Community College Training for Displaced Workers

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Automotive Communities and Work Force Adjustment

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My Perspective

- **Based on work with Louis Jacobson (Center for Naval Analysis) and Robert LaLonde (University of Chicago)**
  - "The Impact of Community College Retraining on Older Displaced Workers: Should We Teach Old Dogs New Tricks?" *Industrial and Labor Relations Review, Vol. 58, No. 3 (April 2005)*
  - "Is Retraining Displaced Workers A Good Investment?" Chicago Fed *Economic Perspectives* 2005 Q2

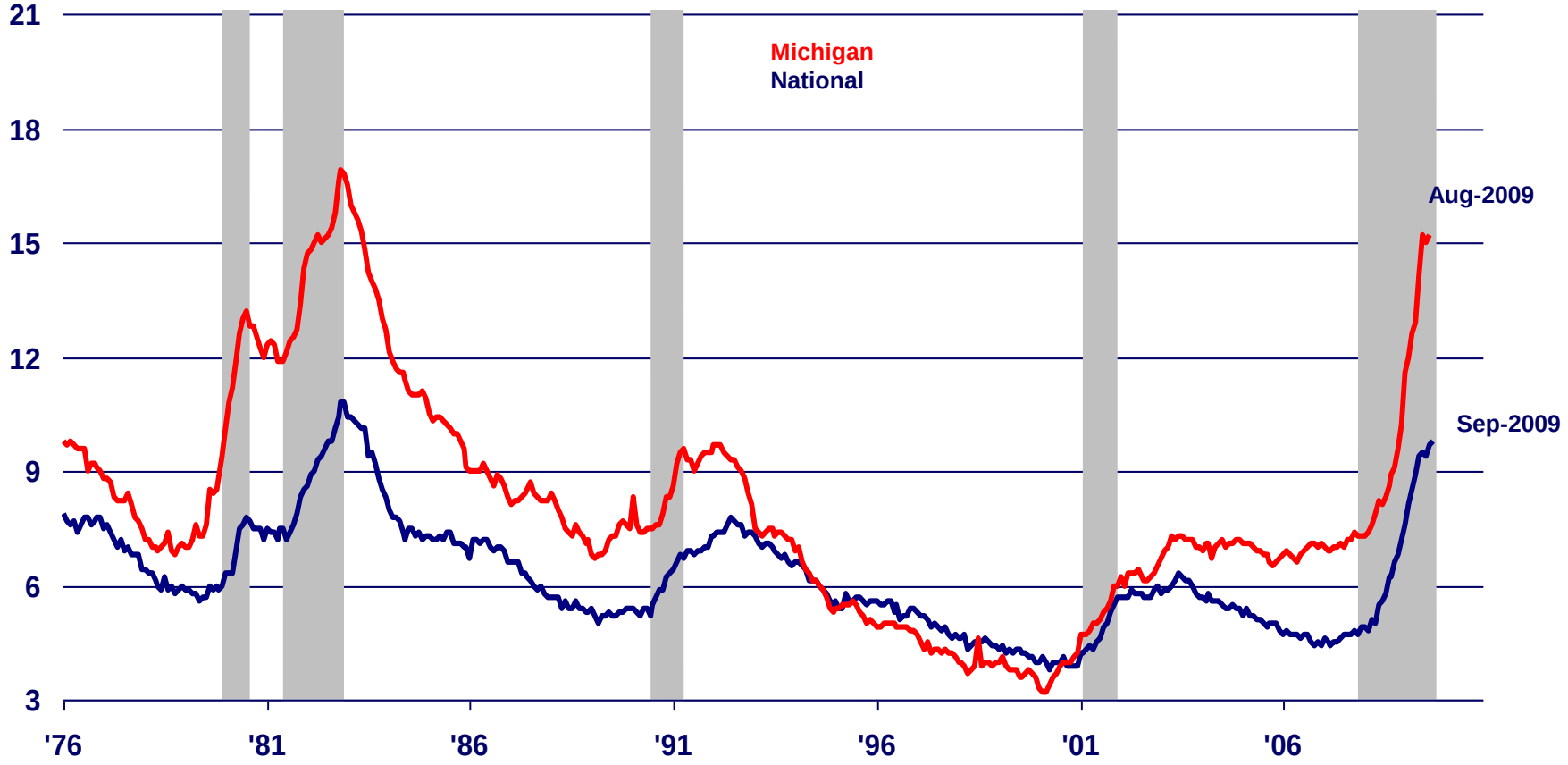
- **These are my own views – not those of the Federal Reserve Bank of Chicago or the Federal Reserve System**

