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Introduction

Easing Labor Market Troubles in the Short Run and Developing a Skilled Workforce in the Long Run: Some Ideas

Some commentators suggested in late 2008 and early 2009 that the worldwide economic crisis we were going through might spin out of control and result in another Great Depression. Whether such dire predictions will become true is unknown. But we do know that through the middle of 2009 we are still in the midst of the longest recession since the Great Depression. The unemployment rate has risen to 9.5 percent; the underemployment rate has reached 16.5 percent. The average unemployment duration has risen to 24.5 weeks—the longest duration recorded since the government began tracking it in 1948. Since the beginning of the recession, more than 6.5 million net jobs have been lost, which is approximately equal to the net job gain over the previous nine years. This is the only recession since the Great Depression to have wiped out all of the job growth from the previous business cycle.

The Upjohn Institute was born out of the throes of the Great Depression. A very practical but very innovative individual, Dr. W. E. Upjohn of Kalamazoo, a physician and founder of the Upjohn Drug Company, promoted the idea that devising innovative, local solutions through community collaboration was the best way to overcome the drastic consequences of the Great Depression—widespread unemployment and poverty. In 1932, he established the W.E. Upjohn Trustee Corporation, the forerunner to the W.E. Upjohn Institute for Employment Research.

The mission of the Upjohn Institute is to "find and promote solutions to employment-related problems." In keeping with that spirit, this issue of Employment Research presents findings and recommendations from recent research conducted by the Institute's senior economists and coauthors. Their suggestions are offered for consideration in improving U.S. labor market policy. Some recommendations focus on existing programs; others call for new or redirected policies or programs. Some focus on the supply side of the markets; others focus on labor demand. The unifying theme of the articles is that the silver lining in the clouds that have darkened the labor market may be the opportunity to implement improved administrative procedures in current programs and to introduce innovative policies and new programs.

Our national policy toward unemployment and the labor market might be characterized as having three prongs. In 1933, with the passage of the Wagner-Peyser Act, we established a national network of public employment offices under the U.S. Employment

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Service. In 1935, the Unemployment Insurance (UI) program was instituted to insure workers against the risk of unavoidable job loss. Finally, in 1962, the Manpower Development and Training Act (MDTA) initiated support at the national level for job training. For unemployed individuals, unemployment compensation partially replaces earnings losses, and services provided by the Employment Service and the Workforce Investment Act (ultimate successor to MDTA) actively promote reemployment.

Less recognized in the current recession than the failures in the financial and automobile manufacturing sectors and the bursting of the housing bubble is the steady deterioration during recent years of the infrastructure that supports the three-pronged labor market policy. Initiatives instituted in the 1990s and intended to strengthen the system have languished. One-stop career centers were an effort to consolidate and integrate the UI and reemployment services to better serve workers and employers. However, administrative funding has been significantly reduced, and the number of one-stop agencies has actually gone down, from about 3,600 at the end of 2003 to fewer than 3,000 at the end of 2008. The Worker Profiling and Reemployment Services (WPRS) system was instituted in 1994 with the intent of targeting reemployment services to individuals most likely to exhaust their UI benefits. All states developed this system, but administrative funding lagged and the U.S. Government Accountability Office (2007) found that states were not providing in-depth reemployment services as recommended. Although the original Wagner-Peyser statute requires the U.S. Employment Service to be housed in the Department of Labor, in the last few years it has been downgraded and is now subsumed within an adult services division with no separate administrator. Job development activities within the Employment Service and the Workforce Investment Act agencies have been curtailed. Many other significant diminutions of our infrastructure can be pointed out.

The first two articles focus on demand side suggestions aimed at reducing the current recessionary levels of unemployment. The first of these articles argues that promoting and expanding the short-time compensation feature of unemployment insurance would reduce the use of and the system bias toward layoffs. Next, we suggest that during recessions, reinstituting a revised New Jobs Tax Credit (NJTC) may be a cost-effective way to increase overall employment. Such a revised NJTC would provide tax relief to employers that make net additions to their employment.

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Recognizing that the American Reinvestment and Recovery Act of 2009 reinvests considerable resources back into the infrastructure and activities of the UI Service, the Employment Service, and the Workforce Investment Act, the next two articles in our newsletter suggest that the administration of these programs can be improved by using local macroeconomic data to adjust performance standards and by using software tools to direct clients to appropriate services and careers.

The second half of the newsletter contains articles about enduring policy or program initiatives that would improve labor market outcomes, whether or not the economy is in recession. The persistent labor market problems of disadvantaged workers may be addressed by a selective wage subsidy, according to the first of these articles. A permanent version of a wage subsidy program that was temporarily instituted in Minnesota is suggested as an incentive that, at reasonable cost, could have a substantial impact on the employment rates of disadvantaged groups of workers.

