

Job loss: Bridging the research and policy discussion

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Although the economy is finally adding net new jobs beyond what is necessary to keep pace with the growth of the working age population, this current economic recovery is unprecedented in terms of its anemic job growth. There are a variety of culprits cited for this sluggish job creation—“offshoring” (moving jobs overseas), productivity growth, geopolitical insecurity, digestion of investments in information and communication technology, rising oil prices, and falling labor supply.

However, few of these explanations are likely to explain much of this sluggish job market on their own. For example, rising health care costs have been cited as a possible reason why employers might be more reluctant to hire new workers. But when we look at trends in total employee compensation, we do not see the kinds of increases that would explain such slow job creation. Since the work force is aging, we might expect that this would reduce the size of the work force as a greater share of workers reach retirement age. However, the labor force participation rate of workers over the age of 55 actually rose about 4 percentage points from 2000 to 2004. So for the moment, the slow pace of job creation does not seem to be related to an aging work force.

Another possible explanation for slow job growth is the phenomenon of offshoring. Manufacturing jobs have moved overseas during the past two decades and this trend continues, especially now in the apparel sector with the elimination of the Multifiber Arrangement in January 2005.¹ What has changed, however, is that service jobs, once thought immune to the offshoring threat, are now going abroad as well. This shift has important policy implications for the extension of trade adjustment assistance to service sector workers, as Lori Kletzer and Howard Rosen discussed in their paper for this conference (also see Kletzer, 2005, in this issue). While I think that the impact of offshoring of

service sector jobs will become increasingly important over time, I do not think it is sufficient to explain a major part of our current anemic job growth.

A more likely explanation for the lackluster job growth is some combination of the good news of sustained productivity growth (although what lies behind this is still fertile ground for research) and the dampening effect of geopolitical concerns, including the price of oil. However, before we conclude that concerns about the structure of the U.S. labor market have been misplaced, I would like to argue that there are quite sensible and rational reasons why people should be concerned about our policy responses in the context of trade and technological change and their impact on workers.

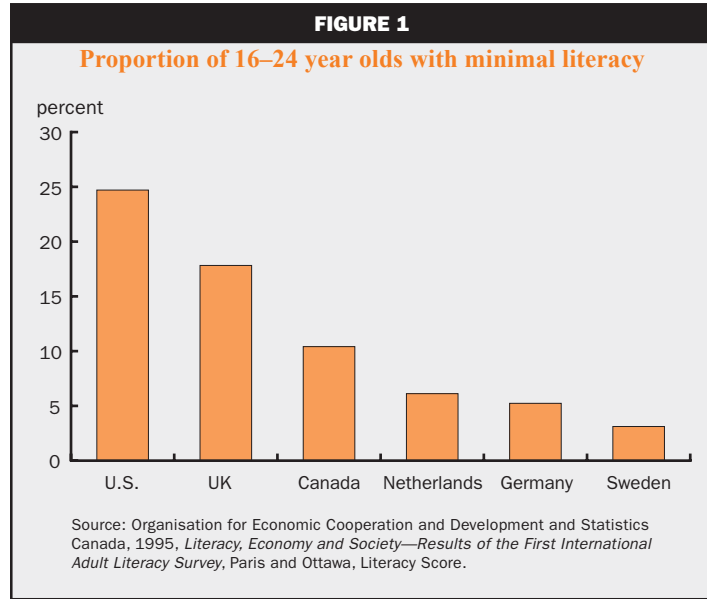
Skill levels in the work force

So what is the problem? Both trade and technological change put pressure on our economy to raise the skill level of the work force. But the supply of skilled workers is just not keeping pace with the changes in demand due to technology and trade. Managers live with this reality everyday. For example, the 2001 American Academy of Management Association Survey on Workplace Testing reports that one in three job applicants tested by employers lacked the basic skills necessary to perform the jobs they sought in 2000. This skill crisis was in place during the boom of the 1990s, it was here during the recession of 2001, and it is still here today. It threatens to be a significant drag on our ability to remain competitive in the global economy through the production of innovative high-skill-content goods. It also undermines our ability to move

