Testimony of

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Economic Costs of Inadequate Investments in Workforce Development

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I am very pleased to testify today on the economic and social costs to the United States associated with investing too little public funds in workforce development efforts.

I'd like to emphasize the following four points today:

- The very low earnings and employment of millions of Americans generate high poverty rates and impose huge costs on the U.S. economy;
- Federal investments in workforce training to raise the earnings of these low-income Americans have declined dramatically;
- The research evidence, while somewhat mixed, does show that many public investments in workforce development are cost-effective at raising the earnings of low-income workers, and many more are very promising; and
- The federal government should make major new investments in workforce development, while encouraging greater efforts by state and local governments and the private sector, and evaluating new approaches to improve our knowledge of what works.

Low Earnings, Poverty, and their Economic Costs

Roughly 10 to 15 million American workers are in low-income families and earn very low wages (Acs and Nichols 2007). Many suffer from very poor basic skills and/or no high school diploma; among the latter, some have GED degrees, which only partly compensate for their lack of a real high school diploma.

But, even among those with a minimal level of basic skills and a GED or real diploma, a lack of any serious postsecondary education or training often causes major labor market difficulties. Roughly 70 percent of low-income parents in any year have no postsecondary education or training (Holzer and Martinson 2008); among the long-term poor, that percentage is no doubt much higher. Lacking this type of training or productive early work experience, many poor adults lack access to jobs that pay wages above the poverty level.

At the same time, the demand in the labor market for workers in "middle-skill" jobs remains fairly strong and is likely to remain so in the future. These are jobs that require some significant postsecondary education or training but less than a bachelor's degree; though the educational requirements for these jobs are not very high, most low-income workers cannot meet them. The jobs are frequently found in health care, construction, manufacturing, transportation, and many other sectors of the economy; they include technician, maintenance and repair, and many other occupations (Holzer and Lerman 2007).

What costs are imposed on these workers, their families, and the overall economy because of the limited skills and low earnings of these workers? Since worker earnings generally reflect their productivity in the labor market, the low earnings of the poor directly reflect tens of billions of dollars of lost productivity to our economy.[1] This is a huge loss of output that our economy can

[1] For example, the income shortfall each year (relative to the poverty line) is over $8,000 for the average poor family (most with one or two workers) and over $5,000 for unrelated poor individuals. Since earnings shortfalls are at least as large as these income shortfalls, and with at least 10 million poor workers in the labor force at low wages, these

ill afford. High poverty rates also generate large budgetary costs to the federal government through expenditures on Medicaid and other means-tested programs that treat the symptoms of poverty but not its causes (Congressional Research Service 2006).[2]

Furthermore, low potential earnings tend to drive many workers—especially low-income minority men—out of the labor market altogether. Employment rates and labor force participation among less-educated black men, in particular, have been trending downward for several decades; among those out of school, employment rates for those in their late teens or early 20s rarely surpass 50 percent (Holzer and Offner 2006).

Young men with low earnings and employment rates are much more likely than others to engage in crime, less likely to marry, and more likely to father children outside of marriage. Crime, in particular, imposes enormous costs on the United States—as much as \$1–2 trillion per year, by some estimates (Ludwig 2006). Likewise, the savings that can be realized by preventing crime and delinquency among youth are extremely high (Cohen and Piquero 2007).

And the fathering of children outside of marriage is costly to our economy and society as well. Children growing up in poor or single-parent families are more likely to have low education and earnings, to engage in crime, and to suffer from bad health as adults, thus generating an ongoing cycle of enormous economic costs for the United States over many generations (Hill et al. 2008; Holzer et al. 2007).

But the costs to the United States associated with low skills and limited training among so many workers go well beyond those associated with poor individuals and their families. For instance, employers often report difficulty filling jobs in the “middle-skill” category, even at reasonably high wages (Holzer and Lerman 2007). Positions sometimes remain vacant for significant periods of time, especially in tight labor markets. Recruiting and compensation costs rise, while employers might have to accept less qualified and productive employees (Holzer et al. 2006).

These difficulties and costs for employers may grow when baby boomers in these jobs retire in large numbers over the next few decades, especially in sectors like health care and elder care where labor demand is likely to increase substantially. And these concerns may ultimately raise the rate at which employers choose to “offshore” their production activities or recruit immigrants from abroad to fill jobs remaining in the United States.

