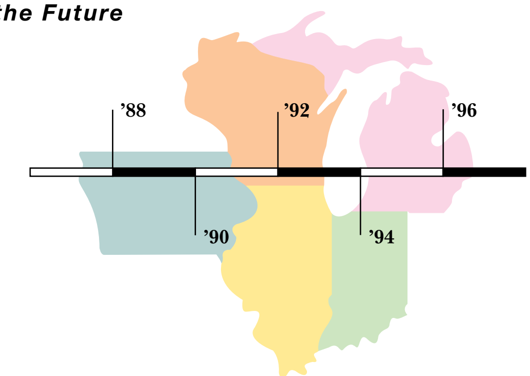
Number 4

ASSESSING THE MIDWEST ECONOMY

Looking Back for the Future



Work Force Developments: Issues for the Midwest Economy

Fourth in a series of workshops to be held at the Federal Reserve Bank of Chicago.

The condition and prospects of the work force were the subjects of the fourth workshop in the Federal Reserve Bank of Chicago's year-long "Assessing the Midwest Economy" project, which was held on May 15, 1996. The morning portion of the program focused on current issues in labor and training, including an examination of the skills being sought by employers, evidence of wage and income inequality, and developments affecting specific segments of the labor market, such as the poor, displaced workers, and the contingent work force. The afternoon sessions focused on the changing environment for work force training in the federal, state, and private sectors and examined how midwestern states are responding to these changes.

Federal Reserve Bank
of Chicago

Training is being trumpeted as the solution to various social ills. Still, more needs to be done to understand what types of training actually work.

Introduction

Federal Reserve Bank of Chicago President Michael Moskow opened the workshop with a discussion of how work force development relates to the goals of the Midwest Assessment project. Moskow began by emphasizing that the quality and availability of the work force are inextricably linked to the health of the Midwest economy. Maximizing the development potential of the region will require promoting policies that foster human capital development at all levels of the work force.

However, determining how this should occur and who should be responsible for guiding work force development is not easy. Moskow suggested that it was clear from the diversity of topics on the workshop agenda that no single program could be expected to address the human capital development needs in the economy. He cautioned that while the workshop focused on the training needs of the adult work force, the critical areas of elementary and secondary education should not be overlooked. Noting that the Bank had sponsored a conference in 1994 on models of school reform in the Midwest, Moskow said that innovations in the delivery of elementary and secondary education are at the root of improving the quality of human capital in the Midwest.

Moskow observed that interest in training is at historic levels, with training being trumpeted as the solution to various social ills. Still, more needs to be done to understand what types of training actually work. He noted that when placed in a cost/benefit framework, many academic studies of federal experiments in job training, particularly those examining the Comprehensive Employment and Training Act (CETA) and the Job Training Partnership Act (JTPA), have not shown significant benefits. Moskow said that the characteristics of these programs that work best for specific segments of the population need to be identified.

In concluding, Moskow suggested that the demand side of the labor market equation should not be overlooked. This means identifying and understanding what skills firms are seeking in employees. Are we providing the right information to prospective employees to ensure that their training matches the needs of employers? Finally, Moskow stressed the importance of understanding the changing environment for delivering job training. At the federal level, the trend is toward increasing state flexibility in designing training programs via a block grant structure for training funds. In the private sector, firms are aggressively establishing their own training centers and corporate universities and looking at new ways to enhance the skills of their existing work force. Understanding this environment will be critical to molding successful training efforts.

What Does Business Need?

Addressing training needs in the context of changes in the structure of the Midwest economy, Don Smith, director of the Center for Economic Development at Carnegie Mellon University, introduced the concept of the "high-performance heartland." Smith defined a "high-performance" economy as one that maximizes the flow of information, the creation of knowledge, and the application of knowledge through the production chain of firms. Stressing that high performance is more than lean production and high quality, Smith emphasized that it embraces fundamental changes in organizational structure geared toward creating a sustainable advantage.

Today's high-performance firms require workers with significantly more sophisticated social and intellectual skills to support the decisionmaking that now occurs at all levels of the company.

In the context of work force development, this requires the creation of the "knowledge worker." In the past, firms focused on simplifying production tasks so that workers needed to master only one or two specific skills. Today's high-performance firms require workers with significantly more sophisticated social and intellectual skills to support the decisionmaking that now occurs at all levels of the company. This upgrading of skills needs to be a continuous process, which recognizes that problem solving, particularly in group settings, is critical to a firm's success.

Is the education and training system keeping up with the new work environment? Smith suggested that training needs to be more customer focused and based on a just-in-time model. Customized programs that address specific firm needs are often the most useful forms of training. Finally, Smith suggested that we also need to take into consideration the social implications of requiring higher skills in the work force and how we are going to insure that all can participate in a high-performance economy.

Next, Harry Holzer, of the economics department at Michigan State University, discussed the skills businesses are demanding in new employees. Holzer conducted an extensive survey of firms located in four major metropolitan areas (Atlanta, Detroit, Los Angeles, and Boston) to develop a representative sample of the skills and credentials that firms require in hiring new employees. Holzer's general finding is that skill needs for "new" jobs have risen, even in the relatively short time frame of the last five to 10 years. Forty-two percent of employers in the survey indicated that skill needs have risen for all of their new job categories and even in the blue-collar/service category, often perceived as requiring the fewest skills, 32% of the firms indicated that skill needs had increased. Table 1 illustrates the daily tasks and the credentials employers demand in new hires for various job categories.

Table 1 Skills and Credentials Required for New Jobs

			No College Required	
	All Jobs	College Required	White-Collar	Blue-Collar/Service
Daily Task Performance				
Customer Contact	.73	.82	.82	.51
Reading or Writing Paragraphs	.68	.91	.67	.51
Arithmetic	.68	.77	.70	.56
Computer	.56	.74	.70	.20
Required Credentials				
High School Diploma	.78	1.00	.82	.54
GED Accepted	—	—	.66	.44
GED Not Accepted	—	—	.16	.10
General Work Experience	.70	.75	.72	.62
Specific Work Experience	.64	.74	.64	.56
Previous Training or Certification	.43	.56	.39	.37

Notes: All results are sample weighted. A dash indicates information not available.

Source: Harry Holzer, "Employer Skill Needs and Hiring Procedures," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

One of the problems with the rising skills requirements is that many prospective workers in the labor market do not possess these skills. Holzer suggested that in central cities, perhaps as few as 5% of all jobs require none of the skills identified in table 1. However, more than 5% of the central city labor force lack these skills. The jobs that are available to workers who do not possess these skills are of poor quality (e.g., median wage of $7 to $8 an hour in the four metropolitan areas sampled) and usually do not provide benefits. Holzer also found that these "low-skilled" positions were disproportionately filled by black and Hispanic workers—in the four sample metro areas, 47% of the jobs that did not require a high school diploma and 43% of the jobs that did not require the use of math were filled by blacks or Hispanics. The lack of necessary credentials and skills are clear barriers to employment, especially for specific groups trying to enter the mainstream work force.

The next presentation addressed the training strategy of a major company—McDonald's Corporation. Hal Theis, responsible for directing all McDonald's training, described training as instrumental in shaping corporate strategy. McDonald's believes that the ability to learn faster than its competitors may be the company's only sustainable advantage. It works to maintain this advantage by providing training on an ongoing basis to the vast majority of its work force. Part of this commitment emerges from the company's ability to make training pay. Theis noted that 70% of McDonald's store managers and 50% of middle and top management have worked as crew members in McDonald's restaurants.

In an increasingly global company, training becomes even more important to insure that product quality and customer satisfaction are maintained.

Theis stressed that effective training is part of corporate strategy and should not be viewed as a one-time event. In an increasingly global company, training becomes even more important to insure that product quality and customer satisfaction are maintained. With a new McDonald's restaurant opening every 3.5 hours, it is critical that workers develop key core competencies. This means that training needs to 1) help set strategy for the company, 2) serve as a center of excellence at McDonald's, 3) utilize the best learning methods, and 4) provide world leadership for McDonald's. Increasingly, the company is emphasizing team training and developing problem solving skills.

Theis also outlined the short-run objectives for training at McDonald's. While the overall objective is to use training to help drive the business, particular goals for 1996 include simplifying crew training to insure that more training occurs at the crew person's work station. This means imbedding training into the actual operations of the restaurant crew. Other short-term goals include accelerating the development of restaurant managers and working on executive and business consultant development. Theis concluded that a major challenge at McDonald's is to position training as a driver of the company's business strategy, rather than as some adjunct function in the company.

Responding to the presentations, Martin Simon of the National Governors Association suggested that welfare-to-work programs must be realistic in their expectations. Simon said that, given employers' expectations as identified by Harry Holzer, roughly 20% to 30% of people currently on welfare may be unable to get jobs that are not partly subsidized. Davis Jenkins of the University of Illinois at Chicago noted that there are programs that are developing high school students for careers in the service sector. Northern Illinois University, for example, has a partnership program with many large retail firms called the National Youth Apprenticeship in Service Management, which is specifically targeted to developing students' skills for careers in service management.

Dolores Cross of Chicago State University said that the assumptions behind programs such as School to Work 2000 may be unrealistic, because the skills and competencies that this program has identified as critical to success in the work force may no longer be valid by 2000.

Problems of Low-Skilled Labor

The following workshop session examined conditions in the low-skilled labor market. Rebecca Blank, an economics professor at Northwestern University, provided a national perspective and suggested that there is good news and bad news for this segment of the labor market. The good news is the population of workers that can be considered "low skilled" has shrunk. The bottom decile of the labor market is more skilled than in the past. The bad news is that higher skills are demanded today. This means that the set of skills this group possesses will not provide much in the way of labor or income mobility.