Conclusions

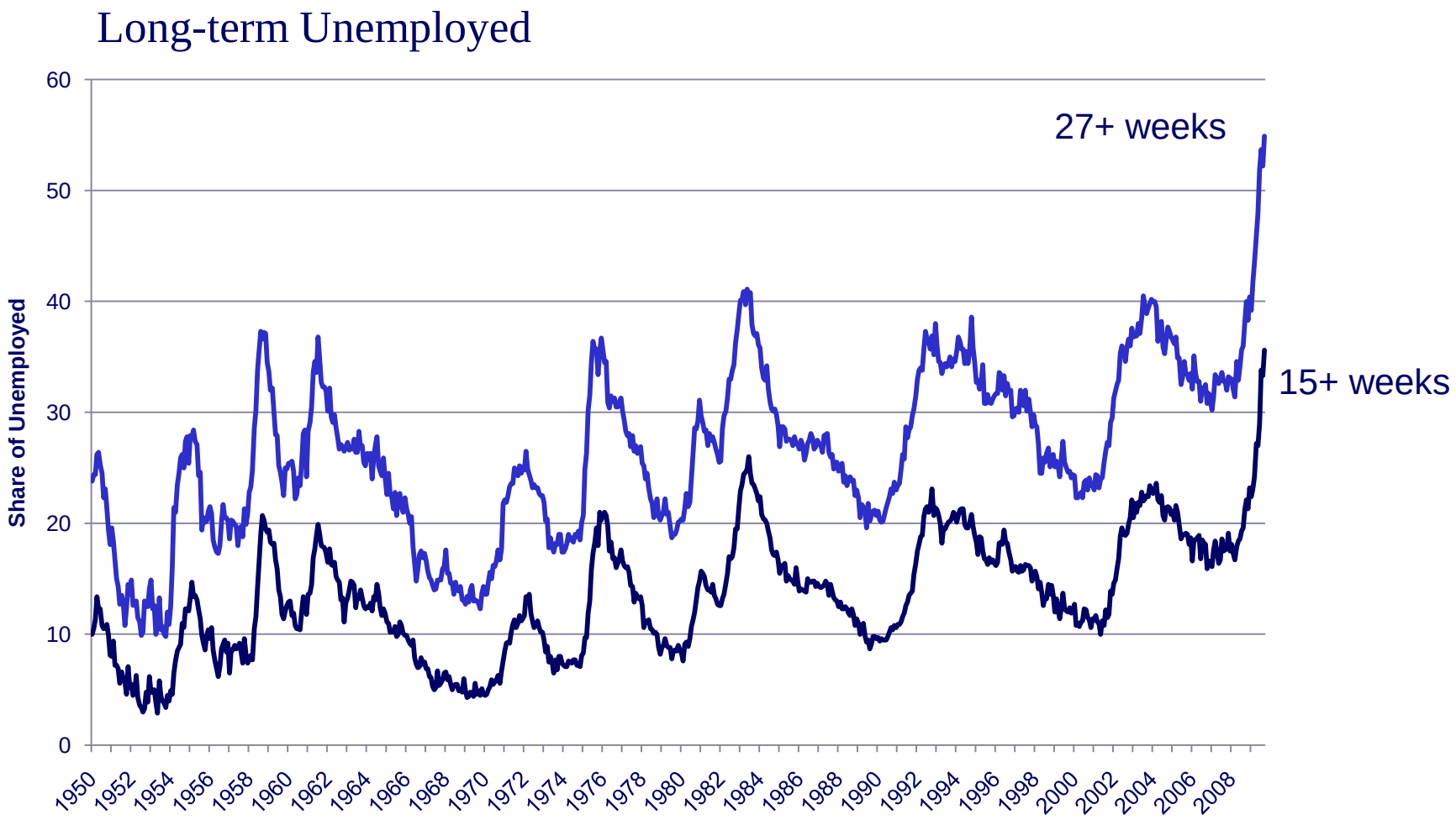
- **Returns to community college training are similar to those for other education – i.e., pretty good**
  - Not necessary to acquire a credential
  - More limited evidence that older displaced workers can benefit
- **Returns vary by type of course and workers' prior skills, age, and gender**
  - Those with significant skills deficits are unlikely to benefit
- **Participation patterns are consistent with these impacts**
  - Many displaced workers take just a few classes
- **Training is unlikely to fully offset earnings losses**
  - Offsetting large losses would require large training investments
- **Policy makers should consider other interventions, such as wage insurance for older workers**

