

# *Upgrading the Skills of Low-Qualified Workers in the United States*

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# Major Points

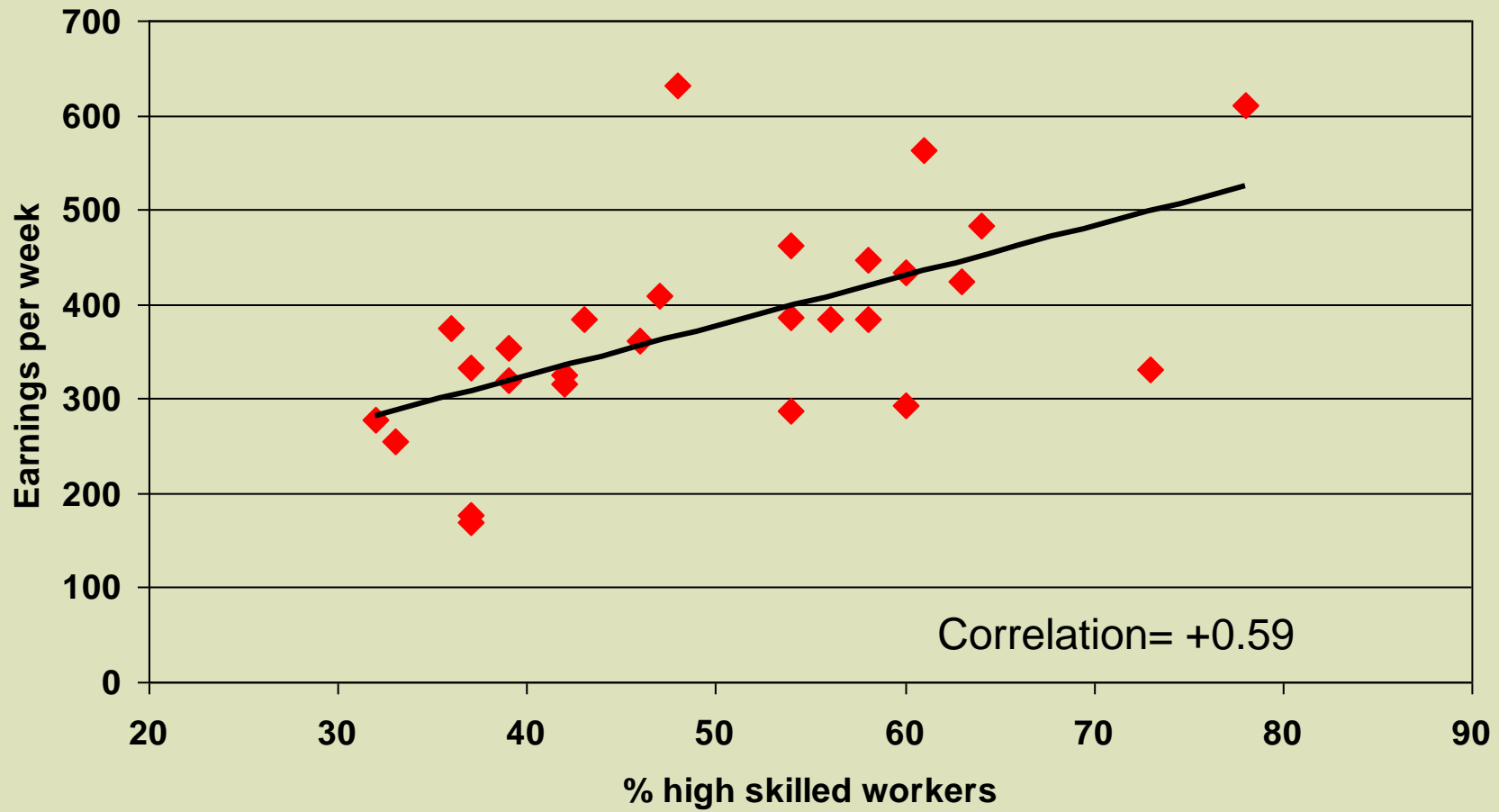
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- **Strong relationship between skills, worker outcomes, and economic performance**
- **Fastest growing sectors require the highest skills**
- **Supply of skilled workers not keeping pace with changes in demand**
  - As evidenced by compositional shift, high skill wage premia, and survey responses of businesses in various industries
- **Upgrading the skills of low-qualified workers**
  - Necessary to meet the labor needs of businesses, improve a country's competitiveness, fill the skill gap, and increase the standard of living of workers
- **Training alone is not enough**
  - Training must be closely linked to the needs of businesses
  - Businesses must be fully engaged in the workforce development system through local partnerships
  - Workforce development system must be decentralized and closely linked with businesses, educational institutions, and economic development organizations

