THE HAMILTON PROJECT

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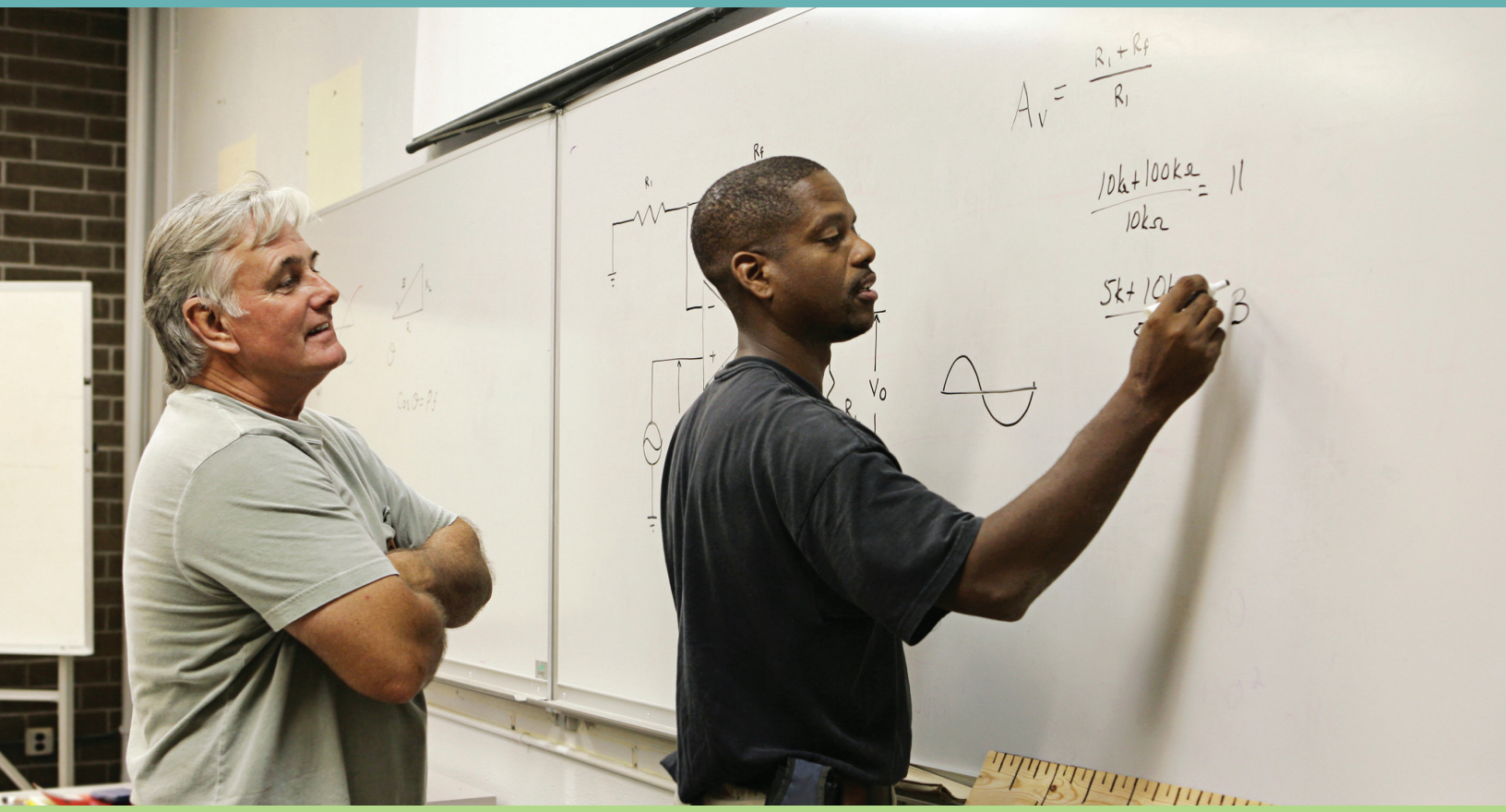
Policies to Reduce High-Tenured Displaced Workers' Earnings Losses Through Retraining

Louis S. Jacobson, Robert J. LaLonde and Daniel G. Sullivan



MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.

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NOTE: This discussion paper is a proposal from the authors. As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The authors are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This discussion paper is offered in that spirit.

BROOKINGS

Abstract

High-tenured displaced workers often experience significant earnings losses that persist for the rest of their working lives. A well-targeted training initiative has the potential to substantially reduce permanent earnings losses for those displaced workers who have the academic preparation, work experience, and interest to complete high-return retraining, with a rate of return on par with, if not larger than, that reported for formal schooling of young people. Current governmental training programs do not provide adequate resources to finance the long-term training needed by displaced workers to meaningfully offset their losses, nor do they provide the right incentives to get longer-term retraining. This paper presents five comprehensive reforms targeted specifically at retraining displaced workers experiencing significant earnings loss: (1) establish a Displaced Worker Training (DWT) Program to provide sizeable grants for longer-term training; (2) use honest brokers to assess and counsel grantees; (3) provide incentives and performance standards for participants and institutions; (4) evaluate training programs and disseminate best practices; and (5) shore up community colleges' capacity to provide high-quality training, especially during tough economic times.

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Chapter 1: Introduction

Economic hardship in the United States has many faces. Prime-aged displaced workers make up a vulnerable group whose plight is sometimes not recognized or well understood by policy-makers. These formerly well-established workers often have permanently lost long-standing jobs as a result of structural economic changes, increased competition from foreign trade, or changing regulatory policies. Such changes often manifest themselves in mass layoffs, as when plants close or shifts are eliminated. Between 2007 and 2010, 15 million workers were displaced from their jobs. Of those workers, 7 million (45 percent) had been in their jobs for three years or more.

The U.S. Department of Labor has long recognized the special circumstances of experienced displaced workers who lose their jobs. It has designated displaced workers who had accumulated at least three years of tenure with their prior employers as "high-tenured" displaced workers. These individuals sometimes experience extended periods of unemployment following their job losses, which can impose high economic and psychological costs. But what makes these individuals different from other persons that experience unemployment is that their principal economic hardship is caused by the sharply lower wages at new positions when they do find reemployment. Their anxiety about the consequences of job loss is well founded, but they are unlikely to slip into poverty as a result of their displacements.

What is now understood about long-term wage losses from displacement is that they are usually small for low-wage and low-tenured workers. Minimum-wage workers, for example, experience little long-term effect from displacement, because they are paid at new jobs about what they were paid at previous jobs. By contrast, middle- and upper-income workers experience large losses over the long term. The more job tenure they had with their prior employer and the greater their predisplacement earnings, the larger their long-term earnings losses. Such high-tenured displaced workers typically experience annual earnings losses in the range of 15 to 25 percent for the remainder of their working lives. In dollar terms, the typical high-tenured displaced worker will bring home about $220,000 less than if she had stayed in her job until retirement.[1] These losses are smaller if she finds similar work, but much larger if she is forced to accept work in a new industry or occupation.[2]

As a result, high-tenured displaced workers bear a disproportionate share of the costs associated with structural economic and policy changes that benefit most Americans, such as changes stemming from technological change, freer trade, or environmental policies. Unless insurance against these wage losses is offered, it is in these workers' self-interest to oppose such changes that so dramatically threaten their livelihoods. Thus, reducing opposition to otherwise productivity-enhancing structural or policy changes is one reason it is desirable to implement policies where the "winners" more adequately compensate the "losers." Put bluntly, continued political support for the changes that characterize the dynamism of our economy may rest on identifying creative ways to allow all Americans to participate in growth.

Policy options to reduce displaced workers' earnings losses include wage insurance, improved job search assistance, and job-matching and placement services. Although wage insurance has the best chance of mitigating displaced workers' earnings losses and allaying their anxiety about job loss, we focus on the option of retraining in this paper because wage insurance as a policy option has been discussed elsewhere, and because in the current policy environment a modest increase in targeted training resources appears to be a more politically feasible policy than does adequately funding wage insurance.[3] To be sure, the wage-insurance option is favored by many economists because they view the retraining option as a second-best policy. After all, many older workers and less-skilled workers are not in a good position to benefit from retraining. Furthermore, beneficiaries of a wage insurance program can always use some of their benefits to pay for retraining on their own.

Nonetheless, various forms of schooling, classroom vocational education, and on-the-job training are proven ways for some workers to build their skills and, thus, increase their marketability (LaLonde 2003). As we have suggested above, intensive training is unlikely to be appropriate for all displaced workers, and it is vital to direct training dollars to their most effective uses by targeting the large number of high-tenured displaced workers who have the academic preparation, work experience, and interest in completing high-return retraining. Such a well-targeted retraining initiative has the potential to

substantially reduce permanent earnings losses—the main problem displaced workers face. In fact, the evidence suggests such a program could have a rate of return to training on par with, if not larger than, that reported for formal schooling of young people.

Even though retraining can produce net benefits for workers, high-tenured workers are unlikely to acquire sufficient high-return training on their own to substantially offset earnings losses unless training is subsidized. We identify six reasons for this view:

1. These workers are not in a position to cover the out-of-pocket expenses of training. During the initial period of unemployment, unemployment insurance (UI) replaces, on average, only about 47 percent of former earnings. After they find new jobs, workers' earnings often are 80 percent or less of prior earnings.

2. Displaced worker programs have been severely underfunded and provide only short-term vocational training designed to improve reemployment prospects (Jacobson 2009; LaLonde 2003).

3. Whereas Pell grants provide long-term assistance, many high-tenured displaced workers are not eligible for these grants after they find new jobs because their family earnings are too high or they already have four-year degrees.

4. Pell grants are insufficient to provide the funds needed to support adults with families, mortgages, and children needing childcare or attending college.

5. Displaced workers typically lack the information needed to enter and complete high-return programs. This is because they are unfamiliar with the returns from different programs, and uncertain about whether or not they have the academic preparation and vocational aptitudes needed to complete those programs, and because training providers, especially community colleges, lack the resources and incentives to provide this information.

6. Displaced workers and policy-makers often vastly underestimate how much training is required to make displaced workers whole for their earnings losses. For example, on average it requires the equivalent of two academic years of retraining for a displaced worker to recover from a 20 percent earnings loss. Thus, the Workforce Investment Act (WIA) provides training vouchers that are about one-tenth of what high-tenured displaced workers would need to meaningfully address their earnings losses.

Another implication of the last observation is that any effective retraining initiative that targets high-tenured displaced workers must encourage them to remain in retraining while they are working full time. Existing federal training programs, however, do not provide such an incentive. Although the federal Trade Adjustment Assistance (TAA) program and the NAFTA-Transitional Adjustment Assistance (NAFTA-TAA) program both subsidize retraining for trade-affected displaced workers, these programs encourage some recipients to enter low-return training programs in order to prolong benefit payments by linking training to extended unemployment payments. At the same time, they penalize recipients engaged in high-return training for finding new jobs. In sum, the current training system may actually be counterproductive for displaced workers by pushing them into short-term training or low-cost long-term training programs with low payoffs.

The five parts of our proposal collectively provide a comprehensive set of reforms designed to overcome the two key obstacles noted above: lack of resources to finance long-term training, and lack of information for workers to select a high-return program that they are likely to complete. In addition, our proposal reduces the burden on taxpayers by creating incentives for workers to be employed full time while retraining, for honest brokers to provide reliable information, and for training providers to create high-return programs meeting the needs of high-tenured displaced workers.

Providing for the long-term retraining of prime-aged displaced workers, most of whom have families, is inherently challenging, and have not been the focus of previous efforts. Experience tells us that making funds available for retraining through Pell grants and Stafford loans is not sufficient to substantially increase these workers' earnings. Accordingly, it is our view that the success of our proposed program critically depends on implementing the full set of reforms. Without an effective policy in place, many middle-class workers will continue to have good reason to oppose otherwise socially beneficial economic and policy changes.

Part 1. Establish a DWT program that enables high-tenured displaced workers who have experienced the largest earnings losses to obtain sufficient training to substantially increase their earnings. The proposed program links benefits to earnings losses rather than to household income, covers more-expensive and more-intensive training than does the Pell grant program, covers child care and other expenses, and waives disqualifying provisions of the Pell program related to already having a college degree, and taking courses that lead to career-oriented certificates rather than degrees. In addition, the program requires eligible displaced workers to obtain assessment and counseling in order to receive retraining grants, and requires them to make satisfactory progress in order to maintain these grants.

Part 2. Increase the returns to the DWT program by using honest brokers to assess and counsel grantees so that workers select high-return fields of training that match their attributes and interests. An institution ready to play this role in a DWT program is the Department of Labor's One-Stop Career Centers. This part of our proposal is based on evidence that the returns to different fields of education vary widely, as do the attributes that make program completion likely, as well as evidence that many trainees fail to select programs that are likely to lead to high returns. For example, it is widely recognized that STEM-based fields of study have high returns; nevertheless, many workers enter these programs who did not perform well in high school math, an attribute essential for successfully completing STEM courses. But not nearly as well recognized is that there are other high-return fields, such as building trades and some health-care-related specialties, that depend more on vocational skills than on high levels of academic achievement.

Part 3. Provide incentives and performance standards for participants and institutions to ensure that training is targeted toward those high-tenured displaced workers who can benefit from it. For trainees, continued funding should depend on satisfactory completion of for-credit and not-for-credit course work. For training providers and the institutions providing the honest brokers, the Departments of Education and Labor should establish a system of bonus payments and performance standards to provide incentives for them to target appropriate retraining opportunities to displaced workers that those workers can complete successfully.

Part 4. Evaluate retraining programs and disseminate best practices so that workers, honest brokers, training providers, and policy-makers have the information they need to make sound investments. A key element of this part is developing a comprehensive system to assess how returns vary across fields of study at individual training providers for trainees with different attributes. In addition to facilitating informed decision-making, this information could be used to certify a specific program as highly effective for specific workers. In addition, we propose systematically examining the attributes of highly effective programs so that training providers can adopt best practices.

Part 5. Shore up community colleges' capacity to provide high-quality retraining, especially during tough economic times. This could be accomplished by altering community colleges' funding mechanisms so they reward high performance, and by providing sufficient funding for training programs during recessions when demand increases and funds from state and local governments decrease.

Displaced workers and policy-makers often vastly underestimate how much training is required to make displaced workers whole for their earnings losses.

Chapter 2: Displaced Workers and the Problem of Persistent Earnings Losses

The Department of Labor has long recognized the special status of displaced workers. Since January 1984, it has sponsored the biennial Displaced Workers Survey (DWS) to supplement the Census Bureau's Current Population Survey. The survey identifies individuals who report having lost or left a job during the past three calendar years because their "plant or company closed or moved, [their] position or shift was abolished, insufficient work, or another similar reason" (BLS 2010). The survey excludes those displaced workers who are younger than twenty, those who have left a seasonal or temporary job, and those who have become unemployed or have changed jobs because their own business failed.