People in the low-skilled labor market want to work. However, the quality of jobs available to this population is poor and has worsened over time.

Blank emphasized that people in the low-skilled labor market want to work. Roughly two-thirds of all poor families have one worker in the family. However, the quality of jobs available to this population is poor and has worsened over time. Unemployment rates display wide disparities when skill levels are taken into consideration. In 1994, unemployment among high school dropouts ran at 15% to 16%, while unemployment for college graduates was 4%. As table 2 illustrates, average weekly wages from 1979–93 demonstrated a similar pattern.

Table 2 Change in Average Full-Time Weekly Wages, 1979–93

Education Level	Men	Women
H.S. dropout	–22.5%	–6.3%
H.S. graduate	–11.9	5.7
H.S. graduate (+)	–5.3	11.0
College graduate	9.8	27.1

Source: Rebecca Blank, "The National Perspective," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

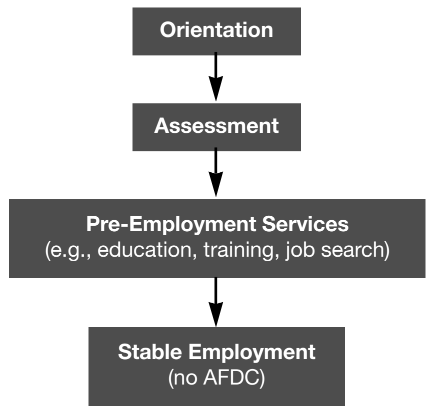
In 1994, unemployment among high school dropouts ran at 15% to 16%, while unemployment for college graduates was 4%.

Blank noted that although women's wages increased during this period, they remained significantly lower than men's. The average female high school dropout earned $287 per week in 1993, compared with $400 per week for the average male high school dropout. For the college educated, a similar gap existed with men earning $1,000 per week, while women got $677. Not surprisingly, with declining real wages, labor force participation has declined. More adult men are simply not looking for work.

Blank concluded by addressing the policy implications for dealing with this segment of the labor market in two areas—compensation and training. The fall in real wages encourages people to drop out of the labor market. However, wages are only part of the problem; the lack of benefits in many jobs also needs to be addressed. One program that has helped, Blank said, is the earned income tax credit, which increases real income for those at the bottom of the employment ladder. Better public schools and education reform are also important for insuring that future workers can learn the skills they need in the work force. Outside the schools, more research is needed to identify what types of training work best for disadvantaged segments of the work force. With the exception of training for women on welfare, few training programs have worked particularly well. Even in welfare-to-work programs, the graduates who secure jobs rarely move out of poverty. Finally, Blank suggested that work force diversity will provide a significant challenge as a non-English speaking immigrant population makes up a larger segment of the labor force.

Toby Herr, director of Project Match for the Erikson Institute, described what has been learned about the process of moving from welfare to work based on a project in Chicago's Cabrini-Green neighborhood underway since 1985. Herr felt that one of the largest problems with welfare-to-work programs is that they are based on an unrealistic "linear" model of how welfare recipients move into the workplace. In this type of approach, the welfare client is sent through a series of defined steps leading to stable employment (see figure 1).

Figure 1 The Typical Welfare-to-Work Program Model: Pre-Employment Services Only



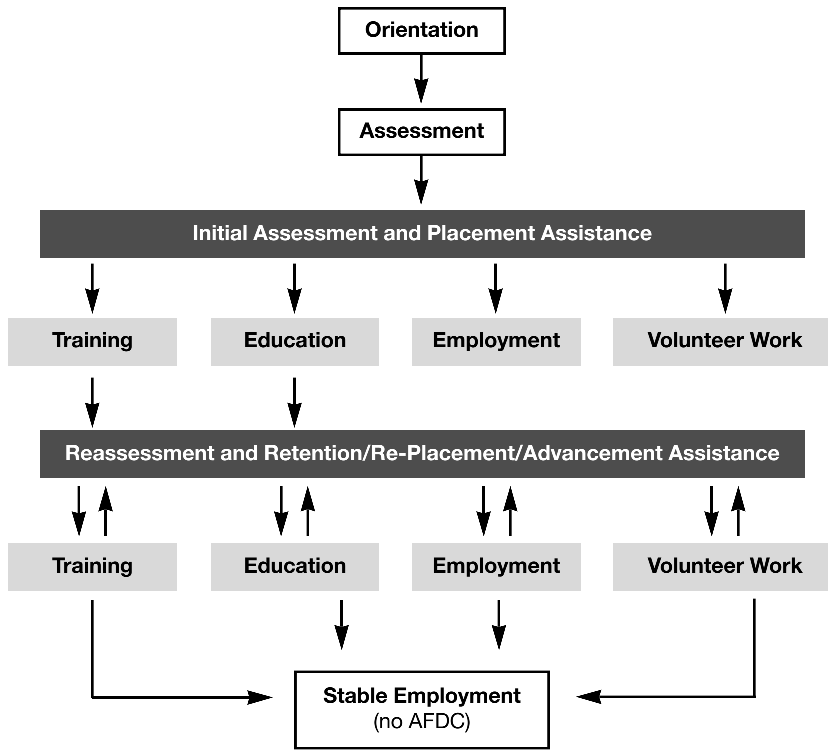
Source: Toby Herr, "Evidence from Chicago—Project Match Materials," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

Herr also criticized the traditional model for addressing barriers to self-sufficiency, such as child care needs or problems with domestic violence, drug addiction, housing, and depression. Under the traditional model, each of these problems is identified and then "fixed" prior to training and employment. Herr proposed that a more realistic model would emphasize teaching clients to cope with these problems while going through training, employment, or community volunteering, rather than treating them as separate issues.

One of the largest problems with welfare-to-work programs is that they are based on an unrealistic "linear" model of how welfare recipients move into the workplace.

Herr explained that the experience from Project Match has led to the development of a far more complex model, with the client requiring services both before and after employment. The model in figure 2 provides a series of different options at each stage of the process, recognizing that there is more to leaving welfare than just getting a job. This model addresses three problems that those making the transition from welfare to work often face. First, people entering the program want to go to work and often do not want to attend school, at least not initially. In many cases, their experience in the education system has been poor and sending them back into a classroom setting may be counterproductive. Second, people with few skills often do not know how to find jobs. For these participants, it is critical that job openings be identified and interviews scheduled. Third is the problem of job retention. Between 60% and 70% of participants will lose their jobs and require additional services to find new employment opportunities.

Figure 2 An Alternative Model: Pre-Employment and Post-Employment Services



Source: Toby Herr, "Evidence from Chicago—Project Match Materials," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

Herr concluded that her experience with Project Match has helped provide an important understanding of the process for moving people off welfare and into the work force. However, she noted that even with such improvements to the welfare-to-work process, 20% to 25% of this population seem unable to come off the welfare rolls. Project Match has been getting this group started with less formal and less demanding activities, such as volunteering at their children's Head Start program, serving on a community advisory board, or even taking their children to extracurricular activities. With proper assistance (and, for some, counseling or treatment), many can use these experiences as stepping stones to school or work.

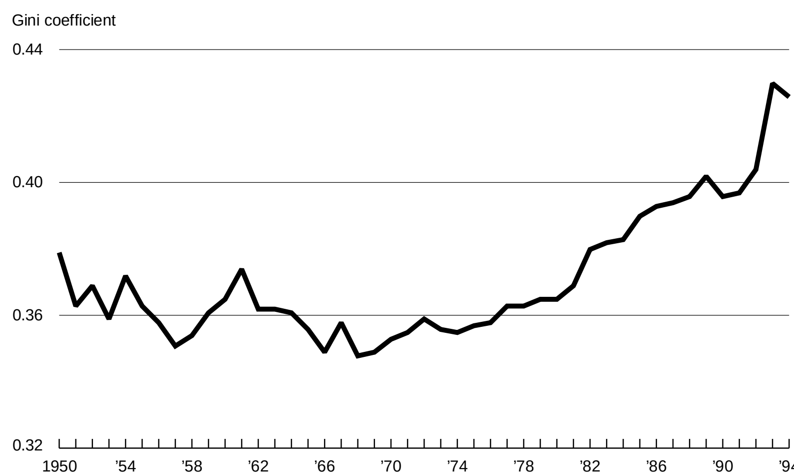
In the question period that followed this session, Jackie Harder, economic development director for Cook County, raised concern about whether parenting skills were included in the training available to welfare recipients. Noting that the structure of the family is also a problem for society, Harder said that she hoped that welfare-to-work programs did not force women with preschool children to seek employment. Discussing the low job retention rate associated with many of the welfare-to-work clients, Harry Holzer noted that many of the jobs available to these workers are with employers that traditionally have high turnover rates in their work force. The low retention rates might also reflect the poor quality of these jobs. Finally, Bob Edwards, director of the Department of Labor for the state of Michigan, suggested that in his experience with the inner city work force, distance to work is a major issue. Jobs are often located too far away to justify the transportation costs for relatively low wages. Rebecca Blank concurred and suggested that job networks are marginally more promising than job creation for many central city residents. Suburban areas can be like a "foreign country" to many inner city residents who may have no "cousins, uncles, or friends" to inform them about job prospects.

The Wage/Income Gap

Mark Partridge of the economics department at St. Cloud State University (Minnesota) presented his research on regional evidence of growing wage and income inequality. Partridge noted that the wage structure has changed dramatically since 1980, even within different education levels. He cited five factors that help explain this wage gap—the changing industrial composition of the economy, increasing foreign trade, immigration and the skill levels of immigrants, the decline of unions, and cultural changes. Figure 3, which shows the Gini coefficient for each year from 1950 through 1994, provides striking evidence of growing family income inequality nationwide. (The Gini coefficient is a widely used measure of income inequality. A Gini coefficient of 0 would indicate perfect equality, i.e., all households would have the same income; a rating of 1 would reflect perfect inequality, with one household receiving all income.)