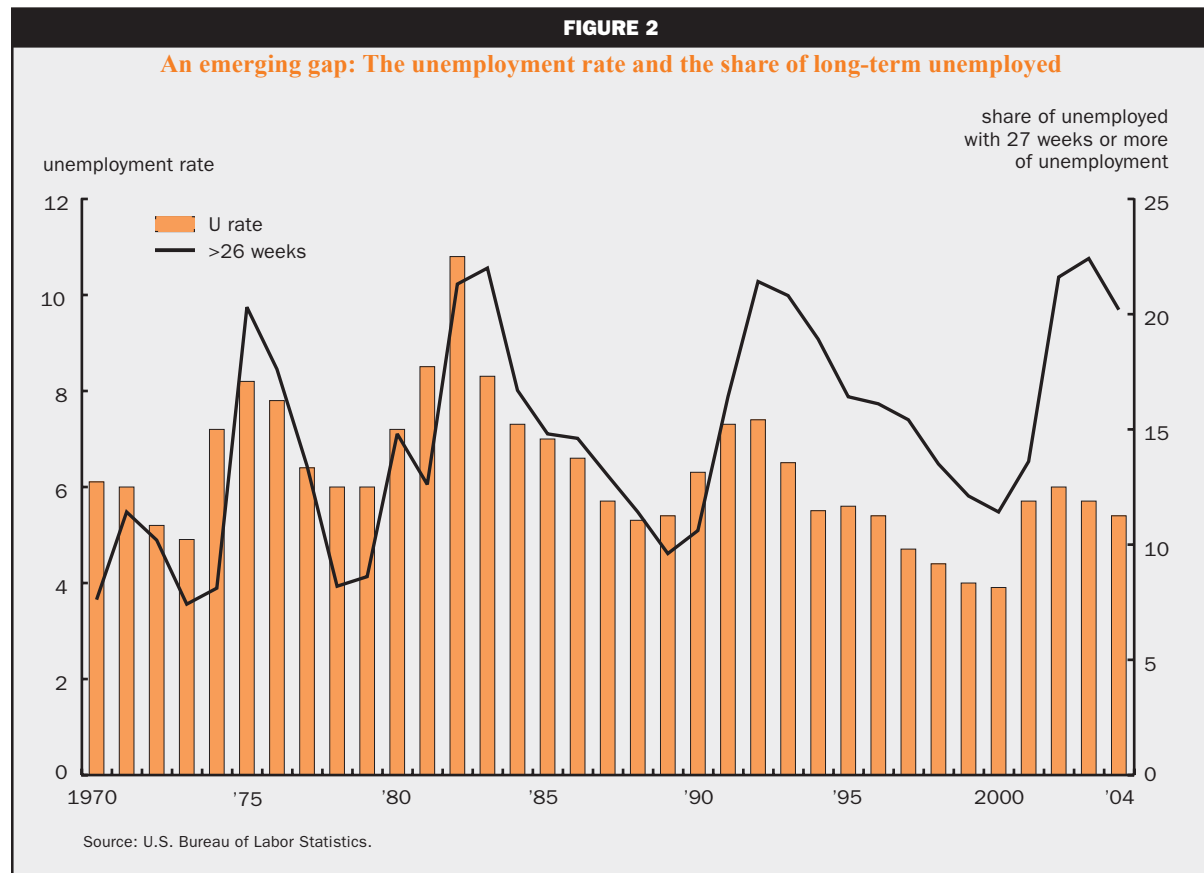
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workers from contracting sectors of our economy to expanding ones.

But fixing this crisis requires us to understand the skill quality both of workers entering the labor market and of those already in the job market. In terms of the skills of new entrants, we see that in spite of a significant increase in the wage premium paid to those with a college degree, there has been a slowdown in the rate of growth in the United States for college enrollment and completion. This slowdown is concentrated among individuals from low-income families and minority families. As Carneiro and Heckman (2003) point out, we are now producing a greater share of low-skilled youth than we did 30 years ago. Thirty years ago, 25 percent of 17 year olds dropped out of high school and didn't return or only completed a general equivalency diploma (GED). That percentage today has risen to 28 percent. Meanwhile, around the world, young people are staying in school longer and outperforming U.S. youth in math and science. The recently released Organization



for Economic Cooperation and Development (OECD) Program for International Student Assessment 2003 results for 15 year olds show that the U.S. ranked twenty-eighth out of 40 countries in mathematics and twenty-second out of 40 for science performance.