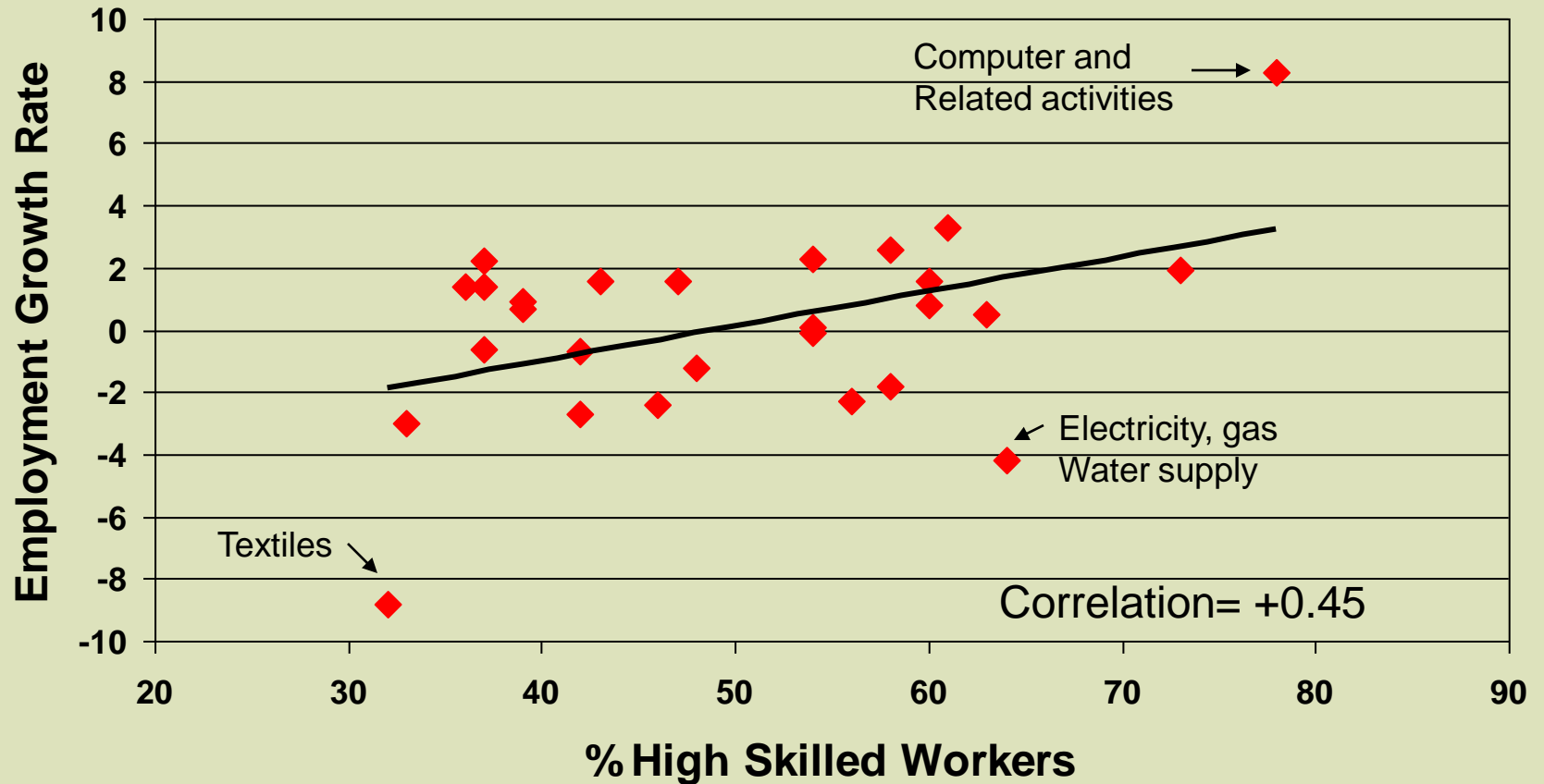
# US Experience: Education Matters

- **For US workers: Education and training is critical for improving the prospects of finding and retaining a job and for improving one's standard of living**
- **Employment prospects are greater for those with BA degrees**
  - BA degree 3.6% unemployment rate (2003)
  - HS degree 5.2%
  - LT HS 8.5%
- **Earnings are higher with more education**
  - An additional year of education increases annual wages by 6 to 10 percent
  - Earnings gains even more pronounced from curricula that provides an academic year of more technical and applied coursework (10-15%)