In the Midwest, income inequality increased faster than the rest of the nation in the industrial states—Illinois, Indiana, Michigan, Ohio, and Wisconsin. However, only Michigan and Illinois had inequality levels above the national average.

Figure 3 Family Income Inequality, 1950–94, Gini Coefficients



Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports,* Series P60, various years.

In the Midwest, income inequality increased faster than the rest of the nation in the industrial states—Illinois, Indiana, Michigan, Ohio, and Wisconsin. However, only Michigan and Illinois had inequality levels above the national average. Income inequality in the agricultural Midwest—Iowa, Minnesota, Nebraska, and North and South Dakota—also increased, but at a rate that was below the U.S. average (see table 3).

Traditionally, greater economic growth had led to greater income equality, but this pattern does not seem to be holding for many of the states in the Midwest.

Table 3 North Central Region Family Income Inequality Trends, Gini Coefficients

Region	1990 Gini	1990 Gini rank[a]	1960 Gini rank[b]	1970-1990 change in Gini[c]	1970-1990 change in Gini rank[d]	1980-1990 change in Gini[e]	1980-1990 change in Gini rank[f]
East North Central							
Ohio	.3939	26	43	.0809	1	.0587	3
Indiana	.3767	39	33	.0547	12	.0467	16
Illinois	.4094	16	27	.0647	4	.0596	1
Michigan	.3993	21	38	.0703	2	.0534	10
Wisconsin	.3675	46	35	.0415	22	.0365	36
West North Central							
Minnesota	.3804	36	23	.0344	33	.0390	29
Iowa	.3728	43	19	.0258	41	.0110	48
Missouri	.4035	17	16	.0265	40	.0448	17
North Dakota	.3756	42	18	.0066	47	.0304	43
South Dakota	.3842	34	15	–.0018	48	.0265	44
Nebraska	.3774	38	20	.0164	45	.0338	39
Kansas	.3894	30	24	.0394	24	0387	31
U.S. Average	.3984	na	na	.0414	na	.0421	na

Notes: The Gini coefficient is a measure of income equality.
na indicates information is not applicable.

[a] The 1990 Gini rank for the 48 contiguous states. A low rank is associated with relatively *more* family income inequality.
[b] The 1960 Gini rank for the 48 contiguous states. A low rank is associated with relatively *more* family income inequality.
[c] The 1970–90 change in the Gini coefficient. A greater change is associated with a larger increase in inequality.
[d] The rank ordering of the 1970 to 1990 change in the Gini coefficient for the 48 contiguous states.
[e] The 1980–90 change in the Gini coefficient. A greater rank is associated with a larger increase in inequality.
[f] The rank ordering of the 1980 to 1990 change in the Gini coefficient for the 48 contiguous states.

Source: W. Levernier, M. Partridge, and D. Rickman, "Variation in State Income Inequality, 1960–90," *International Regional Science Review,* No. 3, 1996. The data were based on the 1960, 1970, 1980, and 1990 decennial census, where the actual family income was from the preceding year (i.e., 1959, 1969, 1979, and 1989).

Partridge suggested that the relationship between economic growth and income inequality appeared to be inconsistent. Traditionally, greater economic growth had led to greater income equality, but this pattern does not seem to be holding for many of the states in the Midwest. In the agricultural Midwest, a decline in the percentage of the population employed in agricultural jobs has acted to reduce income inequality. Incomes within the agricultural sector vary greatly and this high wage inequality tends to increase the Gini coefficient in states with large or expanding employment in the agricultural sector. Additional factors that seem to be associated with increasing inequality in some regions are increases in the number of female-headed households and increases in immigration. On the other hand, higher labor force participation rates seem to reduce inequality. Partridge found that relative employment growth, race characteristics, education levels, unionization, and productivity per worker were not statistically significant in influencing wage inequality.

Responding to the presentation, Don Turner of the AFL-CIO asked whether any of the changes to the income tax structure during the Reagan era had influenced the growth in wage inequality. Partridge replied that while such changes are not inconsequential, they are of a low order of magnitude. Bill Testa, assistant vice president and senior economist of the Federal Reserve Bank of Chicago, observed that midwestern states with robust growth in manufacturing—Indiana and Wisconsin—have experienced less deterioration in equality than service-oriented states like Illinois.

Displaced Workers/The New Contingent Work Force

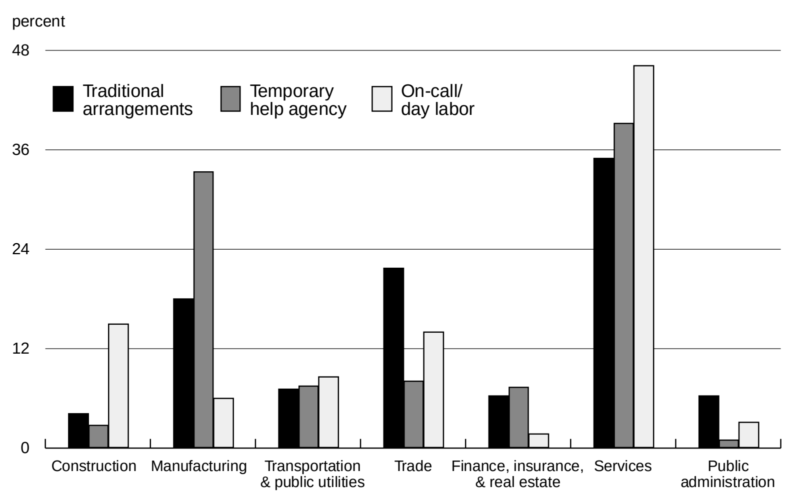
The final presentations of the morning addressed two specific segments of the labor market—contingent and displaced workers. Susan Houseman, an economist at the Upjohn Institute, presented her research on the contingent work force in the U.S. and other industrial nations. Contingent workers have nontraditional work arrangements, which often include short-term contracts, part-time schedules, or day labor. These workers often feel that their job is temporary. Houseman noted that in the U.S. there is little hard evidence of this population. According to the U.S. Department of Labor's 1995 *Report on the American Work Force,* approximately 2.2% to 4.9% of the labor force considered themselves contingent workers. Houseman noted that many of these workers are dissatisfied with their work arrangements, with 56% to 64% indicating that they would prefer noncontingent employment. They also usually do not receive benefits; in 1995, between 36% and 47% of these workers did not receive health insurance.

According to the U.S. Department of Labor's 1995 Report on the American Work Force, approximately 2.2% to 4.9% of the labor force considered themselves contingent workers.

Looking at industry groups, Houseman noted that the use of temporary agency workers has been particularly strong in manufacturing and service firms (see figure 4). The fastest growth has been in business services, reflecting increased outsourcing arrangements by firms. Houseman suggested that some of the attraction for employers may be the potential to use temporary employment agencies as head hunters.

The use of temporary agency workers has been particularly strong in manufacturing and service firms.

Figure 4 Percent of U.S. Workers in Alternative Employment Arrangements, by Industry



Source: U.S. Department of Labor, *Report on the American Work Force,* 1995.

Houseman concluded by looking at the contingent work force in Japan. Because legal requirements make it difficult to lay off permanent workers, Japan has a significantly larger percentage of contingent workers. Houseman presented data on three classes of workers in Japan for three different years (see table 4). She noted that contingent workers in Japan are likely to work full-time hours and the distinction between forms of employment has more to do with status in the firm than work schedules. Much of Japan's growth in contingent workers has been driven by the need to contain labor costs, which makes the use of fixed-term employment contracts attractive.

Table 4 Contingent Workers by Class as Percent of Japanese Work Force

Year	Part-Time	Temp/Day Labor	Temp Agency
1982	11.0	11.5	4.8
1987	14.2	12.0	4.2
1992	16.1	11.2	3.9

Source: Susan Houseman, "Work Force Contingency in the U.S. and Japan," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

During the 1980s approximately two million workers per year lost their jobs through mass layoffs. Of these, approximately half had three or more years of seniority on the job.

Even after the displaced worker is reemployed, there is a significant gap between the worker's new earnings and those of the stably employed workers.

Commenting on Houseman's presentation, Dan Sullivan, assistant vice president and senior economist of the Federal Reserve Bank of Chicago, cautioned that the contingent workers category is very hard to analyze given the very heterogenous nature of the jobs undertaken by these workers. Sullivan noted that many "white-collar temps" are doing very well under contingent arrangements and that an important research question is to identify why businesses are increasing their use of temporary workers before concluding whether the trend is good or bad. Sullivan said that the suggestion that firms are simply trying to cut costs by using temps may be inaccurate given the wage premium that firms must pay to get temporary workers. Don Smith suggested that government regulation may have the unintended consequence of encouraging the creation of more contingent workers. Smith noted that Japan's traditional support of life-time employment apparently has encouraged the use of contingent workers. In contrast to the U.S., many European countries impose sanctions on layoffs of permanent employees, thereby encouraging firms to use contingent labor.