The Current Context

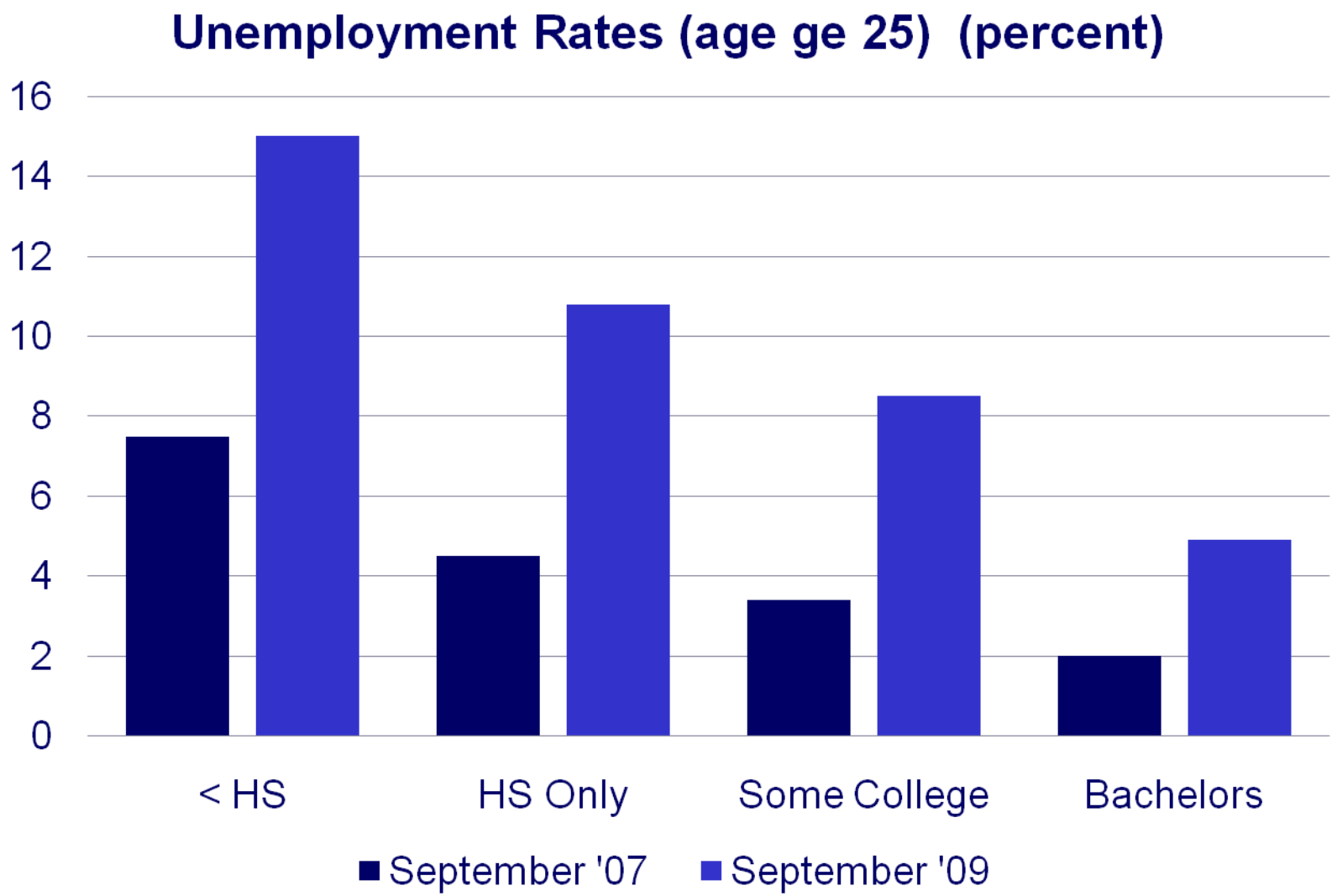
Civilian Unemployment Rate
(percent, shading corresponds with NBER recession periods)



