred to the E&T system (Comings, Sum, Uvin, 2000, p. 81).

Second, and related to this, community colleges typically do a poor job of linking remedial classes (such as English as a Second Language or Adult Basic

Education) to the for-credit academic subjects. In the words of one recent assessment, "While many community colleges possess extensive basic education and ESOL programs, these are often disconnected from the rest of the institution and staffed by people who are uninvolved in the colleges' central activities (Jobs For The Future, 2004, p. 4)." Because of this difficulty the institutions do not reach their potential as sources of assistance for the working poor. The same report goes on to note that for low-skilled adults community colleges "do not connect educational milestones to meaningful credentials, articulated career ladders, and economic payoffs (Jobs for the Future, 2004, p. 9)."

These national patterns were replicated in a recent study using Washington state administrative data combined with unemployment insurance earnings records (Prince and Jenkins, 2005). There was a return (using pre/post methodology) to the completion of an AA degree. However, of the students who entered community colleges by first taking ESOL courses only 13 percent received any college credits after five years. Of those who entered first taking Adult Basic Education or GED courses only 30 percent received any college credits after five years (Prince and Jenkins, 2005, p. 13)

In addition, many observers believe that community colleges often are reluctant to work with the WIA system, either because they feel that they do not need the funds or because they are reluctant to comply with WIA data requirements. This impression is supported by a GAO survey of Workforce Boards (GAO, 2005, p. 27).

The pieces of the WIA system itself also frequently do not work well together. One reason that the coordination function of the local boards has not worked well is that many workforce boards see themselves essentially as extensions of the Department of Labor and as such have not been imaginative or inclusive. A recent study of eight states and sixteen local areas, representing the nation, found that "most states have kept the major workforce development programs relatively separate, with traditional structures that mirror Federal funding 'silos' (Barnow and King, 2003, p. 13)." The same study went on to find that at the local level only half of the boards studied had achieved any degree of meaningful integration. In short, the Federal divisions become templates for comparable divisions at the state and local levels.

INNOVATION

The foregoing discussion leads to a relatively pessimistic view of the E&T system. The worst rap on the system, that effective programs cannot be designed and delivered, is wrong. It is true, however, that we do not have the basis to be confident about the overall performance of the system as a whole. In addition, the system is isolated from firms, and it's pieces do not fit well together. When these worries are added to modest and declining resources then there is a lot about which to be concerned.

There is, however, good news. While in recent years at the Federal level the employment and training system has been starved for resources there has been substantial innovation in the field. Supported by state governments, foundations, and (to a lesser extent) firms and unions a range of new models have been implemented. Many of these models are intended to directly address the weaknesses of the broader system. Given the range of innovation in the field it would be fair to say that in the past decade there has been more programmatic creativity than at any time since the War on Poverty.

This burst of local creativity is very consistent with the history of innovation in labor policy in America. Many of the institutions that now are thought of as national and Federal were invented locally. This is true of unemployment insurance and the employment service as well as much of the core regulatory structure such as the Fair Labor Standards Act.

To pin down the nature of this innovation more concretely the Table below describes several prototypical program models and shows both what they have in common and how they vary along several dimensions.

Project QUEST
QUEST is a training program in San Antonio Texas aimed at working poor with high school degrees. The program works with firms in San Antonio to identify job openings and to identify the skills required. The firms then make a good-faith pledge to hire program graduates. The jobs must meet living wage standards. The training is provided by local community colleges and typically lasts one and a half years. The program provides modest financial support and extensive counseling to the clients. The

program is organized and managed by a non-profit organization that is closely linked to a community based organization. Over 2,000 people have gone through QUEST. An evaluation in the mid-1990s found that for participants annual earnings increased by between $4,923 and $7,457 per year The model has been replicated in Austin, McAllen/Brownsville, Tucson, and El Paso (Osterman and Lautsch, 1996).

