

How Job Training Matters

Federal Reserve Bank of Philadelphia

July 1, 2020

12:00 noon-1:00 p.m. ET

Thank you to our cohosts:

**RESEARCH FOR
EQUITY IN RECOVERY**

W.E. UPJOHN
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The information, analyses, and conclusions set forth are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

Today's Panelists

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- **Harry J. Holzer**, Professor, Georgetown University, and former Chief Economist, U.S. Department of Labor
- **Steven J. Davis**, Professor, University of Chicago
- **Michelle Miller-Adams**, Senior Researcher, W.E. Upjohn Institute and Professor, Grand Valley State University
- Moderator: **Theresa Singleton**, Senior Vice President and Community Affairs Officer, Federal Reserve Bank of Philadelphia

Covid-19 and the Labor Market: Costs of Downturn and Inclusive Recovery Policies

Harry J. Holzer
Georgetown University
July 2020

Some Facts on Jobs/Earnings Loss During the Pandemic

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- Employment Loss Since February: 22-27 M (Unemployed, OLF, and "Absent")
- Reduced Hours: 6.3 M
- Total Earnings Loss: About 1/5 of Labor Force
- Demographics: Latinos/Blacks, HS or Less, Female
- Industries: Retail, Leisure and Hospitality – just under half of job losses
- States: NV, HI, CA, FL ... but also MI
- Permanent Layoffs: Just 16% of total to date ... THIS WILL GROW

Which Workers Will Be Hurt or Need Assistance the Most?

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- Permanently Displaced! (Business Closures and Reorganizations)
- (Young) Labor Force Entrants and Reentrants
- Workers with Involuntary Reduced Hours
- Essential Low-Wage Workers

Labor Market: Relief for Workers v. Recovery/Stimulus for Jobs

- Relief: EIP; PUA/PUC and other programs; State and Local Aid
- Recovery: Paycheck Protection; Job Creation: 1) Public Service Employment; 2) Infrastructure; 3) Subsidized Employment or Tax Credits for Private Sector (Recall or Payroll Growth) – *Labor Demand*
- Recovery: Education and Training, Workforce Services, Wage/Earnings Subsidies (EITC, Wage Insurance) – *Labor Supply*

- Funding for: 1) Students/Workers; 2) Institutions/Providers; 3) Employers; 4) Intermediary Organizations/Partnerships
- Federal: WIOA and HEA (Title IV: Pell/Loans, Institutional Aid); Perkins; Apprenticeship programs (AAG and IRAP)
- States: Subsidies for Higher Ed Institutions; Individual Accounts (LLL); Apprenticeship and WBL programs (Tax Credits for On-the-Job/Incumbent Worker Training)

Education/Training and Workforce Services: What Works (<BA)?

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- AA/AS Degrees or Certificates in High-Demand Fields
- Sector-Based Training in High-Demand Fields
- Career Pathways – Integrated Ed and Training (Mixed evidence)
- Work-Based Learning (WBL) – Apprenticeship and Other Models
- Occ/Career Guidance
- WIOA: Mixed Evidence – Disadvantaged Adults, One-Stops (not Dislocated Workers)
- HEA: Financial Aid; State Hope/Promise Programs
- Dislocated Worker Programs at CCs – For Younger Workers with Some Postsecondary
- REPLICATION AND SCALING OF BEST MODELS?

Policies: Possibilities and Proposals

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- WIOA: Relaunching America's Workforce Act
- HEA: More Pell, Loans; Institutional Aid (Promise programs)
- More Federal/State Support for Apprenticeship, Other WBL (along with credits for employment/recall)
- Infrastructure Training
- Individual Accounts (LLL, "Opportunity")