Next, the newsletter addresses the longer-term issue of developing a competitive workforce through educational reform. We first suggest that universal, high-quality preschool programs for four-year-olds will have substantial benefit-to-cost payoffs in the long run. Per dollar spent, such programs will increase the present value of earnings by $4. Focusing on education that is pursued by older students, the next article articulates a concern that career and technical education may get harmed in the nation's zeal to improve scores on standardized tests for mathematics and language arts. It suggests that up-to-date, rigorous, employer-driven career and technical education is complementary to the goal of improved academic performance, not a barrier to it.

Circling back to Dr. Upjohn's premise that localities may be best-suited to mitigate the dire impacts of recessionary unemployment, the final two articles of our July newsletter focus on communities. The penultimate article addresses the question of how communities can respond to the economic downturn. The final article considers the Kalamazoo Promise, a unique but quickly spreading concept in which private donors in the community have instituted a program (the first of its kind when announced in 2005) aimed at expanding access to postsecondary education and growing the region's economy. The article considers the significant economic benefits that would be gained throughout the country by reducing the financial (and perceptual) barriers to the access of postsecondary education through the expansion of programs like the Kalamazoo Promise.

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Katharine G. Abraham and Susan N. Houseman

Short-Time Compensation Is a Missing Safety Net for U.S. Economy in Recessions

At the G20 meeting in London in March, President Obama urged other countries to follow the United States' lead in pursuing aggressive federal stimulus policies. Continental Europeans—most notably the Germans and French—balked, arguing that their generous systems of social insurance already perform as automatic stabilizers during recessionary times such as the present.

An important part of the social safety net in Germany, France, and a number of other European countries is short-time compensation, which provides pro-rated unemployment benefits to workers whose hours have been reduced and thereby helps companies avoid layoffs. Short-time compensation—also known as work-sharing benefits—is available in only 17 U.S. states and is little used in the majority of states with such programs. The absence of STC benefits is a significant gap in U.S. social insurance policy that should be plugged.

By fostering work-sharing in lieu of layoffs, STC benefits can help firms make needed workforce adjustments in a more efficient and equitable way. Companies that implement work-sharing arrangements can avoid the loss of valued employees during a temporary downturn. Work-sharing is more equitable because the burden of a recession is spread across workers rather than being concentrated among a few. Loss of a job often leads to the loss not only of income but also of key benefits, such as health insurance. A substantial body of research shows that many workers who lose their jobs during recessions experience significant economic setbacks that persist long after the economy has recovered. In addition, by mitigating layoffs, STC benefits may reduce adverse spillover effects on local communities.

Interestingly, work-sharing was common during the Great Depression and earlier recessions in our country's history. Labor historians attribute the decline in the use of work-sharing during recessions—and companies' increased use of layoffs—to the introduction of our current system of unemployment insurance in the 1930s. In contrast, work-sharing has been institutionalized in other Western developed countries. In Germany, for example, STC was incorporated into the unemployment insurance system in the 1920s. During recessions, German companies have been much more likely than U.S. companies to adjust workers' hours rather than engage in layoffs. Studies of cross-country differences in adjustment practices have documented the important role STC can play in supporting work-sharing arrangements during recessions (Abraham and Houseman 1993, 1994).

Between 1975 and 1992, 19 states implemented STC programs as part of their unemployment insurance systems, though two states subsequently rescinded these policies and no state has added a permanent STC program since the early 1990s. Balducchi and Wandner (2008) attribute this policy stalemate to the "administrative muddle" created by a lack of leadership in the federal government. In 1992, questions were raised about the federal law that enables states to adopt STC programs, creating uncertainty about what states are allowed to do. This uncertainty has never been resolved. Absent clear guidance, states with STC programs have operated them in a legal limbo, and other states that might be interested in adopting programs have been discouraged from doing so. Even where programs exist, they typically are not widely advertised, and the procedures employers must follow to put workers on short-time benefits tend to be cumbersome, potentially discouraging use.

Despite these barriers, there is considerable anecdotal evidence that in recent months employers have been making greater use of STC in states where it is available. In Connecticut, for example, the number of employers using STC increased from about 70 a year ago to 330 in June, while in Oregon the number of employers using STC spiked from about 40 to 600 over the same time period, according to the states' UI program administrators. With greater public support, work-sharing could be considerably more prevalent, benefiting both employers and working Americans.

In his inaugural address, President Obama praised workers who "would rather cut their hours than see a friend lose their job." Yet, state and federal policy is biased in favor of layoffs over work-sharing. Now is an opportune time for the administration to implement policies to facilitate the adoption of STC in state unemployment insurance systems and correct this bias.

