Aligning Secondary and Post-Secondary Credentialization with Economic Development Strategy, or If Low Educational Attainment = Poor Metropolitan Competitiveness, what can be done about it?

Laura Wolf-Powers, University of Pennsylvania
Stuart Andreason, University of Pennsylvania

Available at: http://works.bepress.com/laura_wolf_powers/19/
Introduction

Several chapters in this volume consider the role of public policy in improving connections between education and the labor market. Of particular concern in these chapters are the education and employment of students in poor school districts in America’s central cities and inner suburbs – i.e., school districts in which a majority of students come from low-income, low-wealth households. As Goldin and Katz succinctly put it in the final chapter of their book The Race Between Education and Technology, “…it is important to recognize that schools are essentially failing particular students. Those left behind by the system are mainly minority children in inner-city schools who become the youths who are not college ready (2008: 348).

These are the students who grow up in poor households, in neighborhoods where the vast majority of their peers are also poor. They enter primary school at a disadvantage, and they leave the K-12 system (as dropouts and graduates alike) with low levels of literacy and analytical skill. Even when well-positioned to benefit from post-secondary education, they face enormous barriers to financing this investment.
Table 9.1 shows key educational attainment and poverty statistics, as well as public high school graduation rates, from the largest 25 central cities in the United States by population. Within this group, nine cities – Baltimore, Dallas, Detroit, El Paso, Houston, Los Angeles, Memphis, Philadelphia and San Antonio – fall both below the 25-city average for educational attainment (as measured by the proportion of the population over 25 with a Bachelor’s degree) and above the average for household poverty rates. Cities with high poverty rates and low rates of educational attainment are in a particular bind, because the needs of their populations far outstrip the resources available from the tax base. Political leaders, policy-makers and agency executives in these places must “solve simultaneously” for the challenge of raising revenue to support city services and the challenge of creating economic opportunity for those left behind in the knowledge economy. To take one nearby example: the city of Philadelphia has a population of about 1.5 million and a working-age population of about 990,000. Of the working-age population, 22 percent have not obtained a high school degree, and by one estimate 550,000, or over half, are functionally low-literate. Accordingly, Philadelphia has both one of the lowest labor force participation rates (45 percent) of any U.S. city and one of the highest poverty rates, 24 percent. Significantly, it is not low labor force participation alone that drives poverty in Philadelphia, but low earnings as well. According to the Philadelphia Workforce Investment Board, 40 percent of working adults in the city earn poverty-level wages as measured against the Pennsylvania Self-Sufficiency Standard for a family of four (Philadelphia Workforce Investment Board 2007, 2009). An important part of the explanation for these low wages is that the supply

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This status quo carries grim implications for Philadelphia and its peer cities, as well as for the metropolitan regions that contain them.ii Not only do individuals remain poor, but local and regional economies stagnate. Scholars have convincingly shown that since service industries began to assume prominence in the urban economic base, economic growth and fiscal stability have been most durable in places where a combination of innate advantage and shrewd public policy has produced an educated and adaptable workforce (see Glaeser 2005; Glaeser and Saiz 2003; Glaeser and Shapiro 2001; Gottlieb and Fogarty 2003). Figure 9.1 demonstrates the strong relationship between education and economic health as a “place” phenomenon in addition to an individual one. While human capital is less of a factor when other elements of competitive advantage (warm climate, low taxes, newer infrastructure) are present, the presence of a college-educated populace is especially crucial to the successful adaptation of older industrial cities. In a fascinating study for the Federal Reserve Bank of Philadelphia, Jeffrey Lin (2009) demonstrates that “new work” – occupations born of innovation and technological change – has concentrated in metropolitan regions with high endowments of skill. Conversely, the disamenities associated with a high proportion of unskilled residents (e.g., high taxes, high crime, a profound disconnect between the sources of local taxes and their uses) drive the decline of low human capital cities by making them less attractive to middle class and affluent households. Metropolitan regions
containing declining cities appear to suffer slower population and income growth than their counterparts in which the inner cities are more competitive for regional population and jobs (Voith 1998; Hill and Brennan 2005).