Wisconsin Regional Training Partnership

WRTP is a union-employer partnership that includes 125 firms in Wisconsin. The sectors include manufacturing, finance, construction, and hospitality. The partnership, managed by a non-profit organization, works with firms to help them improve their production processes and organizes training programs for upgrading incumbent workers. The training takes place both in the firm and in community colleges. To date 6,000 employees have been trained. WRTP also manages a training program for entry employees from inner city areas in Milwaukee and has trained 1,500 via this program. (Giloth, 2004, p. 8).

WIRE-NET

Affiliated with the Cleveland Chamber of Commerce, via the Chamber's Jobs and Work Force Initiative, WIRE-net is a program that aims to increase the labor supply of entry-level machinists for small Cleveland firms while, at the same time, providing training opportunities for Cleveland's working poor. The program provides orientation and job readiness workshops and intensive skill training. In addition, WIRE-net works with firms and assists them in assessing the skill levels of their workforce and in developing training plans. Since the program's inception 213 trainees have entered the program, 140 have graduated and of these 115 have been placed in 80 firms (Berry, 2004, p. 199).

Cooperative Home Healthcare Associates

CHCA works with low paid home health care aides and has sought to transform the nature of their work by creating a workers' cooperative, providing more training and skill than is typical, and leveraging this to charge a higher than average wage/benefit package and a larger proportion of full-time work than is the norm. The model has been successful in New York City and is replicated in other locations by the Paraprofessional Health Care Institute.

AFSCME 1199c Training and Upgrading Fund

This is a joint training and career ladder fund in Philadelphia operated by the local union and funded by a 1.5 percent of gross payroll paid by hospitals, nursing homes, and other health care providers. In addition to a wide range of courses the program also works to create career ladders from Certified Nursing Assistants to Licensed Practical Nurses. The overall budget is over $4 million dollars and the career ladder program has led to 103 CNAs advancing to LPN positions (Fitzgerald, forthcoming, p. 67 and 347).

Massachusetts Workforce Training Fund

Funded by the State of Massachusetts, using a small portion of the employer unemployment insurance tax, the Workforce Training Fund provides grants to firms for training incumbent workers. The grants can range from under $50,000 to $1,000,000. Special programs include incentives to train employees in Adult Basic Education and English As A Second Language.

Portland Community College

Working with Mt. Hood community college PCC has integrated funding streams to create modular career pathways that move from adult basic education and E & T programs to college certificates and degree programs. These pathways, which have been structured in cooperation with local employers, are multiple entry/exit to accommodate working adults. In addition to the education and training PCC provides support services and job search assistance. The modules are linked to employer needs so that the students--who are recruited from one-stops, ESOL programs, TANF, and GED programs--can get immediate payoffs as they work towards a degree or certificate. In addition, the college has integrated credit faculty with the teaching of ESOL and ABE courses. The integration of programs and funding streams is facilitated by the governance structure in Oregon in which the community colleges, E&T programs, and ABE programs are all in the same agency. The 13 pathways accommodate about 250 students per year (Jobs For the Future, 2004, p. 12)

Hosiery Technology Center

Located at North Carolina's Catawba Community College, this center is a cooperative venture of the community college, a business association (Carolina Hosiery Association), the U.S. Manufacturing Extension Partnership, and the U.S. Department of Labor. It provides firms in the area with a variety of technical assistance with respect to new technology, helps with marketing and development of new markets, runs seminars for firms on business practices, and is an industry testing center that certifies that producers meet quality standards. It also trains a range of workers, virtually all of whom are in jobs that do not require more than a high school education. The training content ranges from the highly skilled, e.g. machine repair, to machine operation and ESOL. Observers, as well as the firms, believe that the center can claim credit for helping the industry maintain local employment in the face of potential overseas competition (Willis, Connelly, and DeGraff, 2003).

The new program models vary along a number of dimensions: target groups, the auspices under which the programs are managed, and the nature of the services that are provided. What is striking, however, is that they have also coalesced around a common set of what might be termed "best practices" elements. It is these elements that move these innovations beyond the traditional approach of E & T programs and that make these new programs distinctive and important.