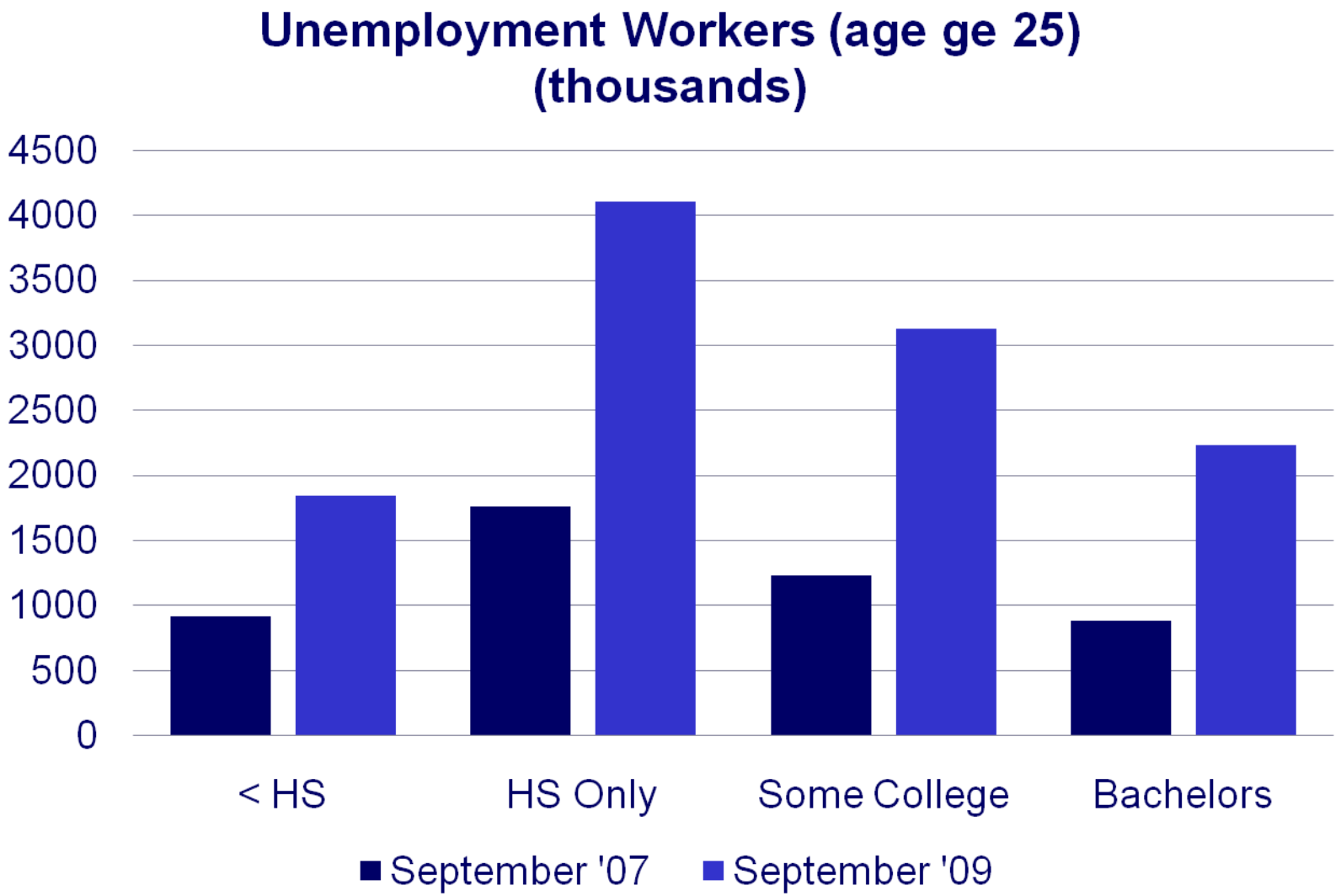
Long-term Unemployment Is Extremely High