Over the years, it has become clear that a subset of the individuals identified in DWSs who "had worked for their employer(s) for three or more years at the time of their displacements," are different from lower-tenured displaced workers, and present a distinct policy problem because they typically have large permanent earnings losses (BLS 2010). They often experience six months or more of unemployment before finding a new permanent job, especially when job loss is widespread in their industry and locality, but transitional earnings losses usually are much smaller than their earnings losses after they are reemployed. In the most recent DWS, of those who had been reemployed, 36 percent had earnings losses of at least $20,000. Thus, the main challenge faced by high-tenured displaced workers is not finding another job, but finding another job that pays as well as their previous job.

Displaced workers earn less upon reemployment mainly because their skills are industry- or job-specific, and become obsolete or do not transfer well to a different job environment. An example of this is when the steel industry shifted from using open-hearth technology to basic oxygen furnaces. Many displaced steel workers could not find reemployment at a similar wage, especially around the 1958 recession. Concern that this experience, as well as technological changes in other industries, was permanently affecting workers and their communities led Congress to enact the Area Redevelopment Act and the Manpower Development and Training Act in 1962. A more recent example is the role that robotics has played in displacement in many manufacturing industries. Firm-specific skills—for example, knowledge of company practices and familiarity with coworkers—that were previously an asset suddenly become less valuable when a displaced worker seeks a job with a new employer.

Previous surveys indicate that displaced workers with three or fewer years of tenure do not suffer long-term earnings losses as a result of losing their jobs (LaLonde 2007, Figure 1, p. 8, and accompanying text). On average, their new jobs pay as well as their previous jobs. By contrast, for other displaced workers the effects of job loss linger even after they find new jobs. Displaced workers who had accumulated the most tenure with their prior employers face, on average, the steepest and most persistent income losses upon reemployment.

These income losses usually are permanent. We conducted a study that followed a large sample of displaced workers from Pennsylvania beginning in the late 1970s. We found that the workers earned 25 percent less over a ten-year period than they would have if they had not been displaced. Workers displaced from the manufacturing sector had particularly large losses. Upon finding work in another sector, they earned about 40 percent less. But even workers who managed to find jobs in the same industry as before experienced long-term earnings losses in excess of 15 percent. Other research has confirmed the earnings losses for the typical high-tenured displaced worker who lost his job during a recession would amount to about $220,000 over the rest of the worker's career (see footnote 1).[4]

State administrative wage records from Washington State provide even more striking evidence of the relationship between prior job tenure and displaced workers' long-term earnings losses. As shown in Figure 1, earnings losses rise markedly with tenure in workers' previous positions. Workers with one and a half to three years of tenure experienced an average drop of 10 percent after four years. Workers with three to six years of tenure experienced an average drop of 23 percent. Workers with more than six years of tenure, however, experienced a loss of more than 30 percent relative to their prior earnings trajectories. It is easy to understand why expenditures for retraining may not be a priority for a household trying to adjust to large permanent losses.

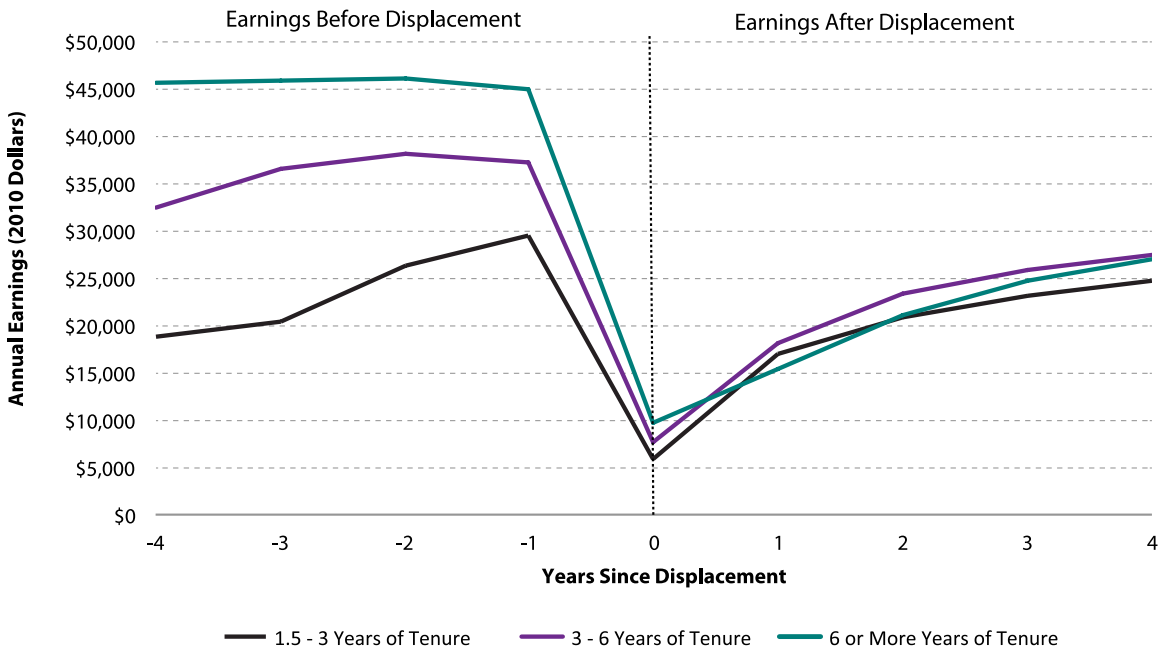
The large permanent reemployment earnings losses for high-tenured workers underscore why policy-makers need to customize programs for this group that differ from those usually targeted toward the economically disadvantaged or

the unemployed. As a rule of thumb, it is helpful to apportion about 15 percent of these displaced workers' total income losses to lost earnings while they are unemployed and about 85 percent to lost income after they are reemployed. To understand why this apportionment is reasonable, consider the following example. Let's say that a forty-year-old displaced worker loses a long-standing job and faces a permanent earnings loss totaling $12,000 annually. If this individual expected to work on average twenty more years, then her expected lifetime earnings losses would total $228,000.[5] This amount is far greater than any losses that she might have incurred while unemployed. For example, suppose this worker had been earning $48,000 annually prior to displacement and that she was unemployed for one year prior to finding a new job. Assuming that she is eligible to receive 47 percent of her predisplacement earnings in UI benefits for the first six months that she is unemployed, her income loss while unemployed totals about $37,000.[6] This income loss while unemployed is certainly substantial, but it amounts to only about 15 percent of the total loss associated with displacement.[7]

The large portion of displaced workers' losses attributed to reemployment earnings losses underscore why work-first policies or policies whose primary objective is to get these individuals reemployed will do these individuals little good. For example, a job search assistance program that decreases the time a worker is unemployed by five weeks would be socially beneficial, but would not have a meaningful effect on high-tenured workers' fears about an impending job loss.[8] Even UI, which reduces short-term financial distress and gives workers the time needed to locate the best available job, provides very little insurance against the long-term cost of displacement.[9] Existing policy fails to address that each year there are workers that experience catastrophic long-term losses in connection with being displaced from long-held jobs.

FIGURE 1

Earnings of Displaced Workers by Prior Tenure



Source: Jacobson et al. (2005c, Figure 1, p. 49).

Chapter 3: Can Training Programs Help Workers Overcome Earnings Losses? A Survey of the Evidence

There are relatively few studies evaluating the impact on displaced workers of public sector–sponsored retraining, regular community college courses, contract training programs, and private proprietary schools, compared to the many studies covering economically disadvantaged individuals (Ashenfelter 1978; Decker and Corsen 1995; IMPAQ 2008; Jacobson, LaLonde, and Sullivan 2005a, b, c; Kane and Rouse 1999; Leigh 1990). Existing evaluations suggest that low to modest impacts are typical for most displaced workers programs, with larger private and social gains accruing from contract classroom training programs and courses in community colleges and for-profit schools that are more technically oriented. Policy-makers and commentators often cite such studies as evidence that public sector–subsidized retraining is ineffective or wasteful (see, for instance, Edwards and Murphy 2011).

In our study of high-tenured displaced workers who enrolled in Washington State's community colleges during the first half of the 1990s, we found that retraining sometimes yielded impressive gains and constituted a productive investment of public funds (Jacobson et al. 2005c). Other studies suggest that whether community colleges can deliver such gains consistently depends on (i) how funding mechanisms and programs of study are designed, (ii) how well prepared displaced workers are to succeed in intensive retraining, and (iii) how well training is matched to displaced workers' prior schooling and work experience.

Our evaluation of the impacts of community college–based retraining in Washington State constitutes the most comprehensive examination of the impact of retraining on displaced workers' earnings to date. We found that displaced workers earned approximately $1,390 (or 4.4 percent) more per year after retraining. As shown in Figure 2, this impact takes

FIGURE 2

The Impact of Community College Retraining on Earnings, by Years Since Training Ended, and Gender

Source: Jacobson et al. (2005b, Table 2, p. 405).

a couple of years to materialize and is larger for women than it is for men. This impact reflects the gains from only about one-half year of schooling in a wide range of fields typically studied by displaced workers.

We found that these impacts varied substantially, depending on the field of study. Workers who obtained one academic year of retraining in more technical fields saw greater gains, earning more than $3,000 more per year.[10] Indeed as shown by Figure 3, the gains for women who took training that was more technically oriented were even larger. In contrast, workers who retrained in other fields experienced smaller gains on average, earning only about $1,000 more per year. In each case, the benefits of retraining were modest or even small compared to long-term earnings losses that averaged $8,500 a year for high-tenured displaced workers.

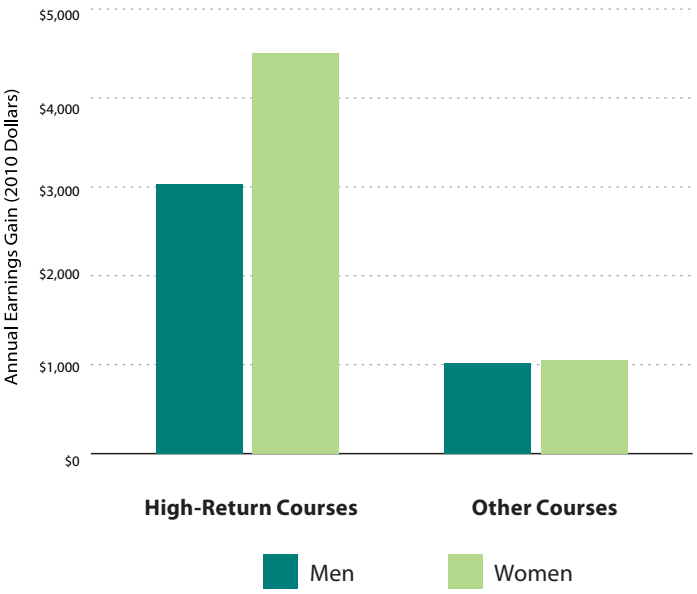
Displaced workers who were better educated and had greater predisplacement earnings were more likely to enroll in technical vocational courses, academic math and science classes, and health-care programs. One academic year of such courses raised individuals' earnings by about 12 percent for men and by an even larger percentage for women. The present discounted value (PDV) of this impact for a forty-year-old displaced worker was about $60,000. By contrast, displaced workers who were less educated and had lower predisplacement earnings were more likely to enroll in less-technical academic and vocational courses. We found that one academic year of such courses raised individuals' earnings by about 4 percent, which has a PDV of only about $20,000.

Furthermore, we found that larger investments—that is, completing more courses—usually leads to proportionally greater earnings gains as course-for-course retraining was about as effective for displaced workers attending community colleges as formal schooling is for youths attending high school and college. Gains were roughly twice as great for displaced workers who completed the equivalent of one academic year worth of retraining as they were for those who completed only one semester, and the largest gains of all were for women who completed two academic years of retraining.[11]

In fact, we concluded from our Washington State study that many high-tenured displaced workers had invested too little in retraining. Only about 15 percent of high-tenured displaced workers enrolled in any community college–based retraining around the time of their job losses, and less than 25 percent of those attending community colleges completed a year or more of training. Despite the earnings gains associated with retraining, few displaced workers took advantage of this relatively modestly priced option available in their communities. This suggests that displaced workers lack information about the returns to training programs, face uncertainty about academic preparation and vocational aptitudes, or lack the resources and incentives to pursue training.

FIGURE 3

Earnings Gains of Workers in Technical vs. Other Fields

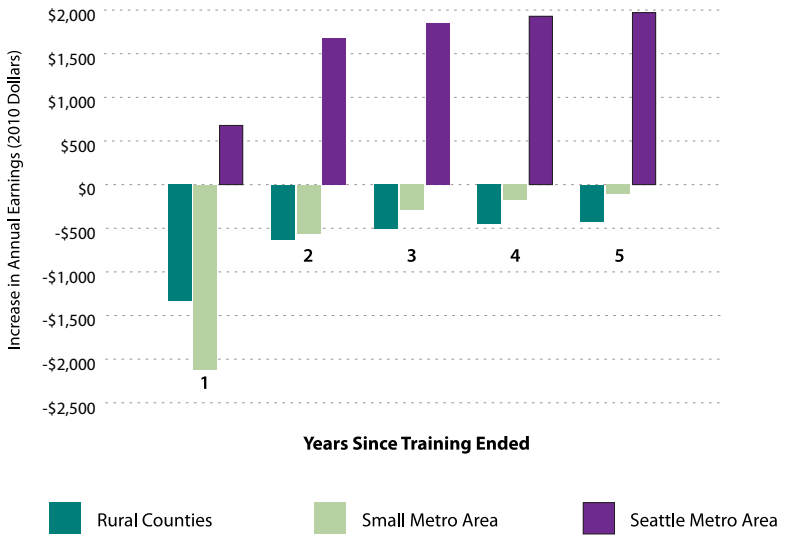


Source: Jacobson et al. (2005b, Table 3, p. 407).

Notes: The figure reports the estimated effects of one year of community college schooling for men and women over 35. Average age of the female sample is 43.6 years; average age of the male sample is 43.1 years (see Jacobson et al. 2005b, Table 1, p. 401). We converted impacts to 2010 dollars using the CPI. We arrive at the per year figures by multiplying the impact per credit per quarter by four times forty-five credits, which is the annual number of credits earned by a regular full-time for-credit student in Washington State.

