Governance Studies
at BROOKINGS

December 2013

Principles for Reforming Workforce Development and Human Capital Policies in the United States

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EXECUTIVE SUMMARY

Elisabeth Jacobs is a fellow in Governance Studies. Her research draws on economics, political science, and sociology in order to inform domestic social policy, with a particular focus on the government's role in fostering a balance of economic security and opportunity for American families.

Human capital development strategies that embrace a life-long approach to learning are critical to the economic success of a nation. Yet, despite historic levels of long-term unemployment and concern about the gap between the skills demanded by employers and the skills profile of the available supply of workers, the United States has an under-developed and confused vision when it comes to workforce development. This paper provides an overview of status quo federal job training policy, and offers a review of the historical evolution of the policy field as a way of understanding how the contemporary landscape developed. It then offers a set of principles for future federal involvement in workforce development policy, in order to provide a framework for a muscular government role that moves America toward a human capital strategy well-suited to a globally competitive future.

A COMPREHENSIVE HUMAN CAPITAL STRATEGY

Human capital is key to global economic success. As World Economic Forum Executive Chairman Klaus Schwab notes, "The key for the future of any country and any institution lies in the talent, skills and capacities of its people."[1] A nation's "human capital endowment," defined as individuals' skills, and capacities put to productive use on behalf of society, can be a more important determinant of its long-term economic success than virtually any other resource.[2] Human capital is all the more valuable in an era of global competition, as workers across the world are increasingly available to companies looking for the top talent.

The absence of long-term planning around human capital strategy can perpetuate continued wasted potential in a country's population and losses for a nation's growth and productivity. Yet perhaps because strategic thinking about human capital does not fit political cycles or business investment horizons, the United States continues to lack a comprehensive vision for human capital strategy. Despite a labor market crisis of historic magnitude and a phenomenal opportunity to rework the federal approach to workforce development, the policy architecture for America's human capital strategy remains weak at best. Congress has never reauthorized the Workforce Investment Act, which forms the scaffolding for federal involvement in human capital development, since its creation in 1998.

In the absence of a strategic national vision for human capital development, United States companies face a serious talent shortage. Eighty-six percent of American employers say they would pay more for a job candidate with the right training, hands-on experience, and practical knowledge.[3] In particular, research points to a "middle skills" gap.[4] Employment in occupations requiring some post-secondary training, such as an apprenticeship or a credential, will likely grow more rapidly than low-skills jobs requiring little educational background.[5] These middle-skills jobs offer the potential for a decent standard of living with upward career ladders, plus represent an avenue forward for the rebuilding of the American middle class. But, because these workers are not available, too many employers pursue a low-road strategy: competing to lower costs through low wages, the use of temporary labor, and outsourcing.

Paradigm Shift: A Life-Long Learning Approach

What would a comprehensive human capital strategy entail? For starters, it would recognize the importance of "life-long learning," and would design policies to support this approach. The idea that human capital is something one accumulates as young person is neither realistic nor reliable. A life-long learning approach to policy recognizes that human capital acquisition continues through adulthood. It acknowledges that, in a rapidly changing global economy, a young worker may possess invaluable skills that will have virtually no value in a few decades.

A life-long learning approach to human capital is particularly important given projections of a graying workforce. By 2020, the Bureau of Labor Statistics projects that one in four workers will be age 55 or older, due to a combination of the aging of the Baby Boom generation, changes in social insurance policies, and the poor performance of private retirement savings.[6] Coupled with the dim contemporary prospects for America's youngest workers, who face high unemployment rates with the potential for protracted deleterious consequences, the need for a dynamic approach to human capital development that provides not just second-chance careers but also third- and fourth-chance careers is all the more clear.[7]

Conceptualizing America's human capital development strategy in terms of life-long learning represents a fundamental paradigm shift from the status quo, for several reasons. First, as discussed earlier, the idea that individuals will accrue a formal education and progress from there into a "permanent" career no longer has credence. Education is an iterative process that begins in early childhood and continues throughout one's entire career, and policies should reflect that basic arc. Second, in a life-long learning strategy, education does not merely happen in traditional classrooms. Education occurs through on-the-job training, apprenticeships, and other hands-on learning experiences. As a result, education requires the engagement of a host of institutions – formal educational institutions such as universities and community colleges, employers, unions, community intermediaries, and government.

Policy debate focused on human development strategy too often focuses only on the challenges related to revamping primary and secondary schools. Indeed, a great deal of ink has been spilled on the importance of revamping education in the United States. Yet human capital development does not stop upon high school or college graduation. Many high school graduates will not go on to earn a post-secondary credential, and the many of those that do will not take a straight path from school to work. Moreover, in a global economy where the demands of the labor market are constantly shifting, many workers (including those with college and graduate degrees) will find themselves in need of re-skilling, up-skilling, or re-invention well beyond the "typical" years for education. Current policy debates around human capital strategy do not reflect the reality of many Americans' status quo, and they are ill-suited for creating a strategic vision for future policy development.

True strategic thinking will embrace the life-long learning perspective, which puts adult education, "second-chance" learning opportunities, and non-traditional educational experiences front-and-center as part of a focus on developing a skilled, dynamic workforce that will not only enjoy meaningful, economically-secure careers, but also will remain consistently able to evolve in order to meet global demands and generate an economically-successful nation.

HISTORY OF FEDERAL INVOLVEMENT IN WORKFORCE DEVELOPMENT

An overview of the history of the federal government's involvement with workforce development provides a useful framework for understanding the contemporary policy landscape. Annie E. Casey Foundation executive Bob Giloth summarizes, "The story line of federal labor market policies since World War II shows an overall narrowing in the ambition, ideas, target population, and funding."[8]

Building on Giloth's typology, five broad factors characterize the development of federal job training policy over the course of the last half century:[9]

1. *Active labor market policies, including workforce development, are segregated from the broader management of the economy.*

The United States maintains a sharp separation between active labor market policies such as workforce development, and the broader task of economic management. The Employment Act of 1946 established this formal separation. The final version of the law instructed the federal government "to promote maximum employment, production, and purchasing power," in contrast to the initially-proposed Full Employment Act of 1945, which declared, "All Americans ... are entitled to an opportunity for useful, remunerative, regular, and full-time employment," and instructed that "the Federal Government shall, ... , provide such volume of Federal investment and expenditure as may be needed ... to assure continuing full employment."10 The 1946 law, which reflected the business community's hostility to an expanded role for government in markets, stripped out the connection between labor market policy and macro-economic stability. The "commercial Keynsianism" that emerged in the 1950s focused on stabilizing aggregate demand, rather than taking a more directive approach to structural economic shifts and their impacts on the labor market. Policy oriented toward economic growth shunted labor market policies to the side.