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Timothy J. Bartik

The New Jobs Tax Credit: A Tested Way to Fight High Unemployment

The $787 billion economic stimulus was justified by its benefits for job creation. It is therefore curious that stimulus programs do not directly target job creation. Job creation is only accomplished as a byproduct of reducing taxes or building bridges. But job creation is more effectively accomplished by directly targeting these goals.

One policy that should be considered for fighting high national or regional unemployment is a revised version of the New Jobs Tax Credit (NJTC), used by the federal government in 1977–1978. The NJTC provided a tax credit to businesses for additions to their overall employment. The wage subsidy was equivalent, in 2008 dollars, to a little over $7,000 per additional worker per year. The program at its peak provided such subsidies to 1.1 million businesses for adding more than 2.1 million workers, at an annual cost of a little less than $4 billion, which, in today's dollars, is around $13 billion.

Note that the NJTC only provided the credit for a business's net additions to its employment over some baseline level, not for all new hires. Subsidizing all new hires would encourage businesses to lay off workers and then hire to fill the vacancy, an undesirable incentive.

Some studies suggest that the 1977–1978 NJTC significantly increased employment. Perloff and Wachter's (1979) estimates imply that one-third of the jobs subsidized by the 1977–1978 NJTC were induced by this incentive; two-thirds of the jobs subsidized by the 1977–1978 NJTC would have been created without the subsidy. It is difficult with any subsidy to avoid some deadweight loss from subsidizing actions that would have been taken without the subsidy.

The result is that an NJTC creates new jobs—above what would have been created without the credit—at a cost, in 2008 dollars, of about $20,000 per new job. This is far cheaper per job created than the recent economic stimulus. In May of 2009, the White House estimated that the cost per job created of the economic stimulus will be around $92,000.

In my 2001 book *Jobs for the Poor: Can Labor Demand Policies Help?* (Bartik 2001, chaps. 8 and 10) I suggest some possible design features of a revised NJTC to make it more effective. First, the credit would be made refundable. This makes the credit more relevant to businesses that are less profitable. Second, the credit would apply to any employer that pays Social Security taxes. This would include many small and medium-sized businesses that do not file corporate income taxes. This would also include nonprofit organizations. Studies suggest that wage subsidies are more effective for smaller employers, who face greater financing constraints. Including nonprofit organizations means the program would in part create public service jobs, as well as jobs in for-profit businesses.

I estimate that in today's economy, a revised NJTC might increase aggregate U.S. employment by about 1.3 million jobs per year (Bartik 2008). This is the *net* increase in jobs, compared to what these employers would have done without this tax credit; the gross number of subsidized jobs would be greater. In addition, there would be some multiplier effects on job creation of spending additional funds. Therefore, total job creation would likely be greater than 1.3 million jobs. The estimated annual budget cost of this revised tax credit would be $26 billion.

President Obama proposed a smaller NJTC, perhaps $3,000 per job created, during his 2008 campaign. This proposal was not well received on Capitol Hill and was dropped from the final stimulus package. Some liberals were concerned about providing additional tax breaks to business with no guarantees of results, while some conservatives were concerned about attaching government conditions to tax breaks for business.

However, research suggests a revised NJTC is worth serious consideration. Creating over a million jobs at less than $20,000 per job is quite an accomplishment. Even if a revised NJTC proves somewhat less effective, it might be superior to many fiscal stimulus measures.

The social benefits to reducing unemployment are great in a high unemployment economy. Some version of the NJTC should be considered as part of the response to high unemployment.

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Randall W. Eberts

Improving Performance Measures for the Nation's Workforce Development System

The current recession has reached such depth and length that millions of people have been thrown out of work. Since the recession officially began in December 2007, some 7 million jobs have been lost. The large numbers of people looking for work have placed a tremendous burden on the nation's workforce development system. To help people find jobs, the American Recovery and Reinvestment Act of 2009 has more than doubled the appropriations for programs to assist dislocated workers, disadvantaged adults, and youth from the amount appropriated in the 2009 budget. These services are critical to the economy's recovery: they help workers get back to work by assisting them in the job-search process and in retooling their skills. For the recovery effort to work, all entities that have a responsibility for these programs—federal, state, and local—must implement them quickly and effectively. Yet it is not enough simply to spend money and enroll participants. Rather, the services need to be effective at getting people into decent-paying jobs.

How do we know whether this goal is being accomplished and the money is being spent effectively? For years, the U.S. Department of Labor has 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), which governs the current federal workforce training system, the Employment and Training Administration (ETA)—the entity within the U.S. Department of Labor responsible for WIA—established three performance measures: 1) entered employment, 2) job retention, and 3) earnings levels. Each state negotiates with the U.S. Department of Labor to set standards, and, in turn, each local Workforce Investment Board (WIB) negotiates with the state to determine its performance targets.

