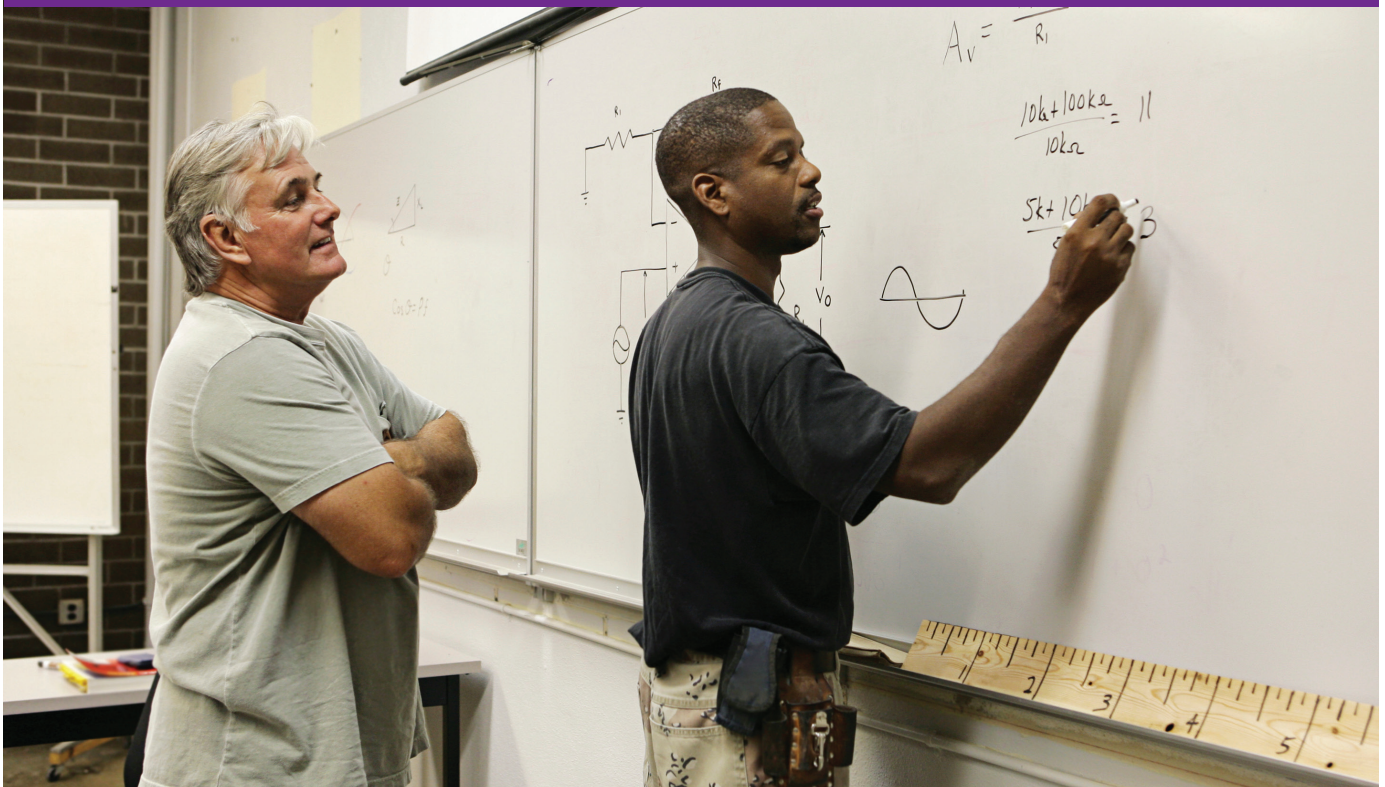


POLICY BRIEF 2011-11

Policies to Reduce High-Tenured Displaced Workers' Earnings Losses Through Retraining

NOVEMBER 2011



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Policies to Reduce High-Tenured Displaced Workers' Earnings Losses Through Retraining

Major shifts in U.S. employment have led to the widespread loss of high-paying jobs in manufacturing and other industries. Recovering from these losses has been particularly difficult for high-tenured workers who lack a college education or vocational skills, both of which are in high demand. While initial periods of unemployment impose high short-term financial and psychological costs on these workers, the largest losses occur after they find new, lower-paying jobs. On average, workers reemployed at a lower paying job earn about 20 percent less than they would have if they had remained in their previous jobs—an amount equal to about \$220,000 over the rest of their working lives.

