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Is There a Role for Public Support of Incumbent Worker On-the-Job Training?

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Public Job Training

- Most support goes to non-employed individuals
- Have had customized job training for employed individuals for attraction/expansion purposes
- Now using training for incumbent workers for retention/competitiveness purposes
- Total OJT \approx \$50–\$60 billion; subsidized training \approx \$600–\$800 million (about 1%)

Why Public Subsidy is Warranted

- Avoid social costs of unemployment
- Employers underinvest in general training
- Human capital not valued in corporate financial statements
- Equity reasons (front line/production/low-wage workers do not receive anywhere near proportionate share of training)

Estimated Subsidized Employee Training, by Year (Nominal Dollars)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Spending						
<u>Upjohn Institute Surveys</u>						
Total spending	\$ 815.2 M	\$ 661.5	\$ 613.6	\$ 590.9	—	\$ 716.6M
Total firms	14,000	16,237	12,679	14,200	—	38,157
Total workers	982,290	972,868	846,716	869,255	—	1,257,321
<u>Duscha and Graves (2006)</u>						
Total budgets	\$ 633.5M	\$607.5	\$584.4	\$513.2	\$552.0	\$571.3
Total workers					918,250 (40 states)	

Estimated Subsidized Training in FY 2006, by Type

	Number of states/ Number Verified	Extrapolated total spending	Extrapolated	
			Firms	Workers
WIA Incumbent Worker Training	30/45	\$ 85.3M	3,177	159,905
Econ. Dev. Customized Training	22/38	157.7	9,457	381,182
General Appropriations	15/35	158.8	5,776	334,507
Payroll taxes or UI trust fund interest	18/38	314.8	19,743	381,727
TOTAL	—	\$ 716.6M	38,157	1,257,321

“Average” State Program

- 500+ firms per year
- \$20k per firm
- 30 - 40 workers/firm

Massachusetts Workforce Training Fund Grant Program

- Funded by surcharge on state UI tax — \$21M per year
- Started in 1999
- Competitive bids by firms, not clear how much of a market test because funding rate was high
- Must include 100% match

Massachusetts WTF Average Grant

- \$60K
- 18 months
- 100 workers
- Manufacturing sector (65%)

Massachusetts WTF Evaluation Self-Report

- Improve productivity? 90.8%
- Improve competitiveness? 91.8%
- Other benefits? 91.2%

Massachusetts WTF

- Return on Investment
 - Workers
 - Firms
 - Massachusetts

Self-Reported Data

4. Were there any new hires as a direct result of the training program?

Yes No

4.a. If yes, how many?

5. Were any layoffs prevented as a direct result of the training Program?

Yes No

5.a. If yes, how many?

Self-Reported Data

6. Have you increased (or, within the next six months do you expect to increase) wages as a direct result of this grant?

Yes No

6.a. If yes, what was the average wage increase?

7. Did other employees, not trained through the grant, also receive a wage increase during the same period?

Yes No

7.a. If yes, what was the average increase?

Worker Returns

- 35% of respondents had wage differential (7a-6a)
- Mean = 8%
- Return = [2.8, 8.0]; midpoint = 5.4

Return on Investment — Firms

- Productivity effect

State average VA/Employee Comp = 1.595
(equivalent to compensation share = 62.7%)

- Productivity Effect = \$176–\$503M in Δ Value Added

Return on Investment — Firms

- Employment effect
3,995 new hires = 1.7% employment growth
- CRTS → \$306M in Δ Value Added
- Total Δ in VA = \$482–\$809M

Return on Investment — Firms

- Corporate profit rate on VA = 11.0%
- Profits ↑ by \$53-\$89M
- Cost (Match) = \$49-\$73M
- ROI = 16.6% at midpoints

Return on Investment — Massachusetts

- Of 3,995 jobs, 2,784 were export-based
- Multiplier of 2.0 → 5,568 jobs
- MA cost per job = \$8,750

Return on Investment — Massachusetts

- State personal income/job = \$66,014
- 5,568 jobs → +\$377M in PI

Return on Investment — Massachusetts

- Productivity effect (above) = \$176 – \$503M

= \$151 – \$431M in PI

- Total personal income ↑ \$518 – \$798M
- State revenues ↑ \$77 – \$118m (14.77%)

Return on Investment — Massachusetts

- 5,568 new jobs → 7,022 population growth
- Non-welfare state government expenditures per capita = \$4,211
- State expenditure ↑ by \$30M

Return on Investment — Massachusetts

- Net revenue = \$47 – \$88M
- WTF cost = \$49M
- 1st year return = 38.9%

Rates of Return

- Worker 5.4%
- Firm 16.6%
- Commonwealth 38.9%

Summary

- Effective economic development tool
 - \$8,750/new job created
- High rates of return may imply underinvestment
- Decline in level of funding since 2000-2001
 - 30% drop from 2001 to 2004; however increases since 2004

Policy Implication

- U.S. education and training “policy” virtually excludes front line/production workers
- Investment in infrastructural (curriculum, location, instructional capacity, training modality) design is advisable
- Federal government should use FUTA tax receipts as an incentive for states