Yet it is not enough simply to spend money and enroll participants. Rather, the services need to be effective at getting people into decent-paying jobs.

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 unrelated 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. As a result, differences in these outcomes will not reflect the true "value-added" of service providers in improving outcomes for their customers, but instead will reflect the mix of customers and labor market conditions facing those customers.

Therefore, a concern that quickly surfaced in implementing the Recovery Act funding was whether or not the targets, if set unrealistically high, would discourage states and WIBs from enrolling those individuals who needed 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 higher for each successive program year, raising the bar for performance without adjusting the targets for changes in the business cycle.

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 will require adding the effect of differences in personal characteristics to the effect of differences in unemployment rates in order to calculate the adjustments. A procedure similar to the one proposed here was used under the Job Training Partnership Act, the immediate predecessor to WIA. Implementing such a target-setting procedure will move 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 (many of which are extraneous to the services) on a worker's employment outcomes. Such a performance system will help to lessen adverse incentives to "cream-skim" the enrollment of customers, a practice that works against providing services to those who need them most in these difficult economic times.

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Randall W. Eberts and Christopher J. O'Leary

Tools to Transform the Workforce Development System

The American Recovery and Reinvestment Act of 2009 is intended to preserve and create jobs, promote the nation's economic recovery, and assist those most affected by the recession. The Recovery Act recognizes the urgency of getting assistance to laid-off workers and injecting money into the economy as quickly as possible. It also sees this economic crisis as an opportunity to invest for the future, not only in the private sector but also in upgrading and transforming the way in which public services are delivered.

Several federal agencies have stepped up to this challenge. One is the U.S. Department of Labor (USDOL), which has identified a number of areas in which the integration of management information systems with statistical analyses could transform the workforce delivery system into an evidence-based performance system. At present, the department has developed stand-alone programs which could be much more effective, in our opinion, if they were expanded to be more comprehensive and integrated.

Since 1996, USDOL has used a statistical model to identify Unemployment Insurance (UI) beneficiaries who are most likely to exhaust their benefits. Referred to as the Worker Profiling and Reemployment Services (WPRS) system, its purpose is to encourage UI claimants to use reemployment services intensively at the beginning of their unemployment spell rather than toward the end, when they face the prospect of being cut off. The procedure is simple. A statistical analysis is performed by each state to estimate the effect of various factors—education, prior employment history, and so forth—on the probability of exhausting benefits. UI claimants whose characteristics suggest that they have a high probability of using up their benefits before finding a job are required to attend orientation and register for reemployment services right away. Evaluations show that WPRS reduces the use of UI benefits.

WPRS offers a solid foundation for developing a more integrated system that brings together information from all the workforce development programs and combines them with decision-making algorithms based on empirical evidence of what services work best for specific groups of individuals. Encouraged by the success of WPRS, the Upjohn Institute, with financial support from USDOL, developed a more comprehensive evidence-based management system, referred to as the Frontline Decision Support System (FDSS). FDSS consists of a set of tools that can help frontline staff at One-Stop Career Centers make better decisions regarding the services to which they refer their customers. For example, for dislocated workers, FDSS offers a systematic sequence of steps they can use to move through the reemployment process, beginning with understanding their likelihood of returning to work in the same industry, proceeding to exploring job prospects in occupations that require similar skills and aptitudes, then to accessing information about the earnings and growth of jobs in particular occupations within their local labor market, and ending with an understanding of which reemployment and training services work best for them, if none of the previous steps leads to a job. The tools are based on statistical relationships between a customer's employment outcomes, personal characteristics, and other factors that may affect his or her outcomes, all of which are available from administrative files already collected by the various agencies. The statistical algorithms provide an evidence-based approach to determining which services are most effective for specific individuals.

By using administrative data that captures the experience of all customers who have participated in the workforce system, this evidence-based approach offers a more comprehensive "collective" experience of what works and what doesn't than relying on the narrower experience of individual caseworkers. In addition, FDSS incorporates local labor market information and data about job requirements and available openings, so that most information pertinent to a person's job search is available in a comprehensive and systematic framework. Implementation of such a system also helps to develop a culture of management by evidence within the workforce development system.

The Georgia Department of Labor incorporated FDSS into its existing operating system at two pilot sites during 2001. It demonstrated that integrated systems can be developed and implemented, and the positive feedback from frontline staff and customers speaks to its potential.

With the Recovery Act's emphasis on transforming the workforce development system and the dire need of workers in this current recession to receive the most effective services possible to help them return to work, this is an opportune time to take advantage of past accomplishments and current technologies to build a stronger, more integrated one-stop service delivery system for the nation's workers.

Visit http://www.upjohninstitute.org/targeting.html for more information on WPRS and FDSS.