A simple picture can help put this into some perspective. Figure 1 shows the share of 16–24 year olds by country with minimal literacy skills. Twenty-five percent of young people in the U.S. are at this low level versus 5 percent or less in countries such as Germany and Sweden. We think of ourselves in the United States as having a comparative advantage in the production of highly educated workers, but these numbers are disturbing.

What is happening to the stock of workers already in the work force? We know that the wage differential paid to those with a college degree relative to those with just a high school diploma has grown rapidly over the past 30 years and remains high (from 1.4 times greater to 1.7 times greater). While the job loss rate for more educated workers increased over the 1990s relative to earlier periods (Farber, 2003), it remains true that less-educated workers continue to have the highest rates of job loss overall. More-educated workers who do lose their jobs have higher reemployment rates and are more likely to be working full time. But the fact remains, as shown in Farber’s (2003) work, that since the mid-1990s, regardless of education, those displaced workers who do succeed in being reemployed suffer large earnings losses compared with their earlier earnings.

Something seems to have changed structurally in our labor market with respect to the experience of displaced workers. Job losers are increasingly people who have permanently lost their jobs rather than being on temporary layoff. The struggle to find new employment shows up as a break in the relationship between the duration of unemployment and the unemployment rate. This break appears to begin in the mid-1990s, as shown in figure 2.

As one can see, there is an emerging gap between the unemployment rate and the share of the unemployed out of work for six months or more that appears around 1994. In December 2004, the U.S. Bureau of Labor Statistics reported that more than one in five unemployed workers were out of work for six months or more in spite of an unemployment rate of 5.4 percent. Historically, this is a very high share relative to the unemployment rate. A major policy concern related to this is that our unemployment insurance system was designed to provide temporary wage coverage for workers on temporary layoff, not to prepare them for new employment.

So where do workers turn to get skills training, and what do we know about the returns to this training? In particular, what has research informed us about what works and how has this research informed the policy process. First, let us look at employer-provided skills training (table 1).

TABLE 1
Employer-provided training and labor market outcomes
<ul style="list-style-type: none"> ■ There are large returns to employer-provided training (10 percent–26 percent) that appear to exceed the returns to college (Lynch, 1994). ■ Displaced workers with greater amounts of multi-skilling in pre-displacement jobs suffer smaller subsequent wage losses (Kuhn and Sweetman, 2004). ■ More-educated workers get more employer training. This creates an important selection issue when evaluating the returns to training, creating a virtuous cycle for the educated and a vicious cycle for those who are not well educated (Lynch, 1994). ■ Smaller employers are much less likely to offer training—even for health and safety (Lynch and Black, 1998). ■ A real challenge for incumbent workers who have not lost their job but are at risk and want to invest in training is that they also suffer from a shortage of discretionary time to undertake training outside work—this is particularly true for women.

How have these findings influenced policymaking? They have been used by some legislators to justify proposals to provide permanent tax relief to employers who train their workers or to provide additional tax relief for small employers who train. In other countries these findings have also been used as a justification for “pay or play” training taxes. But on the whole in the U.S., these outcomes are viewed in the policy arena as the result of private choices of individuals and firms. There has been little interest in funding the kind of evaluation of employer-provided training programs that government training programs have been subjected to in order to assess private and social returns. Instead, much of the recent policy discussion has focused on accounting standards for these investments in their role as intangible assets to the firm. We do not systematically collect data in any of our national surveys of households or firms on how the training investments by employers or workers have changed in response to supply and demand shocks—including technology and trade. This represents a large deficit in our understanding of trends in this area.

What happens to less-educated workers when they are out of work? If employers are not investing in them, then the government becomes a critical source of skills training. Here the academic research has been very informative and influential for policymakers. In particular, the use of random assignment to evaluate

the effectiveness of the Job Training Partnership Act (JTPA) programs for disadvantaged adults and out of school young workers has been extremely important. Apart from the merits of using random assignment to better evaluate these training programs, an advantage of this methodology is that it is easy to produce simple tables with two columns of results for treatments and controls. No need to talk about propensity scores, standard errors, selection bias, and so on. This has made the random evaluation studies very accessible to a broad audience of non-economists.