FIGURE 4

The Impact of Community College Retraining on Women's Earnings, by Years Since Training Ended, and Region of Washington State

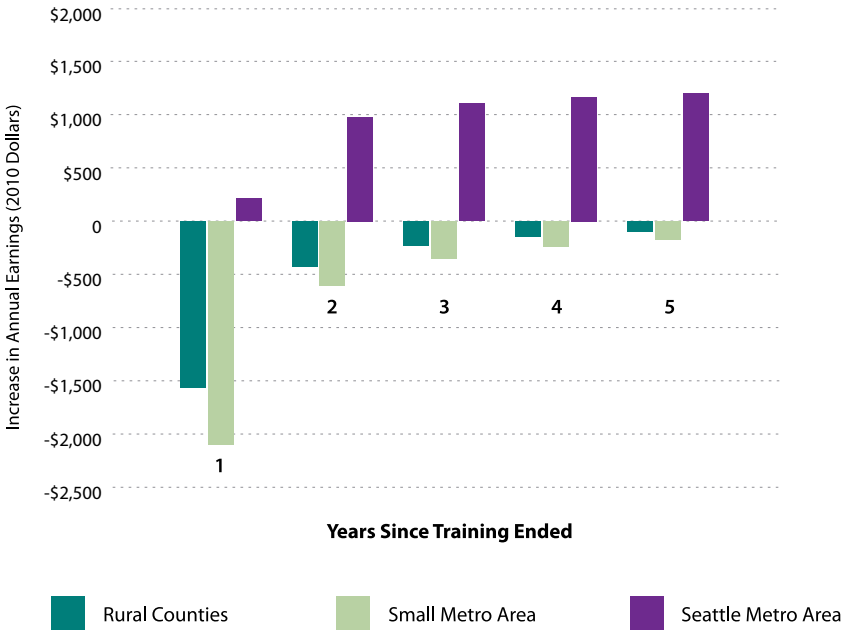


Source: Authors' previously unpublished calculations based on Washington State Sample described in Jacobson and colleagues (2005b).

Notes: Estimated impacts are for community college courses completed by women at Washington State community and technical colleges around the time of their displacement from high-tenured jobs between 1990 and 1995. Female displaced workers, who enrolled in community college retraining around the time that that they lost their jobs, completed, on average, about 0.56 years of retraining. (See Jacobson et al. 1995b, Table 1B, p. 402.) We converted impacts to 2010 dollars using the CPI.

FIGURE 5

The Impact of Community College Retraining on Men's Earnings, by Years Since Training Ended, and Region of Washington State



Source: Authors' previously unpublished calculations based on Washington State Sample described in Jacobson and colleagues (2005b).

Notes: Estimated impacts are for community college courses completed by men at Washington State community and technical colleges around the time of their displacement from high-tenured jobs between 1990 and 1995. Male displaced workers, who enrolled in community college retraining around the time that that they lost their jobs, completed, on average, about 0.63 years of retraining. (See Jacobson et al., 1995b, Table 1B, p. 402.) We converted impacts to 2010 dollars using the CPI.

Our research also showed that retraining had different impacts on workers from different regions of Washington State. We found that the positive impacts of community college retraining are disproportionately concentrated among displaced workers in the Seattle metropolitan statistical area (MSA). We estimate that in the long run these impacts topped out at nearly $2,145 per year for female and $1,430 for male displaced workers in the Seattle MSA and remained negative elsewhere in the state. (See Figures 4 and 5 for women and men, respectively.) Moreover, although displaced workers in the Seattle MSA tended to enroll in courses with higher returns, even those who enrolled in low-return courses experienced modest positive impacts from retraining. This finding did not hold among displaced workers in the state's smaller MSAs and rural counties. These results suggest that training in high-wage high-tech environments leads to higher returns, and reinforces the importance of matching training programs to local employment opportunities and worker backgrounds. In some cases, counselors must be prepared to tell trainees that a particular course of study will be successful only if they are prepared to migrate to another community.

Our Washington retraining results are consistent with the human capital literature that indicates that one year of formal schooling raises a student's subsequent earnings by roughly 10 percent per year (Heckman, Lochner, and Todd 2003). The implication of this research is that high-tenured displaced workers must make a substantial investment in training in order to offset earnings losses they incur due to lower earnings after they are reemployed.

Consider, for example, how much retaining is required by our illustrative high-tenured displaced worker who permanently lost 25 percent of her future income following loss of a long-held job that paid about $48,000 per year. In order to offset these losses, the impacts associated with high-return retraining imply that this worker would have to acquire the equivalent of three academic years of full-time retraining. Current programs do not provide sufficient funds for displaced workers to pay the direct and forgone earnings costs of obtaining this much retraining.[12] Thus, the relatively few displaced workers who have acquired this much retraining have usually done it by working and using their own funds to pay for regular courses offered by community colleges and by for-profit vocational and technical schools. Importantly, if those workers had not returned to work, forgone earnings losses would be greater than the gains from the training. If a program generous enough to offset forgone earnings was proposed, that program's stipends most likely would be regarded as prohibitively expensive.

Our premise is that "you get what you pay for." If funding is low, impacts are small. Thus, substantial increases in funding are needed to get large impacts, even under the best of circumstances. At the same time, we recognize that society is unlikely to provide transfer payments sufficient to allow displaced workers to remain jobless while completing long-term retraining; if workers are jobless for too long it is harder for training to produce large enough impacts to offset earnings losses. Thus, an important element of the program that we describe in Chapter V is that it encourages displaced workers to work while they are enrolled in retraining.

Our premise is that "you get what you pay for." If funding is low, impacts are small. Thus, substantial increases in funding are needed to get large impacts, even under the best of circumstances.

Chapter 4: The Failure of Current Policy to Support High-Return, Long-Term Retraining for Displaced Workers

Any policy that uses retraining to offset a substantial portion of high-tenured displaced workers' losses requires many integrated components; without any one of them, this policy is likely to fail. Even if all these components are in place, however, the program's ability to mitigate a substantial fraction of these workers' earnings losses hinges on its ability to encourage them to obtain the equivalent of at least two years of training. With rare exceptions, in order to acquire this much retraining, workers must continue to retrain after they find new jobs.[13]

Expressed in the simplest terms, training programs need to last for about two to three years, but society cannot afford to subsidize living expenses through UI for this duration. Meanwhile, displaced workers cannot afford to remain in training without income support from their own earnings or from transfer programs.

MANY HIGH-TENURED DISPLACED WORKERS CANNOT GET RETRAINING ON THEIR OWN

Table 1 concretely demonstrates why workers cannot pay for the costs of retraining on their own. If a worker forgoes accepting a job paying $36,000 a year plus benefits to engage in a training program over two years, the costs are either $73,632 or $93,632, depending on whether or not the worker has to pay for child care. If an accelerated program were available, this much retraining could perhaps be completed in one and one half years, but the direct and indirect costs are still substantial, totaling $52,646 or $72,646, respectively.

Thus, it is easy to see why displaced workers often quit training after about six months at the point UI benefits are usually exhausted and workers need to find jobs in order to support their families. Even during a major recession when extended UI benefits are available, there still are strong incentives to return to work as savings and opportunities to borrow from friends and relatives are depleted. If a displaced worker finds a job, she may lose access to additional WIA-supported training, however, and with a working spouse, likely loses all or almost all of her Pell grants eligibility to support long-term training. To make matters worse, two-earner families with young children often need to pay for child care so both parents have the time away from home to work or attend school, or both. Thus, the best option for most displaced workers is to take whatever gains they get from the training they acquired while they were unemployed, abandon retraining, and work full time.

Notice according to the last column of Table 1, a $30,000 training subsidy eliminates all but the psychic costs of retraining for our illustrative displaced worker who works full time after being unemployed for the first six months following her job loss, or who is unemployed during the two-year period following her displacement.[14]

EXPECTED NET BENEFITS OF RETRAINING FOR SOCIETY

It is useful to use the cost estimates presented in Table 1 and the impact estimates from our Washington State study to estimate the likely expected net benefits and internal rates of return (IRR) for different types of retraining. In cost-benefit studies, "society" consists of participants plus the rest of society. The rest of society is sometimes referred to as "taxpayers."[15]

We consider two scenarios about the impact of such training, both of which are based on the impacts reported in our Washington State study. In Case 1, we assume that the trainee enrolls in only high-return courses. In Case 2, we assume that the trainee enrollees in the same mix of high-return and low-return courses that we observed for retraining participants in our Washington State study. In both cases, we assume that workers are employed full time after six months so that it takes three calendar years to complete two years (four semesters) of training.[16] These assumptions imply that the equivalent of two years of retraining raises earnings by $6,400 and $4,600 per year, respectively, starting in the second full year after completing training. We assume that these impacts persist for the remainder of a trainee's career and that our forty-year-old displaced worker would have worked for an additional twenty years. These assumptions imply that the PDV of these impacts is about $89,000 for Case 1 and $64,000 for Case 2.

These calculations indicate it is important that, before displaced workers enroll, they be aware of the varied economic returns to retraining. The calculations illustrate why we believe having honest brokers evaluate displaced workers' training plans will be critical for the success of our DWT program.

TABLE 1

Alternative Estimates of the Cost of Two Years of Retraining for Illustrative Forty-Year-Old Displaced Worker, With and Without Children

	No Children			With Children		
	Unemployed in training for 1 semester, then finishes 3 semesters while . . .			Unemployed in training for 1 semester, then finishes 3 semesters while . . .		
	...not working, 1.5 years	...not working, 1 year	...working full time	...not working, 1.5 years	...not working 1 year	...working full time
Direct Costs:						
Tuition, books, fees	$7,692	$7,692	$7,692	$7,692	$7,692	$7,692
Transportation	$2,982	$2,982	$2,982	$2,982	$2,982	$2,982
Child-Care Costs	N/A	N/A	N/A	$20,000	$20,000	$20,000
Indirect Costs:						
Forgone Earnings	$40,500	$27,000	N/A	$40,500	$27,000	N/A
Forgone Benefits	$22,458	$14,972	N/A	$22,458	$14,972	N/A
Psychic Costs for family	+	+	+	+	+	+
Total Costs	**$73,632**	**$52,646**	**$10,674**	**$93,632**	**$72,646**	**$30,674**
Available Aid	Pell Grants WIA ITAs	Pell Grants WIA ITAs	Pell Grants	Pell Grants WIA ITAs	Pell Grants WIA ITAs	Pell Grants
Total Cost with Available Aid	$59,632	$41,396	$7,924	$79,632	$61,396	$27,924

Notes: In all columns, displaced worker is first unemployed and in training for one semester. At this point, she can take a job paying $36,000 annually. The displaced worker only receives her after-tax earnings. We assume that after-tax earnings are 75 percent of earnings, and so the cost of forgone earnings is $22,500 each year. The job pays benefits totaling 29.4 percent of total compensation (BLS 2010). Benefits are untaxed and equal to 41.6 percent of earnings. In the best-case scenario, under current policy we assume that our illustrative displaced worker receives Pell grants totaling $11,000 and a WIA training grant of $3,000 if she trains full time over a two-year period; Pell grants totaling $8,250 and a WIA training grant of $3,000 if she trains intensely over a one- and one-half-year period; and Pell grants totaling $2,750 and no WIA training grant if she goes back to work after six months of unemployment. We assume that after she returns to work her household income would be too high to be eligible to receive additional Pell grants.

We estimate expenditures on tuition, fees, books, and supplies to be $3,846 per year (College Board 2010). See Appendix A for further assumptions.

In Appendix A, we provide the net benefit from the perspective of the displaced worker and from the perspective of society for a worker enrolled in high-return courses working full time. If our illustrative forty-year-old displaced worker had the knowledge of and the ability to complete courses in only high-return programs and if she worked full time while completing training, the PDV of her earnings losses fall by about $20,000 per semester in training. We predict that society derives considerable benefit from that retraining. [17]

Society benefits from high-return training as long as the displaced worker works full time or is unable to work full time because suitable jobs are unavailable. The rate of return, 7–12 percent depending on whether child care expenses are needed, is on par with if not larger than that reported for formal schooling of young people.[18] This finding suggests that, on average, it is just as efficient for society to subsidize this type of retraining for displaced workers as it is for society to subsidize formal schooling for children.[19] To be sure, the benefits from this retraining must be larger than they are for children's formal schooling because of the relatively high costs of retraining. Unlike children, high-tenured displaced workers are relatively productive workers and most could be working instead of being in retraining. In addition, many high-return courses and programs are expensive and heavily subsidized by local and state governments. This is an important reason why the costs to society of retraining exceed the costs to displaced workers of retraining.

By contrast, the economic returns when displaced workers complete the same mix of technical and nontechnical courses as completed by workers in Washington State, while

sometimes positive, are lower and often negative. If displaced workers cannot complete any high-return courses, it is likely that both they and society would benefit more from some other strategy, including doing nothing. One important lesson from prior research on training is that not everyone benefits from it. Diverting some displaced workers into training may actually harm them because they waste resources, including their own, on retraining that they cannot complete or that would not pay off even if they did complete it.

CURRENT PROGRAMS DO NOT ADEQUATELY SUPPORT LONG-TERM, HIGH-RETURN RETRAINING DESPITE SUBSTANTIAL NET BENEFITS OF RETRAINING

Our view that displaced workers need long-term retraining runs counter to the current policy of providing only enough resources to cover short-term training while workers are unemployed and collecting UI benefits.

The federal TAA program and the NAFTA-TAA programs both subsidize retraining for trade-affected displaced workers. These programs also create adverse incentives, however. By linking training to extended unemployment payments, these programs encourage some recipients to enter low-return training programs in order to prolong benefit payments. At the same time, they penalize recipients engaged in high-return training for finding new jobs. In addition, by providing participants with little screening and counseling, workers covered by these programs often drop out of high-return programs that are poorly matched to their backgrounds and interests, or complete programs that do not provide new skills that could raise earnings, and that do not make it easier for the workers to find new jobs.

Training subsidized under the WIA emphasizes assessment, counseling, and case management, which involves monitoring training to identify and resolve problems. WIA programs have important shortcomings of their own, however. They focus on short-term programs that provide just enough training for a worker to be hired by a new employer. For economically disadvantaged workers, this training may eventually lead to large wage increases, such as providing entrée into health-care careers. But to substantially offset their large losses, high-tenured displaced workers require much more training than they can acquire with the $3,000 to $5,000 WIA training vouchers. We contend that to address the potential earnings losses facing many high-tenured displaced workers requires vouchers of ten times the amount presently provided under the WIA program.

Moreover, prior to the start of the most recent recession, funding for the workforce investment system under WIA and the Wagner-Peyser Act had fallen in real-dollar terms. The $4.5 billion available annually is sufficient to provide only about $225 worth of services, on average, to each of the 20 million workers requesting those services. Funds for retraining are especially scarce and often go to the most economically disadvantaged workers who are unlikely to find a job without short-term training. Funding was doubled under the American Recovery and Reinvestment Act during the recession, but job loss of high-tenured workers more than doubled. Overall, it is fair to say that the workforce investment system is designed primarily to provide short-term training that raises the earnings of lower-income workers by helping them find jobs. By contrast, high-tenured displaced workers who have excellent work histories generally find new jobs without training. But the training available under WIA provides for too little in the way of new skills to come close to offsetting their earnings losses.

The main alternative to U.S. Department of Labor short-term training is attending community colleges with U.S. Department of Education Pell grants. WIA participants are required to use Pell grants to the extent they are eligible, but, as discussed in the next chapter, many displaced workers—even those who are unemployed—are ineligible for these grants, or are eligible for very small grants. In addition, community colleges, the main providers of retraining, are heavily subsidized by state and local governments. During recessions, they become vulnerable to budget tightening, which often results in diminished services, including course cutbacks and increased class sizes. Since the start of the Great Recession, community college systems in the majority of states report decreased funding from state and local governments. These cutbacks have come just as demand for their course offerings rises as a result of the rise in unemployment.

