Executive Summary

This report, prepared for the U.S. Department of Labor Employment and Training Administration, describes the states= customized, employer specific training, including training for incumbent workers and new hires. The state programs are of particular interest as the states prepare to implement the Workforce Investment Act (WIA) of 1998, which for the first time explicitly provides for the expenditure of federal money for training incumbent workers.

Since the late 1950s all but three states set aside money to subsidize customized training for individual businesses. Today 45 states operate programs. In contrast to federal employment and training programs, which emphasize social goals, state programs were created as economic tools to attract and retain jobs. The state programs are employer-centered, not worker-centered like the federal programs, although, of course, the ultimate goal of helping employers is to improve the lives of state residents. Unlike federal programs, states have few requirements for targeting individuals, with employers free to decide whom to train. Another distinguishing feature of the state programs is that they train incumbent workers for new jobs or new job duties, which states view as a necessity in a fast-changing, technologically demanding economy.

Total spending by the states for customized training for 1998-99 for both incumbent workers and new hires is $593 million, up 10 percent from the year before and up 63 percent from 1988-89. Per capita spending is up 7 percent in the last year and 36 percent since 1988-89. Year-to-year changes in budgets reflect economic conditions and the level of state tax collections as well as special conditions in the states. Since 1992-93 national budgets climbed every year, with the largest one year increase in 1996-97, when funding increased by more than $100 million. The top 10 states ranked by 1998-99 budgets (California, Texas, Iowa, Kansas, Michigan, Pennsylvania, Missouri, Illinois, New Jersey, and North Carolina) spend almost 60 percent of the national total.

The top state in per capita spending is Iowa, with nearly $30 per worker in the state, spent mostly for new hire training. Kansas is second with more than $25 per worker, also mostly for new hires. Others in the top ten in per capita spending are Alaska, Missouri, Alabama, California, New Mexico, Texas, Michigan, and Idaho.

Nearly six out of every ten new state dollars budgeted to customized training since 1988 was budgeted for incumbent worker training. Spending on incumbent worker training increased from $187 million in 1988-89 to $208 million in 1994-95 and $317 million in 1998-99. The biggest increase in the 11 years since 1998 was in Texas, where a new $43 million program was created and in California where the existing program was expanded by $39 million. Missouri and New Jersey also launched big new programs. The biggest reduction in incumbent worker training in the same period was in New York, which eliminated a $17 million program.

Policy issues facing the state programs include:

1. How can programs be operated so they are not seen as Acorporate welfare@? Customized training, both for new hires and incumbent workers, has been criticized as corporate welfare because it subsidizes activities conducted for specific companies and confers specific benefits on individual companies.

   One solution is for the states to require companies to demonstrate how their training is good for their employees, not just for their own bottom lines, and to provide stronger assurances that the subsidies will add to the amount of training that takes place, not simply substitute for company expenses. States have devoted much energy to laying out a welcome mat for firms and demonstrating how business-friendly they are. They also need to show that being business-friendly translates into more work, higher incomes, and a better overall state economy.

Another solution is for states to find their way out of the expensive competitions and bidding wars to attract new plants, call centers, distribution centers and other footloose facilities. Fearing Aunilateral disarmament,@ no state wants to be the first to renounce the use of these costly subsidies, yet some would like to find an exit. A federal initiative in incumbent worker training might be tied to acceptance of national rules prohibiting these state bidding wars that are zero sum games for the nation.

2. How can programs ensure quality instruction?

The 33 states that allow companies to pick their own trainers essentially have voucher systems that let companies select any internal or external trainer. Quality is left to the company to determine. The remaining states require the use of programs and trainers from public community or vocational colleges.

Company personnel may be good trainers or poor trainers. The same is true for college personnel. States should consider regular train-the-trainer and instructional design courses for company personnel planning to train with state program funds. College instructors participating in these programs also should be encouraged to complete in-service training or show recent firm-based experience before being assigned to a customized training project.

3. Which firms should states pick to help first?

Not every business can have a customized program developed and subsidized by the state for its own use. Options include limiting training to certain basic industries or supporting training based on broader state policy set by another agency. Another option is to judge effects of training on incomes of workers who are trained by analyzing wage data states collect as part of unemployment insurance systems.

4. Can states find mechanisms to handle the increasing amounts of money they are allocating to customized training?

The state programs remain on a small Aboutique@ scale, dwarfed by federal employment and training and state vocational programs. If the programs are important for the economic well being of firms and workers, should they be expanded? Should funding be transferred from less critical vocational programs to customized training?

No state has made the transition from small Apilot@ or Ademonstration@ to full-scale program. The change will take more than money. It will take a new way of making decisions and allocating funds so the programs can have broad effects while maintaining the flexibility to make judgements based on the circumstances of individual companies and groups of employers.

5. Can states find ways to help smaller firms as well as larger firms?

Because of their size, small firms have few employees available to work with government for training or any other purpose. They often have poorly defined human resource systems and little or no training capacity. Yet their need for training is greater than the need for training at bigger firms. The likelihood that small employers will provide training on their own, without government help is less than for big firms. Small firms are viewed as major job producers in many areas of the country.

One effective option is the formation of consortia groups of small firms to combine their training into economical classes. Training in basic office automation skills and machinist skills are examples of consortia training. These efforts, which have begun in many states, should be continued and expanded.

6. Can the states move into nontraditional training methods?

Internet and other distance learning systems are especially important in small states with scattered populations. However, few states to date have moved aggressively into alternative training systems. This is an area where the state programs can help lead companies and schools in testing computer-based training.

7. What is the federal role?

At a time when federal programs are being shifted to the states it would not be appropriate to suggest a major federal role in state customized training programs. However there are a number of cooperative activities that should be considered.

The state programs have experience and expertise in incumbent worker training and should be encouraged to administer incumbent worker training activities that occur under the federal Workforce Investment Act (WIA). Specific mechanisms should be developed state-by-state. The programs should be coordinated though WIA at the state level, along with other appropriate state programs. At the local level the state programs should be coordinated through the local Workforce Investment Boards established under WIA.

The federal government should examine ways to end bidding wars for new private sector facilities that give rise to complaints of Acorporate welfare@ and pit states against each other in a competition to give away taxpayer money for training and other purposes.

The federal government should continue to gather and share information about the state programs and encourage systematic program evaluations.