In general, research suggested that JTPA training for out of school youth was largely ineffective relative to JTPA adult training. The policy and budgetary response to this research finding was rapid and sharp. We saw a significant shift of federal training funds

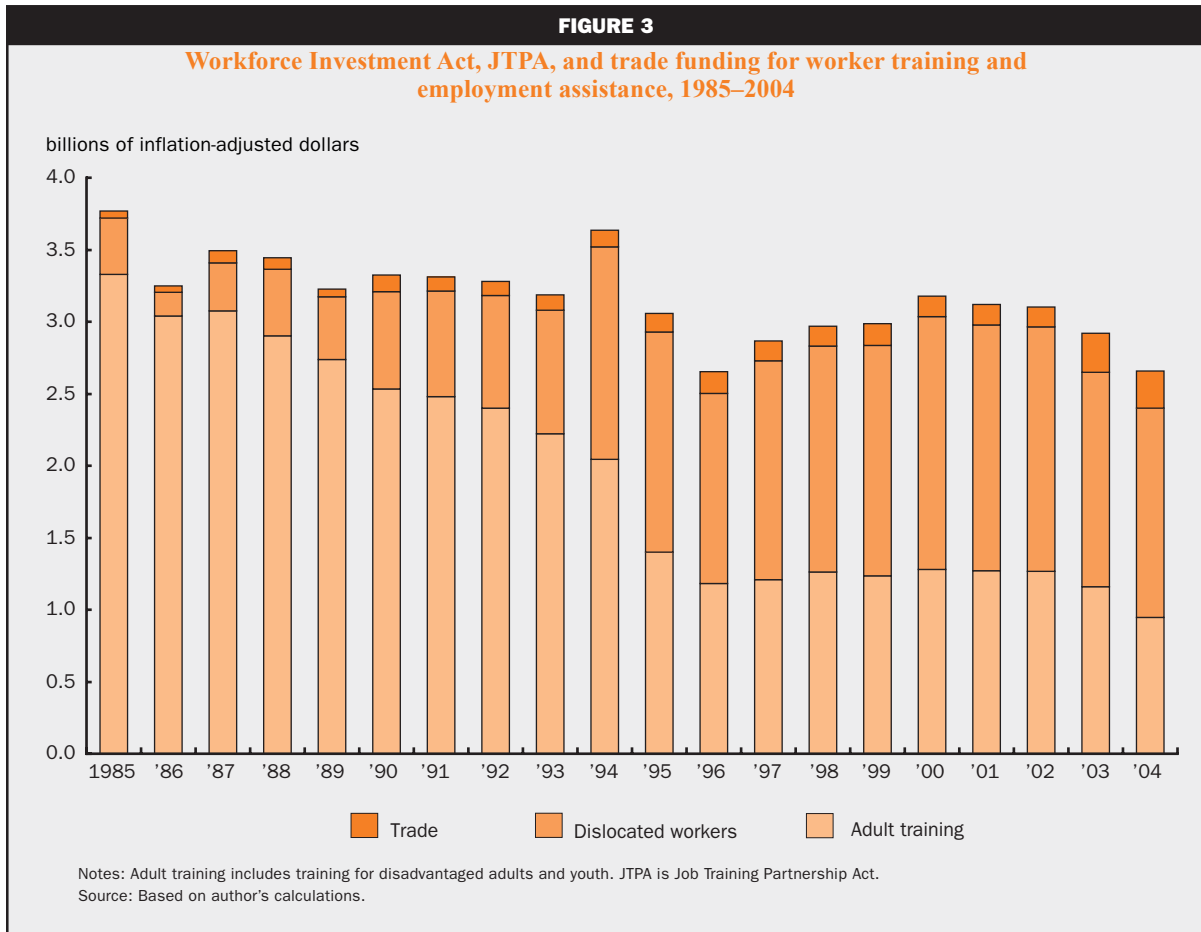
away from youth and toward adults during the 1990s. At the same time, evaluation studies of the Job Corps program produced a more optimistic assessment of this type of youth intervention program, especially when outcome measures were broadened to welfare receipt, arrest rates, jail time, along with the usual outcomes of employment probabilities and weekly earnings. Some researchers have interpreted the discrepancy in findings between the returns to JTPA and the Job Corps program for youth as an indication that you get what you pay for—JTPA is a much less expensive program than Job Corps.² In other words, small investments yield small returns. However, in the policy world this interpretation of these studies has not translated into a massive expansion of the Job Corps program. It is always easier to cut than to add programs, especially in an era of tightening budget constraints for non-military discretionary spending.