The most important of these best practice elements is driven by an understanding that employment and training efforts work best if they connect effectively to both sides of the labor market, that is to employers as well as clients. In order to accomplish this they work hard to become knowledgeable about the human resource needs of their target group of firms and, in some cases, they also seek to understand how they can contribute to the competitive success of the firms. In short, they seek to appeal to firms as a business proposition, not as a charity, public relations, or welfare effort.

The second feature that the new programs share in common is that they make substantial investments in their clients. The new programs reject the quick and dirty training, short-term investments, and simple job search assistance models that characterize much of the traditional E & T system. The investments that the new programs make take a variety of forms: long training periods, more sustained involvement with firms, and higher levels of support to clients in terms of financial assistance and counseling.

There are, however, important differences across the programs. Their auspices vary and include community groups, unions, community colleges, employer organizations, and state governments. The programs also vary in the extent to which they work with incumbent workers versus job seekers. The programs also differ in whether they take the existing nature of jobs for granted versus seek to transform the nature of work by creating job ladders or in other ways improving wages and other conditions of employment.

Much, but not all, of the discussion around these new models tends to focus on two broad program categories: labor market intermediaries and sectoral programs. Labor market intermediaries are organizations that consciously look both ways in the job market, attempting to work with both employers and with individuals . For firms

intermediaries provide a range of services including assistance in recruiting labor and, on occasion, assistance in designing career ladders. For individuals the intermediaries are a source of both job training and placement. Sectoral programs perform the same functions as do intermediaries but they have the added characteristic of specializing in the needs of a particular industry. They seek to develop deep knowledge of the markets, technology, and labor market circumstances of the industry and through this knowledge contribute to both the human resource and also the economic growth and development needs of the industry. Both sets of organizations seek to not only to improve access to jobs but also to help make bad jobs better and to create more good jobs. The relative weight put on these goals varies across different programs.

While the intermediary and sectoral models have, properly, gained substantial attention they are not the only approaches worth considering. More traditional occupational training, of the sort embodied in the community college or 1199 models, are alternatives. Unlike older occupational training, the newer incarnations take care to work closely with employers in order to link training to real needs and to improve the prospects of clients.

Although these new models have gained substantial attention in policy circles there are limited data on either their diffusion or effectiveness. A 2002 survey by the National Network of Sector Partners identified 243 organizations that met four criteria: they worked with both employees and employers, they targeted low wage workers, they provided a mix of services and not simply job placement, and they invested in longer term career advancement past the placement stage. More than half of these programs were less than ten years old and two thirds of them served 500 or more persons per year. They were housed in a wide range of different kinds of organizations (Marino and Tarr, 2004).

The evaluation evidence on these initiatives is promising but incomplete. As already noted, a pre/post evaluation of Project QUEST found very large gains for participants and as part of that evaluation a study of participant files suggested that creaming and self-selection effects could not explain away the gains (Osterman and Lautsch, 1996). A pre/post evaluation of six intermediary and sectoral programs by Public/Private Ventures (Grote and Roder, 2005) found, twenty four months after

program completion, gains in hourly wages for five of the organizations and these gains ranged from $1 and hour to $5 dollars per hour.

MOVING AHEAD

The foregoing is a good news/bad news story. The bad news is that if one were to step back and assess the Employment and Training system from a distance the conclusion would be that it is scattered and poorly articulated, under-funded, and of uncertain overall impact. The good news is that we have solid evidence that well designed programs can make a difference in people's lives, that many of the building blocks of an effective system are in place, and that there is considerable local creativity, energy, and innovation. The question, then, is how to move ahead.

What seems most helpful is not to endorse particular program design or detailed policy proposals. Rather I will proceed in three stages. First, I will describe what I regard as the most important long-run goals of the system Second, I will lay out a strategy for accomplishing these goals. Finally, I will discuss some tactical innovations that will help make this strategy more attainable.

Long-run Goals

The most fundamental goal should be to build a ladder for the working poor and dislocated that enables them to move, as needed, from Adult Basic Education to a higher education degree and skills training. People would enter this ladder at the appropriate point and then move up. For this vision to be a reality it requires that each stage or rung be effective on its on terms and that the different rungs be well linked or articulated. It also requires that people be given the appropriate supports, financial and otherwise, that enable them to succeed.

