



THE FUTURE OF  
*Workforce Development*  
WHERE RESEARCH MEETS PRACTICE

**Session:**

Sectoral Approaches to Workforce Development

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September 19, 2012

Federal Reserve Bank of Kansas City, Kansas City, Mo.

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# The Rise of Sectoral Workforce Development Strategies

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*The Future of Workforce Development Conference*  
Federal Reserve Bank of Kansas City  
Kansas City, MO

September 19, 2012



# Outline

- Labor Market Policies
- Economic & Labor Market Context
- Economic and Workforce Development
- Sectoral Workforce Strategies & Their Impacts
- Guiding Principles for Sectoral Approaches
- Concluding Observations

# Labor Market Policies

Two broad forms of labor market policy (LMP):

- Active labor market policies (ALMPs) seek to expand employment, facilitate adjustments to technological or economic changes, and reduce poverty and inequality through 5 types of activity:
  - ✓ Job matching and job search assistance
  - ✓ Enhancing the labor supply (e.g., training)
  - ✓ Reducing labor supply through early retirement
  - ✓ Increasing labor demand
  - ✓ Changing the structure of labor demand

# LM Policies...

- Passive labor market policies (PLMPs) seek to ease the pain of labor market adjustments through extending or expanding unemployment insurance (UI) benefits among other strategies.

Sweden, most western European, and some Asian nations favor Active LMPs, while the UK and US stress Passive LMPs in their policy mix.

Parts of Europe and the US increasingly gravitating to sectoral strategies as an effective form of Active LMP.

# Context

In 1950s and 1960s, the US experienced unprecedented economic growth and broadly shared prosperity —

- Employment expanded across most sectors
- Real wages rose substantially
- Many workers covered by a ‘social contract’ with good earnings, advancement opportunities, benefits and pensions in return for their commitment to the firm
- Immigration rates were low
- Global competition was limited

More comprehensive US labor market policies began to emerge in the 1960s and 1970s, responding to pockets of poverty, technological change and other problems.

# Shift to a Service/Knowledge Economy

But, the US has become a service-, knowledge- and information-producing economy. More workers now “thinking for a living” (Marshall & Tucker, 1992).



# Old vs. New Economies

| <b>Issue</b>                      | <b>Mass Production Economy</b> | <b>Entrepreneurial, Knowledge Economy</b> |
|-----------------------------------|--------------------------------|---|
| <b><i>Economy-wide Traits</i></b> |                                |   |
| Markets                           | Stable                         | Dynamic                                   |
| Competition Scope                 | National                       | Global                                    |
| Organization Form                 | Hierarchical                   | Networked                                 |
| Production System                 | Mass                           | Flexible                                  |
| Key Production Factor             | Capital, Labor                 | Innovation, Knowledge                     |
| Key Technology Driver             | Mechanization                  | Digitization                              |
| Competitive Advantage             | Economies of scale             | Innovation/quality                        |
| Importance of Research            | Moderate                       | High                                      |
| Firm Relations                    | Go it alone                    | Collaborative                             |
| <b><i>Workforce</i></b>           |                                |   |
| Policy Goal                       | Full employment                | High incomes                              |
| Skills                            | Job-specific                   | Broad, sustained                          |
| Nature of employment              | Stable                         | Dynamic                                   |
| <b><i>Government</i></b>          |                                |   |
| Business/govt. relations          | Impose requirements            | Assist firm growth                        |

# Work & Workplace Changed, Changing

Work is no longer

- Highly structured
- Repetitive
- Hierarchical

Now, it's more

- Flexible
- Fluid
- Task,- not Job-, centered

Per Levy and Murnane (2004) and Carnevale et al. (2012), new and different skills are required in today's labor market and there is a growing skills premium.

# End of the Social Contract

Economists (e.g., Osterman, Cappelli, Kochan) suggest there is a “new deal at work” replacing the social contract, featuring:

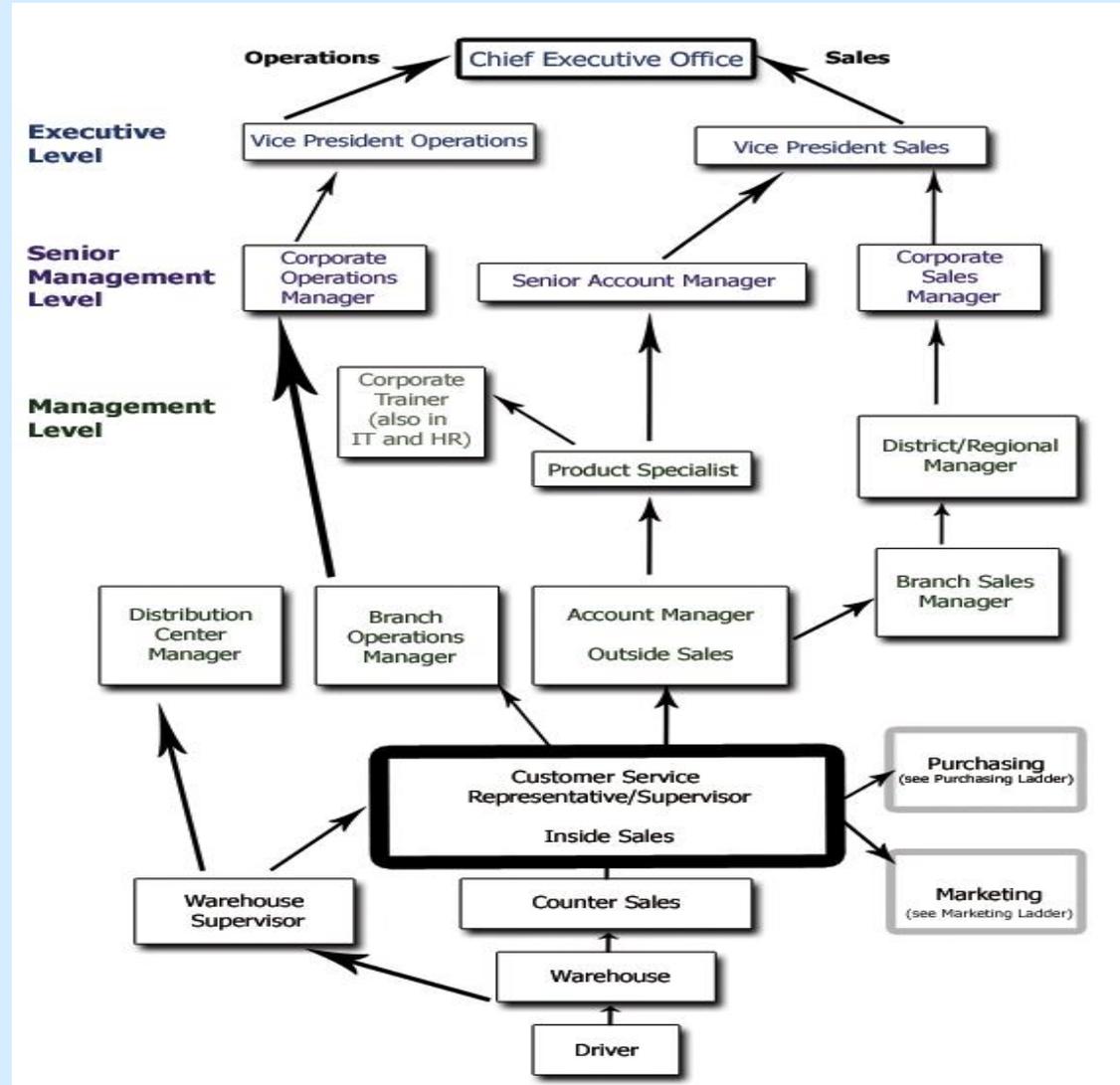
- Short-term, not lifetime, commitment
- Focus on the work (tasks), not the job
- Stress on quality and trust
- Individual, not shared, responsibility for career progress
- Stress on workers’ values being consistent with firm’s

Effects of “new deal” on labor markets and on workers often unpleasant.

# Advancing in US Labor Markets

Old view:

*Career Ladders*

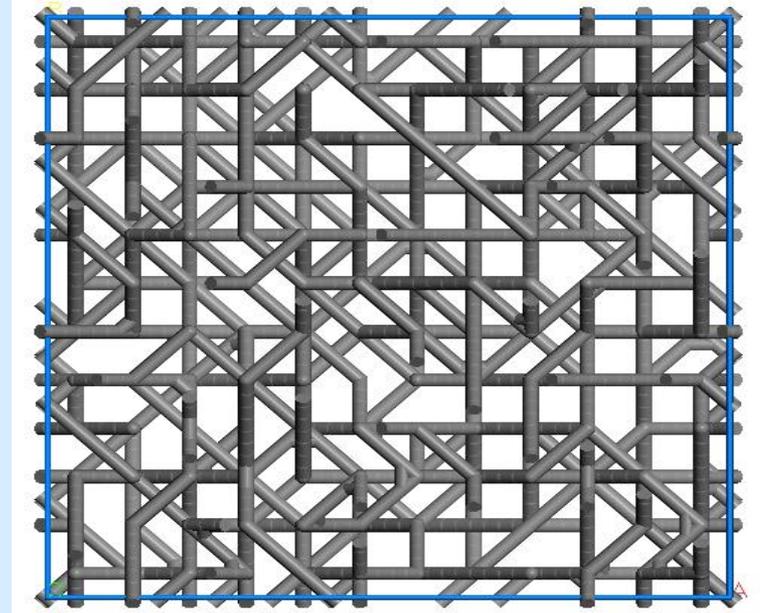


# Advancing ...

New metaphors:

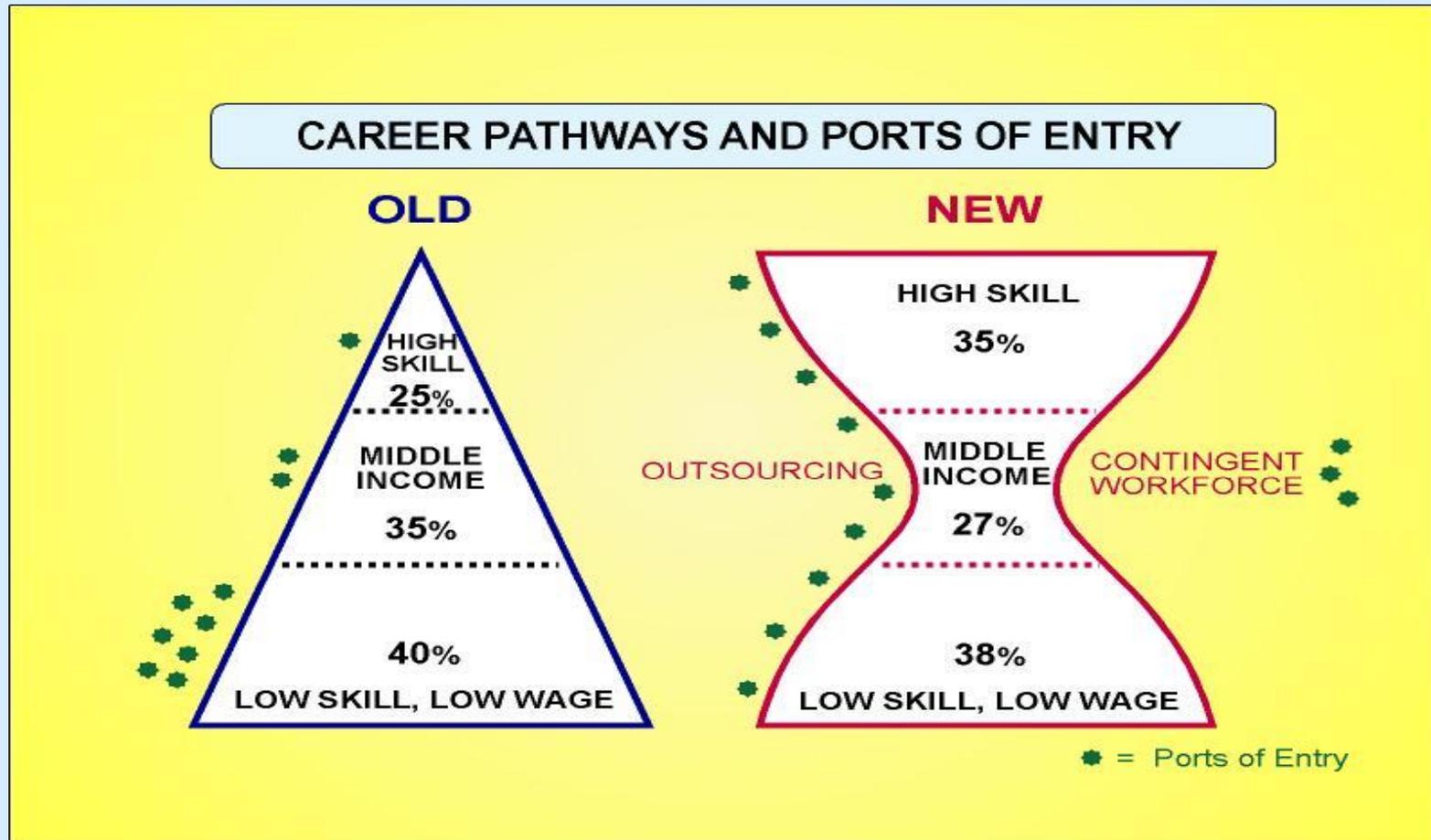
*Career lattices*

*Climbing walls*



# Advancing ...

Fewer entry 'ports' and fewer, flatter career ladders.



# The U.S. Workforce 'System'

Per Osterman (2007), publicly-funded workforce components (2005 \$) include:

- ✓ Workforce Investment Act (WIA) programs for poor adults and youth, \$2.5B
- ✓ WIA and Trade Adjustment programs for dislocated workers, \$1.6B
- ✓ Adult Education (federal/state) programs, \$2.1B
- ✓ State-funded incumbent worker training, \$0.3B
- ✓ Employment Services/WIA 1-stop Centers, \$0.9B
- ✓ Community & Technical College training, \$12-\$20B
- ✓ Apprenticeship programs, \$28M

# Private Workforce Services

Private employers responsible for overwhelming majority of formal workplace training in US, totaling \$139B (ASTD, 2007), including:

- ✓ OJT
- ✓ Customized training
- ✓ Informal work-based learning
- ✓ Tuition assistance programs through colleges and universities

Employers spend around \$1,100/worker, or just over 2% of payroll, on workforce services, which goes disproportionately to better educated and skilled workers, not those most in need.

# Economic & Workforce Development

Traditionally, economic and workforce development quite different in terms of goals, actors, financing and tools of trade.

|                   | <b>Economic Development</b>  | <b>Workforce Development</b>  |
|-------------------|--|---|
| <b>Goals</b>      | <ul style="list-style-type: none"> <li>• Job creation</li> <li>• Infrastructure development</li> <li>• Economic growth</li> </ul>      | <ul style="list-style-type: none"> <li>• Employment</li> <li>• Job retention</li> <li>• Skills development</li> <li>• Increased earnings</li> </ul> |
| <b>Key Actors</b> | Regional and state economic development agencies   | Workforce investment boards; community & technical colleges   |
| <b>Financing</b>  | Federal (USDOD, Economic Development Administration) grants; state economic development funds; state/local tax abatements              | Federal/state program funding, e.g., Employment Service, Workforce Investment Act, Adult Ed, Voc Rehab, Career & Technical Ed, state training funds |
| <b>Tools</b>      | <ul style="list-style-type: none"> <li>• Financing</li> <li>• Training &amp; technical assistance</li> <li>• Policy changes</li> </ul> | <ul style="list-style-type: none"> <li>• Job matching</li> <li>• Job development</li> <li>• Adult education</li> <li>• Skills training</li> </ul>   |

# Economic v. Workforce ...

Economic development focuses on ‘branding’ and high-end talent recruitment (e.g., managers, engineers) in short-term. Details of workforce recruitment or development at lower levels typically “left to the market”.

Workforce development, done right, is concerned with recruitment at all levels, looks at current and future employment needs, works on the messy ‘details’ of training agreements and lining up provider capacity among education and training organizations.

In past decade or so, workforce development has moved more toward innovative approaches that better engage economic development and employers through cluster- and sector-based strategies.

# Rise of Cluster-driven Development

Cluster defined as:

“Geographically proximate group of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standard-setting agencies, trade assns.) in a particular field, linked by commonalities and complementarities.”

Porter (1990, 2000) developed 4-point “diamond of advantage” model of economic development based on concepts of clusters and competitive advantage: 1) demand conditions; 2) industry strategy, rivalry; 3) related/supporting industries; and 4) factor conditions.

Government role? Act as catalyst, challenger for economic development.

# Cluster-driven Development ...

3 main types of clusters:

- Natural resource clusters, in regions with key resources
- Local clusters, in all regions
- Traded clusters, produce goods and services involved in trade, concentrated in a few regions — *drive regional growth and prosperity*.

Rosenfeld (2002), working with National Governors Assn's "policy academies" (with the Ray Marshall Center and others) and particular states, translating cluster concepts into practical guides for state economic development.