  - Earnings of high literacy workers are 3 times greater than those of low literacy workers
  - An academic year of more technically oriented vocational and academic math and science courses raises earnings by about 14 percent for men and 29 percent for women
  - Earnings are 73% higher for workers with BA degrees than those with HS degree
  - The gap has grown by 70% since 1980
- **For the US economy: increases in educational attainment were responsible for an estimated 11 to 20 percent of the growth in worker productivity in the US**

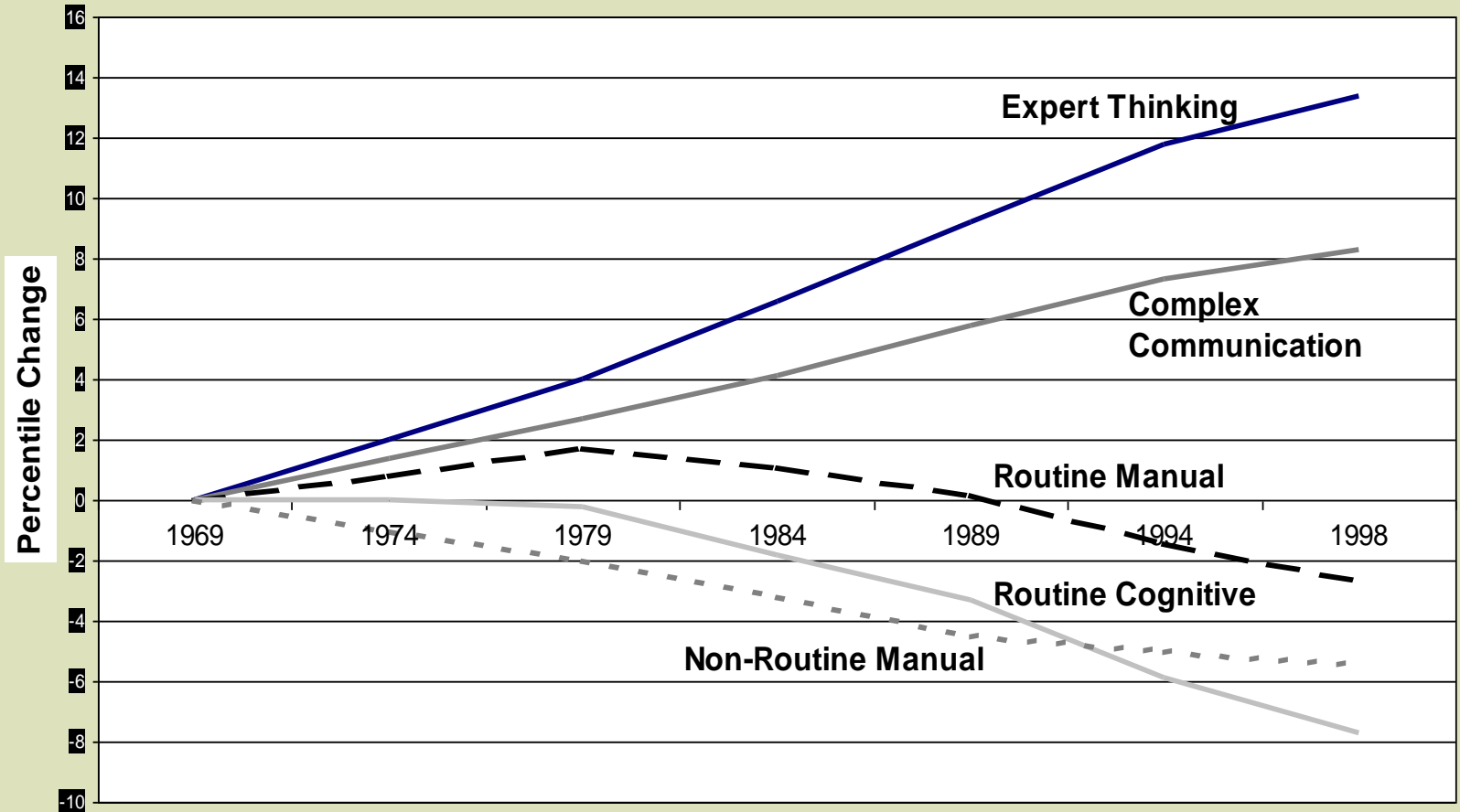
# Sectors with more highly qualified workers pay more



