**Testimony before the Joint Economic Committee of Congress**

**July 12, 2011**

**Harry J. Holzer, Professor of Public Policy, Georgetown University**

I would like to make five major points today about manufacturing employment, the broader labor market in the US, and the relevance of the nation's education and workforce development systems to these issues.

1. **Despite the loss of over 2 million jobs in manufacturing during the past four years and high unemployment among these workers, employers still have difficulty filling jobs in the industry, at least partly due to a lack of workers with the appropriate skills.**

So far, net new job creation during the recovery has accounted for less than ten percent of all jobs lost in manufacturing during the Great Recession. Yet, the ratio of job vacancies to new hires in manufacturing is higher than we find in any other major industry group, suggesting that employers are having some difficulty filling their newly created jobs. Descriptive evidence from several sources reinforces this view.[1]

2. **More broadly, in order for America's prosperity to be widely shared, and in order to help reduce currently high levels of unemployment, the skills that American workers bring to the labor market will have to increase.**

At over 9%, today's high unemployment still mostly reflects *cyclical* factors (or a shortage of jobs relative to workers), but a piece of it is also *structural* – with employers having some difficulty filling vacancies in jobs requiring particular skills.[2] The large fraction of our currently unemployed workers who have been permanently dislocated from their jobs and without work for six months or longer no doubt will reinforce the structural component of unemployment during the next several years. Over the longer term, the gaps between the skills demanded by American employers in good-paying jobs and those supplied by workers also contribute to our enormous levels of earnings inequality in the US.[3] Unemployment could thus be reduced and

[1] Data from the most recent Job Openings and Labor Turnover Survey (JOLTS) from the Bureau of Labor Statistics show a vacancy rate of 1.9 percent and a new hires rate of 2.1 percent in manufacturing. No other broad industry grouping shows such a high ratio of vacancies to total hires. More informal evidence on the difficulties employers have filling these jobs has been reported by Uchitelle (2009) and Fletcher (2011).
[2] See Elsby et al. (2010) and Dickens et al. (2011).
[3] See Goldin and Katz (2008) and Carnevale and Rose (2011).

prosperity more widely shared if more Americans had the postsecondary credentials that our employers seek and reward in both "middle-skill" and "high-skill" jobs.[4]

3. **While the public and private systems of higher education in the US, along with private sector on-the-job training, contribute importantly to the skills of the nation's workforce, a very robust public workforce development system is also necessary for meeting these needs.**

On its own, our system of higher education will not produce enough of the skills needed by American works to prosper. Dropout rates at our 2-year and 4-year colleges are quite high, and too many students obtain credentials that are not highly rewarded in the labor market.[5] At least partly, this is because our education and workforce systems largely operate in isolation from one another, with too few students gaining access to career counseling and other employment services.[6] Not all workers can attend or succeed in college, and many need other forms of job training that prepare them for good-paying occupations and sectors. Private employers also provide some of the training they need, but they are reluctant to provide general skills or occupational training for a variety of reasons.[7] So a strong publicly funded workforce development system is still needed to provide employment services and training to all those who need it.

4. **Though it clearly provides employment services and training cost-effectively, the publicly-funded workforce development system already has too few resources to be fully effective. These resources should not be further reduced.**

A strong body of rigorous research indicates that our publicly funded workforce system provides core and intensive services to job-seekers as well as very limited training quite cost-effectively.[8] But its funding has already declined by as much as 90 percent over the past three decades. Title I of the Workforce Investment Act (WIA), the primary source of federal funding for employment services, now provides under $3B of funding for over 150 million workers in a $15T economy. And recent concerns (based on a report by the General Accounting Office) over duplication in

[4] "Middle-skill" jobs include those requiring postsecondary training short of a bachelor's degree. See Holzer (2010) for a response to claims that the middle of the labor market is collapsing.

[5] See Bailey et al. (2005) for evidence on noncompletion rates at community colleges and Turner (2007) for evidence at colleges more broadly. Jacobson and Mokher (2009) document the various high variance in returns to community college degrees and certificates for young people while Carnevale et al. (2011) show this for four-year college graduates. The recent report by the Center for Best Practices at the National Governors Association (2011) also argues for better targeting college credential achievement to areas of labor market need.

[6] See Soares (2009). The fact that community and four-year college revenues are largely independent of the kinds of courses students take and the labor market rewards to the credentials they receive also limits the incentives of these institutions to be responsive to labor market demands.

[7] It is well known (Becker, 1975) that employers will be reluctant to fund any training for workers who might soon leave, whereby other employers would gain the returns on their training investments. More broadly, several "market failures" such as imperfect information and liquidity constraints might further limit employer willingness to make these investments.