How can public policy contribute to the alleviation of this crippling problem? Other chapters in this volume review the game-changing potential of policy changes around career and technical education at the high school level and around administrative and economic access to post-secondary schooling for adults. The purpose of this chapter is to examine options in the economic development policy sphere, where, as noted above, increasing recognition of human capital as a major source of innovation and competitive advantage has made the attraction and development of a skilled workforce a priority (Kresl and Fry 2005; Markusen 2008; Markusen and Schrock 2008; Wolf-Powers 2004). To set the stage for a discussion of existing and potential links between economic development and labor force development policy, we examine the current “second chance” employment training and placement system, the chief resource for adults who have emerged from secondary school without the skills they need to obtain and maintain work and to achieve economic mobility over time. We then examine the state of contemporary city and regional economic development policy, which is linked with workforce policy through sector-based initiatives and industry partnerships, but currently quite tenuously. We conclude by recommending changes in both the second chance workforce system and in urban and metropolitan economic development practice that would render the connections between them less fragile.
The Public Workforce System in Crisis

Currently in the United States, an out-of-school individual who seeks assistance from the public sector in obtaining or training for work encounters a largely federally funded, largely locally managed system – mediated by state government – that operates under the rubric of the Workforce Investment Act of 1998 (WIA).iii WIA has four titles. Title I, administered by the Employment and Training Administration in the U.S. Department of Labor, is the largest, and contains job development and training programs for adult, youth and dislocated workers.iv Title II, administered by the Office of Vocational and Adult Education in the Department of Education, supports adult basic education and literacy programs. Title III funds the state-based labor exchange services originally authorized by the Wagner-Peyser Act of 1933, while Title IV transfers money to states for vocational rehabilitation of people with disabilities, again through their Education departments. Although consolidated under the banner of workforce investment, these programs continue to operate under distinct bureaucratic regimes; only occasionally, for example, do Title I employment-oriented programs succeed in achieving complementarity at the program level with literacy and basic education initiatives administered by federal and state Departments of Education.v

The public face of the workforce system is a “One-Stop Center,” a physical location intended to consolidate at a community level the array of labor market services authorized by the raft of titles and programs described above. A visitor to a one-stop center accesses a hierarchy of services in a specific sequence. First come “core services,” including job search and placement assistance, labor market information, and an initial assessment of skills. If “core services” do not result in job placement, a user is offered “intensive services:” more comprehensive assessments, development of an individual employment plan, group and individual counseling. Depending on
the integration of the education and labor departments in a given state, academic remediation and literacy instruction may be available at the One-Stop as well.

Occupational training becomes an option under WIA Title I only after core services and intensive services are exhausted with no placement resulting. Training services typically come in the form of an individual training account (ITA), which an individual can use to access a certified training program of his or her choosing at a community college, vocational technical school, or private training institution. An estimated 2.5 million people of the 8 million receiving services under WIA in the calendar year ending June 2010 received training. In an effort to increase accountability and ensure that training is linked to the labor market, the reimbursement of providers for training under WIA is tagged to a series of achievement benchmarks – enrollment, delivery of training, job placement in positions paying a certain amount over minimum wage, and retention in this employment over 30, 60, and 120-day periods. These provisions were instituted to align the incentives of trainers with the interests of their clients in attaining economic mobility and the interests of the public sector in deploying limited training dollars wisely. However, compliance with reporting requirements is so time-consuming – and the amount and timing of reimbursements so unpredictable – that many providers do not find it worth their while to accept WIA vouchers. Training that consistently leads to earnings gains tends to cost significantly more than a training voucher will buy; WIA vouchers cover only a fraction of the per-participant cost at the high-performing sector-based program Per Scholas, for example (Leavitt 2011).

Workforce Investment Boards, the county and municipal bodies that typically administer One-Stop Centers, play research and policy roles and may sponsor special programs that meet particular cities’ or counties’ labor market needs and challenges. Many Workforce Boards have
leveraged local funding allocations with federal demonstration grants and philanthropic funding. Overall, however, even the system’s advocates agree that the current configuration of services under the Workforce Investment Act could perform more effectively the task of promoting economic self-sufficiency among individuals not made labor market ready by the education system (Stone and Worgs 2004, Osterman 2007).

The tortuous evolution of federal “second chance” workforce policies from the 1940s forward (of which WIA represents the current instantiation) has been well-described elsewhere by political economists and historians (Mucciaroni 1990; Weir 1992; Giloth 2004). We highlight here some themes of that literature which shed light on the crisis in which the system currently finds itself. First, workforce training policy (originally called “manpower planning”) has been pursued separately, at federal, state, and local levels, from education and literacy policy and from efforts to manage and direct economic growth. Training policy and institutions also have been functionally bifurcated from policies and institutions governing collective bargaining. Second, workforce programs have been means-tested and targeted at the poor, structured (in spite of efforts to involve private employers on advisory boards) more as a social service for the disadvantaged then as a response to employer needs. Third (and relatedly), over the past two decades, poverty policy has shifted powerfully away from human capital development and income support and toward work itself. This trend was embodied in and effectuated by the dramatic expansion of the Earned Income Tax Credit in 1993 and then by the passage of the Clinton Administration’s welfare reform legislation, the Personal Responsibility and Work Opportunity Reconciliation Act of 1997 (PRWORA). PRWORA block-granted public assistance to the states but kept the federal government involved in welfare policy by 1) mandating that
states place time limits on cash benefits 2) offering funding for services such as childcare to support labor market entry 3) requiring that transition into the workforce for former beneficiaries become a central goal for city and state human services agencies (Lower-Basch and Greenberg 2008).