In the final session of the morning, Dan Sullivan presented research done with Louis Jacobson and Robert LaLonde on the earnings experience of displaced workers. Sullivan began by defining displaced workers as those who, due to a mass layoff, have lost a permanent job in which they had some seniority. In examining what has happened to this population, Sullivan posed the following questions:

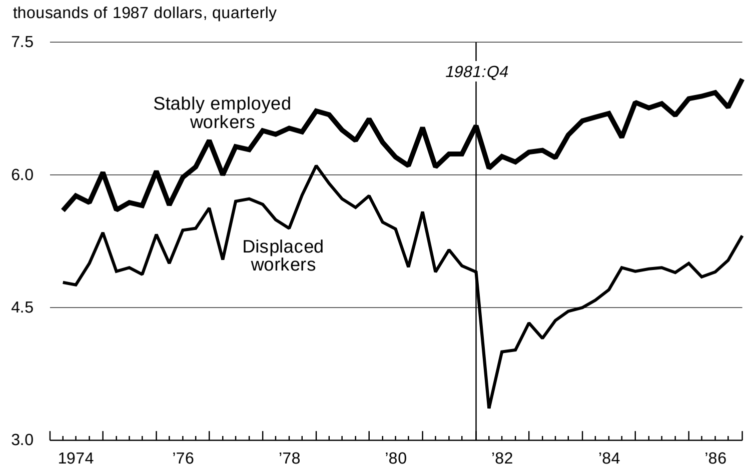
- How costly to workers is job displacement?
- How much does unemployment insurance lessen earnings losses of workers?
- How much of a work disincentive is unemployment insurance?
- Can training help dislocated workers?

Sullivan noted that during the 1980s approximately two million workers per year lost their jobs through mass layoffs. Of these, approximately half had three or more years of seniority on the job. While a great deal is known about the short-term impact of these layoffs, less is known about the long-term impact on earnings of displaced workers. Sullivan and his coauthors have examined this question using a specialized administrative data set on firms and workers in Pennsylvania, covering the period from 1974 to 1991. In this sample, workers were highly attached to the Pennsylvania labor market and had six or more years of tenure on the job.

Figure 5 presents earnings histories of displaced and stably employed workers over the study period. Even after the displaced worker is reemployed, there is a significant gap between the worker's new earnings and those of the stably employed workers. Overall, earnings losses six years after separation are $6,000 per year and are large for virtually all classes of workers. In general, workers' earnings losses are 40% of previous earnings in the first year after separation, improving to 25% by the fifth year.

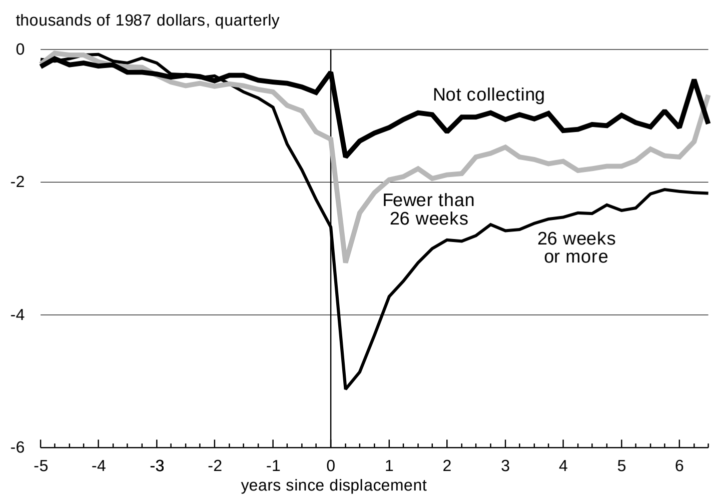
While unemployment insurance benefits clearly help displaced workers during the period of greatest financial hardship, they may slow the return to work for certain workers who find that their unemployment insurance benefits are greater than the wages from new jobs that are available to them.

Figure 5 Earnings Histories of Workers Displaced in 1981:Q4 and Workers Stably Employed through 1986



Source: Daniel Sullivan, "The Earnings Experience of High-Seniority Displaced Workers," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

Figure 6 Earnings Losses for Workers Not Collecting Unemployment Insurance, Collecting Fewer than 26 Weeks, and Collecting 26 Weeks or More



Source: Daniel Sullivan, "The Earnings Experience of High-Seniority Displaced Workers," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

Workers who collect no unemployment insurance following the layoff suffer the smallest long-term earnings losses and appear to have the best reemployment prospects. Workers with long duration on unemployment (26 weeks or more) fare the worst (see figure 6). While unemployment insurance benefits clearly help displaced workers during the period of greatest financial hardship, they may slow the return to work for certain workers who find that their unemployment insurance benefits are greater than the wages from new jobs that are available to them.

Sullivan concluded with a discussion of returns to job training. He divided the types of assistance provided to displaced workers into two categories, job search assistance and subsidized retraining. Job search assistance has proven to be inexpensive and relatively effective on a limited scale. Subsidized retraining is expensive and largely unproven, but may have a significant impact. Sullivan cited research from the Displaced Workers Education and Training Program in Pennsylvania, which looked at displaced workers who were provided with vouchers for classes at the Community College of Allegheny County. The preliminary findings suggest that for men in the sample, one year of academic credit work eventually raised their earnings between 5% and 8% above the earnings of those who did not receive the training. Gains for women in the sample were slightly lower. Still, Sullivan cautioned that these gains were on the low end of the usual range associated with returns to conventional schooling and did not replace the earnings lost relative to the workers' previous jobs. Sullivan also suggested that the returns from training appeared to be influenced by course selection. Those taking technical and science course work generally received a higher return from training.

In response to the presentation, Bob Edwards asked whether Sullivan's findings with regard to unemployment insurance suggested that this program should be recast as an IRA-style program. Rather than simply using unemployment insurance as wage replacement, under an IRA program displaced workers could use the benefits for training or even starting a new business. Sullivan indicated that he had not specifically looked at this issue but believed it would have some appeal. Similarly, offering unemployment insurance payments to employers as a wage subsidy might speed the return to work for some displaced workers. Sullivan also indicated that efforts to "profile" displaced workers, in order to help match them more closely with the needs of the labor market would be beneficial. Rebecca Blank cautioned that any study of displacement should explicitly recognize the differences in local labor markets to insure that conclusions are not drawn too widely.

Bill Testa asked Sullivan how sensitive the size of the earnings loss for displaced workers is to local labor market conditions. Is there a justification for public policies toward displaced workers to be place-specific? Sullivan responded that earnings losses experienced by displaced workers in the Pittsburgh area appeared to be somewhat more severe than in Philadelphia, an area that generally had better labor market conditions during this period. Nonetheless, earnings losses were significant in both areas.

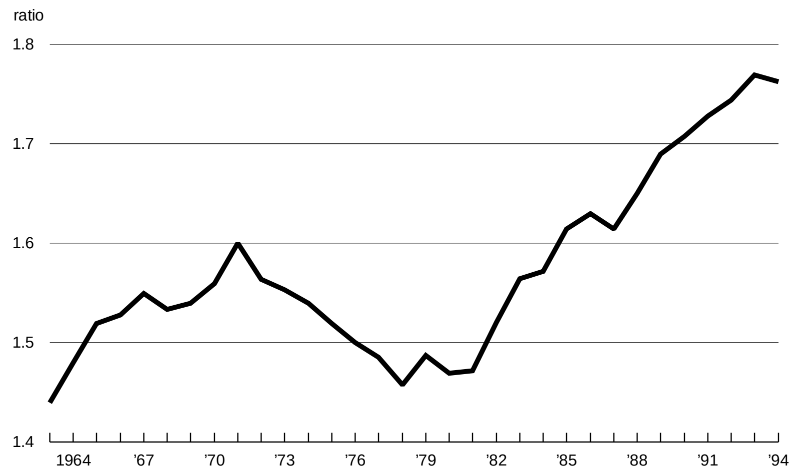
Wage and Income Trends: Policy Issues, Theory, and Evidence

The evidence suggests that among several factors that have contributed to widening gaps in wages, the most prominent is increasing returns to skills and education.

The luncheon presentation featured Kevin Murphy, a professor of the Graduate School of Business at the University of Chicago. Murphy presented evidence from his research on wage inequality and proposed a policy to narrow the wage gap by promoting a "supply side" response in the labor market. The evidence suggests that among several factors that have contributed to widening gaps in wages, the most prominent is increasing returns to skills and education. Murphy's supply side response is notable in that it is driven by increasing the educational investment where returns are the highest and does not suggest providing a disproportionate level of increased investment for the least skilled.

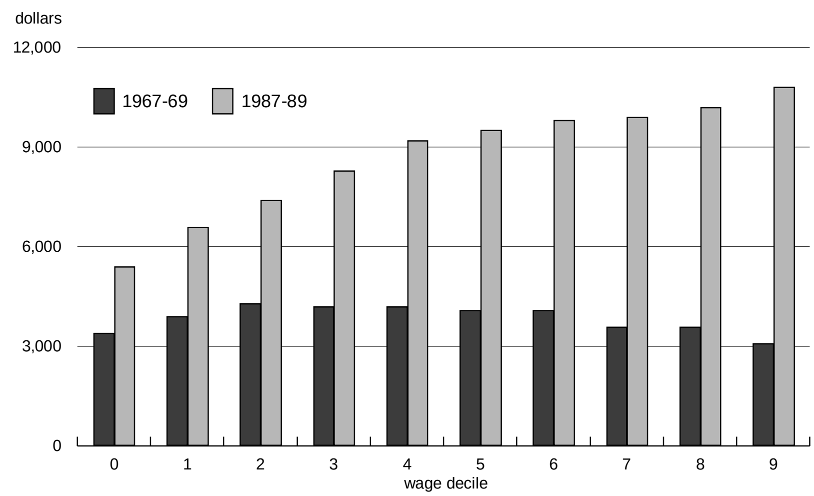
Murphy provided evidence of the dramatic increase in wage premiums for the college educated relative to wages received by high school graduates from 1963 to 1994 (see figure 7). Murphy compared this to the 1970s, when growth in the college educated population caused the wage premium to fall and led many to suggest that Americans were overeducated. However, even as the wage premium was narrowing during the 1970s, the start of wage inequality could be seen. Indexed real wages of the 10th, 50th, and 90th percentiles for men began to separate during the 1970s, and Murphy suggested that this trend accelerated during the 1980s.

