

Worker Skills and Productivity Growth

Harry J. Holzer

Georgetown/Brookings

March 26, 2015

Links Between Worker Skills and Productivity

- Supported by Theory
- Supported by Evidence (to some extent)
- Some Challenges in Using Weak Education Growth to Explain Productivity Slowdown:
 - 1) Theory – What not more invested in education/training if it benefits firms and workers?
 - 2) Evidence – Timing doesn't really work (lags, etc.)

Facts and Trends in Worker Education

Despite very strong returns to higher education:

15% do not finish high school;

<50% attain postsecondary credential;

Little reward for HS diploma;

High variance in market rewards for postsecondary;

We were losing “race between education and technology” in late 20th century (Goldin and Katz);

Some Improvements since 2000;

But enrollments have risen faster than attainment:

Low completion rates! (30% at AA, 50-60% for BA)

Why Not Better Education Outcomes – Given Strong Market Incentives?

- Student/Family Effects
- Institutional Effects: College and High School
- Employer Effects: Reluctance to Invest

Student/Family Effects

- Poor academic skills in K-12 years – Huge needs for remediation
- Liquidity constraints/High debt
- Poor information
- Family/parenting responsibility

All related to family income!

Institutional Effects: College

- High costs of better colleges
- Most disadvantaged students go to community or low-tier four-year schools (Undermatching!)
- Low resources, weak incentives impair student outcomes
- For-Profits: Growing roles and controversy

Institutional Effects: High School

- Strong market returns to high-quality career education and work-based learning (Career Academies, apprenticeship)
- Too little offered – controversy since 1960s
- Few opportunities for those not academically gifted

Employers: Reluctance to Invest in Training

- Due to general skill needs, weak skills of workers (cognitive and non-cognitive)
- Training and internal labor markets decline over time
- Explanations: Market Failure v. Profit Maximization at Worker Expense
- Also Effects of Weak Job Market!
- For all reasons: Not creating good jobs that are hard to fill – and not raising wages

Some Good Starts

- Expanding Sector Partnerships
- Career Pathways
- Rising Interest in Apprenticeship
- Seen most in health care, advanced manufacturing, IT – strong demand for workers and specific technical skill needs

Policies to Improve Skills on Supply and Demand Sides of Labor Market

- Postsecondary: Improve completion rates and links to job market – Accountability, Resources, Reforms
- Generate more high-quality CTE and Work-Based Learning
- Create incentives and assistance for employers to go “higher road”