The drive to address poverty and welfare dependency by incentivizing working-age adults to work (and providing supports for their entry in to the workforce) rather than by using government funds to invest in their human capital up front has a strong basis in evaluation research. Beginning with Abt Associates’ national Job Training Partnership Act evaluation in 1995 – one of the first studies to use a randomized experimental design to gauge the effect of a program intervention – rigorously designed studies routinely showed only modest earnings gains for individuals participating in training programs when compared with control groups who received only job search assistance. Programs to retrain displaced workers whose skillsets (in manufacturing, for example) had become mismatched to labor demand produced particularly disappointing results (see Heckman, LaLonde and Smith 1999). Recognizing that “to date, local workforce systems largely fail to satisfy the needs and aspirations of both jobseekers/workers and businesses” (Giloth 2004: 15), many in the workforce field have put tireless effort into making these systems more effective at poverty alleviation, for example by advocating that they feature the kinds of long term, sectorally based training programs that have demonstrated success at raising earnings (see below). However, given the substantial difference in cost between training and “work first” interventions, many legislators and policy administrators have seen little reason to continue allocating resources to training for disadvantaged adults and youth and displaced workers. Respected economists have argued that “second chance” programs for adults
are simply not a good investment, and that attention and funding should go toward intervening in early childhood and at the primary school level (see Carneiro and Heckman 2003).

A countervailing interpretation of the evidence on second chance employment training programs recently has begun to emerge. This interpretation focuses on earnings gains observed in a recent non-experimental evaluation of WIA, including an estimated marginal benefit of $400 in earnings each quarter for recipients of training (Heinrich et al 2008). Scholars also are challenging the assumption of previous studies that earnings and employment outcomes for participants constitute the sole relevant measures of success, suggesting that economic productivity benefits and avoided social welfare spending should be factored into evaluations of workforce training much as they figure into evaluations of programs like Head Start and preschool (King 2008, King and Heinrich 2010). Despite rebuttals of the “received wisdom” about second chance workforce training, however, the prospects for it as a significant component of social policy remain bleak. By 2003, only 40 percent of Workforce Investment Act dollars spent by local governments were going to training vouchers (GAO 2005), meaning that the majority of services being delivered under the second chance workforce development system were short term and oriented toward placement in jobs. Moreover, following a slow decline that began in the early 2000s, funding for the Workforce Investment Act and other programs for working-age adults has recently ramped down precipitously (see Carnevale 2010, King and Heinrich 2010). An original Fiscal Year (FY) 2011 budget that amounted to about $4 billion was cut by several hundred million dollars in the FY 2011 continuing resolution passed in April 2011, and the 2012 budget process promises to “radically transform the federal role in investing in the skills of the U.S. workforce” (National Skills Coalition 2011). Congress may well decide in the course of the
FY 2012 budget process to significantly scale back many elements of the WIA system, particularly those related to training (i.e., Title I).

Whether justified by the empirical evidence or not, the “work first” approach now dominates policy for individuals left behind by the K-12 education system. Work is seen as an opportunity to gain experience, to develop skills, and to contribute to the economy. However, as more studies of welfare leavers and displaced workers become available, it is also apparent that it is uncommon in the current political economy for low-skilled adults to emerge from poverty through work alone. A cohort of low earners followed by Andersson, Holzer, and Lane during six years of strong economic growth in from 1996-2001 did experience transition to higher earning status, but only 27 percent of the sample consistently raised their incomes enough to rise above the poverty line for a family of four (Andersson, Holzer, and Lane 2005). Theodos and Bednarzik (2006) examined a low-income cohort from 1995-2001, using Panel Study of Income Dynamics data, and found two distinct “earners” groups, one of which gained earnings over the period due to work experience and a “sizable minority of individuals who fail to realize earnings advancement even while remaining employed” (45). Members of another group in the Theodos/Bednarzik cohort were not job holders (i.e., earners) in 1995; 80 percent of these remained unemployed throughout the subsequent six years.

Part of the explanation for lack of mobility among earners is clearly the disproportionately low amount of firm-provided training offered on the job to less skilled workers (Osterman 2007). According to one study, low-skilled workers require up to 1,000 hours of basic education and training to achieve economic mobility (Carnevale and Reich 2000 as cited by Giloth 2004). Additionally, across the board, fewer working-age people are participating in the labor force. Economics writer David Leonhardt recently pointed out that a fifth of working-
aged American men are currently out of the labor force, down from only about 5 percent in the 1950s (Leonhardt 2011).