2. *Job training policies' historical legacy is yoked to "remedial" social policies aimed at providing opportunity to low-income Americans.*

Beginning with the War on Poverty in the 1960s, federal employment and training policies narrowly targeted disadvantaged populations rather than aiming for universal eligibility. This policy path had several key consequences.

First, the link between poverty and job training policies further deepened the gulf between active labor market policy and the health of the economy as a whole. Job training policies were seen as "remedial," and labor market policy was viewed as "social policy" rather than a corrective to broader deficiencies in the private labor market or a part of a national economic productivity strategy.[11] For instance, the Economic Opportunity Act of 1964 incorporated a youth employment bill that became the Jobs Corps and the Neighborhood Youth Corps, which focused federal dollars on promoting "job readiness" for disadvantaged youth.

Second, the resulting political constituencies for job training policies were narrowly-defined, rather than universal, which has further limited the opportunities for expansion.[12] Because job training policies singled out low-income populations rather than offering broadly-available opportunity to the wide range of Americans who could benefit from further investments in their own human capital, job training programs were politically vulnerable.

Further complicating the institutional legacy of job training programs is the link between the War on Poverty and race. While originally conceived in economic terms, the public came to view the War on Poverty through a racial narrative, with the opportunity-enhancing programs seen as a strategic investment in an increasingly restless African-American community.[13] The racial animosity generated by backlash against these programs was fueled by an angry white middle-class facing stagnant economic opportunities.[14] In the decades to come, this group would have much to gain from job training policies, particularly with the emergence of the Rust Belt. Yet, because of the institutional framing of job training policies within the means-tested framework, the opportunity to build a broader coalition of support for a workforce development strategy fell by the wayside.

3. *Workforce development policy has focused mainly on supply-side strategies, rather than demand-side approaches.*

Policies aimed at improving labor market outcomes can approach the problem through two broad channels. Supply-side approaches focus on developing human capital in order to provide the labor market with a steady stream of skilled individuals. In contrast, demand-side approaches aim to shape employer and industry decisions and behavior. Workforce development policy in the United States has almost exclusively focused on supply-side tools, beginning with the jettisoning of the commitment to full employment in 1945 and crystallizing in the expansion of job training programs in the 1960s War on Poverty.

Public job creation reappeared briefly with the Comprehensive Employment and Training Act of the 1970s, which provided full-time jobs for a period of 12 to 24 months in public agencies or non-profit organizations for low-income and long-term unemployed individuals. The window of opportunity created by the climate of high unemployment and low growth meant that the business community was, temporarily, invested in the idea of an active labor market policy.[15] But public job creation has never enjoyed widespread political appeal – even Roosevelt struggled to implement the public employment programs of the New Deal.[16] And federal strategies to influence the development of a given industry or sector remain largely the exception to the rule, despite their proven empirical success at generating results.[17] Rather than focusing on shaping the quantity and quality of demand for workers, policies instead have aimed to help shape the quantity and quality of the supply of workers.

4. *Workforce development policies are perennially under-funded.*

Over the long history of job training programs in the United States, no program has received the resources necessary to genuinely meet the needs of the population it aims to serve. This is the case even with highly targeted policies, such as the Job Training Partnership Act of 1982, which reached just 5 percent of those eligible for its services due in no small part to budgetary constraints.[18]

The under-funding of job training programs has had two key impacts on the development of federal workforce development policies. First, this undercuts the potential success of a program due to the lack of resources necessary to make good on policy promises. Second, the political constituencies with a stake in the programs remain undercapitalized, because programs are simply unable to extend their reach to all of the potential beneficiaries. This impact on potential political constituents includes not only individual "clients," but also institutional actors such as community organizations, employers, and state and local governments, all of whom can act as powerful political forces when they have a stake in a given policy.

5. *Federal workforce development policy is highly fragmented, with multiple funding streams for myriad programs spread across many federal agencies.*

The Government Accountability Office made headlines in 2003 and then again in 2011 with reports detailing the level of duplication in federal employment and training programs.[19] Conservatives in Congress have seized on their findings to demand a roll-back of federal programs in an effort to ferret out "waste," while experts in the policy field have argued that the policies aren't so much duplicative as they are unwieldy, complicated, and in need of streamlining to make for more effective delivery of services.[20] The contemporary sprawl of workforce development-related policies has left a "maze of institutions, regulations, and mandates."[21]

The fragmentation of workforce development policy is another legacy of the War on Poverty. As Margaret Weir notes in her history of the federal government's approach to employment policy, one of the most striking features of the policies of the 1960s was their "extreme fragmentation." As the new programs created by the War on Poverty were put into place, they set off "bitter jurisdictional struggles, and resulted in the multiplication of programs rather than the reform of existing institutions." Weir concludes, "The result was that one of the most fertile periods of policy experimentation in American history left little in the way of an institutional legacy for devising and implementing labor market policies."[22]

Further complicating the federal architecture of workforce development policy is the lack of integration between "first-chance" human capital strategies with "second-chance" strategies.[23] For instance, the G.I. Bill of Rights provided World War II veterans with the opportunity to invest in a college education that would endow them with the skills necessary for their own economic success as well as the nation's economic prosperity. As such, the G.I. Bill was arguably a critical element of America's workforce development policy, yet it is rarely discussed in these terms. Today, as the value of a post-secondary credential has risen along with the demand for skilled workers, education policies focus on college affordability. Yet these conversations are rarely integrated into a broader vision for workforce development, and largely occur in isolation from policy debates over "second chance" programs aimed at retraining dislocated workers or improving on adults' prior educational attainment through either formal school or on-the job training.

WHAT IS THE CONTEMPORARY NATIONAL CONTEXT FOR FEDERAL WORKFORCE DEVELOPMENT POLICY?