Figure 7 Wage Premium, College Educated versus High School Educated



Source: Kevin Murphy, "Wage and Income Disparity Trends," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

Figure 8 Wife's Annual Earnings by Husband's Wage Decile



Source: Kevin Murphy, "Wage and Income Disparity Trends," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

Greater labor force participation rates among high-income/high-wage families, along with higher wages for women vis à vis men, have contributed to the rise of "have-everything" families

Several developments have accompanied growing wage inequality. One that is infrequently discussed is that the female–male wage ratio within both high school and college educated populations has narrowed considerably over the last 15 years. Ironically, this trend has contributed to a widening distribution of income across husband–wife families (see figure 8). Between 1987 and 1989, men in the highest wage decile tended to be married to women whose annual earnings were also in the highest decile, whereas in 1967–69 annual earnings were lower for wives of high-decile husbands. Greater labor force participation rates among high-income/high-wage families, along with higher wages for women vis à vis men, have contributed to the rise of "have-everything" families.

If the supply of well-educated people is increased, the wage premium that they command will decline. Conversely, the supply of non-college educated workers will shrink, so they too will be able to command better wages even without additional skills.

The cost of being poorly educated is higher today, but this has not necessarily translated into increased participation levels or lower dropout rates (particularly in inner city areas).

Murphy emphasized that a supply side strategy to reduce income inequality should focus on maximizing the returns from education. He proposed that rather than bemoaning the widening wage gap, we need to take advantage of the premium that is associated with high skill levels. If the supply of well-educated people is increased, the wage premium that they command will decline. Conversely, the supply of non-college educated workers will shrink, so they too will be able to command better wages even without additional skills. Murphy also presented evidence that the labor market has begun to respond to the wage premium for college educated workers. The proportion of men and women who are 20 to 24 years old with some college education has risen steadily. While this supply side adjustment appears to be working for those pursuing a college education, Murphy noted it is not working as well at the elementary and secondary levels. The cost of being poorly educated is higher today, but this has not necessarily translated into increased participation levels or lower dropout rates (particularly in inner city areas).

During the discussion period, Murphy was asked what percentage of the growth in wage inequality could be attributed to education. He replied that 30% to 40% of the wage inequality growth was education related. Tim Bartik, senior economist at the Upjohn Institute, asked what policies, if any, should be pursued to assist members of the existing adult work force who have experienced declines in living standards due to job dislocations and wage drop-offs. Murphy reiterated that the amount of training needed for many such workers is too high and the payoff too low, in terms of shorter work life and demonstrated returns to adult training programs, to justify such public policies. For this reason, any intervention should probably be focused toward student and young adult populations. Bill Testa asked whether this supply side response might help with the productivity slowdown in the economy that has been so noticeable. Murphy said that assuming that the average number of years of schooling could be increased by roughly 0.6 years over a decade and that the return to four years of college education was roughly 75%, output could expand by an extra 5% to 6% over the decade.

Work Force Preparation in a Changing Environment

The afternoon sessions began with a description of the changing relationship among the federal, state, and local governments in providing training services and how business is approaching training in the current environment. Randall Eberts, executive director of the Upjohn Institute, noted the following three trends. First is the trend toward less direct federal involvement, with the states becoming increasingly responsible for designing their own training strategies and programs. This should make surviving programs more effective by allowing states to customize initiatives, according to differences in regional economies and labor markets. Moreover, the freedom to customize programs may result in innovations that can benefit many work force programs and initiatives. However, this trend will have a price, since fewer federal dollars are likely to be available for training. The second trend cited by Eberts is toward having fewer recognized national standards. While more training experiments are likely to occur, it will become harder to compare their effectiveness since the programs are likely to be geared toward local, not national standards. Finally, Eberts noted the trend toward increased private sector provision of training. Both private and public providers can learn from a greater understanding of the impetus and outcomes of these initiatives.

Devolution of Welfare/Training Responsibilities to State/Local Government

Martin Simon, director of training and employment programs for the National Governors Association, observed how the states are adapting to the new training environment. Simon suggested that the primary change coming out of Congress would be the use of block grants for training purposes. States would receive lump sums for training and would largely use their own discretion as to how best to use the funds. While the states may welcome the flexibility associated with a block grant structure, they will probably receive less money under block grants than through current programs. Simon also cautioned that, relative to the total amount spent on education and training by states and the private sector, even current federal expenditures in this area are not large.

While the states may welcome the flexibility associated with a block grant structure, they will probably receive less money under block grants than through current programs.

Do the states have the necessary infrastructure to handle this devolution of responsibility? Simon suggested that many states, including those in the Midwest, have already taken aggressive measures to pursue new training structures. As with health care, some states have decided to establish their own training strategy without waiting for guidance from Washington. Thirty-three states, including most of the Midwest states, have adopted "one-stop" facilities for employment services, such as job postings and training opportunities. Similarly, 29 states have placed time limits on how long welfare benefits can be collected and have begun some form of welfare-to-work reform. Wisconsin has been a national leader in this field. Many states have added benchmarks to their training programs to improve accountability.

Addressing some remaining problems, Simon suggested that the states could develop more coherence among their education and training programs. The state government infrastructure is still fragmented in this area and there is a tendency not to coordinate programs across departments. Making training an integrated part of the state's development strategy would be helpful. Second, the states often wrestle with the question of whether training programs are geared toward economic development or welfare goals. While the two are not always mutually exclusive in their outcomes, channeling training dollars to disadvantaged populations may take longer to show a payoff and the question remains how patient will the states be. A faster, more visible political payoff may come from providing training that upgrades the skills of the existing work force. Third, measuring the results of state training programs could be a difficult and lengthy process, since the devolution of responsibility may create 50 different training systems.

Thirty-three states, including most of the Midwest states, have adopted "one-stop" facilities for employment services, such as job postings and training opportunities. Similarly, 29 states have placed time limits on how long welfare benefits can be collected and have begun some form of welfare-to-work reform.

Finally, Simon said that a key element in the success of state-based programs will be their interaction with the private sector. Particularly in the area of post-placement training, it is important that the states are aware of the needs of employers and are willing to support the upgrading of the skills of the existing work force.

How the Federal Government Sees its Role in Work Force Development

James Aaron, director of employment training for the U.S. Department of Labor/Employment Training Administration, described the federal government's role in work force preparation. Current legislation favors the consolidation of federal training activities, making it difficult to assess the extent to which the Employment and Training Administration (ETA) will continue its current functions. Aaron said there are five areas that the department aims to emphasize. The first is capacity building in the delivery of training programs. Aaron noted that the federal government is in a good position to help identify which state programs work best and what elements in those programs contribute to their success. To promote these "best practice" programs, an award program based on the Baldridge Quality Award criteria has been developed for training programs.

The ETA's second area of emphasis is to help develop tools for states' and localities' self-assessment of their programs. The "simply better" program establishes measures for program outcomes. Related to this is the ETA's third area of emphasis—conducting research that will allow careful analysis of existing programs and help determine whether they can be replicated across state lines. For example, Aaron said that Department of Labor research had shown that one-stop career information centers could be replicated with positive results throughout the nation. Unfortunately, funding for future research may be sharply curtailed under the pending consolidation legislation.

A fourth area of interest for the ETA is in using new technologies, in particular, the Internet, to improve communication between job seekers and employers. The department has already established "America's Job Bank," which posts 400,000 job openings throughout the nation. Finally, the department aims to develop accountability standards, including standardized performance measures that permit states to benchmark their training efforts against other states'.

Following Aaron's presentation, Tim Bartik of the Upjohn Institute discussed two justifications for the federal government's involvement in the training business. First, he said that in a federal system, the government has a responsibility to insure an adequate safety net for the poor. As such, ensuring that disadvantaged segments of society have access to federal training resources can be viewed as an appropriate role.

Standards need to be clear and meaningful measures established for evaluating the success of these programs, beyond simply shrinking the welfare rolls.

Second, the federal government has an interest in promoting the efficient use of resources throughout the economy. In line with this objective, the government can encourage states to provide training programs that have positive spillovers and it can serve as an information clearinghouse, helping states to learn which programs work best. What is less clear is whether the federal government should play a role in training programs that are specifically designed to promote state economic development. Bartik suggested that perhaps a limited federal role could be supported, given disparities in development levels between states. Training efforts directed toward economic development in poorer states probably are more deserving of federal assistance.

Bartik also raised some concerns about the new training environment. He noted that it does not make sense for the federal government to provide the states with training funds without overseeing how well states contribute to national goals. Bartik was also concerned that without adequate federal oversight, states will shift their training emphasis to economic development and redirect support away from disadvantaged population segments. For example, Bartik noted that one welfare-to-work "reform" strategy could be simply to make many current welfare recipients ineligible for welfare benefits. Standards need to be clear and meaningful measures established for evaluating the success of these programs, beyond simply shrinking the welfare rolls. In conclusion, Bartik said he is not certain this will occur under a system that devolves responsibility to 50 states.

A Business Perspective on Today's Work Force

The old model of a labor market—with a worker spending a lifetime in a single occupation at a single company—no longer exists. Accordingly, for employees to feel secure in the labor market, they will increasingly need portable and certified skills.