In sum, although the evidence on the success of government-funded training is ambiguous, it is far from clear that the “work first” approach now endemic in anti-poverty policy represents a more welfare-improving alternative for those individuals who emerge from K-12 schooling without the tools to attach to the labor market. Urban adults with the most serious barriers to employment, if they choose to seek help from the workforce system, engage with institutions that embody decades of conflict about the purpose, instruments, beneficiaries, and fundamental value of public sector workforce training – institutions that could potentially offer pathways to family-sustaining work but that do so only in exceptional circumstances. Those attempting to reform what is left of this fragmented system are contending with barriers that include unstable and dysfunctional local governance regimes, mistrust from employers and job-seekers, and deeply inadequate resources (Carnevale 2010; Giloth 2004; Stone and Worgs 2004). New strategies are clearly needed.

**Local and Metropolitan Economic Development Policy and the Sector Partnership Model**

Just as federal workforce training policy has traditionally been separate from national economic policy, the same is true at the municipal and metropolitan levels. One often cited reason for the limited effectiveness of the public workforce development system is its disconnection from urban and regional economic development strategies. Local and metropolitan economic development policy consists of efforts to enhance the competitiveness of locales for business activity; local officials’ twin motivations are revenue with which to operate the public
sector and jobs for their constituents. Concrete steps to address fiscal stress and un- and underemployment include financial incentives for business attraction, tax abatements, and targeted infrastructure investments. Other tools (sometimes called “new wave” economic development policies) include support and training for entrepreneurs, business incubators, venture capital, and technical assistance to small and medium-sized enterprises. Most communities that undertake economic development programs, however, devote a significant portion of their attention and resources to tax and infrastructure policies, often coming under fire for subsidizing industrial location without critically examining either the fiscal implications or the labor market effects of subsidy packages extended (see Fisher 2007; Schweke 2007; Weber 2007).

In recent years, as economic development practitioners have begun recognizing the vital role of human capital in economic growth, explicitly labor-centered regional development strategy has expanded (Markusen 2008). One vehicle for human capital-centered regional development is the sector initiative or industry partnership, under which economic development agencies, employers, industry associations, and providers of education and training collaborate to build and enhance labor “pipelines” in strategically important industries and occupations. Common industries for sector programs include healthcare, biotechnology, and advanced manufacturing. While governments have mounted sector initiatives in 40 states and the district of Columbia, the State of Pennsylvania’s Department of Labor and Industry has one of the most active industry partnership programs, having served more than 6,000 employers and reached tens of thousands of (largely incumbent) workers with training and skills upgrading (National Skills Coalition 2009). In 2006, the U.S. Department of Labor conferred a federal imprimatur on sector partnerships at a metropolitan scale with its Workforce Innovation in Regional Development
(WIRED) Initiative, granting $325 million to 39 metropolitan regions for strategic human capital partnerships. A central goal of WIRED was to help each region build a more competitive workforce or “talent pipeline” that would drive innovation in a sector or sectors (see Wolf-Powers, forthcoming).

There is a subtle distinction (though not a necessary contradiction) between 1) sector initiatives aimed primarily at training incumbent workers or students in post-secondary programs with the goal of making a region’s businesses more competitive and 2) initiatives aimed at creating pathways into the workforce for the disadvantaged individuals discussed at the start of this chapter. One example illustrating this distinction is the Biotech Human Capital Project, an initiative sponsored in the Delaware Valley Region from 2006-2009 by an intermediary called the Life Science Career Alliance. The project engaged area community colleges to design a curriculum for entry-level technical employees in bio-research and bio-manufacturing, leading to a certificate in two frequently used laboratory procedures, cell culture and fermentation. While program sponsors had originally envisioned that this certificate could work as a stand-alone credential, obtained in a short period by disadvantaged workers who would then be eligible for entry-level jobs, all but one of the participating community colleges chose to integrate the curriculum into its two-year associate’s degree programs in biotechnology. It was clear in retrospect that a talent pipeline conceived of as preparing today’s (post-high school) students for tomorrow’s jobs led directly through a two-year degree program. While promising, this model will not reach students who have failed in (and been failed by) secondary schools and whose chances of attaining post-secondary degrees (as opposed to shorter-term credentials) are small (see Wolf-Powers forthcoming).
Other sector initiatives have the express purpose of helping people without post-secondary degrees gain enough industry-specific occupational skills to increase their earnings. These efforts rely on strong and direct ties to the demand side of the labor market, on intensive “wraparound” case management and follow-up services for participants who require them, and on workplace literacy and numeracy as fundamental areas of instruction. They target “middle-skilled” occupations in which an industry-recognized credential, such as a practical nursing license or a computer technology competency certification such as A++, is both valid and valuable in the labor market (see Holzer and Lerman 2007). For example, Per Scholas, a Bronx-based program founded in 1995, trains between 400 and 500 low-income adults and youth per year in information technology skills, and achieved an 85% graduation rate and an 80% placement rate in 2010, primarily in entry-level IT administrator jobs with annual salaries of $30-45,000.\textsuperscript{ix} Per Scholas’ success relies on contextualized learning, a recognized industry certification including customer service accreditation, internship opportunities during training, and active programming for “alumni” who wish to continue their education or obtain additional credentials (Chapple 2006, Leavitt 2011, Maguire et al 2010). Brooklyn Networks, run under the auspices of an established neighborhood-based housing development and social services organization, is similarly structured to provide entrée to blue- and gray-collar jobs in telecommunications data cabling. This program, which like Per Scholas offers industry-certified training, depends on its strong connections with large companies like Time Warner Cable as well as with small contractors whose clients hire them to outfit offices with wireline and wireless data communications equipment (see Wolf-Powers 2005).