Trends show greater demand for high skilled workers:  
Fastest growing sectors have the highest skilled workers



# Greater demand for jobs requiring higher-level thinking



Source: Autor, Levy, and Murnane, 2003

Low-wage jobs are concentrated in a few industries, primarily retail trade...

| <b>Industry</b>                                         | <b>Bottom 20%</b> |
|---------------------------------------------------------|-------------------|
| <b>Total</b>                                            | <b>20.0%</b>      |
| <b>Mining</b>                                           | <b>5.0</b>        |
| <b>Construction</b>                                     | <b>7.1</b>        |
| <b>Manufacturing</b>                                    | <b>10.9</b>       |
| <b>Transportation, communications, public utilities</b> | <b>6.1</b>        |
| <b>Wholesale trade</b>                                  | <b>13.6</b>       |
| <b>Retail trade</b>                                     | <b>53.8</b>       |
| <b>Financial, insurance and real estate</b>             | <b>9.6</b>        |
| <b>Services</b>                                         | <b>20.1</b>       |
| <b>Public Administration</b>                            | <b>3.7</b>        |

...and in a few more occupations, both service-oriented and production-related

| Occupation                                         | Bottom 20% |
|----------------------------------------------------|------------|
| Total                                              | 20.0%      |
| Executive, administration, managerial              | 0.6        |
| Technical                                          | 2.1        |
| Sales                                              | 38.0       |
| Administrative support                             | 13.5       |
| Service                                            | 50.1       |
| Precision, production, craft and repair            | 3.0        |
| Machine operators, assemblers, inspectors          | 19.5       |
| Transportation material moving                     | 13.1       |
| Handlers, equipment cleaners, helpers and laborers | 64.4       |

# Increase in Educational Attainment

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- **Higher returns to education have encouraged more people to attain higher levels of education**
  - Since 1980, the percentage of the labor force that has graduated from college has risen from 21.6% to 31.4%
  - Graduation rates of disadvantaged groups have also increased, but the rates are much lower than that of whites
    - 13.9% for Hispanics
    - 20.2% for African Americans
- **Yet, a significant number do not graduate from high school, particularly among the disadvantaged groups**
  - 70% of African Americans and 65% of Hispanics graduate from high school with a regular diploma, compared with an overall 80%
- **Some dropouts take advantage of second-chance opportunities**
  - Up to 50% of African Americans and 12% of Hispanics receive a GED, which allows entry into post-secondary education, the military, and other second-chance systems

