

Remarks for the OECD Job Strategy Forum
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I would like to thank the OECD and the Canadian Ministries for the invitation to participate in this forum and to comment on the Jobs Strategy document and recommendations.

I would like to begin by commending the OECD for the excellent report and set of recommendations that its staff has prepared. It has identified key issues and barriers to a well-functioning labor market. Chief among these issues is the proper set of incentives, both for workers and employers. And I believe that the OECD's recommendations offer a healthy dose of activation measures and other incentives along side income security measures to ensure that the pursuit of work and not the pursuit of benefits is the most financially attractive option to workers. And emphasizing that work at a decent wage is the best social program.

Having said this, one of the major concerns for all OECD member states is how to equip their current and future workforce with the skills that are demanded by a dynamic economy and that will provide workers with a decent living. As Professor Heckman has so convincingly stated, education is the key, and it is better to begin sooner than later in a person's life. The few evaluations showing the large societal returns to pre-school education are encouraging and should not be ignored. And the power of compound interest works as well here as it does in financial markets in that education begets education and starting early is the key to success. While I support the expansion of pre-school, particularly to the disadvantaged whose home environment lacks the intellectual and social foundations so necessary for future success, I still believe that we must find ways to help workers who need additional skills and need to be retooled. In my mind, economies cannot wait for the cohorts of pre-schoolers to move into our workforce. Businesses will offer training to many of their higher-skill workers. However, they are unlikely to offer training to the disadvantaged, the disinterested, and the entrenched. As Lisa Lynch has shown in her remarks this afternoon, we need to increase the skills of these workers to meet future demand.

So, how do we go about addressing the overall challenge of human capital development? I would like to raise four points regarding this issue: 1) make strategic interventions, 2) better understand what works and what doesn't, 3) target resources, and 4) find optimal institutional arrangements for providing services.

First, we must be strategic in implementing labor market interventions. As the OECD study has so aptly stated, there is no silver bullet for success and there is no "one-size-fits-all" approach to labor market intervention. Some programs work for people with specific needs and characteristics and not for others. Some programs are designed for the

short-term or as a stepping stone to further success. Job search assistance, for example, has two functions. The first function is providing soft skills training to help people get and keep jobs and to be more effective on the job, and the second function is providing information about labor markets and making labor markets more effective. The second function is important even if it does not lead directly to human capital formation. Thus, even though some components of the process toward human capital formation are not cost-effective on their own, it is important to make sure that the steps are in place for people to make the entire journey toward acquiring skills and finding the best job match in the labor market. And these steps may be different for different people. Therefore, we must look at a broader portfolio of possibilities, and our evaluations have a long way to go in informing us about the effectiveness of many of these possibilities.

Second, we need to expand our knowledge of what works and what does not. I applaud the OECD for endorsing the pursuit of rigorous evaluations of workforce programs, based on random assignment experiments. We cannot make sound policy until we have a comprehensive understanding of what works and what doesn't. Yet, we have only scratched the surface in exploring the possibilities. Much of the debate on prioritizing labor market intervention rests on a handful of reliable studies. The conclusion that training of adults is not cost effective is based on no more than a half dozen studies, and many of these studies have little variation in the type of training provided. The preschool results are also based on a limited number of studies. That does not mean that these studies are wrong. On the contrary, they are well-done evaluations, but we should not stop there. There is additional evidence that some training interventions, presented in a context that participants can relate to and accompanied by the proper support services, do work. In the US, the Center for Employment Training, the GAIN program in Riverside, CA and the Portland, OR welfare-to-work program show promising results. The evaluation of Community Colleges in the US shows that job-specific instruction can work. The returns are not as large as those found for the Perry Pre-school, but of course the investment in education was made later in life and the "compounding of effects" has had less time to work. Still, we need to continue to evaluate programs with varied approaches that possibly can meet the specific needs of individuals. OECD should encourage member states to experiment with different approaches through demonstrations and pilots and then evaluate these interventions using random assignment methodology.

Third, we must target resources. Obviously, resources are scarce and as mentioned earlier one size does not fit all. Program impacts are surely much greater for some individuals than others. But this fact is useful for policy only if programs can identify who will benefit and who will not. Training could be more cost-effective if we could target training services at those unlikely to receive training without government intervention, and if we could target training services at those who are likely to receive the largest earnings benefits. There have been attempts at targeting services. The Upjohn Institute conducted a limited targeting program for welfare-to-work recipients and found through a random assignment evaluation that targeting yielded a 25 percent increase in job retention. We expanded this approach to all WIA services in the state of Georgia. Canada has considered a similar system, and the Netherlands, Denmark, Germany, and

Switzerland are all pursuing a targeting approach for various aspects of their workforce systems. Admittedly the targeting models are not precise and more work needs to be done. Yet, we no longer have the luxury in terms of resources to apply blunt instruments to problems that require considerably more precision. We cannot continue to pour billions of dollars into programs that may benefit a low percentage of participants.

Fourth, I would like to touch on the issue of implementation. This is still a work in progress, and little research has been devoted to evaluating the optimal institutional arrangement for delivering services. These arrangements for delivering workforce services continue to evolve in many OECD countries. The past decade has seen significant changes, particularly the move to integrate services in “one-stop” facilities, to privatize the provision of workforce services, to integrate workforce and economic development efforts, and to integrate these programs with educational services. In the US, we continue to evolve toward a decentralized workforce system which is merging more and more with regional economic development efforts. The adage of many regions in the US is that “workforce development is economic development.” One of the major issues is how to engage employers in the process and maintain a meaningful dialogue regarding their needs. These efforts take on many names, such as sectoral skill initiatives, regional skill alliances, and workforce intermediaries. But the message is clear that collaboration is necessary for successful implementation of workforce and economic development efforts. Several other OECD countries are considering and pursuing similar approaches. And I might add that the OECD through its LEED committee has helped bring about a better understanding of the costs and benefits of decentralization and integration. Labor market interventions are not undertaken in a vacuum, and it is important to understand the institutional arrangements that will bring about the best results. Therefore, I would suggest that such issues be considered in the Jobs Strategy report and recommendations.

Once again, I thank you for the opportunity to participate in this forum, and I congratulate the OECD for the advancements it has made in developing its Jobs Strategy.