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The Federal Role in Helping Incumbent and Dislocated Workers Adjust to the New Economy

By Randall Eberts and George Erickcek[1]

The dramatic upheaval of the U.S. auto industry during the past decade has eliminated more than 600,000 auto jobs nationwide and has undermined the economies of many metropolitan areas in the Great Lakes region. Ten years ago, the auto industry directly employed 1.3 million workers and conservatively generated another 7 million jobs within the regions they were located.[2] It provided a middle class income with benefits for thousands of workers with little more than a high school education. It also provided high-paying jobs to engineers and technicians. Its assembly plants and extensive chain of suppliers were the backbone of many prosperous communities. However, since 2000, the situation for workers and their communities dramatically changed, particularly in the Midwest. From 2000 to 2006, even before the recession hit, nearly two-thirds of the metropolitan areas suffered a net loss in auto jobs, with half the losses concentrated in only 11 metro areas. Seven of the 11 metro areas are located in Michigan and Ohio, and the Detroit metro area alone accounts for 20 percent of the net losses during that time period. After the recession hit in late 2007, an additional 35 percent of the remaining U.S. auto jobs disappeared, much more than for manufacturing in general.

Mass layoffs in the auto industry have displaced many workers from their jobs and have left others to accept lower paying positions when and where they can find work.[3] Many auto workers find that the skills that served them well in the auto industry do not qualify them for jobs that businesses in other industries demand. Their communities, in turn, suffer from higher unemployment, lower paying jobs, a weakened economic base that undermines the competitiveness of remaining firms, and the loss through displacement, underemployment, or out-migration of a pool of workers who were once productive contributors to their local economies. Without appropriate intervention, these losses can have lasting effects on workers and their communities.[4]

The public workforce development system, working alongside programs that encourage innovation and entrepreneurship, is well-positioned to play a critical role in addressing these challenges, and rejuvenating the region's economic vitality.

America's Challenge

The primary problem facing workers in many communities impacted by declines in the auto sector is simply the lack of quality jobs. The problem is two-pronged. First, many displaced auto workers do not have the skills demanded by jobs that are available in their communities. Second, communities are not retaining enough existing jobs or creating a sufficient number of new jobs to employ displaced workers in sectors that provide decent pay and career advancements. Moreover, wrath of the recent recession has left state and local governments with diminished resources to tackle these problems.

The public workforce development system is well-positioned to play a vital role in addressing these issues. Its programs provide critical services that help displaced workers find jobs and assist businesses in becoming more competitive, and the system has the potential to convene local partners to undertake strategies to help communities recover.[5] Moreover, if done in partnership with programs that increase a region's ability to expand its product markets, the public workforce development system could be an important component in a comprehensive regional redevelopment strategy. However, for the public workforce development system to be successful in helping to revitalize distressed communities, there are several limitations that the system must overcome.

Limitations of Existing Federal Policy

The most effective approach to setting Great Lakes metros on a path of economic viability is to rely on the knowledge and ingenuity of local stakeholders. The federal government's role is to leverage local resources and efforts with resources and technical assistance. This task is obviously much larger than any single public program can tackle alone. It will take a well-focused and targeted arsenal of public services across many programs and departments, in partnership with the private and non-profit sectors in these regions, to help turn around many of these communities. It will also take strong leadership at the local level to bring together an effective partnership of key stakeholders, matched by equally strong leadership on the federal level to encourage separate government agencies to work together. Existing federal workforce development programs are hampered by several limitations, however.[6]

Local workforce development efforts aren't coordinated with one another.
Businesses, especially small and mid-sized firms, increasingly find that, to stay competitive, they need assistance in research and development, planning, and human resource organization and management.[7] Now more than ever they require the combined resources of universities, community colleges, economic development agencies, and workforce development agencies for such assistance. Currently, the various services that are available to businesses, including those from the federal workforce programs, are not well coordinated and in many locales their existence is not well known by businesses. A report by the President's Council of Economic Advisers concludes that a more integrated system that links these activities is essential for regional economic recovery.[8]