For adult workers, there is more promising evidence that government training programs work—especially certain types of programs and for specific demographic groups (see table 2).

The evaluation evidence on displaced workers programs relative to training for disadvantaged adults has had a significant impact on policymakers' funding priorities. As we see in figure 3, funding for adult training (this includes out of school youth in the JTPA years) has declined steadily since 1985. It fell most sharply in the mid-1990s and this was driven by the evaluation results on youth JTPA training programs. However, since 1994 the share of training funding for displaced workers has risen sharply. Again, this was influenced by more positive findings on the returns to training of displaced workers and a growing need to help permanently displaced experienced workers find employment in expanding sectors of the economy.

Figure 3 also shows what has happened to training dollars for manufacturing workers displaced by trade—this is mandatory spending, while the other two parts are discretionary spending. While this has risen over time, it still represents a very small part of what we spend our training dollars on. (See Kletzer and Rosen, 2004). What does this say about our trade policy? More generally, looking at the figure we see that training dollars (at least as distributed across these three programs) have fallen in real terms since the mid-1980s from approximately \$3.7 billion to a bit more than \$2.5 billion. This decline has occurred in spite of rising training needs among workers displaced by trade and technology that are cited by policymakers on both sides of the aisle over and over again.

TABLE 2
Government-funded training programs and labor market outcomes
What works
<ul style="list-style-type: none"> ■ Classroom training for displaced workers—especially in math/science and health vocational—has a significant impact on wages and employment (Jacobson et al., 2005). ■ Old dogs can learn new tricks and their newly acquired skills do not seem to depreciate over time (Jacobson et al., 2005). ■ Returns of training for displaced workers seem to be higher than what disadvantaged adults, especially males, experience in their training programs (U.S. Department of Labor, 1995). ■ On-the-job training for disadvantaged women is cost-effective, along with classroom training (U.S. Department of Labor, 1995). ■ Targeted reemployment bonuses can result in decreased unemployment insurance payments that are cost-effective (O'Leary et al., 2005).
What helps make this work?
<ul style="list-style-type: none"> ■ Smaller programs work better than larger programs—they can better tailor program content to specific needs of participants (U.S. Department of Labor, 1995). ■ Working with training providers that are well connected with local employers (for example, CET in San Jose, CA) improves the training outcomes (U.S. Department of Labor, 1995). ■ Increasing the role of community colleges in the provision of training (see National Governors Association, 1999, for a summary of state-funded employer-focused training programs through community colleges).



However, figure 3 does not provide the complete picture, because it does not take into account the fact that the work force has been growing over this period. Figure 4 plots per capita (labor force) spending on these three training programs over time, relative to the unemployment rate.

As shown in this figure, per capita spending fell from a “high” of over \$30 per worker in 1985 to around \$17 per worker in 2004. We are spending about \$1 billion less on worker training today than we would have spent 15 years ago for a similar state of the economy.

This might not be cause for concern if the private sector was making up some of this gap—but what we do know about private employers is that training expenditures usually are among the first items to be cut during a recession. The same is true for state governments, many of which had expanded state training programs during the boom times of the 1990s. Recently, depending on how these training programs were funded, many states have had to curtail their discretionary spending on work force training as they have struggled to balance their state budgets in this past recession.