# Shortage of Qualified Workers

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- **Some projections indicate the US will not have enough qualified workers to fill the expected job openings in the coming years**
  - The percentage of the workforce with a college degree is expected to reach 33.6% by 2020, which is still not enough to fill the gap
  - Even the most optimistic projections of ***new entrants*** fall more than 5 million workers short of filling the 58 million job openings that is anticipated by 2010
- **It is critical that incumbent workers, particularly the low-qualified, receive the training necessary to meet these needs**

# Adult Worker Education Activities

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- **53% of US working adults report that they have participated in adult education**
- **Yet low-skilled workers do not have, or are not taking, the opportunity to upgrade their skills while working**
- **Percentage varied by education, age, profession, size of employer, and sector**
  - 72% of those who held BAs participated compared with 14% of those with less than a high school education
  - Younger workers are more likely to participate than older workers
  - Professional and managers are more than twice as likely to participate than trades workers (71% versus 32%)
  - Workers employed in large firms (500 or more employees) are more likely than workers in small firms (100 or fewer employees)
  - Workers in high-skill sectors receive more training
- **The wage rate benefit of 40 hours of workplace education is estimated to be 8 percent, which is as large as the return from an entire year of schooling**
- **Where do low-qualified workers receive training?**

# Training in the US

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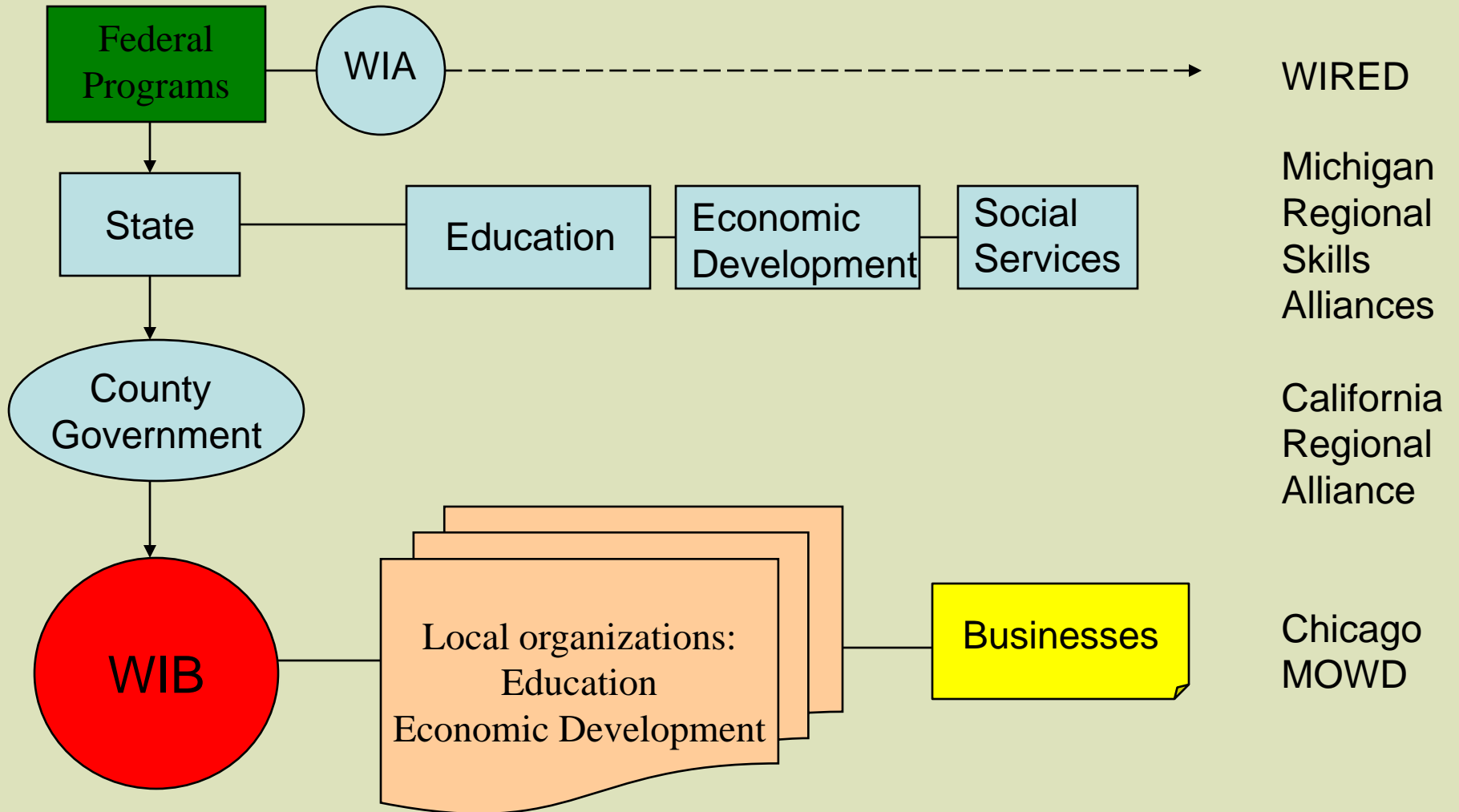
- **Workers can access the training offered through the education system either by enrolling in classes themselves or through employer-sponsored training**
- **Post-secondary education system**
  - High Schools
  - Community colleges and technical schools
  - Colleges and universities
    - The post-secondary system provides much of the training of workers
    - Comprised of more than 4,000 institutions enrolling over 15 million students
- **On-the-job training**
  - Businesses contract with community colleges, technical colleges and other providers
    - Government subsidizes the training for some businesses
  - Apprenticeship training
    - Provided through employers, employer associations, and joint labor-management organizations
    - 480,000 apprentices in 30,000 programs
    - Most states have apprenticeship boards that establish standards for the training and help to encourage and coordinate partnerships
- **Workforce Development System**
  - Nearly all states have incumbent worker programs, but not necessarily for low-skill workers
- **Non-government workforce intermediaries**