The contemporary policy context reflects the historical limitations of workforce development policy in the United States. Two frameworks for conceptualizing workforce development policy have battled for dominance over the last twenty-five years: the "work-first" approach, and the "skills-building" approach. Despite periodic waves of focus on skills-building as a strategy for both worker's economic security and global competitiveness, policies again and again are framed largely in terms of putting individuals to work as soon as possible. The result is a system that perennially lacks a broader strategic vision for human capital development.

The Skills-Building Approach

The "skills-building" approach has roots in the idea that providing workers with opportunities to develop their skills across the course of their careers is key for not only family economic security, but also for creating a maximally productive economy that competes successfully on an ever-more-competitive global playing field. Current national dialogue over the nature and depth of the skills gap – the gap between the skills profile of the American labor supply and the demands of employers – reflects this perspective.[24] It is unsurprising that the skills-building approach has once again garnered attention, given the fragile state of the American labor market in the wake of the deep downturn on 2009.

Indeed, in nearly every downturn in recent history, the skills-building approach has gained national prominence and federal attention. In 1983, in the wake of the double-dip recession, A Nation at Risk highlighted the United States' lagging educational attainment. In 1987, *Workforce 2000* outlined a coming workforce crisis due to a gap between worker skills and employers' needs. In 1990, as the country faced another economic slump, Secretary of Labor Elizabeth Dole established the Secretary's Commission on Achieving Necessary Skills (SCANS) to explore national skills standards, with the goal of examining "changes in the world of work and the implications of those changes for learning."[25] That same year, the bipartisan Commission on Skills of the American Workforce issued *America's Choice: High Skills or Low Wages*, which framed the skills gap in terms of a "crisis of human capital and global competitiveness."[26]

The Work-First Approach

Despite the recurrent popularity and appeal of the skills-building approach as an issue framework for conceptualizing workforce development policy, the work-first approach has dominated contemporary policy outcomes. This is largely the legacy of three interrelated phenomena.[27]

First, the dramatic expansion of the Earned Income Tax Credit (EITC) in 1993 made the program the biggest and most-effective anti-poverty policy in the United States. As a refundable tax credit for working poor families, the EITC is inherently contingent on work. Indeed, the policy is of no value to an individual engaged in training activities in lieu of employment. The success of the EITC informed welfare reform efforts in the mid-1990s, which emphasized work-first approaches in an effort to encourage low-income Americans' connection to the labor market. Taken together, these policies placed little emphasis on developing skills in order to build upward career mobility. Instead, officials oriented policy toward ushering Americans into the labor market, first and foremost, and then "making work pay" through work supports such as the EITC.

Second, the mixed results from two major evaluations of job training policy in the United States released not long after the passage of the EITC expansion in 1993 framed workforce development policy debates in the years to come.[28] Abt Associates' 1993 assessment of the Job Training Partnership Act of 1982 (JTPA) was a landmark randomized-control trial that substantially informed reshaping of the nation's employment and training programs for disadvantaged workers and youth.[29] While the evaluation found modest positive impacts of JTPA job training programs for adults (and, in particular, for women), the authors determined that the program was not cost-effective, and opponents of workforce development used the study's results to discredit the efficacy of federal spending on job training programs.[30] The following year, Manpower Demonstration Research Corporation's assessment of California's Greater Avenues for Independence (GAIN) Program found strong positive results for the work-first approach promulgated by Riverside, with that county's employment-focused program for welfare recipients yielding $2.84 for each tax-payer dollar invested.[31] Taken together, the results of the JTPA and GAIN-Riverside studies provided a strong base of evidence for those making the case for work-first approaches.[32]

Third, the booming economy of the Clinton era shaped the policy context for a new iteration of federal workforce policy. The perceived failures of the Great Society-era welfare program (Aid to Dependent Families and Children) and more recent job training programs such as JTPA were largely couched in terms of dependency on the government and poor labor force attachment, a message that was easier to sell in the context of strong private sector job growth.[33] The Clinton Administration embraced the "make work pay" approach, and the resulting "end of welfare as we know it" ushered in by the Personal Responsibility and Work Opportunity Act (PRWORA) created a pro-cyclic safety net oriented toward providing support for those in the labor market, while simultaneously severely limiting the resources available to individuals who were not at work.[34]

The federal policy debate around welfare reform informed the policy framework shaping workforce development legislation. The Clinton Administration's proposed Workforce Security Act, which eventually become the Workforce Investment Act (WIA) of 1998, was framed as an effort to "change an unemployment system into a reemployment system," and hinged on the idea that government's primary role was to connect potential employees to employers.[35] Thus, the current major federal legislation for workforce development was devised in an economic climate of job growth, informed by evidence suggesting the efficacy of the work-first approach, and a bi-partisan consensus around the idea of work support.

THE WORKFORCE INVESTMENT ACT OF 1998 – WORK OVER SKILLS

The Workforce Investment Act reflects the political atmosphere that policy makers operated in at the time, and as such, is a poor fit with a skills-building approach to workforce development. The shortcomings of WIA are particularly glaring in an era of tight labor markets; the pro-cyclic nature of the policy is laid bare when jobs are scarce.

WIA provides three broad categories of services. *Core Services* include job search and placement assistance, and information about the local labor market (including job vacancies). Core Services are meant to be short-term interventions that quickly usher an unemployed worker into a new job. *Intensive Services*, offered over a longer time horizon, include comprehensive skills assessments, the development of an individual employment plan, career counseling, and some short-term vocational training. Longer-term *Training Services* include occupational or on-the-job training, and activities for skills upgrading. Recipients of Training Services typically receive an Individual Training Account (ITA), which serves as a voucher used to contract directly with a government-approved local training provider (e.g. a community college). WIA program staff typically provide counsel and referrals to these outside training providers.