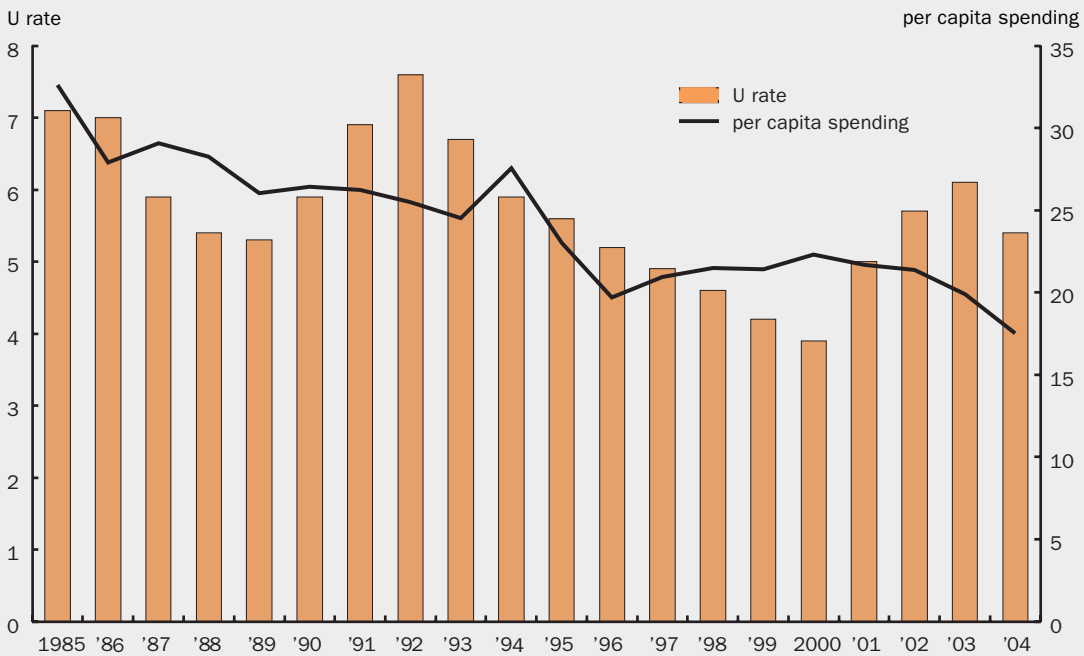
Closing the gap between research and policy

In sum, the evaluation studies on federal training programs have had an important impact on federal funding priorities. These data have helped us better understand what works and for whom with respect to government-funded training programs. But when we look at the overall policy response, we see that the findings on lower returns to some types of training for some disadvantaged adult males have been used to justify reductions in spending for all groups of workers. So the policy debate is not about how much to expand the federal training commitment as much as it is about how to make sure that those programs that do work are not cut. How can academic economists get involved in the policy debate to influence the direction of policies such as unemployment insurance, training programs, and outplacement services?

Joseph Stiglitz (1998), writing about his experience as chairman of the Council of Economic Advisors, talks about the so-called simplicity constraint faced by economists trying to participate in the public

FIGURE 4

Inflation-adjusted WIA, JTPA, and trade funding per civilian worker relative to the unemployment rate (1985–2004)



Source: Based on author's calculations.

policy process. He argues that complicated policies and arguments have little place in political discourse. As researchers we need to understand that much of our subtle qualifiers get lost in the politics of policy-making. But at the same time, we must resist the temptation to present our work in black and white and ignore the qualifications and caveats that are so important to understand. So how do we do this? We need to put on our teacher's hat and educate the policy community about our work. We have to do this in a more accessible and jargon-free way. We cannot simply throw our work over the wall to an academic journal and expect that the policymaker will read it. Conferences such as this that bring together academic researchers with policymakers are a good example of how to do this.

This means that we need to understand what policymakers need to know. The good news is that our research agendas and their policy interests are not that dissimilar. Table 3 summarizes some of the topics of common interest.

While there are many areas of common interests for academic researchers and policymakers, unfortunately the funding by the federal government for pilots, demonstration projects, and research on training has

been reduced dramatically—from a high in nominal dollars of \$130 million in fiscal year 2002 to only \$58 million in 2004. The amount allocated to research out of this total is very small. But without more detailed evaluation of what works, it will become impossible to influence policy direction in the area of training.

