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Automotive industry outlook: Understanding work force programs

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The Chicago Fed, along with the Cleveland Fed, Brookings Institution Metropolitan Policy Program, and the W. E. Upjohn Institute for Employment Research, held a conference on October 8–9, 2009, to explore the ongoing adjustments of the automotive work force and its communities. This article summarizes panels evaluating work force programs.

Materials presented at the conference are available at www.chicagofed.org/webpages/events/2009/automotive_communities_and_work_force_adjustment.cfm.

In this *Chicago Fed Letter*, we summarize some discussions from Automotive Communities and Work Force Adjustment—a conference hosted by the Chicago Fed's Detroit Branch late last year. In a previous *Chicago Fed Letter*, we covered this conference's opening panel, which explained the challenging conditions facing the broader economy, the automotive industry, and the industry's work force and communities.[1] Here we focus on panel presentations that explored federal and state work force programs designed to aid former auto workers and their communities. We also summarize presentations on work force training and development.

Aid and counseling after layoffs

Marian Krzyzowski and Lawrence Molnar, University of Michigan, Institute for Research on Labor, Employment, and the Economy (IRLEE), described the Community Economic Adjustment Program (CEAP), which was created three years ago by the U.S. Department of Commerce's Economic Development Administration. CEAP conducted research in 23 communities experiencing economic hardship because of major automotive plant closings in Michigan, Ohio, Indiana, and Wisconsin. The program found 50% of the communities expressed a critical need for housing assistance, 53% for health care, and 68% for general social services. Krzyzowski noted that for every one job lost, four people, on average, are affected. As a result, the local areas' social service providers come under tremendous stress. Krzyzowski recommended emergency federal funding for local area social service agencies impacted by plant closings; he also argued for more aid to programs specifically helping children of dislocated workers.

Mark Gaffney, Michigan State AFL–CIO (American Federation of Labor–Congress of Industrial Organizations), described his union's Peer to Peer Program (run by Human Resources Development Inc.), which uses designated peers (who have been displaced themselves) to advise displaced workers. This program provides information on all the services available to the unemployed in Michigan, including job search assistance, computer literacy education, and funding for training. The program attempts to counsel workers even before they are let go, and continues to advise them while they seek new jobs or are in training.

Rick McHugh, National Employment Law Project, argued that the federal government should be more proactive (rather than reactive) in improving work force development and assisting auto workers facing layoffs. He went over five best practices that should be promoted or expanded. He first mentioned states' rapid response programs that advise displaced workers on the availability of social services. Next, McHugh discussed labor management committees that regularly assess workers' training needs and help fill educational gaps. In addition, like Gaffney, McHugh promoted peer networks that use dislocated workers to provide assistance and advice to other displaced workers. He then talked about income support for training through the federal government's Trade Adjustment Assistance (TAA) program or unemployment insurance. Finally, he discussed labor program operators (LPOs)—labor-run nonprofits that provide services for dislocated workers.

Regions should support better education and more innovation in their economic development efforts.

Community colleges as retraining centers

Daniel Sullivan, Federal Reserve Bank of Chicago, studied the effects of community college as a method of retraining displaced workers. Based on his previous research with co-authors,[2] Sullivan explained that community college training provides "pretty good" returns, though they vary by type of course taken and the worker's prior skills, age, and gender. He said his research shows that displaced workers who enrolled in health-care-related and technical/professional courses experienced greater long-term impacts on future earnings—i.e., those taking science, technology, engineering, and math (collectively known as STEM) courses. In general, older workers—particularly those who have worked predominantly in one firm or industry and possess significant skills deficits—receive fewer benefits from retraining at community colleges than do younger workers. Sullivan said displaced workers would need roughly three years of full-time studies at a community college to offset their earnings losses. However, most displaced workers take just a few classes.

Consistent with Sullivan's comments, Louis Jacobson, CNA (Center for Naval Analyses), agreed that the type of community college training matters. He emphasized that course selection greatly affected the returns to education—largely in agreement with Sullivan that health-care-related and professional courses offered the highest returns in terms of income. However, Jacobson explained that many workers do not choose such courses because they are unaware of their higher returns. At the same time, community colleges lack the resources and incentives to offer these more high-cost, high-return courses. To correct these misalignments, Jacobson recommended funding community colleges based on completion rates rather than enrollment rates. More funding should be provided for high-return courses and programs. Further, Jacobson said that one-stop career centers, funded by local Workforce Investment Act funds, should provide more job counseling and assessments, supplementing advice from community colleges. One-stops could also guide toward community colleges those who have a higher likelihood of success there.