A second key strategic objective is attaining scale or impact. Many of the innovative programs described above are impressive but work with only small numbers of people. For example, one of the largest, long standing, and effective efforts—Project

QUEST—has served a total of roughly 2,000 people in San Antonio over a decade. While commendable this is a drop in the bucket in the San Antonio labor market. The scale problem is made even more difficult because the better programs work closely with multiple constituencies, particularly employers, and this is time-consuming and very hard retail work.

One solution to the scale concern is replication. For example Project QUEST has been replicated in half a dozen cities in the Southwest. A second solution is to take seriously the notion of institutional change. An effective program does not simply impact its immediate clients but also seeks to change the behavior and outcomes of other actors in the labor market. Project QUEST, for example, encouraged the San Antonio community college system to make itself more accessible to large numbers of working people. Cooperative Home Health Care has influenced public policy in a variety of ways to improve the conditions of home health care workers who are not members of the cooperative.

A third strategic objective is that the E&T system should work on the demand as well as the supply side of the labor market. This involves two distinct issues. First, in contrast to the system's history of training people and then throwing them over the wall in the hopes that they will land a job, programs need to do a better job of working with firms to identify openings and the skills that are required. However, working with employers is more than this simple prescription. It also means seeking to improve the nature of jobs and the career opportunities that people confront. It is unrealistic to believe that a pure training strategy is adequate. Without adequate numbers of good jobs the trainees who benefit would to some extent simply displace other people who would have obtained the jobs. This displacement effect is typically ignored in the evaluation literature yet has to be taken seriously. The implication is that efforts to help firms improve their human resource practices, augment the amount of training they provide, and build career paths are all important components of successful program design.

A Strategy for the System

The system's goals should be ladders, scale, and impact on the demand side. In thinking about how to achieve these one question that immediately comes to mind is whether it makes sense to move in these directions through WIA or other equivalent programs rather than fold everything into the much larger and more institutionalized community college system. This path has been advocated by some proponents of community colleges (Grubb, 2001). The case for following this path points to the greater funding and reach of community colleges, their more professionalized staffing and their more regularized curriculum. These are all persuasive arguments. Set against these, however, is the fact that community colleges have, quite legitimately, multiple missions and multiple constituencies and that building ladders for the working poor and dislocated workers would not rank at the top of the list. The danger is that this objective would be comprised and sacrificed to other priorities. A focus on the working poor and the dislocated and a constituency for them needs to come from an E&T system that is their advocate and has a clear mission. The E & T system should be the driver of this agenda. In this context the community colleges are key players, perhaps central ones when it comes to delivering training, but they cannot be expected to drive the system.

Having said this, WIA and the traditional E&T system should rethink its mission and operational strategy. In the past WIA and its predecessors were basically sources of fund for program operators. This led to some good programs and some bad programs but more fundamentally it did not change in any significant way the opportunities available to the large numbers of people the system was trying to serve. To make a real difference WIA needs to recognize that while it is small relative to the universe of need, the network of community colleges is much larger and the investment that employers devote to their human resources is larger yet. This implies that the best way to think about the role of WIA is as a source of leverage for these larger systems and a catalyst for systems change.

In this view WIA is less about delivering services than it is about using its scarce resources to shape what other, larger, systems deliver. This is not to say that WIA does not fund service provision, but rather that it thinks about its funding in a very strategic way. The best analogy is that WIA should think of its strategy in the same way as do foundations. Foundations fund services but they do so in order to leverage larger

systems and to encourage innovation. In short, WIA needs to fundamentally rethink it's role and its strategy.

It is important to understand that the present proposal is not a call for more of the coordination and planning efforts that have periodically swept through the E&T system and that are at the heart of much of what propelled WIA in the first place. Too often these efforts are simply process oriented rote exercises and wasteful arguments about who sits at the table. By contrast, the proposal here is to use WIA resources to encourage the other actors in the system to improve their practices and to fill gaps in the system, in the ladder, that currently impede progress. To make this happen the managers of the WIA system and Federal actors would have a strategic view of what they want to accomplish and they would use their resources to leverage additional resources from larger actors and to propel other players and the system forward. WIA in this view is not a forum for planning or coordination. It is a resource for experimentation, for systems change, and for filling programmatic gaps.