The COVID-19 Labor Market Shock

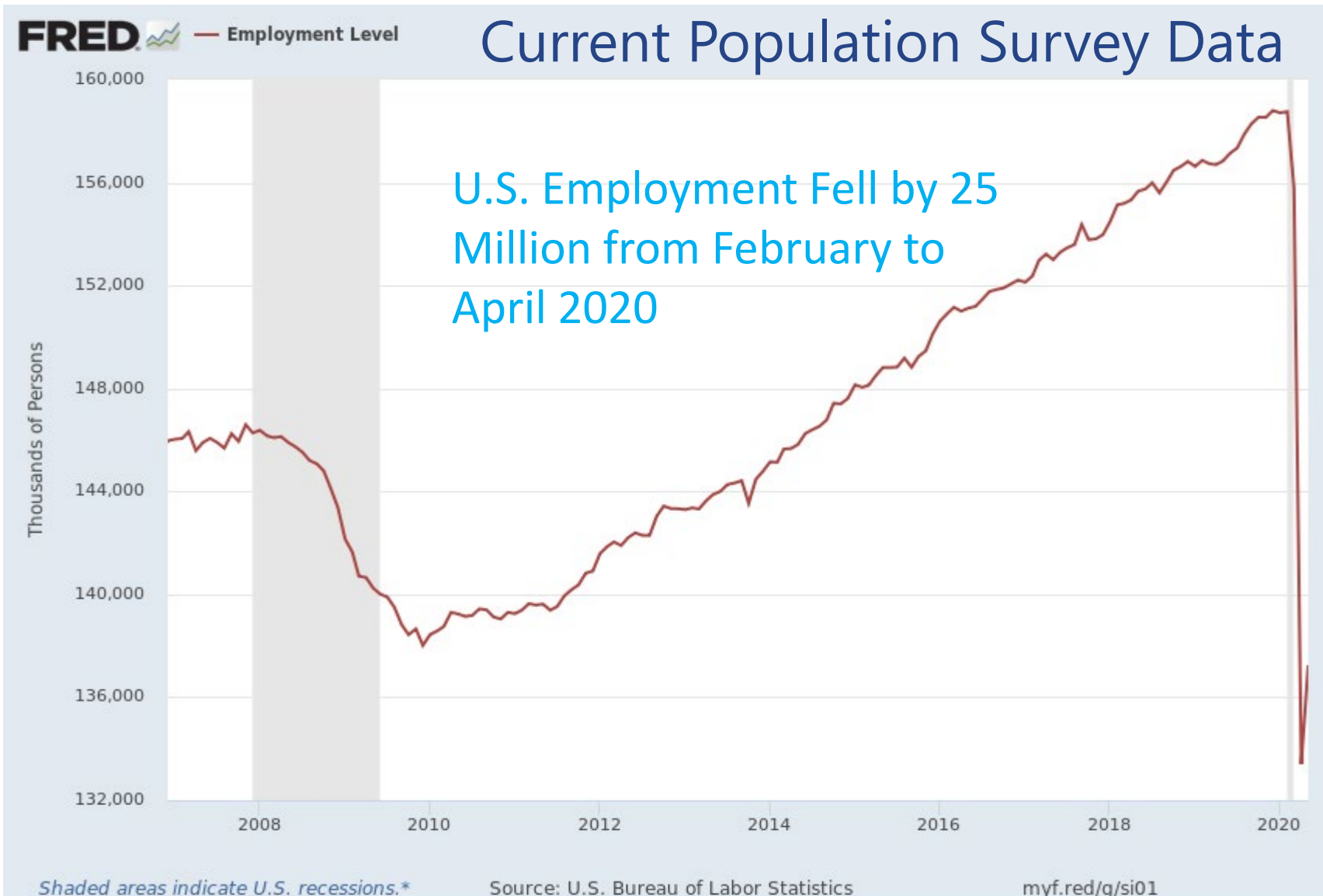
Steven J. Davis

University of Chicago and Hoover Institution

July 1, 2020

Huge Employment Losses Since Pandemic Struck

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Many Recent Job Losses Are Permanent

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- Employers see 23.5% of their layoffs from March 1 to mid-May as permanent, according to the Atlanta Fed/Chicago Booth/Stanford Survey of Business Uncertainty (Barrero, Bloom and Davis, 2020)
- A Washington Post/Ipsos poll in late April/early May finds that 23% of layoffs were perceived as permanent by job-losing workers
- 23.2% of claimants for unemployment benefits in California during March-May 2020 perceive their layoffs as permanent at the time of filing (California Policy Lab)

How Many Permanent Layoffs, Ultimately?

Historically, many “temporary” layoffs don’t lead to actual recalls. That suggests the 23% permanent-layoff share of recent job losses in the SBU, WP/Ipsos poll, and California claimants is too optimistic about the realized recall rate.

