Let’s Get Serious About Our Nation’s Human Capital

A Plan to Reform the U.S. Workforce Training System

Stephen Steigleder and Louis Soares

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Introduction and summary

The Great Recession rapidly accelerated two long-term challenges facing American workers. The first challenge is that middle-class jobs are increasingly out of reach for workers who lack education and skills training beyond high school. Income and unemployment data make that clear enough.

The second challenge is that finding a job is no longer as easy as opening the classified ads or going to monster.com. Today’s labor market requires peer and professional networks and a better understanding of the opportunities available in our modern economy. This lesson applies to workers at all education levels—but it is particularly acute for low-skill workers, who are more likely to rely on public resources.

Put together, these challenges underscore why workers with low levels of human capital—such as education, skills, and peer and professional networks—are extremely disadvantaged in their efforts to achieve upward mobility in an increasingly knowledge-based economy.

Workforce training is part of the solution

Historically we have solved these challenges by expanding our federal investment in postsecondary education. As a result of successful federal initiatives such as the Morrill Land Grant Acts—which established land-grant colleges across our nation over the course of the past 150 years—and investments such as the G.I. Bill and the Pell Grant program, postsecondary education is generally considered to be the most effective vehicle in history for building a strong middle class and a skilled workforce.

But postsecondary education is not limited to a four-year bachelor’s degree. As President Barack Obama outlined in his American Graduation Initiative, \(^1\) postsecondary education includes many forms of education and training, including:
• Community colleges
• Vocational training
• Registered apprenticeships

Each of these options offers the potential for increased economic mobility and access to a stable middle-class livelihood.

Arguably the most underutilized route to achieving a valuable postsecondary education is through our nation’s workforce training and counseling system. Our adult workforce includes 80 million to 90 million full-time workers who lack sufficient skills, human capital, or personal interest to pursue a bachelor’s degree. Many of these adult workers would benefit from a high-quality hybrid workforce program that combines the educational rigor of postsecondary education with the flexibility and labor-market focus of workforce training. Such a hybrid program for adult workers is most effectively implemented through the workforce system.

It is also increasingly important to our economy to boost educational attainment among adults. Economists predict a growing shortage of skilled workers that cannot be filled through the traditional education pipeline. According to the Aspen Institute, for instance, two-thirds of our expected workforce in 2020 is already beyond our elementary and secondary education systems. In other words, it will not be enough to solve the problems in our elementary and secondary education systems since two-thirds of our workforce will be unaffected by those changes—it is equally crucial to boost the education and training of adult workers who are currently aged 25 to 55.

For these adult workers, the workforce system needs to provide a dependable way to attain a postsecondary education. It should offer a more flexible option for adult workers to acquire associate’s degrees, technical certificates, and industry-recognized credentials with documented value in the labor market. It’s time for the workforce system to take its place alongside preschool, kindergarten, elementary school, high school, and traditional four-year college as an institution for promoting education and developing human capital throughout our lives.

The existing workforce system is out of date

Unfortunately our workforce system is not meeting its potential to help adult workers build their human capital. It is excessively focused instead on providing short-term crisis intervention to unemployed workers. The core services most
often provided to unemployed workers—such as basic labor market information and job search assistance—do little to boost the underlying human capital of these workers, who need the skills, credentials, and networking capabilities that should serve as the foundation for their future economic mobility.

This is because the most recent congressional update to the workforce system was in 1998 through the Workforce Investment Act under substantially different economic circumstances. At that time our economy was experiencing significant economic growth and across-the-board wage gains. The unemployment rate stood at 4.5 percent. Private employers wanted a workforce system that provided basic work readiness skills so that millions of workers could immediately enter the labor force. Congress thus chose to design a system around “work-first” policies—to help workers take advantage of plentiful job opportunities and high wages—instead of human capital development policies.

Almost 15 years later our economy has undergone significant changes. Our primary labor market challenge is no longer the need to connect millions of low-skill workers with plentiful job openings in a booming economy. Instead, our new challenge is to develop millions of low-skill workers into a highly skilled workforce that will continue to drive economic growth and upward mobility for decades to come. And the message from the private sector is clear: Employers are now looking for skilled workers with hands-on experience who are ready to make an immediate contribution in the workplace.