Enacted in 1998, the Workforce Investment Act (WIA) created a network of local Workforce Investment Boards (WIBs) tasked with providing training and reemployment services at the local level and partnering with other institutions to integrate and coordinate a broad range of services for both workers and businesses. However, after a dozen years of developing and administering federal and state workforce programs under WIA, this role has not been fully embraced by many WIBs and success in convening meaningful partnerships has been the exception rather than the rule.[9] The U.S. Department of Labor recognized the need for stronger regional partnerships by initiating and funding Workforce Innovative Regional Economic Development (WIRED) regions, and it saw the potential role of WIBs by requiring them to be partners in the second and third generation of WIRED regions. Several states, including Michigan, have initiated similar programs, with WIBs playing a central role.[10]

Of course, it is difficult to coordinate programs and services effectively at a regional level if the federal and state agencies responsible for these services are not themselves properly aligned.[11] If these higher-level agencies are working at cross purposes, creating silos of conflicting funding and regulations, then the effectiveness of local partnerships is reduced. At the federal level, the Departments of Labor, Commerce, Education, and Housing and Urban Development are responsible for many of the programs that are essential for the revitalization of distressed communities. However, the integration of strategies and the coordination of services are not well established across these departments. For instance, WIRED, which focuses on regional partnerships among workforce development, economic development, and educational programs was basically a program of the U.S. Department of Labor, without much coordination with the other departments.

The current workforce system doesn't often treat businesses as a primary customer. Businesses make the decisions regarding job creation and retention and their competitiveness and productivity depends on employing the best qualified workers. Consequently, workforce development is economic development. One of the major changes brought about by the enactment of WIA was to consider business as a customer of the workforce development system. However, this change in approach and anticipated change in culture has never been fully embraced or implemented by the system.[12]

Traditionally, public workforce services focused primarily on helping displaced workers and economically disadvantaged individuals search for jobs, working from the premise that job openings exist and that businesses are looking for the set of skills they possess. Even though WIA calls for a more demand-driven approach to workforce development and an integration of services, many administrators still focus on job-seekers and pursue a "sales-oriented," social-service approach to their work.[13] While this attitude is changing, the widely held perception by business remains that the public workforce system primarily serves low-income, low-skilled workers.[14] By not valuing the workforce system as important to their own "bottom line," business is reluctant to consider workers from the public workforce system and to become involved as members of the WIBs. Large potential benefits to firms and workers are missed by not fully engaging in the services provided through the workforce development system.

Workforce training resources for both dislocated and incumbent workers are limited. The public workforce development system has many of the tools needed to help business become more productive. First and perhaps foremost is a well-trained and innovative workforce, particularly when workers possess the skills demanded by existing and emerging businesses. Training is recognized as a top priority among business and an important catalyst for job creation and local economic development.[15]

Studies show that increases in educational attainment alone account for an estimated 11 to 20 percent of the growth in worker productivity in the United States.[16] The increases in productivity can also be seen in the higher wages earned by more highly education workers. Studies estimate that an additional year of education increases a worker's annual wages by 6 to 10 percent.[17]

Workforce training funds are severely limited, however. The Dislocated Worker Program, which under WIA is the primary workforce program for dislocated workers, has reduced the number of participants receiving training in recent years. [18] The Trade Adjustment Assistance Act (TAA) provides more intensive training to workers who have been displaced because of foreign competition, but this program reaches even fewer displaced workers because of funding limitations and certification requirements.[19] While the American Recovery and Reinvestment Act (ARRA) has allocated more resources for this program, and more auto-dependent areas have been certified to receive funding, the need for training services still far outpaces the supply.[20] This is problematic for workers and communities alike. Studies show that many workers who lose their jobs during recessions experience significant economic setbacks that persist long after the economy has recovered; even if they stay in the community and are eventually rehired, their skills may grow stale and obsolete. Communities, in turn, experience a range of adverse spillover effects from large employment disruptions, as the unemployed demand additional social services and may contribute to other social, economic, and fiscal problems if their ranks swell too much.[21]

Customized training of existing workers, meanwhile, is similarly constrained.[22] Although most states and workforce boards see the benefit of such training, states have had to reduce funding for programs and relatively few federal funds are available to replace the lost state dollars.[23] Yet, improving the skill levels of incumbent workers can yield substantial gains to the competitiveness of businesses and ultimately to revitalizing distressed metropolitan areas impacted by auto worker layoffs and company closures. Businesses repeatedly cite a qualified workforce as one of their top priorities in locating new businesses and in expanding existing businesses. And studies show a large effect of customized incumbent worker training on job creation and retention: In fact, compared with other economic development incentives, research suggests that customized training is 10 to 16 times as cost effective in creating jobs as business tax incentives.[24]