[8] See Heinrich and King (2010) and Uhalde (2011) for reviews of this evidence.

service delivery have been overstated, with many programs using very small sums to target detailed worker populations. Even including all of these funding sources, virtually no other industrial nation spends as little on employment services and preparation as a percentage of GDP as we do in the US.[9]

5. **The US needs to develop a set of more coherent education and workforce systems, at the state level but with federal support, that is better integrated with the demand side of the US economy and labor market.**

Performance of the WIA system could be improved along a number of dimensions. For instance, performance measures could be simplified, with greater weight placed on the earning of credentials by workers; and services both for youth and hard-to-employ workers could be strengthened.[10] Also, WIA could provide more support to localities and states that use “sectoral” efforts and career pathways to target workers for industries with strong demand and actively engage employers or industry partnerships along the way. Indeed, the evidence on the cost-effectiveness of sectoral programs for both adults and youth is very compelling.[11] Furthermore, several states (such as Pennsylvania, Michigan, Oregon, Washington and Wisconsin) have made enormous strides in tying their education and workforce systems to industry demand. A major new competitive grants program to fund such state activities, perhaps modeled in some ways on the Race to the Top fund in education, could be enormously helpful in encouraging more states to develop well-integrated education and workforce systems along these lines. But any such program should represent a net addition to, and not a carving out, of current WIA funding.

## REFERENCES

Bailey, Thomas et al. 2005. “Graduation Rates, Student Goals and Measuring Community College Effectiveness.” Community College Resource Center, Columbia University.

Becker, Gary. 1975. *Human Capital*. Chicago: University of Chicago Press.

Bloom, Dan and David Butler. 2007. “Overcoming Employment Barriers: Strategies to Help the Hard-to-Employ.” In H. Holzer and D. Nightingale eds. *Reshaping the American Workforce for a Changing Economy*. Washington DC: Urban Institute Press.

---

[9] See O’Leary et al. (2004). The US spends roughly .1% of its GDP on workforce services, as detailed in the GAO report.

[10] See Lerman (2007) and Bloom and Butler (2007).

[11] See Maguire et al. (2010) and Roder and Elliott (2011). The programs reviewed in these studies include Jewish Vocational Services in Boston, Per Scholas in New York, the Wisconsin Regional Training Partnership, and Year Up in Boston and elsewhere. Other very promising programs include Quest in San Antonio (Osterman, 2007) and Capital IDEA in Austin TX (King, 2008).

Carnevale, Anthony and Stephen Rose. 2011. *The Undereducated American*. Washington DC: Center for Education and the Workforce, Georgetown University.

Carnevale, Anthony et al. 2011. *Help Wanted: Employment Projections Through 2018*. Washington DC: Center for Education and the Workforce, Georgetown University.

Center for Best Practices. 2011. *Degrees for What Jobs? Raising Expectations for Universities and Colleges in a Global Economy*. Washington DC: National Governors' Association.

Dickens, William. 2011. "Has the Recession Increased the NAIRU?" Unpublished, Brookings Institution, Washington DC.

Elsby, Michael et al. 2010. "The Labor Market in the Great Recession." Working Paper, National Bureau of Economic Research.

Fletcher, Michael. 2011. "Why Does Fresno Have Thousands of Job Openings – and High Unemployment?" *The Washington Post*. February 2.

Goldin, Claudia and Lawrence Katz. 2008. *The Race Between Education and Technology*. Cambridge MA: Harvard University Press.

Heinrich, Carolyn and Christopher King. 2010. "How Effective are Workforce Development Programs? Implications for US Workforce Policies in 2010 and Beyond." University of Texas at Austin, October.

Holzer, Harry. 2010. "Is the Middle of the Labor Market Really Disappearing?" Washington DC: Center for American Progress.

Jacobson, Louis and Christine Mokher. 2009. *Pathways to Boosting the Earnings of Low-Incoem Students by Increasing their Educational Attainment*. Arlington VA: CNA.

King, Christopher. 2008. "Does Workforce Development Work?" Ray Marshall Center, University of Texas, Austin.

Lerman, Robert. 2007. "Career Focused Training for Youth." In H. Holzer and D. Nightingale eds. *Reshaping the American Workforce for a Changing Economy*. Washington DC: Urban Institute Press.

Maguire, Sheila et al. 2010. *Tuning Into Local Labor Markets*. Philadelphia: PPV.

O'Leary, Christopher et al. 2004. In O'Leary, Christopher et al. eds. *Job Training Policy in the United States.* Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

Osterman, Paul. 2007. "Employment and Training Policies: New Directions for Less-Skilled Adults." In H. Holzer and D. Nightingale eds. *Reshaping the American Workforce for a Changing Economy*. Washington DC: Urban Institute Press.

Roder, Anne and Mark Elliott. 2011. *A Promising Start: Year Up's Initial Impact on Low-Income Young Adults' Careers.* New York: Economic Mobility Corporation.

Soares, Louis. 2009. *Working Learners: Educating Our Entire Workforce for Success in the 2st Century*. Washington DC: Center for American Progress.

Uchitelle, Louis. 2009. "Despite Recession, High Demand for Skilled Labor." *New York Times*, June 23.

Uhalde, Raymond. 2011. "Can Carryover Fund the Workforce Investment System in Program Year 2011?" Testimony Before the Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, US House of Representatives, April 7.