The reality is that our current workforce system—and its emphasis on “work-first” policies—is woefully out of date. Among the workforce system’s defining features are its failure to help workers build human capital, its chronic underfunding in comparison to the economic challenge, and its systemic complexity spanning multiple cabinet departments and numerous agencies. The workforce system is badly in need of reform.

Getting serious about human capital

In this paper we propose a plan to overhaul and reform the workforce training and counseling system. Our plan drastically simplifies this system in an effort to highlight its most important mission—human capital development.
Our plan is guided by five basic principles:

1. Most workers need some type of education or skills training beyond high school.
2. The workforce system should prioritize training partnerships leading to degrees, certificates, and credentials.
3. The workforce system should provide professional career navigation services to all workers seeking assistance to help them build human capital over time.
4. The existing workforce system is chronically underfunded.
5. The existing workforce system is unnecessarily complex.

We embrace views from both sides—supportive and critical—in an effort to bridge the longstanding impasse that is blocking reform and modernization of the workforce system.

The purpose of our plan is to shift the top priority of the workforce system to long-term training and human capital development. This is a departure from the existing system’s overemphasis on short-term job search activities and rapid re-employment at any cost. In reality, however, it should not be a controversial change in policy since legislators across the political spectrum have acknowledged the need for a more skilled workforce. There is a general consensus among experts that placing long-term human capital development at the center of the workforce system will be mutually beneficial for workers, employers, and our nation’s long-term economic growth. Now it is a matter of designing a new system to accomplish those broadly recognized goals.

Our plan restructures the workforce system according to the premise that workers should receive education, training, and career-planning services based on their unique human capital needs. Under our proposal, individuals would enroll in college-level training, career pathways, or contextualized basic education depending on a standard assessment of their skills and need for support services—as opposed to the current system that determines an individual’s eligibility for services according to a potentially unrelated list of legislative criteria. Our proposal to accomplish this shift in eligibility and implementation is briefly outlined below.

To focus on building long-term human capital, we propose restructuring much of the existing workforce training and counseling system into two distinct agencies with independent budgets. These agencies are designed to address the two core competencies of the workforce system—workforce training and career services. We believe that separating these core competencies will create a dedicated fund-
ing stream for each activity, thereby increasing transparency about how funds are being spent and whether those funds are achieving results. (At this point, it is worth noting that our proposal targets only adult-serving programs and does not address workforce training programs focused on youth, including Job Corps, YouthBuild, and WIA Youth.)

The first agency, which we would call the Workforce Investment Bank, would be responsible for developing an additional 2.5 million skilled workers annually—leading to an additional 1 million credentials. These workers would complete education and training programs through:

- Sector partnerships
- Registered apprenticeships
- “Learn and earn” training models
- Career pathways
- Contextualized education and training programs

Programs would be implemented with private-sector partners and linked to projected job openings in high-growth regional industries. Participants would earn associate’s degrees, technical certificates, and industry-recognized credentials.

The second agency, which we would call the Career Navigation System, would be responsible for upgrading our nationwide system of existing One Stop Career Centers to ensure that long-term career navigation services—including skills assessments, career counseling, and individual case management—are available to all workers seeking assistance. It would also develop a more integrated self-help system for individuals to track their human capital investment through online portfolios.

To maintain safeguards for vulnerable populations, we suggest establishing strict requirements so that all states, regions, and training partnerships report disaggregated data by sex, race, ethnicity, socioeconomic status, disability, and English-language proficiency. Results should be integrated into longitudinal data sets, including both education and workforce training programs. In addition, regions should be required to develop performance-based funding incentives to reward programs that help disadvantaged populations to complete training programs.

It is important to note, however, that our proposal does not resort to combining all workforce programs into a monolithic block grant. In our plan, reform is predicated on a core objective—developing human capital—and all policy recom-
mendations flow from this core objective. In a block-grant proposal, by contrast, reform is based on a different goal—holding down costs.

Obviously these approaches are very different. On one hand, our plan begins with the premise that workers need to increase their education and skills, which leads us to create two agencies dedicated to workforce training and professional career services, respectively. On the other hand, plans to consolidate the workforce system into a block grant begin with the premise that our system spends too much money on workforce training, which leads to proposals to cap funding. Our approach is a means to develop a more skilled workforce; a block-grant approach is a means to manage long-term stagnation.  