One important lesson from prior research on training is that not everyone benefits from it.

Chapter 5: Recommendations

The policy recommendations we offer below fall into five broad categories:

1. Establish a DWT program tailored to the needs of high-tenured displaced workers.
2. Increase the returns to the DWT program by using honest brokers to assess and counsel grantees.
3. Establish incentives and performance standards for One-Stop Career Centers and training providers.
4. Evaluate retraining programs and disseminate best practices.
5. Shore up funding for community colleges, which are the main providers of retraining.

Tough economic times are actually an opportune time for implementing the measures we propose. As we explained above, for displaced workers in particular retraining makes more financial sense during economic downturns, when they are likely to be unemployed for a longer period of time following their job losses, because the opportunity costs of taking retraining—in particular those costs resulting from forgone earnings—may be substantially lower.

1. ESTABLISH A DISPLACED WORKER TRAINING PROGRAM

The goal of our proposed DWT program is to address the main problem that high-tenured displaced workers face: large permanent earnings reductions after workers find new jobs. To achieve this goal, the DWT program provides a form of insurance against the risk of wage losses by promising to augment workers' human capital in the event of job loss from a reasonably long-held job. Accordingly, instead of tying subsidies to household income, as the existing Pell grant program does, our proposed DWT program ties training subsidies to the size of a worker's reemployment earnings losses.[20]

Those that find jobs that pay the same or more than their previous jobs would be ineligible to receive continued aid under our proposed program. They would have to rely on the Pell grant program, Stafford student loan program, other governmental programs, or their own resources to finance their continued retraining. By contrast, those whose new jobs pay substantially less than their previous jobs paid would remain eligible to receive DWT grants, even after they become ineligible for benefits from UI and from the existing Pell grant, WIA, TAA, and NAFTA-TAA programs.

Allowing displaced workers to be employed and retrain simultaneously lowers the social cost of retraining and is consistent with the widespread practice of career-oriented community college students working full time.[21] We also recommend severing the unproductive link between training subsidies and UI receipt in many federal programs for displaced workers. Under TAA, for example, participants are eligible for extended UI benefits as long as they remain in an approved retraining program. If they go back to work, however, they lose both the retraining subsidy and their UI benefits. This creates a disincentive for displaced workers to retrain and work at the same time, even if they are capable of doing so. Finally, we recommend that DWT subsidies be targeted toward providing training likely to raise earnings instead of basic skills or remedial instruction, or even liberal arts coursework designed to help students obtain four-year degrees.

The DWT program provides insurance against the long-term consequences of job loss and fixes several disincentives to acquiring a substantial amount of retraining under current policy. Training-ready displaced workers would now not have an incentive to extend their unemployment spells so that they could continue to receive training benefits instead of finding employment, even if these new jobs pay on average a great deal less than their previous jobs. This is because the DWT program would allow them to continue to receive training benefits by tying benefits to the size of their earnings losses.

Primary Differences between the Pell Grant Program and Proposed Displaced Workers Training Program

The DWT program would make an additional 45,000 displaced workers eligible for retraining grants, because it would be open to all workers with a high school diploma or equivalent; individuals with bachelor's degrees or better are usually ineligible for the Pell grant program.

Eligibility would be based on earnings losses rather than household income. Under the proposed program, a worker who lost a $50,000 per year job and who was reemployed at $30,000 would be eligible for a grant of up to one and a half times the earnings loss, or as much as $30,000. Under the Pell grant program, the same displaced worker with a spouse earning $40,000, for instance, would qualify for a grant of only $1,500, despite an earnings loss of 40 percent.

Workers would have funds transferred into their accounts at the end of six-month intervals following their job loss. To encourage early entry into training, workers entering programs in the first six months after job loss would receive the full maximum $5,500 transfer.[22]

While in training, funds would be transferred to a worker's DWT account in increments of up to a maximum of $5,500 every six months based on earnings losses during the preceding six months until the maximum total grant is transferred, they complete or terminate training, or four years have elapsed.

Workers with annualized losses of $20,000 or more would receive the maximum semiannual award of $5,500. As losses decline, the six-month transfer would be reduced proportionately so that the transfer would be zero when losses fall below 5 percent of predisplacement earnings.

Under the DWT program, the maximum annual award would be $11,000 compared to $5,500 for Pell grants. This would provide sufficient funds to cover the full cost of the equivalent of two years of training spread out over three years. (See the cost calculations in Table 1.) Other important differences with the Pell program are that the DWT program will cover an approved nondegree noncredit program, be open to workers with college degrees, and provide the full grant to workers enrolled in training part time while employed.[23]

A final key difference is that participants in the DWT program must work in order to continue to receive subsidies from the program. Ideally, there would be an hours test for full-time work. In a few states such as Washington State, this test might be feasible to implement, but most states do not collect information from employers (as part of the quarterly wage record reporting process) on individual employees hours of work. So as a second-best alternative, we recommend a minimum earnings test: to be eligible to receive additional DWT support when employed an eligible displaced worker must have quarterly earnings totaling more than $5,300.[24] This means that the DWT program targets workers capable of earning at least $21,200 on their own in the absence of any retraining. Reemployed displaced workers whose earnings fall below these levels would rely on Pell grants, Stafford loans, or other sources to finance retraining.

The amount of training subsidies is adjusted every six months to account for changes in displaced workers' reemployment earnings.

Who would be eligible for the DWT program?

For the DWT program, we define training-eligible high-tenured displaced workers to be those who had three or more years of tenure and whose reemployment earnings losses exceed 5 percent of their postdisplacement earnings.[25]

According to responses from the DWS, these requirements limit eligibility under the DWT program to about one-third of displaced workers. In effect, under our proposed program policy-makers require displaced workers to "self-insure" against small earnings losses, but provide them with assistance if they experience substantial and permanent income losses. An even higher "deductible" would entail lower program costs, but would be even more selective in targeting its resources towards displaced workers who experience the largest earnings losses.

An earnings cap for eligibility would lower program costs, but policy-makers should be careful not to set such a cap too low. Doing so would defeat the purpose of the program, which is to provide middle-income workers with insurance against

The goal of our proposed DWT program is to address the main problem that high-tenured displaced workers face: large permanent earnings reductions after workers find new jobs.

job losses and lessen their well-founded anxiety about the monetary consequences of displacement. A forty-year-old displaced worker who loses a long-held job paying $70,000 per year and who finds reemployment at $50,000 would risk a lifetime income shock exceeding $400,000. An earnings cap at $80,000 per year, therefore, would be more appropriate than a cap set at $40,000. According to the DWS, an $80,000-a-year earnings cap would exclude only about 10 percent of displaced workers from our proposed program.[26] We also propose a family earnings cap of $120,000. Even though few dislocated workers would qualify for benefits who have spouses with high earnings, an explicit cap will ensure funds go to deserving workers who could not otherwise afford training or for whom financing such training would be a significant financial hardship.

In addition, the DWT would be open to workers with bachelor's degrees. High educational attainment is no guarantee that a displaced worker will not face reduced wages upon reemployment. There is no justification, therefore, for limiting eligibility to those without a college degree, as is the case for Pell grants. We also recommend covering nondegree programs that offer high returns. These two relaxations of existing rules for the Pell grant program have the key advantage that they are likely to increase the social returns to retraining, because displaced workers with better education are more likely to benefit from retraining and training: career-oriented certificates have been shown to produce substantially greater returns than two-year liberal arts degrees (Jacobson and Mokher 2009).

What expenditures would be covered by the DWT program?

We recommend that financial aid provided through the DWT program account for the mid-career workers' obligations and responsibilities, and associated expenditures. Aid should not only apply to tuition, fees, and course supplies, but also to child-care expenditures, transportation to and from school and child-care sites, and meals.[27] In Table 1, we observe that that these costs could amount to about $30,000 for two years of retraining.

Current rules state that Pell grants may be used for nontuition expenses, but only if there are funds left over after paying the cost of tuition. The training or education provider receives the funding first, and disburses the remainder to the student. In practice, there will be little if any remainder, since the current maximum benefit is $5,500 per year. Under our proposed DWT program, there is likely to be more surplus beyond tuition. Funds will be dispersed from workers' accounts after training plans are developed in consultation with honest brokers—staff at One-Stop Career Centers. One-Stops will dispense funds directly to the training providers and to workers for other expenses using standard practices covering WIA individual training accounts (ITAs) that require grantees to submit proof of expenditures at two-week intervals.

How would the DWT grant be determined?

As already noted, it requires a lot of retraining for typical high-tenured displaced workers to fully recover from their earnings losses. If the current practice in programs such as TAA that cover out-of-pocket expenses and living expenses were continued, public-sector expenditures on the DWT program would cost approximately $60,000 per worker for those with losses totaling 25 percent of their predisplacement earnings. This amount is far above that in any existing training program.

Even the most robust wage insurance proposals do not recommend making displaced workers whole for their earnings losses, however. Most often they recommend covering one-half of the difference between displaced workers' prior and reemployment earnings (Kletzer and Litan 2001; Kling 2006; LaLonde 2007).

Our analysis of the data from the DWSs indicates that a multiple of one and a half times the displaced workers' earnings loss is a reasonable rule of thumb to determine the total training subsidy needed to reduce losses by one-half. Because we don't know what a worker's future losses will be at the point training is entered, we calculate the semiannual grants based on the difference between actual earnings in the six-month period and one-sixth of total earnings in the three years prior to job loss. For example, to figure the semiannual grant for an eligible displaced worker whose annualized earnings loss was $4,000 in a six-month period, we propose multiplying that loss by one and a half to arrive at $6,000. In the example of our illustrative forty-year-old displaced worker, this individual would receive total grants equal to $18,000, if the same loss occurred during the entire time in training and training lasted three years (six six-month periods). If the earnings loss declined (or increased) over the three-year period, the worker would still receive a grant of one and a half times her earnings loss, as long as this loss continues to exceed 5 percent of her predisplacement earnings during each six-month period.

An important difference between our DWT program and the Pell grant program is that we base the DWT grant's size on the reduction in workers' earnings and not on their household income. Under the Pell grant program, our illustrative forty-year-old displaced worker would be eligible to receive $16,500 in Pell grants during three years of training if her reemployment earnings were $36,000, but the grant would be substantially reduced if substantial earnings were received by

other family members or the worker was not enrolled in a full-time for-credit, degree-granting program.

In addition, the DWT program grant would be reduced by the amount of grants from other federal education grant programs such as Pell. The total amount deposited in a worker's DWT program account would not be affected, but the amount spent out of the DWT budget would be reduced. For example, if our illustrative displaced worker received a $5,500 annual grant from the Pell grant program half that amount would be deducted from each of the two semiannual DWT program awards covered by the Pell grant. That the DWT program steps in to supplement Pell grants underscores why we consider it to be an insurance program for middle-class families against the risk of costly displacement. We estimate that about 40 to 45 percent of high-tenured displaced workers eligible for DWT grants would otherwise lose Pell subsidies upon reemployment, because their family income is too high.[28]

Finally, workers receiving grants would be able to carry over funds in their accounts until they complete training or leave programs before completion. The amount transferred into an account is not contingent on the amount spent. However, if a worker selects a program that is more expensive than can be covered by the grants, or otherwise has total expenditures greater than the grant, the worker would be able to take out a Stafford loan to cover those expenses. If the worker was not qualified for a Stafford loan, we propose establishing a DWT loan program that would be available on the same terms as Stafford loans.

Importantly, workers who enter high-cost intensive programs (or have very high other expenses for retraining) would be eligible for these loans and would be able to partly pay off these loans using grants subsequently received from the DWT program based on their earnings losses even though they are not still in training. We include this provision because a substantial number of displaced workers might not be able to enter high-return low-cost programs that are well matched to their backgrounds and interests offered by community colleges due to lack of sufficient number of "slots." As an alternative, these workers could enter training programs at for-profit colleges that require much larger tuition payments from the students, but actually are lower cost from the point of view of taxpayers. Also, in some cases workers could complete degree programs at public or private four-year colleges where out-of-pocket expenses would exceed the annual maximum DWT program awards.

Four years after job loss, workers would forfeit the amount remaining in the account. Exceptions would be made for the completion of programs begun prior to the four-year anniversary date and expected to end one full semester after the anniversary date. This requirement that training begin and end within four years of losing a job ensures that training decisions are made in a timely way and recognizes that employed trainees are likely to take longer to complete retraining than are their unemployed counterparts.

What if our illustrative displaced worker never found a job? Then, while she may maintain eligibility for Pell grants or WIA ITA grants, she would not be eligible for DWT grants. These are only available to reemployed high-tenured displaced workers. The purpose of the program is to provide incentives for them to work while they retrain. This program lowers the economic costs of retraining and makes it more likely that it will pay off for both the individual and for society. It is our contention that retraining is not a good policy option unless it meets both of these tests for targeted displaced workers.

In keeping with program rules that require the DWT program to top off retraining grants, we recommend that the program seek to ensure that eligible trainees have access to various child-care subsidies that may be available from federal, state, and local sources. These subsidies would be subtracted from the total DWT program funds.

Implications of capping the maximum subsidy

We also propose capping the maximum subsidy at $36,000. This cap will contain program costs, but it does increase the risks associated with displacement for some very high-tenured workers whose losses upon reemployment exceed $24,000 per year.[29] Our analysis of the 2008 and 2010 DWSs indicates that this cap largely affects displaced workers who earned more than $60,000 per year prior to losing their jobs. We estimate that individuals who earned this much or more constitute about 25 percent of potentially program-eligible displaced workers.

Partnership Between the U.S. Department of Education and the U.S. Department of Labor

Both the Department of Education and the Department of Labor have some of the components in place to determine grant amounts and to dispense funds. However, the Department of Labor has the nationwide system of One-Stop Career Centers to provide the required assessment, counseling, and case management, and obtain the information needed to dispense funds for supportive services such as transportation and childcare. Thus, because key administrative attributes of the DWT program closely resemble standard operating procedures currently in place to administer the Department of Labor's ITAs, we recommend that those functions be handled by the Department of Labor. Moreover, because Department of Labor case managers are in a position to collect earnings information at the end of every quarter, we also recommend the Department

of Labor be responsible for ensuring DWT program grantees meet the earnings requirement. Finally, the Department of Labor has a nationwide system in place to access the quarterly wage records needed to establish predisplacement earnings—a key element of computing semiannual grants—as well as recent quarterly earnings needed to determine grant amounts. In contrast, the Department of Education's current Pell system tracks family income based on annual reporting and would need substantial modification to process new quarterly earnings reports. Thus, we recommend the Department of Labor be given responsibility for computing grants, tracking workers' individual accounts, and dispensing funds.