Random assignment evaluation is wonderful with respect to its ability to meet Stiglitz's simplicity constraint. But we need to acknowledge that our controls in random assignments are not always so controlled. For example, many youth and adults who were not assigned to JTPA training went on to get it from other sources. A careful review of the JTPA evaluation study by Heckman, Smith, and Taber (1996 and 1998) also indicated that there was considerable discretion on the part of local program officers in the so-called random assignment process with evidence of reverse creaming. In other words, in some sites the most disadvantaged youths were put into JTPA, while the less disadvantaged were "controls." In addition, as Jacobson et al. (2005) show, we need to follow up on program participants for more than 18 months. Finally, the program content of training programs varies across sites but the evaluation design does not usually take this

TABLE 3**An agenda for training research and policy****For the quality of skills of labor market entrants**

- Additional evaluation of preschool programs and their long-term benefits.
- Assess K–12 school reform, especially with respect to math and science.
- Evaluate returns to investment in math, sciences, and engineering for undergraduate and graduate students.
- Expand college enrollment and completion rates for lower-income and minority families—financing and information barriers; role of mentoring.

For the stock of workers

- Reform of the unemployment insurance system to address permanent layoffs—continued assessment of targeted reemployment bonuses and personal reemployment accounts.
- Understanding the mix of services required by workers displaced by trade, as well as other job displacement reasons.
- Understanding barriers to participation in trade adjustment assistance programs and other government training programs. (See Heckman and Smith’s [2004] work on workers’ lack of awareness of eligibility to participate in JTPA programs.)
- Extend and improve federal programs for job training, job search assistance, and relocation—including evaluation of benefits over time by participant type.
- Expand the provision of employer-provided training and track and evaluate its returns more systematically.
- Systematically evaluate state-funded employer-based training programs.
- Evaluate community colleges as training provider for workers—both working and displaced.
- Expand educational opportunities and student loan eligibility for full-time workers to go to school part time.
- Evaluate how best to use narrowly targeted wage insurance and subsidies to employment.

needs to help academic researchers by providing access to these administrative data, so that this type of evaluation can happen. Such a partnership between academic researchers and policymakers would be extremely fruitful. How we explain our academic results to a non-technical audience, though, will be critical to making this partnership effective.

Another way research economists can influence policymaking is to actually spend time in a policymaking position. From my own experience in government, most policymakers within departments and agencies at the political appointee level have a thorough understanding of how to move legislation through Capital Hill but few have much economics expertise. The usual result is that there is little policy discussion of economic constraints, opportunity costs, and implementation issues and lots of discussion of how best to maneuver a particular initiative. The challenge for the economist is not to become corrupted by the process and start using bad arguments to win policy debates. Then, we lose our role as honest brokers and ultimately undermine our ability to bring economics expertise into political discourse.

In the aftermath of the “blue state–red state” exit poll analysis of the 2004 presidential election, it appears, as Blinder and Krueger (2004) also argue, that “people seem to use ideology as a short-cut heuristic for deciding what position to take when properly informing oneself is difficult.” However, before we economists pat ourselves on the back and say thank goodness we are not like the general public, it is sobering to consider the findings from a study by Fuchs, Krueger, and Poterba (1998) of public economics and labor economists. Their survey indicated that left–right political ideology seems to have shaped the opinions of economists more than parameter estimates. The specific issue of the relative merits of investing in federal job training programs was one of the questions for which this reliance on values rather than parameter estimates was greatest.

Thus, our final task as researchers informing the public policy community is to ensure that policy decisions are made on the basis of knowledge and not exclusively “values.” Ignorance is never a recipe for good policy. This is how we battle the simplicity constraint.

into account. As a result, researchers will need to be able to evaluate programs without using random assignment methods. This will require administrative data to track the outcomes of alternative programs and make sure that our econometric techniques address the concerns of selection bias. The policy community

NOTES

¹The Multifiber Arrangement (MFA) came into effect in 1974 and extended trade protection (via quotas) from cotton products to wool and manmade fibers. It expired in 1994 but, with the establishment of the World Trade Organization in 1995, was followed by the Agreement on Textiles and Clothing (ATC), which provided a transition period between the MFA and the full integration of textiles and clothing in the multilateral trading system. This transition period ended on January 1, 2005. For a review of the potential impact of the expiration of this protection of the textile and apparel industry, see Nordås (2004).

²JTPA for youth targeted economically disadvantaged youth, and most programs were of relatively short duration (three to four months) with an average expenditure around \$4,000 per participant. Job Corps participants are typically more disadvantaged than JTPA youth, and the program is more intensive and comprehensive than JTPA. Ninety percent of the participants are in a residential program (usually eight months in duration) and the average cost of the program per participant is closer to \$20,000 (in 2001 dollars).

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