We believe our more thoughtful approach, combined with a commitment to fully fund a reformed workforce system, is a better way to address the serious challenges facing our workers, our business community, and the long-term competitiveness of our economy.

The following sections offer a brief overview of our proposed new agencies.

**Workforce Investment Bank**

The Workforce Investment Bank would focus exclusively on developing more than 2.5 million skilled adult workers at all levels and would be funded at $10 billion a year. It would include three programs:

- **College for Working Adults** would help 1.5 million college-ready adult workers to enroll in community college, technical college, and registered apprenticeship programs leading to associate’s degrees and technical certificates.

- **Career Pathways for Working Adults** would help 1 million low-skill adult workers to enroll in career pathway programs, integrated basic education and skills programs, or preapprenticeship programs that lead to industry-recognized credentials.

- **Targeted Communities Workforce Investment Fund** would help 150,000 disadvantaged workers in specific communities—such as Native Americans, migrant farmworkers, and ex-offenders—who do not have access to traditional workforce training and counseling programs. This program would also fund coordinated outreach efforts to military veterans.
The Workforce Investment Bank would be overseen by the Department of Education, thereby emphasizing the program’s focus on postsecondary credentials. The majority of funds would be allocated to regional authorities, which would be responsible for developing, implementing, and overseeing public-private training partnerships in their regions. These regional authorities would, in turn, be held accountable to the Workforce Investment Bank through performance measures that would track both progression and completion of postsecondary credential-bearing courses of study.

With regard to vulnerable populations, performance measures would ensure that public-private training partnerships are working with the hardest-to-serve groups and are being rewarded for working with adults who face multiple barriers to employment.

Career Navigation System

The Career Navigation System would be responsible for combining labor market information and career services for all adult workers seeking assistance. This new system would be funded at $2.25 billion a year and would redefine universal services to include comprehensive skills assessments, individual career counseling, case management, and prevocational training services. All job seekers would be assisted in creating an online career development account, or a “Career GPS,” to facilitate long-term career planning and communication with employers. This system would continue to offer basic services such as job-search assistance and work-test assessments for unemployment insurance as part of its comprehensive services.

The Career Navigation System should be overseen by the Department of Labor, thereby emphasizing the program’s mission to deliver high-quality career services. The system would be based on the existing network of 2,800 One Stop Career Centers and also would create connections to Educational Opportunity Centers located on community college campuses. The Department of Labor would support these bricks-and-mortar centers by developing and maintaining online tools and infrastructure that would be available to all career navigation centers, as well as providing technical assistance to develop the skills of professionals who provide career services.
Regional authorities

Evidence suggests that skilled workers, investors, and infrastructure tend to come together at the regional level—crossing political boundaries—as opposed to the local or state level. But the existing workforce system is managed locally by more than 600 workforce investment boards. We believe this proliferation of local administrative bodies contributes to the overall complexity of the workforce system.

Our reform plan supports a regional governance structure for the Workforce Investment Bank—substituting regional authorities for local workforce investment boards. Regional authorities should cut the number of administrative bodies in half—reducing the number to about 300. More importantly, it would align workforce development activities with natural labor markets and economic growth models, which would improve coordination and effectiveness.

These regional authorities would act as fiscal agents for the Workforce Investment Bank and would take the leadership role in developing training partnerships. By combining multiple funding streams and emphasizing human capital development, regional authorities would become primary stakeholders in the education and training systems—able to bring together workers, employers, education and training providers, and public officials to implement long-term economic development plans for their regions.

Regional authorities would continue to be led by private-sector business leaders, with additional expertise coming from sector experts, workforce system professionals, local elected officials, community college and technical college representatives, and labor representatives. Their efforts would focus on developing partnerships between community colleges and industry sectors leading to associate’s degrees and credentials; expanding the use of registered apprenticeships; supporting “learn and earn” training models; and using career pathways strategies and contextualized basic skills programs to help low-skill workers earn credentials. In addition, regional authorities would be responsible for overseeing implementation and data reporting of training programs to ensure quality and results.
Budgeting for a workforce system that solves our challenges

Our proposed budget for a reformed workforce system is designed to address the challenges confronting American workers in the modern, innovation-based economy. Our economy is already suffering a shortage of skilled workers, and it is only getting worse. Closing that gap will require new priorities—outlined in the preceding sections—and the resources to develop an additional 1 million skilled workers annually.