The original legislation intended to have a participant begin with Core Services, and to then move upward through the tiers of service if they were unable to find a job. However, subsequent regulations promulgated by the Department of Labor made clear that participants can receive whatever services they and their case worker deem appropriate. As of 2005, about 43 percent of WIA exiters nationwide had received some form of Training Services.[36] This share has likely decreased in recent years, due to the increased demand for training combined with stagnant funding. Utilization of different tiers of services varies sharply across states, however. While eight states provide Training Services to at least half of their WIA participants, the remaining 42 states provide Training Services to less than 40 percent.[37]

The following elements of WIA are of particular concern:

Short-Termism

WIA services focus on "short-term crisis interventions," helping people enter the labor force quickly rather than supporting them in receiving the education and training necessary for securing a long-term, well-paying job with a career ladder for upward mobility.[38] Rather than working to match individuals to the "right" job, WIA instead pushes individuals into the "first" job. As a result, employers are not necessarily getting the best-trained, best-matched employee for the job. The policy architecture encourages an inefficient skills-match that likely dampens productivity, but also scares potential employers from engaging with the workforce development system.

Studies suggest that short-termism leads to an ineffective use of the public dollars. The majority of WIA participants do not actually receive formal "job training," but rather career counseling-type services aimed at helping them quickly re-enter the labor market. Evaluations suggest that while these short-term interventions do provide a bump in recipients' earnings, the impact quickly declines. In contrast, individuals receiving longer-term training services ultimately see larger gains in both employment and earnings.[39] Moreover, research suggests that longer-term training programs accrue greater employment and earnings rewards to participants than short-term training. For instance, a study conducted in Washington State found that students who engaged in a multi-year credential program saw substantially higher employment and earnings impacts than similar students who simply enrolled in an occupational course.[40] For some program participants, a short-term approach may indeed be the most cost-effective use of scarce public dollars. But the system currently over-emphasizes short-termism.

Ineffective targeting of disadvantaged workers

WIA diverged from prior major federal vehicles for workforce development funding by shifting the focus from targeted policy for low-income Americans to universal access for all workers, regardless of income. While this universal access approach has distinct policy and political merits, it has had the result of shifting resources away from the most disadvantaged clients. In 2001, 73 percent of those receiving WIA services were low-income. By 2009, just 42 percent were.[41]

Because WIA evaluation benchmarks were largely designed to measure the funded programs' success at moving clients into the labor market, the policy is set-up to encourage "creaming" those individuals who are most likely to succeed, rather than helping those in need of more support. As a result, WIA programs may ineffectively target disadvantaged workers and prioritize service provision for those who may have done just fine in the labor market without federally-funded help.[42]

Inadequate employer engagement

Improving employer engagement with the workforce development system was one of the major stated goals of the Workforce Investment Act. The legislation created One-Stop Career Centers in order to provide universal access to training and employment services to a broad range of workers, and to meet employers' workforce needs with the services provided to potential workers. WIA also promoted greater employer involvement in the workforce development delivery system by requiring that employers make up the majority of the members and take leadership roles in the state and local Workforce Investment Boards that oversee the one-stop centers, and calling for these boards to explicitly orient their work towards meeting employers' needs.

Despite WIA's efforts to improve employer engagement with the system, problems remain. Recent evidence suggests that many employers do not know how to engage with the public workforce development system.[43] In 2005, for instance, only about half of employers were aware of their local One-Stops. Very few employers hired workers through the One-Stops' referral programs, and most of these hire were for low-skill, low-wage jobs. Few used the One-Stops' job applicant screening services or on-site physical space. Those that did engage with the One-Stops mainly used their job posting service. While employers' engagement with WIA programming was both scant and relatively shallow, the majority reported that whatever service they took advantage of was in fact quite useful.

Recent policy debates over how to deepen employer engagement with the workforce development system have focused on the representation of business interests on the regional Workforce Investment Boards (WIBs), which WIA created to develop strategic plans and set funding priorities at a local level. WIA requires no less than 50 percent of WIB membership come from the local business community, and some have argued that the minimum share of representation ought to be even higher in order to help the workforce development system better serve employers' needs.[44]

The focus on the balance of representation on WIBs misses the crux of the issue, however. The major issue driving WIA's failure to engage the employer community stems from a failure of policy design, not a failure of representation. The short-term focus of WIA services has likely influenced the level and quality of employer engagement with the system. For instance, employers routinely and correctly perceive one-stop center clientele as mainly low-skilled or under-specialized.[45] Because of WIA's over-emphasis on rapid reemployment over true training and skills development, employers are unlikely to view a one-stop center as the source of workers with newly-developed skills tailored to meet labor market needs.

Siloes

By creating One-Stop Career Centers, which would provide training and employment services to a broad range of workers, WIA aimed to provide streamlined, universal access. One-Stops were meant to break down the siloed approach to workforce development policy that has dominated the job training landscape in the half-century since the War on Poverty. After nearly two decades since their creation, however, it is clear that One-Stops have not solved the problem of siloing. The federal government's primary funding streams continue to adhere to different philosophies, ranging from work-first to human capital development. Moreover, they suffer from conflicting outcome measures and performance standards. This problem is all the more complicated by the fact that different funding steams target different populations, ranging from unemployed workers to TANF recipients to at-risk youth.[46]

Coordinating across these funding streams poses a major challenge that the simple designation of the One-Stops has not solved. For instance, WIA and TANF have different performance objectives. A case study of workforce development policy challenges in Pennsylvania notes that the state Department of Labor and Industry (DLI) was charged with administering overall WIA funds through the WIBs, while the Department of Public Welfare (DPW) managed TANF recipients who were also eligible for WIA-funded training. The DPW found itself caught between competing program objectives.[47] The WIA funding stream demanded an orientation toward developing basic skills that met employers' needs, while the TANF funding stream demanded the placement of TANF recipients into "work-first" jobs, regardless of wages or long-term prospects. In this context of competing federal policy objectives, front-line workers in a One-Stop likely face serious problems effectively serving clients, both workers and employers. Success on one front meant failure on a second set of performance objectives.

BROAD VISION FOR A FEDERAL ROLE IN WORKFORCE DEVELOPMENT STRATEGY

Given the short-comings of the Workforce Investment Act, it is well worth thinking hard about the appropriate role for the federal government in workforce development policy in the United States.

Delineating a set of principles for federal involvement are all the more important in the context of the current legislative push to reauthorize WIA, which has revealed divergent views not only across party lines, but also between House and Senate Republicans. Both the House and Senate have passed WIA reauthorization bills out of committee. The conservative House bill, which made it out of the Committee on Education and the Workforce and then passed the House by a party-line vote, fundamentally alters the government's role in workforce development by rolling back federal spending, cutting programs, block-granting funds, and mandating super-majorities of business representatives on the WIBs that design local job training strategies. The Senate bill, which makes mostly minor tweaks to the existing WIA framework, was developed through a collaborative effort between Democratic Senator Patty Murray and Republican committee member Lamar Alexander, and passed out of the committee with bi-partisan support.