Evidence strongly suggests that sector-based programs are effective. A random assignment study published by Public/Private Ventures in 2010 evaluated Per Scholas and two
other model sector programs – the Wisconsin Regional Training Partnership in Milwaukee, and Jewish Vocational Service in Boston – and found that, compared with a control group, participants in these programs had higher earnings, were more likely to be consistently working, were more likely to work in jobs with higher wages, and were more likely to work in jobs with benefits (Maguire et al 2010). Here in Philadelphia, the Job Opportunity Investment Network (JOIN), which supports a number of sector and industry partnership initiatives, is conducting a Return on Investment study of these programs that relies on direct and contingent valuation estimation of costs and benefits for both businesses and worker participants. Examples of business benefits include reduced hiring and training costs, increased government grants, and increased profit attributable to enhanced worker productivity, while the benefits to workers are increased compensation and enhanced skills. Preliminary results indicate highly positive returns to both business and worker participants in JOIN’s sector initiatives, although businesses capture the most value from short-term training and general participation in partnerships while workers gain more when training is longer term and leads to promotion (Green and Back 2011).

Community colleges are also important actors in sectoral training programs. North Carolina’s acclaimed BioWork program, run through 13 community colleges, is a deliberate attempt to create opportunities for non-college-educated workers in the “new economy” industry of bio-pharmaceutical manufacturing. A recent study found that students at BioWork colleges that had strong relationships with employers and offered “integrated intermediary services” in addition to training (i.e. structured exchanges with company representatives, internships, and active, sector-specific job placement) were more likely than others to receive offers from pharmaceutical and bio-processing manufacturing employers (Lowe et al 2011).
The initiatives which the founders of the “sector strategies” movement began in the early 1990s have improved substantially with adjustment and experimentation over the past two decades. Sectoral employment initiatives attract the most talented and creative administrators and program managers entering the workforce field today. They have gained an increasingly strong reputation for effectiveness as against standard short-term training in the public workforce system. Particularly when labor markets are tight, they have also contributed to economic development goals, raising productivity and lowering firms’ turnover and training costs. These initiatives acknowledge the consensus that the equivalent of a secondary education, plus some post-secondary occupational training, is a gating condition both for household economic well-being and for household contribution to a healthy metropolitan economy. Although they often involve secondary schools or community colleges as partners, they also acknowledge the need for pathways through the education system that are non-traditional and that culminate in certifications rather than formal degrees (Green and Back 2011, Lowe et al 2011, Maguire et al 2010, National Network of Sector Partners 2011).

Notably, the development and refinement of sector programs over the past two decades has been driven almost entirely by private philanthropies: the Ford Foundation, the Annie E. Casey Foundation, the Knight Foundation, the Hitachi Foundation, and other national and local funders. The vast majority of successful sector-based initiatives operate apart from the public workforce system, finding it impossible to fit their activities into that system’s often inflexible template. As noted above, participants in Workforce Investment Act programs sometimes access training vouchers which they can apply to programs of their choice, but many providers find the compliance process prohibitive and choose not to participate, particularly given the low level of resources available (Leavitt 2011). Sector initiatives are also only tenuously linked to secondary
school curricula in most cases; as Carnevale aptly puts it, “school to work has been supplanted by school to college” (2010: 6).

The limited effectiveness of the public workforce development system rests both on its disconnection from formal educational pathways and from urban and regional economic development strategies. Sector initiatives present an opportunity to affirmatively bridge that disconnection. In an urban and metropolitan policy context, to achieve the same level of mobilization around effective workforce development that cities apply in the economic development arena is difficult, because the benefits of workforce development accrue over the long term and do not transparently provide opportunities to powerful stakeholders in the way that infrastructure investments, real estate development subsidies and traditional tax incentives do (see Giloth 2004: 18). However, human capital-centered responses to the problems of poverty, inequality and underutilized urban and metropolitan assets have become a matter of increasing public interest and anxiety. The current moment – one at which the so-called “educational slow-down” seems to be of increasing concern to economic policymakers all along the political spectrum – may offer an occasion for renewed mobilization.