Our redesigned workforce system is intended to enroll more than 2.5 million workers in long-term education and training programs leading to associate’s degrees, technical certificates, and industry-recognized credentials, along with universal access to career navigation services. The increased enrollment in education and training programs should result in more than 1 million credentials earned annually. The Workforce Investment Bank would support:

• One million workers training in sector partnerships
• One million workers training in career pathways and contextualized programs
• Half a million workers training in registered apprenticeships

To ensure a sufficient level of funding to train an additional 2.5 million workers while expanding access to career navigation services, we combine workforce programs currently managed by the departments of Labor, Education, Agriculture, and the Interior, along with the Lifetime Learning Tax Credit, and direct those resources to our new workforce system. But simply reorganizing existing funds will not be enough to resolve our looming shortage of skilled workers. Therefore we incorporate a pending proposal from the Obama administration—the Community College to Career Fund—into our reform plan as well.5 (see Table 1 on next page)
## Reforming the American workforce system

Our plan takes more than 20 federal workforce system programs and streamlines them into two agencies to improve our nation’s human capital and job-creation capabilities (dollars in millions)

<table>
<thead>
<tr>
<th>Current workforce programs</th>
<th>Proposed workforce system</th>
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<tr>
<td><strong>Department of Labor</strong></td>
<td><strong>Department of Education</strong></td>
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<tr>
<td>Employment Service</td>
<td>Workforce Investment Bank</td>
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<td>Office of Apprenticeship</td>
<td>College for Working Adults $4,500</td>
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<td>WIA Adult Program</td>
<td>Career Pathways for Working Adults $5,000</td>
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<td>WIA Dislocated Worker Program</td>
<td>Innovation and Evaluation—non-add (10%)</td>
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<td>WIA Innovation Fund</td>
<td>Targeted Communities Training Fund $500</td>
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<td>Reintegration of ex-offenders</td>
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<td>Indian and Native American programs</td>
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<td>Migrant and seasonal farmworkers</td>
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<td>Veterans Employment and Training Service</td>
<td>Career navigation centers $2,225</td>
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<td>Women in Apprenticeship</td>
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<td>Pilots, demonstrations and research</td>
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<td>Workforce Data Quality Initiative</td>
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<td>Evaluation</td>
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<td><strong>Department of Education</strong></td>
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<td>Adult Education</td>
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<tr>
<td>Perkins Career and Technical Education*</td>
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<tr>
<td>Tribal Vocational/Technical Institutions</td>
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<tr>
<td>Hawaiian Career and Technical Education</td>
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<td>Projects with industry</td>
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<td>Incarcerated individuals</td>
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<td>Employment opportunity centers</td>
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<td><strong>Department of Interior</strong></td>
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<td>Indian Employment Assistance</td>
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<td>United Tribes Technical College</td>
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<td><strong>Department of Justice</strong></td>
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<td>Second Chance Act Prisoner Reentry Initiative</td>
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<td><strong>Department of Agriculture</strong></td>
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<tr>
<td>Supplemental Nutrition Assistance Program</td>
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<td>Employment and training</td>
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Of course, we recognize that such a significant overhaul of the workforce system will be difficult to enact—serious reform is never easy. But we also know it is possible. A recent opinion piece in The New York Times demonstrates that political ideology should not be a barrier to reforming the workforce system. Two leading economists—Dean Baker, a liberal, and Mark Hassett, a conservative—joined forces to highlight the human and economic costs of long-term unemployment. They listed a number of impacts of long-term unemployment—including higher rates of suicide, higher incidence of serious illness, and future earnings losses of children whose parents experienced job losses—and issued a call for serious policies to resolve the crisis.

According to Baker and Hassett, “A policy package that as a whole should appeal to the left and the right should spend money to help expand public and private training programs with proven track records.”\(^6\)

We couldn’t agree more. Increasing support for job training that builds human capital and leads to stable middle-class employment is a wise investment that should appeal to policymakers across the ideological spectrum. The only remaining question is how to do it.

In the pages that follow, this report presents our plan to overhaul and reform the federal workforce system. We start by highlighting the looming shortage of skilled workers and the importance of postsecondary education and training to developing a skilled workforce. We then discuss the deficiencies in the current workforce system that are preventing it from focusing on human capital development. Finally, we outline in detail our plan to reform the workforce system.
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