The Department of Labor, through WIA, also has the mandate to certify training-providers as well-qualified and more broadly assess the adequacy of state and local training programs to meet employer needs. Thus, in the new system we propose to use administrative data to provide information about the effectiveness of different training programs for workers with different characteristics. This would enhance Labor's ability to carry out its mandates as well as provide potential trainees and honest-brokers with the information they need to make sound investments. In addition, we propose monitoring the quality of advice provided by honest-brokers to certify certain staff and One-Stops as highly effective. Thus, it would make sense for these administrative systems and the corresponding performance measures and standards to be handled by the Department of Labor.

At the same time, we believe that the Department of Education should have more of a voice in determining what data should be collected, what use should be made of the data, and what performance measures and standards be adopted. Thus, we recommend that a joint Department of Labor–Department of Education oversight committee be formed to review procedures and outcomes. The Office of Vocational and Adult Education in the Department of Education would be the natural partner with the Employment and Training Administration in the Department of Labor to staff this oversight group. There also should be substantial participation by the respective secretary offices and analytic groups such as the Department of Education's National Center for Education Statistics and the Institute for Education Sciences.

2. INCREASE THE RETURNS TO THE DWT PROGRAM BY USING HONEST BROKERS TO ASSESS AND COUNSEL GRANTEES

As discussed above, not all training is created equal; certain groups of courses have much higher returns than others. Furthermore, not all displaced workers are equally well positioned to benefit from retraining. Some have too few years remaining in their working lives, others lack the academic background and career experience required to acquire STEM and certain other types of high-return skills quickly, while still others reside in distressed labor markets where training will not help them find new jobs unless they are willing to migrate to another community. In addition, most displaced workers are not aware which of the many retraining options offer high-return programs that they are likely to complete within a few years. As a result, most displaced workers enter low-return training programs, enter high-return programs they cannot complete, or pass up training opportunities that would offer high returns.

In order for the social investment to be maximized, there must be some mechanism for assessing and counseling displaced workers and helping them identify high-return programs, as well as providing case management to identify and resolve problems that invariably occur while displaced workers (and virtually all students) are in training. As noted above, the Department of Labor is best positioned to provide screening services and to improve training choices through its nationwide One-Stop Career Centers.

Matching retraining to training-ready displaced workers

In order to substantially improve retraining outcomes from DWT program grants from the point of view of workers, employers, and taxpayers, we recommend accompanying large training grants with a mandatory program that provides assessment, counseling, and case management (monitoring progress to identify and resolve problems as they develop) to workers eligible for the DWT program. We believe that this component of the DWT program is essential to identify the specific types of training that will help displaced workers identify robust retraining programs that they can complete and that will increase their earnings.

…it is not the case that workers who did not perform well in school academically do not have high-return options, only that they need to take a lot more care that the options they select will generate high returns.

Limiting DWT benefits to displaced workers who are well matched to specific training programs in their communities may seem unfair. After all, displaced workers who had little, if any, postsecondary education and did not do well in high school STEM subjects are likely to suffer particularly large losses, but also have a much more limited set of training options than those workers with postsecondary degrees and who performed well in high school STEM subjects. The DWT program is an insurance program for employed middle-class workers that is designed to mitigate their well-founded fears about the consequences of losing a long-held job. For displaced workers not in a position to benefit from retraining, the DWT program offers no insurance, and therefore no relief from the anxiety associated with potential job loss. Indeed, to encourage such workers to enroll in training might make them worse off. To aid these other categories of workers, policy-makers should consider other options.

Nonetheless, it is not the case that workers who did not perform well in school academically do not have high-return options, only that they need to take a lot more care that the options they select will generate high returns. Even though our own research points to displaced workers able to complete courses in STEM fields as gaining the most from retraining, other studies suggest that community colleges offer a broad range of courses in health care, building trades, and law enforcement that yield high returns to workers who did not complete college and who had less than stellar academic performance in high school (Jacobson et al. 2005a, b, c; Jacobson and Mokher 2009). Indeed, roughly only one-third of Florida community college students completing certificate programs had 4.0 or 3.0 high school grade point averages, compared to two-thirds of students completing two-year degrees. But the annual earnings of the certificate students were greater by one-third ($10,000) than were the annual earnings of students who obtained two-year degrees in liberal arts fields, rather than career fields, and did not go on to obtain four-year degrees.

…displaced workers need assessment, counseling, and case-management services in order for retraining to generate high returns.

Unfortunately, there is substantial evidence that displaced workers (and many other students) who enroll in community colleges too often select programs that offer low returns, or that offer high returns but require attributes that the students lack, such as completion of Algebra I, or manual dexterity. In particular, students with weak educational backgrounds enter programs that require substantial remediation, but are unable to complete the remedial programs, and drop out of school rather than enter other programs they might be able to complete.

One-Stop Career Centers as honest brokers

Process evaluations suggest that displaced workers need assessment, counseling, and case-management services in order for retraining to generate high returns. In addition, many displaced workers lack information about the attributes of different training providers and about how to ensure they take appropriate sequences of courses and obtain help when they run into problems. Finally, many displaced workers need help finding training-related positions when they complete training.

Accordingly, we recommend that an existing program that has been operating throughout the United States for more than ten years, One-Stop Career Centers, act as honest brokers to provide career-oriented assessment, counseling, and case management to high-tenured displaced workers. We recommend separating the provision of advice on how to maximize the return from training from providing that training because (i) community colleges lack the incentives to provide reliable information, (ii) community colleges lack the infrastructure to provide such information, (iii) One-Stops routinely provide these services to recipients of WIA-funded training vouchers, and (iv) practitioners believe that these services substantially increase the returns to training (e.g., Jacobson 2009).

In our view, an essential missing ingredient in many publically supported training programs is ensuring that displaced workers who enter training make well-informed decisions so that they enter and complete coursework and programs likely to generate substantial gains. We therefore recommend that the displaced workers eligible for DWT grants be required to obtain screening from the Department of Labor's One-Stop Career Centers prior to enrolling in a retraining program. We further recommend that One-Stops monitor the progress of DWT grantees through training programs. To this end, they would identify and resolve problems to further increase the chances that the workers complete high-return programs. For example, corrective action for students struggling to master material could range from helping them sign up for tutoring or study skill programs, to revising career-training goals.

At this point, we do not necessarily recommend that One-Stops be given veto power over the choices made by DWT grantees, only that grantees participate in a mandatory screening program, with one exception—the number of remedial courses would be limited to one semester-long course. We strongly recommend that a system be put in place to assess the accuracy of the recommendations of One-Stop staff. If analysis by the Department of Labor shows that specific One-Stops or specific staff members provide highly accurate predictions of completion and earnings increases, those One-Stops and staff members should be given veto power and receive a bonus for their screening services.[30] Similarly, we would recommend giving an additional bonus for case-management services, when analysis shows trainees helped by specific One-Stops and by specific staff members have well-above-average completion rates (taking into account characteristics of the trainee, field of study, local labor market, and other factors).

What would the One-Stops do?

Prior to receiving a DWT grant, the worker and the One-Stops would develop jointly an individualized plan of action that describes (i) the intent and content of the training, and the academic and work experience background needed to complete the program; (ii) the type and pay of jobs that are likely available after training is completed; (iii) how well these jobs meets the interests and constraints of the worker; and (iv) a budget describing the full costs of the training, and the worker's other financial obligations and how those costs will be met by grants, loans, savings, and work by the worker and other family members.

A second key part of the process would be assessing the worker's academic skills, career-oriented skills, and career interests using appropriate tests such as the ASVAB, COMPASS, and SAT/ACT. A third key part would be avoiding remediation to the greatest extent possible. This could be accomplished by providing workers with Web-based programs that help them pass college entrance tests, as well as short workshops to help them regain (or learn) rusty academic skills.

While the worker is in training, trainees would be expected to check in with One-Stop staff to confirm that they are making progress, or work with staff to identify problems and potential solutions. They also would be required to submit evidence that they have incurred allowable expenses so they could be reimbursed for these services. Ideally, they would report biweekly, just as with ITA recipients. This monitoring would occur at key points during each term, and, importantly, at the time of registration for each new semester. Such services are a key reason that high-quality intensive training provided by some for-profit career college programs can have high completion rates and lead to training-related placements.

State UI claims offices, company human resources offices, labor unions, and community organizations would direct high-tenured displaced workers to One-Stop Career Centers. There they would learn about the program and their eligibility for Pell grants, because of their status as displaced workers. In addition, the One-Stops would assist them in finding a job to meet the DWT program work requirements. Also of great importance, as DWT retraining draws to a close, the trainee and One-Stop staff would work together to line up a job related to the completed training. This activity is what the One-Stops Career Centers are known for, and they have been proven effective (Jacobson 2009). One-Stop career counselors would develop an individualized plan for each worker that includes job matching (referrals to jobs listed with the One-Stop or the state employment service), and job search assistance that uses a range of resources such as professional contacts, friends and relatives, hard copy and Internet job listings, and workshops to develop résumés and interview skills.

3. PROVIDE INCENTIVES AND PERFORMANCE STANDARDS

To further improve program outcomes and measures of program performance, we recommend creating a dual system where providing individualized assistance to displaced workers using honest brokers is coupled with objective evidence about likely program outcomes.

Accordingly, we further recommend increased performance monitoring of training providers for DWT program participants, as well those providing training to displaced workers in WIA, TAA, and the regular Pell grant program. One-Stops could do the monitoring, with technical assistance from the Department of Labor and state employment security agencies (SESA). At the very least, training providers should disclose for each displaced worker receiving federal funds basic demographics, credits completed, field of concentration, credits needed to complete the program, and credentials obtained. We also recommend requiring that providers submit social security numbers, with informed consent, if necessary, to the state SESA to track earnings and employment using UI wage record files.

To be sure, much more research is needed to develop meaningful performance measures, especially indicators of appropriate value added of training. (For further discussion, see below, "Evaluate Retraining Programs and Disseminate Best Practices.") Existing WIA performance measures emphasize placing workers at jobs after training, which creates incentives to help ITA recipients select programs that lead to

employment and help them get jobs after program completion. However, this measure also creates perverse incentives to give ITAs to workers likely to be reemployed whether or not they successfully complete training. To make matters worse, current performance measures also look at the earnings level of post-training jobs, not the increase in earnings over what they otherwise would be—the "value-added" of training. The measure creates perverse incentives to enroll displaced workers likely to get high paying jobs whether or not training is effective and not offer training to low income workers most likely to improve long-term employment and earnings with short-term training.

Accordingly, we recommend that a comprehensive system of performance measures be put in place that compares actual posttraining earnings to an estimate of what earnings would have been in the absence of training, and also considers the cost of the training relative to benefits.[31] We also recommend that these performance measures be used to assess the effectiveness of the assistance provided by honest brokers. These performance measures would be an essential component of a successful program. This system would incorporate the following three principles:

1. Performing well at the initial stages of programs in order to maintain eligibility for long-lasting benefits

2. Putting in place a system that certifies effective individual training providers and individual programs at those institutions based on accurately measuring value-added and other outcomes

3. Changing the way funds are given to training providers under the DWT program so that they get a smaller up-front payment, larger payment for completion of segments of programs, and large payments for completing programs and being hired for jobs related to their area of study or jobs with sufficiently high earnings

To this end, the Departments of Education and Labor as well as the states could coordinate a system of bonuses to community colleges and for-profit vocational and technical schools based on displaced workers completing high-return programs and courses. For example, institutions would receive bonuses when their trainees receive certificates or pass state licensing exams in high-return fields or when they complete a substantial number of advanced courses in high-return fields. Given the lack of direct evidence on the institutions' sensitivity to changes in incentives, officials will have to experiment with alternative incentives for several years to figure out what works best for this targeted population.

Along these same lines, we recommend that the Department of Labor test various methods to identify One-Stop Career Centers that are doing especially effective jobs in helping trainees select high-return programs, taking into account differences in trainee and labor market characteristics. One purpose of this effort is to develop a list of best practices to improve the performance of the honest brokers and raise the returns from the DWT program. A second is to design financial incentives that reward One-Stop performance. For example, the basic fee paid to One-Stops for screening and helping DWT participants could be split in half; one half would be rewarded as usual, and the remaining half would be awarded based on performance.

We recognize that it may take time before a workable and effective performance measurement system is in place for the One-Stop Career Centers. In the meantime, we recommend starting by paying the One-Stops $600 for each initial screening and $300 for additional supportive and case-management services for each semester each student remains in training. Ideally, we recommend increasing WIA funding to support additional screening and staff assistance to displaced workers eligible for the DWT program as well as other workers. Since such an increase is very unlikely, payments for the assessment, counseling, and case management should be an integral part of the DWT program.[32] The case-management funds also would be used to collect the documentation needed to set reimbursements for childcare and other expenditures that are currently part of the WIA program.[33]

We also recommend that DWT program participants be co-enrolled in WIA so that One-Stops will be held accountable for helping participants quickly find jobs that use their new skills and that offer substantial pay increases over what they otherwise would earn. As noted in Jacobson (2009), it would be especially helpful if the WIA performance measures were revised to better measure the value added of training. But even the current employment and earnings measures create strong incentives for One-Stops to monitor trainee job search and provide a wide range of helpful services when needed, such as help with résumé preparation, interview skills, and how to locate suitable jobs.

Building Incentives into the Disbursement System in the Displaced Worker Training Program

First, we recommend that disbursement of payment rules be designed, as much as feasible, to ensure grants are used for high-return coursework that students are likely to complete whether or not they are for-credit or not-for-credit or part of a specific program. To this end, program rules should provide incentives to reduce the chances that the school and student are paid at the start of the period (semester) as if the student were attending full time or part time, only to have displaced workers reduce their status at the drop/add date to part-time

or less than part-time status, or simply never complete any course in which they register. This information on completion rates of courses that students begin should be included in the institution's reporting requirement.

Second, we recommend that support funds such as those for supplies, child care, transportation, and other related expenses be dispersed biweekly based on evidence that the expenditures were actually incurred as currently is the practice with WIA ITAs. One exception would be that expenditures for textbooks would be made in advance. Furthermore, institutions should be required to verify that the student is attending class or completing assignments and exams.

Third, authorities should experiment with withholding a modest percentage of the displaced worker's aid to be disbursed to the institution and the student after the displaced worker completes the courses in which she is enrolled. Effectively, this practice creates a modest bonus for both the institution and the student for her to successfully complete a course. As part of this experimentation, we recommend that one of the percentages tested be 0 percent withheld. At the other extreme, we recommend that policy-makers set a percentage withheld at the upper end as high as 25 percent. They could then add a third percentage to the mix, say 10 percent withheld, and be able to extrapolate the impact of other percentages on course completion rates in order to eventually set a program percentage. Indeed, the amount of information collected from this experimentation is likely to be so much that authorities might set different withholding percentages for different types of courses. For example, they might discover that it is optimal to set a lower withholding percentage for high-return courses of study and a relatively higher withholding percentage for low-return courses of study. In this way, authorities might encourage displaced workers to enroll in high-return courses.

