Rebalancing the Risk

Innovation in Funding Human Capital Development

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Much attention of late has been given to the importance for workers to continually maintain and upgrade their skills in order to remain competitive in the labor market. Whether one regards this observation as socially just, it is an accepted fact that wages tend to rise with education and skill level, and that failing to maintain education and skill levels is a prescription for falling behind either at an individual or a national level. Maintaining and expanding skill levels, however, comes at a cost, and this cost is increasingly shifted onto the shoulders of workers themselves, particularly those at the lower end of the skills ladders, and arguably the ones who need assistance the most. Restoring some equity in terms of sharing the costs of training is the subject of this set of chapters.

BACKGROUND

Jessop (1993) described the then emerging shift in the global economy as moving from a "Keynesian welfare state" to a "Schumpetarian workfare state," characterized by a movement from a focus on full employment to a focus on economic competitiveness and the dictates of the private sector. Jessop also described this shift toward a workfare state as moving from one that encourages mass consumption through the expansion of welfare rights to one that reduces social policy to simply meet the ever-shifting requirements of the labor market and its need for flexibility in the workforce. Along with these trends, he argued,

comes a “hollowing out” of the state, in which we observe an emptying of any content that is not directly or indirectly in service to the market. What Jessop described in 1993 as a “thought experiment prompted by observation of some general trends” (p. 35) has turned out to read like a blueprint for the creation of the modern labor market.

Wartzman (2017) notes several troubling data points in *The End of Loyalty*, including, for example, that “nearly half the nation’s workforce earns less than fifteen dollars an hour (and) a third of men in their prime don’t make enough to keep a family of four out of poverty or are altogether unemployed—double what it was thirty years ago” (p. 3).

Our current workforce development system—this collection of sometimes connected and coordinated, and sometimes duplicative and competing, set of federal, state, and local policies, programs, and funding sources—is, implicitly and explicitly, a vehicle for exactly this sort of flexibility and entrepreneurialism about which Jessop warned and to which Wartzman writes. The system is flexible in that it is premised on the need for constant retraining, and entrepreneurial in that it assumes an acceptance on the part of the worker that the social contract is defunct and that her success depends, in large part, on whatever resources she can muster to the task.

The time is quickly approaching when the workforce development system, as it currently operates, may struggle to defend its existence. As the burden continues to shift to the individual workers to ensure that they possess the skills required to succeed in the labor market, the need for a formal system may diminish to the point of vanishing. Whereas organized labor used to provide the countervailing power to offset the drive toward placing the needs of shareholders above workers, and union apprenticeships could provide stable careers in family-supporting occupations, we now have the growth of the “gig economy” and the rising membership in the “precariat,” both of which limit paths to the American dream, and both of which harshly punish failure.[1]

As the workforce development and economic growth literature commonly note, success in this new economy depends on, above all other factors, the ability to adapt and expand skills as needed—exactly the sort of premium placed on flexibility that Jessop (1993) predicted. This need for further skills training, however, has paralleled steady declines in public support for it alongside growing numbers of workers who require it. Formula funding to states for adult, dislocated worker,

and youth programs have fallen steadily since 2000, from approximately $5.1 billion to $2.8 billion in 2017, providing assistance to approximately 450,000 of the 165 million individuals who would benefit from training, according to the National Skills Coalition.[2] At the same time, student loan debt has steadily increased over the past 15 years (even while other types of debt have begun to decline), as youth and adults turn to postsecondary educational certificates and credentials with the hope that these will help secure them a spot in a shrinking middle class.

TOWARD ALTERNATIVE FINANCING STRATEGIES

The chapters in this section describe several funding strategies for education and training that have emerged in response to the shifts described above. Taken together, these strategies represent alternatives to the increasing tendency for the cost of training to be borne by the individual alone—an issue of critical importance at a time when being adequately skilled may mean the difference between employment and poverty.

The following chapters can be categorized as those that analyze legislative and philanthropic strategies for closing the funding gap, those that recruit private investors to help ensure better performance, and those that avoid the up-front costs of education and training by tying repayment to future earnings.