➤ *Foundation for crafting much closer, more effective linkages between economic and workforce development strategies.*

# Sectoral Workforce Development

Began in 1980s with Center for Employment Training (San Jose) and 1990s with Casey's Jobs Initiative and independently developed employer-driven models, e.g., QUEST (San Antonio), Wisconsin Regional Training Partnership, VIDA (South Texas), Capital IDEA (Austin).

- Target specific industry and/or cluster of occupations
- Intervene through credible organizations (often “workforce intermediaries”)
- Support workers competing for quality job opportunities
- Address employer needs and competitiveness
- Create lasting change in labor market systems helping workers and employers

# Sectoral WFD...

Sectoral strategies address 3 main goals simultaneously:

1. Increase worker skills
2. Improve productivity
3. Enhance regional competitiveness

Sectoral strategies spread in the 2000s through the work of the NGA, Aspen Institute's Sectoral Training Academy, National Network of Sector Partners.

By late 2000s, sectoral approach greatly expanded:

- 227 organizations targeting 20 industries across US
- 39 local workforce boards funded by USDOL
- NGA working with 11 states

# Sectoral Strategy Effectiveness

Rigorous impact studies have been conducted by the Ray Marshall Center and P/PV with the Aspen Institute, as well as both Melendez (1995) and MDRC (Miller et al. 2005) of the Center for Employment Training.

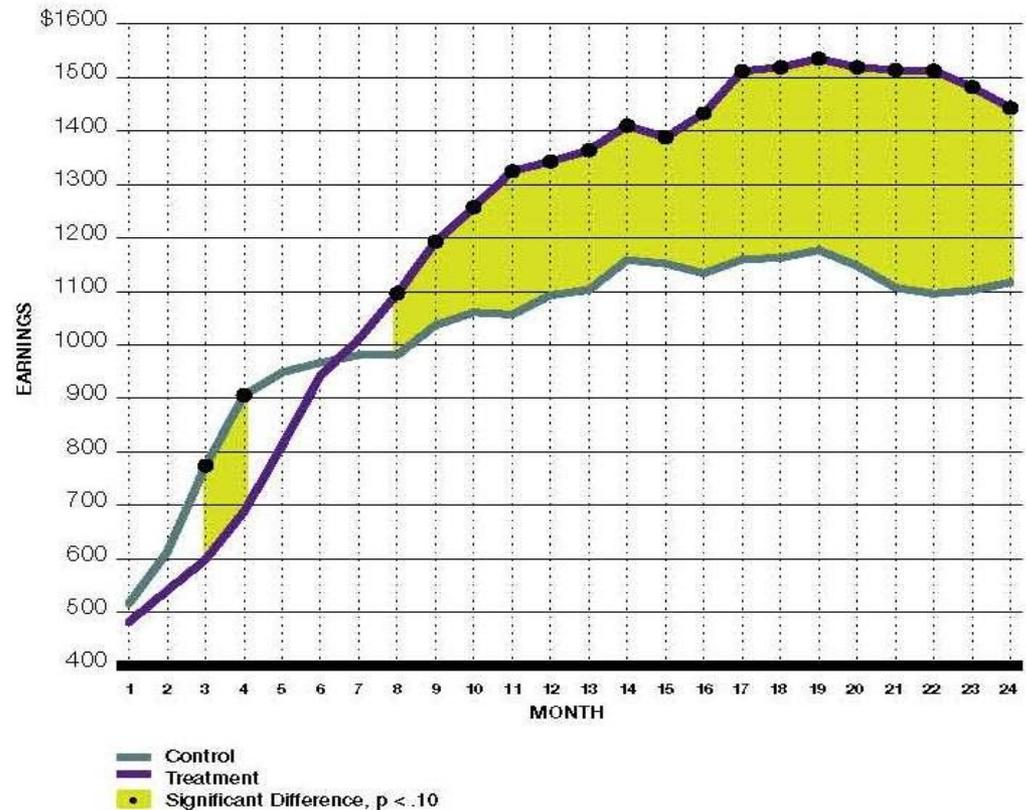
P/PV-Aspen (Maguire et al. 2009) used an *experimental design* to estimate 24-month impacts from 3 sectoral training programs: Jewish Vocational Services (Boston); *Per Scholas* (NYC); and Wisconsin Regional Training Partnership (Milwaukee)—

- Participants earned significantly more (\$4,500 or 18.3%) than controls over 24 months, and fully 29.3% more than controls in the 2<sup>nd</sup> year after training.