The divergence between the two bills suggests that if the Senate bill passes, conference negotiations for a final bill that reconciles the differences between the two pieces of legislation are likely to be challenging, to say the least. House and Senate Republicans have embraced starkly different approaches. As legislators work on crafting a final bill, keeping in mind a clear set of guiding principles for why and how the federal government should remain involved in the business of workforce development is useful.

The culture of austerity that swept Washington in the wake of the Great Recession requires the articulation of a clear federal role in order to support continued spending on workforce development. With all discretionary spending at risk, the current workforce development system faces dangerous cuts, particularly because of the fragmented and ill-defined nature of the related policies. Workforce development funding has been under siege for the last several decades. As analyst Thomas Hilliard archly notes, "The impact of steadily deteriorating funding has been to force the workforce field into a relative crouch."[48]

Formula funding has decreased by more than 30 percent over the last decade. Most providers of job training are struggling, spending the majority of their operating budgets on the bare minimum necessary to keep the doors open. Current legislation holds providers accountable (and imposes penalties in the case of poor performance) for job search activities and job placement, and, as a result, many workforce development providers have devoted the entirety of their meager budgets to these services.[49] The share of individuals who receive federal workforce development funding and exit the program with a credential of some sort (e.g. an occupational certificate or license, an associate's degree) has declined steadily, and as recently as 2008 nearly half of those exiting the system had not received training resulting in a recognized credential.[50] In short, the current "workforce development" system is unable to provide much in the way of workforce development, due in no small part to funding limitations.

A meaningful set of policy reforms need to come with the accompanying resources necessary for achieving the ends desired. The principles outlined below are meant to provide a framework for effective investment in the skills of the workforce for both today and tomorrow. Given the critical importance of human capital to a nation's economic success, policymakers would be wise to consider this an investment well worth making.

Principle 1:
Government involvement is necessary to correct for market failures.

Both employers and individuals are likely to under invest in training in the absence of government intervention. In other words, the workforce development field is characterized by a set of basic market failures that call for strong public intervention. Market failures in the workforce development space come in two broad categories. First, employers are reluctant to invest in transferable skills. Second, individuals are reluctant to invest in specific skills, especially in cases with a high risk of job loss in fields that require those specific skills.[51] Both factors result in a systematic underinvestment in skills-development for the American workforce. The availability of an appropriate balance of workers with both transferable skills and specific skills is therefore contingent on public policies that correct for this pair of market failures.

Why do employers' systematically under invest in workers' skills development? Shouldn't an employer want to improve the skills profile of their employees, in order to raise productivity and profits? Employers' underinvestment in training has long served as a hallmark example of a market failure for neo-classical economists. In his 1912 classic *Wealth and Welfare*, British economist Arthur Pigou highlighted the training of employees by firms as an example of the divergence between public and private net gains.[52] Developing the skills of the workforce is unquestionably beneficial to the economy as a whole. Yet the private gain to an employer providing skills development to their employees – particularly the all-important transferable skills that can be applied profitably to an array of other jobs, regardless of the specific employer – is less clear. Because workers are able to change jobs, and because the most-skilled workers are perhaps more likely to change jobs due to their competitive labor market advantage, employers see far less advantage in training. The public gains from employers' investment in skills are substantially higher than the private gain, thus the private sector systematically under invests in its workers. Because employers have no investment incentive in training, they will only supply it if they do not have to absorb any of the costs.[53]

Employers' underinvestment in transferable skills is only half of the equation. The other half of is workers' systematic underinvestment in specific skills. Workers are loath to invest in skills that have more uncertain future returns, and the more specific a skill-set, the more uncertain the return.[54] Unlike highly portable transferable skills, specific skills are applicable to only a narrow set of employment opportunities. The American labor market is characterized by low levels of employment security, making investments in specific skills a risky venture for workers. Moreover, until relatively recently, the United States' economy was broadly characterized by high demand for semi-skilled workers, with minimal demand for specific, niche skills. The Fordist model of production that characterized American manufacturing, for instance, did not demand a highly-specialized workforce. Yet the global economy has shifted many of these jobs out of the United States and into economies with substantially lower labor costs (China, India, Mexico), with the future of the American workforce tied to higher-skill jobs that require a more specific, technical skill-set.[55] As a result, workers' underinvestment in specific skills is of increasing concern, and poses a market failure.

While the neo-classical economic market failures described above provide a strong argument in favor of a role for public policy in the job training arena, they do not offer much guidance to determining what an appropriate role for the federal government, as compared to state, local, or regional governing coalitions. Some have argued that Congress should convert federal spending on workforce development to block grants.[56] This approach is misguided. Indeed, the program duplication that those who argue for block-granting tend to rely upon as their justification for wanting to strip down the federal role has arisen in no small part because of devolution of authority in workforce development policy, rather than vice versa.[57] Ultimately, the federal government ought to serve in a unifying role, while simultaneously stepping out of the way of states and localities as they innovate strategies tailored to their labor markets. The remaining principles are specifically oriented toward delineating the contours of the federal role in workforce development policy.

Principle 2:
The federal government should coordinate across multiple institutional stakeholders.

The federal government is uniquely suited to serve as a key coordinator in the workforce development policy space. Coordination should occur not only across federal funding streams, but also across the myriad institutional parties with a stake in improving the skills profile of the American workforce.

As discussed above, the Workforce Investment Act of 1998 recognized the need for better coordination across the divergent federal funding streams that, when taken together, make up the nation's investment in skills development for the labor market. The introduction of One-Stop Career Centers was a step in the right direction, but simply putting all available services for all potential clients under one roof has not solved the problem of an institutional policy legacy with divergent goals and performance metrics. One-Stop Career Centers staff efforts are almost entirely devoted to job-matching, with little bandwidth remaining for focusing on developing workers' core competencies, or on up-skilling for those willing to engage in a combination of work and learning.[58] Until and unless the federal government can devise a coherent vision for human capital development that integrates each program and funding stream in a meaningful way, workforce development policy is likely to be less impactful than it ought to be, as state and local policymakers and practitioners struggle to meet competing goals within the federal policy architecture.

