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Reform or Dismantling? President's Workforce System Proposal Raises Serious Concerns

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President Bush's proposal for the fiscal year 2007 federal budget calls for major cuts in funding for the nation's employment and training programs at a time when workers and employers are facing unprecedented economic challenges. The President's proposal would consolidate funding and channel significantly diminished resources into individual training vouchers, thus reducing the ability of states and communities to respond flexibly to changing labor market needs. This brief examines the proposal and its potential impact on services to the needs of employers and jobs seekers, especially low-income adults, hard-to-employ individuals and disadvantaged youth.

The Administration's Proposal

President Bush's 2007 federal budget proposal, released on February 6, 2006, recommends a complete restructuring of the workforce system and the consolidation of funds for the WIA Adult Program, WIA Dislocated Worker Program, WIA Youth Program, and the Employment Service programs into a single block grant at a substantially reduced funding level. The consolidated grants would be used to fund a new Career Advancement Accounts initiative that would provide vouchers to individuals in need of employment assistance. According to the Administration's description, these accounts could be used only to cover expenses related to education and training and would be capped at $3,000 per year. Individuals may be able to renew their account for an additional year, for a maximum amount of $6,000 over two years.

Under this proposal, the administration has allocated **$5.2 billion** for training and employment services. This is **$680 million less** than the total funding for these programs for Fiscal Year 2006.[1] By far the greatest portion of this cut is in the block grant to states which would be reduced from $4 billion to $3.4 billion. States would be required to spend a minimum of 75 percent of their block grant on the Career Advancement Accounts. Administrative expenses would be capped at 3 percent of the total grant; the remaining funds—about 22 percent—could be used to provide basic employment services to job seekers.

[1] Based on U.S. Department of Labor Budget Justification Documents.

The Funding Cuts are Counterproductive

The proposed funding level for the block grant continues the steady erosion of federal support for employment and training. Between 1985 and 2003, funding for WIA and its predecessor, the Job Training Partnership Act (JTPA), was cut by 33 percent in inflation-adjusted terms, with a 53 percent decline in funding for adult services and a 63 percent decrease in youth funding.[2] From 2003 to 2006, funding for adult, youth, dislocated worker, and employment service programs has continued to decline. The Administration's own estimates indicate a further funding cut of 20 percent by 2011.[3]

The magnitude of these cuts cannot be absorbed through belt-tightening; states will be forced to make program design and delivery decisions that will further reduce the workforce system's ability serve both employers and job seekers. In addition, the reduction in administrative resources will diminish performance, accountability, and efforts to coordinate workforce policies and programs with education, economic development and private sector activities.

A Greater Commitment to Training and Serving Target Populations is Needed

The President's 2007 budget proposal emphasizes the need to expand training. This is a laudable goal because access to training has been declining over the past years—at least in part the result of continuous under-funding of the system. In program year 2003 of the Workforce Investment Act (WIA), only 188,967 program exiters received training. By comparison, 312,579 exiters received training in 1998, the final program year of the JTPA.[4] Additionally, while the *number* of adults receiving training has decreased over this period, there has also been a decline in the share of adults receiving training who are low-income or disadvantaged. Between the final year of JTPA and WIA program year 2003, there was a 27.6 percentage point decline in the share of adults receiving training who were low-income. The share of adults receiving training with barriers to employment has also declined sharply since 1998.[5] This is a matter of some concern because individuals with barriers to employment are often the ones most in need of training in order to secure employment.

The President's proposed policy changes, however, do not offer a sound solution to increasing training and employability overall, and particularly for low-skilled individuals. The proposed consolidation of funding streams doesn't provide adequate safeguards for ensuring that disadvantaged populations, including low-income adults, hard-to-employ individuals, and disadvantaged youth will have access to much-needed employment and training services

[2] Spences, R. and B. Kiel. "Skilling the American Workforce on the Cheap: Ongoing Shortfalls in Federal Funding for Workforce Development." The Workforce Alliance, September 2003.
[3] Center on Budget and Policy Priorities analysis of 2007 budget documents.
[4] Figures based on CLASP analysis of WIASRD data.
[5] Frank, Abbey and Elisa Minoff. "Declining Share of Adults Receiving Training under WIA are Low-Income or Disadvantaged." CLASP, December 14, 2005.