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Timothy J. Bartik

Adding Labor Demand Incentives to Encourage Employment for the Disadvantaged

Even after the U.S. economy recovers, there are likely to be considerable long-term employment problems for the disadvantaged. For example, even in 2006, when the U.S. economy was near a business cycle peak, employment rates for less-educated male workers were still well below where they were 30 years ago. To match less-educated male employment rates from 1979, the United States in 2006 would have needed to add about 3 million jobs (Bartik and Houseman 2008). In addition, employment rates of less-educated unmarried women in 2006 were still well below those of men, even though under welfare reform these women are expected to work and be self-supporting.

In addition to finding ways of expanding job training programs and improving educational attainment, we need approaches to expanding labor demand for disadvantaged workers. Studies have shown that if disadvantaged workers can be hired for entry-level jobs and stay employed for at least six months, they gain valuable labor market experience, self-confidence, and a better reputation with employers, all of which increase their long-term employability and earnings.

In my 2001 book *Jobs for the Poor: Can Labor Demand Policies Help?* (Bartik 2001, chaps. 8 and 10) I suggest that the United States establish a permanent version of a program that Minnesota tried in the 1980s, the MEED program. MEED at first stood for Minnesota Emergency Employment Development, and later for Minnesota Employment and Economic Development.

Under my proposed national version of MEED, the federal government would provide wage subsidies of up to $8 an hour for employers who hire unemployed workers referred by local workforce agencies for newly created positions. For several reasons, the program would be a discretionary program administered by local workforce agencies. First, this would allow the program to be integrated with local workforce programs. Second, a discretionary program could be selective in targeting employers who would be most willing to offer good job experiences to disadvantaged workers. Third, a discretionary program could target disadvantaged workers who would be good matches for interested employers, which would increase the effectiveness of the program.

The subsidies would go to newly created positions to minimize displacement. This program is intended to increase total employment rather than to substitute disadvantaged workers for other workers.

The wage subsidies would target small businesses and small nonprofit employers. The evidence suggests that these smaller employers may be the most responsive to a wage subsidy. Including both for-profit and nonprofit employers also allows the program to provide a wide variety of job experiences, and to provide both private and public services.

The wage subsidies would fund up to six months of labor market experience. Employers would be encouraged to roll over those hired into permanent job slots. Employers that abused the wage subsidy system would be excluded from future subsidies.

Evidence from the MEED program suggests that such a program can be successfully run on a large scale. Furthermore, studies find that about half of the jobs subsidized would not have been created but for MEED. The program was run in Minnesota on a scale that would be equivalent to having about 600,000 annual participants on a national level (Rode 1988).

A program run at a similar level nationally in the United States might cost about $8 billion a year. This would include both the cost of the wage subsidy and the costs of various types of job training and social support for disadvantaged workers who are hired.

The long-term effects of this program should be regularly monitored through a performance-monitoring system. This system would track the postprogram employment and earnings history of program participants, compared to similar nonparticipants.

The research literature on wage subsidies suggests that such a program may have long-term effects. Perhaps 20 percent of the extra employment experience of program participants in the short run is likely to be reflected in increases in long-term employment rates of program participants. If run over a sustained period, this program has the potential to make a substantial dent in the depressed employment rates of disadvantaged groups.

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Why Universal Preschool Is Really a Labor Market Program

Where is the biggest economic bang for the buck in investing in education? Arguably the best educational investment would be in high-quality, half-day preschool that would be universally accessible to all four-year-olds. The available research evidence suggests that such an investment would increase U.S. earnings far more than it would cost. Such a program would help children from middle-class families, but it would also provide far more dramatic assistance in increasing the eventual earnings of children from low-income families.

Unlike many educational investments, there is rigorous evidence on the long-term effects of high-quality preschool. The data come from studies of two programs: the Perry Preschool Program in Ypsilanti, Michigan, and the Chicago Child-Parent Center Program. These studies provide strong evidence that high-quality preschool can change a child's life course. For example, research on Perry found that former child participants in the program earn 60 percent more in monthly income than their Ypsilanti control-group peers who did not attend preschool. Similarly, CPC increases the number of youth completing high school by more than one-fifth.

Because preschool increases educational attainment, employment rates, and wage rates, it should be viewed as a labor market program. Preschool works on the supply side of the labor market. By resulting in future increases in both hard skills and soft skills of former preschool participants, it increases the quantity and quality of the U.S. labor supply. These boosts to labor supply will improve labor market outcomes.

Research also suggests what elements are essential in defining "high quality" for preschool. The lead teacher must be paid adequately. Preschool group size must be kept to no more than 20 children to 2 teachers, and preferably 17 children or less, with 2 teachers. Staff training improves quality. And high-quality curricula that encourage more individual attention and development of children make a difference as well.