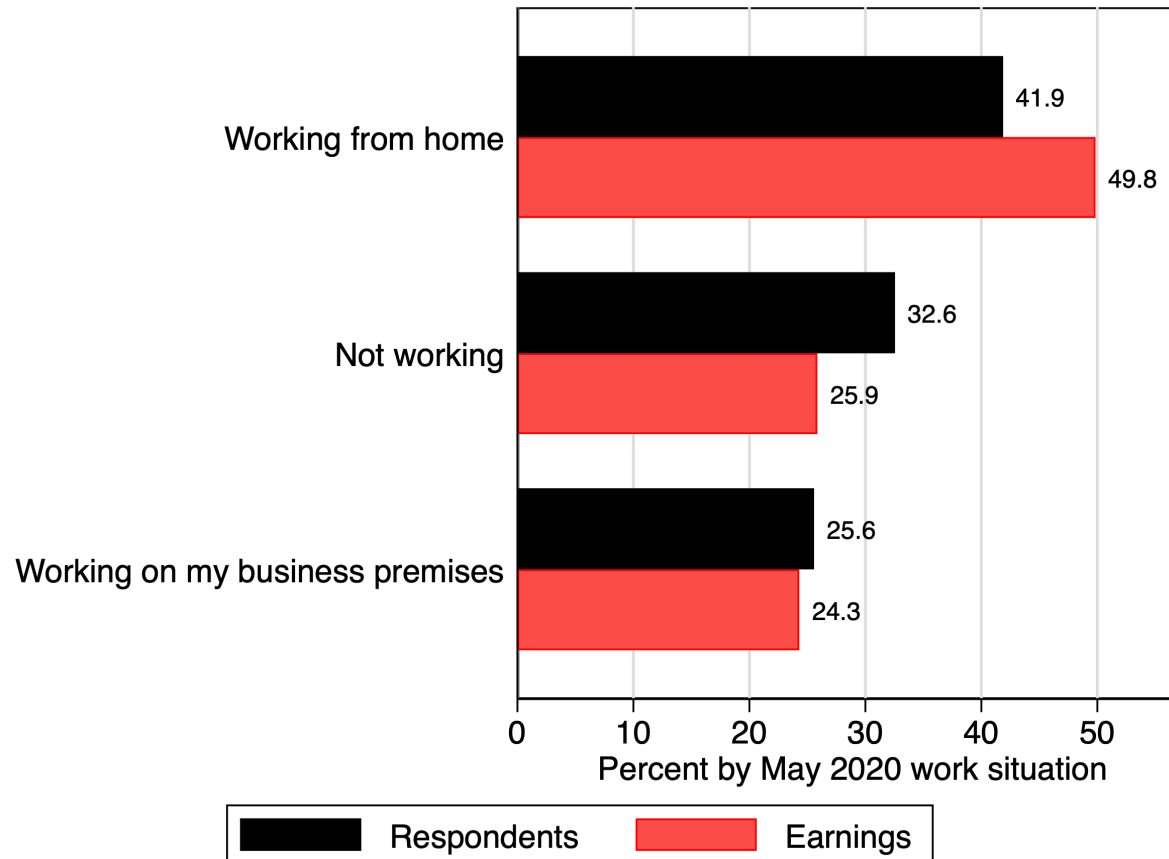
To project the realized permanent-layoff share, we apply evidence from two studies:

- Katz and Meyer (1990): 72% of UI recipients who expected recall were actually recalled. 13% of ex ante “permanent” layoffs were also recalled.
- Moscarini (based on Fujita and Moscarini, 2017) obtains actual recall rates of 87.5% and 6.6%.

Using realized recall rates in these studies (as a function of perceived layoff status), we project a realized permanent-layoff share of 32% to 42% for COVID-induced job losses.

Working from Home Accounts for >60% of U.S. Labor Services Supplied in May 2020

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Implies 62% of labor services supplied at home, 67% when weighting by earnings.

Brynjolfsson et al. find similar results in independent work.

Based on a survey of 2,500 U.S. residents, 20 to 64, who earned more than \$20,000 in 2019. Fielded May 21-29 by QuestionPro on behalf of Stanford University. We reweight the sample to match the CPS by earnings class/industry/state.

The Post-Pandemic Shift to Working from Home

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More than one-tenth of full workdays will shift from business premises to home

Survey of Business Uncertainty (May 11 - May 22 2020)

What percentage of your <u>full-time</u> employees...					
(Employment-weighted Mean) Share of employees that ...					
	Rarely or never	1 full day per week	2 to 4 full days per week	5 full days per week	Paid working days at home as a percent of all working days
...Worked from home in 2019?	90.3%	3.4%	2.9%	3.4%	5.5%
...Will work from home after the coronavirus pandemic?	73.0%	6.9%	9.9%	10.3%	16.6%
BLS' American Time Use Survey (2017-2018)					
	Rarely or never	1 full day per week	2 to 4 full days per week	5 full days per week	Paid working days at home as a percent of all working days
Full-Time Workers	89.8%	3.8%	3.8%	2.6%	5.2%

Disaggregated results say that one-fifth of all office worker days will shift from business premises to home.