# P/PV-Aspen Impacts

- Participants were more likely to work, and in the 2<sup>nd</sup> year to work more consistently.
- Employed participants worked more hours and earned higher wages.
- Participants were significantly more likely to work in jobs with employee benefits.

Figure 1: Total Earnings by Month



# Capital IDEA Impacts

Ray Marshall Center has been conducting a longitudinal, *quasi-experimental evaluation* of Capital IDEA since 2006, estimating impacts on employment, earnings, UI eligibility and UI claims filed, as well as ROI (see Smith et al., 2008, 2009, 2011, 2012).

Capital IDEA features:

- Longer-term occupational training mostly (75%) in nursing and allied health careers in the healthcare sector
- Strong employer engagement
- Wrap-around support services (e.g., counseling, college preparation)

# Capital IDEA Impacts ...

Estimated impacts for participants relative to a comparison group that received only low-intensity workforce services are *large, lasting and statistically significant*.

- Employment rates for all participants increased by 12.3 percentage points (to 74.3%) over all available quarters after participation, a period of nearly 8 years.
- The share of participants monetarily qualified for UI benefits also increased by 12.3 percentage points.
- Participants enjoyed a \$759 advantage in average quarterly earnings over the period, or 11.9 percentage points.

No significant differences in the rate of UI benefit filings were found.

# Capital IDEA Impacts ...

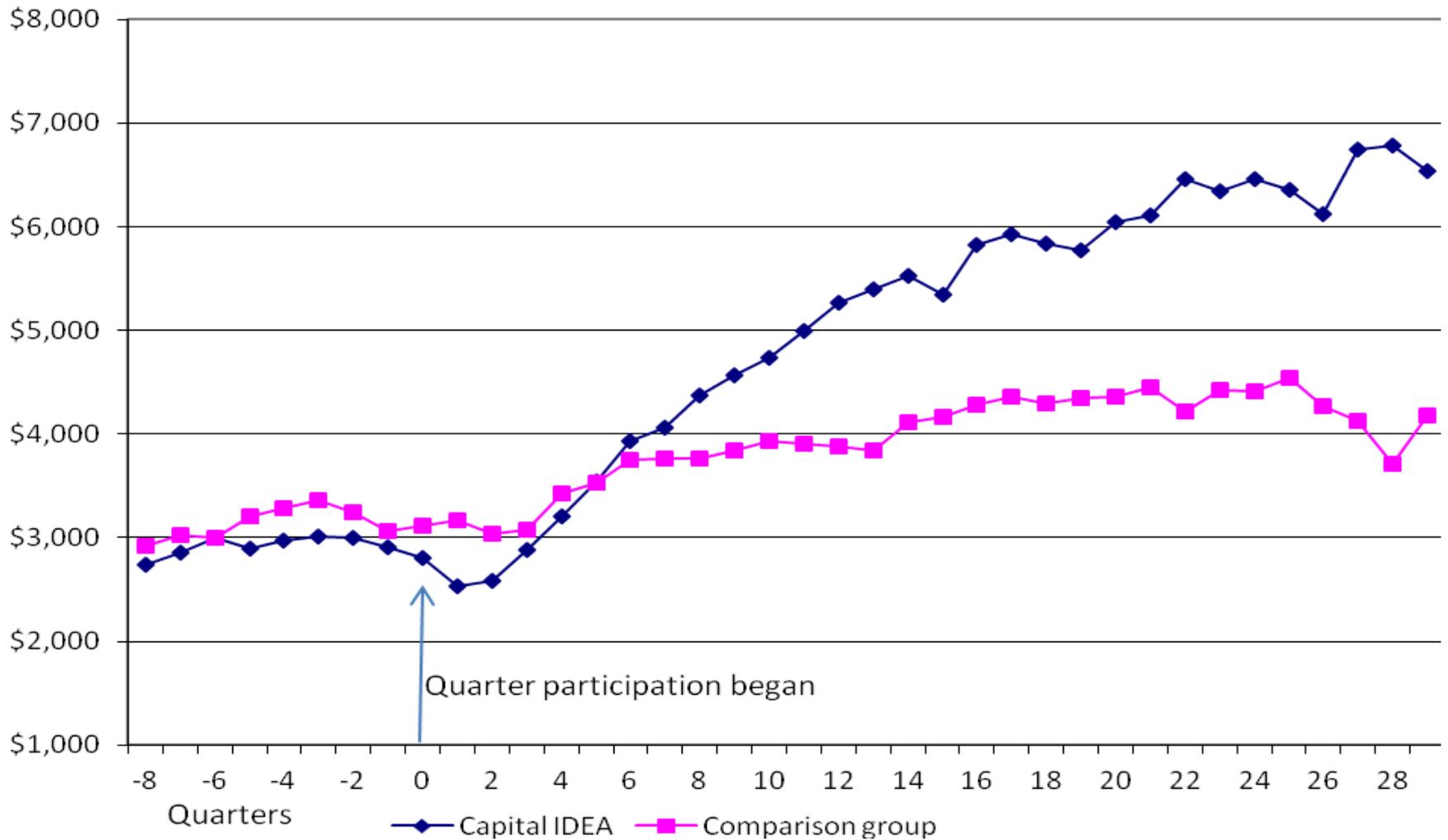
Capital IDEA's post-program earnings impacts are impressive. Note that:

- Earnings impacts are averaged over all participants, whether employed or not (i.e., unconditional earnings)
- Differences in earnings between participants and comparison group thus capture the combined employment and earnings impacts of participation

MESSAGE —

**Longer-term skills training leading to employment credentials as part of a sectoral strategy yields large, lasting impacts on employment, earnings and other outcomes.**

# Capital IDEA Earnings Impacts



Source: Smith, King & Schroeder, 2011.

# ROI Analysis

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- Exploratory return-on-investment (ROI) analysis for early (2003-2004) Capital IDEA cohorts
- ROI estimates based on quasi-experimental impacts and program cost data
- Participants spent on average 1.5 years in the program at an estimated per-person cost of \$6,459
  - 2/3 of Capital IDEA training was funded by taxpayers
  - Foregone earnings were minimized since most participants continued working while in training

# Returns to Taxpayers

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- Returns stem mainly from reductions in welfare and SNAP (food stamp) payments and increased tax receipts
- Total returns to taxpayers:
  - Over 10 years, each dollar invested in Capital IDEA returns \$1.65 to taxpayers, for an annual rate of 9%
  - Over 20 years, each dollar returns \$5.01 to taxpayers, for an annual rate of 17%

# Sectoral Strategies Spreading

- Workforce Solutions-Gulf Coast Workforce Board (Houston), a large-scale sectoral initiative focused on healthcare, particularly shortages in nursing.
- National Fund for Workforce Solutions funded by USDOL, Casey and other foundations supporting sectoral training via workforce intermediaries in nearly two dozen sites.
- Tulsa's CareerAdvance Initiative (Oklahoma), focused on nursing/healthcare training for parents of Head Start and Early Head Start children in a highly innovative 2-generation investment approach.
- Southwest Industrial Areas Foundation, replicating sectoral, intermediary-based workforce strategies via its affiliates in AR, AZ, IA, LA, NM, OK & TX

# Guiding Principles for Sectoral Approaches

- Effective industry engagement is critical to success.
- Sectoral strategies should seek long-term retention and career advancement through ladders/lattices in the right firms in the right industries.
- Sectoral programs should operate as workforce intermediaries between supply and demand sides of the labor market, serving as interpreters, integrators and facilitators.
- Sectoral programs can use various approaches to benefit low-income workers, producing ‘system changes’ in industry practices, education and training, and/or policy.
- Training should be geared to employer needs.

# Principles ...

- Sectoral programs can/should partner with local community colleges to help them become more effective at producing the skills employers need.
- Classroom skills training should be joined with work-based learning, combining earning with learning through paid internships, apprenticeships or other practical experience.
- Programs should provide case/care management to encourage completion of training.
- To be sustained, sectoral workforce programs need to keep good records and build a track record of performance through credible evaluations feeding continuous improvement over time.

# Concluding Observations

- ✓ While workforce development yields significant impacts and strong rates of return for participants, employers, taxpayers and society in the US, it's been relegated to a minor role for decades with funding declining substantially. The Recovery Act only provided a temporary funding bump.
- ✓ Sectoral workforce development strategies represent the way forward for all the reasons discussed here. Related strategies—e.g., career pathways—are expanding as well.
- ✓ The US should adopt and strongly support sectoral strategies as part of a conscious move towards more effective Active LMPs. The SECTORS Act is one good place to start...

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