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Summary: Who's Responsible for Job Skills?

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SKILLS GAP

There has been much discussion in recent years about a **skills gap** in the U.S., driven largely by employer complaints over filling jobs. The term “skills gap” can mean different things. Usually, it refers to a belief that there is something fundamentally lacking in the labor force. In the typical telling of the skills gap story, schools are failing to educate students effectively and are graduating students who do not have the skills employers need, thus creating a basic skills shortfall in the labor force as a whole. Others who talk about a skills gap really are referring to a **skills shortage**, meaning that at the current market price for labor, employers cannot hire the people they are looking for. The third sense of a gap entails a **skills mismatch**, and describes parts of the U.S.—for instance, North Dakota, when energy production there skyrocketed—where labor demand is booming but where people in the region do not have matching job skills. A skills gap, skills shortage, and skills mismatch are all different and theoretically could be going on all at once.

Overall, though, the available evidence on the U.S. economy does not support the idea that there are serious skill gaps or shortages, and when there are skills mismatches, they often involve workers who are more educated than their job responsibilities require.

WHY IS THE SKILLS GAP AN ISSUE NOW?

Research suggests that job skill requirements actually have not changed much over the past 20-30 years. What has changed is the rise of what one might call the “plug-and-play” labor force. Prior to the mid-1980s, when someone lost their job due to an economic downturn, often they eventually would be recalled into that same job when the economy improved. Job retention in the U.S. was about the same as it was in Japan; people stayed with the same employer for a very long time.

But this began to change in the early 1980's. Companies started hiring new people rather than hiring the people they previously let go. Before 1980, 90% of job openings were filled internally through promotions, relocations, lateral hires, and job rotation assignments. Just 10% of hires were from the outside, typically entry level jobs. Today, the data indicate that companies now fill 60-70% of jobs externally. Perhaps it is no surprise that employers are complain-

ing more about problems associated with hiring, because they are doing a lot more of it. It is entirely possible that the problems employers say they are facing have nothing to do with what's happening on the labor side of the equation, but rather relate to trends in their hiring.

WHERE ARE SKILLS ACQUIRED?

There also has been a major change to the consensus on how skills should be taught, and by whom. Traditionally, the public sector provided young people with an education focusing on basic academic skills, while employers or their surrogates (e.g., unions) provided job training and work-based skills for specific occupations. Over the past few decades, however, employer-provided training has become much less pervasive. In 1979, the average employee received two weeks of on-the-job training. By 1991, according to census figures, only 17% of respondents said they received any training. Recent data indicate that the number of people who reported receiving training from their employer declined sharply again before the Great Recession, and no one believes it has gone back up since then.¹

A similar trend can be seen in apprenticeships. Registered apprenticeships declined significantly between 2002-2012, through the Great Recession, although numbers have since rebounded to the 2002 level. Still, less than half as many 16-24 year olds are in registered apprenticeships today, compared to 1950.² Assuming the typical apprenticeship is 4 years long, just 3% of U.S. students are in a registered apprenticeship. High school vocational training also is on the decline.

Colleges, by contrast, have moved to fill the gap on work-based skills training. They have become more vocational in orientation and more insistent that enrolling in college will prepare students for getting good jobs and achieving economic security. Students, for their part, are embracing that message and organizing their studies accordingly. They are majoring less frequently in Liberal Arts disciplines. Business is now by far the most common major, to the point that the number of Business majors is triple that of Liberal Arts majors. And colleges are spinning out new vocational majors, such as Adventure Tourism, Turf (i.e., golf course) Management,



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Colleges, however, are not really well positioned to provide job skills training. There is too long of a lag between entering college and entering the job market for colleges to do it adequately. Students wind up choosing majors when they enter college based on what is hot in the labor market at that moment, but the job market may look very different by the time they graduate. This is a very expensive risk for students and their parents to assume.

WHAT ARE EMPLOYERS SEEKING?

In keeping with the decrease in employer-provided training, the number one thing that employers seek in new hires is experience. This is true even when it comes to hiring people just out of school. The most important credentials employers look for in hiring people coming out of school include internships, employment during college, volunteer work, and extracurricular activities—in other words, the very things that give students work-related experience. Comparatively, employers do not appear to care about grades or other academic traits, such as college major.