Unemployment Rate By Education Level



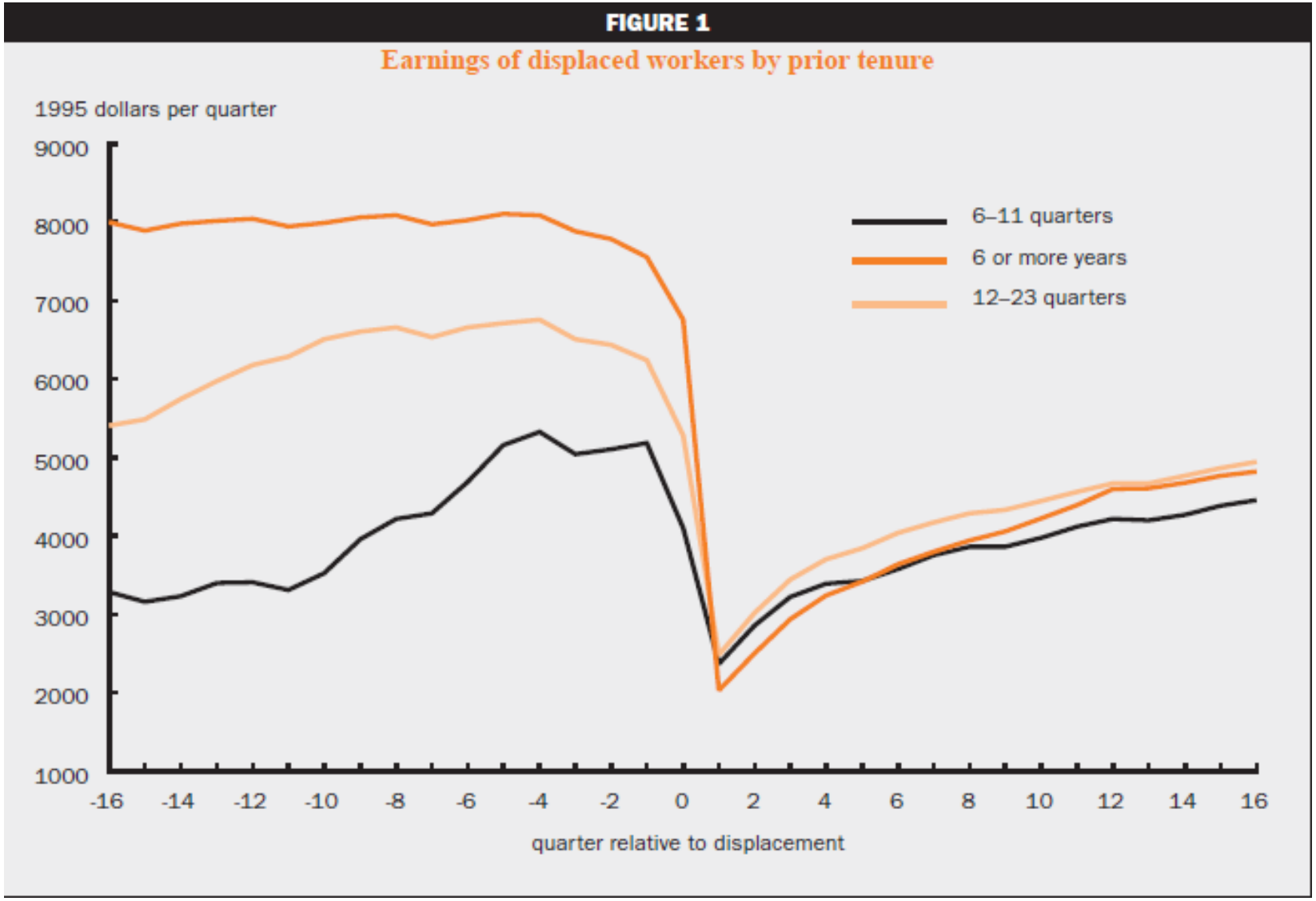
Unemployment Workers By Education Level



Washington State Study

- **Studied 65,000 workers displaced from jobs in Washington State during the early 1990s**
  - At least three years job tenure
  - Strong attachment to Washington State labor market
- **Link three sources of administrative data**
  - Wage records from 1987 to 2000
  - UI records from 1990 to 1995
  - CC transcripts from 1989 to 1996
- **Types of Credits**
  - Type 1: Health professions, Technical/professional, Technical trades, College level math and science
  - Type 2: Sales/Service, Other vocational, Social science / Humanities, Health / PE / Consumer ed, Basic skills, Other

Earnings By Quarter Relative to Job Loss



Displaced Workers' CC Utilization

- **Almost 16% of the displaced workers in our sample completed at least one community college credit**
- **Workers with some previous college education were the most likely to get community college training**
- **Rates by age and sex:**