In a new paper for The Hamilton Project, “Policies to Reduce High-Tenured Displaced Workers’ Earnings Losses Through Retraining,” Louis S. Jacobson of New Horizons Economic Research, Robert J. LaLonde of the University of Chicago, and Daniel G. Sullivan of the Federal Reserve Bank of Chicago contend that retraining through our nation’s community colleges and private career colleges is a way to reduce the skills gaps of many of these displaced workers and to increase their reemployment earnings. The authors propose to establish a Displaced Worker Training (DWT) grant program through the Department of Labor (DOL) that would provide sufficient funds so displaced workers with the largest earnings losses could obtain two years of training—enough to cut losses at least by half. To help ensure positive outcomes, the authors’ proposal includes the following: (a) Workers receiving grants would be required to obtain assessment and counseling from One-Stop Career Centers to assist them in making sound choices and would receive case management to help resolve problems that often prevent successful completion of programs. (b) One-Stops and training providers would be held to a high standard. The Departments of Labor and Education would track their outcomes using expanded data collection systems. (c) Federal agencies would be required to identify and disseminate best practices. (d) Service providers would be rewarded for excellent performance. (e) Community colleges would receive extra funds during economic downturns.

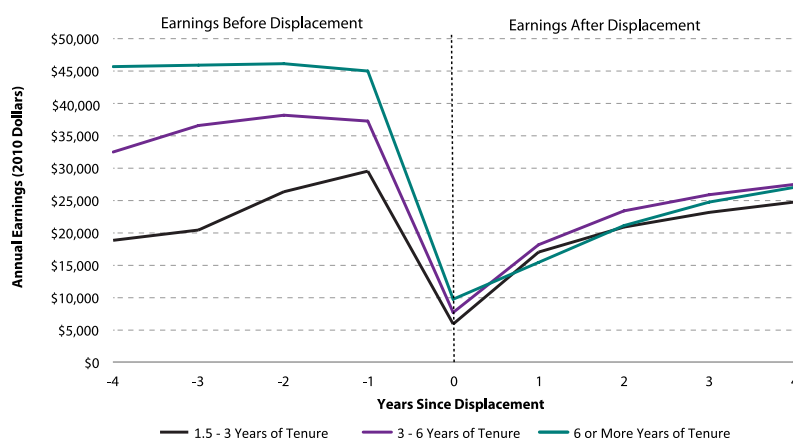
The Challenge

Worker Displacement and Its Effect on Lifelong Earnings

Between 2007 and 2010, 15 million American workers were displaced from their jobs; 45 percent of those workers were “high-tenured” workers who had been in their jobs for three years or more. Most low-tenured displaced workers only experience temporary earnings reductions. By contrast, high-tenured displaced workers typically experience large permanent losses that increase with tenure, and that continue to accrue after they find new jobs (Figure 1). Displaced workers with six or more years of tenure can expect lifetime earnings losses that amount to \$220,000 or more because the skills that they possessed were specific only to their previous jobs or industries. Current unemployment insurance and job search assistance programs provide immediate economic relief and help workers find the best job available, but cannot offset these long-run earnings losses.

Research shows that retraining displaced workers can greatly reduce their earnings losses. In their seminal study of the retraining programs offered by Washington State community colleges, Jacobson, LaLonde, and Sullivan find that one academic year of community college training could increase the earnings of each displaced worker by about \$4,000 if training is in “high-return” courses, such as health-related fields, college-level science and math, and the technical trades.

FIGURE 1
Earnings of Displaced Workers by Prior Tenure



Source: Louis Jacobson, Robert LaLonde and Daniel Sullivan, “Is Retraining Displaced Workers a Good Investment?” 2005.

Despite the potential for large benefit, only about 15 percent of the workers in the Washington State study took any community college courses and about 75 percent trained for six months or less. The authors ascribe the underinvestment in training to severe household budget constraints and to the lack of information on the costs and benefits of training.