In the next session, Robert Jones, president and chief executive officer of the National Alliance for Business, discussed how business is responding to the changing environment for work force development. Jones noted that the labor market is changing faster than public policymakers can respond; as a result, many federal solutions to labor market issues are already out of date. He said that, in particular, the federal response has been mistakenly fashioned toward developing structures and programs that are based on an anachronistic understanding of how the labor market functions. The old model of a labor market—with a worker spending a lifetime in a single occupation at a single company—no longer exists. Company structures have become significantly more flexible to adjust to changing economic demands. Accordingly, for employees to feel secure in the labor market, they will increasingly need portable and certified skills. This also requires reducing barriers to labor mobility by assuring that employees can take their benefits—namely, health care and pensions—with them when they change jobs.

Companies that fail to adopt many of these features will find that their recruitment activities are not highly successful, said Jones. In response to the changes occurring in the labor market, he noted the following trends in training from the business perspective. First, business has stepped up its involvement in lobbying for additional funding for public education and training. Particularly for elementary education, businesses have been vocal in seeking increased spending. A coalition of business organizations, including the National Alliance for Business, the National Association of Manufacturers, and the U.S. Chamber of Commerce, is calling for an increase in education funding, particularly at the earliest elementary grade levels. Jones sees this as part of an effort to make education an economic rather than a political issue. In the past, education and training programs were often a political response to interest groups and, in his view, this led to the proliferation of the poorly coordinated programs that we have today. Second, business is increasingly demanding contextual learning, which sets the curriculum against the backdrop of how it will be applied in the workplace.

Business has stepped up its involvement in lobbying for additional funding for public education and training.

Jones emphasized that the development of industry-based skill standards and recognized credentials is at the top of the business training agenda. Individual industries and trade groups are best able to define the standards that are most relevant for workers in their field, and by developing appropriate credentials, workers will be employable at other firms in the industry if they lose their current job. Jones suggested that these standards and credentials need to be developed in "smaller bites," so that workers can upgrade specific skills as workplace requirements change. Similarly, companies are moving toward establishing training as a life-long process that represents a real investment in the firm and the worker, rather than training as a gratuitous employee benefit. The key to successful and valuable training is to insure that it is provided on a continuous basis and that it is user friendly and accessible. Using these criteria, Jones suggested that government funding should be harmonized with industry certified training, which is clearly demanded by the labor market.

Business is increasingly demanding contextual learning, which sets the curriculum against the backdrop of how it will be applied in the workplace.

Jones concluded that the private education sector has already begun to provide training along these lines. Private proprietary schools, customized course work, and corporate universities are all efforts to recast training based on the demands of the labor market.

Where Does the Region Go from Here?

In the final session, a panel discussed work force training programs in the Midwest. The presenters agreed that most Midwest states are already adapting to the new environment for providing training and experimenting with innovative programs to address many of the issues raised throughout the workshop sessions.

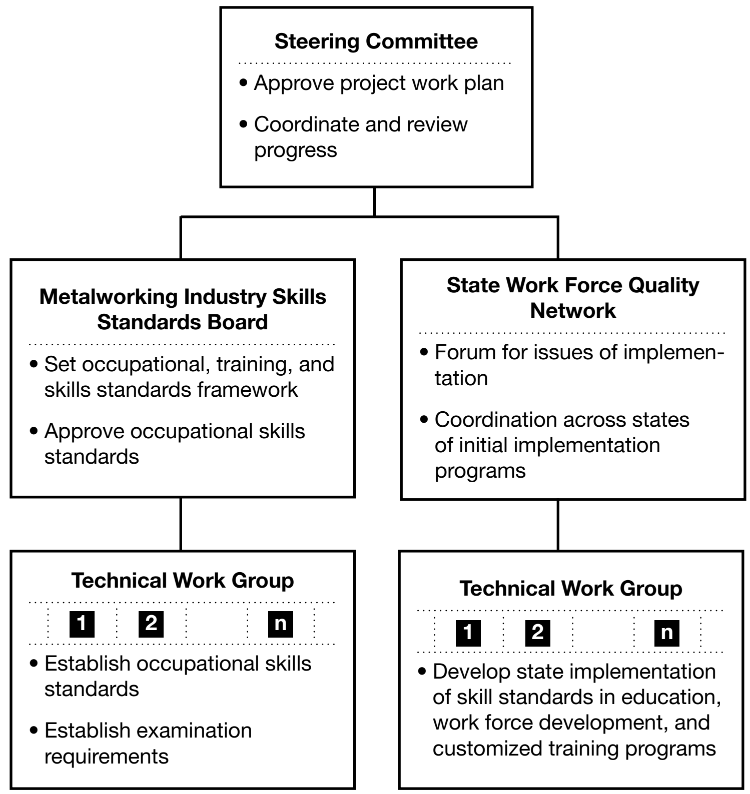
Jeff Edstrom, senior policy director at the Council of Great Lakes Governors, described the partnership the governors created with the National Tooling and Machining Association to develop a skills and credentials program for workers in the metalworking industry. Edstrom noted that this industry is fundamental to the region's economic strength. Over 50% of the U.S. metalworking industry and over 50% of metalworkers can be found in the eight Great Lakes states. Additionally, metalworking is becoming a significantly more complex field. New technologies and career paths make it increasingly important that workers receive training and that such training reflect the changes within the industry.

The metalworking project follows two tracks (see figure 9). One track, driven by the industry, is designed to identify occupational, training, and skill standards within the industry. The other track, driven by the states, coordinates the implementation of the new skill standards into education, work force development, and customized training programs.

Labor market needs are sufficiently different from place to place that training needs are often best identified at the local level.

Figure 9 Metalworking Skill Standards Project

Project Organization and Major Functions



Source: Jeff Edstrom, "Certification and Standards in the Metalworking Industry," presentation prepared for the workshop "Work Force Developments," Chicago, IL, May 15, 1996.

This model holds significant promise, because it recognizes the training needs of an important regional industry and insures the quality of the work force is sufficient to keep the industry productive and prosperous. It can also help identify a potentially attractive career path for students still in high school and provide information to students on what course work is necessary in the field.

The next set of presentations focused on work force development in the five states in the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin). Bob Edwards of the state of Michigan suggested that the biggest change in Michigan has been a shift to a community focus in training programs. Michigan is trying to make training programs responsive to the needs of individual communities, rather than providing "one-size-fits-all" programs. The feeling is that labor market needs are sufficiently different from place to place that training needs are often best identified at the local level. However, identifying who should deliver training services is a difficult process.

Michigan's statewide programs include the America's Labor Market Information System (ALMIS) talent bank project—a U.S. Department of Labor effort to make use of advances in computer-interactive technology to create a nationwide electronic résumé system. Michigan and Missouri are joint leaders of a state consortium that is working to develop the system. The system is intended to serve as a qualifications database on which job seekers can post their résumés for screening by potential employers. This should reduce costs for both employers and job seekers.

Gretchen Tegeler, director of the Iowa Department of Management, emphasized that Iowa is concentrating on service delivery in its work force development programs. To increase accountability in measuring results, Iowa is setting benchmarks for training efforts. In addition, the state is studying the training experiences of organizations it has designated as “high performance.” Tegeler noted that one of the state’s goals is to insure that training resources generate the highest return. Finally, she said that competitive bidding for contracts for training providers is a key factor in Iowa’s approach to work force development.

Graham Toft, president of the Indiana Economic Development Council, discussed Indiana’s approach to work force training, which is geared toward the state’s economic development objectives. A recent problem for the Indiana economy has been a mismatch between jobs and workers. In Toft’s view, employers need to improve communication with educational institutions regarding the skills they require.

Toft said that the market for providing education and training needs to be reinvented. Under the current funding structure, providers of training services do not have to meet the needs of the labor market. For example, Indiana has an outstanding educational infrastructure for producing college graduates; however, the demand in the labor market is for technical workers. Toft suggested that the current system is mistakenly geared toward funding the producer of education and training rather than the consumer. He proposed that employers should be given incentives to provide training to create a better match between labor market supply and demand.

The education-to-careers (in some states, “school-to-work”) effort aims to make school curricula more responsive to local labor market needs by matching course work more closely with the actual requirements of employers.

Training initiatives in Illinois were described by Herb Dennis from the Illinois Department of Commerce and Community Affairs. Dennis works with the state employment agency to coordinate the state’s training strategy. He said Illinois is in the process of developing a work force development strategy guided by the recently created 33-member Human Resource Council. The council has five goals: 1) to develop a guiding framework for human resource development in the state; 2) identify and define barriers to effective work force development; 3) examine how training programs should best be structured; 4) determine how federal and state resources should best be deployed; and 5) establish appropriate accountability standards for evaluating programs. The council aims to integrate these goals into a coherent work force strategy for the state by 1997.

While this process is underway, Illinois continues to pursue several other promising programs, such as the education-to-careers effort and one-stop career centers. The education-to-careers (in some states, “school-to-work”) effort aims to make school curricula more responsive to local labor market needs by matching course work more closely with the actual requirements of employers. One-stop career centers attempt to provide better information for both job seekers and employers. Illinois was one of 17 states to receive federal funding to create these centers and the state is developing 55 full-fledged centers, along with 95 satellite centers. The centers are to be customer driven, to provide accessible, user friendly information, and to target the information needs of specific segments of the population. In addition, the operation of the centers will be overseen by the private sector to insure that career information is appropriate.

James Buchen, vice president of Wisconsin Manufacturers and Commerce, provided an overview of Wisconsin’s labor force development efforts. Buchen commented that Wisconsin’s experience generally parallels that of the other Midwest states. He indicated that the state has three particular areas of emphasis. First, school-to-work transition programs, aimed at insuring that the state’s high school population is properly prepared for the work force. This involves making the educational system more responsive to labor market needs and making the delivery of services less fragmented. A second issue for Wisconsin is federal program requirements in the training area. Buchen hopes that the trend toward devolution of federal responsibility for training will increase the state’s flexibility, so that programs can be consolidated and administrative costs reduced.