How can the WIA system play these roles? One tactic is to systematically fund policy entrepreneurship. As already noted, the past decade has seen an impressive flowering of new program designs. These have been implemented by a wide range of actors—community groups, business associations, unions, and other non-profits---and they have been supported by foundations, by state training funds, and by demonstration grants from the Department of Labor. What is particularly attractive about these innovations is that they seek to address many of the historical limitations of the E&T system. They work closely with employers to understand their labor force needs as well as their competitive position. They also attempt to improve the quality of jobs rather than focus entirely on the supply side of the labor market. They also are open to providing longer term training rather than the quick and dirty interventions that typified many previous efforts.

At the same time it is also true that there are a series of unanswered questions about these efforts that need to be studied and evaluated, not the least of which is the standard question about impact. In addition, these programs vary considerably in their auspices (who sponsors and runs them), in the role played by support services, and in

whether they aim at particular industries or sectors or whether they provide broad occupational training.

Given the promise of these efforts and given the long American history of innovation in labor policy springing from local efforts it seems important to encourage, support, and fund policy entrepreneurship particularly when that entrepreneurship is combined with careful assessment. Local WIBs should support these innovations and in addition at the national level there is a strong case for a Federal fund for supporting innovation and evaluation for new models of intermediary, sectoral, and occupational training programs.

Secondly, using WIA to match and stimulate state training funds is worthwhile because it levers additional resources. This is particularly true because these efforts are typically aimed at incumbent workers who are at risk of dislocation In return for Federal matching the state training funds should establish procedures to assure that any support that they provide to firms represents a net addition to the firms' training efforts (and does not simply substitute for what the firm would otherwise have done) and that the programs are subject to credible evaluation. All of these efforts could be funded either through general revenue or, perhaps more appropriately, by more creative Federal use of unemployment insurance funds.

Third, the WIA system needs to find ways to work more effectively with the community college system. As we have seen community colleges are the nation's largest source of occupational training and while the system has significant blemishes it nonetheless must be a centerpiece of any effort to create an real ladder of opportunity for the working poor and dislocated workers. However, within community colleges there is often a disconnect between the non-degree remedial programs and the degree or occupational training programs. This disconnect is a major problem for people attempting to move up and should be remedied through the kinds of innovations described earlier at Portland Community College. In addition, the completion rates for low income people, and in particular part-time students, in community colleges are very low. There are several national demonstrations underway that address some of these issues but it is clear that improved supportive services is one key. National data show that the ratio of students to counselors in community colleges is 1000:1 (Grubb 2001, p.

295). By contrast, Project QUEST trains its clients in community colleges and has very high retention rates because it provides well staffed intensive supportive services.

In addition, the nature of community college cooperation with WIA is very uneven. The use of local WIA funds as matching and challenge grants to community colleges to address the limitations described above, combined with more flexibility with respect to data and reporting requirements, could go a long way towards focusing community colleges more effectively on a mission of improving the prospects of low earning adults and dislocated workers.

The other major source of training resources lies, of course, with firms themselves. As we have seen, firms spend a great deal on training and on career systems, albeit with their spending biased away from employees at the bottom of their job ladders. There are, however, many examples in a wide range of industries of firms that have found that investing in their human resources leads to significant gains in productivity and in profits (Osterman, Kochan, Locke, and Piore, 2001; Jobs For The Future, 2003). The challenge lies in diffusing these examples and in overcoming the obstacles—lack of knowledge, scarce managerial time, short time horizons—that limit the adoption of these best practices. Making progress in the face of these market failures is a very legitimate policy goal of the system.