At the same time, existing federal programs targeted to displaced workers are not designed to meet long-term training needs. For example, the Workforce Investment Act (WIA) Individual Training Accounts (ITAs) provide vouchers of about \$4,000, which is only a fraction of the amount needed for the two years of intensive training required to substantially reduce earnings losses. Pell grants and Stafford loans provide long-term assistance, but are inadequate to support the training required by displaced workers with families to support. Moreover, many displaced workers are not eligible for Pell grants because they have a bachelor's degree or want to enter noncredit programs; others are eligible only for greatly reduced grants because spousal earnings are high or they cannot attend school full time.

A New Approach

To reduce high-tenured workers' well-founded anxiety about job loss and to increase their ability to cut earnings losses at least in half, the authors propose an integrated set of reforms designed to remove a range of impediments that have prevented workers from getting enough high-return training to substantially increase earnings. One key element is the creation of a DWT grant program to offset the cost of training workers who experience the largest earnings losses. The program provides a form of insurance against large losses, benefits employers and communities by increasing the supply of well-qualified workers, and helps workers better adjust to policies that improve America's long-term competitiveness at the cost of short-term job loss.

A second key element would require Career Center counselors to provide assessment, counseling, and case management to match workers' education, experience, interests, and vocational aptitude to appropriate high-quality programs as well as to resolve problems that develop during the course of training. This element would make up information deficits that currently prevent most training-ready workers from entering and completing high-return programs.

Additional key elements include putting in place new systems to hold the honest brokers and training institutions accountable for providing effective assistance; identifying and disseminating best practices; creating incentives to improve programs by offering competitive grants for innovative

programs and by rewarding excellence; and providing funds to shore up community colleges' ability to provide high-return training during economic downturns when demand increases, but government funding (which accounts for two-thirds of community college revenue) decreases.

The DWT Program

The DWT program would make completing up to two years or more of coursework financially possible by providing funds for out-of-pocket expenses that include tuition, books, transportation, and child care. The size of the payments would depend on the earnings loss and would "top off" funds that are available through the Pell grant system. Total grants would be capped at one and a half times the worker's earnings losses, up to a maximum amount of \$36,000. The grant amount is designed to finance enough training over a four-year period to offset 50 percent of workers' earnings losses. To make the program affordable to taxpayers, grantees would be required to work while in training. Indeed, Jacobson, LaLonde, and Sullivan show that this is the only way that such a program would be cost-effective for society, and often for the trainee as well.

TABLE 1
Determination of Grant Amounts in Year One for the DWT Program

	Example 1	Example 2	Example 3	Example 4
Unemployment length	0–6 Months	0–6 Months	0–6 Months	1 Year
Qualifies for Pell grant?	Yes	No	Yes	Yes
Reemployed with earnings loss greater than 5 percent?	Yes	Yes	No	No
DWT maximum grant eligibility	1.5 x earnings loss	1.5 x earnings loss	\$0	\$0
Maximum yearly grant amount	Up to \$11,000 from DWT funds and Pell grants	Up to \$11,000 from DWT funds after reemployed	Pell grants or WIA ITA only	Pell grants while unemployed up to \$11,000 from DWT funds and Pell grants after reemployed

Career Center Counselors to Function as Honest Brokers

Many displaced workers are unaware of how widely returns vary between different training programs and how their own backgrounds affect the probability of completing different programs. Thus, a key part of the proposed DWT program is to require that honest brokers provide assessment and counseling to ensure each grantee selects a high-return program that she is likely to complete. The staffing and infrastructure required for the components of the new approach are already in place at the DOL. First, DOL has established a nationwide system of One-Stop Career Centers where staff already provide the honest broker services required for DWT program grantees to existing short-term training program grantees. One-Stops also currently collect the information needed to establish whether DWT work requirements are met and disperse allowable expenses to grantees. They have in place systems to track postprogram employment and earnings, which they can use to set performance measures and standards and certify training providers as “well qualified.”

Because WIA services are not an entitlement and funding is adequate to serve only a small fraction of workers requesting training, the authors’ budget \$600 in DWT program funds for each initial screening at One-Stops, and \$300 for each semester the grantee remains in training.