A high-quality, half-day preschool program for four-year-olds produces great benefits for the economy.

Furthermore, research suggests that the greatest benefit-cost ratio is for a half-day, school-year program for four-year-olds. Doubling the hours per day from three to six leads to increased benefits, but not double the benefits. Preschool at age three in addition to age four also increases benefits, but does not double benefits.

Studies I have conducted (Bartik 2006, 2008) suggest that a high-quality, half-day preschool program for four-year-olds produces great benefits for the economy. Per dollar spent, such a program will increase the present value of earnings by $4—a four-to-one return on investment. Most of these effects are from the increased earnings of the former child participants in the programs. However, there also are some benefits from increasing the labor supply of parents through providing free child care at preschool, and from creating jobs for preschool teachers and administrators.

My simulations further suggest that a universal preschool program will particularly benefit the poor but will also benefit the middle class. The earnings benefits per capita from universal preschool are estimated to be 10 times as great for the lowest-income quintile as for the middle-income quintile. But the middle-income quintile still gains almost $3 in increased earnings for every dollar of tax cost paid for universal preschool.

A high-quality, half-day universal preschool program for four-year-olds would cost about $20 billion annually if implemented in all states. To encourage flexibility and creativity, it might be wise to allow considerable state and local discretion in the design of preschool programs. However, the federal government could play a useful role in encouraging expansion of high-quality preschool programs, while promoting learning about the most effective approaches. Federal matching funds could encourage state and local governments to expand preschool programs. Federal funding could particularly focus on staff training, high-quality curricula, infrastructure and materials, and regular data collection of results, all of which would contribute to high quality in preschool. The federal government also could pay for ongoing studies that would likely further increase our knowledge of what works in preschool. However, the federal government should avoid micromanaging preschool design. Much of the recent innovation in preschool programs has come from new state programs. Continued state and local experimentation and innovation should be encouraged.

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Kevin Hollenbeck

Boosting the Economy through Career and Technical Education

United States educational policy has become accountability-driven, with outcomes almost exclusively measured by results on standardized tests of mathematics and language arts. The national consensus seems to be that we need to increase achievement levels and reduce the test-score gaps between groups. These goals are laudatory and should be pursued. However, a strengthened educational system must still accommodate high-quality career and technical education at the secondary and postsecondary levels. U.S. workers, and in particular workers in states such as Michigan that have a strong tradition in manufacturing, need to increase skills in response to a changing industrial mix and competition from abroad.

Traditionally, secondary career and technical education (CTE, formerly referred to as vocational education) has focused on career preparation with the notion that students, if they so chose, could pursue a career immediately after high school. With technological changes and global competition, that option has virtually closed. But rather than end these programs at the secondary level, educators should continue to offer CTE for its pedagogical value of imparting general skills that all workers need (see, for example, the first three tiers of the framework presented at the U.S. Department of Labor's Web page http://www.careeronestop.org/CompetencyModel/Info_Documents/Advanced-Manufacturing.pdf). To ensure rigor, all secondary CTE courses need to be articulated with postsecondary curricula.

At the postsecondary level, the United States should allocate adequate resources to ensure that students receive up-to-date, rigorous, employer-driven career preparation. This preparation would, for the most part, occur at community colleges. These institutions have exhibited the flexibility necessary to deliver education in diverse modalities. Apprenticeships are an excellent vehicle for imparting formal training and should be expanded as much as is practical. Part of the investment of public funds in these institutions may need to be directed into developmental education for either students coming directly from high school or older individuals reentering formal education who have basic skills deficits. Part of the investment may be in technology and equipment. The nation's two educational objectives should be 1) that an applied associate's degree or skill certification should carry, explicitly or implicitly, a "money-back" guarantee to an employer that the holder of the degree/certificate has the general and specific skills to be a productive employee, and 2) that an associate's degree or skill certification should be the minimum level of education sought for all adults.

Can the United States afford to increase its investment in secondary and, especially, postsecondary CTE? Will society and students benefit from such an investment? In studies that use administrative data from the states of Washington, Virginia, and Indiana, I have estimated substantial positive earnings and employment gains of secondary CTE, postsecondary CTE, and apprenticeships for participants. And from a public finance perspective, benefits in the form of increased tax revenues and decreased public assistance payments far exceed the public costs of providing the program. For example, Hollenbeck and Huang (2006) report (discounted) working lifetime benefits-to-cost ratios for the government of 10.37, 1.98, and 18.47 for secondary CTE, community-college and technical-college job preparation programs, and apprenticeships, respectively (see Table 1).

In short, several studies have shown substantial positive earnings and employment impacts for high school CTE. Furthermore, studies done by Upjohn Institute researchers have shown that subbaccalaureate degree programs and apprenticeships have extremely high rates of return for individuals and for state governments. In the zeal to promote mathematics and language arts achievement and accountability, it would be a mistake to weaken curriculum and instruction in CTE. On the contrary, this type of education warrants increased investment.