The fragmented nature of the workforce system does not does not follow workers through their careers. Workers go through many phases during their life, from formal schooling, to job search, employment, perhaps unemployment, and career advancement. At each phase, workers may need assistance in making the transition, and the assistance may come from different agencies and different institutions. The educational system provides education and training during the primary, secondary, and post-secondary years of schooling. The workforce system offers job search assistance and occupational training. And all this leads to finding a job with business, the government, or a non-profit. However, the workforce system does not recognize the need to provide a continuous array of services that follow workers through these various phases or to help workers through the transitions. These services include the following:

Financial assistance: While the workforce development system provides limited support for training, it provides even less assistance to help workers pay the bills while receiving training. The Trade Adjustment Assistance Act is an exception. It provides up to 130 weeks of cash payments, offers subsidized health insurance, and covers costs associated with job search and relocation. However, for those receiving training under the WIA Dislocated Worker Program, no financial assistance is available. Furthermore, the Unemployment Insurance (UI) system does not recognize training as a job search activity, so an individual cannot collect unemployment insurance benefits while receiving training.

Credentials and certifications: A major hurdle for developing a more integrated system is the lack of a common language among workers, employers, educational institutions, and the workforce development system. American educational institutions can vary widely in the character and quality of their programs, and thus the typical measures of competency—high school degrees, number of years in college, and college majors—vary widely in representing the competency of an individual and the level and scope of expertise. Having a common language is important to firms' ability to recruit the highest-performance workers and efficiently measuring workers' ongoing competencies. Several industries have developed competency models that provide clear descriptions of the knowledge, skills, abilities and other characteristics required for particular jobs, but these efforts are not widespread. The U.S. Department of Labor made the necessary first step in the development of a comprehensive approach by creating O*Net, which provides a wide array of attributes, educational requirements, and qualifications for a large number of occupations. Moreover, many local WIBs and states have adopted assessment tools, such as WorkKeys, which determine an individual's qualifications for specific jobs. Still, unfortunately, the overall approach to providing a common language and common assessment is fragmented.[25]

Longitudinal data: Another barrier is the lack of longitudinal information that follows individuals from K-12, through post-secondary, and on to work. ARRA has provided funding to states to create such an information system. Without such systems, regional partners in distressed communities can't always target assistance to those who need it, nor fully understand the effectiveness of educational outcomes and other services in finding and retaining a job.

Guidance for workers: Economically disadvantaged workers and youth, and even long-tenured workers, may not have the networks or the experience to navigate through the series of work phases alone. They may need assistance to guide their informed decisions about career opportunities, lead them down the proper pathways to prepare for these opportunities, and advocate for them while they are in school, in workforce training, when searching for jobs, and when working. Partnering directly with employers, some providers offer enhanced case management services that provide workers with access to counseling, soft-skills training, emergency child care, or assistance in addressing personal barriers. In Michigan, Cascade Engineering partnered with a state agency to provide on-site retention case management for welfare-to-work hires.[26] Such efforts are not prevalent through the workforce system, however.

A New Federal Approach

Many federal workforce programs and services are already in place. However, either insufficient funding or the lack of an appropriate emphasis on service coordination at the regional level renders these interventions less effective than they could be. Some of the recommendations described here merely emphasize the need to reinforce the original intent of the federal workforce development system under WIA and to put these principles into practice. Others stress the need to focus on keeping workers in jobs instead of waiting until they are unemployed before offering assistance. Although these recommendations relate primarily to the role of federal workforce development programs in helping metros most impacted by declines in the auto industry, these changes could strengthen the effectiveness of these programs for other communities as well.

(1) Nurture and support regional partnerships among workforce, economic development, and educational institutions. The existing network of the nation's 600 or so WIBs should be strengthened to provide the administrative structure needed to convene and support regional partnerships. Though some WIBs have successfully been playing this role, others continue to focus solely on administering workforce programs.[27] Some NGOs have stepped in to provide leadership where the local WIB hasn't, but they often face funding constraints. Providing more support through the WIBs would thus improve sustainability. Regardless of who takes the lead, the federal government needs to provide additional resources and technical assistance to develop local capacity to work with businesses and other local organizations.