Jim Sawyer, Macomb Community College (located near Detroit), detailed the role that community colleges can play in preparing displaced auto workers for alternative employment. He said that community colleges should work with other agencies assisting displaced workers, accumulate feedback from employers about employment trends and skills needs, and provide student support services. By tracking employment opportunities and trends in their regions and offering courses that match them, community colleges could help train their students for viable new careers. For example, Macomb Community College has collaborated with multiple firms and institutions (both private and public) to formulate the Macomb Renewable Energy Program Initiatives, which will prepare students for careers in "green" industries. Sawyer said Macomb has also created an advanced manufacturing retraining program to update workers' skills; and it has helped retrain auto designers to do pipe design, in the hopes of bringing back some engineering jobs to Michigan.

Sectoral and regional work force development

Jack Litzenberg, of the Charles Stewart Mott Foundation, summarized findings from evaluations (funded by his organization) of regional skills alliances—which are quite similar to sectoral work force initiatives (discussed later). Regional skills alliances develop relationships among regional employers and the local work force development system including community colleges, economic development agencies, and training programs. These alliances help regional employers discuss and communicate what kinds of skills they would like their potential employees to have, thereby influencing the design of work force skills programs. More efficient sharing of sector-specific information within the alliance and its communities allows individuals to be (correctly) retrained to meet changing employer demands. Additionally, regional skills alliances can help bring about job retention and wage advancement within their sectors.

Sheila Maguire, Public/Private Ventures, also shared findings from a Mott-funded evaluation, which covered three sectoral employment programs: Wisconsin Regional Training Partnership, JVS (Jewish Vocational Service), and Per Scholas. Maguire stated that within two years, program participants experienced an employment rate of 70%, versus 60% for the control group. Program participants also attained significant earnings gains relative to the control group—about $4,500 more per individual over the two follow-up years, with most of the gains coming in the second year. Program participants were also more likely to work in jobs that offered benefits, such as health insurance. Based on her findings, Maguire recommended that employers invest in industry-focused job training or even training specific to their needs; moreover, training should have a flexible curriculum, incorporating local knowledge and experience and changing employer needs.

Marcia Black-Watson, Michigan Department of Labor and Economic Growth, discussed the Green Jobs Initiative, which is part of Michigan's No Worker Left Behind program. Black-Watson said that by her estimates, Michigan supports over 100,000 green jobs, representing just about 3.4% of its overall private employment. Approximately half of Michigan's green jobs fall under two categories that have future growth potential: clean transportation and fuels (41%) and renewable energy production (9%). However, employers indicated that they have difficulty in finding workers with the skills needed for green jobs, such as STEM skills. For the green sector, Black-Watson noted the importance of providing incumbent worker training, accelerated training programs, and more hands-on training. Black-Watson expressed high hopes that Michigan's strong green sector will help the state diversify its economy and retain its jobs base.

Mark Partridge, Ohio State University, strongly advocated regional and sectoral approaches that focus on long-term prosperity, not short-term gains; he also stressed that occupational skills that can be transferred across sectors should be taught. In line with most other speakers, Partridge agreed that states and regions must have strong work force training programs to develop workers and to attract growth industries. However, he warned against tailoring such training programs too specifically to draw what's currently considered a growth industry. Therefore, Partridge advised regions to focus on creating an attractive place by supporting a productive, flexible work force; providing solid infrastructure; and running a sound, efficient government. Such fundamentals will help draw and keep industries over the long term, he argued.

Region-specific training programs can serve as catalysts for displaced workers to reenter the labor force.

Entrepreneurship

Stephen Wandner, U.S. Department of Labor, analyzed two experiments in promoting entrepreneurship. In the 1990s, Massachusetts' self-employment assistance (SEA) program, in conjunction with the U.S. Small Business Administration, gave program participants self-employment allowances, counseling, and training in return for working full-time on their own new enterprises. The Massachusetts experiment found increased start-up business rates and increased earnings (over $5,940). Despite this demonstrated success, only seven states currently have their own SEA programs, with fewer than 2,000 total participants per year. A more recent experiment, Project GATE, examined whether the SEA program could promote entrepreneurship among the entire work force, but early findings suggest only the unemployed benefited. Wandner conjectured that dislocated auto workers seem to be reasonable candidates for the SEA programs, since they, on average, have transferable skills, good credit histories, and stable family situations.

FastTrac programs were advocated by Monica Doss, of the Ewing Marion Kauffman Foundation, for displaced auto workers who are prospective entrepreneurs. FastTrac programs serve displaced workers who want to start their own businesses and aid existing entrepreneurs challenged by current economic conditions. They help their clients develop business plans and strategies, as well as other key business skills, through classes, coaching sessions, and mentoring programs. Doss reported that investment capital for entrepreneurs has remained scarce, but FastTrac programs can still help entrepreneurs build up a network of coaches, peers, and other resources.