**Aligning Workforce Policy with Economic Development Policy**

Other chapter authors discuss other important pieces of this puzzle, including how to connect expanded access to post-secondary training more directly to high schools through school-to-career initiatives (e.g., Hoffman), and how to improve outcomes at the postsecondary institutions that economically vulnerable students are most likely to attend (e.g., Carnevale and Belfield; Tierney). We propose two policies that would transform the second chance workforce system and link it more directly with urban and metropolitan economic development practice.
We also propose a shift in local economic development policy that would orient it more directly toward the development of human capital.

**1) Convert second chance workforce development into a truly joint effort between federal and state labor and education departments**

While there has been a gradual but dramatic re-orientation toward education policy as the nation’s primary employment-related policy, this shift has yet to be institutionalized. The Obama Administration moved affirmatively in this direction in its Fiscal Year 2011 budget with the Workforce Innovation Fund, an initiative to spur collaborations between state-level adult literacy, post-secondary education access and occupational training efforts through the use cross-program waivers and other mechanisms (Rahman and Muro 2010). Given the centrality of post-secondary learning to employment, and the fact that mainstream education institutions serve disadvantaged adults’ needs particularly poorly, the shift embodied in the Workforce Innovation Fund is timely and important; continued administrative differentiation among services concerned with job readiness, basic verbal and mathematical skills, workplace literacy, and occupational training serves no one. If workforce development professionals are brave enough to turn their backs on the sinking ship that is WIA Title I and embrace an entirely new paradigm, the result could be new and repaired connections between education and employment that help reduce poverty and strengthen urban and metropolitan economies.

Like many of the current administration’s innovative social policies, however, the extreme fiscal timidity of the labor-education harmonization idea imperils its chances of achieving change. Reconciliation legislation for FY 2011 cut the fund’s size from $261 million to $125 million, with $380 million is proposed for 2012 -- amounts profoundly inappropriate to
the scale of the problem. In a few states, collaborations between workforce systems, education systems, and welfare-to-work system housed in human services agencies are undertaking bolder experiments in this regard. Examples of this – in Washington, Oregon, Kentucky and Arkansas – can lead the way for other states (Center for an Urban Future 2011).

2) Make sector-based initiatives central to the post-secondary education and training proposition

As described above, evidence suggests that public and philanthropic investments in sector-based occupational training programs are paying notable dividends for disadvantaged workers and for employers. Sector programs honor adults’ need for pathways through the education system that are non-traditional in nature and that can culminate in certifications rather than formal degrees. They engage employers directly and intensively, provide extensive support services, including literacy and numeracy training, and, as noted above, prioritize “middle-skill” jobs for which industry-recognized credentials translate into family-supporting earnings. However, these programs reach a miniscule proportion of all potential beneficiaries. No estimate of the number of people served annually by sector-based initiatives exists, but it is surely less than 1 percent of the “11 million low-income, dislocated or imprisoned adults with an immediate ability to benefit” from adult education and training (Carnevale 2010: 9).

The philanthropic actors whose resources drove the sector strategies movement at its outset were acting on the hypothesis that by raising skill level, productivity and industry-specific preparation on the supply side of the labor market, and by working closely with employers, labor market intermediaries could help non-college-bound individuals increase their chances of escaping poverty. Provisionally, at least, this hypothesis has proven valid. A comprehensive
policy to improve post-secondary educational opportunities for this population can draw directly on these successes.

3) Use Economic Development Incentives to Maximize the Hysteresis Effect of Workforce Investment

We now move from policies that explicitly target human capital to an adaptation strategy for traditional economic development policy. Traditional economic development incentive policies are frequent targets of criticism. Detractors claim that any increases in demand for local labor or increases in the wage that result from these policies will quickly be canceled out by in-migration and by rising prices. They argue as well that economic development is a “zero sum game” because it shifts jobs around from place to place rather than creating new wealth, and that the tax expenditures associated with development incentives have deleterious local fiscal effects. Economic development incentives are thus inefficient, and their benefits accrue to owners of land and capital and do not reach un- and underemployed populations (Fisher 2007).

Some scholars have countered, however, that traditional economic development incentives can lead to positive economic impacts, especially in communities that have high unemployment (Bartik 1991, 2007). The theoretical basis for this conclusion is that people in places with high unemployment have lower reservation wages (i.e. they need less inducement to trade off labor for leisure) and thus place a higher value on the earnings from any job they may obtain. An empirical analysis by Bartik (1991) showed that for a one percent increase in unemployment in an area, people reduce their reservation wage between 1.2 and 1.6 percent. The local “value of a job” in a high unemployment area will be significantly higher than in a low-unemployment area. If economic development incentive policies help move jobs to these areas,
the policies create value. In other words, attracting jobs to places with high unemployment increases national “labor-producer surplus.”