(2) Better coordinate programs across federal departments. In order for local workforce investment boards to be successful in creating effective partnerships, the state agencies and federal departments that provide funding and issue regulations for these purposes must be better aligned. If these higher-level agencies are working at cross purposes and creating silos of conflicting funding and regulations, then local workforce cannot be effective. Better alignment requires a governance and funding structure that is horizontally coordinated across entities or agencies at the local, state, and federal levels. Such a structure requires Departments of Labor, Commerce, and Education, perhaps among others, to come together and establish common goals and objectives so that businesses and workers can receive a more integrated set of services. It requires attention to customers, the proper balance between accountability and flexibility of local program administration, appropriate mechanisms and incentives, performance-based monitoring, strategic planning and goal setting, alignment, strong leadership, and trust among partners.

(3) Focus on business as a primary customer. The workforce development system needs to reorient its focus and consider business as a primary customer. Services should be oriented toward business, and One-Stop centers established (or expanded) to include services that best serve business needs. These services should follow the lead of innovative WIBs and include demand-driven training (including customized incumbent training programs and on-the-job training), customized skill assessments, background and credential checks, on-site job analysis, and specialized human resource services.[28] In addition, the One-Stops should provide access to services from other agencies, with the purpose of addressing both the workforce and technical production challenges facing local firms. For example, customized training programs could be combined with the Department of Commerce's Manufacturing Extension Partnership (MEP), which has been shown to be effective in providing technical options for manufacturers seeking to improve productivity and in helping firms with improving human resource practices.[29] In addition, combining economic development tax incentives, such as job creation tax credits, would help incentivize firms to hire more workers.[30]

In order for the WIBs to embrace business as customer, it is important that the performance measures be revised to take into account business outcomes as well as worker outcomes. Presently, the common measures focus on the outcomes of workers—entered employment, retention, and earnings. Additional measures should be added to reflect employment growth and productivity increases of firms participating in the programs.[31]

(4) Target services that keep workers in jobs. First, the federal government should provide more funding for customized incumbent worker training.[32] Presently, most funding for these programs comes from state budgets and from a UI off-set tax. The latter source is a way of transferring excess funds from state unemployment insurance taxes to training. The current recession has put a strain on both sources of funding and has forced many states to cut back on these programs at a time when even more funds are needed. Furthermore, diverting revenue away from the UI system jeopardizes its ability to provide benefits in times of high unemployment. The ARRA provides $750 million for training and placement in high growth and emerging industries, a large portion of which prepares workers for careers in the energy efficiency and renewable energy sectors. More permanent funding should be set aside for similar initiatives after ARRA funds have sunsetted.

Second, Congress should fix the "technical problem" with the Unemployment Insurance law related to the "fact or cause" of a worker's unemployment so that states can use work sharing (short-time compensation) more extensively.

Third, businesses should be given incentives to organize and manage their workforce more efficiently and effectively, particularly in using skilled workers to their full potential. This would increase productivity, promote career advancements, and increase wages. Tax advantages (such as lower tax rates for UI, or a wage subsidy when training is provided) could be given to companies that establish career ladders in the same way they are granted to companies that invest in other types of research and development.[33] Higher minimum wages would perhaps force firms to adopt more creative workplace structures and provide more training to low-wage workers. These standards would need to be enacted at the federal (or state) level so as not to give some local areas a disadvantage. Local economic development incentive programs should not encourage low-wage jobs; rather they should target firms offering higher-paid skill jobs.

(5) Provide assistance throughout a worker's learning and working career. Some individuals need more assistance than others in transitioning from one phase of their working life to another. First, displaced workers who can benefit from additional training may not be able to afford to forego income to engage in lengthy study. The federal government should provide additional financial assistance to make this possible for those most in need of training and income support. The Trade Assistance Adjustment program is a good model of combining training with other assistance, and while expensive, it should be used more extensively in distressed communities.[34] Second, a common language should be established that provides all parties—workers, businesses, educational institutions, training programs—with a better understanding of requirements of a job and a person's qualifications to fill that job. Several tools are available and leadership at the federal level is needed to provide a national set of standards. Third, the workforce system should be more of an advocate for workers who need guidance about career opportunities, help navigating between programs, and assistance in dealing with workplace issues. Fourth, information that links educational activities, workforce development activities, and work experience is crucial for employers, employees, and program administrators to make informed decisions. The Data Quality Initiative, with funding from the Recovery Act, provides an ideal opportunity to make this happen. Finally, it must be recognized that displaced workers, particularly older workers, may not benefit from training and income support as they transition into retirement may be the best solution. Federal programs should identify and provide assistance for individuals from distressed communities who are in this situation.