# Financing Incumbent Worker Training

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- **Responsibility for training incumbent workers falls primarily on employers and workers**
  - Employers finance 80-90% of incumbent worker training
- **Nearly all states have state-funded incumbent worker programs**
  - Financed through state general fund appropriations, funds tied to the unemployment insurance program, the sale of bonds or other debt instruments, or a combination of funds.
  - Although designed primarily to help employers address business needs, these programs can and are being used to upgrade the skills of low-wage and entry-level workers.
- **States can also use the Governors' 15% set aside of Federal WIA funds to finance incumbent worker training**
- **TANF funds can support postemployment activities, such as skills upgrading for low-income workers and work supports that help low-income workers take advantage of training opportunities.**
- **Individuals can also receive federal and state financial assistance to attend post-secondary education institutions**

# US Workforce Development System



# Local Partnerships: Chicago MOWD

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- **Mayor's Office of Workforce Development (MOWD) of the City of Chicago**
- **Partners with private business, community organizations, and other government agencies to provide reemployment services to people of Chicago (3 million population)**
  - 130 community-based city-wide organizations
  - 5 WIA-funded Chicago Workforce Centers
  - 33 community based-affiliates
- **Services provided each year:**
  - Greater than 100,000 core services
  - 11,000 in intensive services
  - 2,600 received vocational training vouchers choosing from 60 training classes through 135 state-certified training organizations
- **TIF Works - provided grant funds for workforce training to businesses located in Tax Increment Financing (TIF) districts.**

# State Training Programs: CA ETP

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- **23 states use some form of employer tax to fund training**
- **The California Employment Training Panel (ETP) is the nation's first and largest employer tax-funded program, providing up to \$85 billion annually in job training funds**
  - Funds are generated by diverting 0.1% of UI payroll taxes paid by private for-profit businesses for every covered employee
- **Designed to increase productivity of existing firms in the state, attract new businesses, and reduce unemployment**
- **The program established a partnership between the state and participating companies to train workers**
  - The state reimbursed employers for the direct cost of training workers
  - In return, the company paid for the training facilities and covered the workers' salaries and the cost of lost production while workers attended training
- **An evaluation, using a comparison group of firms, found that ETP firms experienced significantly greater growth in the number of employees and wages paid, but found no difference in earnings per worker**