Coordinating across federal policy objectives and funding streams is only the first major organizational challenge for the federal government. The federal government is also uniquely well-positioned to serve as a coordinator for the multiple institutional stakeholders in the workforce development policy space. The most obvious institutional stakeholders are the business community and the state and local governments who are responsible for implementing the federal programs. But this is only the beginning of the list of major institutional stakeholders in the system. Community colleges play a critical role, as the source of many of the training programs for both specific and general, transferable skills. Non-profits engaged in job training play a key role. Unions run training and apprenticeship programs. School districts provide career and technical education and adult education services. The federal government can play a key role in creating policies that deliberately bring each of these major institutional stakeholders to the table, and coordinating activities and goals across institutions that might otherwise work at cross purposes.

The federal role for instigating collaboration across institutional stakeholders is worthy of re-emphasis, as the lack of coordination is perhaps one of the greatest failings of the current policy architecture. For instance, employers continue to lack adequate ways of signaling their workforce needs and having them successfully met. And community colleges continue to lack the engaged partnerships necessary to guide their curriculum development in a direction that would train a labor-market-ready workforce. Yet, despite these and other failures of coordination, the incentives for coordination in the workforce development policy space are not inherently obvious.

For starters, workforce development investments accrue over the long-term, particularly for those who are not the immediate targets of the investments. Moreover, improvements in the skills profile of the workforce accrue to individual workers and firms, but do not as easily benefit key stakeholders, cities, or broader regions in a visible way.[59] A contrast with the economic development policy sphere is worthwhile here, as it clarifies the relatively weak incentives in the workforce development field. Economic development yields many obvious multiplier effects for stakeholders, including those only marginally involved in a given policy. Economic development yields financial opportunity for banks, contractors, developers, lawyers, and politicians. And the impact of the investment in economic development – perhaps a bridge, or a road, or an airport – is immediate and obvious.

Second, fragmented federal and state policy around workforce development issues makes capturing even limited benefits difficult. As Annie E. Casey Foundation executive Bob Giloth astutely observes: "Workforce development comprises multiple systems with weak governance – welfare-to-work, workforce, school-to-work, community colleges, adult education, and vocational education. Indeed, the two central constituents of workforce development – employers and workers – are largely unorganized for collective action at the local or regional level. Only a small number of these constituents can even theoretically receive benefits from these systems."[60] The nature of regional labor markets, which cross multiple jurisdictions and include multiple diverse employers further exacerbates the problem.

Thus, the federal government should be actively striving to set up policy channels that demand coordination between the stakeholders engaged in workforce development. Existing institutions, such as the Workforce Investment Boards and One-Stop Career Centers, provide good starting places for housing efforts at integration. Both institutions currently focus heavily on administration and less on coordination. Successful coordination is paramount to the success of the American economy, and will not happen in the absence of federal involvement.

Principle 3:
The federal government should protect against the tyranny of the majority by targeting the disadvantaged.

While the roots of contemporary workforce development policy are in the anti-poverty programs of the Great Society, the broad scope of job training policy goals and the evolution of the related programs over the last several decades has resulted in a system that serves a diverse set of workers. Low-income workers remain a major sub-set of those receiving WIA services, yet the system has gradually shifted away from serving the most disadvantaged workers. On the one hand, WIA's embrace of a universal-access approach to service-provision has both political and policy advantages. On the other hand, the need for "second-chance" education and training services for low-income adults remains, and the federal government is uniquely positioned to insure effective service provision.

The Workforce Investment Act shifted the focus of job training policy away from poverty-reduction and toward universal access regardless of income. This change in emphasis reflected the broad consensus that a broader program mission would draw employers into the system.[61] WIA's predecessor's, the Job Training Partnership Act of 1982, was specifically designed to prepare youth and low-skill adults for the labor force, and to provide remedial training to economically-disadvantaged Americans. In contract, WIA's overarching focus is on creating a workforce development system that serves the needs of both workers and employers. The legislation retains a focus on disadvantaged workers, but represents a departure from past policy in its emphasis on universal access to services.

WIA's universal approach has several major advantages worth underscoring, both in terms of policy and one politics. At the policy level, universal access allows for a system with the potential to offer services to long-tenured, higher-skilled workers facing long spells of unemployment. These workers face a unique set of challenges to reemployment and training, especially in a rapidly-evolving global economy where a worker's skill-set may be obsolete, requiring even an individual with a relatively high level of education and experience to engage in retraining in order to remain employable.[62]

Universal access also has political advantages. Simply put, policies create politics. By universalizing access to WIA services, policymakers wisely create the opportunity for a broader coalition of constituents with a political stake in public workforce development. Employers are more likely to engage with a system that promises to connect them to not only the lowest-skilled workers, but also to those who have a proven history of employment and skills-development. As a result, a universal-access policy is likely to generate a political constituency of engaged employers. In addition to engaged employers, universal program access allows for the possibility of not only low-income but also middle-income workers to benefit from workforce development policies. Programs with broad middle-class support are less politically vulnerable than those that serve only a low-income constituency, both because of the sheer size of the group with a stake in the policy as well as the political clout of middle class voters as compared to low-income voters.[63] For both of these reasons, the universal access approach embraced by WIA is entirely appropriate, and a major move forward from the poverty-specific focus of its predecessors.

However, the federal government must aggressively protect services for the disadvantaged within the universal access framework. Low-income, low-skill Americans are in the most need of effective "second-chance" educational opportunities, particularly in light of the disparate impact of weaknesses in the K-12 educational system on poor and minority communities. An employer-driven workforce development policy is unlikely to offer much to this group, given that businesses have the immediate incentive of keeping wages low, and a work-first, light-tough training regime meets this business objective. Thus the public system must offers specific incentives, protections, and/or programs designed to target human capital development-oriented services to the most disadvantaged workers. Low-income workers are at risk of losing out to the tyranny of the majority in the context of a universal-access system, thus a federal focus on effectively targeting the disadvantaged remains critical.

Principle 4:
The federal government should generate data on what works.

Whenever possible, public dollars should be spent on evidence-based policies. The knowledge base of "what works" in workforce development remains thin, at best, due to a lack of useful data. The federal government can help generate and organize this data in two key ways.