Conclusion

The difference between the workforce development system proposed here and the current one is the greater emphasis on establishing and maintaining local partnerships, keeping workers in jobs, and using customized training as both a workforce and economic development tool. Such changes will ultimately help the Great Lakes region's businesses and industries become more productive, drive its metropolitan areas to become more competitive, and provide its workers with greater opportunities to gain high-quality, high wage jobs.

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[2] This is a more conservative estimate of the industry's multiplier impact than most because it is based on the assumption that the loss of work at one auto plant will be picked, in part, by the remaining surviving plants (Bureau of Economic Analysis, Input-Output tables).

[3] Team assembly and other assembly and fabricator positions account for 43 percent of all jobs in the motor vehicle assembly sector. The median wage for assemblers working for the Detroit Three in 2008 was $59,000, compared to an average wage of only $27,630 for team assembly occupations across all industries. Jobs in other industries which require similar skills also pay far less (George Erickcek and Brad Watts, "Where Can All the Autoworkers Go?**"** *Business Outlook for West Michigan,* W.E. Upjohn Institute for Employment Research, 2009.

[4] Research shows that when state employment declines, about two-thirds of the drop is reflected initially in state residents having a lower employment-to-population ratio, which persists for nearly 20 years after the initial shock. See Timothy J. Bartik, "*Jobs for the Poor: Can Labor Demand Policies Help?"* (New York and Kalamazoo: Russell Sage Foundation and W.E. Upjohn Institute for Employment Research, 2001). Furthermore, wage loss due to displacement also persists for a long time, upwards of a decade. See Ann Huff Stevens, "Persistent Effects of Job Displacement," *Journal of Labor Economics* 15 (1) (1997): 165–188. Creating job opportunities in the region is tantamount. Eberts and Stone (1987) show that metro areas that have been subject to economic shocks, such as mass layoffs, may take up to a decade to adjust and the levels of per capita income and employment do not return to their pre-shock levels.

[5] For a summary of the benefits of public job training programs, see Christopher T. King, "The Effectiveness of Publicly Financed Training in the United States: Implications for WIA and Related Programs, in Christopher J. O'Leary, Robert A. Straits, and Stephen A. Wandner (eds.) Job Training Policy in the United States, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2004.

[6] By referring to the workforce development system, we give it a more generic interpretation. At present there are 12 federal programs. The Workforce Investment Act is responsible for most of the reemployment and training services to economically disadvantaged, displaced workers, and youth. The Trade Adjustment Assistance program provides training, income support, and other reemployment services to displaced workers from companies impacted by foreign competition. The Wagner-Peyser employment service provides reemployment services to anyone looking for work or another job. The Unemployment Insurance System provides temporary partial wage replacement for those who have lost their job for no fault of their own. Arguably, these comprise the major components of the nation's workforce development "system," but admittedly the programs are not provided as an integrated system, even though the one-stop career centers, as initially conceived by the Workforce Investment Act, were intended to align these services more closely together.

[7] Kelly Edmiston, "The Role of Small and Large Businesses in Economic Development," *Economic Quarterly,* Federal Reserve Bank of Kansas City, 2nd Quarter 2007*.* Pete Calson, Robert Holm, and Ray Uhalde stress the same point in their working paper entitled "Building Regional Partnerships for Economic Growth and Opportunity," Jobs for the Future, December 2009.

[8] Council of Economic Advisers, "Preparing the Workers of Today for the Jobs of Tomorrow," (July, 2009).

[9] Burt S. Barnow and Christopher T. King, "The Workforce Investment Act in Eight States" Occasional Paper 2005-01 (U.S. Department of Labor Employment and Training Administration, 2005). "Business as Partner and Customer under WIA: A Study of Innovative Practices," a Report prepared as part of the National Evaluation of the Implementation of WIA, SPR Associates, June 30, 2004.