WIA resources can be used to encourage new HR practices in firms but the simple fact is that the Federal system has a very spotty history of working effectively with employers. There are, however, intermediary organizations—business associations such as the Chamber of Commerce, NAM, and industry specific organizations as well as non-profits such as CAEL—with much better track records. The Federal system needs to find a way to work effectively with these intermediaries in order leverage the training resources of firms and to encourage more progressive human resource practices.

Redesigning WIA

All of the strategies described above are very much in line with the present tactics of the national foundations that are active in this arena. However, the potential Federal resources are much more substantial and long-lasting than those of foundations and the

Federal government has other tools, such as tax incentives, at its disposal that the foundations lack. However, in order for the WIA system to rethink itself as a instigator of innovation and systems change it must become much more flexible and much less rule-bound that it currently is.

As the system stands now Federal regulations can lead to risk averse and overly cautious behavior. In part this is because under WIA many of the pre-existing JTPA regulations were simply transferred into the new system. In addition the fear of an audit or a disallowed cost pushes WIBs into unimaginative actions. Too often these workforce boards come to think of themselves as extensions of the Federal Department of Labor.

In addition, built into the WIA system are a series of programmatic requirements which are, simply put, untested. These include the idea of one-stops, individual training accounts, the sequence of services, and the specific composition of WIB boards. Some of these ideas have a commonsensical quality and are attractive in many ways. However, it is not hard to think of off-setting arguments regarding each. But the point is not whether the ideas are good ones which are worth trying out, in most cases they are. The point is that these are hypotheses about what might work yet despite their untested character they are mandated in the system. Furthermore these mandates are costly and soak up resources that could be devoted to the kind of system leveraging activities that I have described. Moving away from mandates of this kind seems an important component for providing more state and local initiative and creativity.

If the new role of WIA is to stimulate innovation and to instigate broader institutional change in the E&T system broadly conceived then the nature of performance standards also needs to be reconsidered. On the one hand, a simple model in which funds which would otherwise go to WIA or its equivalent are distributed to the states with no strings is not a desirable choice. Rather the appropriate Federal role can be derived from how effective corporate headquarters operate and from lessons drawn from the quality movement that has transformed firms in the past two decades. Firms have learned if they set goals and objectives but at the same time provide more opportunity and authority to operating units and to employees the result is greater commitment, increased productivity, and higher quality. By the same token, the Federal government

should establish broad objectives for the use of its funds and then use performance standards to determine whether these goals are achieved.

In effect, the Federal government would enter into a conversation with each state to reach a mutual agreement regarding the broad goals and strategies of the programs, the purposes of the funds to which funds will be put, and a range within which specific groups should receive an appropriate share of services. These objectives, which are important but which should also be less constraining than the present system, can be combined with a new set of performance standards. The Federal government would use them to measure the progress a state is making towards a more broadly defined outcome. Under this arrangement detailed program management, of the sort embodied in current performance standards, should be left to the states.

Finally, it is important to understand that there remains an important role for Federal creativity at the national level. Demonstration funding remains central to efforts to design and test new program models. An excellent example is, particularly for dislocated workers, is experiments with lifetime learning accounts that enable people to accumulate funds for retaining in the event of job loss or other forms of dislocation.

Funding

The goal of E&T policy should be to build ladders of opportunity on a scale large enough to make an impact and to improve the HR practices of firms as they impact frontline employees. The strategy should be to reconceive of the Federal system as a source of leverage and systems change for the larger labor market institutions—firms and community colleges—that can make a substantial impact. This implies, as just discussed, a new model of WIA and Federal programs. In order to move forward in this direction there are also several important tactical steps.

First, it is important to address funding. It is apparent that the scale of WIA funding falls far short of the universe of need. Inadequate funding has a number of negative consequences. One obvious effect is that the the problem itself is not effectively addressed. An additional underappreciated, but important, point is that an effective employment and training system needs a professional and well trained staff and

a modern administrative structure. Skilled professionals need to be confident that they can build careers in the system. It is difficult to build such an infrastructure in an unstable and declining funding environment.

