2009

U.S. Training and Re-training Programs in the Economic Crisis

Randall W. Eberts
W.E. Upjohn Institute, eberts@upjohn.org

Citation
https://research.upjohn.org/perarticles/7

This title is brought to you by the Upjohn Institute. For more information, please contact repository@upjohn.org.
U.S. Training and Re-training Programs in the Economic Crisis

Randall W. Eberts
W.E. Upjohn Institute for Employment Research

Current Employment Situation

Since the recession officially began in December 2007, the U.S. has lost more than 7 million jobs and the unemployment rate has soared to heights not seen since the early 1980s. Only once since 1948 has the national unemployment rate surpassed the current rate of 9.4 percent, and that was during the deep recession of 1982 when the unemployment rate hit 10.8 percent. Of the nearly 9 million people currently unemployed and searching for jobs, nearly 70 percent have been permanently laid off, with little chance of being recalled to their previous jobs. These workers face the uncertainty of whether their skills will match the needs of employers as they search for jobs now and whether they will be suitable for jobs when the recovery begins to gain momentum.

The American Recovery and Reinvestment Act (ARRA) of 2009—passed by Congress and signed by President Obama in February of this year—is intended to preserve and create jobs and to assist those most impacted by the recession. Recognizing the importance for workers to possess the appropriate skills demanded by employers, the ARRA more than doubled the appropriations for additional training and instruction for dislocated workers and disadvantaged adults from the amount appropriated in the 2009 budget. In total, an additional $3 billion is available to train and upgrade the skills of displaced or economically disadvantage workers.

While these funds support training for eligible workers from all sectors hit hard by the recession, auto workers have received particular attention because of the huge job losses the sector has incurred during the past year. During the 12-month period ending in January of this year, national employment in the production of motor vehicles plunged by 41.3 percent, a loss of 84,400 jobs. During the same time period, the nation’s tier one auto parts manufacturers cut 21.8 percent of their workforce, a reduction of 125,600 jobs. More significant cuts are expected as Chrysler and General Motors have entered into bankruptcy in order to restructure their troubled organizations. To help lessen the hardship, dedicated funds have been set aside to assist laid-off auto workers.

Training under the ARRA

The ARRA funding for worker training is channeled through the existing workforce development programs funded and administered by the U.S. Department of Labor (USDOL). Consequently, the type of training remains the same, while the capacity to serve additional workers has been expanded under the ARRA program. Five programs receive most of the ARRA training funds: 1) the Dislocated Worker program, 2) economically disadvantaged Adult program, 3) Trade Adjustment Assistance, 4) National Emergency Grants and 5) Worker Training and Placement in High Growth and Emerging
Industries. The first two programs are under the Workforce Investment Act, which since 1998 has governed most of the federal workforce development programs. Together, the dislocated worker and adult programs received $1.75 billion in stimulus funds. The Trade Adjustment Assistance program received $353 million more for training and other support activities, and the High Growth and Emerging Industries initiative was appropriated an additional $750 million. The ARRA gave the National Emergency Grant program, which responds to plant closing and mass layoffs, an additional $200 million.

The two WIA programs have received the largest share of the stimulus dollars for training.1 WIA is a partnership among federal, state and local agencies. The Employment and Training Administration (ETA) of USDOL establishes the parameters of the programs, and the state and local agencies provide the services. WIA program funds flow from the federal government through the states to the local Workforce Investment Boards (WIB). Each of the more than 500 local WIBs is responsible for administering the WIA programs in their jurisdiction and in contracting with local organizations to provide the services. The WIBs typically contract with local community colleges, local secondary school districts, and private companies to provide the training. Training services include occupational skills training, on-the-job training, programs that combine workplace training and related instruction, including registered apprenticeship, training programs operated by the private sector, skill upgrade and retraining, entrepreneurship training, job readiness training, adult education and literacy training and customized training. Additionally, states can enter into contracts with institutions of higher education, such as community colleges, or other eligible training providers to facilitate the training of a group of individuals in high-demand occupations.