	Younger than 35	35 or older
Male	16.8%	10.9%
Female	23.5%	17.2%

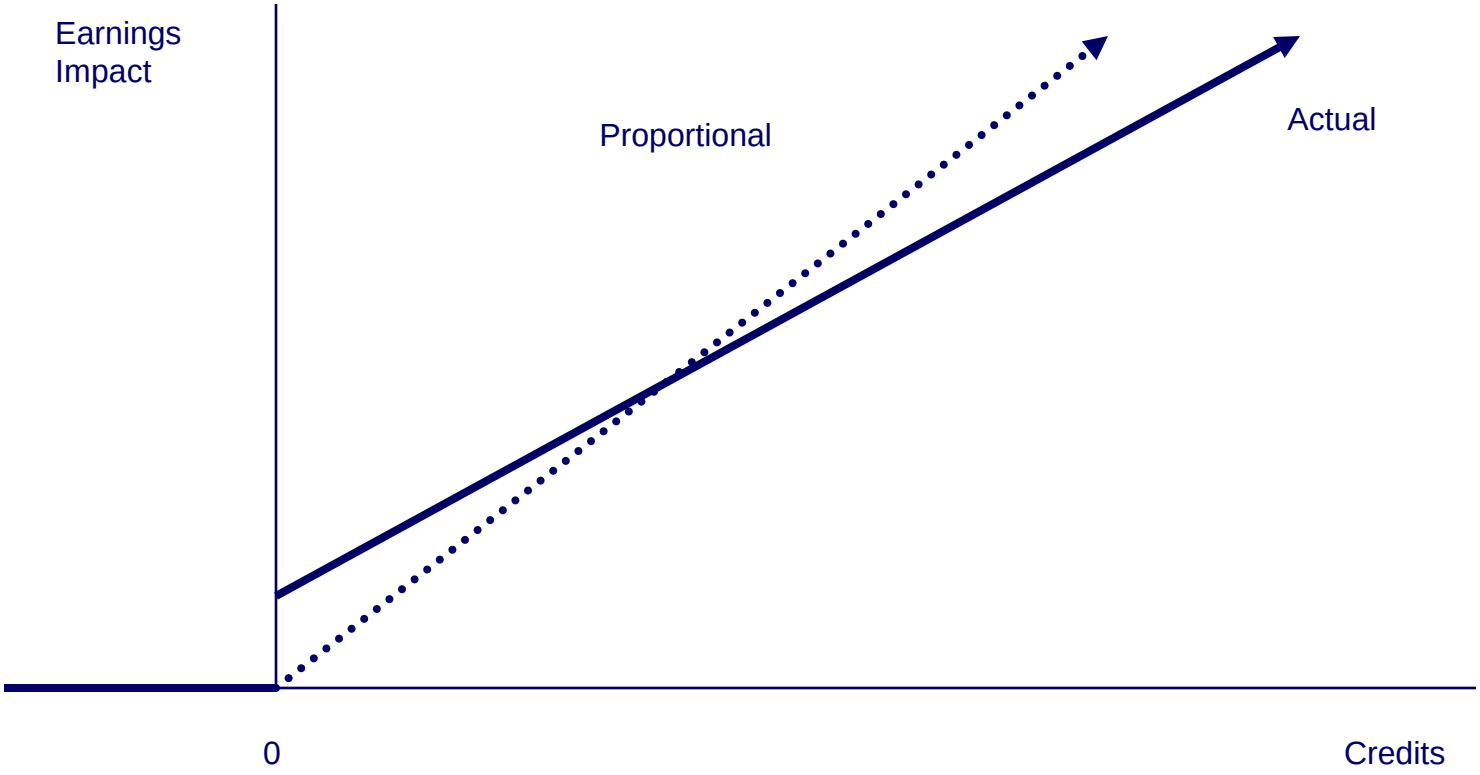
Displaced Workers' CC Utilization

- **Of those completing at least one credit, the mean credits earned was 26.9 = 0.6 academic years**
  - 45 credits equals one academic year
- **Many who start take very few classes**
  - Roughly 1/3 earn less than 6 credits
  - Especially among those with poor educational backgrounds
- **Mean credits by age and sex:**

	Younger than 35	35 or older
Male	**29.5**	**27.4**
Female	**27.3**	**23.5**

Earnings Impacts versus Credits

- **We estimate impacts from variation in numbers of credits earned**
  - Also see an effect from “just showing up”



Long-Run Earnings Impacts

Long-run Impact as a percentage of annual earnings

	Male		Female	
	< 35	**ge 35**	**< 35**	**ge 35**
First Credit	1.9	2.7	-1.5	2.0
Year of Type 1 Credits	10.2	7.8	25.3	16.9
Year of Type 2 Credits	4.9	2.6	5.8	3.9

Is Training A Good Investment?

- **Whose perspective?**
  - Workers
  - Society's
- **Direct costs of community college education**
  - Often heavily subsidized
- **Opportunity costs of foregone income**
  - Workers' earnings lower while earning credits
  - Opportunity costs may be lower when unemployment is high

Cost - Benefit Analysis Assumptions

- **Workers take one academic year of credits over three quarters and then work until age 65**
- **Typical mix of type 1 and type 2 credits**
- **None of "just showing up" effect is real benefit**
- **Half of the "during CC" impact is a true cost**
- **25% of increased earnings go to taxes**
- **CC costs $8,000 -- 20% paid by student**

Base-Case Internal Rates of Return

Long-run Impact as a percentage of annual earnings

	Male		Female	
Perspective	**< 35**	**ge 35**	**< 35**	**ge 35**
Individual	13.1%	11.4%	21.2%	15.7%
Society	7.4%	3.9%	11.1%	6.2%

Rates of Return

- **Pretty good**
  - Especially for younger workers
  - Especially for type 1 credits
- **However,**
  - Investment returns less favorable for older workers
  - Many workers appear unable to complete CC courses
- **Takes substantial investments to offset 25% earnings losses**
  - Roughly 3 years of full-time studies will fully offset losses
  - Cost = direct + indirect ~$100,000
  - Very few get such extensive training
- **Policymakers might consider other forms of assistance**