KEY FEATURES OF THE DWT PROGRAM GRANTS

- While unemployed, some displaced workers would be eligible for Pell grants up to \$5,500 per year.
- After workers find new jobs, they would be eligible for DWT program grants, set at one and a half times their reemployment earnings losses up to a maximum of \$36,000.
- DWT grants could be used for out-of-pocket expenses such as tuition, books, transportation, and child care.
- DWT grants would be put into training accounts every six months based on most recent earnings losses up to a maximum of \$5,500. Tuition and fees would be paid directly to the training providers, but payments for supportive services would be paid to grantees biweekly.
- The amounts in ITAs could be used at any time up to four years after their job loss, but incentives would be created to encourage workers to enter training as quickly as possible after job loss.

Roadmap

- The federal government will establish a Displaced Workers Training (DWT) grant program through the Department of Labor that targets high-tenured training-ready displaced workers.
- The Department of Labor will be in charge of disbursements, worker screening, and monitoring because it has much of the needed infrastructure already in place. It already manages and operates other major training programs, such as those funded under the Workforce Investment Act and the Trade Adjustment Assistance Act.
- The DWT will reach displaced workers by using One-Stop Career Centers that already operate across the country and provide many of these services to other workers under other programs. In their estimates of program costs, the authors budget \$600 for each initial screening at One-Stops and \$300 for each semester the grantee remains in training.
- DWT grantees would be required to meet with One-Stop staff prior to receiving funds to ensure they make sound program choices, and would be required to continue to meet with staff every semester that would monitor their progress and resolve problems.
- The program would transfer funds for each worker in training to an individual training account.
- Tuition and books would be paid at the start of the academic period, although ideally provisions would be made to withhold some payments in case students quickly drop courses or programs. The program would disperse other related expenses biweekly in manner consistent with the flow of expenses.

Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, *Policies to Reduce High-Tenured Displaced Workers' Earnings Losses Through Retraining*, which was authored by:

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Additional Hamilton Project Proposals

Raising Job Quality and Skills for American Workers: Creating More-Effective Education and Workforce Development Systems in the States
Harry J. Holzer

Less-educated workers have experienced decades of stagnating wages and contracting employment opportunities, often because they lack the skills necessary to compete in an increasingly challenging economic environment. To improve employment prospects and earnings for these workers, the United States needs an education and workforce development system that can connect them with good-paying jobs in high-growth industries. This paper proposes a set of competitive grants to fund education, training, and career counseling initiatives that feature private sector connections based on the experience of existing successful workforce development programs. The grants may fund new training programs that teach sector-specific skills and connect workers with employers and industry partners, and they may encourage existing programs to adopt evidence-based models.

DWT PROGRAM ELIGIBILITY REQUIREMENTS

- Be reemployed, but show earnings losses in excess of 5 percent at new job
- Have at least three years of tenure at predisplacement job
- Have total family earnings below \$120,000
- Complete assessment and counseling with honest brokers to develop a sound plan for entering and completing high-return training

Costs and Benefits

According to the authors, well-targeted investments in high-return courses for displaced workers can have a social return of 7–12 percent, on par with, if not larger than, the rate of return for young people undertaking secondary and postsecondary education. The authors estimate that during periods of economic expansion program expenditures would be about \$1 billion annually, and would provide training for up to 80,000 workers. During a recession, the total program expenditures for DWT would be around \$2 billion annually, providing training for up to 150,000 displaced high-tenured workers.

Conclusion

Retraining can be an effective policy option to compensate many high-tenured displaced workers for lost earnings. It can also constitute a sound social investment. As Jacobson, LaLonde, and Sullivan recognize, providing funds to cover the direct costs of retraining and other out-of-pocket expenses including transportation and child care is only one part of a set of integrated reforms needed to ensure displaced workers enter and complete high-return programs. Other elements include providing the services of honest brokers to compensate for information deficits, holding honest brokers and training providers to high standards of performance, identifying and disseminating best practices, and ensuring community colleges have the funds needed to maintain capacity during economic downturns. Finally, to make the program affordable to taxpayers the authors recommend requiring grantees to work while attending school.