In addition to gains in labor producer surplus, according to Bartik, traditional economic development policies, if they induce job growth, have long-run labor market effects. This conclusion is based on data indicating that shocks that affect the employment growth rate in a region, even temporarily, permanently affect employment and earnings levels through a “hysteresis” phenomenon (1991: 11). Economic theory predicts a rapid return to equilibrium in the wake of demand shocks, implying that an increase in local job growth has essentially no effect on long-run employment or earnings. However, Bartik found, using a model estimated from data on unemployment, wage rates, prices and worker characteristics for 25 large metropolitan areas, that employment growth increased labor force participation rates and raised real earnings; earnings growth resulted not from increases in the real wage rate but from upgrades in occupational status, and from the acquisition of skills and employability by unemployed workers who obtained jobs in the short run. Significantly, Bartik found that real income growth in the wake of demand shocks is greatest for low-income groups, for blacks and for less educated workers – even accounting for a regressive distribution of benefits from the increased property values induced by growth. This suggests that if they induce investment that would not otherwise have occurred in a local labor market, economic development incentives can have a positive effect on growth and a progressive impact on the income distribution.xii

While constituting a strong argument for traditional industrial attraction policies, the credibility of the hysteresis argument also provides a rationale for policies centered on the development of human capital. The logic is as follows: if economic development by traditional means can increase overall welfare and help low-income individuals in high-unemployment
cities, then what if the shocks catalyzed by industrial attraction activity were accompanied by concerted local efforts to improve educational attainment and preparation for work? Under this rubric, officials offering subsidy to a firm to locate in a city would actively accompany location incentives with incentives to create on-the-job learning opportunities for incumbent workers and to employ, train and promote entry-level workers more aggressively. As noted above, low-earning workers receive very little of the incumbent worker training offered by private firms to their employees; a policy linked to a financial incentive (for example, a workforce development participation clause in a tax abatement agreement) could change this in a particular case, yielding benefits for a locality’s low-paid and unemployed workers. Workforce development intermediaries have been shown to help direct businesses towards a more even distribution of workforce training opportunities (Lowe 2007).

Business participation in workforce development via incentive agreements could take several forms. Businesses might chose to work with local educational and training intermediaries to “order” training services for their incumbent and/or entry level employees. Or they might offer in-house training in cooperation with local workforce investment boards. Workforce development participation may not create many additional cost demands on businesses, and could actually work to target already existing training funds. Economic development officials in local and state government also need to be more selective about the types of firms they use incentives to attract and grow. Firms with mid-level job positions that are likely to be filled by unemployed and underemployed people from the surrounding region have a larger positive welfare effect than firms that create higher-paying jobs more likely to be filled by in-migrants (see Persky, Felsenstein, and Carlson 2007).
How could we evaluate localities’ efforts to apply human capital strategies within traditional economic development practice? One way would be to measure changes over time in various measures of the “human capital stocks” in a city or metro region. The table below proposes a set of such measures. Complex learning stocks, which include indicators such as proportion of college graduates in the population, speak to the ability of an area to be economically competitive in the near term. The “basic learning” measure indicates levels of literacy and skill as measured in a region’s school-age population. This metric is roughly predictive of a region’s future competitiveness, an indication of what is in store as young learners mature and enter post-secondary education and the labor force. Using the basic and/or complex human capital stocks of a region (or changes in these) as dependent variables in an equation, researchers might attempt to isolate the effect of policy on changes in those stocks.

[INSERT TABLE 9.2 HERE]

Conclusion

Urban and regional economists have shown that a skilled labor force is a key source of place-based competitive advantage. The evidence is so compelling that policymakers are now routinely urged to accord human capital a stature equal to that of physical capital in their conceptualization of growth. Cities with relatively low endowments of human capital, are unlikely to have healthy growth going forward if they do not make strategic investments in secondary and post-secondary education for their residents. Yet subsidies to capital and real estate continue to dominate economic development practice, while education and training interventions play a marginal role.
This chapter proposes several ways to draw labor market institutions (specifically, those serving adults whose K-12 education has not prepared them well for the labor market) further into the center of ongoing conversations about place-based competitive advantage and regional equity. First, analyzing the current “state of play” in adult vocational training and basic literacy policy as funded under the Workforce Investment Act, the chapter suggests that “second chance” workforce development should become a truly joint effort between departments of education and labor at both the federal and the state levels. Employment and training for adults that is divorced from basic education and pathways to post-secondary credentialization is no longer a credible strategy – if indeed it ever has been. Second, the chapter recommends the widespread adoption by the public sector of the sector-based initiatives largely funded heretofore with philanthropic dollars. These initiatives have proven successful in helping disadvantaged adults navigate post-secondary pathways that, while culminating in certifications rather than formal degrees, nevertheless have a strong track record in promoting economic mobility and success. Finally, we argue that since job growth in high-unemployment areas generates a hysteresis effect, permanently elevating a region’s employment and labor force participation rates and growing workers’ long-term earnings, investment in workforce preparation (either by private firms or in the public sector), is a key complement to traditional economic development incentives. Whether provided by the public sector or required of firms, training for front-line workers can amplify the “normal” hysteresis effect of local economic development.