Training under WIA takes place in various venues and encompasses instruction regarding different levels of skills. Occupational skills training refers to training for a particular skill or for a set of skills necessary to qualify for an occupation. Community colleges and private training providers typically provide this type of training, which takes place outside the workplace and in a classroom setting. On-the-job training (OJT) takes place in the workplace and provides job seekers with work experience and skills training that will help them qualify for and retain employment. The OJT program pays the workers’ employer half the costs of training. Apprenticeship training combines education and work experience and results in a portable credential that is recognized by employers nationwide. Customized training is designed to upgrade the skills of incumbent workers in specific businesses. Businesses apply for the grants, and once approved the training is tailored to their needs and the services are provided either at the company or at community college training centers. Under this program, the employer pays for at least half the cost of the training. The High Growth and Emerging Industries initiative provides specific training for workers to qualify for energy efficiency and renewable energy jobs and for careers in the health care sector.

---

1 WIA includes a third program—youth, but most of the stimulus dollars for this program are used to employ economically disadvantaged youth during the summer months when school is not in session, and little is used for training.
WIA also provides general remedial instruction to economically disadvantaged workers, many of whom have received welfare assistance for some time and find that they do not have the work experience or the basic skills to qualify for even the most remedial jobs. Job readiness and adult education and literacy training provide the basics needed to enter the workforce. Entrepreneurship training focuses on helping employees own their own businesses. It offers the basics of starting and running a small business, including instruction on how to write a business plan and to obtain financing. The program also provides technical assistance and counseling.

The Trade Adjustment Assistance (TAA) program is similar to the dislocated worker program with respect to the type of training provided, but it differs with respect to the level of intensity and scope of supportive services. First, only workers over the age of 50 are eligible for TAA services, since the program is intended to assist established workers whose companies have been adversely affected by foreign competition and who because of their age and tenure in one specific occupation may have difficulty transitioning to another job demanding different skills. Second, training can be full-time and not simply on a part-time basis. Third, to provide financial support while the worker is engaged in training and to help with job relocation expenses, TAA offers up to 130 weeks of cash payments, provides subsidized health insurance, and covers costs associated with job search and relocation. While a generous program, participation is limited. A worker is eligible only if the company he or she works for meets certification requirements, and the worker has to earn less than $55,000 a year in reemployment.

In addition to these established programs, the Obama Administration recently announced a program that is specifically targeted to helping workers and communities affected by the fallout in the auto industry, particularly those hurt by the bankruptcy of Chrysler and General Motors. The program provides training to workers and economic development assistance to the communities in which they live. At this time, the administration has committed around $50 million to this effort and it is anticipated that more may be allocated. Services include training and job search assistance to workers and economic development assistance to communities.

Innovative Strategies to Deliver Training Services

While the type of training funded through the ARRA may be the same as provided under existing workforce development programs, the ARRA encourages states and local WIBs to incorporate innovative approaches in delivering these services. The ARRA provides additional funds to agencies that commit to implementing new strategies. One major area of emphasis is meeting the skill needs of existing and emerging regional employers and high-growth occupations. To achieve this goal, the USDOL encourages states and WIBs to integrate assessment and data-driven career counseling into their service strategies in order to align training with areas of anticipated economic and job growth. To help with this effort, ARRA funds can be used to upgrade information technology to better target Unemployment Insurance recipients so WIB staff can refer them to services—including training services—that best meet their needs. A specific proposal is to integrate labor market data, such as job demand projections and career
requirements, directly into a strategic decision-making system that can be used by staff who work directly with displaced workers. This would give front-line staff more comprehensive and current information about job prospects and skill requirements.

Another area of emphasis is the strengthening of partnerships among WIBs, businesses, economic development agencies, and educational institutions. Such partnerships can enhance communication among the various entities so that needs and concerns of the various partners can be quickly identified and acted upon. Partnerships also provide more seamless service integration within the workforce development system as well as between the workforce development programs and educational programs. Bringing educational institutions more closely together with workforce development programs creates the opportunity to align education and training at every level so that workers can easily gain the instruction they need to move along their career paths. This alignment would include assessments and certifications articulated to the requirements at each level of education and employment.

Performance Monitoring and Accountability

The USDOL has long recognized the importance of accountability and transparency by establishing performance measures as an integral part of the federal workforce system. Under the Workforce Investment Act (WIA), the Employment and Training Administration (ETA)—the entity within the U.S. Department of Labor responsible for WIA—established three basic performance measures: 1) entered employment, 2) job retention, and 3) earnings levels. Each state negotiates with the USDOL to set standards, and the states in turn negotiate with each of their local Workforce Investment Boards (WIBs) to determine their performance targets.