LEGISLATIVE AND PHILANTHROPIC STRATEGIES

Sobel Blum and Shepelwich highlight several partnerships that have emerged between banks and training providers as a result of a 2016 clarification regarding the Community Reinvestment Act (CRA) of 1977. The CRA requires banks to meet the credit needs of all segments of the communities that they serve, and it stipulates that banks will be evaluated for compliance by the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance

Corporation. The clarification permits banks' investments in workforce development programs serving low- and moderate-income individuals to be an allowable activity toward satisfying CRA requirements. Through lessons from several existing case studies, Sobel Blum and Shepelwich illustrate how these investments not only potentially increase the number of workers with skills required in the local economy, but also how they benefit individual financial institutions by raising their profile as responsible community members. The authors describe several strategies through which training providers might partner with banks in order to leverage CRA training resources.

Wardrip and de Zeeuw analyze recent trends in philanthropic support for workforce development, which has long been a source of flexible funding, permitting the sorts of experimentation and piloting that other funding sources, particularly public ones, do not. While undoubtedly essential for these reasons, Wardrip and de Zeeuw find that over one-third of philanthropic support is concentrated in only three metro areas, pointing toward severe limitations in the current distribution of these resources.

RECRUITING PRIVATE INVESTORS TO THE CAUSE

So-called pay-for-performance contracts have received a good deal of attention in recent years, as funders and practitioners attempt to derive methods for financing workforce development that break with the traditional models by reimbursing costs only when successful outcomes are achieved. Richie's chapter on the pay-for-performance provisions contained in the Workforce Innovation and Opportunity Act calls attention to several applications of this provision. She highlights three successful workforce development board–led, pay-for-performance programs in Austin, San Diego, and northern Virginia. Each jurisdiction has adopted outcomes-based programming to upend traditional contracting approaches so that payments are linked to successful outcomes as opposed to the cost-reimbursement status quo. Richie draws lessons from these case studies, including the criticality of access to reliable data on participant outcomes.

Nirav Shah notes weaknesses in workforce development programming, evident from the relatively few rigorous studies to demonstrate beneficial outcomes in recent decades, coupled with the continuing emphasis placed on evidence-based programming and the perennial need for flexible and stable funding. Shah describes how "social impact bonds" (SIBS)—one type of pay-for-performance contract—raise capital from private investors for publicly backed skill development. In the process, social impact bonds demonstrate the potential for shifting the risk for success from low-income individuals and the public sector to investors interested in social, as well as financial, returns. As noted in Richie's essay, access to reliable data is central to the success of social impact bonds. Drawing from successful SIB projects, including a Jewish Vocational Services project in Boston and a Department of Veterans Affairs project targeting employment outcomes, Shah provides insight into the potential for pay-for-success models to more efficiently and effectively meet the education and training needs of the workforce.

A VARIATION ON THE PAY-FOR-SUCCESS THEME

Palacios, like Richie and Shah, focuses on the emergence of funding strategies that suggest a radically new paradigm in how workforce development financing is conceptualized. Palacios examines the potential for "income share agreements" as an alternative to traditional agreements. In essence, these agreements between training providers, employers, and workers avoid the up-front costs associated with training by requiring workers to repay the cost of training out of a share of future income. Unlike student loans, which increase the risk exposure of the trainee, income share agreements make repayment for training proportional to posttraining earnings and, in the process, reduce the risk on the trainee's posttraining income. Significant advances in the past decade in the ability to track income over time make possible the growth of income-contingent repayments for education and training. This, in turn, has the potential to solve a fundamental weakness in the current method for funding human capital—namely, that the risk is almost entirely borne by the individual, while the benefits accrue not only to her but also to her employer and community.

Closing the widening gap between the ever-increasing need for human capital development and the funding required for it is no small task. A theme that runs across each of the chapters in this section relates to rebalancing the risk borne by each of the three primary beneficiaries of a well-trained, well-educated workforce—employers, individuals, and society. Each chapter suggests approaches to this problem, and each merits serious consideration.

Notes

1. The precariat is a social class characterized by its economically precarious, unpredictable, and unsecure sources of livelihood.
2. Information downloaded from National Skills Coalition's Interactive Federal Funding Tool, 2017. https://www.nationalskillscoalition.org/federal-policy/federal-funding-tool (accessed May 3, 2018).

References

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