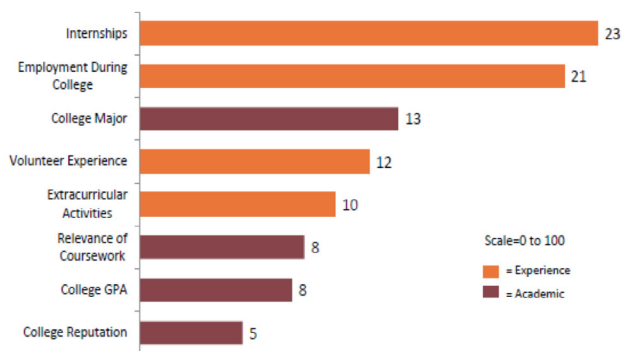


Figure 1: Relative Importance of Attributes in Evaluating Graduates for Hire

It makes sense that employers would prefer to not invest in training new hires if they don't have to, and would want employees to develop workforce skills on someone else's dime. The economics of employer-provided skill development offer clear lessons on this point, when one examines the value a typical person brings to an organization over the course of a full career. A new employee right out of school, with no experience, doesn't provide much value. But there is a steep learning curve, with an investment from the organization—even if that investment comes simply in the form of tolerating sloppy performance in the short term. While compensation to the employee goes up over time, the value created by the employee increases even more steeply as they gain knowledge and experience. Since the value the employee brings to the organization is rising more quickly than the compensation, the employer is making money (and thus earning a return on their initial investment) on that more seasoned employee. Employers complain, however, that employees tend to leave as they move along the steep learning curve, lured away by competitors that can pay them more because they do not have to train them. The original employer therefore fails to recoup their initial investment. For that investment to pay off, employees need to stay for the long haul.

THOUGHTS FOR THE FUTURE

Although they may not get more involved in job training, employers will eventually adjust and become less picky about finding job candidates that meet all of their idealized qualifications.

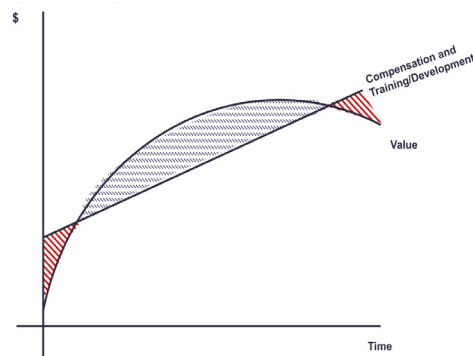


Figure 2: Why Employers Don't Want to Train

But other changes would help too.

Steps could be taken to shorten the supply chain by encouraging closer relationships between schools and employers. This had been a major policy objective a couple of decades ago, when Congress in 1994 passed the Schools to Work Opportunity Act. Its goal was to fund projects that would bring employers and schools together—not just by facilitating the transition to work through co-ops and internships, but by trying to get employers into schools to show students applications for their learning, as well as getting schools out to workplaces to better understand the educational requirements for particular jobs.

Another way to shorten the supply chain is to create more apprenticeships. There are plenty of examples of apprentice-type programs that already exist and thrive in the U.S.—for instance, new doctors that have to complete internships or fellowships; lawyers who work first as associates under more experienced practitioners; and entry-level positions at consulting firms that entail structured mentoring and feedback. Apprenticeship means that the employee shares the cost of development with the employer. The employee gains by getting on-the-job training directly suited to the work they're doing, and the employer risks less in training someone who might eventually be lured away by a competitor.

Rebuilding tuition reimbursement programs are another example of cost-sharing: the employer covers the cost of education while the employee continues to work. These programs, despite promoting worker retention, have been in decline. Only 42% of online students in 2016 said their employer offered tuition reimbursement, compared to 81% in 2012.³

There also may be ways to change the incentives employers have to invest in training. For one thing, training doesn't appear as a category in financial accounting. It just gets subsumed under administrative expenses. Under these practices, an employer that does a lot of training can appear, on financial accounting statements, to be wasteful with resources. Payroll taxes also can serve as a disincentive; because of those taxes, every dollar spent on employees is more expensive than, say, a dollar spent on machines or robots. And there are currently no tax credits for training, similar to what might be granted to a business for purchasing physical capital. It is worth considering whether a system of tax credits similar to the Work Opportunity Tax Credit, but focused on training, would help alter the way employers approach the costs and benefits of dedicating more resources to job skills training.

¹See <http://journals.sagepub.com/doi/abs/10.1177/0019793915619904>.

²See http://www.doleta.gov/OA/data_statistics.cfm.

³See <http://www.learninghouse.com/wp-content/uploads/2016/07/OCS-2016-Report.pdf>.