As this practice of setting standards evolved, states and WIBs increasingly found that negotiations were not taking into account factors that affected their performance but were beyond their control and not related to the services they provided. These factors include the conditions of the local labor market and the personal characteristics and work history of participants in their programs. Without accounting for differences in these factors across states and across WIBs, those entities with more favorable labor market conditions or more capable participants are likely to have higher outcomes, and those for which these factors are unfavorable can expect lower outcomes. Consequently, differences in these outcomes are not the result of how well service providers have met the needs of their customers, but reflect factors outside their control and extraneous to the effectiveness of their service delivery.

Therefore, a concern that quickly surfaced in implementing the ARRA was whether the targets, if set unrealistically high, would discourage states and WIBs from enrolling those individuals who need the services the most. Recently the ETA has responded to this concern by adjusting the targets at the national level to take into account the effect of higher unemployment rates on the performance measures. Since WIA was implemented in 1998, targets have been set progressively higher each successive program year, raising the bar for performance without adjusting the targets for
changes in national or local economic conditions. However, the depth of this recession has prompted the ETA to establish a target-setting procedure that is objective, transparent, and reflective of current conditions. It does this by estimating the effect of changes in unemployment rates on the three performance measures and then using that estimate to adjust performance standards according to the assumptions for next year’s unemployment rates as presented in the President’s 2010 Budget Request to Congress. These adjusted performance targets in turn affect the targets at the state and local levels, but still do so through negotiations.

The next step is to extend this objective procedure of setting national targets to setting targets for states and WIBs. This requires adding the effect of differences in personal characteristics to the effect of differences in unemployment rates in order to calculate the adjustments. A similar procedure was used under the Job Training Partnership Act, the immediate predecessor to WIA. Implementing such a target-setting procedure moves the performance measures closer to reflecting the value-added of the services provided by workforce development programs rather than simply recording the effects of all factors (most of which are extraneous to the value-added of the services) on a worker’s employment outcomes. Such a performance system helps to lessen adverse incentives to “cream-skim” the registration of customers and encourages the delivery of services to those who need them most in these difficult economic times.

In addition to adhering to the existing performance system, as adjusted to account for economic conditions, the ARRA stresses transparency and accountability in the use of funding provided by the Act. One innovative addition is a website that tracks the money spent under ARRA. The website, Recovery.gov, follows the disbursement of all ARRA funding, not only those for training and other workforce development programs. The Office of the Vice President is charged with the responsibility of ensuring that all recovery funds are spent as the legislation intended and in the most effective way to promote a quick and sustained recovery.

Effectiveness of Training

Although WIA has been in place for more than a decade, there has never been a rigorous evaluation of its effectiveness using random assignment methodology. Congress, on the other hand, required that WIA’s predecessor—the Job Training and Partnership Act—be evaluated using a random assignment approach. Therefore, most of what we know about the effects of job training programs is from that evaluation. However, Upjohn Institute staff has conducted evaluations of WIA for a few states using a less rigorous approach, but one that yields results that are consistent with the JTPA.

---

2 The random assignment methodology creates a comparison group by randomly assigning individuals to either a treatment group or a control group. Individuals in the treatment group receive the training, and those in the control group do not. As the assignment is random and with a large enough sample, the individuals in the two groups should be identical in characteristics, motivation, and other attributes, eliminating any selection bias. Therefore, examining differences in the means of worker outcomes, such as employment and retention rates, yields the net impact of the training programs under evaluation.
evaluation findings. Therefore, results from both studies will be summarized to offer a perspective on the effectiveness of job training.

In general, results from the JTPA evaluation found positive but modest effects on employment and earnings. The effects varied by gender, economic and labor market status, and the way in which training services were delivered. As shown in table 1, women appeared to respond more favorably to training than men. Earnings gains after 30 months from leaving the training program were nearly 7 percentage points higher for women than men. Adult women on welfare benefited even more. The same advantage was found for young women, although the results are not statistically significant. Curiously, adult men and women fared better in on-the-job training whereas, young men and women responded more favorably to classroom training, although the results for youth were not statistically significant. Finally, even though adult women had higher earnings gains than adult men, the net benefits to society for men and women were about the same. Programs with only classroom training tended not to have significant results, except for women and when classroom training was strongly linked to employers.