Some Economics of Persistence

Why the massive, pandemic-induced shifts in consumer spending, working arrangements, and business practices will not fully reverse:

1. >50% of employees were working from home as of May 2020. Persons and organizations have become better at remote interactions. This type of learning by doing is a source of persistence in the new working arrangements.
2. Millions of households have tried online shopping and delivery services in recent months, and many will continue to value the convenience and (perceived) safety.
3. After turning to virtual meetings out of necessity, many businesses will find they offer an easier, cheaper alternative to travel and in-person meetings.
4. Spurred by the pandemic, businesses and other organizations are undertaking investments in equipment, infrastructure and platforms that raise employee effectiveness when working remotely or engaging customers virtually.
5. Also spurred by the pandemic, leading technology companies plan to intensify efforts to develop new products that improve remote interactivity.
6. COVID-19 has knocked down regulations that had inhibited a shift from in-person to virtual interactions, especially in the delivery of healthcare services.

Key elements of the U.S. policy response to the pandemic and legacy features of the U.S. policy landscape will impede the reallocation of jobs, workers and capital, slowing the recovery.

Examples:

- Unemployment benefits > worker earnings
- Policies that subsidize employee retention irrespective of employer business outlook
- Licensing restrictions that impede worker mobility across occupations/jobs and states
- Regulations that deter business entry and expansion – e.g., Certificate of Need laws in healthcare

The U.S. Treasury struck an agreement with 10 major airlines in mid-April to provide \$25 billion in subsidies in return for barring layoffs and furloughs before October. But demand for air travel won't recover any time in the near future.

- Relative to a year earlier, passenger counts at U.S. airports are down 93 percent on 31 March 2020, 94 percent on 30 April and 87 percent on 30 June.
- As of mid-June, American Airlines plans to restart 55 percent of its domestic flights in July while keeping international flights at 20 percent of pre-pandemic levels. Actual capacity will rise much less, because airlines are blocking many seats to maintain social distancing and allay passenger concerns about infection.
- American Airlines and United Airlines announced in May plans to cut management and administrative ranks by 30 percent.
- Boeing plans to cut 13,000 jobs in the U.S. in view of the collapse in air travel, and its suppliers have announced additional job cuts.
- In circumstances like these, employee-retention subsidies for the airline industry delay the redeployment of workers and other productive inputs to more efficient uses during the crisis and afterward.
- Zombie jobs are not a path to recovery.

Doing More With Less: Education and Job Training Policies in a Crisis Environment

Michelle Miller-Adams

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Professor, Grand Valley State University

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What Do We Know?

- The need for job training and retraining will be high
 - Burden will fall unequally on different populations
 - Racial and economic disparities exacerbated
- States and cities will be in fiscal crisis
 - Resources for new initiatives are unlikely to be available
- Existing resources must be deployed more effectively
 - How to target resources toward those most in need?
 - Better alignment is cheap (although challenging)
- There is room to think creatively
 - States and localities can serve as sources of innovation

Align Resources at Local and State Levels

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- Seek better match of labor supply and demand
 - Engage employers to identify skills shortages, training needs
 - Focus on high-demand fields
 - This kind of alignment is easiest to pursue at the local level
 - Strengthen cc training programs connection to area employers
- Pursue innovative strategies to reach people disconnected from work
 - Neighborhood Hubs as supplement to one-stop service centers
- Use technology to support job training needs of displaced workers
 - “NextUp Jobs” – customizable app to overcome imperfect information
 - Michigan Job Seekers Study (RCT)

- 20+ states have some form of tuition-free college; all programs are not equal
- Tennessee Promise / Tennessee Reconnect as best practice
 - Universal, relatively simple
 - Embedded student support
 - Strong messaging and employer alignment
 - Secure funding (lottery reserve)
- Creative use of available funding
 - Michigan's "Futures for Frontliners" program
 - Uses CARES Act education grants and federal workforce training \$\$

Time for a National Free-College Initiative?

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- Need for retraining will be higher than ever
- Investments in education yield both private and public benefits
- States are constrained financially
- Federal government can afford a limited, employment-focused tuition-free college program
- Could begin with community college sector and/or adults
 - Free community college plan already in HEA reauthorization bill
- \$5 billion would cover community college cost for 20 million adults without degrees

- Job training and higher education are only one stage in the life course
- Just as alignment is needed across sectors, it is also needed along the cradle-to-career continuum
- Damage to pre-K-12 will feed into higher ed system
 - When school funding is cut, it can take a long time to return to previous levels
 - Weakened K-12 systems incur costs down the road and increase inequality
 - Shortfalls in higher ed funding shift burden to students, further disadvantaging low-income students and screening out opportunities.
- Most urgent current need is federal emergency relief to state and local government to close budget gaps

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