A second funding issue lies in the financial aid system for higher education. One central element in building ladders is improving the ability of low wage and dislocated adults to attend higher education, particularly community colleges. Financial aid is a central determinant of whether people can follow this path. The most important Federal financial aid program, Pell grants, is targeted to low income families. Estimates are that about one-third of Pell funding supports occupational training (Spence and Kiel, 2003) and 90 percent goes to families with incomes below $30,000 per year (Choitz, Dowd, and Long, 2003, p. 3). The problem, however, is that few working adults are able to utilize this program. In 2000 only 1 percent of Pell recipients were enrolled less than half-time and only 3.5 percent of working parents who took classes less than half time received Pell grants (Choitz and Widom, 2003, p. 12). Other Federal financial support, notably the HOPE and Lifetime Learning Tax Credits, also do not reach the working poor. There are a variety of ideas for making these programs more accessible to people who have to work full time (see, for example, Choitz, Dowd, and Long, 2004 and Bosworth and Choitz, 2004) and these ideas should be explored in more detail and taken seriously.

CONCLUSION

There are many ideas, good ideas, available for improving America's Employment and Training system. But what is missing in the discussion is a broader vision and a compelling mission for the system. In the past the Employment and Training system for all of its weaknesses was connected in the public mind to important national concerns. That is not true today.

The modern E&T system took shape in the late 1950s and early 1960s with the passage of the Manpower Development and Training Act. This legislation, and the interest in improving the nation's training infrastructure, was driven by worries about the impact of automation on the employment of skilled (typically male) workers. There

was a serious national discussion of this concern and the E&T system was seen as central to any solution.

Beginning in the mid 1960s the War on Poverty was a central theme in domestic national political discourse and, again, the E&T system was at center stage. A wide range new program models emerged and the Federal government, states and localities, and the private foundation world were all active players. Late in this period, as the consequences of the oil shocks played out, the E&T system took on the additional burden of providing public service jobs to ease the consequences of job loss by experienced workers.

In the late 1980s and early 1990s widespread concern about America's competitive position in the world economy led policy makers to focus on the skill level of the U.S. workforce. Along with school reform, job training was seen as important and several initiatives emerged: the attempt to implement a system of skills standards, programs encouraging a version of the German apprenticeship model, enhanced training of incumbent workers. All of this added up to a central role for the E&T system.

From the impact of automation, to poverty, to national competitiveness the E&T system has been seen as an important player in addressing national domestic policy concerns. Today the system is floundering in part because it does not connect to a driving narrative that justifies a strong system and makes it central to contemporary concerns. However, the elements of that narrative seem fairly clear. Today's labor market is volatile and there is widespread understanding that up and down the income scale people need skills to do well. There is also a broad understanding that labor market institutions to enable people make successful transitions are important. Firms also face an newly competitive environment and many recognize that a key to their success is the quality of their human resources. In short, success in a volatile world points to the case for a strong E&T system, a system in which the Federal role is to stimulate innovation and to leverage other labor market actors to build ladders that lead to success.

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[1] These data are from the National Compensation Survey of Occupational Wages that represents all private sector jobs regardless of establishment size and all state and local government employment in establishments with 50 or more employees.

[2] The figures in the text refer to skills below Level 2. Level 2 prose skills refer to the ability to locate a single item of information in a text with several distractors or plausible but incorrect pieces of information present. Level 2 document skills require the respondent to match a single piece of information with distractors present. Level 2 numeracy skills require one or two step processes involving whole numbers and percents and to interpret simple graphs.

[3] http://www.epinet.org/content.cfm/issueguides_minwage_minwagefacts.

[4] Funds made available under the Trade Adjustment Assistance Act for retraining in 2004 were $269 million dollars and which supported the training of about 45,000 workers (GAO, 2004, p. 6, p. 30).

[5] The national JTPA evaluation was a random assignment study of 15,981 people who were served by JTPA. They people were tracked for 30 months after leaving in by 1989. The sample was drawn from 16 Service Delivery Areas around the country and while the SDA's were not chosen randomly they were representative of the nation and within the relevant SDA's random assignment was used to assign clients to the program or to a control group. People in the control group could not receive JTPA training but they could obtain training and services from other sources (Bloom et. al., 2000).