[10] Specifically, the U.S. Department of Labor sponsored a program, the Workforce Innovation in Regional Economic Development (WIRED), to support the development of a regional, integrated approach to workforce and economic development and education. The ultimate goal of WIRED is to expand employment and advancement opportunities for workers and catalyze the creation of high-skill and high-wage opportunities. Similar types of arrangements have been initiated in various states, including the Michigan Regional Skills Alliance and the California Regional Workforce Preparation and Economic Development Act (RWPEDA). For descriptions, see Randall Eberts, "Workforce Development and Economic Development Strategies in a Multi-Level Governance Framework: The United States Experience," OECD publication (forthcoming).

[11] One of the central roles of the Administration's Director of Recovery for Auto Communities and Workers is to cut through red tape and ensure that the full resources of our federal government are leveraged to assist the workers, communities, and regions that rely on the auto industry.

[12] Burt S. Barnow and Christopher T. King, *The Workforce Investment Act in Eight States*
[13] Michael Polzin, Donna Winthrop, Julie Brockman, John Dirkx, "Preparing practitioners to adopt a demand-driven, partnership-based, business focused approach to workforce development, Case Study," Michigan State University, no date.
[14] Evaluation of the 1st generation WIRED regions and preliminary evaluation of the 2nd and 3rd generation regions point to several WIBs that have have adopted a dual-customer approach, serving both businesses and workers. A few WIBs have indicated that they see business as their primary customer, with the understanding that meeting their needs means jobs for local workers. A part of the *National Evaluation of the Implementation of WIA* focused on business as partner and customer under WIA identified nine innovative Local Areas and concluded that two key strategies that led to successful partnership with business was to make business the Local Area's primary customer and to rely on strong, charismatic staff leadership. See "Business as Partner and Customer under WIA: A Study of Innovative Practices," Social Policy Research Associates, (2004).
[15] Paul Bauer, Mark Schweitzer, and Scott Shane. **"**State growth empirics: the long-run determinants of state income growth.**"** Working Paper 0606 (Federal Reserve Bank of Cleveland, 2006).
[16] Paul T. Decker, Jennifer Rice, and Mary Moore "Education and the Economy, An Indicators Report," Washington: National Center for Education Statistics, 1997).
[17]D. Card, "The Causal Effect of Education on Earnings," Volume 3a, In Orley Ashenfelter and David Card, Ed., *Handbook of Labor Economics*, vol. 3a (North Holland Press, 1999). The earnings gains are even more pronounced from curricula that provide an academic year of more technical and applied coursework, with returns ranging from 10 to 15 percent. Even basic literacy and numeracy skills have significant payoffs. Studies, for example, have shown that high-literacy workers can earn nearly three times that of low-literacy workers. In terms of annual increases, the study found that an increase in literacy proficiency raised expected annual earnings by 15 percent See A. Sum, "Literacy in the Labor Force, Results from the National Adult Literacy Survey," (Washington: National Center for Education Statistics, 1999).
[18] While the number of participants in the program has increased dramatically in the past several years, from 182,000 in 2004 to 294,000 in 2008, the number of participants receiving training has declined. Between April 2008 and March 2009, during the depths of the current recession, only 55,000 received training; four years earlier, more than 100,000 received training (WIASRD, Social Policy Research Associates, prepared for the U.S. Department of Labor, January 10, 2010).
[19] Only 38,000 participated in TAA in 2008, down from 51,000 in 2004.
[20] The Division of Training Adjustment Assistance Management Information System, updated May 19, 2009.
[21] Another aspect of the workforce development system that dwells on helping workers only when they are out of work is the unemployment insurance system. Established 75 years ago, the UI system provides partial and temporary wage replacement for those displaced from their jobs for no fault of their own. It remains a key component of the social safety net for laid-off workers. However, the benefits are available only when a worker is displaced. Seventeen states have adopted a program that provides benefits to workers still working but are in jeopardy of losing their jobs. This approach, referred to as short-time compensation or work sharing, allows an employer to reduce the weekly hours of work for all workers in their firm, rather than temporarily laying off some workers. Under this program, workers receive a pro-rated portion of their weekly benefit amount based on the percentage by which their work is reduced. However, states are reluctant to adopt this program or use it more widely for fear of violating a clause in the unemployment insurance law related to the "fact or cause" of a worker's unemployment. See Statement of Jane Oates, Assistance Secretary for Employment and Training, U.S. Department of Labor, before the Committee on Finance, United States Senate, April 14, 2010.
[22] By customized training, we include two types of training: On-the-Job Training and incumbent worker training. With on-the-job training, employers may receive reimbursement for up to 50 percent of the costs to provide additional on-the-job training for individuals who were hired through the public workforce system. Incumbent worker training programs are supported primarily by states and local areas. ETA has granted states the ability to make flexible decisions about training dollars for incumbent workers. Different states have made different decisions about whether they will support such training, which high-growth industries will be eligible, and yearly limits, among other important considerations. In 2006, about 1