Declining Federal Investments in Workforce Training

One of the great ironies of workforce policy in the past few decades has been the extent to which *federal investments in training have consistently and dramatically declined, even while the labor market places an ever-higher premium on skills*.

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numbers imply earnings and productivity shortfalls of at least \$40–50 billion annually associated with poverty. Using a higher poverty threshold would generate much larger estimated shortfalls.

[2] CRS reports that means-tested federal expenditures each year amount to roughly \$600 billion, of which about half is accounted for by Medicaid.

For instance, investments in comprehensive employment and training policies peaked in real terms in 1979 under the Comprehensive Employment and Training Act (CETA). Since that time, CETA has evolved into the Job Training Partnership Act (JTPA) and more recently the Workforce Investment Act (WIA). But since 1979, expenditures on these programs have declined in real terms by nearly 70 percent and, relative to the size of the U.S. economy, by 85 percent. The declines in actual expenditures for training low-income workers are no doubt higher, as more of the current expenditures are allocated to administration and universal (nontraining) services than in earlier years. Some, but not all, of this shortfall has been offset by increasing expenditures on Pell grants and other federal programs, and these grants and programs do not meet all the needs that could be served by workforce development expenditures.[3]

Current expenditures on programs covered by Title I of WIA for adults and youth are just over $3 billion annually. Even if one adds in the Job Corps and a range of other workforce programs at the U.S. Department of Labor and elsewhere, these expenditures amount to about 0.1 percent an economy with an annual Gross Domestic Product (GDP) of nearly $14 trillion (U.S. General Accounting Office 2003). This share is far lower than what is spent on active labor-market policy by almost any other industrialized nation (Heckman et al. 1999).

In certain specific areas, our declining policy interests and expenditures are quite striking. For instance, federal expenditures in career and technical education (CTE) through the Perkins Act have remained flat in actual dollars and have fallen in both real and relative terms. Since the expiration of the School to Work Opportunity Act (STWOA) in 2002, no new federal policy initiatives in this important area of workforce development have been undertaken. And both expenditures and staffing in the Labor Department's Office of Apprenticeship have fallen dramatically, with appropriations at under $22M in FY 2008 and less than a third of the staff that served there in 1978.[4] Here again, expenditures in the United States on CTE (relative to GDP) lag behind those observed in most other industrialized nations.

Evidence of Cost-Effectiveness: Does It Work?

Declining federal expenditures on workforce development might be justified if these programs are largely ineffective in achieving their goals of raising earnings and employment among less-educated workers. Indeed, the perception of program ineffectiveness is widespread. But is this perception accurate?

Many evaluations have been undertaken in the past few decades of worker training programs that are federally funded and of other programs that have operated at a small scale in various locations. Some evaluations have used rigorous methods, such as experimental designs with random assignment to treatment and control groups, or various nonexperimental methods respected by researchers; in other cases, evaluations have used much less rigorous methods, often lacking control groups that can be considered in any way comparable to those getting the

[3] For instance, Pell grants are generally not available to those taking classes less than half-time, as are most working poor parents; and they can be spent only at accredited colleges and universities.
[4] I thank Robert Lerman for sharing these numbers with me from the Office of Apprenticeship of the U.S. Department of Labor.

treatment. With less rigorous methods, we learn more about program outcomes than impacts, though the former sometimes suggest promising approaches that merit further study.

The lessons learned from the evaluation literature on workforce development programs can be summarized as follows (Holzer 2007):

- Programs funded under JTPA were highly cost-effective for adults though not for youth. Evidence to date on WIA programs for adults is very limited, but what does exist suggests positive impacts on earnings of similar magnitudes.[5]
- Job Corps training for disadvantaged youth has been cost-effective in the short term but apparently less so over the long-term, as some initially positive impacts fade with time. But, for some groups (like those age 20 to 24 rather than teens), positive impacts are maintained over the longer term.[6] Outcomes observed for programs like Youth Build and the Youth Service and Conservation Corps suggest that these programs for at-risk youth are very promising as well.
- The returns from a year or more of community college training for youth or adults appear to be quite strong, particularly for those at-risk or with low incomes. Recent evidence from the Opening Doors demonstration project also shows the feasibility of increasing community college attendance and achievement for low-income young adults with appropriate financial supports and services.[7]
- Training programs that involve private-sector employers and prepare workers for specific jobs in the labor market are particularly promising. For adults, sectoral training programs have shown positive results in one experimental study and very promising outcomes in various nonexperimental studies.[8]
- Studies of incumbent worker training programs also show improvements in employee earnings and workplace productivity (Holzer 2007).
- Studies of high-quality career and technical education programs that link young people with good jobs in key sectors of the economy—such as career academies—show very impressive results.[9]
- Combining training with job placement assistance and other financial supports and services can be effective for low-income populations.[10]