4. EVALUATE RETRAINING PROGRAMS AND DISSEMINATE BEST PRACTICES

Evaluating retraining programs and establishing and disseminating best practices are critical to building a highly effective retraining system for displaced workers. A few states such as Florida and Washington have conducted such assessment efforts. Most states are not in a position to either absorb the substantial fixed costs associated with evaluation and dissemination, or to coordinate the analysis of either their own or nationwide data.[34] The Departments of Labor and Education should oversee this work, coordinating and funding efforts at the state level to evaluate the impact of vocational education for adults, including displaced workers, as well as to replicate and bring to scale practices that are supported by evidence.

The ultimate goal of such an evaluation system would be to provide precise information to displaced workers, honest brokers, training providers, and policy-makers so that they could make better decisions about what training courses and programs are best for a wide range of individuals in labor markets with very different demand conditions.

But solid information may not be sufficient by itself to prevent displaced workers from making poor choices. We therefore advocate that the Departments of Labor and Education establish a panel to develop a system for rating individual programs run by different training providers that would provide a user-friendly way for workers and their mentors to select high-return programs geared to individual needs. In addition, we recommend that the panel set minimum standards for individual program performance to create an approved provider list. Such a list is an element of WIA, but WIA's current system to create these lists lack rigor. Because WIA is tiny compared to the Pell grant program, many training providers find it easier to simply not be included on the approved list than to provide the data required to measure performance. It would be more difficult for training providers to opt out of the DWT program and close to impossible for them to opt out of receiving Pell grants under the existing system if a more rigorous evaluation system were extended to the Pell grant program.

We also recommend that the Department of Education hold annual design competitions during which institutions could propose new programs that show promise of being highly effective. The competitions could be modeled on the existing annual competitions conducted by the Institute of Education Sciences. Winners of these competitions would receive substantial grants to pilot their proposals and demonstrate their effectiveness. For example, one area that community colleges and for-profit institutions could be encouraged to work on is the design of effective programs for high-tenured displaced workers with poor or mediocre educational backgrounds. Without innovation in this area, we believe it likely that many systems of performance measurement devised for the DWT would encourage these institutions to provide services only to the most training-ready displaced workers because expenditures on this more skilled group of high-tenured displaced workers also is likely to be more cost-effective than expenditures on the lower-skilled groups.

The Department of Education should also set up a commission with an ongoing mandate to establish and disseminate standardized curricula for displaced workers. This practice might help poorer institutions or institutions that in the past have had difficulty successfully serving this population get up to speed more quickly than it would otherwise: these institutions could avoid trial and error and thus be more likely to adopt

curricula that have been demonstrated to have worked in the past. These curricula could consist of courses and packaged programs taught in the evenings and on weekends, allowing displaced workers to work and build more marketable skills for the future. The curriculum would be taught from year to year by appointed faculty.[35] This would address concerns about fluctuations in the quality of retraining courses taught by adjunct faculty, who tend to have a high turnover rate.

5. SHORE UP COMMUNITY COLLEGES' CAPACITY TO PROVIDE HIGH-QUALITY RETRAINING

One important part of matching displaced workers to appropriate training is ensuring that the workers make sound choices. Another equally important part is making sure that the training programs are high quality. Finally, and perhaps most important of all, is to ensure that training providers, especially community colleges, have sufficient resources to provide high-quality training when demand is high.

This necessitates helping community colleges offer a greater number of high-return training courses as well as creating incentive and screening structures that make sure that only highly effective training programs are subsidized. Empirical research, including our Washington State study, suggests that not all courses are equal when it comes to their economic return. Academic math and science classes, technical vocational courses, and health profession tracks yield the highest returns for workers. Community colleges' ability to provide such programs of study and maintain their quality is often compromised, however, because they are more expensive to provide. Funding mechanisms should recognize the greater cost of offering high-return classes and enable community colleges to meet demand for them.

One option is for all states to allow their community colleges to charge higher fees for technical courses. Because displaced workers would receive subsidies for tuition through the proposed DWT program, they would still be able to afford these courses. Another option to create appropriate incentives for training providers is to extend the monitoring system described in Part 4 to compare benefits (that is, career outcomes) to costs and then adjust DWT disbursements so that they are proportional to benefit/cost ratios. Such actions will not only expand the capacity of the community colleges to offer more high-cost/high-return courses, but also will create incentives to tailor the courses to students who have been out of school for some time. For example, courses could be offered at times and at locations that make it easy to combine retraining with work and home activities, and by adopting innovations that accelerate learning such as providing four semesters of retraining in one year and creating learning communities that provide a set of integrated courses to cohorts of students.

Parallel to the bonuses that we proposed in Part 4, we propose competitions among community colleges and for-profit vocational or technical schools to demonstrate the effectiveness of their regular course and programs for displaced workers. The Obama administration plans to distribute $2 billion over the next four years in competitive grants to support partnerships between community colleges and employers that target displaced workers (Department of Education 2011). To be eligible for the grant award, we advocate that the competing institutions would need to provide sufficient detail about their program so that, in the event that they were selected, this information could be disseminated widely and the institution's practices could be replicated. Institutions could compete in several categories, including the age of the program, the field of the program, and the success of the program to attract students for classes offered during nonstandard hours.

Keeping Quality Up During Economic Downturns

As economic conditions have worsened starting in 2008, community colleges have faced increasing funding cuts at the same time that they experienced increasing demand for their services.[36]

To maintain course offerings and class sizes and, indeed, to further expand capacity, they need a source of funding that expands, rather than contracts, when enrollments increase (e.g., Goldrick-Rab and Berube 2009; Johnson 2009). Federal funding tied to local labor market conditions—a recession community college fund—would serve as valuable insurance for communities, especially those undergoing significant economic hardship and restructuring. Payments could be made through the WIA program and could be triggered by demand for retraining services, increases in the local and state unemployment rate, or the shuttering of major employers. Another option would be to enable states to support such expenditures by establishing an analog of state UI accounts with the Department of Labor.

Communities that suffer economic shocks would directly benefit from such assistance, of course, but all communities would benefit from knowing that there is a supply of funding that they can tap should they need it. A "recession community college fund" would be particularly valuable for institutions located in distressed areas, given that they have a very limited ability to raise revenue or to borrow during tough economic times.

Some of these funds should be directed towards extra service pay for teachers. It is difficult for community colleges to quickly expand their long-term capacity by hiring new teachers, but they can easily expand their short-term capacity by giving existing faculty an incentive to teach additional classes.

Chapter 6: Estimated Displaced Worker Training Expenditures

Based on our estimates of the number of training-ready workers and an average completion rate of one academic year of retraining, the DWT program would invest up to $2 billion during a recession. By contrast, program expenditures would total about $1 billion during periods of economic expansion. If the proposed program provided incentives for a much larger pool of displaced workers to seek retraining or for much larger training durations, annual costs during some years could be as large as $4 billion. Although such an increase is possible, we think that this outcome is unlikely.

Using the figures and assumptions outlined in Appendix B, we have four alternative estimated costs of the DWT program. They are based on the good economy versus bad economy and the high enrollment versus low enrollment scenarios. As shown in Table 2, we estimate that the number of new students enrolled in the program in any given year will range from about 50,000 to 150,000. The direct program expenditures on this enrollment we estimate to be about $12,000 per year of training. This amount includes fees paid to the One-Stop Career Centers and other institutions. This implies, as is shown by Columns 3 and 4 in the table, that estimated direct expenditures on this program will range from about $750 million to $1.1 billion annually during periods of economic expansion, and from about $1.4 billion to $2.1 billion annually during recessions.

A principal source of uncertainty in our estimates of program expenditures is that there is little evidence about the effects of training subsidies on the propensity for displaced workers to receive retraining. We consider the Washington State–based estimates to be a lower bound because they were from a time of limited subsidies for retraining. Most people acquired retraining on their own during the period of that study. But at the same time, we do not think that the DWT program will induce a large percentage of displaced workers, say 20 percent of those eligible, to suddenly enroll in retraining and complete two years of training. If this did happen, the upper-bound program expenditures shown in Table 2 would double from $2 billion to $4 billon.

In any case, ours is a very modest proposal; it would only increase spending for displaced workers a small amount over current levels. It works in part because it refocuses retraining on those likely to benefit, to the point that the total number of workers completing programs would be increased, while the total number starting but failing to complete programs would be substantially reduced.

TABLE 2

Projected Annual Program Participation and Expenditures on Retaining Subsidies under the Displaced Workers Training Program

	Number of Participants		Costs (thousands of dollars)	
	(Lower Bound)	(Upper Bound)	(Lower Bound)	(Upper Bound)
Non-Recession Year	54,096	81,145	$744,497	$1,116,746
Recession Year	100,418	150,628	$1,399,894	$2,099,841

Note: Appendix B includes more detail as to how we estimated the costs of our program.

Chapter 7: Conclusion

Retraining can be an effective policy option to compensate training-ready high-tenured displaced workers for lost income. It also can constitute a sound social investment. The devil lies in the details, however. (See the appendixes for additional programmatic details.) First, the investment usually must be much larger than policy-makers have previously recognized. Second, in part because the required investment is large, honest brokers are needed to ensure trainees enter high-return programs they are likely to complete. Third, retraining does not benefit all displaced workers across the board. Measures need to be built in to regulate costs. The program should correct for adverse incentives. Finally, more research needs to be completed on best practices.

Our proposed DWT program offers a solid framework for optimizing retraining policy that targets training-ready displaced workers who experience large reemployment earnings losses. We recommend that this proposed program include the following features:

1. Offering grants that provide sufficient retraining to offset the large losses of high-tenured displaced workers
2. Making grant entitlements proportional to the size of the actual loss
3. Requiring honest brokers to provide assessment, counseling, and case management to better match retraining to displaced workers' educational background, work experience, and interests, as well as the needs of local employers for high-skilled workers
4. Conditioning continuation of the grants on successful completion of initial retraining
5. Putting in place a system to measure outcomes and using the system to reward excellence and identify best practices

The DWT program should be considered as "one arrow in the quiver" of policy options available to the population of displaced workers and distressed communities. When complemented by measures that increase local demand for labor, it can prove to be particularly effective.

Our proposal goes beyond recommending more funding for retraining displaced workers: it also makes several other recommendations intended to improve the likelihood that the training provided will actually succeed. In addition, these other proposed reforms will make it more likely that career-oriented retraining provided by community colleges and private for-profit institutions for all of their students will be successful as well. These recommendations include improved funding mechanisms that create strong incentives for honest brokers and training providers to help workers enter and complete high-return programs; better counseling services; program entry requirements; and more-targeted numerical performance information about prior displaced workers' successes in particular programs of study. Indeed, we contend that our multifaceted plan is necessary in order for displaced workers and society to benefit from retraining.

What we cannot know for sure is whether our plan is sufficient to generate the high returns we observe from many community college programs, especially those that are tailored to the attributes of trainees and local demand for skilled workers. Of central importance is that, even with the best possible assistance from honest brokers supported by vastly improved accurate evidence and improved performance measures and incentives, it is hard to know to what extent high-tenured displaced workers will take advantage of the opportunities afforded by increases in funding.

Conversely, the integrated set of policies we recommend has the potential to correct many of the problems that have prevented retraining from substantially increasing the earnings of large numbers of displaced workers. If workers do not take up these opportunities, the cost would be low, so there is little to lose. But if the integrated set of policies works for displaced workers, it would be easy to apply these policies far more broadly in ways that could vastly increase the returns to investments in postsecondary education.

Chapter 8: Questions and Concerns

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

The policy recommendations we make to improve retraining programs for displaced workers are what we call second best, and are to be implemented if a robust system of wage insurance is not actionable. Wage insurance is the optimal policy for the large and persistent earnings losses that mid-career displaced workers experience upon reemployment. A robust system would compensate workers for half of the difference between their new and previous wages. It would directly address a market failure, provide displaced workers with an incentive to accept lower-paying jobs, and allow workers to choose whether to enroll for retraining. Moreover, in a well-coordinated workforce development system, recipients could still use their wage insurance payments to finance their own retraining. There is no reason why recipients could not borrow against a portion of their future wage insurance payments. In the end, this practice could lower the cost of the system since future payments are tied to future wage losses.

We estimate that such a program would cost about $15 billion a year for high-tenured or mid-career displaced workers. It could be paid for in a number of ways, including a modest increase in payroll taxes, a longer waiting period before the payout of UI, and a scaling back of programs such as the TAA program and the WIA. LaLonde (2007) and Kling (2006) provide a detailed look at how a wage insurance program could be structured.

As we observed above, retraining is not effective across the board for all groups of displaced workers. It is effective for certain groups, however, and, moreover, can be an easier political sell than wage insurance, which risks being seen as welfare, although it is not. Like the UI program, which is a publically run self-financing program that insures workers against possible temporary income losses when they are unemployed, wage insurance would similarly insure high-tenured workers against the far more serious risk: large earnings losses when reemployed. Nonetheless, it is worth considering how best to design a retraining system when the option of wage insurance is not politically viable.

Should we offer tax incentives to employers for retraining workers?

We do not recommend expanding programs that offer employers a tax credit for retraining displaced workers. Forty years of experimenting with targeted tax credits, intended to give private employers an incentive to hire and train certain groups, has met with very limited response from the private sector. Such tax incentives are also not a good use of scarce resources insofar as they do not promote employment, because employers receive subsidies for workers they have already hired or would have hired anyway.

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 (e.g., Muhlhausen 2011). It is true that many displaced workers end up earning less after retraining than they earned before losing their jobs. This was clearly the case among the displaced workers in our Washington State study. Nonetheless, we found that both displaced workers and society benefited from heavily subsidized retraining. What we must remember when assessing the performance of these programs is that displaced workers' predisplacement earnings are irrelevant. When these workers lose their jobs, some of their marketable skills become obsolete. The question that needs to be addressed is, How much lower would the earnings of these workers have been in the absence of retraining?

We have designed our proposed DWT program so that resources are available to training-ready displaced workers to cover about one-half of their earnings losses. Our rationale for this feature of the program is that it is in line with the coverage of proposed wage insurance programs. In the end, we expect that because our proposed program provides the largest subsidies to displaced workers who experience the largest earnings losses, the majority will still earn less after they are trained than they did prior to their displacements.

Would the economically disadvantaged benefit from the DWT program?

Unlike the current Pell grant program, our proposed Displaced Worker program does not target the economically disadvantaged. Eligibility in principle is not tied to earnings or family income. Instead, once workers are reemployed, the aid that eligible high-tenured displaced workers receive depends on the size of their earnings losses. Accordingly, we expect few low-wage adults to receive financial aid under this program mainly because low-wage workers do not experience large earnings losses when they are reemployed. In the extreme case, a full-time minimum wage worker experiences no earnings loss when she is reemployed in another minimum wage job.