In many cases, getting welfare recipients a job first and then providing training, along with support services, was found to be more effective than using a model where training is used as the first step in the process.

Finally, Buchen noted that Wisconsin has received national attention for its work in the welfare-to-work area. He said that the state has learned a great deal about the process of moving people off the welfare rolls and that the experience has been similar to what Toby Herr from Project Match reported in an earlier workshop session. In many cases, getting welfare recipients a job first and then providing training, along with support services, was found to be more effective than using a model where training is used as the first step in the process. Clearly, Wisconsin's progress in this area will be watched by other states devising welfare reform strategies.

The final three workshop presentations focused on specific experiences with different types of work force programs. Kevin Hollenbeck of the Upjohn Institute presented his research on whether firms are providing basic training to their workers and what barriers might exist that lead to an underprovision of basic literacy training within companies. Hollenbeck noted that an estimated 25% to 30% of the work force has some deficiency in basic skills. From the firm's perspective, this portion of the work force represents less than fully productive human capital, which the firm can choose to 1) do nothing about; 2) get rid of and replace with more productive workers; or 3) invest in, in order to improve their skills.

Although studies have shown that work force literacy programs provide a societal return on investment of between 10% and 14%, neither employees nor employers seem very anxious to invest in these programs. To explain what the barriers might be, Hollenbeck presented a matrix (see table 5) of the benefits and costs of workplace literacy training for employees, firms, society, and the education and training establishment. The matrix suggests that the net benefits are positive for every group other than employers. For the net benefit to be positive for employers, the productivity gain from the newly trained worker must offset both the wage gain to the employee and the cost of providing the training. Because this does not happen in many cases, firms are unlikely to provide literacy training.

Table 5 A Benefit/Cost Analysis Framework for Workplace Literacy Training

	Perspective			
Benefit or Cost	**Workers**	**Employers**	**Rest of Society**	**Education/ Training Establishment**
Training Costs	0/-	-	0/-	+
(Higher) Productivity	0	+	+	0
Nonwage Compensation (Pensions, health Insurance, etc.)	+	-	+	0
(Less) Worker Turnover	+	+/-	+	0
Safer Workplace	+	+	+	0
(Higher) Taxes	-	0/-	+	0/+
(Improved) Self-Esteem	+	0	0/+	0
Net Benefits	+	-/+	+	+

Source: Kevin Hollenbeck, "A Benefit/Cost Framework for Assessing the Economic Payoffs to Workplace Literacy Training," Kalamazoo, MI: W.E. Upjohn Institute, mimeo, 1996.

Hollenbeck concluded that three public policy responses need to be considered. First, for literacy and basic skills training to occur on a widespread basis, training costs must be shifted to workers or society in general. It is unrealistic to assume that firms will absorb these costs. Second, to be relevant and successful, basic skills training needs to closely reflect experience in the workplace. Finally, given the large number of workers in the work force who lack basic skills, a second-chance system is essential to remedy skill deficiencies.

Next, Davis Jenkins of the Great Cities Institute at the University of Illinois at Chicago presented what has been learned about the "best practices" in programs to move disadvantaged segments of the population into employment that provides a living wage. In general, the programs that work best for these population segments emphasize two features. First, they are customer focused. Jenkins explained that this means that the programs recognize the needs of both employers and clients and attempt to customize their services to address these needs. The best programs do not attempt to use a single model for training, supporting, and finding work for their clients.

Best-practice programs provide long-term support for clients who need it and seek to develop long-term relationships with employers who hire their clients.

A second feature of best-practice programs is that they provide long-term support for clients who need it and seek to develop long-term relationships with employers who hire their clients. Too often, programs designed to help the disadvantaged focus on placing clients in their first job and then consider the process complete. The best programs recognize that clients may require a wide-ranging support system after they are in the work force. These programs often need to work with clients to develop good work habits, since high turnover is often a problem in placing disadvantaged workers. The best programs also recognize that they must play an active role in finding employment for their clients, who may not know how to conduct a job search. This might involve placing a client in several jobs before the right fit is found. Chicago's City/Suburban Job/Link program not only identifies suburban jobs for city residents and provides transportation to and from these jobs, but offers clients assistance in developing employable skills and a consistent record of employment. Finally, the best programs work with employers to identify and develop the training workers need to succeed in the workplace. Programs should also be designed to give disadvantaged clients the confidence that they can learn what they need to play a productive role in the workplace.

Chicago's City/Suburban Job/Link program not only identifies suburban jobs for city residents and provides transportation to and from these jobs, but offers clients assistance in developing employable skills and a consistent record of employment.

In conclusion, Jenkins noted that perhaps the biggest drawbacks to the best-practice programs are that they are expensive and can serve very few clients at one time. However, these approaches are clearly more effective than programs that emphasize classroom training and end with clients getting their first job.

In the final presentation of the workshop, Philip Israilevich, senior economist and research officer of the Federal Reserve Bank of Chicago, discussed a project he is working on with the Regional Economics Applications Laboratory at the University of Illinois to provide local labor market information to the Chicago Community College system. The project is motivated by the need to effectively match occupation and skill trends with school curricula. Israilevich explained that a Chicago-specific labor market forecast has been integrated into user friendly software that allows the user to examine and predict occupational growth rates, wage information, and skill requirements for various careers in the Chicago labor market. The product will eventually relate these data to the course offerings of the community college system, allowing students to see what course work is needed to work in specific professions. This will help students to make relevant course selections and to understand the changes in the labor market, while employers can be assured that students will acquire the skills they need in new employees. This should significantly improve the matching process in the local labor market, which is currently costly and time consuming.

Concluding Remarks

The skills required of the new "knowledge worker" include both technical skills, related to computers and automated machinery, and interpersonal skills, such as the ability to communicate well and to work in cooperative situations.

The application of labor to production continues to be the most fundamental relationship in every economy. In the context of Midwest economic growth and development, public and private policymakers must address three issues affecting the region's labor force.

First, the U.S. and Midwest economies are becoming increasingly centered on the flow of information and knowledge creation. Accordingly, workers who are able to perform in this new environment are being rewarded and a deficit or surplus of such workers will determine the region's growth and welfare. By historical standards, the portion of the work force having "low skills" has declined. However, rising skill levels have not matched the pace of rising skill demands. Widening gaps in wages and income between those with skills and those without testify to the emerging economy's willingness to reward investment in skills and ownership of knowledge. Surveys of new jobs being created by business suggest that new skill demands are higher than those of previous and existing jobs. The skills required of the new "knowledge worker" include both technical skills, related to computers and automated machinery, and interpersonal skills, such as the ability to communicate well and to work in cooperative situations.

New skill demands on the work force have resulted in several identifiable challenges. In many inner cities, the labor force does not have the skills needed for the jobs being created. Similarly, the lack of skills and credentials presents clear barriers to many poor and minority communities. Much of the educational infrastructure is not geared to meet the below-college skill needs of the rapidly evolving business sector. For this reason, both public and private efforts are being stepped up or created. Some Midwest states, for example, Wisconsin and Illinois, are embracing school-to-work programs, which directly link school curricula with either business guidance or actual work-site learning. Public vocational schools in some states, such as Iowa, may provide a customized curriculum or training program to meet the needs of a particular industry or large company.

The highly visible rise of in-house training programs and corporate universities, such as those of McDonald's and Motorola, further demonstrates the need for enhanced skills among the adult work force, as well as the efficacy of work-based, business-guided training. Nonetheless, because the economic returns to basic skills accrue to workers rather than to firms (or at least are perceived to accrue to workers), the private sector shows an apparent lack of ability or resolve to shore up the basic skills deficit of the adult work force.

With roughly two-thirds of all poor families having one or more members in the work force, the problem seems to relate less to willingness to work and more to the declining quality of jobs available.

A second work force issue is the persistent problem of bringing disadvantaged workers into the work force. It is generally accepted that greater work force participation among low-income and disadvantaged people can increase levels of economic well being, improve self-esteem, and lessen social ills. With roughly two-thirds of all poor families having one or more members in the work force, the problem seems to relate less to willingness to work and more to the declining quality of jobs available. Worsening job prospects mean that adults lacking labor force experience may not acquire the fundamental skills needed to find and keep a job. At the same time, motivation for training and education can be dampened and poverty-related social problems acquired which, in turn, become further obstacles to permanent labor force participation.

Both newly fashioned government policies and innovative prototype work force programs appear to be recognizing this vicious cycle of poverty and nonparticipation in the work force. Currently, the most widely used structure for integrating disadvantaged workers into the work force emphasizes a strong dose of training, followed by introduction of the client to a (permanent) job setting. However, new and somewhat-more-successful programs try to move prospective workers quickly into job situations. These programs may offer clients minimal training prior to joining the work force, but instead provide ongoing support services, which might include child care, family or substance abuse counseling, repeated job placement assistance, and more extensive training. More public policies, such as Wisconsin's welfare-to-work initiative, are now taking a similar approach. The twin tenets of such programs are that 1) a quick introduction to the work force for many disadvantaged people can help them gain elementary job skills and 2) supplemental family support services may be more helpful than formal and structured upfront training.

Pending legislation before the U.S. Congress proposes folding numerous federally assisted job training programs into block grants, whereby states would have greater freedom to match their own ideas and needs with federal dollars. Philosophically and practically, this approach meshes with emerging state welfare-to-work initiatives. However, some critics question whether the new-found freedoms associated with pending federal and fledgling state initiatives will effectively serve the disadvantaged segments of the population. Concerns center on whether sufficient funding will be available for the follow-up training and support services that are needed and on whether, once freed from federal program restrictions, states will steer funds away from disadvantaged population segments.