Table 1 Subgroup Net Impact Estimates of the JTPA National Evaluation

<table>
<thead>
<tr>
<th>Subgroup</th>
<th>Earnings (30 months)</th>
<th>% chg from control group</th>
<th>Net Benefits Enrollees</th>
<th>Net Benefits Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Men</td>
<td>$1599*</td>
<td>8.0%</td>
<td>1822</td>
<td>524</td>
</tr>
<tr>
<td>OJT</td>
<td>2109</td>
<td>9.8</td>
<td>2232</td>
<td>648</td>
</tr>
<tr>
<td>CT</td>
<td>1287</td>
<td>7.1</td>
<td>-1694</td>
<td>323</td>
</tr>
<tr>
<td>Adult Women</td>
<td>1837***</td>
<td>14.8</td>
<td>1422</td>
<td>512</td>
</tr>
<tr>
<td>OJT</td>
<td>2292**</td>
<td>15.3%</td>
<td>1695</td>
<td>1091</td>
</tr>
<tr>
<td>CT</td>
<td>630</td>
<td>5.5</td>
<td>287</td>
<td>-1027</td>
</tr>
<tr>
<td>Adult Welfare Women</td>
<td>2387***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OJT</td>
<td>4833***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>1077</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth Male</td>
<td>-868</td>
<td>-5.0</td>
<td>-530</td>
<td>-2923</td>
</tr>
<tr>
<td>OJT</td>
<td>-3012</td>
<td>-3.9</td>
<td>-2481</td>
<td>-6766</td>
</tr>
<tr>
<td>CT</td>
<td>251</td>
<td>8.9</td>
<td>815</td>
<td>-1608</td>
</tr>
<tr>
<td>Youth Female</td>
<td>210</td>
<td>2.0</td>
<td>-121</td>
<td>-1180</td>
</tr>
<tr>
<td>OJT</td>
<td>-579</td>
<td>-12.5</td>
<td>-1003</td>
<td>-2670</td>
</tr>
<tr>
<td>CT</td>
<td>839</td>
<td>1.6</td>
<td>1100</td>
<td>-1028</td>
</tr>
</tbody>
</table>

Source: National JTPA Evaluation

As previously mentioned Hollenbeck of the Upjohn Institute has conducted evaluations of WIA programs in a few states, using a quasi-experimental approach based on administrative and wage record data. The results from the state of Washington are representative of those found for the other states and will be discussed in this section. Hollenbeck (2002) used this non-experimental approach of statistical matching to
evaluate workforce development programs in the state of Washington. Net impacts of training were then determined by comparing outcomes for individuals who participated in the training programs to their matched counterparts who enrolled in the employment service but never participated in any specific programs. Using this method, Hollenbeck found consistent evidence that suggests that the federal job training programs, as administered in the State of Washington, are effective, especially in increasing employment rates, but also in generating higher earnings. For (nondislocated worker) adults, the employment impact was on the order of 15–20 percent, and the earnings impact was on the order of 10–20 percent for men and 20–40 percent for women. For dislocated workers, the employment impact was slightly less—on the order of 10–15 percent. The earnings impact is also lower—around 5–10 percent for both males and females.

Summary

The American Recovery and Reinvestment Act has doubled the amount of money available to train and retrain workers. This injection of funds into the existing workforce training system increases the capacity of the system to help displaced workers adjust to the restructuring taking place in the economy and to help marginally attached workers acquire the skills necessary to gain a foothold in the job market. Studies of the effectiveness of training programs suggest that training helps. It increases both employment rates and earnings levels, but less for displaced workers than for the economically disadvantaged. Of course, skills alone are not enough to help the millions of unemployed find jobs. Additional jobs must be created. The training component of the Recovery Act is one of many facets of the stimulus effort. By equipping workers with the skills demanded by businesses now and in the future, the training initiative is intended to help speed up the recovery and provide the talent that businesses need to speed up the recovery and sustain a productive economic expansion.

---

3 A short write-up of this evaluation can be found in Employment Research, W.E. Upjohn Institute for Employment Research, October 2002, Vol. 9, No.4 at www.upjohn.org.