First, the government can fund experiments, providing "venture capital" to new approaches and then collecting data on the outcomes of such experiments. Randomized controlled trials are the gold standard for determining the causal impacts of a given policy, yet evidence from such methodologies remains scant in the workforce development field. The federal government should be incentivizing the collection of such data. Experimental funding can also be used to successfully leverage additional funding, including from private sources. For instance, San Diego's public Workforce Investment Board utilized federal funds to launch their life sciences program for kindergarteners through college students, and then leveraged those dollars to secure sufficient philanthropic and private funding such that the program no longer receives any government money. Thus, initial investments of federal dollars in experimental programs can draw in additional investors from the private sector.

Second, and perhaps even more importantly, the field is desperately in need of a national data system that is transparent and publically-available to all. Currently, no national system tracks spending, outcomes, or fiscal data. The current system leaves all critical data collection efforts up to the states. The lack of consistency across states makes it impossible to aggregate up to a national level in order to inform subsequent policy decisions. While some states collect rich data, others collect very little at all. Indeed, some states' Workforce Investment Boards cannot access even simple wage data about their program participants. Differing definitions and processes for data collection across related federal workforce development programs (e.g. TANF and WIA) vary as well, creating additional challenges.

The federal government has a critical role to play in shaping processes for data collection, and then making these data broadly transparent and accessible to researchers and policymakers. Several good models exist for this already. For instance, policymakers could build off of the Department of Education's State Longitudinal Data Systems grant program, authorized in 2002, that promotes the aggressive use of data warehouses that integrate K-12, adult education and training, and post-secondary education data. Florida has successfully implemented a model program, which combines the state's PreK-20 Education Data Warehouse and the Florida Education and Training Placement Information Program data to track students longitudinally and across delivery systems. This integrated data system provides critical information about students who enter public systems and their workforce outcomes.[64] In the short term, the federal government should create incentives for more states to develop model data warehouses.

In the longer term, the goal should be a federal-level data warehouse with standard metrics across states. For instance, the Georgetown Center for Education and the Workforce has proposed the National Learning and Earning Exchange. This national data warehouse would include transcript data on certificates, employer-based training, industry-based certifications, apprenticeships, associates' degrees, and more, with links to wages earned in the labor market.[65] The longitudinal perspective would allow for research connecting the dots between programs and outcomes over time for many different demographic groups, generating an evidence-base for understanding what kinds of policies work, for whom, and in what context. Such research would provide both worker and employers with hard data about which training strategies boost earnings most effectively, at what cost, and what the cost of dropping out might be.

Adequate data collection will not only serve the purpose of improving policy outcomes, but also can serve as a tool for helping policymakers make critical decisions about program consolidation. Currently, policymakers have little solid evidence on what works. At the same time, policymakers on both sides of the aisle agree that the myriad policies including some form of job training-oriented objectives make for an overly complex system in need of streamlining, to eliminate duplicative and ineffective programs.[66] Without good data, honest policymakers have little to go on when making decisions regarding how to best streamline the system. The federal government should be taking the lead in data collection on workforce development policy, in order to achieve a long-held goal of creating a more efficient, effective system to serve both workers and employers.

Principle 5:
The federal government should serve as an honest broker.

Adequate data will allow the government to fulfill a second, related goal of being a true honest broker for stakeholders in the workforce development system. The current system is characterized by a deep lack of useful information for key stakeholders. The federal government can play a key "honest broker" role in creating transparent, useful information for trainees, workforce development providers (including public educational institutions such as community colleges, for-profit educational institutions offering credential opportunities, non-profit community agencies providing training, employers offering on-the-job opportunities, and union-led training efforts), and employers. The government should not incentivize the creation of useful information, but also in providing that information in the most accessible form possible, so that all stakeholders are able to put that data to use.

While evidence suggests that career and technical training programs lead to well-paid jobs with the potential for upward mobility, studies also point to wide variation in the earnings of program graduates depending on the field of study.[67] Three out of four community college students fail to complete a high- or moderate-return credential program; most either complete a low-return program or drop out before earning any credential at all.[68] Interviews with front-line career counselors at One-Stop Career Centers confirm that trainees choose low-return training options due to a lack of access to information about their options. Prospective trainees are not aware of the range of offerings, the economic returns to the programs, the perquisite skills and preparation necessary for success, they are unable to compare cost and quality across institutions, and they lack access to effective counseling to help them sort through what little information is available.[69] The resulting paucity of good information and guidance in sorting through this information is a system where clients are essentially operating in the dark. This makes for an ineffective use of public funds, as workforce development dollars are often spent on programs with little (or less-than-optimal) benefit for trainees.

The government has a key role to play in creating information transparency. Collecting data is not sufficient; data must be presented to stakeholders in a clear, easily-accessible form that allows for decision-making based on the best possible evidence. A recent Brookings policy proposal calls for the creation of online "report cards" that present data-driven evidence on the array of options available to prospective trainees, as well as an empirical analysis of the payoffs to the various options.[70] These report cards could be supplemented with "expert" systems that would tailor results to the specific attributes and interests of individual users. In addition to the self-service online systems, the Brookings proposal emphasizes the importance of testing the impact of coupling such services with intensive in-person counseling. Studies suggest that in-person career counseling may play a critical role in the decision-making process, particularly for lower-education prospective trainees with little experience navigating online systems. Currently, community colleges typically employ less than one career counselor for every one thousand enrolled students.[71] Thus, the demand for career counseling likely far outstrips the supply, and may explain the frequently-poor choices made by workers looking to upgrade their skills.

Creating useful information for clients will not only serve potential trainees, but also trainers and the broader market as a whole. Markets depend on information in order to allow actors to make the most efficient choices. In the case of the workforce development marketplace, a lack of information transparency means that ineffective training programs – both public and private – continue to attract trainees and public workforce investment dollars. The creation and utilization of clear, transparent data should create incentives for moving resources toward effective programs and away from ineffective ones. As a result, the entire marketplace for training should become more effective, and in turn more efficient. This is not only good for prospective trainees, but also good for the cost-effectiveness of the public investment.

Principle 6:
The government should encourage the replication of best practices.