Changing work assignments imply that employees will demand that jobs provide opportunities to acquire salable skills. In order to be salable, the skills must be transparent, transferable, and certifiable to future employers.

The third major issue affecting today's work force is the increasingly transitory and fluid nature of the employer-employee relationship. In the U.S. and other industrialized nations, firms are increasingly acquiring their labor through contingent, contractual, or temporary arrangements. In some countries, firms may be motivated by more protective labor laws and regulations, which may penalize them for laying off regular employees. Others view the trend toward contingent arrangements as an innovative way for firms to gain better information about workers they may ultimately hire. The nature of work and the skills required have also become more fluid and firms may be motivated to acquire workers with a variety of skills, who can be switched quickly from one area of operations to another as the firm's needs change.

From the employee's perspective, these changes have lessened the expectation that a given job will remain available throughout much of one's working lifetime. Aside from the more contingent relationships employers may demand, an increasingly competitive environment may make job losses inevitable for some firms.

The implications of the more transitory nature of work assignments are broad-based for both the public and private sectors. First, labor provisions and programs should adapt to the increased mobility being required of workers. Health care should be portable, so that workers are not discouraged from seeking better working opportunities. Similarly, pension contributions should be portable; the idea of offering generous pensions in return for longevity and loyalty has probably outlived its usefulness. Greater portability of these benefits would encourage movement and well being among workers.

More appropriate matching of employment opportunities with workers is being facilitated by advances in information technology and innovative prototype programs, such as one-stop job centers and networking employment assistance.

Changing work assignments also imply that employees will demand that jobs provide opportunities to acquire salable skills. Presumably, those firms that provide low-cost, salable training will be able to attract high-quality workers at lower cost. In order to be salable, the skills must be transparent, transferable, and certifiable to future employers.

Finally, contingency and turnover in labor markets suggest there are greater benefits to more efficient labor markets than ever before. More appropriate matching of employment opportunities with workers is being facilitated by advances in information technology and innovative prototype programs, such as one-stop job centers and networking employment assistance. These advances in job-matching efficiency may be somewhat offset by the expansion of specialized skill sets for new jobs in the economy, which require more time and effort in the matching process.

It is too early to assess the Midwest's response to the work force issues outlined above or how well it will adapt to labor force changes in the future. However, private and public sector policymakers are responding to the changing environment with great energy, and the results of current innovations will have important implications for the Midwest's economic future.

About the Workshop

Correspondence related to the May 15 workshop should be directed to conference coordinator, Richard Mattoon, senior economist in the Research Department at the Federal Reserve Bank of Chicago. Participants in the workshop included the following:

James Aaron*
U.S. Department of Labor

Linda Aguilar
Federal Reserve Bank of Chicago

Timothy Bartik*
Upjohn Institute

William Bergman
Federal Reserve Bank of Chicago

Rebecca Blank*
Northwestern University

Michael Bologna
BNA

James Buchen*
Wisconsin Manufacturers and Commerce

Mark Bugher
Wisconsin Department of Revenue

Kevin Carey
Indiana State Budget Agency

Barb Chubb
Michigan Jobs Commission

Suzanne Cosgrove
Market News Service

Dolores Cross
Chicago State University

Herb Dennis*
State of Illinois

Tom Donley
DePaul University

Randall Eberts*
Upjohn Institute

Jeff Edstrom*
Council of Great Lakes Governors

Robert Edwards*
State of Michigan

Ed Field
The Economist

Steven Franklin
Chicago Tribune

Dennis Guffey
State of Iowa

Donald Hanson
Argonne National Laboratory

Jacquelyn Harder
Cook County Board of Commissioners

Suzanne Heffner
Federal Reserve Bank of Chicago

Toby Herr*
Erikson Institute

Kevin Hollenbeck*
Upjohn Institute

Harry Holzer*
Michigan State University

Susan Houseman*
Upjohn Institute

William C. Hunter*
Federal Reserve Bank of Chicago

Dan Immergluck
Woodstock Institute

Philip Israilevich*
Federal Reserve Bank of Chicago

Davis Jenkins*
University of Illinois at Chicago

Robert Jones*
National Alliance for Business

Rick Kaglic
Federal Reserve Bank of Chicago

Frederica Kaider
Midwest Center for Labor Research

Sue Leach Kelly
Dow Jones

Myrt Levin
Iowa Business Council

Lars Ljungqvist
Federal Reserve Bank of Chicago

Dick Longworth
Chicago Tribune

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Federal Reserve Bank of Chicago

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Federal Reserve Bank of Chicago

Kevin Murphy*
University of Chicago

Maggie Oppenheimer
DePaul University

Ronald J. Patten
DePaul University

Mark Partridge*
St. Cloud State University

Sherrie Rhine
Federal Reserve Bank of Chicago

Nancy Scannell
Knight-Ridder

Lewis Segal
Federal Reserve Bank of Chicago

Martin Simon*
National Governors Association

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City of Chicago

Don Smith*
Carnegie Mellon University

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Chicago Sun-Times

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State of Iowa

William Testa*
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Hal Theis*
McDonald's Corporation

Graham Toft*
Indiana Economic Development Council

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AFL-CIO

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Paula Worthington
Federal Reserve Bank of Chicago

Julian Zahalak
Federal Reserve Bank of Chicago

Jill Zwick
Carol Mosley-Braun's Office

* *Presenter, discussant, or moderator*

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Workshop Agenda

The workshop "Work Force Developments: Issues for the Midwest Economy" was held on May 15, 1996, at the Federal Reserve Bank of Chicago, 230 S. LaSalle St., Chicago, IL 60604.

I. Welcome and Opening Remarks

Presenter: *Michael Moskow,* Federal Reserve Bank of Chicago

II. Current Issues in Labor and Training

Session 1: What Does Business Need?

The Midwest High-Performance/Informational Service Economy—What Are the New Skills?
Presenter: *Don Smith,* Carnegie Mellon University

Evidence of Labor Demand from Business—Firm Survey Results
Presenter: *Harry Holzer,* Michigan State University

A Corporate Perspective
Presenter: *Hal Theis,* McDonald's Corporation

Session 2: Problems of Poverty and the Underclass—Is This an Untapped Labor Pool and How Do We Access It?

The National Perspective
Presenter: *Rebecca Blank,* Northwestern University

Evidence from Chicago
Presenter: *Toby Herr,* Erikson Institute/Project Match

Session 3: The Wage/Income Gap: Regional Evidence and Causes

Presenter: *Mark Partridge,* St. Cloud State University

Session 4: Displaced Workers: The New Contingent Work Force

Work Force Contingency in the U.S. and Japan
Presenter: *Susan Houseman,* Upjohn Institute

The Wage Experience of Older Dislocated Workers and Related Evidence
Presenter: *Dan Sullivan,* Federal Reserve Bank of Chicago

III. Luncheon

Wage and Income Disparity Trends: Policy Issues, Theory, and Evidence
Speaker: *Kevin M. Murphy,* University of Chicago

IV. Work Force Preparation in a Changing Environment

Opening Remarks
Moderator: *Randall Eberts,* Upjohn Institute

Devolution of Welfare/Training Responsibilities to State/Local Government
Presenter: *Martin Simon,* National Governors Association

How the Federal Government Sees Its New Role in Work Force Development
Presenter: *James Aaron,* U.S. Department of Labor/Employment Training Administration
Reactor: *Tim Bartik,* Upjohn Institute

V. A Business Perspective on Today's Work Force

Presenter: *Bob Jones,* National Alliance for Business

VI. Panel Discussion

Looking Forward: Where Does the Region Go from Here?

Certification and Standards
Presenter: *Jeff Edstrom,* Council of Great Lakes Governors

State Programs and Perspectives
Presenters:
Bob Edwards, State of Michigan
Gretchen Tegeler, State of Iowa
Graham Toft, Indiana Business Development Council
Herb Dennis, State of Illinois
James Bucher, Wisconsin Manufacturers and Commerce

Organization of Delivery for the Less Skilled and Disadvantaged Populations
Presenter: *Davis Jenkins,* University of Illinois at Chicago

Classroom in the Workplace Survey
Presenter: Kevin Hollenbeck, Upjohn Institute

Matching Local Labor Demand—The Chicago Community College Experience
Presenter: *Philip Israilevich,* Federal Reserve Bank of Chicago

About the Project

The Federal Reserve Bank of Chicago is undertaking an extensive analysis of the Midwest economy. The goal of the project is to understand the Midwest's turnaround in economic performance since the early 1980s. In the Seventh Federal Reserve District—which includes Iowa and large portions of Illinois, Indiana, Michigan, and Wisconsin—unemployment rates are, at the time of this writing, lower than at any time since the 1977–78 period, as well as being below the national average.

The Midwest project will involve a series of workshops and research studies which will be carried out by Federal Reserve analysts and other researchers from the region. An advisory board representing a cross-section of Midwest leaders will provide guidance for the project (see back page). Workshops scheduled for 1996 will consider (1) the economic performance of the broad Midwest economy and the transformation of its manufacturing industries; (2) the rural economy of the Midwest; (3) labor force training and education; (4) global linkages with the region's economy; and (5) tax, spending, and regulatory influences on regional performance. The findings of the workshops will be communicated through a series of publications and broad public forums. The project will conclude with a conference and publication toward the end of 1996.

At the Bank, the "Assessing the Midwest Economy" project is being conducted through a cooperative effort of the Office of the President, Michael H. Moskow, president; Research Department, William C. Hunter, senior vice president and director of research; and Community and Information Services, Nancy M. Goodman, senior vice president.

Inquiries should be directed to William A. Testa, senior economist and assistant vice president, Research Department, or James Holland, public affairs officer.