

# **WORKFORCE** **NARRATIVE PROJECT**

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## **A Rationale For A Strong Employment and Training System**

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The American employment and training system has become increasingly marginalized in public policy discourse and we currently lack a convincing narrative to justify public investment in the job training system. The irony of this is that on a substantive level the case remains quite strong. For example, the number of adults who are trapped in low wage sector of the job market has remained disturbingly stable and remedying this is certainly a worthy goal for the system. In this paper I address a different concern: the increased volatility and risk that many American workers face, even those higher up in the income distribution.

In the past several decades, under the pressure of restructuring, the nature of job loss has changed. For example, during recessions the fraction of layoffs that are temporary, and hence followed by recall to the previous job, has declined sharply (McConnell and Tracy, 2005). In addition, the duration of unemployment spells has increased, rising to 16.2 weeks in the current decade from 11.8 weeks in the 1960s (Keltzer and Rosen, 2006). This increased volatility of the job market has taken its toll on more experienced and skilled employees. For two decades the Current Population Survey has tracked the experience of these dislocated workers. Henry Farber has shown that while the business cycle is the dominate driver of dislocation nonetheless, after taking the cycle into account, the rate is trending upward and this is impacting the better educated as well as those at the bottom of the skills distribution . In the survey covering the period 2001-2003, the dislocation rate for high school workers was 12 percent and for college workers 9 percent. Additional insight is gained by observing that the fraction of

the unemployed who are long-term jobless, i.e. unemployed for six months or more, has risen to roughly 20 percent and held at this level for an unprecedented long period of time (Allegretto, Bernstein, and Shapiro, 2005).

The consequences of this dislocation are severe. Among the high school workers only 54 percent reported themselves re-employed while for college workers the rate was still only 71 percent. Reemployment itself does not make employees whole. Thirteen percent of those losing full-time jobs were reemployed in part-time work and among those who did manage to find new full-time work the average wage loss was 11 percent for high school workers and 13 percent for those with college (Farber, 2005). The evidence is that these earning losses persist (Keltzer, 1998).

## THE CASE FOR PUBLIC POLICY

The labor market trends described above are troubling. Because the volatility and risk in the American labor market is relatively new our labor market institutions have not been modernized to respond to them. For example, the Unemployment Insurance system is still structured around the idea of a full-time worker temporarily losing his or her job. This is out of touch with new realities given the large fraction of layoffs that are permanent and the fact that many employees now piece together several part-time jobs. What this line of thought implies is that it is important to think about how to reconstruct labor market institutions to meet the new circumstances. Employment and training institutions, that are aimed at assisting employees to land on their feet after job loss, are certainly candidates for this refurbishing.

This paper is not the appropriate venue for describing at any length the content of policy interventions. However, simply to fix ideas I will note that several directions of possible. For the already unemployed these include job training and job search assistance. In addition, policies that encourage firms to increase the training that they provide to their incumbent workforce will enable employees to better survive should they lose their

job. In addition, these policies may also strengthen the competitive position of firms and hence reduce the chance of dislocation in the first place.

This said, even if the need for new employment and training initiatives is clear it is not immediately apparent why this requires public or government action. Why not leave the response to the private sector? There is substantial face validity to this question because the private sector has, in fact, responded in a variety of ways to the new job market circumstances. The evidence of this is the substantial growth of private sector labor market intermediaries such as job placement firms (for both high level executives and others), temporary help firms many of which also provide training, and internet based job posting systems. The increase in all of these institutions doubtlessly reflects the higher levels of mobility in today's labor market and the need people have for assistance in navigating these new circumstances.

Given this private sector response why also advocate investment in public initiatives? There are three reasons that underlie the rationale for public action. These are: (a) a key problem is the provision of insurance, explicit or implicit, to people at risk in the new labor market. In the language of the popular discourse, the winners need to compensate the losers. Private markets will not deliver on this because the winners will not willingly pay into any such "insurance" scheme; (b) Private intermediaries will cream the people most likely to succeed. These private intermediaries have no distributional concern and only the public sector can play this role; (c) many of our ideas about what constitute the most successful interventions require that various actors work together. Someone needs to play a convening role and government is the most appropriate candidate.

The idea of winners compensating losers is popular particularly when it comes to debates around trade. It is coming to be broadly accepted that progress in trade liberalization requires assistance to people who are displaced and this assistance is in effect compensation paid for by the people and organizations who gain from free trade. The point, however, is more general than trade and is applicable to technological change as well as other forms of economic restructuring. Compensation to the "losers" of the economic game will not be privately provided because there is no mechanism to induce people who expect to do well to contribute to the insurance pool.

One form of compensation are transfer payments and the modern form this discussion takes is the debate about wage insurance. Another is job training and job matching services that enables the “losers” to find another good job. An effective employment and training system can therefore be thought of as a mechanism to compensate people whose job market prospects are damaged by economic dynamism and, by doing so, the system in fact facilitates that dynamism going forward.

Related to this line of thought is the fact that the myriad private sector intermediaries, training, and job matching institutions have no reason to work with those in the most difficulty. To the contrary, their incentive is to cream in the labor market, identifying people most likely to succeed and helping them do so. This characterization is not a criticism, private actors have no distributional responsibility. Nonetheless, the clear implication is that the people in the most difficulty, those with the lowest skills and the worst prospects, will not fare well if they are left to rely on private sector institutions.

The final rationale for public action is more programmatic. In the past decade we have learned a great deal about what constitutes best practice in employment and training. In particular, a model of labor market intermediaries has emerged which is very promising. These intermediaries bring together firms and training institutions in a cooperative effort aimed at both the meeting the human resource needs of the employers and the assisting job seekers. In addition, these intermediaries often work with firms to upgrade their incumbent workforce. Although it is not always the case, many of the most successful intermediary models work with clusters of firms in the same industry or groups of firms that are interested in a common set of skills. They also may link firms to public economic development programs. The experience of existing initiatives shows that recruiting firms and bringing them together to cooperate with each other and with economic development initiatives is time consuming and difficult and may also require incentives of various kinds. Although on occasion business associations play this role most business associations do not see these kind of activities to be a core function and they lack the expertise and experience to be successful. In general there needs to be a strong public sector presence if these kind of cooperative models are to be initiated and take root.

## CONCLUSION

As noted at the beginning of this paper, there are multiple good rationales for an active employment and training system of which the one developed here is only one. However, an advantage of the argument in this paper is that it addresses a long-standing weakness of the system, its isolation from the core of the economy. In the past employment and training programs have been viewed as an extension of the welfare system and aimed primarily at poor people. The consequence of this has been low levels of public support. Public policies which assisted people higher up the job distribution could overcome this weakness and by doing so enable the development of a set of labor market policies which better helps those at the bottom as well as others more advantaged but still in need of assistance.

The risk and volatility in the labor market raises both equity and efficiency concerns. The people who are experiencing the most difficulty are less well off than average and also lack the skills and contacts necessary to navigate the job market. At the same time their failure to make connections and to land good jobs implies a waste of human resources. In addition at least some of these people become advocates for national economic strategies that may not, from a broader perspective, be in the interest of growth. However, unless we construct an effective employment and training system such a response is not only understandable but also politically compelling.

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