The federal government should be in the business of encouraging the replication of "best practice" models for workforce development policy. The incentivizing of best practices is ultimately at the heart of many of the above principles for federal involvement – the collection of data, for instance, is a necessary requisite for identifying best practices. In general, the federal government ought to walk the fine line between serving as a policy coordinator while simultaneously stepping out of the way of states and localities that are working to tailor strategies to their unique labor market challenges. One of the most effective ways of combining these two objectives is to aggressively encourage the replication of best practices. Too often, in the workforce development field, the most effective efforts occurring at a local level remain under-adopted. Current policy offers only minimal support for lifting up best practices and applying them, where appropriate to other settings. The opposite should be the case, as incentivizing the adoption of "what works" is the path to better policy outcomes.

The federal government can play a unique role in incentivizing best practices. Unlike states, the federal government can spread innovations across state lines. Many regional labor markets cross state jurisdictional boundaries, and the federal government has the power to fund such approaches. The federal government is also better able than many state and local governments to sustain funding for innovative approaches, particularly in tough budget times when many states face borrowing constraints. Given the increased demand for job training when the labor market is weak, this last advantage is particularly important.

Many of the most innovative, effective efforts at employer engagement in the workforce development system are occurring at the local policy level. Several regions have had success at developing sectoral partnerships, which feature collaboration between public and private agencies and employers in one specific industry. The idea behind this approach is that an intensive focus on a high-growth area of the regional labor market is likely to create a more efficient match between labor demand and supply, with the result of higher productivity for employers and higher wages, employment, and career mobility outcomes for workers. Sectoral approaches to workforce development act as integrators, by targeting a specific industry, intervening through credible workforce intermediary organizations, addressing employer needs, supporting workers' quest for high-quality employment, and in turn creating lasting change in labor market systems on behalf of both workers and employers.[72] One recent quasi-experimental evaluation of a trio of sectoral training programs finds impressive impacts two years after training completed. Compared to a control group, participants were more likely to work, more likely to work consistently, worked more hours, earned higher wages, and were more likely to work in jobs with employee-benefits.[73]

However, the federal system currently offers no meaningful incentive for effective strategies such as sectoral partnerships and other collaborative models between the supply- and demand-sides of the employment equation. The Senate version of WIA reauthorization includes several promising provisions, including the Workforce Innovation and Replication Grants, which would make competitive grants available to state partnerships and regional entities for either innovative new strategies or the replication of effective/evidence-based strategies designed to align or strengthen the state's workforce development. The Senate bill also includes the Community Based Job training demonstration program, which authorizes the establishment of a national demonstration program designed to develop innovative solutions to workforce challenges facing in-demand industry sectors with labor shortages, and to establish partnerships among education entities, workforce development systems, and businesses in in-demand industry sectors. These are both promising provisions.

CONCLUSION

The rapidly evolving global marketplace for labor has made the need for a national human capital development strategy all the more critical. Yet the United States continues to operate in a policy atmosphere characterized by multiple contradictions and inefficiencies, particularly in the field of workforce development beyond the traditional K-12 education system. On the one hand, multiple programs with competing definitions of "successful outcomes" populate the policy space, suggesting a bloated system in need of streamlining for greater efficacy. On the other hand, virtually no program has received the funding necessary to meet the demand for training it seeks to address, and existing institutions have neither the authority nor the financial capacity to serve the critical role of coordinating across the myriad stakeholders involved in the workforce development policy space.

The history of government involvement with workforce development policy in the United States offers little optimism for those interested in seeing an American system that mirrors successful government-business-labor partnerships such as the oft-cited example of Germany.[74] Federal labor market policy in the United States has gradually narrowed in scope over the course of the last half century, rather than broadening to meet the rising challenges faced by an increasingly open and competitive global economic climate. Active labor market policies, including workforce development efforts, are rarely integrated into discussions of the management of the national economy as a whole, and generally focus on supply-side approaches rather than efforts to shape both labor supply and labor demand. Job training policies are historically linked to "remedial" social policy efforts aimed at providing opportunity to disenfranchised, low-income Americans, and their policy legacy is intertwined with that of the racialized War on Poverty. And, as noted above, the policy landscape that has evolved over the course of the last half-century is highly fragmented, spread across multiple agencies, with multiple funding streams – none of which is sufficient to meet programs' stated goals. As it currently stands, the policy field is essentially designed for failure.

If the United States is to move forward to a next generation policy that begins to speak more directly to a strategic vision for talent development, then more clarity is needed on the broad goals for federal involvement. By providing a set of principles for guiding how and why the federal government ought to be involved in the business of workforce development, this paper offers guidance to policy makers with a stake in creating and sustaining a dynamic American labor market that is not only economically competitive on the global stage, but also provides economic security and opportunities for upward mobility to American workers.

To review, the federal government ought to address these six basic principles in rethinking workforce development policy:

1. Government involvement in workforce development policy is necessary to correct for basic market failures. While the private sector has an important role to play, government is a necessary partner.
2. The federal government ought to coordinate across multiple institutional stakeholders in the workforce development policy arena.
3. The federal government must protect against the tyranny of the majority by targeting the disadvantaged, in the context of policy universalism.
4. The federal government must generate useful data on "what works."
5. The federal government should serve as an honest broker for stakeholders in the workforce development system, making data easily accessible and allowing employers, workers, and others to put that data to practical use in order to make the most efficient and effective choices regarding training decisions.
6. The federal government should encourage the aggressive replication of best practices in the field.

Congress faces a historic opportunity to reshape the federal role in workforce development, and in turn to begin the process of forging a strategic vision for human capital development in the United States. Both the House and Senate have made significant progress toward reauthorizing the main legislative vehicle for workforce development policy, the 1998 Workforce Investment Act. Yet a great deal of work remains to move forward with a final bill that encompasses the principles outlined above. Given the demand for training programs and the need for policy reform, policymakers would do well to make the effort to capitalize on the work that has already been done, and to find common ground to push a reauthorized Workforce Investment Act over the finish line before lawmakers are forced to start all over again when the 113th Congress adjourns. A busy legislative calendar, the history of inaction, the wide gap between the priorities of the existing House and Senate bill, and polarization not only between the parties but also amongst Republicans all mean that lawmakers should expect that this process will be neither easy nor particularly quick – and the clock is ticking for the American economy.

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