Daryl Williams, also of the Ewing Marion Kauffman Foundation, talked about his organization's Urban Entrepreneur Partnership (UEP) Detroit program, which serves minority entrepreneurs. It is part of the larger $100 million New Economy Initiative for Southeast Michigan, which aims to reinvigorate the region's struggling economy. UEP Detroit assigns coaches to every entrepreneur for a period of six to nine months for one-on-one counseling and training sessions. Through this program, entrepreneurs learn about profitability, efficiency, and workable systems to handle growth and capital injections. With their coaches, entrepreneurs create and evaluate personal development plans to find areas in which to improve as well to learn how to overcome challenges such as acquiring capital and gaining contracts. Recently, UEP Detroit has embarked on a three-year program to train, coach, and mentor 150 minority-owned auto supplier firms to help them diversify their businesses into growth sectors, including aerospace and alternative energy.

Regional differences in income growth

Mark Schweitzer, Federal Reserve Bank of Cleveland, presented his research concerning per capita income differences among states.[3] States' incomes have converged because of increased labor and capital mobility and technology diffusion. However, growth-theory models show that varying processes in acquiring new technology account for remaining differences in state income growth. In addition, income growth can vary because of states' differences in human capital investment; taxes and infrastructure; and research and development. Schweitzer found income growth to be a function of past income levels, education, innovation (patents per capita), and, to a lesser extent, industry structure. As the models show, investment in education and infrastructure leading to self-generating growth makes a difference in a state's long-run growth.

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Accordingly, Schweitzer concluded that regions should support better education and more innovation in their economic development efforts.

Future work force agendas

Brad Whitehead, Fund for Our Economic Future (serving Northeast Ohio), asserted the best way to bolster a region's competitiveness is by uniting that region's philanthropy. The fund is an informal collaboration of philanthropic organizations and individuals, and it has raised more than $60 million since 2004 to improve Northeast Ohio's economy. Whitehead stated the fund looks for solutions that spur business growth and attraction; racial and economic inclusion; government collaboration and efficiency; and talent development. Whitehead noted that the area of talent development has been the most challenging. As a result, the fund has set up an employer-led regional talent network, which increases workers' employability through training that matches firms' needs as identified by employers in the region. Whitehead said this network will need to better forecast up-and-coming jobs and the talent pool to fill them. It also needs to determine how to scale best practices from helping hundreds of workers into helping thousands.

Prospects for Detroit were the focus for David Egner, New Economy Initiative for Southeast Michigan. Egner said that Detroit needs to draw more young, college-educated people to work and live there. Currently, Detroit has half as many individuals who fit this demographic as Chicago and Minneapolis. According to Egner, because of the auto industry's dominance over the past 70 years in Detroit, the region's entrepreneurial spirit has been stymied. Egner stressed the importance of developing a culture of continual learning and "free agents," in which people think of themselves as independent workers rather than just part of a corporation. While Southeast Michigan should hold on to the higher-wage, higher-skilled auto jobs, other industries need to be promoted as well.

Andrew Levin, State of Michigan, said that the current economic situation provides an opportunity to analyze policies. According to Levin, rather than implementing incremental, short-term improvements in work force adjustments, federal and state governments should establish work force policies that incentivize lifelong learning. Levin laid out five policy points that should benefit displaced and transitioning workers. First, Levin advocated extending unemployment insurance to individuals training for in-demand jobs. Next, he suggested getting rid of trade victimization and its link to support funds, such as TAA, given the stark realities of globalization. In addition, Levin encouraged embedding in work force assistance programs both adult basic education (e.g., English as a second language) and incumbent worker training, which supports companies to help keep their employees. Lastly, Levin, like other presenters, agreed the community college education system and culture should be transformed to promote lifelong learning while expanding access to courses and online options.

Conclusion

The conference investigated the viability of various work force programs and initiatives. Conference speakers agreed that more research and evaluations must be conducted to identify the best means of work force assistance and the best practices to promote. Also, most participants concurred that region-specific training programs can serve as catalysts for displaced workers to reenter the labor force and reinvigorate their communities.

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[1] See www.chicagofed.org/digital_assets/publications/chicago_fed_letter/2010/cfljanuary2010_270a.pdf.

[2] Louis Jacobson, Robert LaLonde, and Daniel Sullivan, 2005, "The impact of community college retraining on older displaced workers: Should we teach old dogs new tricks?," *Industrial and Labor Relations Review*, Vol. 58, No. 3, article 5, available at http://digitalcommons.ilr.cornell.edu/ilrreview/vol58/iss3/5; and Louis Jacobson, Robert LaLonde, and Daniel Sullivan, 2005, "Is retraining displaced workers a good investment?," *Economic Perspectives*, Federal Reserve Bank of Chicago, Vol. 29, No. 2, Second Quarter, pp. 47–66.

[3] His evolving research was initially presented in Paul W. Bauer, Mark E. Schweitzer, and Scott Shane, 2006, "State growth empirics: The long-run determinants of state income growth," Federal Reserve Bank of Cleveland, working paper, No. 06-06, May, available at www.clevelandfed.org/Research/Workpaper/2006/wp0606.pdf.