Table 1 Benefits and Costs to the Government of Selected Education Programs in the State of Washington over a Short-Term Payoff Period and over a Working Lifetime

	Short-term		Working lifetime	
Program	Benefits ($)	Costs ($)	Benefits ($)	Costs ($)
Secondary CTE	749	811	8,414	811
Community college job prep	3,967	7,523	14,873	7,523
Apprenticeship	5,353	2,668	49,288	2,668

NOTE: Table entries are for average participant. Benefits include income and sales tax receipts and reduced transfer payments discounted at 3.0 percent. Costs include public subsidies of program costs. $ figures are in real $2005/2006. Short-term is 2.5 years after graduation/exit.

Reference

Hollenbeck, Kevin, and Wei-Jang Huang. 2006. *Net Impact and Benefit-Cost Estimates of the Workforce Development System in Washington State*. Upjohn Institute Technical Report 06-020. Kalamazoo, MI: W.E. Upjohn Institute.

Note

For more proposals on education and training, see chapters by Robert Lerman and Paul Osterman in *A Future of Good Jobs? America's Challenge in the Global Economy*, 2008. W.E. Upjohn Institute.

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George A. Erickcek and Brad R. Watts

How Can a Community Respond to the Economic Downturn?

Many communities are being hit with major layoffs because of the current recession. For the lucky ones, most of the eliminated jobs will return as the global economy recovers. However, evidence suggests that many local economies, especially those with strong ties to the Detroit Three automakers, will suffer long-term negative effects from this current recession.

The effectiveness of a community's response depends both upon factors that are within its control and on ones that are clearly outside its control, including simple luck. In short, there is no one clear strategy that fits all areas and guarantees success. Nevertheless, recent research activities at the Upjohn Institute support the following three-faceted approach.

1. Replace Products, Not Workers

Three macro factors influence a community's economic future: 1) technological change, 2) global demand, and 3) regional structure (Figure 1). A regions's structure is determined by its industry mix, competitiveness, amenities, and the ability to innovate. Too often, local economic developers determine their economic targets by moving overly quickly to identify opportunities where new technologies interact with global demand. The clearest example of this approach (which we call "rounding up the usual suspects") is life sciences—a field popular because of its growth rate and high-wage occupations, but not a good fit for every community.

Such a strategy ignores what W.R. Thompson (1965, p. 3) calls "the very essence of long-run growth," which is to adapt what you know to what the changing world economy needs. A more fruitful strategy would be to identify new technologies, products, or markets for the area's existing companies and workforce. An example of this could be to assist a threatened auto supplier in making wind turbine components.

2. Build from Strengths

In times of crisis, community economic development stakeholders too often focus on their area's weaknesses. A more productive community strategy is to build from strengths and identify industries that can do the following:

A) Draw upon the existing regional economic base for either suppliers or customers. Firms in industries that draw upon the base have the potential to create new jobs while shoring up existing jobs. Moreover, new companies that are integrated into the local economy have a great potential for generating sizable overall income impacts.

B) Provide jobs that are within reach of affected local workers. Economic developers should try to improve the well-being of residents, not just bring in workers from outside the region.

C) Show good growth potential regionally and nationally.

D) Demonstrate capacity for innovation. Firms that employ engineers and designers have a greater probability of continuously providing what the global economy wants and, in doing so, of keeping the area's workforce employed.

3. Success Takes Time and Trust

Finally, many of the more successful economic development efforts in the country are found in communities that share the following attributes:

A) *A stable and well-respected economic development staff.* Longevity matters in building trust and partnerships in a local community. Economic development requires risk-taking by private investors, which can only be undertaken in an atmosphere of trust.

B) *Focus.* Identified projects should be focused on tapping into the region's strengths and potential.

C) *Support from private investment.* Private investors can respond more quickly than public agencies and can build more effective partnerships.