If political mobilization around these proposals begins tomorrow, it will occur in an extremely hostile budget environment. Current policy, in the form of the Obama Administration’s “Workforce Innovation Fund” initiative, offers states grants to better align their education and labor force policies, and shrewd states and localities can implement economic
development incentives more shrewdly without necessarily spending more money than before. But in order to be more widely adopted and better supported by the federal government in the future, aligned education, economic development and workforce development policies must show that they do a better job than “status quo” policy at creating real changes in social welfare in cities and metropolitan regions. Researchers will need to develop and apply evaluation methodologies that test the efficacy of these proposed interventions and guide policymakers accordingly.

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i Many adult earners in the city are of course part of two-earner families or have fewer than three dependents, suggesting that this statistic overstates the proportion of working Philadelphians whose households are in poverty.

ii Research suggests that regional growth in jobs and income is correlated with economically healthy and growing central cities (Voith 1998, Hill and Brennan 2005).


iv In the 12-month period ending in June 2010, 8 million people received WIA Title I services. Title I services are equated with WIA in the minds of most policy-makers.

v The Obama Administration has recently begun to create incentives for harmonization between labor and education funding through Workforce Innovation Fund initiatives enacted in FY 2011 and proposed for the FY 2012 budget.
Indeed, private labor exchange mechanisms appear to function well for all but the most undesirable of jobs, solidifying the reputation of public operations as effective only in connecting people who are low-skilled to positions that are low-paid.

The goals of local economic development officials are not perfectly aligned with those of more politically detached observers. As Malizia and Feser succinctly put it, the creation of jobs and of tax base is not necessarily the same as the creation of wealth: ‘jobs/tax base creation may erode, not generate, wealth...[according to a neo-classical theory] more consumption produced by less labor and fewer government services benefits the community, while more employment or tax revenues without more consumption imposes unnecessary costs (1999: 14).’ Practitioners, however, tend to elide this distinction, and as discussed below, some research suggests that job growth prompted by local incentivization of investment can produce long-run social benefits, in part due to a ‘hysteresis’ effect that will be discussed elsewhere in this chapter (Bartik 1991, 2007).

“Successful sector partnerships leverage partner resources to address both short- and long-term human capital needs of a particular sector, including by analyzing current labor markets and identifying barriers to employment within the industry; developing cross-firm skill standards, curricula, and training programs; and developing occupational career ladders to ensure workers of all skill levels can advance within the industry” (National Skills Coalition 2009: 1).

An experimental study conducted by Public/Private Ventures found that Per Scholas “participants earned significantly more than control group counterparts s -- $4663 – in the second year of the study. (Maguire et al 2010).
Of a total of 1,014 people participating in the control and experimental groups, 7 percent had less than high school attainment, 22 percent had a GED, 53 percent had a high school degree, and 18% had more than a high school degree.

The nine initiatives undergoing evaluation in JOIN’s return on investment study include the West Philadelphia Apprenticeship Program (a project designed to link residents of Philadelphia’s University City with training and employment as nursing and surgical assistants, laboratory technicians and veterinary technicians), the healthcare-focused SEIU Local 1199 Training and Education Fund, a horticulture training program for formerly incarcerated individuals (Roots to Re-Entry) and several partnerships with local manufacturers.

This positive outcome depends on several conditions that certainly do not obtain in every instance in which a locality is extending economic development assistance. First, the “but for” condition must be met: job growth must not have occurred “but for” the public sector incentive. Second, the benefits of the incentive with respect to growth in income and labor force participation must outweigh associated fiscal costs. As Bartik notes, “net benefits of economic development policies are most likely to be positive in areas of high unemployment and for programs that have large effects on business location, expansion and start-up decisions per dollar of government spending” (1991: 14).

Even if firm-specific and occupation-specific training is provided through this type of program, public subsidy may still be needed to ensure that workers obtain general skills transferable to other jobs and occupations (See Chapter ___)

Of course, high rates of inter-regional labor force mobility imply that today’s basic human capital stocks are not identical to those of a region’s future working population.
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