Many of the reforms advocated here will directly benefit workers who are ineligible for the DWT program but who nevertheless want to improve their career outcomes through training; will provide employers with skilled workers they need to prosper; and will reduce opposition to policies that foster long-term growth at the short-term expense of job losers.

Questions and Concerns

How does this proposal differ from proposals for “wage insurance” that would provide high-tenured workers with compensation if they are forced to take a job with a lower salary?

One solution explored in earlier Hamilton Project discussion papers (Jeffrey Kling, “Fundamental Restructuring of Unemployment Insurance: Wage-Loss Insurance and Temporary Earnings Replacement Accounts,” 2006; Howard Rosen and Lori Kletzer, “Reforming Unemployment Insurance for the Twenty-First Century Workforce,” 2006) is to offer wage insurance—a program that makes up part of the difference between a worker’s new earnings and her earnings at a previous job. Wage insurance at present does not appear to be a politically feasible option, and therefore Jacobson, LaLonde, and Sullivan view retraining as the next-best option to boost workers’ earnings directly by investing in their skills through retraining.

Don’t many studies of job training for displaced workers usually find that their earnings after training are lower than they were before losing their jobs, and therefore demonstrate that training is ineffective for this population of workers?

No, they do not demonstrate this at all. It is true that many displaced workers end up earning less after retraining than they earned before losing their jobs. After all, when these workers lose their jobs some of their marketable skills become obsolete. This was

clearly the case among the displaced workers in the Washington State study. Nonetheless, the authors still found that both displaced workers and society benefited from heavily subsidized retraining. The question that we need to address is, “How much lower would the earnings of these workers have been in the absence of retraining?”

The authors have designed their proposed DWT program so that resources are available to provide enough training to cut in half the earnings losses of high-tenured displaced workers interested in retraining.

What should be done for displaced workers who do not pass the screening for training?

The screening is meant to determine whether displaced workers would succeed in a high-return training program. Workers with solid academic backgrounds in math and science are likely to find it easiest to identify such programs, but there are many middle-skill building programs in fields such as health care and building trades that do not require prowess in math and science. The Pell grant program and other programs are available for those who may need more remedial education than is allowed under this program. Early evidence suggests that sectoral training initiatives that focus on improving the competitiveness of a particular sector such as health care or manufacturing, and programs that combine remedial education and occupational training may be particularly effective. In short, there are other options, but this would not be the goal of the DWT program proposed here.

Highlights

Louis S. Jacobson, Robert J. LaLonde, and Daniel G. Sullivan present evidence that workers suffer large earnings losses after being displaced from their previous jobs. These authors argue that retraining can effectively reduce the earnings losses for these workers when a set of integrated reforms are in place.

The Proposal

The creation of a Dislocated Worker Training (DWT) program to provide training grants to reemployed displaced workers. Grants would be available for workers that have suffered substantial earnings losses and are eligible for training after reemployment. Unlike existing programs, funding is not conditional on unemployment; instead, grantees would be required to work to make the program affordable, and the size of the subsidy would be based on the difference between a worker's current earnings and predisplacement earnings.

Principal Features

- *Operates through the thousands of existing One-Stop Career Centers.* One-Stop Career Centers, which operate in all fifty states, would function as screeners to identify displaced workers most likely to benefit from training programs and identify the right training programs.
- *Holds One-Stops and training providers to a high standard.* The program would establish a system of performance measures and standards that would be used to assess the quality of the advice given by One-Stops and the quality of training provided by training institutions. This system would be used to reward excellence, provide accurate information to potential trainees, and develop lists of well-qualified training providers.
- *Evaluates One-Stops and training providers.* All training providers should be required to report outcomes such as placement rates for trainees with different characteristics to develop a fuller understanding of what works and for whom.
- *Increases funding to community colleges to provide high-return courses.* High-return courses are often the most expensive courses that community colleges offer, and a DWT program would put additional strain on community college resources at a time when state and local governments are cutting their budgets. The authors propose the establishment of a fund that would increase the resources available for community colleges as demand for training increases.

Benefits

The DWT program can help displaced workers recover from devastating earnings losses, and reduce the costs to society of unemployment and economic transitions. Displaced workers undertaking two years of training while working could expect to see a rate of return on par with, if not larger than, that reported for formal schooling of young people.



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