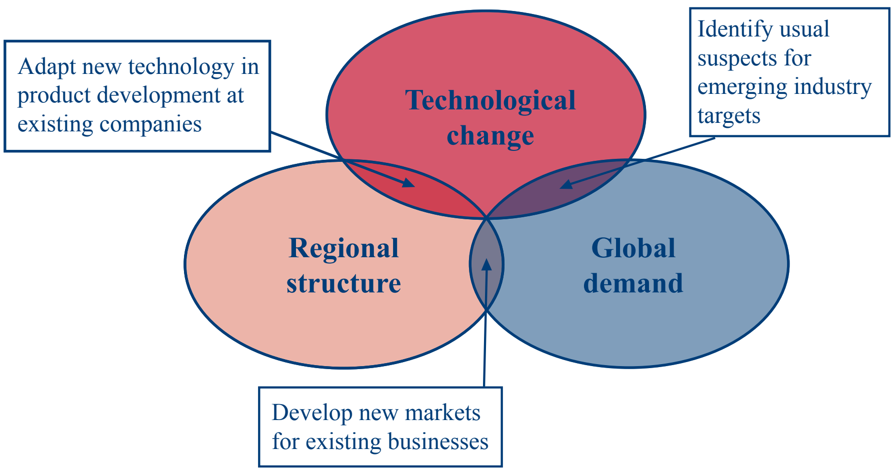
D) *A regional strategy.* A regional approach can overcome barriers caused by fragmented interest groups or competing geographical concerns.

Reference

Thompson, W.R. 1965. *A Preface to Urban Economics*. Baltimore: Johns Hopkins University Press.

George A. Erickcek is senior regional analyst and Brad R. Watts is regional analyst, both at the Upjohn Institute. This article is based on a forthcoming Upjohn Institute working paper.

Figure 1 Possible Economic Development Strategies for Local Areas



Timothy J. Bartik and Michelle Miller-Adams

The Kalamazoo Promise as a Model for an American Promise

There is general agreement that the United States would gain great economic benefits from significantly increasing the educational and skills attainment of its citizens. Even with large increases in the relative wages of college-educated workers to others, the percentage of Americans with college degrees has not dramatically increased.

Increased educational attainment would raise wages considerably for those who acquired more education. It would also help reduce income inequality by increasing the relative wages of the less-educated versus the educated. There also is noteworthy evidence of productivity spillovers from more education: local labor markets with a greater percentage of more-educated workers have higher average wages for all workers. This may reflect a greater ability of employers to introduce more advanced production techniques when workers have more skills.

Not everyone needs a college degree. There is considerable evidence of healthy demand for workers possessing middle-level skills and having either an associate's degree from a community college or an occupational certification. But in today's world economy, the U.S. labor market would probably benefit from ensuring that all Americans get a postsecondary education or skills certification that leads to a productive and decent-paying career.

Despite the economic need for skills, the United States does not currently seem to have an effective strategy for increasing postsecondary skills acquisition. There is little evidence that No Child Left Behind, a standards-based approach to improving K-12 education, has led to dramatic increases in skills acquisition. And despite plenty of rhetoric advocating increasing college access for all, college financial aid has not kept pace with the rising costs of college.

The Kalamazoo Promise provides one possible model for the United States to break with this pattern of a high ratio of rhetoric to reform in educational policy. The Promise provides all graduates of Kalamazoo Public Schools (KPS) who attended KPS at least since 9th grade with 65 percent or more of the tuition for attending a public university or community college in Michigan. Kalamazoo Public Schools graduates who attended since kindergarten get 100 percent of their tuition paid.

This program, guaranteed by its private donors to be available for many years to come, aims in part to enable more KPS graduates to go to college. But it also intends to change student and parent attitudes. The Promise allows all KPS students and their families to know that they will be able to afford to go to college. It signals to those students and their families that the Kalamazoo community expects them to pursue postsecondary education. The hope is that these changes in expectations and attitudes will improve students' behavior and academic achievement.

Does the Kalamazoo Promise work? The results are not yet in on this social experiment. There are some signs that the Promise has increased graduation rates of African American KPS students, and there is no doubt that it has also significantly increased enrollment in KPS and stabilized the school district's racial balance. In terms of the regional economy, George Erickcek, senior regional analyst at the Upjohn Institute, computed a forecast of the impact of the Kalamazoo Promise. Using very conservative assumptions that take into account displacement effects, he projected a regional net growth in employment of more than 2,200 persons per year within 12 years of its implementation in 2006, and a net growth in personal income of about $140 million per year.

Could the Kalamazoo Promise provide a model for an American Promise? In fact, Michigan has already shown the way with the creation of Promise Zones in ten communities across the state. Like the Kalamazoo Promise, these initiatives unite the goals of education and economic development. They also suggest that the state's troubled economy is yielding innovations that can provide a model for the nation.

A national model of the Kalamazoo Promise might guarantee that all students would receive sufficient tuition support to readily afford two years of college or an apprenticeship program. An American Promise could help move the United States from a system of K-12 for all to one of K-14 for all. It would send a clear signal to all American families that postsecondary education is possible, and indeed expected. Beyond this signal, it would provide an incentive for families, students, and educators to increase expectations and achievement in earlier school years.

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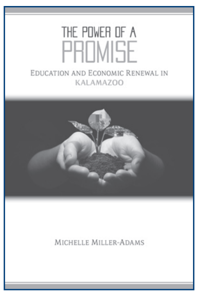

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