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[5] For instance, the National JTPA study showed 5-year returns of over 150 percent per dollar spent for adult women and men, despite some fading out of impacts (U.S. General Accounting Office 1996). Rigorous nonexperimental evaluations of both JTPA and WIA since that time for specific states show strong returns as well—see Mueser et al. (2005) and Raphael et al. (2003).
[6] See Schochet et al. (2003). The most recent evaluation of long-term Job Corps impacts are based on administrative data rather than survey data, though the latter showed somewhat larger impacts in earlier evaluations.
[7] See Lerman (2007) and Brock and Richburg-Hayes (2006).
[8] See Holzer (2007). An experimental evaluation of the Center for Employment Training in San Jose, California, showed positive impacts on the earnings of disadvantaged workers. A nationwide replication effort failed to show these impacts, since earnings growth for both the treatment and control groups in this study seemed unusually strong.
[9] See Kemple (2004) on career academies and Lerman (2007) on tech prep and other CTE programs.
[10] Examples of rigorously evaluated programs that combine training or employment services with other supports and services that have generated positive impacts include Jobs Plus, the Portland site in the National Evaluation of Welfare to Work Strategies, and some sites in the Employment Retention and Advancement project.

- Community college training for dislocated adult workers, especially in technical more, fields, generates positive returns as well.[11]

It is clear from this summary that not everything funded with federal dollars has been effective. Some things work in the short term but fade out over time; others work very well in small settings but fare less well when they are replicated across the country. And much remains unknown, as many of the most promising efforts (especially in sectoral training, "career ladder" building, and the like) have not yet been rigorously evaluated.

Still, many successes have been uncovered in the evaluation literature. Given that fact, *the dramatic declines in spending on federal workforce development programs cannot be justified*. But improvements in the system, through more funding and also better use of what is actually spent, are certainly in order.

Future Directions: Greater Investments, Incentives, and Evaluation

The weak education and training of so many millions of American workers limit their earnings and impose great costs—not only on themselves but on the U.S. economy and society as well. These costs include low productivity, low employment, high crime, and out-of-marriage childbearing. The costs borne by employers who have difficulty recruiting and hiring sufficiently skilled workers, and the potential responses of these employers (through greater offshoring or the recruitment of immigrants), should be considered as well.

The labor market demands greater skills than ever before as a precondition for higher earnings, but the federal government invests vastly less in workforce skill development than it did 30 years ago. Indeed, in a nearly $14 trillion economy, our annual federal investment is pitifully small, especially compared with virtually every other industrial country in the world. And, while our knowledge of what works in workforce development clearly has limits, we certainly know enough to do better than we do now.

At a minimum, significantly greater federal investments in workforce development are warranted. But the federal government cannot generate the needed investments all on its own. Indeed, public investments in training will always be very small relative to those of the private sector, though the latter are highly skewed towards highly educated employees. Given that most state and local areas have strong interests in workforce development as part of their economic development strategies, and given that employers would benefit substantially from these investments, it seems appropriate that federal investments should be structured in ways that encourage state and local governments and the private sector to contribute more.

The most promising models of workforce development today involve partnerships among industry and employer groups, community colleges, state and local agencies (including workforce boards), community groups, and intermediary organizations that can bring them all together. In addition to funding for training, other financial supports and services might also be needed by low-income workers. And an effective workforce system should also provide

[11] See Jacobson *et al*. (2004).

performance incentives, oversight, technical assistance, and serious evaluation requirements to achieve maximum success.

Elsewhere, I have outlined what such an advancement system might look like (Holzer 2007). That proposal calls for competitive grants to be awarded to states to build these systems in local regions. These grants would be expandable and renewable, conditional on performance. They would match new state and local public expenditures as well as private ones, but they could be used to directly finance training and other supports and services. This program or its various components could be implemented as part of WIA or in addition to it.

However we proceed, it is important that we raise federal investments in workforce development, use our resources as efficiently as possible and with maximum leverage on other sources of funding, and improve our knowledge of what actually works in this area.

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