Low-wage workers often are eligible to receive financial aid under the current Pell grant program because their incomes are low. In addition, many low-income individuals could greatly benefit from the information system we suggest be put in place to hold One-Stops and training providers accountable for providing effective services and provide the information potential trainees need to make sound choices of training programs. These individuals also are likely to benefit from efforts to identify and disseminate best practices. A key reason low-income individuals are like to benefit from these enhancement is that economically disadvantaged individuals are a major target group for WIA funded ITAs as well as for Pell grants.

What is the rationale for limiting eligibility based on reemployment earnings?

The proposed program is targeted toward the middle class. It provides a form of insurance to high-tenured training-ready employees against economic and technological shocks that can make some of their skills obsolete and cause their earnings to be permanently lower unless new investments are made in their human capital. In principle, there would be no earnings threshold for eligibility. The reason to have such a threshold is to reduce costs and to target the lower- and middle class who experience the largest losses. Accordingly, we propose phasing out the retraining subsidy for displaced workers who earn more than $80,000 per year in their postdisplacement jobs no matter how large their earnings losses.[37] The rationale for having a higher threshold than, say, $50,000, as is proposed in several existing wage insurance proposals, is to recognize the hardship that a loss in income has on the middle class to ensure that the proposed program covers a sufficient segment of adult earners, and to take advantage of this group's potential to yield the largest return on investment from retraining.

Is retraining workers sufficient to change the fortunes of distressed communities?

The effectiveness of retraining is influenced by the way local labor markets adjust to an economic shock. The main problem that a community faces in the wake of a shock is area employers' reduced demand for labor. Unemployment will rise and remain high until either real wages decline over time, new businesses enter the community or existing employers expand their workforces, or some area residents migrate the community to find jobs elsewhere.

Retraining does not interrupt this process of labor market adjustment to adverse labor market conditions. Its impact depends on the way the labor market adjusts. For retraining to work, wages must decline in the occupations targeted by retraining programs. Once they have declined sufficiently, and employers find it profitable to make additional hires, displaced workers may be reabsorbed.

The foregoing analysis has been criticized because it does not account for the possibility of a mismatch between workers' skills and employers' needs. This criticism is not valid, however: skill mismatch generally does not appear within declining communities. (To be sure, skill mismatch is a problem for displaced workers, but not for declining communities, insofar as most displaced workers do not reside in declining communities.) Declining communities are not distressed because there is a mismatch between the types of jobs available in the community and the skills of workers in the community. In such communities, there is too little aggregate demand for labor. Instead, skill mismatch is more likely a characteristic of a growing community, which can attract the scarce labor through migration from distressed communities.[38]

It is common for local economic development and workforce development organizations to work together to provide the human capital needed to induce local employers to expand production and draw new employers into the community. Community colleges can play a major role in developing and implementing human capital development strategies. Moreover, it is very common for community colleges to use available retraining funds to create training programs tailored to the needs of new and expanding employers, programs that can be completed by workers who have lost jobs.

Retraining is most effective when it goes hand in hand with policies that either increase area demand for labor or encourage workers whose skills are in greatest supply to migrate out of the community. Without the latter, displaced workers' employment rates and wages when reemployed will remain low, and the effects of retraining will be limited. One way to increase a locale's demand for labor is to foster

interconnections between local economic development and workforce development organizations. These organizations have worked together to provide the human capital investments required to induce local employers to expand production and to draw new employers into the area. In practice, community colleges have played a major role in developing and implementing such local human capital strategies. As part of this role, it is common for community colleges to use available training funds to create programs tailored to the need of new and expanding employers that can be completed by workers who have recently lost their jobs.

What can be done for displaced workers who cannot benefit from the DWT program?

The federal government should continue to provide job search assistance and employment service programs through the One-Stop Career Centers to displaced workers who either have earnings losses that are too small to qualify for financial aid under the proposed DWT program, or who have sufficiently large losses but are excluded from the program because they are not training ready.

In addition, the federal government and the states should develop and experiment with new strategies to match each worker with the most appropriate form of assistance. One promising model in this regard is the Mott Foundation Public/Private Ventures sectoral employment initiative (Maguire, Freely, Clymer, Conway, and Schwartz 2010). This program helps workers match their existing skills to employer needs through a combination of screening, a very modest amount of retraining, and careful placement and postemployment services. Pilot projects throughout the country and rigorous testing in three cities showed that the sectoral employment model can generate substantial earnings and hourly wage gains for participants. It appears to work because program operators are especially good at identifying what kind of assistance their clients need most and providing continued employment services after training ends.

Appendixes

APPENDIX A. HOW WE SET THE TRAINING SUBSIDY UNDER THE DISPLACED WORKER TRAINING PROGRAM

The subsidy should be enough so that most eligible displaced workers can expect to have at least one-half of their lifetime earnings losses offset by participating in retraining.

We used the 2008 and 2010 DWSs to determine the distribution of earnings losses for potentially eligible high-tenured displaced workers (i.e., those whose reemployment earnings losses were at least 5 percent). The median earnings losses upon reemployment was about $11,000 per year in the 2008 DWS and about $14,000 per year in the 2010 DWS.[39]

Our Washington State study indicates that to reduce such workers' losses by 50 percent, or $7,500 per year, requires completion of about one and a half years of high-return retraining. The direct costs of this retraining include tuition and fees and supplies ($3,846 per year), and transportation ($1,491 per year). Notice too that the child-care costs could be a substantial portion of the direct costs of retraining, but these costs will only accrue to households with young children. As shown by Appendix Table 2, these households likely are headed by younger adults. About 72 percent of potentially eligible displaced workers with children who had preschool-aged children were in their thirties when they lost their jobs. By contrast, only about 6 percent of households

APPENDIX TABLE 1

Distribution of Postdisplacement Annual Earnings Losses for Displaced Workers Eligible for the DWT Program

	Years Displaced	
Percentile of Earnings Loss Distribution	**2005–2007**	**2007–2009**
10	$2,392	$3,952
25	$5,000	$6,760
50	$10,920	$14,193
75	$20,800	$26,220
90	$33,113	$45,002
Mean	$15,778	$20,575

Source: Authors' calculations using the 2008 and the 2010 DWSs.

Notes: Sample used to calculate figures in the table consists of displaced workers from the January 2008 and 2010 DWSs, who (i) had 3 or more years of tenure when they were displaced and (ii) were reemployed in a job paying 95 percent or less of their old weekly wage. Workers who were making less weekly than 37.5 times the hourly federal minimum wage were dropped, as were self-employed workers. We used the federal minimum wage in January of each year covered by the survey.

APPENDIX TABLE 2

Children Living in Households of Displaced Workers Eligible to Participate in the Proposed Displaced Worker Training Program, by Age of Displaced Worker

		Distribution of Children by Age (for displaced workers with children)	
Age of Displaced Worker	% with Children 18 and Under	0–5	6–18
22–34	49.7%	72.3%	56.6%
35–49	57.0%	30.4%	87.2%
50 +	11.6%	5.6%	96.8%
All Displaced Workers	35.7%	37.0%	96.85%

Source: BLS (2008, 2010).

Notes: Measures are weighted by CPS DWS weight. Each column gives the percentage of displaced workers with children in the indicated age category. It is possible to have children in both categories.

with displaced workers in their fifties had preschool-aged children. Therefore, while retraining displaced workers with preschool-aged children is more costly, because these workers are younger and have more years ahead of them than their older counterparts, it is likely that they will experience larger lifetime gains from retraining.

In Appendix Tables 3 and 4, we calculate total costs to the individual and to taxpayers of a worker with $12,000 annual earnings loss. Under our proposed program, she is eligible for a maximum grant of one and a half of her earnings losses (or an $18,000 maximum grant). We assume the displaced worker enters training immediately and receives a job after six months. Assuming the unemployed worker will be out of work for six months (this is in line median duration of unemployment), forgone earnings on top of the earnings loss are zero. We assume that she uses what remains of the entire grant to pay for childcare and other approved expenses. We estimate the deadweight loss cost of the DWT grant to be equal to one-half times the total federal, state, and local public expenditures on the worker's retraining; in the last column of the table this amount equals 0.5 times the sum of $18,000 from the DWT program plus $26,048 from state and local governments.

Alternatively, this displaced worker might prefer to acquire retraining from a private for-profit provider. In this case, because a larger fraction of the subsidy would pay for these institutions' higher tuition costs, workers would likely have to supplements their DWT grants with personal resources, or with subsidized loans, such as the Stafford student loan program.

APPENDIX B. ESTIMATING ANNUAL COSTS OF THE DISPLACED WORKER TRAINING PROGRAM

To estimate the annual costs of the DWT program, we first used the January 2008 and January 2010 DWSs to estimate the number of eligible individuals on an annual basis. We view these two years as likely to provide approximate lower and upper bounds on the eligible population, because the January 2008 survey occurred close to the peak of the previous business cycle and the January 2010 survey occurred near the bottom of the most recent recession.

To count the eligible population, we restricted our samples to twenty-two-year old to sixty-year-old displaced workers who had accumulated at least three years of job tenure, and who were reemployed and earning no more than 95 percent of their predisplacement earnings. This sample consists of such workers who were displaced during the prior three years.[40]

The next step is to estimate the participation rate among the eligible population. We know of no systematic studies of the relationship between the size of retraining subsidies and participation rates in training by displaced workers. So in the absence of such evidence, we used the participation rate in retraining that we observed for the displaced workers in our Washington State study. In that study, we found that enrollment rates averaged about 16 percent. These rates were higher for women, for younger displaced workers, and for workers who had completed some postsecondary education. Our participation rate estimates, accordingly, take into account the differences between the demographic compensation of the

APPENDIX TABLE 3

Costs to Illustrative Forty-Year-Old Worker Receiving the Maximum Benefit While Working Full Time, With and Without Training

	Costs to the Individual with DWT Grant Time Spent in Training				Costs to Society (Total Costs) Time Spent in Training			
	No Training	1 Semester	1 Year	2 Years	No Training	1 Semester	1 Year	2 Years
Direct Costs:								
Tuition, books, fees, etc.	$0	$1,923	$3,846	$7,692	$0	$5,833	$11,666	$23,332
Transportation	$0	$746	$1,491	$2,982	$0	$746	$1,491	$2,982
Psychic Costs to Family	–	+	+	+	–	+	+	+
Total Cost	$0	$2,669	$5,337	$10,674	$0	$6,578	$13,157	$26,314
Displaced Worker Program	$0	–$5,500	–$11,000	–$18,000				
Deadweight Loss					$0	$6,039	$12,078	$22,157
Total Cost with Available Aid	$0	–$2,832	–$5,663	–$7,326	$0	$12,618	$25,235	$48,471
PDV of Benefits of High Return Courses to Worker	$0	$20,743	$41,485	$82,970	$0	$20,743	$41,485	$82,970
Additional taxes paid		–$5,186	–$10,371	–$16,594				
Net Benefit of Displaced Worker Training Program	$0	$18,388	$36,777	$73,702	$0	$8,125	$16,250	$34,499
PDV of Earnings Loss	$158,775	$158,775	$158,775	$158,775				
After tax PDV of Earnings Loss	$119,081	$119,081	$119,081	$119,081				
PDV of Earnings Loss After Training	$119,081	–$100,693	–$82,304	–$45,379				

Notes: During the 2006–2007 academic year, tuition and fees at two-year public institutions averaged $2,017 for full-time attendance. The cost for full-time students to attend a private two-year program averaged $12,620 (NCES 2008). The College Board estimates based on its Annual Survey of Colleges that the cost of tuition and fees for full-time students at two-year public institutions averaged $2,713, the cost of books and other supplies averaged $1,133, and the cost of transportation averaged $1,491 (College Board 2010). Accordingly, we estimate expenditures on tuition, fees, books, and supplies to be $3,846 per year per trainee. Total institutional expenditures per student at public two-year universities were $10,400 in 2008, or $10,533 in 2010 dollars. This cost reflects the true cost to society, and includes all spending for instruction and student services, academic and institutional support, and operation and maintenance of buildings (College Board 2010, Figure 13, p. 21).

APPENDIX TABLE 4

Social Costs, Benefits and Rates of Return to Two Years of Training for An Illustrative Forty-Year-Old Worker Receiving the Maximum Benefit While Working Full Time

	Without Child-Care Expenses	With Child-Care Expenses
Total Costs	$48,471	$68,471
Total Benefits	$82,970	$82,970
Social Rate of Return (IRR)	12%	7%

Notes: See notes for Appendix Table 3 for assumptions. Assumes average benefit for men and women over thirty-five from Jacobson and colleagues (2005b, Table 3, p. 407), converted to 2010 dollars using CPI. We arrive at the per year figures by multiplying them by 45 credits, which is the annual number of credits earned by a regular full-time for-credit student. We assume a 3 percent discount rate on future earnings.

DWS sample and our Washington State samples. Based on these patterns for Washington State, we estimate that each year about 14 percent of the eligible displaced worker population will participate in the program. When they participate in retraining, furthermore, we estimate that these workers will participate with the same intensity as their counterparts in Washington State. In that study, we found that on average, among participants, men completed 0.63 of one academic year of retraining and women completed 0.56 of one academic year of retraining.[41]

The foregoing approach likely underestimates the enrollment rates and training intensity of workers in the proposed DWT program because it does not allow for the possibility that our program will increase incentives to enroll in more training. To address this possibility, in an admittedly ad hoc manner, we assume that the program will cause higher enrollment rates in retraining and increased training intensity. The increased enrollment rates are likely because, even when they are first unemployed, displaced workers will be more likely to start retraining knowing that they are less likely to lose their retraining subsidies once they are reemployed. The intensity of retraining also is likely to increase as the cost of taking additional course among those who have passed the hurdle of enrolling in the first place. Therefore, our upper-bound cost estimates are based on the assumptions that the incentives created by the DWT program will cause enrollments to rise by 50 percent relative to the enrollment rates observed in our Washington State study, and course completion to rise by 100 percent among those who enroll.

We estimate the percentage of displaced workers whose own postdisplacement earnings are above the $80,000 cap and the percentage of these displaced workers whose postdisplacement earnings was between $50,000 and $80,000, and therefore would have seen their Pell grants phased out once they were reemployed. Finally, we count the approximate number of displaced workers for whom their postdisplacement would make them eligible to receive aid under the existing Pell grant program, while their family income would not.