# Regional Skills Alliances: Michigan

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- **Several states have pursued a sectoral approach to forming partnerships to focus on training needs**
- **Michigan Regional Skills Alliance's goal is to increase the skills and labor market success of individuals in a region and to provide a collaborative mechanism through which local employers would reap significant benefits in having access to a more skilled workforce.**
- **For workers, the potential benefits of a MiRSA include outcomes such as an increase in skill levels, increased employment entry rate and job retention, progression along a career ladder, higher earnings levels and benefits, and earnings growth.**
- **For employers, the expected benefits are lower labor turnover, greater productivity and profitability, and fewer job vacancies.**
- **MiRSA uses a sector approach to help bring together businesses and workforce development and educational systems.**
  - **A unique feature of the MiRSA initiative is the partnership between the state government and a charitable foundation to fund 13 regional skills alliances in the state**

# Healthcare Regional Skills Alliance

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- **The MiRSA identified several primary issues facing the health care industry in their region:**
  - A lack of trained, entry-level workers and Certified Nurse Aides
  - A shortage of Registered Nurses
  - Not enough young people choosing healthcare fields for their career choices
  - Too few and too expensive training opportunities for healthcare employees who need to continually update and upgrade their skills.
- **The initial objectives were to:**
  - Increase the pool of qualified, entry-level healthcare workers
  - Increase the number of students entering secondary and post-secondary healthcare occupation training programs
  - Improve retention and career-ladder movement of people within the healthcare industry
  - Expand training and professional development opportunities in the various healthcare occupations
  - Build upon existing partnerships for a more comprehensive, sustainable system to support the workforce development needs of the healthcare sector.
- **The MiRSA partners developed and administered several programs to meet these objectives.**
  - *Medical Career Scene Investigation and Allied Health Summer Camp*
  - *Basic Healthcare Curriculum and Training*
  - *Certified Nurse Aide Training*
  - *Staff Development Training*
  - *Health Professional Recovery Program*

# USDOL: WIRED

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- **Federal government initiated programs to encourage effective partnerships among local business, workforce development, economic development, and educational institutions**
- **Workforce Innovation in Regional Economic Development (WIRED)**
- **Goal:** Expand employment and advance opportunities for workers and catalyze the creation of high-skill and high-wage opportunities
- **Three generations of regional collaboratives**
  - First generation included 13 collaboratives each receiving \$15 million over a three year period
  - Next two generations will receive similar amounts
- **WIRED requires that Workforce Investment Boards take a central role in forming partnerships among the various key stakeholders in the region**
- **The Grand Rapids, MI initiative focused on developing and managing innovations to expand and attract their skilled workers and stimulate entrepreneurship**

# Non-government Workforce Intermediaries

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- **In addition to worker training programs that are provided directly by the employer or government, various types of non-government intermediaries have formed to facilitate partnerships among key stakeholders**
  - These partnerships identify gaps in services that are not met by existing government programs or by the private sector
- **Serve three functions**
  - Entrepreneurial by focusing on outcomes such as long-term job retention
  - Partner and network across a wide range of organizations
  - Ability to learn and adapt as market conditions and opportunities change
- **Nearly 250 workforce intermediaries across US, of which 70% provide incumbent worker training**
- **Funding comes from a variety of sources, including government programs and charitable foundations**

# Conclusions

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- **Skills improvement of low-qualified workers benefits the workers, businesses, and the nation through increased wages, productivity and competitiveness**
- **Low-qualified workers have less access to educational opportunities, both from their employer and through their own initiatives**
- **U.S. Government programs provide funding for training, but it is not sufficient to meet the needs of all low-qualified workers**
- **Effective intervention requires that the training meet the needs of businesses, which in turn requires**
  - Strong engagement of businesses with the workforce system
  - Effective partnerships among businesses, workforce system, economic development system and educational institutions
  - Decentralized workforce system that empowers local agencies and organizations to better understand how best to serve their customers and to encourage a culture of innovation, flexibility, and responsiveness in meeting the needs of customers
  - In addition, forming partnerships with local non-government agencies provides a means to leverage public funds with community resources