million people at a cost of $571 million participated in customized training programs. Most of the funding came from two sources: States' general fund (42 percent of funding) and UI off-set tax (38 percent). The remainder came from state bonds and tax credits. Expenditures vary widely across states. Iowa spends the most on a per capita basis ($42.00). Michigan, Ohio, Illinois and Wisconsin, states hardest hit by the auto industry decline, spend less than $3 per capita on customized training. ("State-financed Customized Training," ETA Occasional Paper 2007-14.)

[23] GAO report "Employed Worker Programs Focus on Business Needs, but Revised Performance Measures Could Improve Access for Some Workers," GAO-03-353, February 2003. In contrast to state programs, 7,000 workers participated in on-the-job training, and 3,000 participated in customized training through the federal WIA Dislocated Worker Program (WIASRD, PY2006).

[24] For example, a study of customized training in Massachusetts found that 30 percent of the firms surveyed reported that training grants led them to add workers and 20 percent reported that they averted layoffs. See Kevin Hollenbeck, "Is There a Role for Public Support of Incumbent Worker On-the-job Training?" Working Paper No. 08-138. (W.E. Upjohn Institute for Employment Research, 2008). Another study found that customized programs across Kentucky counties were 16 times more effective in creating jobs than were business tax incentives (W.H. Hoyt, C. Jepsen, and K.R. Troske, "Business Incentives and Employment: What Incentives Work and Where?" Working Paper (University of Kentucky, 2008). A third study calculates that the ratio of the present value of earnings to costs of customized training programs is at least 30 to 1. Based on this ratio, a $30 million expansion of customized training program in the State of Michigan, for example, would increase the present value of earnings for residents by $900 million (Timothy J. Bartik "What Should Michigan be Doing to Promote Long-Run Economic Development?" Working Paper No. 09-160 (W.E. Upjohn Institute for Employment Research, 2009).

[25] Great Britain uses a rigid system of competency levels, but it has been criticized for being too focused on education and not enough on skill sets or attributes important to carry out specific duties on the job.

[26] NGA and MDRC, "Building Bridges to Self-Sufficiency: Improving Services for Low-Income Working Families" (2004).

[27] For examples of such partnerships, see Randall Eberts, "Workforce Development and Economic Development Strategies in a Multi-Level Governance Framework: The United States Experience," OECD publication (forthcoming).

[28] "Business as Partner and Customer under WIA: A Study of Innovative Practices," A Report Prepared as part of the National Evaluation of the Implementation of WIA, SPR Associates, June 30, 2004.

[29] Ronald Jarmin, "Evaluating the Impact of Manufacturing Extension on Productivity Growth," *Journal of Policy Analysis and Management* 18 (1) (1999): 99–119.

[30] Timothy J. Bartik and John H. Bishop, "The Job Creation Tax Credit" Economic Policy Institute Briefing Paper No. 248 (Washington: Economic Policy Institute, 2009).

[31] The Massachusetts study of customized training used employment growth and earnings growth to proxy productivity. See Kevin Hollenbeck, "Is There a Role for Public Support of Incumbent Worker On-the-job Training?"

[32] The U.S. Department of Labor recently announced the availability of up to $90 million in Recovery Act funds for states and their partners to support on-the-job training. More permanent funding for OJT and customized training should be made available, particularly for distressed communities.

[33] Lower UI taxes may be justified if these improved practices are shown to reduce worker layoffs.

[34] The Administration is certifying more firms in auto-impacted communities as eligible for TAA.