APPENDIX TABLE 5

Projected Annual Program Participation and Costs (in thousands of dollars)

			Participants		Enrollment Rate		Assumes No Change in Course Completion		Assumes Increase in Course Completion	
		Prior Education	(Lower Bound)[A]	(Upper Bound)[B]	(Lower Bound)[C]	(Upper Bound)[D]	(Lower Bound)[E]	(Upper Bound)[F]	(Lower Bound)[G]	(Upper Bound)[H]
Non-Recession Year[a]	Male	No College	10,514	15,772	0.108	0.162	84,781	127,172	169,562	254,344
		Some College	16,085	24,128	0.136	0.203	116,562	174,843	233,124	349,686
	Female	No College	8,971	13,457	0.142	0.213	60,185	90,278	120,371	180,556
		Some College	18,525	27,788	0.174	0.261	110,720	166,080	221,440	332,160
Totals			**54,096**	**81,145**			**$372,249**	**$558,373**	**$744,497**	**$1,116,746**
Recession Year[2]	Male	No College	23,300	34,951	0.106	0.159	187,401	281,102	374,802	562,203
		Some College	31,064	46,596	0.135	0.202	224,021	336,031	448,041	672,062
	Female	No College	14,607	21,910	0.143	0.215	98,824	148,236	197,648	296,472
		Some College	31,447	47,171	0.175	0.263	189,701	284,552	379,403	569,104
Totals			**100,418**	**150,628**			**$699,947**	**$1,049,921**	**$1,399,894**	**$2,099,841**

Notes: The sample includes all twenty-two- to sixty-year-old displaced workers who had at least three years of tenure when they were displaced. We assumed 36 percent of the sample would be potentially eligible to receive additional subsidies because of the program (employed within three years and making 95 percent or less of their previous wage). Enrollment rates were determined separately for each gender-age-education group. Washington State operates under the quarter system (45 credits = 1 academic year of schooling.) Based on the Washington State study, men with no college are projected to take thirty credits per year, men with college are projected to take twenty-seven credits per year, and women are projected to take five fewer credits per year in each category. We assume that the program subsidizes each worker $11,000 per academic year plus an additional $1,000 for One-Stop and other institutional incentives. These calculations do not take into account that many of these displaced workers would be eligible to receive Pell grant benefits under the current program. The cost measures are in thousands of dollars.

1 Based on 2008 DWS.

2 Based on 2010 DWS.

A. Projected number of participants; Use1 = # Eligible*Enroll Rate 1; see note C.

B. Projected number of participants: Use2 = # Eligible*Enroll Rate 2; see note D.

C. Lower-bound enrollment rate ("Enroll Rate 1"), averaged over age groups based on enrollment rates observed in the Washington State study.

D. Enrollment rate if enrollment increases by 50 percent. "Enroll Rate 2."

E. Lower-bound projected DWT program Cost1 = Use1*(credits/45)*$12,000.

F. Projected DWT program Cost2 = Use2*(credits/45)*$12,000.

G. Projected DWT program Cost3 = Use1*((2*credits)/45)*$12,000.

H. Upper-bound projected DWT program Cost4 = Use2*((2*credits)/45)*$12,000.

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Endnotes

1. The sample from the 2008 and 2010 Displaced Workers Surveys that is used for this calculation is described in the Appendix A, and refers to workers experiencing earnings losses greater than 5 percent. This figure corresponds to annual reemployment earnings losses of $11,000 for a worker expecting to work for an additional twenty years had she not been displaced. Compare with calculations by von Wachter and Davis (2011) for all displaced workers.
2. See, for example, Jacobson, LaLonde, and Sullivan (1993a).
3. See papers on wage insurance by Kletzer and Litan (2001), Kling (2006), LaLonde (2007), and Rosen and Kletzer (2006). LaLonde contends that an adequately funded wage insurance program would cost about $15 billion per year, but could be partly paid for through such savings as the elimination of the TAA program, the elimination of training for displaced workers under WIA, and increased waiting periods for UI claimants.
4. See Jacobson, LaLonde, and Sullivan (1993a). We report evidence of firm-specific human capital when we show that even high-tenured displaced workers who return to the same four-digit SIC industry experiences losses that averaged 15 percent. For evidence of industry-specific human capital, but no firm-specific human capital lost with job displacement, see Neal (1995). Von Wachter, Song, and Manchester (2007) demonstrate that those who were forty or older when displaced during the early 1980s experienced substantial earnings losses throughout their remaining working lives.
5. The twenty-year figure is from estimates of work-life expectancies. Work expectancy tables predict that forty-year-old male high school and college graduates, who are in the labor force, will work 18.83 and 21.05 years, respectively. The average of these two figures is 19.94 years. See, for example, Millimet, Nieswiadomy, Ryu, and Slottje (2003, Table 8). This study and others like it update and improve upon the methodology of the original Department of Labor study on work-life expectancies from the early 1980s.
6. The 47 percent replacement rate is from Shaw and Stone (2010). The worker's income loss while unemployed totals 0.53 times twenty-six weeks of lost earnings that are covered by UI, plus $24,000, the remaining twenty-six weeks that are not covered by UI, or $36,720. Other scenarios about the potential duration of UI benefits do not significantly change our contention about the 15/85 split between earnings losses while unemployed and earnings losses after reemployment. If our illustrative forty-year-old displaced worker lives in a high unemployment rate area where she is eligible to receive thirteen additional weeks of extended benefits, her income loss while unemployed declines to $31,080. And if, as present policy allows for, she receives UI benefits for the entire year that she is jobless, her losses, while unemployed, decline to $25,874 These calculations assume that unemployed workers must wait one week before they can collect UI benefits.
7. We arrive at the 15 percent figure as follows: we add the $36,720 in lost earnings, while unemployed, to $228,000, her expected lost earnings in the remaining nineteen years of her work life, to get $264,720. The ratio of $36,720 to $264,720 is equal to 0.139.
8. Continuing with our example from above, such a program would reduce lifetime losses associated with displacement by about 1 percent. Consider that at her new rate of pay she now earns about $700 per week. If she has exhausted her UI benefits, these five weeks of earnings reduce her lifetime losses by about $3,500; if she has not exhausted her UI benefits, the employment program reduces lifetime losses by about only $1,650. Moreover, a five-week impact from an employment program is at the top of the range of estimates reported in the literature for these types of programs (LaLonde 2003). Accordingly, although society and participants often benefit from these programs, they offer no hope for meaningfully mitigating the earnings losses of high-tenured displaced workers.
9. In our Pennsylvania study of displaced workers, we find UI benefits had their intended effect of substantially reducing but not eliminating earnings losses while workers were unemployed. See Jacobson, LaLonde and Sullivan (1993b).
10. Unless otherwise stated, all dollar figures are expressed in 2010 dollars. We multiplied figures from our Washington State study, which were given in 1995 dollars, by approximately 1.5 to convert them to 2010 dollars.
11. Among male displaced workers, we did not find larger impacts of retraining among those who completed the equivalent of two academic years of retraining compared to their counterparts who completed the equivalent of one academic year of retraining. See Jacobson, LaLonde and Sullivan (2005a). Subsequent analysis using data from Florida suggests that this result may have stemmed from men completing one-year certificate programs that had high value in the workplace, whereas men completing two-year programs were likely to complete programs in low-return fields (Jacobson and Mokher 2009).
12. To understand why it would likely require about three academic years of retraining to offset this displaced worker's earnings losses, consider that in her postdisplacement job she earns $36,000 per year. Assuming that this retraining generates a normal rate of return of 10 percent per year of training, three years of retraining would permanently increase her earnings by an average of $3,600 from Year 1, $3,960 from Year 2, and $4,356 from Year 3, for a total increase equal to $11,916, or nearly the full decline of $12,000.
13. One option to make training more attractive following the loss of a job is to design intensive retraining that packs two academic years of content into one calendar year. Some institutions have developed such retraining options but their effectiveness and attractiveness for different workers is not well documented.
14. Here we mean unemployed in that the displaced worker is actively searching for work that reflects the reduced value of her skills in the labor market. If unemployed for two years because the worker could not find work of any kind, then the opportunity cost of retraining is equal to zero. If, by contrast, she had searched for lower-paying jobs and could have found one, the opportunity cost of retraining is the pay that she would have earned in that job.
15. Even in the most successful job training programs, taxpayers rarely benefit sufficiently from trainees' earnings gains to offset the costs. After all, their tax payments heavily subsidize training programs and community college schooling. In most studies, the way that taxpayers benefit is from reduced future tax payments, which are lower due to trainees' increased payments, and the reduction in participants' antisocial behaviors, mainly criminal activity. This latter category is not a factor in cost-benefit evaluations of programs that target middle-class prime-aged displaced workers.
16. We found in our Washington State study that program impacts were negative during the first full year after retraining. Here we simply assume that the program impacts during this period equal zero. To arrive at our two-year impacts, we used our Washington State impact estimates expressed in 2010 dollars. The CPI increased by 42 percent between 1995 and 2010.
17. The trainees in our Washington State sample acquired about one-half of a year of schooling, and we found evidence of diminishing impacts of additional community college credits only for males once they had completed at least one academic year worth of retraining (Jacobson, LaLonde and Sullivan. 2005a, b).
18. For instance, see Heckman and colleagues (2003).

19. The 8.1 percent figure assumes the "just showing up" effect is not part of the per period impact of community college schooling. When we include it in our calculation for older males, the IRR of more quantitative courses rises—to 10.3 percent. We computed these percentages under the assumption that the opportunity cost of retraining equaled one-half the cost implied by the "in college" effects. Our social IRR figures for Group 1 courses are comparable to those reported for individuals in the population who complete between twelve and fourteen years of schooling. See Heckman and colleagues (2003, Table 4). These calculations also include consideration of tuition and tax payments as well as the welfare cost or deadweight losses associated with raising taxes to finance retraining.
20. In the appendixes we describe in more detail how the DWT program might work in practice.
21. In recent years, approximately one-half of college-age college enrollees work full time (Kolesnikova 2009; Orszag, Orszag, and Whitmore 2001).
22. We recommend indexing this amount to the maximum amount available annually from the Pell grant program.
23. We do not necessarily recommend that DWT participants be required to switch to full-time retraining if they become unemployed. Full-time retraining will generally mean a less-intensive job search, which will delay their return to work and thereby raise the social cost of retraining. Perhaps as a start it would be better to leave this question up to the One-Stop Career Centers who can tailor a policy on a case-by-case basis that takes into account the participants' attributes and the local labor market conditions.
24. The amount is based on a multiple of the earnings of full-time minimum wage workers assuming that a full-time worker works 37.5 hours per week. Quarterly earnings total $7.25, the federal minimum wage, times 37.5 hours per week, times 13 weeks, or $3,534. We propose a multiple of 1.5 to arrive at a minimum earnings threshold of $5,300. In principle, this threshold could be adjusted downward during tough economic times when the proportion of people who report working part time for economic reasons is unusually high. We also recommend indexing this threshold to the federal minimum wage.
25. To be more precise, we propose making the DWT program available to high-tenured displaced workers, workers losing jobs held for a minimum of twelve quarters, who have been reemployed at earnings at least 5 percent below the average of the eight quarters immediately preceding the quarter of job loss.
26. Authors' calculations from the 2008 DWS. During bad times, this percentage will be greater than 10 percent. An alternative way to structure the cap would be on postdisplacement earnings. So an $80,000 cap on postdisplacement earnings would exclude few high-tenured workers from the program, The rationale underlying this approach is that policy-makers would attempt to use retraining to "insure" a portion of training-ready high-tenured workers incomes up to a certain amount.
27. Some who have commented on earlier drafts of this paper have suggested that we also allow DWT grants be used to cover college costs for displaced workers' children. We recommend that the program refrain from covering these costs until this issue can be studied more closely. One point that program designers need to account for is the fact that students' eligibility for grants, financial aid, and subsidized loans expands in complex ways as their parents' income falls.
28. These calculations are based on authors' calculations from the 2008 and 2010 DWSs (BLS 2008, 2010).
29. We set the maximum subsidy at $36,000 because this amount would provide adequate resources for a displaced worker whose reemployment earnings losses were at the 75th percentile of the distribution of earnings losses. See Appendix Table 1.
30. To test the accuracy of One-Stop assessment and counseling, One-Stop staff would be asked to explicitly state the strengths and weaknesses of the worker's plan, and recommend alternatives. The accuracy of the assessment would be based on demonstrating that workers' plans that are cited as having a low probability of success, in fact have low probabilities, and that the alternative plans specified have high success rates for workers with similar attributes entering similar programs. In particular, it is widely recognized by practitioners that some training providers advertise false claims about the returns to training and then suggest potential students go to One-Stops to obtain WIA training vouchers or apply for Pell grants to finance this training, and that it often is very difficult for WIA staff to dissuade trainees from entering these programs rather than entering lower-priced alternatives that are more effective.
31. Creating performance measures for WIA and other workforce programs that provide appropriate incentives has long been urged by the research community. But finding suitable non-experimental measures based on short-term outcomes has proven very challenging. Our hope is that a reasonably accurate "value-added" measure can be substituted for simpler measures the create perverse incentives at long last.
32. Policy-makers likely will need to experiment setting this incentive. The amount should not be tied to all potentially eligible displaced workers; if the incentive is too large, One-Stop Career Centers would have an incentive to screen and monitor the training plans of too many displaced workers, some of whom will not be training ready.
33. If additional funding above that for grants were unavailable, we regard use of honest brokers to be so important that both DWT and Pell grants going to workers should be reduced to pay for the One-Stop services. In particular, we advocate allowing Pell grants to be used at One-Stops to obtain screening by displaced workers eligible for the DWT program because WIA funds for this purpose are inadequate and, as noted above, unlikely to be increased. More generally, it would be worthwhile experimenting with allowing ineligible displaced workers and economically disadvantaged individuals to use Pell grants to pay for One-Stop services, as this use of funds could be highly cost-effective.
34. Most states have failed to take advantage of the considerable technical expertise that they have in their state universities to create large databases by matching different sources of administrative data and to evaluate outcomes and impacts associated with different retraining courses and programs. Substantial cost savings exist, as does the credibility gained by having a subcontracted third party involved in devising, measuring, and reporting on program performance.
35. For example, to ensure that displaced workers have access to classes taught by regular faculty, authorities could experiment with the incentives needed to induce them to teach extra courses at nonstandard times.
36. The College Board reports that state (nominal) appropriations per full-time equivalent at public postsecondary institutions declined by 8 percent between 2008 and 2009 and by 5 percent between 2009 and 2010. After accounting for inflation, real appropriations declined by 10 percent and 6 percent, respectively, and federal stimulus funds accounted for 3 percent and 5 percent of expenditures for the 2008–2009 and 2009–2010 academic years, respectively (College Board 2010, 4, 18).
37. According to our calculations based on the 2008 and 2010 DWSs, of those reemployed at the time of the survey and whose postdisplacement earnings were less than 95 percent of their predisplacement earnings, 2.6 percent in the 2008 DWS and 4.9 percent in the 2010 DWS earned the equivalent of $75,000 or more per year. We computed these percentages by annualizing each reemployed displaced worker's weekly wage by multiplying it by 52. We then calculated the fraction of these workers whose annualized weekly wages exceeded $75,000.
38. See Ludwig and Raphael (2010) on the creation of a mobility bank.
39. See Appendix Table 1 for the distribution of reemployment earnings losses from the 2008 and 2010 DWSs for potentially eligible displaced workers.
40. Therefore, to estimate the eligible population on an annual basis, we divided the numbers in this sample by 3.
41. As with the enrollment rates, we adjusted these Washington State training figures for demographic differences in composition between the Washington State and DWS samples.

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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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