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

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Major Points

- **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

Correlation = +0.59
Trends show greater demand for high skilled workers:
Fastest growing sectors have the highest skilled workers.

Correlation = +0.45
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…

<table>
<thead>
<tr>
<th>Industry</th>
<th>Bottom 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>20.0%</td>
</tr>
<tr>
<td>Mining</td>
<td>5.0</td>
</tr>
<tr>
<td>Construction</td>
<td>7.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.9</td>
</tr>
<tr>
<td>Transportation, communications, public utilities</td>
<td>6.1</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>13.6</td>
</tr>
<tr>
<td>Retail trade</td>
<td>53.8</td>
</tr>
<tr>
<td>Financial, insurance and real estate</td>
<td>9.6</td>
</tr>
<tr>
<td>Services</td>
<td>20.1</td>
</tr>
<tr>
<td>Public Administration</td>
<td>3.7</td>
</tr>
</tbody>
</table>
…and in a few more occupations, both service-oriented and production-related

<table>
<thead>
<tr>
<th>Occupation</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>20.0%</td>
</tr>
<tr>
<td>Executive, administration, managerial</td>
<td>0.6</td>
</tr>
<tr>
<td>Technical</td>
<td>2.1</td>
</tr>
<tr>
<td>Sales</td>
<td>38.0</td>
</tr>
<tr>
<td>Administrative support</td>
<td>13.5</td>
</tr>
<tr>
<td>Service</td>
<td>50.1</td>
</tr>
<tr>
<td>Precision, production, craft and repair</td>
<td>3.0</td>
</tr>
<tr>
<td>Machine operators, assemblers, inspectors</td>
<td>19.5</td>
</tr>
<tr>
<td>Transportation material moving</td>
<td>13.1</td>
</tr>
<tr>
<td>Handlers, equipment cleaners, helpers and laborers</td>
<td>64.4</td>
</tr>
</tbody>
</table>
Increase in Educational Attainment

• 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

• 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

• 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

- 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 subsidies 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

• 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

Federal Programs → WIA

State → Education → Economic Development → Social Services

County Government → Local organizations: Education, Economic Development

WIB

WIRED

Michigan Regional Skills Alliances

California Regional Alliance

Chicago MOWD
Local Partnerships: Chicago MOWD

- 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

- 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

• 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
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

• 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

- 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

• 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