Reliance on Vouchers Alone is Problematic

While an increased investment in training is needed, exclusive reliance on vouchers for providing access to training is not warranted. The research evidence on the effectiveness of using vouchers with disadvantaged adults has been negative, and evidence on effectiveness with dislocated workers has been mixed.[6]

The sole reliance on vouchers would deprive the workforce investment system of two important training tools to increase the self sufficiency of individuals and the economic development of communities:

- **customized training** that supports local economic development and ties training directly to employment, resulting in job placement for trainees; and
- **contract training** that allows local areas to purchase training tailored to the needs of hard-to-serve customers.[7]

The Workforce Investment Act mandates that all training is to be provided through individual training accounts (ITAs) except under special circumstances. These ITAs are vouchers that customers can use to pay for the training of their choice, as long as it is approved by the state. States are required to develop program approval criteria and lists of "eligible training providers" that meet these criteria. A 2002 study concluded that "ITAs are likely to be less effective [than other forms of training] in funding training for adult employed participants in need of training to reach self-sufficiency, in meeting the needs of employers to retain quality workers, and in encouraging lifetime learning.[8] A 2004 evaluation of the U.S. Department of Labor's Individual Training Account/Eligible Training Provider demonstration (ITA/ETA) project found that one of the advantages of purchasing training on a classroom rather than individual basis was the mutual support that dislocated workers enjoyed by participating in training in the same class with peers.[9]

Furthermore, we are not aware of any experience in using vouchers to train out-of-school youth that would justify a wholesale shift in this direction. Studies have consistently shown that older, out-of-school youth benefit most from interventions that combine education, work exposure, sustained relationships with caring adults, and support. Such comprehensive approaches most often require leveraging multiple funding streams and community resources. Such coordination and leveraging would be precluded if all youth funding is converted to a system of vouchers.

Another problem with exclusive reliance on vouchers is that in order for them to work, people have to have good information with which to compare providers. States and

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[6] Burt Barnow 2000, as cited in Toikka, Richard, and P. Nikolov. "WIA Individual Training Accounts: Can They be Made More Flexible and Portable to Support 21st Century Workforce Development?" The Lewin Group under subcontract to MDRC. November 15, 2002.
[7] D'Amico, Ron, and J. Salzman. "An Evaluation of the Individual Training Account/Eligible Training Provider Demonstration, Final Report." Social Policy Research Associates, December 2004.
[8] Toikka, Richard, and P. Nikolov, op cit.
[9] D'Amico, op cit.

communities have found it difficult to obtain consistent information on training provider performance and provide this information to consumers under their WIA ITA programs.

The Proposed Funding Cap for Individual Career Advancement Accounts is Inadequate

The Administration's proposed $3,000 cap on Career Advancement Accounts is insufficient to support needed training, much less the active monitoring of progress, counseling, and placement services needed to enable disadvantaged students to succeed in training.[10] The President's proposal claims that this amount is sufficient to finance about one year of study at a community college. However, while the *average* cost of community college tuition was $2,191 in 2005-06,[11] this number masks a wide variation in community college tuition costs throughout the country and the fact that tuition and fees at other institutions are often many times that amount.[12] The variation in costs is reflected in the dollar cap on ITAs, which, during the ITA/ETA demonstration, ranged from $1,700 to $10,000, with an average cost of about $5,000.[13]

As proposed, the Career Advancement Accounts do not cover the additional costs of training to participants—for example, room, board, child care, and transportation. These and other supports are often critical for successful program completion, yet many people in need of training lack the funds to cover these expenses.[14] While it is praiseworthy that the Administration's proposal would allow for coordination of Career Advancement Accounts with Pell Grants and other student aid to help pay for the true cost of participating in training, the lack of funding for costs other than the direct costs of education and training is problematic. Additional funding should be allocated to cover the costs of supportive services, as not everyone in need of such assistance is likely to qualify for a Pell grant.

The Proposal Fails to Respond to Changing Labor Market Needs

Exclusive reliance on vouchers would make it more difficult to have a workforce system that is responsive to industry and local labor market needs. In order to be successful, the system must be nimble and flexible enough to bring employers, job seekers, and training providers together to fashion "real-world" solutions. It needs adequate resources to support local infrastructure for providing information, referral, and placement services to help employers recruit skilled workers and job seekers find a job, stay employed and advance to a better job.

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[10] Burt Barnow 2000, as cited in Toikka, Richard, and P. Nikolov. "WIA Individual Training Accounts: Can They be Made More Flexible and Portable to Support 21st Century Workforce Development?" The Lewin Group under subcontract to MDRC. November 15, 2002.
[11] College Board. "Trends in College Pricing." 2005.
[12] The National Center for Education Statistics reports that the average cost of tuition and fees at private two-year institutions is almost four times that at community colleges.
[13] D'Amico, op cit.
[14] The College Board reports that in 2005-06 the cost of room and board, transportation and other costs for community college students is $8,700 ($5,909 for room and board, $1,175 for transportation and $1,616 for other costs).

In addition, relying exclusively on vouchers would make it more difficult for states and localities to change and adapt relevant institutional policies and practices in order to help the country meet the competitive challenges of the global economy. Decades of state and local experience have demonstrated the important role that local workforce intermediaries such as Workforce Investment Boards can play in facilitating institutional change and forging sustainable public-private partnerships in support of regional economic development. This function should be maintained and encouraged. The most effective state and local workforce boards are engaged in efforts to build career ladders for low-income workers stuck in jobs with few advancement opportunities, and in efforts to make education and training curricula more relevant to regional economic needs; a voucher structure cannot accomplish these goals.